BROMLEY CIVIC CENTRE, STOCKWELL CLOSE, BROMLEY BRI 3UH

TELEPHONE: 020 8464 3333
CONTACT: Kerry Nicholls
kerry.nicholls@bromley.gov.uk

DIRECT LINE: 020 8461 7840
FAX: 020 8290 0608

DATE: 1 September 2023

To: Members of the
PENSIONS COMMITTEE

Councillor Keith Onslow (Chairman)
Councillor Kira Gabbert (Vice-Chairman)
Councillors Simon Fawthrop, Simon Jeal, David Jefferys, Andrew Lee, Christopher Marlow, Ruth McGregor and Sam Webber

A meeting of the Pensions Committee will be held in the Council Chamber at Bromley Civic Centre on **MONDAY 11 SEPTEMBER 2023 AT 7.00 PM**

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

TASNIM SHAWKAT
Director of Corporate Services & Governance

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, members of the public may submit one question each on matters relating to the work of the Committee. Questions must have been received in writing 10 working days before the date of the meeting - by **5.00pm on Friday 25 August 2023**.

Questions seeking clarification of the details of a report on the agenda may be accepted within two working days of the normal publication date of the agenda – by **5.00pm on Tuesday 5 September 2023**.

4 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 24 MAY 2023, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION (Pages 3 - 8)

5 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

6 PRESENTATION FROM BAILLIE GIFFORD

7 PRESENTATION FROM MORGAN STANLEY

8 LGPS CONSULTATION RESPONSE (Pages 9 - 20)

9 PENSION FUND PERFORMANCE Q1 2023/24 (Pages 21 - 60)

10 PENSION FUND ANNUAL REPORT 2022/23 WITH DRAFT ACCOUNTS (TO FOLLOW)

11 LOCAL PENSION BOARD ANNUAL REPORT (Pages 61 - 74)

12 LOCAL PENSION BOARD: APPOINTMENT OF BOARD MEMBERS (Pages 75 - 80)

13 UPDATES FROM THE CHAIRMAN/DIRECTOR OF FINANCE/PENSIONS INVESTMENT ADVISOR

14 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
15	**CONFIRMATION OF EXEMPT MINUTES - 24 MAY 2023** (Pages 81 - 82)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
16	**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 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

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Report No.
FSD23058

London Borough of Bromley

PART 1 – PUBLIC

Decision Maker:	**PENSIONS COMMITTEE**		
Date:	**September 11th 2023**		
Decision Type:	Non-Urgent	Non-Executive	Non-Key
Title:	**LGPS CONSULTATION RESPONSE**		
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		

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1. Reason for report

1.1 This report contains the London Borough of Bromley response to the Government consultation for consideration by the Pensions Committee, on accelerating collective pooling of Pension Fund assets, Levelling Up and Private Equity investments.

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2. RECOMMENDATIONS

2.1 The Pensions Committee is asked to consider the LGPS Consultation response in 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); £1,269.6m total fund market value at 31st March 2023

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. No Executive decision.

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,509 current employees; 6,019 pensioners; 6,443 deferred pensioners as at 31st March 2023

Ward Councillor Views

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

2. Summary of Ward Councillors comments: N/A

3. COMMMENTARY

3.1 The LGPS Consultation Response document contains responses to the Government's Next Steps on Investments consultation. The responses have been discussed with the Chairman, Vice Chairman, and Independent Adviser and are presented to the Committee for consideration.

3.2 The Committee is therefore asked review Bromley's responses reflect the feedback that the Committee would like to be given to The Government on behalf of Bromley Pension Fund, on subjects including accelerated pooling, levelling up and private equity.

3.3 Members are requested to refer to Appendix 1. Any comments on this response are to go directly to the Director Finance, and updates to this response will be provided at the Pensions Committee meeting.

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 direct 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. Under the 2013 LGPS Regulations, an Annual Report is required to be published by 1st December.

Non-Applicable Sections:	Personnel Implications, Impact on Vulnerable Adults and Children, Procurement Implications
Background Documents: (Access via Contact Officer)	None.

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APPENDIX 1

Response to LGPensions@levellingup.gov.uk

Response by 2nd October 2023

Response on behalf of London Borough of Bromley (on behalf of organisation)

Submitted by Peter Turner, Director of Finance, London borough of Bromley.

The Council welcomes the opportunity to respond to the Next Steps on Investments consultation document.

The role of managing the pension fund is a critical function in the interests of the Council Taxpayers and members of the fund. The consultation paper recognises this and refers to '*while long term stable returns in order to pay pensions for its members is its primary purpose*' and is '*important to financial stability of councils*' and ultimately the interest of council taxpayers'.

However, the consultation paper refers to 'the Government believe there is scope to deliver substantial benefits to the UK as a whole at the same time'. The Council's response considers that such benefits must not be at the expense of the funds primary objective or a Council's fiduciary duty (achieving what is best for the financial position of the fund). Such conflict needs to be avoided and not part of any Government requirement that creates a clear conflict to The Fund's primary objective.

Bromley's Fund primary focus is on having sufficient resources for paying pensions whilst minimising the cost to the council taxpayer. This requires a long-term view of investments with the need to consider net overall returns ensuring that even with cost savings there is good performance (hence the emphasis on the net overall returns).

The fund is valued at around £1.3 billion and using benchmark data (PIRC), the long-term approach has resulted in the fund being the fifth best performer over 5 years, 2nd over 10 and 20 years and 1st over 30 years. The fund is also 115% fully funded. The fund has received national recognition for its performance and won various LAPF awards including the LGPS Investment Performance of the Year in 2017, the LGPS Fund of the Year (assets under £2.5bn) in 2018, commendation in 2019 and the final shortlist for 2020. Bromley also won the Pensions, Treasury and Asset Management Award at CIPFA's Public Finance Awards in 2019 and 2021 recognising the consistent high performance of the Fund.

The fund remains open minded to investing in higher risk, higher return asset classes, but the view remains that we should not be directed to invest in particular areas through future regulation, which could not only be detrimental to longer term investment returns but could also increase costs met by local council taxpayers.

RESPONSE TO QUESTIONS IN CONSULTATION DOCUMENT

Question 1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

Although the creation of pools has led to longer term reduction in costs the impact of transitional costs has reduced the shorter- and medium-term impact of any savings. However, it should not be assumed that these pools have led to overall improved performance for pension funds particularly as there is no proof that larger AuM funds perform better. The best long-term performing LGPS funds are smaller funds such as Orkneys and LB Bromley partly through a high, long-term allocation to growth equities.

Given the current number of pools there needs to be a longer period of development rather than seeking to reduce the number of pools at the current time. In reality, any desire for a further round of consolidation will only further delay pooling. It brings into question why a fund would transfer its listed assets into a pool, with associated transition costs, only to find that it will need to incur further transition costs when the pool merges with another pool.

Reference to such changes could cause disruption at the current time and any uncertainty can impact on their ability to attract and retain high quality staff.

We have not seen Chair, CIO or CEO stability in any pool, highlighting the key person risk in even institutions with £50bn plus of assets. The majority of the successful asset managers have AuM a multiple of this and manpower and resources which would dwarf a £50-70bn pool. There is also no guarantee that pools can make better management selection choices than individual pension funds and, on that basis, may not add value. The consultation document refers to 'implementation decisions such as manager selection having a relatively small impact'. This may apply when looking at the average impact across the pension fund community but in Bromley's case our exceptional longer-term performance is driven heavily by the right choice of active fund manager for global equities. On that basis, pension funds should retain the right to procure the fund managers but there is value in consulting with the individual pool to assist. This leaves clearer accountability for performance with pension funds, but funds can still choose to recruit managers through the pools if they wish. Pension funds should be allowed to make that choice.

Question 2: Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?

Pension funds have to consider transitional costs and whether there are potential savings in costs from such a transfer. If there are shorter term investments, it may not be in the interest of a pension fund to have to transition all listed assets. For certain assets whether the pools do not offer 'scale' for the investment there could be no savings at all, transition costs having to be incurred and the fund effectively paying a management fee to the pool resulting in a net increase in costs to the fund.

You could also have a situation where the pool does not offer the portfolios which a fund requires, and it would not be right to alter investment strategies or other compromises in fund manager choices to meet the Government deadline and divert away from optimal investments for the fund.

Given any funds fiduciary duties this requirement should remain on a voluntary basis to ensure that the interests of funds are protected. On that basis a 'one size fits all' for transfer should not be prescribed.

Question 3: Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?

There is always value in guidance to provide better clarity and any guidance that supports the further development of funds and pools interacting is welcomed. However, it should focus on practical issues and be evidenced driven. The Scheme Advisory Board, through consulting with individual pension funds would be a good starting point for developing revised guidance.

Although the consultation refers to 'we do not see inter-pool competition as a desirable progression', we are concerned of the inherent risk of a 'monopoly' position created by funds not having a choice to change and inter-pool competition should be seen as creating healthy performance and have greater focus on meeting partner funds interest. The FCA regulation requirements could impact on the ability of partner funds to influence the pools and competition would create a welcome influence.

Question 4: Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

Given the significant investment value of individual pension funds and the impact of investment decisions on the overall cost to council taxpayers we agree that this should be included in the guidance. We do not want it to be too extensive so as to discourage councillors, with much to offer, from serving on pensions committee. There could be a risk, which needs to be managed carefully, of being unable to recruit councillors to join this important 'stewardship' committee.

Question 5: Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?

Question 6: Do you agree with the proposals for the Scheme Annual Report?

Regarding question 5 and 6 We support greater transparency and accountability and any further progress on using measurable data is supported. However, such data should not be used to put ‘pressure’ on funds to meet Government ambitions for investment/pooling which may have a detrimental impact on meeting the funds fiduciary duties.

Where there is reporting of ‘net savings achieved as a result of investing via the pool’, we are concerned that the current reporting does not accurately reflect the financial impact relating to other costs such as transition costs and depository costs which could be higher, as well as identifying savings compared with a funds existing negotiated management fees rather than using standard management fee rates. This clearly needs to be reviewed to provide the necessary confidence in any reported net savings figure.

Chapter 3: LGPS investments and levelling up

Question 7: Do you agree with the proposed definition of levelling up investments?

The definition is fairly broad, and it is important not to create additional resource demands through the classification of investments work to determine whether an investment meets the levelling up criteria. The focus should remain primarily on the best investments to meet the long- term objectives of the fund rather than being explicit about the proportion of investments expected to meet levelling up requirements. The approach to aim/meet a proportion of Government specified investment must not be a statutory requirement and therefore should be treated as guidance only and not result in Government intervention because the proportion of investment has not been achieved. Such measures distort accountability for the performance of the fund particularly if following a specified proportion has a detrimental effect on overall investment returns. Accountability should remain with the pension funds who have accountability to both members of the fund and the council taxpayer.

Question 8: Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

Yes, we do. We would prefer the option of having a choice to invest in different pools depending on the investment required and through competition and economies of scale that would deliver better cost savings. We have investment in Baillie Gifford global equities and so do many other funds. Why can't the investment be made through one of the pools only to provide greater cost savings due to scale? Realistically there is a risk that pools will wish to retain the specific investment individually given their individual management fee (AuM) for such investments?

Is any pool going to drop an asset class until they have failed at it and even then for a Fund to purchase another pools investments through its own pool will only add a further round of fees.

Having the restriction to stay within one pool reduces competition which ultimately could reduce potential cost reductions and net overall performance returns. Pools investing through another pool does rely on a high degree of collaboration between pools and without direct competition that becomes problematic.

At present, LCIV continue to work with single manager portfolios offering a total of 9 Global Equity portfolios at present, this approach undermines the argument for pools to provide an economy of scale.

Question 9: Do you agree with the proposed requirements for the levelling up plan to be published by funds?

We do not see the value in publishing such data and it creates a danger of a league table perception which could encourage funds to make further investments in levelling up which may not be in the best interest of the fund meeting its fiduciary duty.

Question 10: Do you agree with the proposed reporting requirements on levelling up investments?

As per response in Question 9.

Chapter 4: Investment opportunities in private equity

Question 11: Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

We do not believe that there should be any targets/direction for private equity or any other asset classes, given the fiduciary duty for pension funds and the need to meet their key objective to pay members pensions and reduce the overall cost to the council taxpayer.

