

PENSIONS COMMITTEE

Minutes of the meeting held at 7.00 pm on 24 May 2023

Present:

Councillor Keith Onslow (Chairman)
Councillor Kira Gabbert (Vice-Chairman)

Councillors Dr Sunil Gupta FRCP FRCPATH, Adam Jude Grant,
Simon Jeal, Christopher Marlow, Ruth McGregor and
Sam Webber

Also Present:

John Arthur, Apex Group Ltd (formerly MJ Hudson)

1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies for absence were received from Councillors David Jefferys and Andrew Lee and Councillors Dr Sunil Gupta and Adam Jude Grant attended as their respective substitutes. Apologies for absence were also received from Councillor Jonathan Laidlaw.

2 DECLARATIONS OF INTEREST

Councillor Keith Onslow declared that a close family member was employed by Fidelity International but that they had no connection to the Local Authority's account.

Councillor Kira Gabbert declared that she had funds invested with Fidelity International.

Councillor Ruth McGregor declared that she had a pension fund invested with Fidelity International.

Councillor Christopher Marlow declared that his employer's pension fund was invested with Fidelity International.

3 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

No questions had been received.

4 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 13 MARCH 2023, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

RESOLVED: That the minutes of the meeting held on 13 March 2023 be approved.

5 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

There were no matters outstanding.

6 PRESENTATION FROM FIDELITY INTERNATIONAL

The Committee received a presentation from Fidelity International representatives, Ian Fishwick, Portfolio Manager – Fixed Income and David Barber, Relationship Director – UK Institutional providing an investment update on the London Borough of Bromley Pension Fund.

As at the end of March 2023, the London Borough of Bromley Pension Fund had approximately £142M invested in two of Fidelity International's fixed income funds comprising the Sustainable UK Advocate Bond Fund and the Sterling Corporate Bond Fund. The Pension Fund also had £124.3M and £65M invested in Fidelity's multi-asset Diversified Income Fund and the UK Real Estate Fund respectively. Performance in the two Fixed Income funds had been reasonably successful over the past year compared with the benchmark and performance of the Diversified Income Fund had improved during Quarters 3 and 4 and was now achieving a return of around 5% growth per annum. The challenging economic climate had impacted performance of the UK Real Estate Fund during the 2022/23 financial year; however, the fund was now recovering and had outgrown its benchmark by 1% in the 12 months to the end of March 2023.

The Chairman asked the representatives of Fidelity International for their views on a potential UK recession. The Portfolio Manager – Fixed Income stated that in his view it was likely the United States of America would experience a period of recession in the short- to medium-term, in which case the UK would be affected and may also go into recession. The current economic focus of the UK was on reducing inflation and the associated cost of living via increased interest rates and this made a recession more likely. The Chairman also asked about confidence in property values in relation to the Pension Fund's investment in the UK Real Estate Fund and the Relationship Director – UK Institutional advised that whilst property values had undergone a revaluation over the past year, there was now increasing activity in this area.

A Member highlighted the difficulties in finding an appropriate benchmark for multi-asset funds which aimed to balance investments across different asset classes and queried whether a greater focus should be placed on fixed income funds now that returns were increasing. The Director of Finance further underlined the need for the case to be made for diversified investment over fixed income, particularly as these products tended to carry a higher risk, and the Relationship Director – UK Institutional confirmed that the yield from the Diversified Income Fund was increasing. On a related note, a Member was concerned at a potential increase in loan defaults due to rising interest rates and the Portfolio Manager – Fixed Income noted that an increase in defaults was anticipated for which banks were well-prepared, but there was

concern that quantitative tightening would create some volatility in the market. In summing up, the Chairman suggested that whilst there were challenges inherent to investing in equity and bonds, this option also offered flexibility and therefore represented a valuable asset to the Pension Fund.

A Member queried the proportion of derivatives within Fidelity's fixed interest funds to which the Portfolio Manager – Fixed Income responded by explaining that this included the hedging of currency and the rate risk in these bonds as well as the use of a denominated Government bond future to mitigate the US interest rate risk. Performance risk was further managed by trading the 10-year interest rates of the UK, United States of America, European Union and six other countries with a view to reducing the exposure of the portfolio to interest rates. This measured approach required collateral to be held within the Portfolio which resulted in a higher proportion of derivatives.

