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DATE: 21 September 2021

To: Members of the
PENSIONS COMMITTEE

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

A meeting of the Pensions Committee will be held at Bromley Civic Centre on **WEDNESDAY 29 SEPTEMBER 2021 AT 7.00 PM**

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

PLEASE NOTE: This meeting will be held in the Council Chamber at the Civic Centre, Stockwell Close, Bromley, BR1 3UH. Members of the public can attend the meeting: you can ask questions submitted in advance (see item 3 on the agenda) or just observe the meeting. There will be limited space for members of the public to attend the meeting – if you wish to attend please contact us, before the day of the meeting if possible, using our web-form:

https://www.bromley.gov.uk/CouncilMeetingNoticeOfAttendanceForm

Please be prepared to follow the identified social distancing guidance at the meeting, including wearing a face covering.

ADE ADETOSOYE OBE
Chief Executive

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

A G E N D A

1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

2 DECLARATIONS OF INTEREST

3 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

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 5pm on 15th May 2021.)

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 Thursday 23 September 2021.**

4 **CONFIRMATION OF MINUTES OF THE MEETING HELD ON 14 JULY 2021, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION** (Pages 3 - 8)

5 **MATTERS OUTSTANDING FROM PREVIOUS MEETINGS**

6 **PENSION FUND PERFORMANCE Q1 2021/22** (Pages 9 - 34)

7 **IMPACT INVESTING** (Pages 35 - 44)

8 **UPDATES FROM THE CHAIRMAN/DIRECTOR OF FINANCE/PENSIONS INVESTMENT ADVISOR (PART 1)**

9 **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
10	**CONFIRMATION OF EXEMPT MINUTES - 14 JULY 2021** (Pages 45 - 46)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
11	**POOLING MATTERS** (To follow)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
12	**PENSION FUND PERFORMANCE Q1 2021/22 - APPENDIX 7 - FUND MANAGER FEES** (Pages 47 - 50)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
13	**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)

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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 and Christopher Marlow

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

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Report No.
FSD21057

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**PENSIONS COMMITTEE**
Date:	**September 29th 2021**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q1 2021/22**
Contact Officer:	Dan Parsons, Senior Accountant Tel: 020 8313 3176 E-mail: dan.parsons@bromley.gov.uk
Chief Officer:	Peter Turner, Director of Finance Tel: 020 8313 4668 Email: peter.turner@bromley.gov.uk
Ward:	Borough Wide

1. Reason for report

1.1 This report provides a summary of the investment performance of Bromley's Pension Fund in the 1st quarter of 2021/22. 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 Committee is asked to note the contents of the report and information contained in related appendices.

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 £5.9m (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: £49.6m expenditure (pensions, lump sums, etc); £57.6m income (contributions, investment income, etc); £1,405m total fund market value at 30th June 2021

5. Source of funding: Contributions to Pension Fund

Staff

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

2. If from existing staff resources, number of staff hours: 36 hours per week

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Legal

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

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

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,271 current employees; 5,674 pensioners; 6,131 deferred pensioners as at 30th June 2021

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 June quarter at £1,405m, up from £1,330m as at 31st March. The comparable value as at 30th June 2020 was £1,178m. 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 2021/22 (short-term)</u>

A detailed report on fund manager performance in the quarter ended 30th June 2021 is provided by the fund's external adviser, MJ Hudson Allenbridge in Appendix 5, with information about fund manager fees detailed in Appendix 7, to be considered in Part 2 of the agenda. MJ Hudson Allenbridge have also provided a report on Private Equity (Appendix 6). The total fund return for the first quarter was 5.75% against the benchmark of 5.17%. 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 extremely strong overall, with a return of 34.1% against a benchmark of 23.6% in 2020/21. The returns for 2019/20 and 2018/19 were -2.74% and 8.0% against the benchmark of -1.87% and 8.3% respectively.

The overall Fund ranked second against the 63 funds in the PIRC LGPS universe for the year to 31st March 2021, second over 3 years, first over 5 years, first over 10 years and second 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 very 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				
2020/21	***34.1***	***23.6***	***22.8***	***2***
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 31/3/21	***12.1***	***9.4***	***7.6***	***2***
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 31/3/21	***13.8***	***11.0***	***9.5***	***1***
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 31/3/21	***11.2***	***n/a***	***8.3***	***1***
20 year ave to 31/3/21	***9.0***	***n/a***	***6.9***	***2***
30 year ave to 31/3/21	***9.5***	***n/a***	***8.4***	***2***

*The most recent LA averages and ranking as at 31/03/21 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 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 Bromley MyTime have paid their pension deficit repayments until September in line with the draft repayment plan. The variation agreement is with London Borough of Bromley's Legal team.

3.5.2 The bulk transfer payment for GS Plus was calculated by the actuary to be £2.667m and was completed on 11th August.

3.5.3 The three admission agreements relating to Bromley and academies that have outsourced services; Ambient Support Ltd (Respite Services), Diagrama Healthcare Services Ltd (Supported Living Services) and Caterlink (Education for the 21st Century) are being handled by Richmond and Wandsworth Shared Support Services.

3.6 **Fund Manager attendance at meetings**

3.6.1 Meeting dates have not been set beyond February 2022. 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 2nd December 2021 - Fidelity
Meeting 22nd February 2022 – Schroders

4. POLICY IMPLICATIONS

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

5. FINANCIAL IMPLICATIONS

5.1 Details of the provisional outturn for the 2020/21 pension fund revenue account and the position after the first quarter of 2021/22 are provided in Appendix 4 together with fund membership numbers. A net provisional surplus of £13.8m occurred during 2020/21 and membership numbers rose by 410. In 2021/22, a provisional net surplus of £3.7m has arisen and total membership numbers reduced by 124.

5.2 It should be noted that the net surplus of £13.8m in 2020/21 includes investment income of £10.5m which was re-invested in the funds so, in cashflow terms, there would have been a £3.3m cash surplus for the year. The first quarter of 2021/22 would be a deficit of £0.05m excluding reinvested income.

6. LEGAL IMPLICATIONS

6.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2013 (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.