There is no standard benchmark for private equity which measures overall performance and although there are headlines about high performance that may exclude some poor performing/failing private equity investments which are not recorded. It is also important to recognise that private equity has enjoyed success by creating additional leverage during a low borrowing rate period and realizing assets during that period to generate high dividends. UK has experienced low borrowing rates for over 14 years but that is expected to change for the future, which is supported by the significant increase in rates currently being experienced. It is also important to recognise that entering Private Equity when valuations are high will inhibit future returns.

As required by FCA 'past performance does not guarantee future results.' Therefore, there is no certainty that this would be the right investment choice for pension funds and creating ambitions/targets could effectively ultimately lead to a deterioration in overall performance of a fund due to the pressure to deliver the Government's ambition.

Many predictions indicate that private equity returns will be lower than the 12% or so they have been historically. In absolute terms, given leverage (at fund and operational levels, high beta and earlier stage companies) then higher returns are possible and one might expect a higher gross return over sufficiently long periods. However, this comes with a wider range of outcomes and a higher degree of risk, as well as higher fees.

In terms of supporting investment in the UK, the economy's GDP accounts for 2.06% of world GDP. Therefore even having an ambition to deliver a proportion of private equity investments could result in most, if not all, investments being outside the UK, given the global investments undertaken through LGPS pension funds.

Any asset class for investment is already considered as part of funds Asset Allocation Review which are normally undertaken at least every three years. Private Equity may add value. However, is there a need to specify any ambition when all types of investments (including private equity) are considered including cost (private equity has higher AuM), risk, reward, liquidity and investment timeframe. Therefore requirement to invest in any asset class should not be prescribed by Government, recognising funds fiduciary duties.

Private Equity does not deliver steady cashflow which has to be a consideration in pension funds asset allocation strategy. Any sell in a hurry could result in a LDI crisis as seen last autumn.

The average holding period for a private equity investment is 4-5 years, often then selling on to another private equity Fund. This does not fit with the ideals of long-term investment as stated in Bromley's own Investment Strategy Statement.

As a less transparent area of the market, ESG data is less disclosed and management less incentivised to act in accordance with best practice in this area.

Ultimately, there could be a place for (global) PE in the LGPS, without it having to be mandated. A well-resourced and sophisticated LGPS fund or Pool should be equipped to make that decision.

Question 12: Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?

We have no objection to this suggestion and see potential benefits.

Chapter 5: Improving the provision of investment consultancy services to the LGPS

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

We support this suggestion.

Chapter 6: Updating the LGPS definition of investments

Question 14: Do you have any comments on the proposed amendment to the definition of investments?

We support any clarity on definitions within regulations.

Chapter 7: Public sector equality duty

Question 15: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

We have no comments to add.

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Report No.
FSD23060

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**PENSIONS COMMITTEE**		
Date:	**11 September 2023**		
Decision Type:	Non-Urgent	Non-Executive	Non-Key
Title:	**PENSION FUND PERFORMANCE Q1 2023/24**		
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		

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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 2023/24. The report also contains information on general financial and membership trends of the Pension Fund and summarised information on early retirements.

1.2 The report also includes key developments in the Local Government Pension Fund (LGPS) expected during the next 5 years.

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2. RECOMMENDATIONS

2.1 The Pensions Committee is asked to note the contents of the report and information contained in the related appendices.

2.2 The Pensions Committee is asked to;

a) Agree the recommendations detailed in Appendix 5, as shown below;

- **i. To switch 5% or £65m from the Baillie Gifford Global Equity portfolio currently managed through the LCIV into a Short-Dated UK Corporate Bond fund managed by Fidelity;**
- **ii. Subject to agreement of i) above, revise the Strategic Benchmark to reflect this change;**
- **iii. Agree to follow up with Fidelity the costs and benefits of moving the Fund's fixed interest investments to a single segregated portfolio; and,**
- **iv. Agree the cash management arrangement as highlighted in the Apex report.**

b) Note Appendix 6 which sets out the key developments in LGPS expected during the next 5 years.

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

   3. Total current budget for this head: £49.6m expenditure (pensions, lump sums, etc); £57.6m income (contributions, investment income, etc); £1,269m total fund market value at 31st March 2023
   4.

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): 6,509 current employees; 6,019 pensioners; 6,443 deferred pensioners as at 31st March 2023

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 £1,282.7m, up £13.1m as at 31st March. The comparable value as at 30th June 2022 was £1,231.2m. 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 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%).

3.2.5 In February 2023, the portfolio was rebalanced. The Committee agreed to sell £70m of the Baillie Gifford Global Equity Fund to purchase £20m of the Fidelity Fixed Interest Fund, £15m each of the Fidelity and Schroders Multi-Asset Income Funds and put £20m into the US Dollar account awaiting drawdown into the Morgan Stanley International Property Fund. In May 2023 the Committee agreed to further review Asset Allocation at the December 2023 meeting.

3.2.6 The Committee voted to pool the remaining Baillie Gifford Global Equity Fund with the London Collective Investment Vehicle. An in-specie transfer finalised on 22nd May 2023 and a new quarterly report on performance (Q2) is available from London CIV and has been included in the agenda pack.

3.3 Summary of Fund Performance

3.3.1 Performance data for 2023/24 (short-term)

A detailed report on fund manager performance in the quarter ended 30th June 2023 is provided by the fund's external adviser, Apex in Appendix 5. The total fund return for the first quarter was -0.23% against the benchmark of 1.45%. 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 strong overall, though this year there was variable performance in the first quarter, and there has been a slight underperformance versus benchmark. In 2022/23 there was a return of -3.72% against a benchmark of -2.59%. In 2021/22 there was a return of 0.7% against a benchmark of 8.7%. There was a return of 34.1% against a benchmark of 23.6% in 2020/21. The returns for 2019/20 and 2018/19 were -2.7% and 8.0% against the benchmark of -1.8% and 8.3% respectively.

Performance rankings were available at the time this report was drafted. The overall Fund ranked 63rd against the 63 funds in the PIRC LGPS universe for the year to 31st March 2023, 50th over 3 years, 20th over 5 years, second over 10 years and 20 years and first over 30 years.

The following table shows the Fund's long-term rankings in all financial years back to 2012/13 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				
2022/23	***-3.72***	***-2.59***	***-1.6***	***63***
2021/22	0.7	8.7	8.6	60
2020/21	34.1	23.6	22.8	2
2019/20	-2.7	-1.8	-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 31/3/23	***9.1***	***9.4***	***9.5***	***50***
5 year ave to 31/3/23	***6.4***	***6.8***	***5.9***	***20***
10 year ave to 31/3/23	***8.9***	***n/a***	***7.3***	***2***
20 year ave to 31/3/23	***10.0***	***n/a***	***8.4***	***2***
30 year ave to 31/3/23	***8.5***	***n/a***	***7.7***	***1***

*The most recent LA averages and ranking as at 31/03/23 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 2021, 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 has made its pension deficit repayments in line with the draft repayment plan. The amount outstanding is approximately £0.78m.

3.5.2 The July Year End Accounting exercise for Ravensbourne University is underway.

3.5.3 Member Self Service pensions portal and I-Connect (employer) portal are being implemented by Aquilla Heywood. The project is in the very final stage, and all implementation and testing has been completed. The MSS portal will go live to deferred and active members in October 2023 and the project is currently £6k under budget.

3.6 **Fund Manager attendance at meetings**

3.6.1 Meeting dates have been set to February 2024. 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 be subject to change.

Meeting 6 Dec 2023 – MFS
Meeting 21 Feb 2024 – 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 outturn for the 2022/23 pension fund revenue account are provided in Appendix 4 together with fund membership numbers. A net provisional surplus of £24.4m including re-invested income of £11m. A net provisional surplus of £13.4m excluding re-invested income occurred during 2022/23 and membership numbers rose by 393 in the year. In the first quarter of 2023/24 total membership numbers increased by 50.

5.2 The Director Finance has approved the use of a temporary Money Market Fund (MMF) operated by Bromley Council, for excess Pension Fund cash to be allocated into in the interim,

to maximise the interest accrued on any cash balances. Officers are in the process of setting up a PF specific MMF, which could take several months due to due diligence, know your customer and other checks.

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, London CIV, MFS, Morgan Stanley and Schroders.

APPENDIX 1

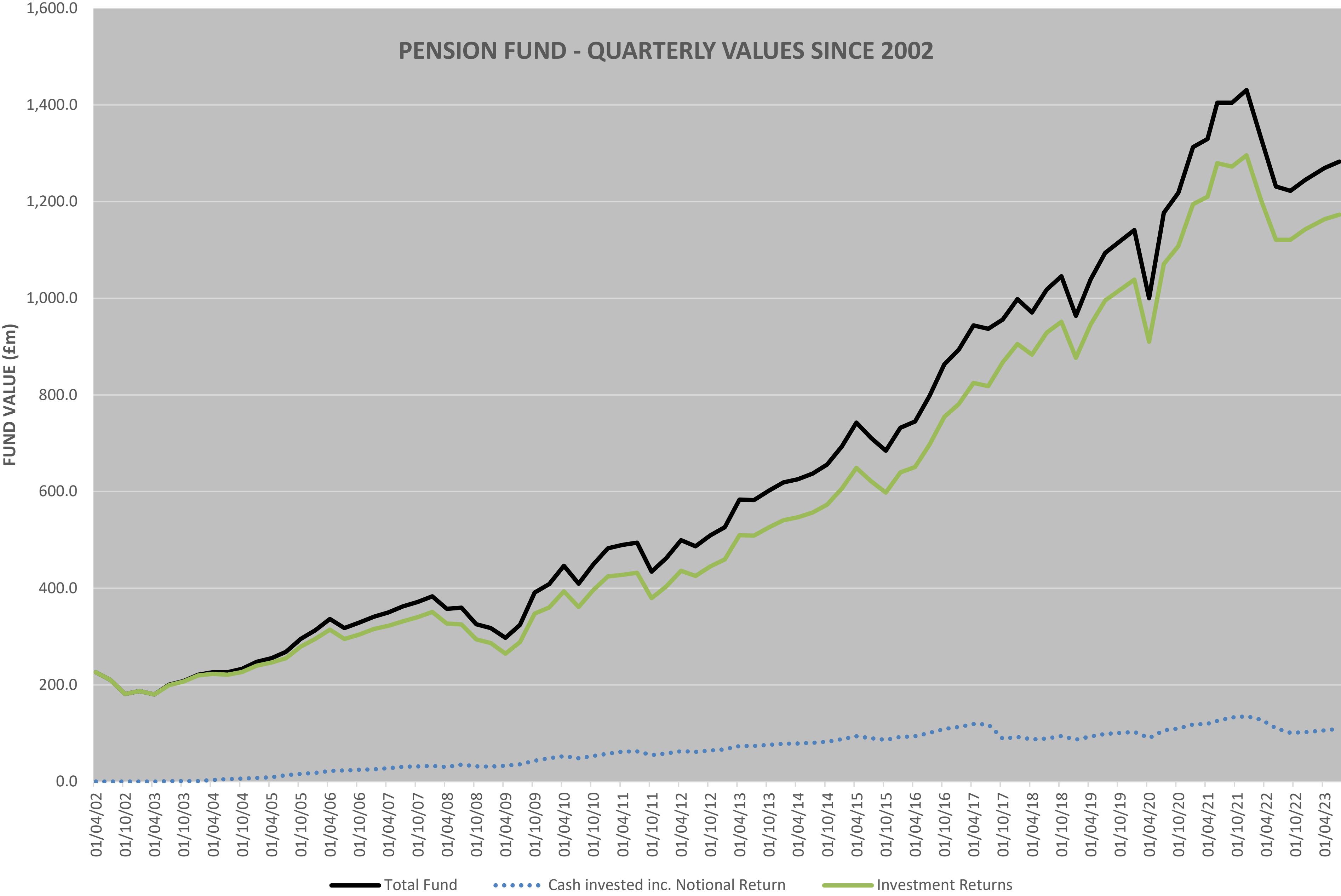
MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002

