# PENSIONS COMMITTEE

Minutes of the meeting held at 7.00 pm on 2 December 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

## 148 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

There were no apologies for absence.

## 149 DECLARATIONS OF INTEREST

There were no declarations of interest.

## 150 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

Two questions had been received for written reply – the questions and answers are attached as Appendix A to these minutes.

## 151 CONFIRMATION OF MINUTES OF THE MEETINGS HELD ON 29 SEPTEMBER AND 15 NOVEMBER 2021, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

**RESOLVED that the minutes of the meeting held on 29th September 2021 be confirmed.**

The exempt minutes of the meeting held on 15th November 2021 were not yet available.

## 152 MFS PRESENTATION

Elaine Alston and Paul Fairbrother of MFS attended the meeting. Ms Alston began by reporting that a new Portfolio Manager would be joining them in January, and emphasising that their investment process focussing on business durability and sustainability would continue.

Paul Fairbrother led the Committee through the main points of the MFS presentation. From a trough in March 2020, world markets had recovered and the equity market was strong. However, although inflation had been falling for fifty years it was now increasing in raw materials and wages. In particular, there was higher wage-growth pressure amongst low-wage employees than in high-skills sectors for the first time in thirty years. While central banks were saying that this inflation would be temporary, he predicted that it would be more long-lasting, and that there was possibly a testing decade ahead. He commented on technology companies that their value would decline as interest rates rose, and the dominance of a small number of companies could be challenged by regulators. MFS did have a holding in Microsoft, but not any of the other major technology stocks. He concluded by stating that the MFS value approach complemented Baillie Gifford's growth approach.

In response to questions, Mr Fairbrother confirmed that they had a small holding in one Chinese company, there was little exposure to China. He also explained that MFS mainly used CPI to measure inflation, and that figures were not usually adjusted for inflation. Addressing the issues around ESG, Mr Fairbrother stated that the MFS approach was to talk to companies and seek to influence them, rather than to disinvest - they invested in companies prepared to change. They did not want to rule out whole sectors, and accepted, for example, that the world needed the oil industry for the next ten or fifteen years. It was important to talk to companies and to pick companies to invest in very carefully.

Mr Fairbrother argued that the MFS investment strategy was effective in difficult markets and would protect the Council in a downturn. It was important that investment managers pursued a consistent approach, not chopping and changing in response to short-term events and conditions.

The Chairman thanked Ms Alston and Mr Fairbrother for their presentation.

## 153 PENSION FUND PERFORMANCE - Q2 2021/22
Report FSD21076

The report provided a summary of the investment performance of Bromley's Pension Fund in the 2nd quarter of 2021/22. The report also contained information on general financial and membership trends of the Pension Fund and summarised information on early retirements.

The report included a quarterly report from MJ Hudson, the Fund's external investment advisor. John Arthur of MJ Hudson presented the report. He commented in particular on inflation, which had been expected at around 3%, but was now anticipated to peak at 6%, then decline as supply chain issues lessened. Wage inflation, particularly at the lower end, was currently a factor, and the impact of de-carbonising the world economy would have a lasting impact. He expected inflationary pressures to linger longer than central banks were currently predicting. With a high level of government debt, central banks would be reluctant to raise interest rates to protect growth. Overall, he expected returns to struggle for the next couple of years. There was diversification in the Fund, but other approaches that could be considered were direct lending and investment in social/affordable housing.

The Fund had risen 0.37% in value over the quarter, and was valued at over £1.4bn. However, the figures excluded the US dollar cash holding and the Morgan Stanley International Property fund – this would be corrected in the next quarter's figures. Baillie Gifford had underperformed over the quarter, after their earlier exceptional performance, but Mr Arthur was confident that their approach would add value in the long-term. UK Property was the best performing asset over the quarter at 6.6% per annum. A first drawdown into the International Property Fund had been made during the quarter, with a second drawdown having now been made after quarter end.

The report also included a section on Environmental, Social and Governance (ESG) – Mr Arthur suggested that he reported on this annually in future. Fund managers were taking ESG into account, especially in Fixed Interest, but not all companies were producing figures, especially in emerging markets.

The Committee discussed the recent performance of Baillie Gifford, and their prospects for the next few years, compared with the contrasting lower risk approach of MFS. Mr Arthur advised that Baillie Gifford were good at anticipating which companies would be successful; they were expecting the major technology companies to be restricted by regulatory challenges, leading to disruption and opportunities for the next generation of companies. While he would not be against switching funds to MFS, he still had confidence in the Baillie Gifford approach, and reminded the Committee that there would be transition costs. The Chairman suggested that rather than incurring costs by switching managers a cheaper alternative might be to consider some of Baillie Gifford's lower-risk products.

Commenting on the Pension Fund Revenue Account and Membership table at page 13 in the agenda, a Member raised the issue of the declining number of employees making contributions into the Fund, and requested a more detailed cashflow. Officers had carried out a revised cashflow forecast recently, and this could be circulated. The change to the figures requested at the previous meeting had been incorporated – an additional line covering the surplus or deficit.

**RESOLVED that the contents of the report and the information contained in the related appendices be noted.**

## 154 LOCAL PENSION BOARD - ANNUAL REPORT 2021

The Local Pension Board Terms of Reference required that an Annual Report was produced and provided to the Pensions Manager each year. In a report to the Pensions Investment Sub Committee, General Purposes and Licensing Committee and Council in February 2015, it was also confirmed that the Local Pension Board's Annual Report would be provided to Council. It was noted that the Board had only met once a year, although this was being reviewed – some Members considered that the Board should not be encouraged to hold unnecessary meetings.