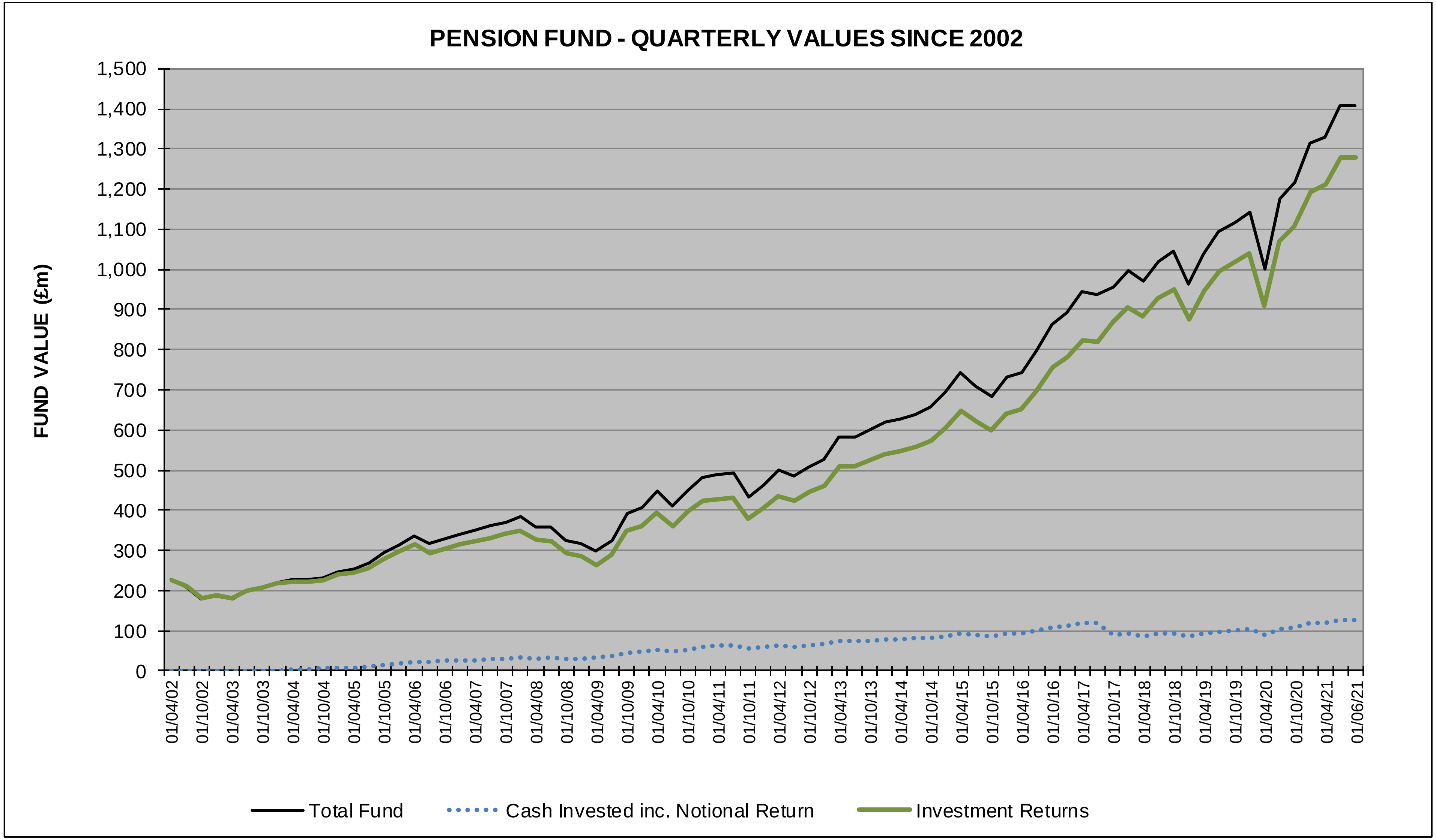
Non-Applicable Sections:	Personnel Implications, Impact on Vulnerable Adults and Children, Procurement Implications
Background Documents: (Access via Contact Officer)	Monthly and quarterly portfolio reports of Baillie Gifford, Fidelity, MFS and Schroders.

Appendix 1

MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002

	Baillie Gifford					Fidelity						Blackrock	MFS		Schroders	CAAM	
Date	Balanced Mandate	DGF	Fixed Income	Global Equities	Total	Balanced Mandate	Fixed Income	MAI	Property	Sterling Bond	Total	Global Equities	Global Equities	DGF	MAI	LDI Investment	**GRAND TOTAL**
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
31/12/2020\				585.3	585.3		91.0	133.0	45.5	67.7	337.2		278.8		111.7		1,313.0
31/03/2021				597.7	597.7		85.7	131.4	46.3	64.8	328.2		293.1		110.9		1,329.9
30/06/2021*				621.2	621.2		87.4	134.8	69.5	66.2	357.9		311.2		114.5		1,404.8

£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
\ Assets sold by Baillie Gifford (£65.5m) in Oct 2020 to fund Fidelity Sterling Corporate Bond fund
*Assets sole by Baillie Gifford (£20m) in June 2021 to fund Fidelity Property fund


PENSION FUND - QUARTERLY VALUES SINCE 2002
FUND VALUE (£m)
1,500
1,400
1,300
1,200
1,100
1,000
900
800
700
600
500
400
300
200
100
0
01/04/02
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01/04/19
01/10/19
01/04/20
01/10/20
01/04/21
01/06/21
Total Fund
Cash Invested inc. Notional Return
Investment Returns

Page 16

Appendix 2

PENSION FUND MANAGER PERFORMANCE TO JUNE 2021

Portfolio	Month %	3 Months %	YTD %	1 Year %	3 Years %	5 Years %	Since Inception %
Baillie Gifford Global Equity	5.90	7.28	7.28	31.03	19.31	21.28	10.25
Benchmark	4.29	7.39	7.39	25.10	13.41	14.45	8.52
Excess Return	1.61	-0.11	-0.11	5.93	5.89	6.83	1.73
Fidelity Fixed Income	0.93	2.02	2.02	-0.24	5.18	4.53	6.45
Benchmark	0.76	1.74	1.74	-2.43	4.01	3.09	5.57
Excess Return	0.17	0.28	0.28	2.19	1.17	1.44	0.88
Fidelity MAI	0.96	3.50	3.50	8.46	4.15		3.72
Benchmark	0.33	0.99	0.99	4.00	4.00		4.00
Excess Return	0.63	2.51	2.51	4.46	0.15		-0.28
Fidelity Property	4.43	6.78	6.78	12.90	3.47		3.70
Benchmark	3.78	6.11	6.11	13.30	3.72		4.49
Excess Return	0.65	0.66	0.66	-0.40	-0.25		-0.79
MFS Global Equity	1.41	6.20	6.20	22.42	12.70	12.02	13.38
Benchmark	4.26	7.26	7.26	24.56	12.85	13.86	12.79
Excess Return	-2.84	-1.06	-1.06	-2.14	-0.14	-1.85	0.59
Schroder MAI	0.80	3.83	3.83	12.14	3.11		2.71
Benchmark	0.41	1.23	1.23	5.00	5.00		5.00
Excess Return	0.39	2.60	2.60	7.14	-1.89		-2.29
Total Fund	3.35	5.75	5.75	20.42	12.37	13.49	9.27
Benchmark	2.93	5.17	5.17	15.69	9.69	10.53	
Excess Return	0.42	0.59	0.59	4.73	2.68	2.96	

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,in 2019/20 there were three with a long-term cost of £173k, and in 2020/21 there were six with a long-term cost of £520k. 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 14 non ill-health retirements with a total long-term cost of £734k, in 2016/17 there were 22 with a total cost of £574k, in 2017/18 there were 10 with a long-term cost of £245k, in 2018/19 there were eight with a long-term cost of £392k, in 2019/20 there were 14 with a long-term cost of £433k and in 2020/21 there were 14 with a long-term cost of £203k. 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 20–Jun 21 - LBB	0	0	0	0
- Other	0	0	0	0
- Total	0	0	0	0
2020/21 total - LBB	2	346	6	72
- Other	4	174	8	131
- Total	6	520	14	203
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

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Draft Outturn 2020/21 £'000	Budget 2021/22 £'000	Draft to 30/06/21 £'000
INCOME			
Employee Contributions	7,389	7,700	1,650
Employer Contributions			
- Normal	23,560	23,600	4,952
- Past-deficit	-	-	-
Transfer Values Receivable	2,409	2,400	1,049
Investment Income			
- Re-invested	10,500	9,500	3,758
- Distributed to Fund	10,850	14,412	2,616
Total Income	54,708	57,612	14,025
EXPENDITURE			
Pensions	29,821	31,300	7,430
Lump Sums	5,227	5,900	1,050
Transfer Values Paid	2,187	6,267	551
Administration			
- Manager fees	2,968	4,840	1,100
- Other (incl. pooling costs)	672	1,100	168
Refund of Contributions	74	200	19
Total Expenditure	40,949	49,607	10,318
Surplus/Deficit (-)	13,759	8,005	3,707

MEMBERSHIP	**31/03/2021**	**30/06/2021**
Employees	6,411	6,271
Pensioners	5,669	5,674
Deferred Pensioners	6,120	6,131
	18,200	18,076

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MJ HUDSON

London Borough of Bromley

Quarterly Report

Q2 2021

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Performance Summary

This report is an update of the report delivered at the Pension Committee meeting on 14th July 2021. At the previous meeting the Fund performance from the custodian had not been received and so the performance figures quoted were my estimations. It includes an appendix on Private Equity.