	Baillie Gifford					Fidelity							Blackrock	MFS		Schroders	CAAM	
Date	Balanced Mandate	DGF	Fixed Income	Global Equities	Total	Balanced Mandate	Fixed Income	MAI	Property	Sterling Bond	USD ILF	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
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				156	150.1						150.1					43.5	349.6
31/03/2008	162				162	151.3						151.3					44	357.3
31/03/2009	154.4				154.4	143						143						297.4
31/03/2010	235.4				235.4	210.9						210.9						446.3
31/03/2011	262.6				262.6	227						227						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			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	380	438		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		1,039.20
31/03/2020			60.9	411.85	472.7		83.5	80.6	47			211.1		220.3		96.1		1,000.30
30/06/2020			65	529.8	594.8		88.4	87.5	45.6			221.5		254.3		106.8		1,177.40
30/09/2020/			65.4	524.8	590.2		89	128.3	44.7			262		259.2		106.6		1,218.00
31/12/2020\				585.3	585.3		91	133	45.5	67.7		337.2		278.8		111.7		1,313.00
31/03/2021				597.7	597.7		85.7	131.4	46.3	64.8		328.2		293.1		110.9		1,329.90
30/06/2021*				621.2	621.2		87.4	134.8	69.5	66.2		357.9		311.2		114.5		1,404.80
30/09/2021				614.6	614.6		86.5	134	71.6	65.4		357.5		319.5		113.3		1,404.90
31/12/2021				602.3	602.3		87.4	132.1	75.5	65.8	14.1	374.9		340		114.2		1,431.40

MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002 CONTINUED

	Baillie Gifford		Fidelity						MFS	Schroders	MS	
Date	Global Equities (LCIV)	Total	Fixed Income	MAI	Property	Sterling Bond	USD ILF	Total	Global Equities	MAI	USD Property	**GRAND TOTAL**
31/03/2022	527.8	527.8	81.2	125.5	77.9	61.2	14.8	360.6	332.9	108.7		1,330.09
30/06/2022	466.7	466.7	73.9	117.1	81.0	56.6	8.6	337.2	318.8	100.7	7.6	1,231.02
30/09/2022	474.4	474.4	65.5	109.8	78.0	50.6	5.3	309.2	329.2	97.6	11.8	1,222.20
31/12/2022	486.0	486.0	67.3	110.2	65.7	53.1	3.9	300.2	348.3	98.0	12.3	1,244.80
31/03/2023[x]	438.3	438.3	78.6	124.4	65.1	63.5	20.5	352.0	350.2	114.8	14.2	1,269.60
30/06/2023[y]	454.7	454.7	74.6	120.7	63.9	61.8	20.2	341.2	359.4	113.3	14.1	1,282.70

£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 sold by Baillie Gifford (£14.4m) in June 2021 to fund Fidelity Property fund
[x] Assets sold by Baillie Gifford (£70.0m) in Feb 2023 to rebalance the portfolio, and fund £20m of the Fidelity Fixed Interest Fund, £15m each of the Fidelity and Schroders Multi-Asset Income Funds and £20m into the US Dollar account awaiting drawdown into the Morgan Stanley International Property Fund.
[y] Assets transferred in-specie from Baillie Gifford (£444m) in May 2023 to Baillie Gifford LCIV Global Alpha Growth Fund.



PENSION FUND - QUARTERLY VALUES SINCE 2002
FUND VALUE (£m)
1,600.0
1,400.0
1,200.0
1,000.0
800.0
600.0
400.0
200.0
0.0
01/04/02
01/10/02
01/04/03
01/10/03
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01/04/19
01/10/19
01/04/20
01/10/20
01/04/21
01/10/21
01/04/22
01/10/22
01/04/23
Total Fund
Cash invested inc. Notional Return
Investment Returns

APPENDIX 2

PENSION FUND MANAGER PERFORMANCE TO JUNE 2023

Portfolio	Month %	3 Months %	YTD %	1 Year %	3 Years %	5 Years %	Since Inception %
Baillie Gifford Global Equity	(0.21)	3.06	3.06	12.74	4.32	8.03	8.68
Benchmark	3.19	3.43	3.43	11.89	10.45	9.46	8.11
Excess Return	(3.40)	(0.37)	(0.37)	0.86	(6.13)	(1.43)	0.57
Baillie Gifford LCIV GAG	4.42						
Benchmark	3.19						
Excess Return	1.23						
Fidelity Fixed Income	(0.72)	(4.14)	(4.14)	(10.15)	(8.69)	(2.41)	4.77
Benchmark	(0.79)	(4.71)	(4.71)	(11.23)	(9.24)	(2.92)	4.01
Excess Return	0.07	0.57	0.57	1.08	0.55	0.51	0.76
Fidelity MAI	(0.64)	(1.84)	(1.84)	(5.15)	(2.35)	(0.61)	(0.58)
Benchmark	0.33	0.99	0.99	4.00	4.00	4.00	4.00
Excess Return	(0.97)	(2.83)	(2.83)	(9.15)	(6.35)	(4.61)	(4.58)
Fidelity Property	(0.62)	(1.85)	(1.85)	(19.60)	3.14	1.48	1.75
Benchmark	1.39	1.65	1.65	(16.35)	3.82	2.42	2.76
Excess Return	(2.01)	(3.50)	(3.50)	(3.25)	(0.68)	(0.94)	(1.01)
	(0.62)	(1.85)	(1.85)	(19.60)	3.14	1.48	1.75
MFS Global Equity	3.57	2.63	2.63	12.76	12.14	10.52	12.09
Benchmark	3.15	3.26	3.26	11.31	9.94	8.92	10.74
Excess Return	0.42	(0.63)	(0.63)	1.45	2.20	1.60	1.35
Schroder MAI	0.88	(0.50)	(0.50)	1.25	1.09	0.20	0.01
Benchmark	0.41	1.23	1.23	5.00	5.00	5.00	5.00
Excess Return	0.47	(1.72)	(1.72)	(3.75)	(3.91)	(4.80)	(4.99)
Lon Borough Bromley USD	(2.27)	(1.13)	(1.13)	(7.45)			1.55
Total Fund	2.35	1.22	1.22	5.06	3.77	5.65	8.51
Benchmark	1.80	1.45	1.45	4.95	5.68	6.16	
Excess Return	0.55	(0.23)	(0.23)	0.10	(1.92)	(0.51)	

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 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
Apr 23 - June 23 - LBB	0	0	0	0
- Other	0	0	0	0
- Total	0	0	0	0
2023/24 total - LBB	0	0	0	0
- Other	0	0	0	0
- Total	0	0	0	0
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 – 2022/23	3	316	1	25
– 2021/22	1	618	0	0
- 2020/21	10	549	23	270
– 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

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Outturn 2022/23 £'000	Provisional as at 30 Jun 2023 £'000	Estimate 2023/24 £'000
INCOME			
Employee Contributions	8,165	8,167	8,170
Employer Contributions			
- Normal	26,264	26,280	26,270
- Past-deficit	478	478	478
Transfer Values Receivable	7,891	5,213	5,213
Investment Income			
- Re-invested	11,195	11,130	11,130
- Distributed to Fund	15,409	13,620	13,620
Total Income	69,402	64,888	64,881
EXPENDITURE			
Pensions	29,447	29,900	29,900
Lump Sums	4,831	4,395	4,395
Transfer Values Paid	3,953	2,700	2,700
Administration			
- Manager fees	5,002	5,000	5,000
- Other (incl. pooling costs)	1,606	1,600	1,600
Refund of Contributions	142	250	250
Total Expenditure	44,981	43,845	43,845
Surplus/Deficit (-) - including re-invested income (RI)	24,421	21,043	21,036
Surplus/Deficit (-) - excluding RI[1]	13,226	9,913	9,906

MEMBERSHIP	**31/03/2023**	**30/06/2023**
Employees	6,509	6,462
Pensioners	6,019	6,035
Deferred Pensioners	6,443	6,524
	18,971	19,021

Note 1 It should be noted that the draft outturn net surplus of £24.4m in 2022/23 includes investment income of £11m which was re-invested in the funds so, in cashflow terms, there is a £13.4m cash surplus for the year.

APEX

London Borough of Bromley

Quarterly Investment Report

Q1 2023

Contacts

John Arthur

Adrian Brown

apexgroup.com

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Senior Advisor
+44 20 0000 0000
john.arthur@apexgroup-fs.com

Senior Advisor
+44 20 0000 0000
adrianbrown@apexgroup-fs.com

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Key Indicators at a Glance

	Index (Local Currency)	Q2 2023	Q2	YTD
Equities			**Total Return**	
UK Large-Cap Equities	FTSE 100	7,532	-0.4%	1.7%
UK All-Cap Equities	FTSE All-Share	4,096	-0.6%	1.1%
US Equities	S&P 500	4,450	8.7%	17.3%
European Equities	EURO STOXX 50 Price EUR	4,399	4.2%	17.2%
Japanese Equities	Nikkei 225	33,189	18.5%	30.5%
EM Equities	MSCI Emerging Markets	989	1.0%	5.0%
Global Equities	MSCI World	2,967	7.0%	15.2%
Government Bonds				
UK Gilts	FTSE Actuaries UK Gilts TR All Stocks	2,913	-5.4%	-3.5%
UK Gilts Over 15 Years	FTSE Actuaries Uk Gilts Over 15 Yr	3,481	-8.3%	-5.8%
UK Index-Linked Gilts	FTSE Actuaries UK Index-Linked Gilts TR All Stocks	3,897	-6.6%	-2.6%
UK Index-Linked Gilts Over 15 Years	FTSE Actuaries UK Index-Linked Gilts TR Over 15 Yr	4,298	-10.2%	-5.8%
Euro Gov Bonds	Bloomberg EU Govt All Bonds TR	214	0.0%	2.5%
US Gov Bonds	Bloomberg US Treasuries TR Unhedged	2,223	-1.4%	1.6%
EM Gov Bonds (Local)	J.P. Morgan Government Bond Index Emerging Markets Core Index	133	2.7%	7.6%
EM Gov Bonds (Hard/USD)	J.P. Morgan Emerging Markets Global Diversified Index	836	2.2%	4.1%
Bond Indices				
UK Corporate Investment Grade	S&P UK Investment Grade Corporate Bond Index TR	327	-3.1%	-0.8%
European Corporate Investment Grade	Bloomberg Pan-European Aggregate Corporate TR Unhedged	218	0.2%	2.2%
European Corporate High Yield	Bloomberg Pan-European HY TR Unhedged	408	1.8%	4.8%
US Corporate Investment Grade	Bloomberg US Corporate Investment Grade TR Unhedged	3,063	-0.3%	3.2%
US Corporate High Yield	Bloomberg US Corporate HY TR Unhedged	2,304	1.7%	5.4%
Commodities				
Brent Crude Oil	Generic 1st Crude Oil, Brent, USD/bbl	75	-6.1%	-12.8%
Natural Gas (US)	Generic 1st Natural Gas, USD/MMBtu	2.8	26.3%	-37.5%
Gold	Generic 1st Gold, USD/toz	1,929	-2.0%	5.7%
Copper	Generic 1st Copper, USD/lb	374	-8.6%	-1.8%
Currencies				
GBP/EUR	GBPEUR Exchange Rate	1.1637	2.3%	3.0%
GBP/USD	GBPUSD Exchange Rate	1.2703	3.0%	5.1%
EUR/USD	EURUSD Exchange Rate	1.0909	0.6%	1.9%
USD/JPY	USDJPY Exchange Rate	144.3100	8.6%	10.1%
Dollar Index	Dollar Index Spot	102.9120	0.4%	-0.6%
USD/CNY	USDCNY Exchange Rate	7.25	5.5%	5.1%
Alternatives				
Infrastructure	S&P Global Infrastructure Index	2,697	-0.1%	3.5%
Private Equity	S&P Listed Private Equity Index	175	7.7%	13.5%
Hedge Funds	Hedge Fund Research HFRI Fund-Weighted Composite Index	17,684	-0.8%	0.9%
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP	3,433	-2.4%	-4.4%
Volatility			**Change in Volatility**	
VIX	Chicago Board Options Exchange SPX Volatility Index	14	-27.3%	-37.3%

Source: Bloomberg. All return figures quoted are total return, calculated with gross dividends/income reinvested and in local currency.