The Chairman thanked the representatives of Fidelity International for their excellent presentation and asked that the Committee's thanks be conveyed to Paul Harris, the outgoing Relationship Director.

RESOLVED: That the presentation from Fidelity International be noted.

**7 PENSION FUND PERFORMANCE Q4 2022/23
Report FSD23032**

The report provided a summary of the investment performance of Bromley's Pension fund in Quarter 4 of the 2022/23 financial year and included information on general financial and membership trends of the Pension Fund as well as details of key developments in the Local Government Pension Fund (LGPS) expected during the next five years.

In considering the report, the Chairman was pleased to note that the London Borough of Bromley Pension Fund remained approximately 115% funded which represented a healthy position and advised that the Government guidance on potential new requirements within the LGPS regulations on mandatory pooling was expected to be published shortly. A Member noted that the SDA had also recently published a report on asset management market performance which was likely to impact future investment opportunities and the Director of Finance would follow this up with fund managers after the meeting. The Local Authority's existing investment with Baillie Gifford had recently been transferred to the London Collective Investment Vehicle following the decision by the Pensions Committee on 13 March 2023. In light of this transfer, the Committee agreed that that the published schedule of Fund Manager attendance for the 2023/24 financial year be amended to schedule presentations from Baillie Gifford and Morgan Stanley for the next meeting of the Pensions Committee on 11 September 2023, with the planned presentation from MFS to be rescheduled to 12 February 2024. It was further agreed that fund managers be requested to provide their presentations to the Committee at least one week prior to the meeting to allow more time for Members to review this information.

The Committee received an update from the Senior Advisor: Apex Group Ltd (formerly MJ Hudson) who confirmed that MJ Hudson had been bought by global financial services provider, Apex Group Ltd and that this was not anticipated to impact existing service provision. In presenting his quarterly report, the Senior Advisor: Apex Group explained that there had been a rebound across nearly all asset classes since October 2022 and that fund performance had slightly outperformed the benchmark over the same period. It was considered likely that there would be a period of recession impacting the United States of America and the UK in the short- to medium-term and it was likely that the next few years would be challenging from an investment perspective. The Bromley Pension Fund's tactical asset allocation continued to deviate from the Strategic Asset Allocation Benchmark in being overweight in equities although this disparity had reduced following a recent rebalancing exercise. Moving forward, Environmental, Social and Governance would be a key area of focus and the Senior Advisor would be meeting with the London Collective Investment Vehicle in Summer 2023 to explore this further, including carbon weighting on pensions investments. In response to a query from a Member, the Senior Advisor: Apex Group Ltd advised that whilst currency hedging offered an investment option, outcomes were often unpredictable and required the right entry point.

In considering the update, a Member was concerned that the Strategic Asset Allocation Benchmark continued to be overweight in equities and the Chairman provided reassurance that he would be reviewing this prior to the next meeting of the Pensions Committee on 11 September 2023. The Member expressed concern at reviewing the Strategic Asset Allocation on a six-monthly basis as it was important to take a longer-term view of investments and another Member underlined the need to differentiate between rebalancing the Strategic Asset Allocation, which was undertaken on a three-yearly basis, and rebalancing the Portfolio in line with the Strategic Asset Allocation Benchmark which could be taken forward at any time. The Strategic Asset Allocation had been considered at the meeting of the Pensions Committee on 1 December 2022, but no decisions had been made at that time in response to ongoing economic uncertainties. The Committee agreed that the three-yearly Strategic Asset Allocation be considered further at the meeting of the Pensions Committee on 6 December 2023 and a Member suggested that this include consideration of the impact of a potential recession on investments in the short- to medium-term.

RESOLVED: That:

- **The contents of the report and information contained in the related appendices be noted including:**

a) Appendix 5 which detailed:

- **Asset allocation after the rebalancing of Fund assets;**
- **A special note on MJ Hudson's assessment of the current banking crisis; and,**

- A report in the Part 2 (Exempt) agenda which covered one of the options of the asset allocation review.

b) Appendix 6 which set out the key developments in the Local Government Pension Fund expected during the next five years.

8 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**

9 CONFIRMATION OF EXEMPT MINUTES - 13 MARCH 2023

The Part 2 (Exempt) minutes of the meeting held 13 March 2023 were approved.

10 MEADOWSHIP HOMES REPORT

The Committee considered a Part 2 (Exempt) report on Meadowship Homes.

The Meeting ended at 9.04 pm

Chairman