In market terms, the second quarter was positive for almost all asset classes with global equities up 7.9% in local currency. Fixed Interest reversed a part of last quarter's decline with UK investment grade bonds up 1.9% and UK Index-Linked Gilts up 3.9%. UK commercial property rose 6.1% in the quarter as confidence returned to real estate markets. Currencies were fairly stable over the period.

The recovery in fixed interest markets was probably the surprising feature of the quarter given the strong economic background and rising inflation. The recovery was driven by calming comments from central banks, particularly the US Federal Reserve, on the current inflation surge being transitory and a decoupling of the economic recovery around the globe as the Delta variant of the Covid-19 virus took off in some areas pushing a number of economies back into partial lockdown. There also appears to be a technical element to the recovery in government bonds which may unwind in the fourth quarter leading to weaker bond prices in the short-term.

Total Fund Performance

The Fund rose by 5.75% over the first quarter to a value over £1.4bn. The Fund outperformed the Strategic Asset Allocation (SAA) Benchmark by 0.59% over the quarter. This was driven mainly by the positive market environment leading to strong returns within the two Multi-Asset Income portfolios against their 'cash+x' style benchmark which added approximately 40 basis points (0.40%) to Total Fund performance. The overweight in equities against the Strategic Benchmark added a further 10 basis points (0.10%). The MFS global Equity portfolio was the main detractor to Total Fund performance over the quarter.

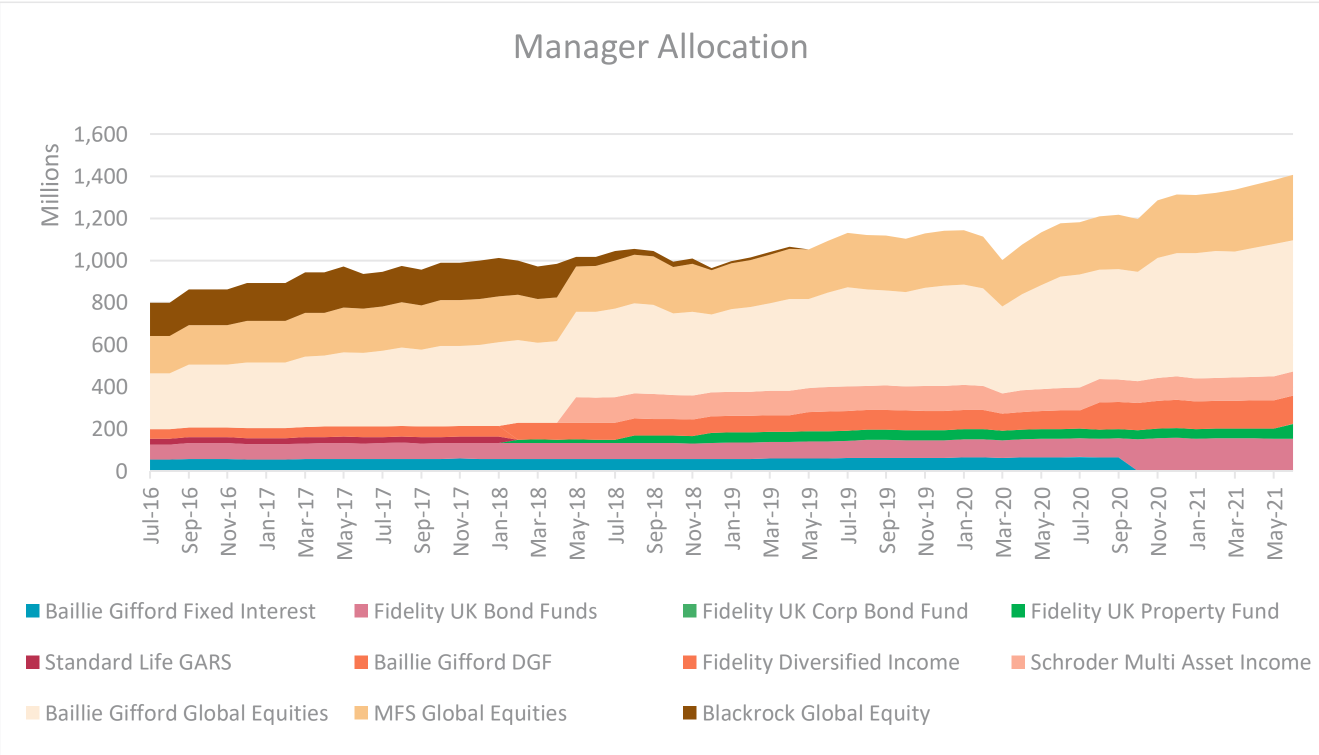
Asset Allocation

With equity markets continuing to rise over the second quarter and bonds falling, the Fund's tactical asset allocation has deviated further from the SAA Benchmark. In the short-term, the expectation of a strong recovery in earnings is pushing equities higher but inflation continues to surprise on the upside which, if interest rates rise, will act as a headwind on equity valuations. Market sentiment is at stretched levels suggesting investors are becoming over committed and the economic recovery increasingly priced in.

Asset class	Asset Allocation as at 31/12/2019	Benchmark as at 31/12/2019	Position against the existing benchmark	Asset Allocation as at 31/3/2021	New benchmark going forward	Position against the new benchmark
Equities	64.6%	60%	+4.6%	66.6%	57.5%	+9.1%
Fixed Interest	12.7%	15%	-2.3%	10.9%	12.5%	-1.6%
Property	4.2%	5%	-0.8%	4.9%	5%	-0.1%
Multi-Asset Income	18.5%	20%	-1.5%	17.7%	20%	-2.3%
Int'l Property	n/a	n/a	n/a	0%	5%	-5.0%

During the second quarter £20m has been sold from the Baillie Gifford Global Equity portfolio and reinvested into the Fidelity UK Commercial Property portfolio bringing this portfolio up to weight. This followed the presentation by the Fidelity property team at the last meeting where they set out the high void rate at present within the portfolio being mainly due to four planned major renovations which were nearing completion. The manager has a strong belief that the redeveloped properties would be re-let at a premium to their past levels resulting in a rise in the valuation of these properties over time. This provided strong reassurance that this portfolio would add value over the next 24 months. Given the high level of valuations within Equities, the recent exceptional performance of the Baillie Gifford Global Equity portfolio and the Fund's overweight position against its Strategic Benchmark in Equities (see table above) £20m or approximately 1.5% of the Fund's assets were switched from Global Equities to UK Property. It is pleasing to see that the return form UK Property increased to 6.1% this quarter and that the Fidelity UK Property Fund returned above that at 6.8%.