Performance

The Fund rose by 1.2% over the second quarter, 0.2% behind the benchmark. Global equities rose just over 3% in Sterling terms whilst UK Corporate Investment Grade Bonds fell just over 3% over the quarter. Both equity managers marginally underperformed in the quarter and the Multi-Asset Income funds failed to keep up with their 'cash +' benchmarks in a flat market, particularly with cash rates higher now. Offsetting this, the Fund remains overweight Equities against its Strategic Benchmark which aided the relative performance. The Fund has returned 5.65% per annum over the last 5 years but remains 0.5% per annum behind the benchmark mainly driven by the poor performance of the Baillie Gifford Global Equity portfolio over that period. Over the long-term the Fund has returned 8.5% per annum over the last 26 years, usefully above the actuarially assumed investment return and it is this that has driven the improved funding level over time. Much of this long-term performance has been driven by the Fund's high equity exposure with additional value added through the choice of managers.

Asset Allocation Recommendation

In the comment below I set out my own expectations for the direction of monetary policy and the global economy over the next few years. As a result of these views, my recommendation is that the Pension Committee consider transitioning 5% of the Fund from the Baillie Gifford Global Equity Fund currently managed through the LCIV to Fidelity to invest into their short-dated UK Corporate Bond fund. This Portfolio invests into short-dated UK Investment Grade bonds with some discretion to invest overseas, hedged into Sterling and invest off benchmark. It is slightly different from the existing two Fidelity bond funds the Fund currently holds, being shorter duration and, therefore, at the current time, higher yielding. The rationale for this is the high yield available in short-term UK bonds and some concern that equity markets and long duration bonds have yet to fully reflect an economic environment where interest rates remain higher for much longer than the current market consensus, particularly in the UK.

Why short duration? – because I am concerned that longer term bonds have yet to price in a higher for longer inflation and interest rate environment combined with the high level of Government debt.

Why not more that 5% of the Fund? – Because the Fund is an Open, Defined Benefit Pension Fund with a strong sponsor and therefore can invest over the ultra-long term which means global equities should continue to be the mainstay of the Funds investment strategy.

Why Fidelity? - Because they have managed the Fund's fixed Interest portfolios for over 25 years and have added 0.7% per annum over the benchmark over that time through periods of benign and stressed economic and market environment which leads me to believe that they are a strong asset manager who understands their investment process within this asset class and has the resources to enact that process. To select a different manager may require a procurement exercise which is costly and time consuming.

Thought should be given as to whether the Fund should alter the Strategic Asset Allocation benchmark to reflect this change in allocation. Given the Fund is currently overweight in Equities and underweight in Bonds it is not imperative to do this but, given that I expect bonds to remain relatively attractive for the medium-term it may make sense to alter the Strategic Allocation. If so, my recommendation would be to move 3% of the Strategic benchmark from Global Equities to Bonds to give the weightings shown in the table below. If only the investment switch is made and the benchmark not changed then the table below shows the position of the Fund on the left, against a white background, if both the investment and benchmark changes are accepted then the position of the Fund against the new benchmark is shown on the right of the table below against a grey background.

APEX

Table 1: Asset class weightings resulting from the recommendations above

Asset class	Fund as at 30/6/23	Current benchmark	Position against benchmark	New benchmark	Fund post switch	Position against new benchmark
Equities	58.5%	58%	+0.5%	55%	58.5%	+3.5%
Fixed Interest	15.6%	13%	+2.6%	16%	15.6%	-0.4%
Property	5.0%	4%	+1.0%	4%	5.0%	+1.0%
Multi-Asset Income	18.2%	20%	-1.8%	20%	18.2%	-1.8%
Int'l Property +US$	2.7%	5%	-2.3%	5%	2.7%	-2.3%

If the Fund makes the investment switch and moves the benchmark then the Fund remains overweight in Global Equities awaiting for that money to be drawn down into the International Property Fund. If the Fund makes the investment switch and does not move the benchmark then the money awaiting drawdown into the International Property Fund is, in essence, held in Bonds. It would make more sense, at the current time, to take the latter cause of action as there is now a lower probability of capital loss through holding short duration bonds making them a better place to hold capital awaiting drawdown.

At some stage in the future, when the inflation outlook is clearer, it may make sense to lengthen the maturity of the Fund's Bond portfolio to take advantage of any decline in yields but I expect that to be 2-5 years away. In the intervening period it would be sensible for the Fund to review the fixed interest portfolios managed by Fidelity and consider moving to a segregated portfolio to replace what would become three separate Fidelity bond mandates each with a slightly different benchmark. I have discussed this with Fidelity and believe such a move would give greater flexibility to manage the fixed interest exposure of the Fund with no increase in cost. However, thought needs to be given to what benchmark should be considered for such a mandate. Fixed interest investments are held for diversification purposes as they tend to rise in value when investors seek security during times of market stress when equities may be falling, but that diversification benefit is usually best at the longer duration end of the bond market. They are also held for yield which, at present, is most attractive at the short end of the duration curve.

The Fund's current fixed interest exposure is low compared to the LGPS sector and stands at 10.5% against 13% in the Strategic Asset Allocation.

The Fidelity short dated Corporate Bond Fund currently has a yield to maturity 6.8% with a duration of 2.5 years.

The table below compares the Fidelity Short Dated Bond fund with the Fund's existing Fidelity bond portfolios. Note the lower duration, this means that the bond prices are less exposed to interest rate rises.

Table 2: Comparison of Fidelity Sterling Bond Funds

Asset class	Current yield to maturity	Duration	Allocation to Govt bonds	Allocation to IG bonds + cash
Short Dated Corporate Bond Fund	6.8%	2.8 years	7.0%	96.8%
UK Aggregate Bond Fund	6.2%	7.9 years	43.2%	97.1%
Sterling Corporate Bond Fund	6.0%	6.0 years	9.4%	96.0%

These yields are above the investment return assumed by the actuary and so the Fund can lock in these returns at low risk whilst still boosting their funding level.

APEX

Recommendation 1 – To switch 5% or £65m from the Baillie Gifford Global Equity portfolio currently managed through the LCIV into a Short-Dated UK Corporate Bond fund managed by Fidelity.

Recommendation 2 - To consider altering the Strategic Benchmark to reflect this change.

Recommendation 3 – To discuss with Fidelity the costs and benefits of moving the Fund's fixed interest investments to a single segregated portfolio.

This switch would incur transition costs but the ongoing management fee would be lower.

Possible alternatives to this move, which would take advantage of higher bond yields, would be to invest the money into the PIMCO portfolio offered by the LCIV although this does not specifically target short duration bonds so the yield would be lower and potentially more volatile. The rationale for taking this route could be coming pressure from the Government over pooling. However, I would rather see the result of the current consultation on pooling and confirm the Government's ability to enact legislation before allowing this issue to trump investment rationale. Given the competitive fees offered by Fidelity I do not see much in the way of fee saving from this route.

A second approach would be to invest into direct lending, which is lending to small to medium companies at floating rates and so taking advantage of higher short-term interest rates. The positive here is that current rates and fee income are high in this space with a number of direct lending funds showing returns of 11%-12% at the current time but the investment would be illiquid via a close-ended fund similar to the international property fund with potentially a four-year commitment window meaning that current high returns may have fallen by the time the money is invested. Additionally, I am concerned about recession risk and, as such, nervous about taking concentrated credit risk in smaller companies at the current time.

Comment

My comments in the last quarterly report were pretty gloomy about the global economic outlook and yet the data reported during the second quarter continued to convince many investors that we are heading for a soft landing in the US with the Federal Reserve (US Fed) raising interest rates to just the right level to slow inflation which would benignly fall back to the 2% range that existed before the Covid pandemic struck whilst economic growth will clip along at 2% per annum with high rates of employment and moderate wage inflation. So why do I remain concerned?

1) We have never seen central banks bring inflation down over a short period of time, to exactly their target level, through the raising of interest rates to slow demand and cool the economy. Interest rates are a very blunt tool which acts on the economy with a variable and indeterminable time lag. There are reasons to believe that, on this occasion, interest rates will affect the economy with a longer time delay than usual due to the savings built up during Covid for the majority of the population and a higher percentage of corporate debt and mortgages being fixed at low rates for a longer duration than in the past. However, as the market begins to understand that interest rates will stay higher for longer to combat stubborn inflation, even 3–5-year mortgages will eventually have to be renewed at much higher interest rates. Consumers, in particular, had a real propensity to spend post covid and became noticeably price insensitive in the immediate aftermath of the Covid induced economic lockdowns. It appears from credit card data that much of the Covid induced savings have now been spent.

2) Interest rates will stay higher for longer as wage expectations have risen. For employees who have accepted a 6% wage increase whilst inflation was 10%, they will expect to reclaim that loss of real purchasing power at a later stage. This expectation will only be lowered through the destruction of demand and therefore jobs with the increased unemployment undermining wage demands. We have yet to see this happening. US jobs' data shows the economy creating 185,000 new jobs in June and July, down from earlier this year but still above the !00,00 level which would

be consistent with 2% inflation. US wage growth is rising and now at 6% per annum, this again is not consistent with 2% inflation. The situation in the UK is similar with a shrunken workforce unable to fill current vacancies. Europe looks better on this metric with sufficient levels of unemployment to stop higher wage demands becoming entrenched but will still need to raise interest rates above current levels.

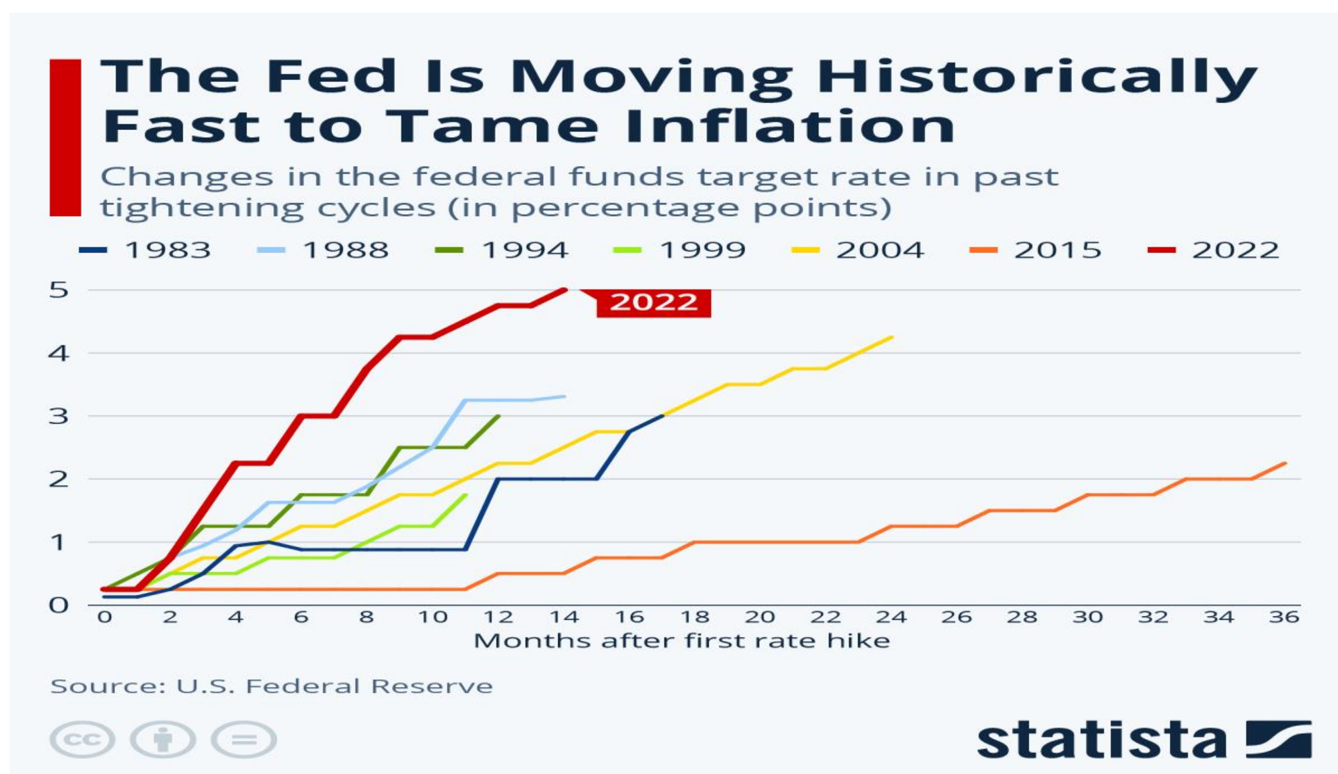
3) Inflation is a year on year measure, the massive rise in energy prices post the Russian invasion of Ukraine in spring 2022 has now fallen out of the inflation calculation and the effect of energy on the yearly inflation number has switched from being a major upward pressure to a negative, that reverts to a more neutral to positive push to inflation as we move through the second half of the year particularly as oil prices have been rising through the summer as we hit the peak US demand over the summer driving season. Headline inflation is falling as high inflation numbers of a year ago fall out of the equation. US inflation could get to 3% during the Autumn before picking up but this is not the same as stable 2% inflation.