**RESOLVED that the Local Pension Board report be noted and referred to full Council.**

**155 PENSION SCHEME: MEMBERS ANNUAL NEWSLETTER**
Report FSD21077

The Committee received details of the Pension Fund's Annual Member's Newsletter. A Member commented that the Newsletter did not add value, was not very reader-friendly and did not report on the investment of funds, but another Member considered that it was a bright and useful document.

**RESOLVED that the contents of the report be noted.**

**156 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**

**157 CONFIRMATION OF EXEMPT MINUTES - 29 SEPTEMBER and 15 NOVEMBER 2021**

The exempt minutes of the meeting held on 29$^{th}$ September 2021 were confirmed. The exempt minutes of the meeting held on 15$^{th}$ November 2021 were not yet available.

**158 PENSION FUND PERFORMANCE Q2 2021/22 - APPENDIX 6**

The Committee received and noted Appendix 6 to the Pension Fund Performance Report.

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

The Chairman briefed the Committee on recent developments involving the London CIV.

The Meeting ended at 9.26 pm

Chairman

**Appendix A**

**PENSIONS COMMITTEE**

**2ND DECEMBER 2021**

**QUESTIONS FOR WRITTEN REPLY**

1. **From Jamie Devine to the Chairman of the Pensions Committee**

https://www.forbes.com/sites/feliciajackson/2021/03/19/global-renewables-investment-return-7-times-higher-than-fossil-fuels/
According to Forbes Business magazine renewable energy, investment returns are seven times greater than those of fossil fuels. To what extent, in terms of value, has the Council's pension investments moved from fossil fuels to renewables in the last three years?

**Reply:**
That greenhouse gas emissions are a major cause of climate change is, I believe, undeniable. There are now an increasing number of stock market indices which focus on only investing in low carbon emitting companies and many passively managed portfolios have been constructed by asset managers to mimic these indices. However, in my opinion, focusing purely on environmental issues when investing is as erroneous as focusing purely on financial issues has been in the past and I would far rather have my investments managed by asset managers who analyse companies in depth by looking at all potential variables including both financial and environmental. The Fund invests purposely through asset managers who adopt a long-term investment philosophy and who place a very strong emphasis on analysing their investments in depth and then buying and holding those investments which fit that investment philosophy for the long-term. The average holding period for a stock in both of the Fund's global equity portfolios is between 5 and 8 years. By investing on this timescale, environmental issues such as climate change have to be considered as part of the investment thesis. I have held meetings with each of the Fund's asset managers, as have the Chair, Vice Chair and Officers, over the last two years on ESG issues and believe, in each case, that the manager has embedded climate issues into their investment analysis. The investment philosophy used by Baillie Gifford to manage the Fund's High Alpha Global Equity portfolio, focusses on fast growing companies which tend to have a small asset base and concentrate on intellectual capital rather than fixed assets and, therefore, the portfolio has a low exposure to manufacturing and hence carbon emissions. The global equity portfolio managed by MFS, whist having a greater exposure to manufacturing, is again managed to an investment philosophy which is less likely to focus on carbon intensive industries. The Fidelity Fixed Interest and Property portfolios also analyse the environmental impacts of their investments. In each case the resultant portfolio should be expected to produce less carbon emissions than the comparative index. It is slightly harder to show this issue for the Fund's two Multi - Asset Income portfolios because they both invest partly via third party funds where it is harder to collect the data. In order to illustrate the carbon intensity of the Fund I have asked each manager to provide the CO2 equivalent (CO2e) of six recognised greenhouse gases covered by the Kyoto protocol (CO2, CH4, N2O, HFC's, PFC's

and SF6) and to show these as tonnes of CO2 equivalent per £m of turnover aggregated to the portfolio level. This gives a comparable carbon footprint for each portfolio and their respective index where possible.

| Portfolio | tCo2e/£m | Benchmark equivalent. | Benchmark |
|---|---|---|---|
| Baillie Gifford Global Equity | 140.0 | 201.0 | MSCI All Countries World |
| MFS global Equity | 148.36 | 184.9 | MSCI World (Developed Markets only) |
| Fidelity Multi-Asset Income | 224.69 | n/a | |
| Schroders Multi-Asset Income | n/a | | |
| Fidelity Fixed Interest | 93.4 | 172.1 | Composite Fixed Interest benchmark |
| Fidelity UK Property | ? | n/a | |

I believe these figures to be comparable, they are expressed as a carbon equivalent per million pounds of turnover at the company level. Where there is a comparable index figure the Fund's assets are managed with a noticeably lower carbon intensity that the index. Because of the multi-asset nature of the Multi-Asset Income portfolios it is not possible to provide a benchmark figure for carbon emissions for these two portfolios. In addition, due to a miss communication on my part, I have not received the figures from Schroders for their portfolio at the time of writing and Fidelity are unable at present to provide this data for the UK Property portfolios but are inserting clauses in all new leases which require tenants to report such figures. Each manager has also noted a small number of companies where they are currently unable analyse this data, this is mainly for emerging market companies and where the portfolio is invested in third party funds. I will continue to discuss with each manager the best way to report this data going forward and suggest it should be reviewed at least annually with the intention of seeing the Carbon intensity of the Fund's portfolios fall over time. This may be hampered in the short term by filling out the missing data.

**2. From Jamie Devine to the Chairman of the Pensions Committee**

According to Forbes Business magazine renewable energy, investment returns are seven times greater than those of fossil fuels. What is the Committee's view on moving their current fossil fuel funds to renewable energy funds to maximise the benefits for scheme members?

**Reply:**
The Fund continues employ asset managers who analyse companies and invest in them for the long-term. Because of this long-term approach, issues such as climate change become integral to the future prospect of each company and are analysed as such. The Fund continues to have a relatively low exposure to fossil fuels compared to a comparative index.