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



Because the Fund's investment return has surpassed the level assumed by the actuarial discount rate at the 2019 actuarial revaluation (3.65%), the funding level would 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 actuary's calculation of the discount rate. These calculations are for the Fund as an open, on-going 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.

Cash Flow

In the 2020/1 financial year the Fund had sufficient cash to cover the expected pension payments and costs after receiving pension contributions and the income from the two Multi-Asset Income portfolios plus the UK Commercial Property portfolio. In addition to this, approximately £10m of income generated within the two Global Equity portfolios and two Fixed Interest portfolios was reinvested within those portfolios by their manager. At the last Pensions Committee meeting in July, the committee agreed to take the investment income from the two Fixed Interest portfolios managed by Fidelity to increase the net cash flow of the Fund.

Updated forecasts provided by your officers show a continued deterioration of the net cash flow of the Fund and as such it will be necessary to take some of the investment income from the Equity portfolios going forward. In addition to this the Fund is currently commencing the drawdown of cash into the Global Property portfolio managed by Morgan Stanley. This is expected to amount to approximately $20m (£17.4m) per annum for the next four years. Following the decision at the last committee meeting the Fund now holds $20m to cover a part of this drawdown.

Going forward, if the Fund takes all the investment income generated by the portfolio it will cover its cash flow and by utilising the $20m of cash now held, also be able to cover much of the expected drawdowns into the International Property portfolio. This will reduce the need to raise cash from the Global Equity portfolios by selling investments to finance drawdowns into the International Property portfolio. It is also a cheaper method of raising the cash. At the end of four years, the International Property portfolio should be starting to repay capital and therefore returning cash to the Fund as opposed to drawing cash down. Nonetheless the cash flow position will need to be reviewed at that time.

International Property

The Fund has committed US$80m (£57.5m) to International Property via the Morgan Stanley managed New Haven 10 Fund and this amount will be drawn down over the next 4 years. The committed capital is an absolute US Dollar cash figure and will not alter even if the value of the Fund falls. Morgan Stanley has now made 8 acquisitions within this fund, investing approximately US$400m out of the fund’s approximately US$3bn of committed capital. They initially finance these acquisitions from bank debt and then call money down from investors when the sum is significant rather than call down a stream of small amounts. During September the manager issued the first drawdown notice to Bromley for £2.4m and confirmed to me that they expect to call down a further £10m (£7.2m) approximately by year end.

Funding level

The table below was included in the slides for the recent Pensions Seminar held on the 16th June.

Date	Assets	Current Liabilities	Funding Level	Discount rate
31/3/10	£429m	£511m	84%	6.9%
31/3/13	£584m	£712m	92%	4.95%
31/3/16	£748m	£818m	91%	4.2%
31/3/19	£1,039m	£945m	110%	3.65%
Current	£1,406m	£1026m	137%*	?

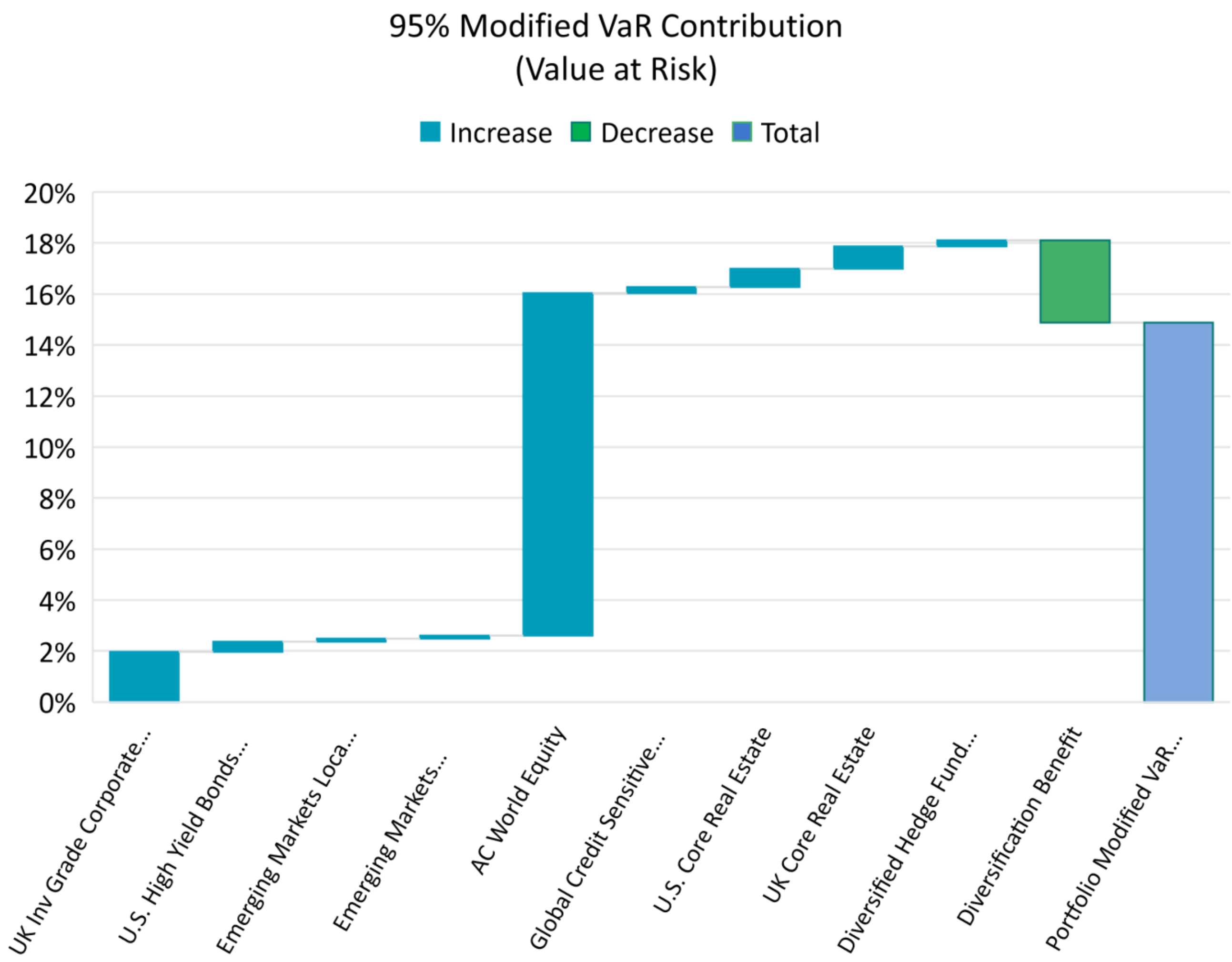
*This is an informed estimate!

The Funding level may deviate from this current forecast due to the impact of legislative changes e.g. the McLeod judgement; changes to the actuarial discount rate or changes to inflation expectations. All these issues should be expected to increase the current valuation of future pension liabilities: even so, I would guess that the Fund currently has in excess of 130% of the value of existing pension liabilities. The actuary assumes that future investment returns will cover the accrual of future pension liabilities.

As stated at the Pensions Seminar, MJ Hudson has recently updated the work they undertook in the SAA review conducted during 2019. In particular, they have re-calculated the Fund's risk and return forecasts using updated Long-Term Capital Market assumptions provided by JP Morgan. The estimated future return of the portfolio remains above the actuary's discount rate which, if achieved, will lead to further increases in the funding level, all other variables remaining constant (which they won't!)