4) Whilst the price of oil and gas has fallen back to pre-Covid levels, the situation in Ukraine and stressed relations with Russia still mean we could see further price volatility in the future. Whilst great efforts have been made to wean Europe off Russian gas there is still scope for further disruption.

Whilst I do expect headline inflation to dip through the summer, wage inflation shows that Central Bank targets of 2% inflation are out of reach at the current time. Because of this either interest rates will rise further to slow the economy or the rate rises to date will begin to have a greater impact on economic activity, either way I would still expect to see a recession across much of the developed world in 2024/5 and remain sceptical of a soft landing.

The current rise in interest rates is the fastest in recent history and has come after a period of prolonged ultra-low rates. We have never seen rates rise this quickly and not cause a recession. But what if the changes in corporate and consumer behaviour mean the effect of the interest rate rises are hitting spending with a much-delayed response? Is this giving corporates and consumers more time to react and get ready for higher interest rates or is it just delaying the inevitable?

Chart 1: US Fed interest rate tightening cycles



The chart above shows the extent and unprecedented speed with which the US fed has raised interest rates compared to past cycles.

Inflation

It is worth revisiting why inflation will be stickier in the future and why we are unlikely to return to the ultra-low interest rates of the past. There are a number of long-term trends which have held inflation down in the past but which are now changing as well as new inflationary factors to be considered.

1) Demographics – Global demographics are predictable as we know approximately how many people are alive and an estimation of their age and mortality. That the population is aging in most parts of the developed world is recognised, but, whereas over the past 40 years, an increasing percentage of the population in the developed world was of working age with more women entering the workforce due to a lower childcare burden, now the baby boomers are retiring and will need increased care in their old age removing more people from the workforce. This will not just lower the available workforce but also reduce the level of savings in the economy as baby boomers draw on their savings to fund their retirement and later life care. This will lead to less money being available for investment, lowering potential economic growth (as seen in Japan). The economic solution to this could be to accept greater immigration but that seems to be politically unacceptable at present in many countries but, without this, the bargaining power of the remaining workforce increases forcing up wages and thus inflation and interest rates. Chinas' own demographics are now also negative with a shrinking working age population.

2) Energy supply – The weaponization of energy supply is not new, the OPEC cartel was formed in the 1970's to force oil prices higher and redistribute economic wealth towards oil producers, mainly the middle east. President Putin has now followed the same playbook with Russian gas but, as the western world looks to switch away from carbon-based energy sources, it should be remembered that China produces over 50% of the world supply of car batteries and over 80% of solar panels as well as having a near monopoly on a number of metals vital to decarbonising the global economy. China's avowed intention to reunite Taiwan into the Chinese fold could again lead to the weaponization of critical energy supply chains even as the world moves to renewable energy.

3) Decarbonising the economy – The cost of moving towards a decarbonised economy will have to initially be borne by the consumer. Rethinking business methods may eventually lead to efficiency gains but the initial cost will need to be passed through the system.

4) Geopolitics – Politics are rarely important to investment markets with very few political leaders capable of having the vision and political longevity to really make a marked difference in how the world works. One notable exception would be Deng Xiaoping and his decision to shift China towards being an export-oriented, market-tolerating economy in the 1980s. This released a very sizable fresh workforce onto the world economy which drove down unskilled and semi-skilled wages and hence inflation for a 40-year period. It seems any geopolitical consensus is now fraying at the time when climate change demands just such a consensus.

5) Globalisation of trade – undoubtedly in the 40 years to 2010 global trade expanded as companies took advantage of the opening of China and other markets with their cheap labour force to bear down on the cost of manufacture, but rising geopolitical tensions mean that globalisation, while not in retreat, has stalled; in 2022, exports were slightly lower, as a proportion of global GDP, than they were in 2008. The move from 'just in time', low-cost production, to 'just in case' production with multiple supply chains located in, hopefully, more stable areas of the world must mean a higher overall cost of production.

The five points above have all worked to reduce inflation for a prolonged period of time but their long-term dynamic looks to have changed. However, going forward, there is one factor which continues to bear down on inflation and that is the speed of technological change. Artificial Intelligence (AI) is being touted as having similar potential to the introduction of the Internet to alter the way we live and how the corporate world works. I see this as having a simpler economic impact. For all

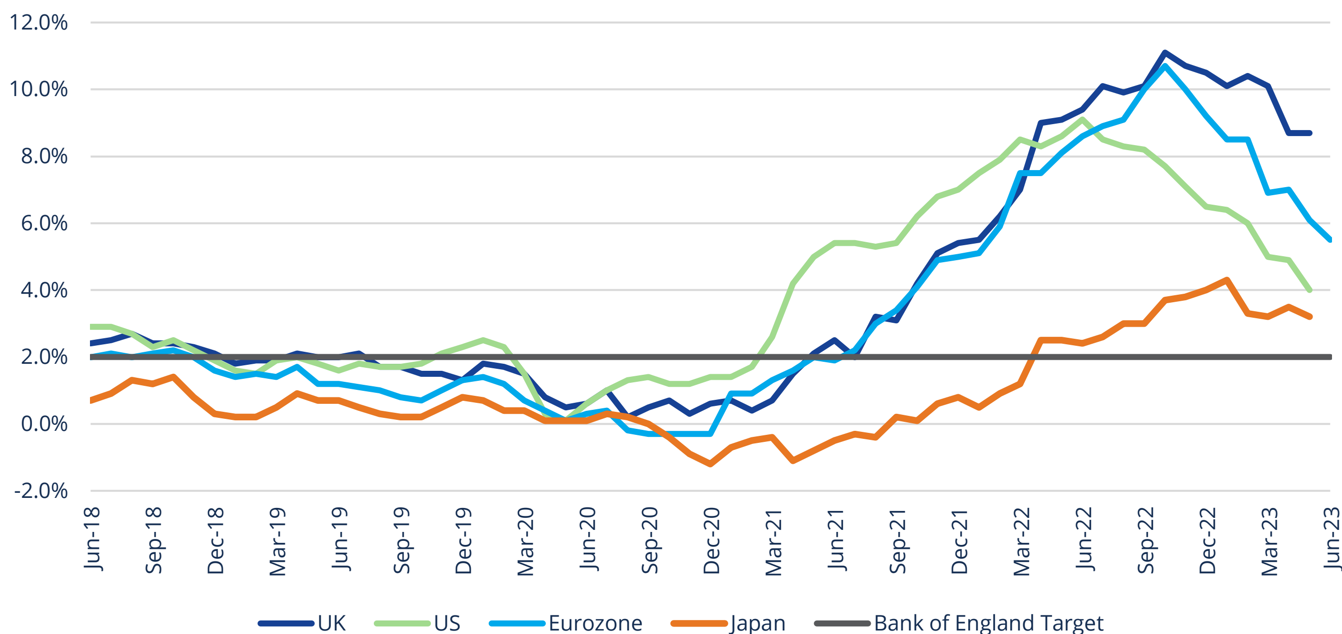
my working career, technology has advanced, altering the way I work, removing one competitive edge and opening up opportunities to create others. I see AI as a continuation of this trend. It pushes the substitution of labour by computing power up the value chain from skilled and semi-skilled work to highly skilled and professional work and will have the ability to drive the price for certain jobs lower whilst creating new roles in the monitoring and managing of AI itself as well as challenging its assumptions and results.

The above economic outline leaves scope for short-term interest rates to be nearing a peak in the US and UK and soon Europe whilst long-term bond yields may still exhibit some volatility as markets come to realise that inflation is not beaten yet; that interest rates will stay higher for longer; that high government debt levels will lead to higher interest charges with greater government bond issuance and that Quantitative Tightening removes a major buyer from the bond markets as central banks let their existing holdings of bonds bought during Quantitative Easing mature and fall off their balance sheet.

US inflation should bottom above 3%, quite possibly rising into the year end back towards 4% due to tougher year-on-year comparisons and continued high wage growth. This will not be an environment where US interest rates can be cut. The only alternative to this is a more obvious slowdown in the US economy and increased unemployment but any negative data will initially be used by the US Fed to pause interest rate increase rather than cut them. A reacceleration of the US economy seems unlikely from here. Whilst the time scale for the effect of higher interest rates may have lengthened, rates have still risen and, as such, eventually corporates and consumers will be paying higher debt servicing costs, the effect of which is to redirect free cash-flow generated by the business from growth towards interest payments.

Outside of the US, Europe does not have the same tight labour market and is, therefore, more able to bring inflation under control especially as economic growth is slow across much of the EU. The outlook here is for a mild recession but falling inflation. The UK remains the problem child, it has many of the same problems as the US with a tight labour market and inflation now built into many employees' wage expectations. The Bank of England (BoE) may still need to raise interest rates further into a sluggish economy and any indecision or tailing off in the inflation fight will undermine investor confidence in the UK and be felt through weaker Sterling and rising long-term bond yields which again emphasises my preference for the shorter duration bonds particularly in the UK.

Chart 2: CPI – Annual Rate of Inflation - Five Years to June 2023



All central banks in the western world would like to drop their 2% inflation targets but feel unable to do this until there are, at least short-term, signs that inflation will hit the 2% level. They will have to row back on their 2% target from a position of strength and credibility or lose the confidence of investors in their anti-inflationary stance.

China

China has not seen the same economic rebound from ending the Covid era economic lockdowns as the developed world. There seem to be two main reasons for this. Firstly, the Chinese property market has over expanded and become over indebted. This needs to be worked through but more importantly, if the government lowers interest rates it will just reignite the property sector and exacerbate the existing issues. Secondly, the consumer seems to have been scarred by their experience through Covid and is responding to what they see as the unpredictability of central government in the imposition of severe economic lockdowns over a multi-year period by increasing their propensity to save and storing more money away, this has negated the post lockdown consumption boom which we have seen in most other countries and is an interesting side effect of a totalitarian regime which can have an immediate and high impact on a populations' daily lives. This should be a transitory impact and consumption should pick up in time.

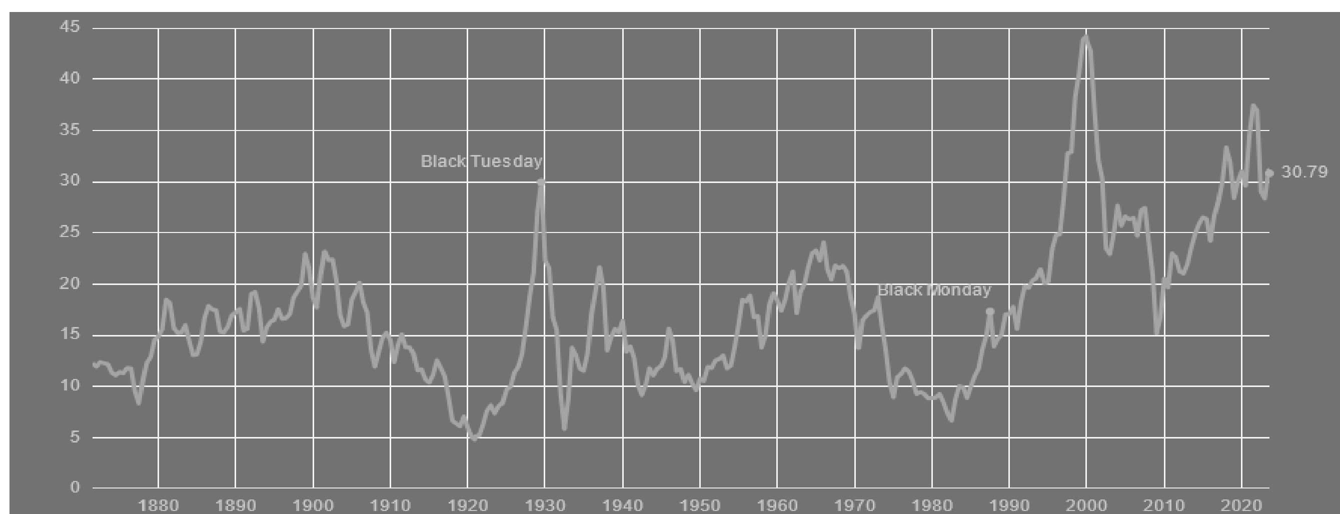
Markets

Given the above my expectation is for interest rates to stay high for the remainder of 2024 with any attempts to cut rates needing to be reversed quite quickly as inflationary pressures remain nearer the surface than in the recent past. This makes current yields quite attractive, particularly the shorter duration end of the yield curve as short rates are higher than long rates at present. A negative yield curve, where short duration yields are higher than longer duration yields, is traditionally seen as a sign of an impending recession. If interest rates stay higher for longer, short-term bond yields will remain high whilst longer duration bond yields may have to rise further leading to some price weakness in 5–20-year bonds.