The table below shows the Value at Risk (VaR) of the Fund. VAR is expressed as the percentage of the Fund that could be lost in adverse market conditions over a one-year time horizon. Because markets do not exhibit a normal distribution of returns, the calculation is modified to take into account the asymmetry (upward bias) and kurtosis (fat tail) of the assumed distribution. The calculation is done to a 95% confidence level so there is an assumed 5% probability (one year in 20) that the Fund's value could fall by at least this amount.

The long-term return forecast at the Total Fund level was 4.6% per annum at the time of the 2019 review. Because of the Fund's heavy exposure to Global Equities and Fixed Interest, where return forecasts have fallen slightly, this may have fallen towards 4.2% per annum but will still be above the Actuarial Discount rate of 3.65% per annum which is the return required to retain the current funding position



This chart above shows that the vast majority of the Fund's market risk is within the global equity portfolios. If the Committee wishes to reduce the level of risk within the Fund it will need to reduce the equity exposure. This calculation suggests that there is a 5% chance that the Fund could fall by at least £200m over the next 12 months. The diversification benefit is because returns from bonds and equities have tended to be negatively correlated in the past. I would question whether that will continue into the immediate future.

Environmental, Social and Governance (ESG)

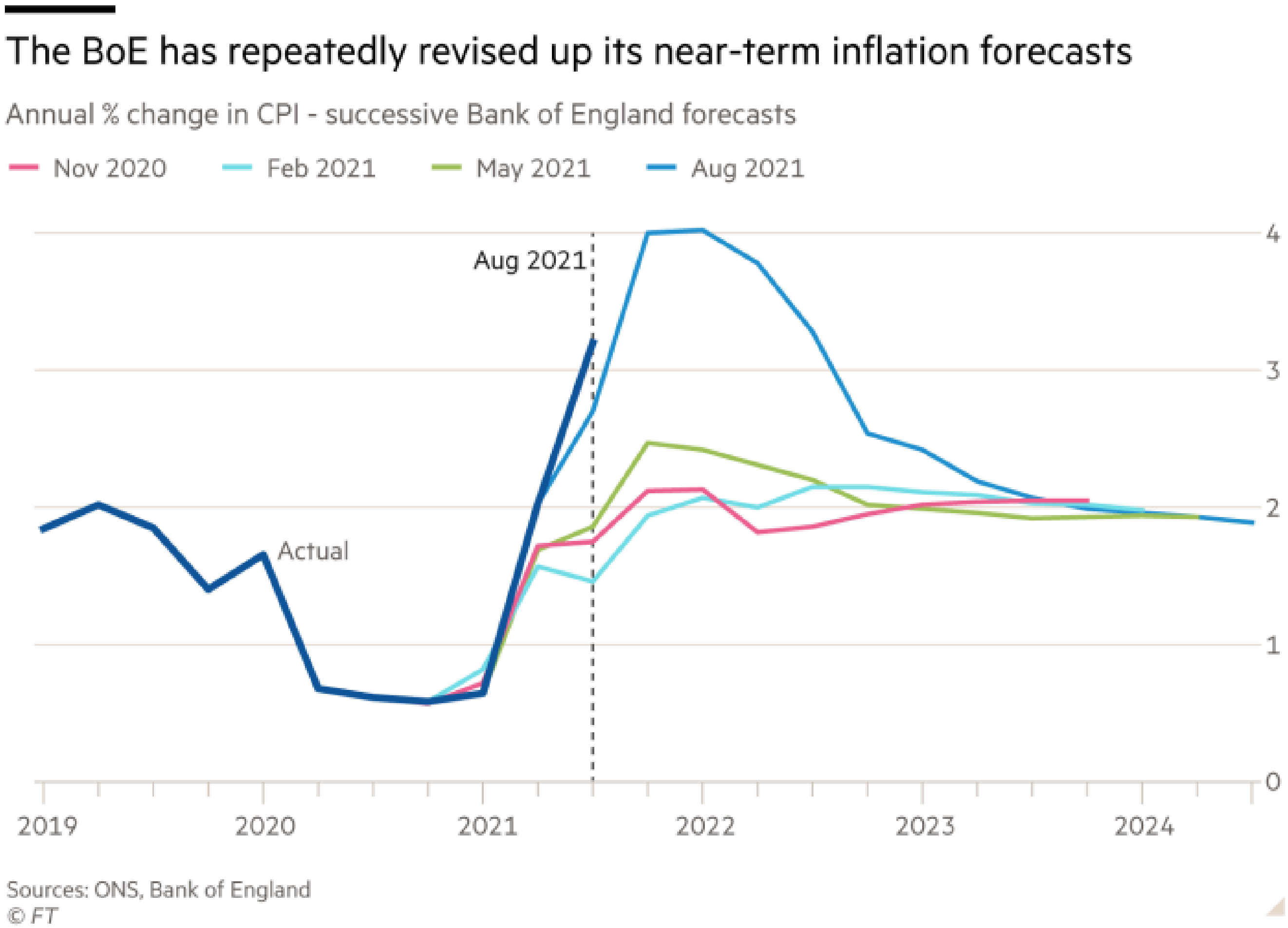
Please see the separate report on impact investing.

It is intended to produce carbon emissions data and a comment on TCFD reporting at the next committee meeting in December.

The Inflation Question – for discussion

In the last quarterly report I set out a thought piece on inflation, noting my concerns that the pick-up we are currently seeing will be less transitory and more ‘sticky’ than many commentators expect.

The chart below shows the Bank of England’s current and past inflation forecasts, it shows that they have underestimated the pick-up in inflation for the last 9 months. My own expectation is for inflation in the UK to peak above 4% by year end and for the rate to remain above 3% through 2022. The question is whether this will lead to higher interest rates. Historical evidence is an unequivocal yes. However, whilst interest rates may move higher by the end of 2022, this time may be different.



The supply disruptions forcing prices higher will be solved at some stage, but the costs being put onto companies in the form of environmental costs and consumers/investors’ expectations regarding environmental and social behaviour are not coming from restricted supply, so slowing the economy will not suppress these costs. Likewise, a desire by governments in both the US and UK to raise the wages of the lowest paid will also push costs higher. This would suggest that the future could be one of mediocre growth but somewhat higher inflation without the need for significantly higher interest rates. This would be a boon for heavily indebted governments allowing inflation to eat away at outstanding debt levels without higher rates increasing the interest cost of such debts. Note a 1% raise in the UK Government’s interest cost is approximately equal to the tax raised form the recently announced rise in National Insurance!!! But not for asset owners for whom the rise in inflation eating away at their capital.

Performance report

Asset Class/ Manager	Global Equities/ Baillie Gifford
Fund AuM	£622m Segregated Fund; 44.2% 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	Presented at the Jan Committee meeting. John Arthur/John Carnegie by phone
Fees	*See Part 2 Appendix*

The Baillie Gifford Global High Alpha portfolio returned 7.3% over the quarter similar to the benchmark return of 7.4%. Long-term performance remains exceptional with 5-year returns at 21.3% per annum against the benchmark return of 14.5% per annum for this period. This portfolio is 44% of the Fund's assets.

In the last quarter £20m has been sold from this portfolio to finance a purchase of the Fidelity UK Property portfolio and £17.4m to finance a US dollar cash portfolio to help fund the international property portfolio as it is drawn down. As growth picks up and as we recover from the Covi-19 pandemic, I would expect this portfolio to match or slightly lag the benchmark return. However, looking further forward, I do believe Baillie Gifford will continue to add value in a low growth, higher inflationary environment.

Asset Class/ Manager	Global Equities/MFS
Fund AuM	£312m Segregated Fund; 22.2% of the Fund
Benchmark/ Target	MSCI World Index
Adviser opinion	meeting long-term performance targets, underperforming short-term
Last meeting with manager	Phone call during the quarter: Elaine Alston/John Arthur
Fees	*See Part 2 Appendix*

The MFS Global Equity portfolio underperformed in the first quarter by 1.1% returning 6.2% against the benchmark return of 7.3%. The portfolio has underperformed over the last 5 -years but has outperformed since inception 8 years ago. I would expect some outperformance of this portfolio going forward as the manager focuses on defendable businesses where price pressure can be passed through to consumers. The MFS acts as a useful counterweight to the Baillie Gifford Global Equity portfolio which helps reduce the level of risk taken by the overall Fund and hence volatility.

Asset Class/Manager	UK Aggregate Bond Fund and UK Corporate Bond Fund/ Fidelity
Fund AuM	£154m pooled fund; 10.9% 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	Phone call during the quarter: Paul Harris/John Arthur
Fees	*See Part 2 Appendix*

The Fund now has two similar Fidelity Fixed Interest portfolios.

The UK Aggregate Bond Fund has a benchmark which is 50% UK Gilts and 50% UK non-Gilts; the UK Corporate Bond Fund has a benchmark consisting entirely of UK Investment Grade Corporates and, as such, contains slightly higher credit risk.

Portfolio	2Q21 performance	Duration	Yield
UK Agg Bond	0.5%	10.2 years	1.2%
UK Corp Bond	1.5%	7.6 years	1.9%

10-year UK Government Gilts yields fell slightly over the quarter (prices rose) in a marked reversal of the first quarter. Concern over the Delta version of the Covid-19 virus leading to localised economic shutdowns and thereby a slower economic recovery across the globe leading to a slightly more pessimistic outlook for global growth and hence interest rates. This accompanied with strong vocal comments from central banks over the transitory nature of the current inflation uptick left markets happy to push bond yields lower. The manager has slightly lowered the duration of the portfolio in the belief that interest rates are at the low end of their range.

Asset Class/Manager	Multi-Asset Income / Schroders
Fund AuM	£114m Pooled Fund; 8.1% 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	*See Part 2 Appendix*

Asset Class/Manager	Mult-Asset Income / Fidelity
Fund AuM	£135m Pooled Fund; 9.6% 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	By phone during the quarter John Arthur/Paul Harris
Fees	*See Part 2 Appendix*

In a strong quarter for asset prices you would expect the Multi-Asset income portfolios to outperform their cash+x style benchmarks. The Schroders portfolio rose by 3.8% and the slightly more conservatively managed Fidelity portfolio by 3.5%. Both portfolios have been part of the Fund for over three years now with the Schroders portfolio returning 3.1% p.a. over this period and the Fidelity portfolio 5.1%. Part of the performance difference seems to be from the Fidelity portfolio holding up better in more difficult market conditions.

My central assumption remains that UK Gilts yields will rise further through the remainder of this year and, as such, I would expect both of these portfolios to add little value in the short-term. I believe the UK Corporate Bond portfolio is likely to outperform the UK Aggregate Bond portfolio over the long-term due to the higher yield available in UK Investment Grade Bonds over UK Government Gilts, more than compensating for the increased credit risk in the portfolio.

Asset Class/Manager	UK Commercial Property / Fidelity
Fund AuM	£69m Pooled Fund; 4.9% 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	Phone calls during the quarter John Arthur/Paul Harris
Fees	*See Part 2 Appendix*

It was pleasing to a strong quarterly return from the UK Commercial Property portfolio this quarter having injected a further £20m towards the end of the last quarter. The portfolio returned 6.8% against a 6.1% return for the benchmark. The portfolio remains slightly behind the benchmark since inception in January 2018 reflecting the high cost of investing in this sector with UK stamp duty at 5%. 3-Year return has been 3.5% p.a. against 3.7% for the benchmark.

Asset Class/Manager	International Property / Morgan Stanley
Fund AuM	US$80m(£57.5M) committed / Limited Partnership; 0.0% of the Fund
Performance target	Absolute return
Adviser opinion	
Last meeting with manager	Phone calls during the quarter John Arthur/Gareth Dittmer
Fees	

The Fund received the first drawdown of cash into this portfolio towards the end of the quarter (£2.4m) with a further drawdown currently expected before year end. Following the last committee meeting a $20m dollar cash fund has been put in place to cover part of the potential future drawdowns and reduce the currency risk.

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MJ HUDSON

London Borough of Bromley

Private Equity

15TH SEPTEMBER 2021

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Private Equity

The following comments come from the McKinsey Global Private Markets Review 2021

1. Globally, Private Equity raised over US$600bn of new money in both 2018 and 2019 and £500bn in new money was raised in 2020 despite the Covid pandemic. 60% of this was from the US. Fund raising recovered sharply towards the end of 2020.
2. Growth rates for private markets net asset value and public market capitalization first diverged during the Global Financial Crisis, and that divergence has accelerated over the last decade. By assets, Private Equity has grown by a factor of 10x since 2000. The market capitalisation of public markets has grown by a factor of 3 over this period.
3. Globally, Private Equity AUM reached US$4.5Trillion during 2020. Driven by increased allocations from institutional investors, strong returns and rising leverage.
4. Private equity has outperformed public market benchmarks over the last five-, ten-, and 20-year periods. On a pooled basis, private equity has produced a 14.3 percent annualized return over the trailing ten-year period, beating the S&P 500 return of 13.8 percent by 50 basis points. Over the trailing 20-year period, outperformance has been even greater: private equity has produced a 9.9 percent annualized return, beating the S&P 500 return of 6.4 percent by 350 basis points.
5. Though private equity at the industry level continues to outperform, achieving industry level performance requires careful manager and fund selection. Further, most LPs invest in private equity with the expectation of outperformance, and private equity teams at institutional investors are often measured against their ability to outperform the median. There is good reason behind that rationale. The difference between top- and bottom-quartile performance is worth more than 1,000 basis points in Internal Rate of Return (IRR). Where there is opportunity for outperformance through manager selection, there is nearly equivalent downside risk. Larger Funds tend to produce similar returns, smaller fund returns are more disparate.

McKinsey's report is supported by data from PIRC who monitor the performance of 63 LGPS funds across the UK using their reported performance data.

PIRC data to March 2021 shows the following:

Asset Class	1 year return	3 year return	5 year return	10 year return
Global Equity	40.5%	11.5%	13.7%	13.0%
UK Equity	30.0%	3.9%	6.7%	6.6%
Private Equity	12.3%	13.1%	13.8%	14.4%

The table shows that over ten years Private Equity has outperformed Global Equity by 1.4% p.a. The one-year return shows that private equity does not follow the pricing in the quoted equity market in the short term. This is because of the illiquid nature of Private Equity such that, in fast moving markets, Private Equity prices lag. This was as true in the market collapse in Q1 2021 as it is has been during the recovery.

Data from Cliffwater showing US State Pension funds 10-year returns by asset class is less convincing showing the median Private Equity return over 1% below that of quoted equities per annum over 10 years.