In this higher rate environment, I would not expect equities to perform that well, on the one hand they are a partial inflation hedge but when the risks are of a slowing economy and stubborn inflation, the ability to pass costs on to consumers may become constrained. Earnings expectations have fallen back for this year but remain unaltered for 2024 and have, therefore, yet to recognise any impending economic slowdown.

The chart below shows the Shiller or CAPE price/earnings (P/E) ratio for the S&P 500 using average 10-year earnings and can be used as an indicator of long-term value for equity markets. It makes sense for equity markets to trade more expensively when interest rates, and thereby the cost of capital, is low but the recent rise in bond yields should lower valuations in the medium term. This suggests that equities are not particularly cheap at the present time.

Chart 3: Shiller P/E



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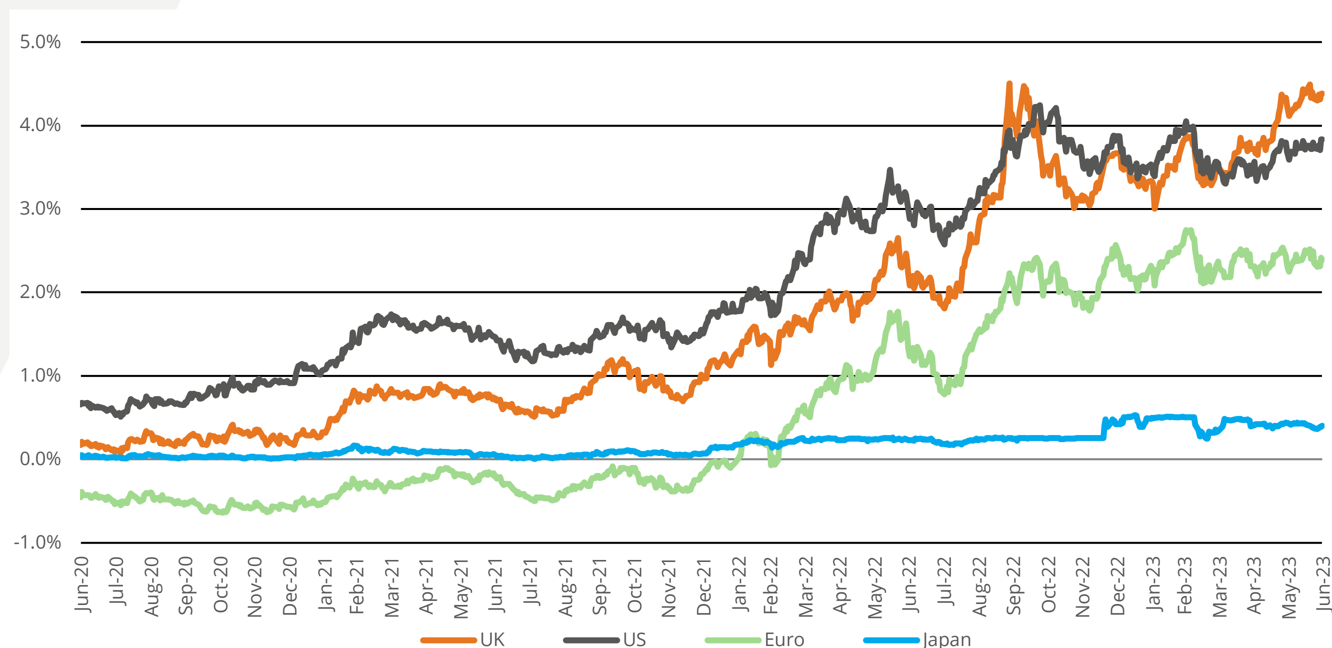
Asset Allocation

At The Strategic Asset Allocation review, conducted by MJHudson in 2022, little change was suggested to the current asset mix of the Fund. At the time bond yields were rising (prices falling) and looked unattractive and lower equity markets suggested they could generate higher returns in the near future. What has now changed is that there is more confidence that inflation has at least peaked and that higher interest rates will reduce inflation over time, interest rates in the US and UK are nearing their peak making short duration bonds more attractive to investors, whilst equities have risen over the last year making them more expensive.

Chart 4: Government 10-year Bond Yields



In that Strategy review MJHudson used forward looking risk and return assumptions for all the major asset classes, these assumptions showed Equities as one of the most attractive asset classes on a 10-year view with a return assumption of 6.7% per annum. Since then, equities are up 15% year to date whilst bonds yields have continued to rise (prices fall) and are now, in the UK, surpassing the yield levels reached in autumn last year when the Truss/Kwarteng budget brought the UK Gilt market into a panic.

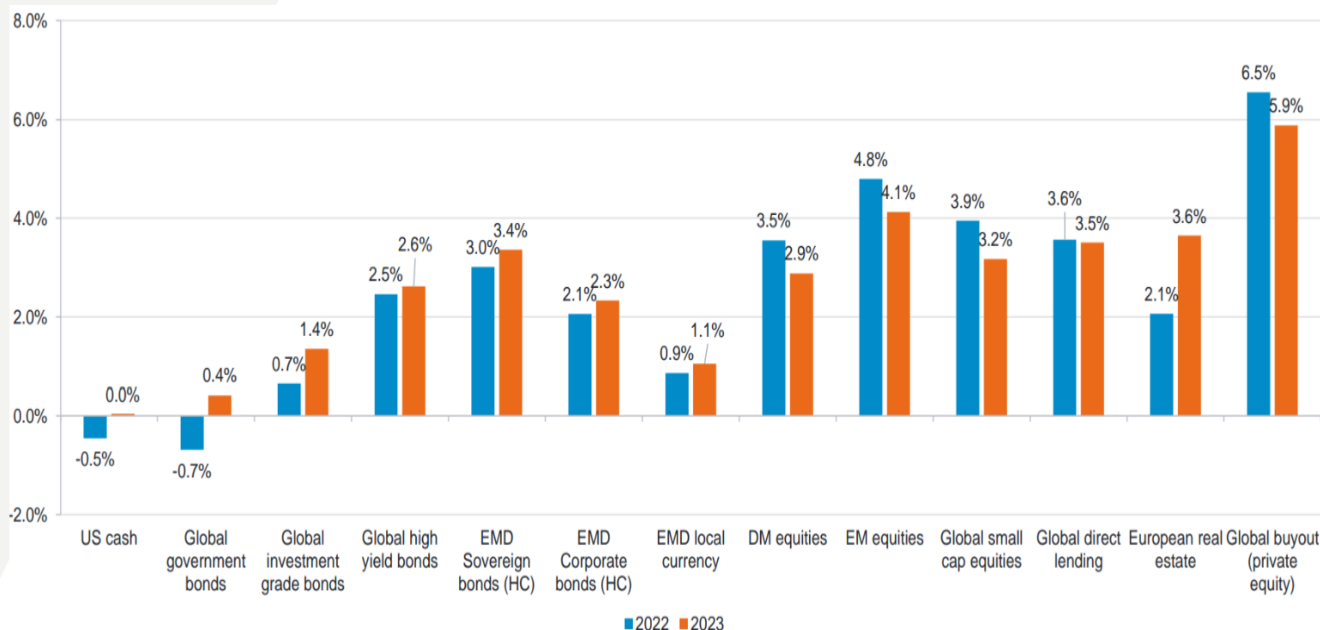
Given the move in markets so far this year, I would set the assumed return on UK cash equal to current interest rates of 5.25% (previously 2.2% reflecting interest rates at the time). Consensus is for UK interest rates to reach 5.5-5.75% during the Autumn although I suspect the peak may need to be over 6%. UK Gilt return expectations should reflect the current 10-year Gilt yield so 4.5% with UK Investment Grade and Global Bond returns also looking slightly higher at 6.0% (UK Gilt return plus credit risk premium).

Against this I would argue All Country World Equity returns lower to around 6.0% per annum for the next 10 years. I would also argue for a lower assumed return on Private Equity as I do not believe higher interest rates have been realistically fed through into valuations at present, yet deal flow and sales or flotations have fallen markedly, giving limited pricing points to check valuations against. (It will not just be a few UK water companies which bear the scars of the private equity industries desire to boost short-term returns by increasing the level of indebtedness within businesses.).

Direct lending is an area where returns are currently very attractive with yields currently over 10% with fee income on top. Given this high current return, 10-year returns could easily reach 7.5% or more. This remains an attractive area but is illiquid

and takes time to invest into meaning that it would need to be seen as a long-term allocation rather than a move to take advantage of higher current bond yields

Chart 5: Forecast Real returns by asset class, comparing 2023 with 2022 forecasts



Source Fidelity

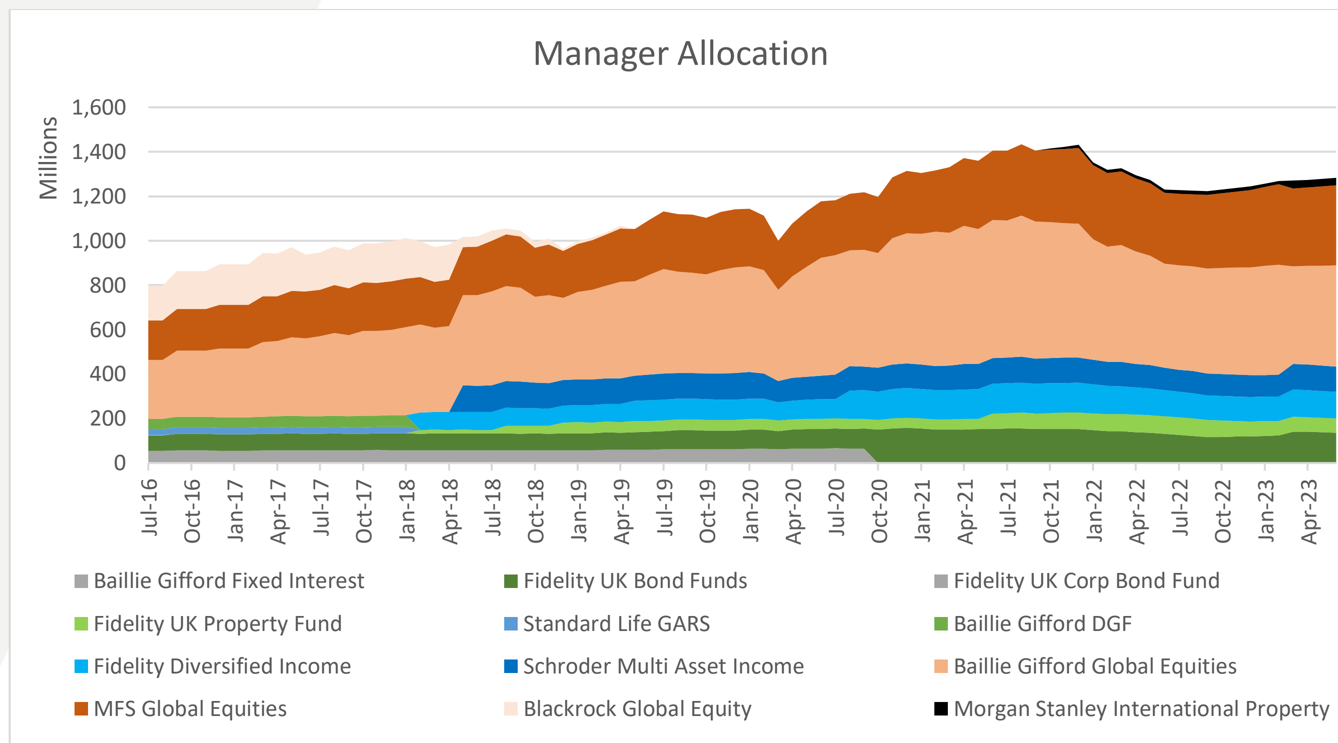
The chart above shows the forecast asset class real (post assumed 10-year inflation) returns for 2023 compared with those forecast a year ago. These are from Fidelity International. The exact numbers are less important than the change between 2022 and 2023. In particular, note the rise in forecast return for bonds as interest rates and yields have risen and the fall in expected returns from equity markets.