Exhibit 6: State Pension 10-Year Returns by Major Asset Class

	Total Fund	US Stocks	Non-US Stocks	Fixed Income	Real Estate	Private Equity	Absolute Return
Highest Return	9.74%	15.02%	8.24%	9.75%	13.47%	16.91%	7.27%
25th Percentile	8.93%	13.61%	6.67%	5.17%	11.41%	13.60%	6.15%
Median Return	8.57%	13.17%	6.07%	4.57%	10.65%	12.65%	5.17%
75th Percentile	7.81%	12.65%	5.41%	3.96%	9.86%	11.37%	4.33%
Lowest Return	6.71%	8.81%	4.13%	2.91%	8.20%	5.37%	2.65%
Average Return	8.63%	12.90%	6.26%	4.79%	10.43%	12.75%	4.95%
Benchmark Return	7.94%	13.73%	4.97%	3.83%	9.70%	14.48%	3.74%
Benchmark Percentile	73%	14%	89%	78%	76%	16%	100%
25th - 75th Mid Range	1.11%	0.96%	1.26%	1.21%	1.56%	2.23%	1.81%
Count	66	38	41	60	41	41	12

Benchmarks:

The reason for this mismatch is because performance data is not as definitive as people expect and is influenced by the timing of cash flows into and out of a portfolio as well as whether the figures are gross of fees or net and how other expenses have been treated.

I suspect there is a small improvement in performance from private equity net of fees but that the costs and high fees weigh heavily.

JP Morgan produce Long-Term Capital Market assumptions (LTCM) for all asset classes. They expect a higher return from Private Equity against global Equities over the next 10 years.

	2020 forecast	2021 forecast	Historic volatility	Correlation with Global Equities
Global Equities	5.0% p.a.	4.3% p.a.	13.6%	1.0
Private Equities	7.3% p.a.	7.0%p.a.	16.5%	0.68

I would make the following comments about these forecasts:

1) The volatility estimates within the JPMorgan LTCM are wrong as they analyse price volatility yet in difficult market conditions it is liquidity that collapses not prices. i.e. Private Equity prices do not change in a market collapse, they are just untradable.
2) The average Private Equity company is 6-7 times leveraged against 3 times for quoted companies, this underlines the inappropriateness of the LTCM risk figures.

Other issues are:

1) Private Equity brings the Fund closer to ownership of a company, this increases reputational risk. Many Private Equity managers target short to medium term value creation at the expense of the longer term and focus purely on financial returns rather than building the business for all stakeholders (Debenhams et al)
2) You will need to repeat the investment to diversify across vintages. The timing of entrance is particularly important, cash should be invested when it is scarce and hopefully returned when assets are expensive.

If the Fund conducts a review of its Strategic Benchmark post the updated actuarial valuation due in 2022, I would expect Private Equity to be amongst the asset classes considered for investment as it was in the work MJ Hudson conducted in 2019.

Most importantly, the Fund does not need to invest in more volatile asset classes with a high correlation to equities. It is well funded and could look to further diversify and take less investment risk rather than more.

Report No.
FSD21062

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**PENSIONS COMMITTEE**		
Date:	**September 29th 2021**		
Decision Type:	Non-Urgent	Non-Executive	Non-Key
Title:	**IMPACT INVESTING**		
Contact Officer:	Dan Parsons, Senior Accountant Tel: 020 8313 3176 E-mail: dan.parsons@bromley.gov.uk		
Chief Officer:	Peter Turner, Director of Finance Tel: 020 8313 4668 Email: peter.turner@bromley.gov.uk		
Ward:	Borough Wide		

1. Reason for report

1.1 MJ Hudson Allenbridge was asked to brief the Pension Investment Committee on Impact Investing and Social Housing. This report is an introduction to Impact Investment also known as Environmental Social Governmental (ESG) investing. The report also contains MJ Hudson Allenbridge recommendations on how Impact Investing should be viewed in relation to the management of the Pension Fund.

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2. RECOMMENDATION

2.1 The Pensions Committee is asked to consider and note the contents of the MJ Hudson Impact Investing and Social Housing report, attached as Appendix 1.

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 £5.9m (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: £49.6m expenditure (pensions, lump sums, etc); £57.6m income (contributions, investment income, etc); £1,406m total fund market value at 30th June 2021

5. Source of funding: Contributions to Pension Fund

Staff

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

2. If from existing staff resources, number of staff hours: 36 hours per week

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Legal

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

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

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,271 current employees; 5,674 pensioners; 6,131 deferred pensioners as at 30th June 2021

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMMENTARY

3.1 Impact Investing is investing with the intention to provide investing that has a beneficial and measurable impact on society and effect meaningful change across several of key issues such as Climate Change. It is also known as Environmental Social Governmental (ESG) or 'Green' investing. The report introduces key ESG issues that the Pensions Committee may consider and note and then suggests that the Committee may prefer to focus on the key fiduciary duty of the Pension Fund, which is to maximise fund returns in order to meet future pensions commitments.

4. POLICY IMPLICATIONS

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

5. FINANCIAL IMPLICATIONS

5.1 There are no financial implications at present.

6. LEGAL IMPLICATIONS

6.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2013 (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)	None.

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MJ HUDSON

London Borough of Bromley

Impact Investing and Social Housing

15TH SEPTEMBER 2021

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Impact investing

As a rule, impact investors look for a double dividend of financial returns alongside social and environmental benefits. The desired impact that an investor wishes to achieve can vary but is usually set out in terms of the United Nations 17 Sustainable Development Goals (SDG'S).

There are guidelines designed to provide a solid foundation for impact investors. Further sources of information can be found via the Global Impact Investing Network (GIIN) https://thegiin.org/impact-investing/or the International Finance Corporation (IFC) – the World Bank's investment arm https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/development+impact/principles – both have established the following, largely overlapping principles.

1. Intentionality of the impact investment
   The investment process starts off by defining the impact objective(s) at the core of the intended positive social and environmental impacts aligned with some of the 17 UN SDGs or other widely accepted goals.

2. Aiming at financial returns
   Apart from achieving the desired effect, impact investors aim for a financial return on capital that ranges from at least a market rate to a risk-adjusted market rate. This is to distinguish impact investment from philanthropy, which solely focuses on social or environmental change and not on financial returns.

3. Investments across asset classes
   There are numerous opportunities across multiple types of asset classes, from private equity and private debt, to listed equities and "green bonds".

4. Managing and measuring impact
   Defining indicators according to the intentions, then measure each investment's achievement and report results.

Impact investing must be subordinate to the Committee's primary responsibility to ensure the Fund can pay current and future pensions. At its most damaging it can be used as an excuse to target a pet project irrespective of expected return. Because of this the four principles set out above are important. Whilst an existing committee may understand the issues around impact investing, I would strongly recommend that they produce an audit trail against the four principles to ensure that they can show their own duty of care and set a high bar for future committees.

I would recommend that the financial return should be equitable with other investment opportunities available in the market on a risk adjusted basis. At present the forecast return for the Strategic Benchmark, as recalculated in June 2021 using JPMorgan's updated 10 year return forecasts, is 4.2% per annum. This comprises assets targeting higher return forecasts for higher risk investments e.g. Private Equity (forecast return of 7.0% p.a. with an annualised volatility of 16.5%) and lower return/lower risk investments e.g. UK Government Gilts (forecast return of -0.2% p.a. with an annualised volatility of 6.7%).

The level of return targeted for an impact investment should be commensurate with that investment's particular risk and return profile as well as recognising any diversification benefits it may bring to the Fund. The Committee should justify an impact investment by targeting a return of at least 4.2% per annum and preferably higher whilst targeting the investment in such a way as to maximise the diversification benefits away from the predominant equity risk within the existing portfolio.

Social Housing

One area which has attracted interest from the LGPS sector is the provision of social housing, partly because this is a local government responsibility. This fits with a number of the UN SDG's, particularly No.11 - Sustainable Cities and Communities.

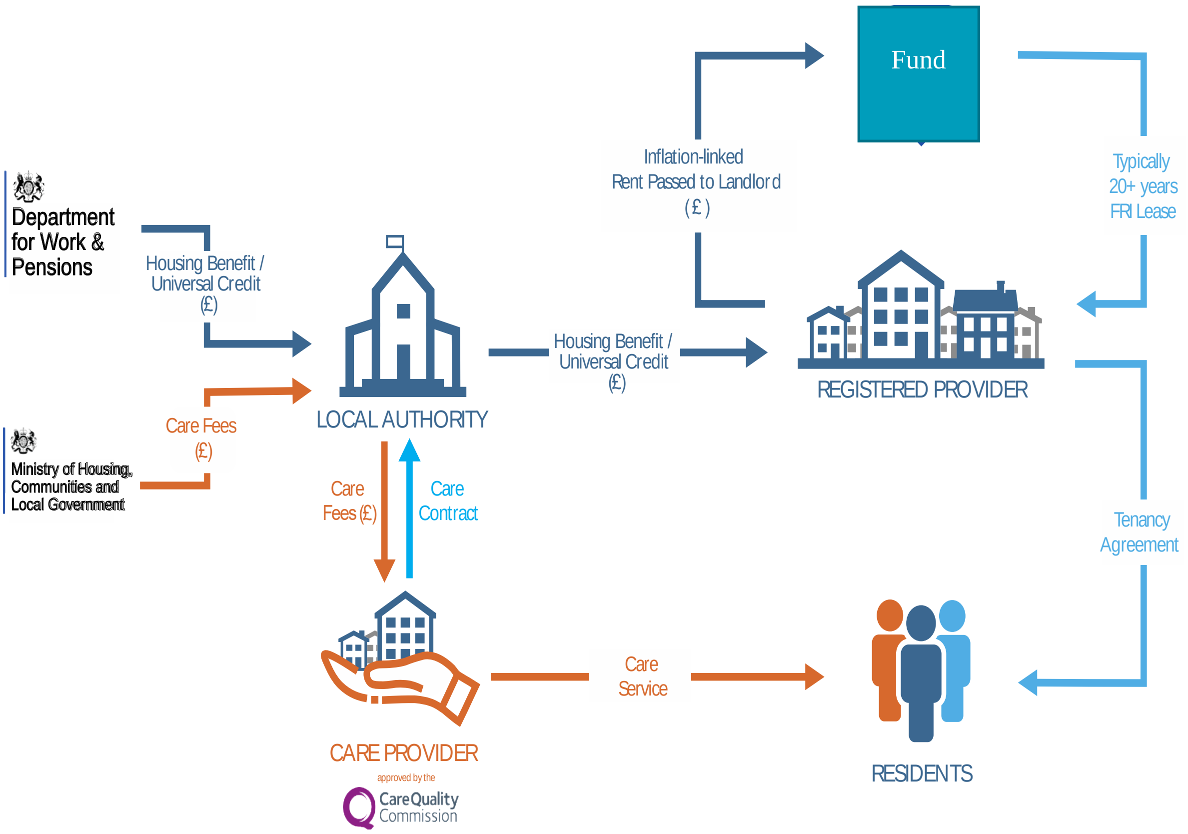
Social Housing covers a number of sub-sectors, each of which have their own specific structure around payment of rent to the landlord and payment of care costs where necessary. The greater the percentage of the rent covered by the Government through the MHCLG or DWP budget, the lower the perceived investment risk.

The table below is taken from a presentation by the Triple Point Impact House Fund.

Sector	Children's Services Housing	Specialised Supported Housing	Older Person Supported Housing	Social and Affordable Housing	Homelessness Housing	Private Affordable Housing	Asylum Housing
Residents	People under 18 years with care and support needs	Individuals of working age with care and support needs	Individuals and couples over 55 with care and support needs	Families and individuals	Families and individuals registered as homeless	Families and individuals	Families and individuals seeking asylum
Lessee	Care Provider	Registered Provider	Registered Provider	Local Authority / Registered Provider	Local Authority / Registered Provider / Charity	Individuals and Families	Private Provider
Income Source	Ministry of Housing Communities and Local Government	Department for Work & Pensions	Department for Work & Pensions	Department for Work & Pensions with private top up	Department for Work & Pensions	Private payments with contributions from the Department for Work and Pensions	Home Office
Lease Length	10 years +	10 years +	10 years +	10 years +	10 years +	Assured Shorthold Tenancy	10 years
Target Net Initial Yield	5.5 – 6.5%	5.5 – 6.0%	4.5 – 5.5%	4.0 – 5.0%	4.5 – 7.0%	4.0 – 6.0%	6.0 – 9.0%

The most advantageous position to be in as an asset owner in Social Housing is to have all rent paid directly by the local authority rather than via the tenant from housing benefit (see income source in the table above) and for the asset owner/landlord to have a contract with the lessee where the latter service provider covers all voids and maintenance. This reduces the investment risk but still leaves the asset owner at risk to a change in Government policy although the need for social care provision is highly unlikely to go away.

The flow chart below illustrates the older person supported housing sector



Investment would usually be via a closed-ended (time limited) fund which owns the properties being used to provide social housing. As can be seen from the previous table above, properties are usually owned on long leases although some funds are now looking to build new social housing in order to guarantee a better build quality and achieve environmental commitments such as low carbon emissions. Investors are often locked in for the early stages of the fund and liquidity may be quarterly or annually. Some funds allow gearing to boost investors returns but this obviously increases the risk.

Owning property directly does expose the investor to movement in house prices and a potential fall in value. I would look to minimise this exposure where possible and concentrate on stable income rather than higher return.

There are a number of fund managers operating in the social housing sector in the UK, including ones large enough for the Fund to invest up to 5% of its assets. The investment would be drawn down over a number of years as the underlying fund invests its capital with interest paid quarterly. Capital would be returned at the end of the funds life, often 10 years or so. Rents should be linked to inflation and as such social housing can provide a useful source of protection against a long-term uptick in inflation.

One of the supposed advantages of investing in social housing for LGPS Funds is the ability to support the aims of its administrating authority, this can be done by requiring any fund the Pension Fund invests in to targets social housing within the borough of Bromley. Many fund managers will acquiesce to this although it is likely to be a loose commitment rather than a pound for pound agreement. (In the case of Bromley this may be difficult given the relatively high house prices within the borough of Bromley and low social rent coverage.)

This raises an very obvious conflict of interest for the Councillors: If the intention is to achieve a social good alongside a financial return, why target your own borough over all others irrespective of its relative investment merits?. From an investment prospective I do believe a Pension Funds can target impact investing for a proportion of its assets. I am less sure of the justification for insisting that the impact investment must be in the locality of the administrating borough. This sounds more like politics!

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Agenda Item 10

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

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Agenda Item 12

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