Table 3: The Funds current asset allocation against the Strategic Benchmark

Asset class	Asset Allocation as at 31/12/2022	New benchmark going forward	Position against the benchmark	Asset Allocation as at 31/3/2023	Position against the benchmark
Equities	67.0%	58%	+9.0%	63.5%	+5.5%
Fixed Interest	9.7%	13%	-3.3%	10.6%	-2.4%
Property	5.3%	5%	+0.3%	5.0%	+0.0%
Multi-Asset Income	16.7%	20%	-3.3%	18.2%	-1.8%
Int'l Property +US$	1.3%	5%	-3.7%	2.7%	-2.3%

The change in the asset weightings since 31/12/22 reflects market moves plus sale of 5% of the Fund from equities to other asset classes completed earlier this year.

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



Executive Summary

- Macroeconomic data was generally resilient globally in the quarter, with headline inflation falling in the US and Europe, and remaining steady in Japan. Labour markets remained surprisingly robust and GDP growth remains below trend, but generally positive. Chinese and European manufacturing data has softened in recent months leading to some concern over the anticipated post-COVID rebound for China. The UK was an exception to the disinflation trend, with inflation at an uncomfortably high 8.7% in May. Despite falling inflation, the US Fed and ECB continued to hike rates and maintain a hawkish posture because of tight labour markets and stubborn core inflation data. The Q1 banking crisis appears to have been contained, but there are signs of consumer credit card defaults starting to tick up, and it is likely that the effects of the interest rate increases will take time to filter into real economies.
- Q2 was another strong quarter for equities, with global equities (MSCI World) rising around +7% in local currency (+4% in GBP terms). Equity markets were led by growth-oriented stocks (+10.1% for growth, +2.2% for value) as investors jumped on board the new innovation of Artificial Intelligence (AI). Japanese equities performed particularly strongly (+18.5% in local currency, and up +5.9% in GBP terms), as the Bank of Japan has maintained a more accommodative policy than its peers. The Tokyo Stock Exchange has also urged listed companies to become more focused on value creation, such as using cash stockpiles to remedy the low book values to market capitalisations. The combination of the very weak JPY and potential corporate governance improvement has attracted investors to the region. US equities returned just under +5%, though gains have been very concentrated in a few large tech stocks, leaving the rest of the index flat. UK equities, on the other hand, have lagged peers (slightly down in Q2) after a relatively strong 2022 and markets view more risk of recession and negative impacts to employment than for some other developed markets. Bonds, too, faced headwinds as interest rates continued to rise with central banks not yet ready to signal a shift in direction in the fight to reduce inflation. Global

investment grade credit was flat over the quarter, but UK long index-linked gilts fell around -10% as yields jumped higher in light of stubborn inflation and investors now expect UK rates to peak above 6%. Energy prices softened further (oil down -6%), while GBP has continued to strengthen against both JPY and USD, retracing a fair amount of its weakness during 2022.

It is worth highlighting the following themes impacting investment markets:

- **Credit spreads indicate a sanguine sentiment to risk.** Credit spreads have tightened since the March banking crisis with US investment grade credit spreads ending Q2 at 120bps, having reached a year to date high of 165bps in March. US high yield bonds spreads have similarly tightened, from a high of 516bps, to 392bps at quarter end, despite incipient signs of rising delinquencies. In the first half of 2023, for example, US Chapter 11 bankruptcies have risen sharply on the same period last year.
- **Inflation – heading towards target, but core inflation proving sticky.** The UK was again the outlier in the quarter with annual CPI only falling to 8.7% in the quarter, compared to 4.0% for the US and 5.5% for Eurozone. However, core inflation (excluding energy and food prices) has been telling a different story. UK core inflation has worryingly risen to a new high at 7.1% in Q2, while US core inflation is now above headline inflation at 5.3% and has only slowly decreased from 6.0% 12 months prior. Similarly, Eurozone core inflation rose in June to 5.4% and is well above the 3.8% figure of 12 months ago. This all suggests the high inflation / high rates environment may last for rather longer than currently discounted.
- **A narrow range of stocks is driving global equities performance.** In May, Nvidia announced a vastly improved earnings forecast (50% above Wall Street consensus for Q2) driven by the demand for high specification chips used by entities pursuing AI efforts. This prompted a 52% rise in the share price over Q2, and has been emblematic of the recent attention investors are paying to companies with any form of potential for AI products. Indeed, Nvidia, Tesla and Meta have risen by 196%, 142%, and 130% respectively over the year to date. This characteristic, of performance being concentrated in a narrow number of stocks can be symptomatic of the late phases of equity bull markets.
- **Equity valuations rise despite earnings risk.** Equities rose for another quarter, despite analysts' forecasting S&P 500 Q2 earnings declining 7.2% on the year prior. This has led the forward earnings ratio for the S&P 500 to rise to 18.9x, from 17.8x in Q1, and comfortably above its 10-year average of 17.4x. Profit margins for US equities have declined to c.12%, from 14% in 2021 but remain above longer term averages and equity markets appear to be looking past the potential effects of high interest rates and discounting a "soft landing" scenario. This would seem to leave the asset class exposed to disappointment.

- Global equities rose sharply in Q2, led by US and Japanese equities for varying reasons. The VIX declined over the quarter from 19 to 14, well down on its average level of 21 for the 5 calendar years 2017 to 2022.
  - In the US, the S&P 500 rose by +8.7% and the NASDAQ soared by +15.2%. Markets rallied as enthusiasm for AI boosted a number of some stocks and an upward adjustment to the Q1 annualised GDP figure (from 1.3% to 2.0%) provided support to the view that the US economy may avoid a recession or 'hard landing' despite the sharp rise in interest rates.
  - UK equities fell -0.4% and underperformed global equities. Inflation has remained too high in the UK for the BoE, resulting in the base rate being raised to 5.0%, from 4.25% at the end of Q1. The BoE had slowed the pace of rate rises from 50bps to 25bps, but moved back to a 50bps rise in Q2. UK CPI was 8.7% in May, well above the 6.1% figure for the Eurozone.
  - The Euro Stoxx 50 rose by 4.2% in Q2. Economic data was better than expected with inflation continuing to move downwards, although the ECB has maintained a hawkish rhetoric. The composite PMI has, however, been declining in Q2 and in June fell just into contractionary territory at 49.9.
  - Japanese equities continued their strong run, rising by +18.5% in Q2. A weakening JPY has boosted exporters, as the BoJ maintains very accommodative monetary policy with core inflation currently at 3.2%, as well as the mentioned prospective corporate governance reform. The JPY yen fell 8.6% vs the USD over the quarter.

  - Emerging market equities rose +1.0%, underperforming global equities as Chinese stocks fell. Investors had previously pinned hope on a rebound in Chinese stimulus and growth which had propelled Chinese equities in late 2022 and early 2023; however, the country has not yet provided meaningful policy stimulus.

- Medium- and longer-term bond yields rose over the quarter, generally rising with rate hikes from central banks resulting in negative performance for government bonds. The US yield curve inversion as measured by the 10 year–2 year ended the quarter at -106bps, as short and mid-term rates rose more so than longer bond yields. In corporate bonds, high-yield credit outperformed as credit spreads tightened over the quarter. Emerging market bonds rose 2.7% in local currency and 2.2% in hard currency.
  - The US 10-year Treasury yield rose in Q2, ending at 3.81% from 3.48%. US rates rose steadily through the quarter, with US GDP being revised upwards for Q1 and job openings (JOLTS) at a strong 9.8 million, compared to 7.2 million in January 2020. The US Fed raised their policy rate by 0.25% just once in the quarter (to 5.0%-5.25%).
  - The UK 10-year Gilt yield rose sharply from 3.49% to 4.39% and 2-year from 3.44% to 5.27%. Over the quarter, the spread between UK and German 10-year bond yields widened, reflecting the increased stress viewed on the UK economy (UK approx. +200bps now vs +120bps in Q1, and close to the +228bps in September 2022 during the 'mini budget'). The BoE hiked rates by 25bps two times in the quarter.
  - European government bonds returned flat in Q2. Yield curves steepened further over Q2, as short end rates rose with rate hikes, with the main refinancing rate now at 4.0% (up from 3.5%), while longer term bond yields were little changed. The German 10-year Bund yield rose to 2.39% from 2.29%, while Italy's fell from 4.09% to 4.07%.
  - US high-yield bonds outperformed investment grade, returning +1.7% and -0.3% respectively. European high-yield bonds returned 1.8%, outperforming the 0.2% for European investment grade and -3.1% for UK investment grade.

- Energy prices were mixed over Q2, as gas prices rebounded somewhat although still sharply down from the pre-winter figures. Oil prices have traded down driven by concerns over global growth and oil demand.
  - US gas prices rose 26% in Q2. Prices have fallen dramatically from their 2021/ 2022 peaks.
  - Brent crude oil fell -6.1% over Q2, to US$75 per barrel. Falling prices since 2022 triggered various OPEC+ announcements of production cuts which have thus far only resulted in small reactions from the market. The US released oil from its Strategic Petroleum Reserve in 2021/ 2022 to meet demand and address high prices, but has yet to restock the inventory.
  - Gold and Copper fell -2.0% and -8.6% respectively over Q2. Gold fell as investors returned to risk assets and with high yields available on cash alternatives. Copper fell over the quarter from a high in April, with the growth outlook for China a headwind. Gold and Copper closed Q2 at 1,929 USD/toz and 374 USD/lb, respectively.

- Global listed property continued to decline, with the FTSE EPRA Nareit Global Index falling -2.4% in Q2.
  - The Nationwide House Price Index in the UK has continued its decline, with the price index down -0.3% for the quarter, and down -3.5% on an annual basis.

- European commercial property has also continued to decline in the face of higher interest rates, with the Green Street Commercial Property Price Index down by -2.3% this quarter and -15.9% over the past 12 months.

- In currencies, sterling strengthened against the US$ (+3.0%) and the Euro (+2.3%) over the quarter, as the ongoing high and uncertain inflation in the UK is viewed as requiring a lengthier period of tighter monetary policy. The US$ rose modestly in Q2 (Dollar index +0.4%).

Performance report

Asset Class/ Manager	Global Equities/ Baillie Gifford via the LCIV
Fund AuM	£455m Segregated Fund; 34.5% of the Fund
Benchmark/ Target	MSCI All Countries World Index +2-3% p.a over a rolling 5 years
Adviser opinion	Short-term performance has been poor, acceptable longer term.
Last meeting with manager	John Arthur/John Carnegie by phone

During the quarter this portfolio was transferred to the LCIV. It continues to be managed by Baillie Gifford and is an exact replica of the historic Global High Alpha fund. The cost of transitioning the portfolio across to the LCIV was very low as agreement was reached with the UK Government to avoid stamp duty and Baillie Gifford contributed towards the remaining costs. The Fund will now benefit from the slightly lower fees negotiated by the LCIV due to the economies of scale they are able to demand from pooling the assets of the 32 LCIV member funds.

The portfolio marginally underperformed during the quarter but is now showing positive performance over the last 12 months and the revaluation of growth style equities due to rising bond yields seems to be in the past. Whilst the manager has underperformed the benchmark over the last 5 years and therefore failed to achieve their performance target of index +2% over a 5-year time frame, their long-term performance remains positive and I continue to expect them to add value over a full economic and market cycle. Since inception in 1999 the manager has added 0.6% per annum over benchmark performance.

I remain confident that Baillie Gifford is a good asset manager with a strong investment philosophy and process and the resources to follow that process. They encourage challenge to their views and have a thirst for understanding which I find admirable. More particularly, I noted earlier that technological change was the one long-term factor which continued to be deflationary. The speed of the technological change does not seem to be slowing and we may be at the start of a new era of business disruption through advances in artificial intelligence. Given this, I see value in continuing to invest via a manager who spends a considerable amount of time, effort and money in looking to understand technological change and how it will affect the business environment. Baillie Gifford work closely with a number of leading educational institutions and individuals at the forefront of these development.

Asset Class/ Manager	Global Equities/MFS
Fund AuM	£359m Segregated Fund; 28.0% of the Fund
Benchmark/ Target	MSCI World Index (Developed Markets)
Adviser opinion	This portfolio should outperform in a more inflationary environment
Last meeting with manager	Elaine Alston/Paul Fairbrother/John Arthur 9/8/23

MFS underperformed by 0.6% over the quarter returning 2.6% but has outperformed their benchmark over 1, 3, 5 and 10 year periods as well as by 1.3% per annum since inception in 2013. The last 18 months have been a strong period for MFS as their whole investment philosophy is around investing in companies which have pricing power and are defensible businesses. In an inflationary environment the ability to push price rises through becomes vitally important and MFS have

shown that their portfolio has that ability. The challenge going forward is that pricing pressure is still strong through wage growth but the ability to pass these costs on to the end consumer is waning. I expect many companies to see margin compression over the coming year and the managers' ability to continue to outperform over the next few years will be a testimony to the thoroughness of their research and understanding of the pricing and business dynamics of the companies they invest in.

It is possible that both the Fund's equity managers could outperform over the next few years as both seem to have an investment approach that fits well with current market dynamics.

Asset Class/Manager	**UK Aggregate Bond Fund and UK Corporate Bond Fund/ Fidelity**
Fund AuM	£136m pooled fund; 10.6% of the Fund
Performance target	25% Sterling Gilts; 25% Sterling Non-Gilts; 50% UK Corporate Bonds +0.75 p.a rolling 3 year
Adviser opinion	Manager continues to meet long-term performance targets
Last meeting with manager	Tom Jeffery; Jessica Miley/John Arthur 30/8/23

The Fund hold two similar Fidelity Fixed Interest portfolios. The UK Aggregate Bond Fund which has a benchmark that is 50% UK Gilts and 50% UK non-Gilts; the UK Corporate Bond Fund which has a benchmark consisting entirely of UK Investment Grade Corporates and, as such, contains slightly higher credit risk and achieves a slightly higher yield. The manager can invest outside of these benchmarks with a proportion of the portfolio including into overseas investment grade bonds hedged back to Sterling and higher yielding, non-investment grade bonds. These two portfolios are combined for reporting.

Portfolio	2Q23 performance	1 Year performance	Duration	Yield
UK Agg Bond	-4.2%	--8.7%	7.7 years	6.4%
UK Corp Bond	-2.9%	-8.1%	5.8 years	7.0%

During the quarter the portfolio returned -4.1% outperforming a falling benchmark by 0.5%. The combined portfolio has continued to outperform its benchmark through this period of market turmoil adding 1.1% against the benchmark over the last year and 0.5% against the benchmark over the last 3 & 5 years. Since inception in 1998, the manager has added 0.7% per annum and outperformed through a variety of market and economic conditions. I regard this as a strong investment performance. The manager continues to hold shorter duration bonds and less credit risk than the benchmark believing that the outlook for the UK remains unstable.

Looking back at past reports, at the end of Q2 2021, two years ago, the yield on this portfolio was 1.5%. The dramatic rise in interest rates and thereby bond yields has radically altered the outlook for this asset class but whilst the yield now looks attractive, especially against the actuarial assumed investment return of 4.5%, both I and the manager have concerns that bond yields in the UK could rise further (prices fall) as the market recognises the weak financial position of the UK Government which will be compounded by much higher interest costs going forward. An outlook of poor growth in the UK with stubborn inflation and quantitative tightening by the BoE means that returns from this asset class may remain low and subject to volatility despite the attractive yield. Any perceived weakness by the BoE in its anti-inflation fight could see investors lose confidence and both Sterling and longer duration bonds weaken. I have a preference for shorted dated bonds at the current time.

Asset Class/Manager	Mult-Asset Income / Fidelity
Fund AuM	£121m Pooled Fund; 9.4% of the Fund
Performance target	LIBOR +4% including a yield of 4% per annum
Adviser opinion	
Last meeting with manager	Meeting Eugene Philalithis; Tom Jeffrey; Jessica Miley/John Arthur 8/8/23

Asset Class/Manager	Multi-Asset Income / Schroders
Fund AuM	£113m Pooled Fund; 8.8% of the Fund
Performance target	LIBOR +5% including a yield of 4% per annum
Adviser opinion	
Last meeting with manager	By phone during the quarter: John Arthur/ Russel Smith/Remi Olu-Pitan

These portfolios are designed to provide yield which is paid back to the Fund each quarter. By guaranteeing that the Fund always has enough cash to pay pensions, under any circumstances, the Fund never becomes forced to sell into unfavourable market conditions but can continue to invest for the long-term.

During the quarter both portfolios underperformed. Fidelity falling -1.8% and Schroders falling -0.5%. Over the last year a noticeable performance gap has opened up between the two portfolios with Fidelity down –5.2% and the Schroders portfolio up 1.2%. This is during a period when the Fund's UK Bond portfolios fell by -8.7% and Global Equities were up over 10% in Sterling terms which makes the Schroders performance relatively impressive over the last 12 months.

Longer term the Fidelity portfolio has fallen -2.4% per annum over 5 years whilst the Schroders portfolio has risen 0.2% per annum over this period. Much of this divergence has occurred in the last 12 months when Schroders have been more fleet of foot and equity biased whilst Fidelity have remained wedded to some longer duration bonds in the belief that these will provide diversification through periods of market stress when, in reality, they became the focus of the market stress as inflation and interest rates rose.

The Fidelity portfolio has a return target of 4% per annum against 5% per annum for the Schroders portfolio, this means that the Schroders portfolio is always likely to be taking slightly higher risk.

Without the income support from these portfolios, I would be recommending a lower level of risk at the Total Fund level and less equity exposure. This makes it complex to review the performance of these portfolios separately from the Total Fund. Nonetheless, the performance of the Fidelity portfolio has been disappointing and I have held discussions with the manager around diversifying the portfolio outside of long duration bonds and accepting a slight increase in illiquidity.

Because interest rates have risen over the last 18 months, the benchmark return for these portfolios, which is a 'cash + X' benchmark, has also risen. With Fidelity now targeting 9.25% returns and Schroders 10.25 % return per annum at current interest rates. I suspect these targets are too high but given the higher yields achievable, a return above cash should be achieved going forward.

APEX

Asset Class/Manager	UK Commercial Property / Fidelity
Fund AuM	£64m Pooled Fund; 5.0% of the Fund
Performance target	IPD UK All Balanced Property Index
Adviser opinion	
Last meeting with manager	9/8/23 Alison Puhar; Tom Jeffery; Jessica Miley/ John Arthur

After a very poor UK property market in the Q4 2022 when the UK property market caught up with higher interest rates and repriced downwards by 15% on average, the last two quarters have been much less volatile. The portfolio fell by -1.8% in the quarter against a rise in the benchmark of o.4%. This was, in part, due to valuers still being cautious and valuing down any property currently being refurbished or not completely let. The Fidelity UK Property portfolio has been going through a large, planned refurbishment with work completed or nearing completion on over 25% of the portfolio over the last 2 years. Not all of these properties are completed or fully relet at the current time. In discussion with the manager I have confidence that once relet these properties will get revalued upwards because the refurbishment is bringing the individual properties up to a high environmental specification with such properties achieving higher rents than the market at the current time. A number of these refurbishments are in the office sector where valuers are particularly aggressive on values but it appears that the office market is bifurcating as high quality, environmentally leading properties are in demand and older, less energy efficient offices are difficult to let or sell. The work Fidelity has done over the last few years in bringing its offices up to amongst the best available in their region seems to have been a sound investment decision for the longer term.

Over the last three years the Fidelity UK Property portfolio has returned 3.1% per annum, slightly below the benchmark. This compares with a return of 10.5% per annum for Global Equities and -8.7% per annum for UK Bonds as measured by the Fund's fixed interest benchmark.

I continue to see this portfolio as well managed and providing an element of diversification from the Fund's heavy global equity exposure.

Given the current state of the UK Commercial property market, the Fund does have a number of investors looking to sell their holdings at the current time. These are predominately corporate defined benefit pension schemes who are looking to move to buyout and therefore need their investments to be liquid and easily valued. I will continue to monitor this going forward to ensure that the manager does not come under undue pressure to realise assets in difficult market conditions.

Asset Class/Manager	International Property / Morgan Stanley
Fund AuM	USD80m(£57.5M) committed / £14.1m drawn. Limited Partnership; 1.0% of the Fund
Performance target	Absolute return
Adviser opinion	
Last meeting with manager	30/8/23 John Arthur/Gareth Dittmer

When the Pensions Committee decided to invest into International Property it was to provide diversification from the Equity and Bond holdings which made up the majority of the Fund. To achieve this the Committee agreed for the mandate to be opportunistic rather than invest in core international property, selecting a manager in Morgan Stanley/New Haven who would be able to adapt to changing market circumstance and who would work with a total return target rather than a formal property index as its benchmark. Given the disruption caused to property markets globally over the last two years by rising interest rates and higher debt costs I believe this to have been a good decision.

The New Haven fund has now drawn down 32% of the commitments of US$3.08bn to the fund and is just under halfway through its four-and-a-half-year investment period. As can be seen from these figures, the rate of drawdown has been on the slow side reflecting the managers concern about rising interest rates causing a deterioration in the global property market which is what we have seen over the last 18 months.

So far, the fund has made 18 investments located in the US (59%); Japan (24%); UK/Europe (13%) and India (3%). These have mainly been into the Industrial (52%) and residential (30%) sectors with one asset each into the hospitality, office and senior living sectors. Of these 18 investments 1 IN Japan has already been sold with a good return.

Of the remaining properties, the expected return has dipped slightly as the global property market has deteriorated with an internal Rate of Return (IRR) now forecast at 16.2% in Sterling for these investments against an original expectation of achieving a 17.6% IRR. This would still mean the overall portfolio returning 1.5X the initial investment at the close. The main factors causing this slight drop in predicted IRR is an increase in the cost of construction, partly offset by rising rents but with sales now taking place at higher yields (lower prices) due to the rise in interest rates. The Japanese properties are trading investments by nature and because we have not seen such a large increase in Japanese interest rates and thereby borrowing costs, these investments look stable. The US industrial and residential investments have, in the main, seen minor drops in expected returns with only one investment, in the industrial sector in the UK showing any notable deterioration but this is still expected to produce a positive return.

Given the rapid change in dynamics within the global property market, the manager has now shifted attention towards providing debt into the sector rather than purchasing assets outright. This is because yields on high quality property debt now appear to be in double digits making them attractive and by investing into the debt rather than the equity the investment is more secure an element of collateral protection.

Since quarter end the manager has made an investment of Euro240m into a portfolio of Swedish residential assets via preferred equity giving the investment a debt like characteristic. This investment has been made at a yield of 13% for a two-and-a-half-year period. This has led to a further call being made on the Fund and the commitment will now be over 40% drawn.

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Short-term cash

Following the rise in interest rates the Fund is receiving more investment income with the yield on the Multi-Asset Income funds having risen from 4% to between 5% - 6% and the yield on the Bond portfolio rising from 1.5% to 6%. At a guess this will increase the income distributed back to the Fund by approximately £8m per annum. Against this pension payments will have risen following the inflationary rise last September and will rise again this September.

The Fund should be able to operate with cash on hand of less that 1% of assets, so at present £13m.

Recommendation 4

Any accumulation of cash above that level should be lent out in short term money deposits potentially piggybacking on LB Bromley's treasury operation or, if the cash is not required for 6 months or more, invested into the Fidelity Short-duration corporate bond fund where the current yield is 6.8%.

London Borough of Bromley Pension Fund **APPENDIX 6**

LGPS Updates

Investment			
Topic	**Description**	**Timescale**	**LBB Status**
1. Task Force on Climate Related Financial Disclosures (TCFD)	TCFD reporting is already mandatory for large private pension schemes, other asset owners and asset managers. The first Local Government Pension Scheme climate risk reports will mean that administering authorities will have to set out their strategies and metrics for managing climate-related risks and opportunities.	We await the final regulations. DLUHC have confirmed that implementation of climate reporting obligations will be delayed at least until next year. (Click Here) Presuming regulations are forthcoming in time for 1st April 2024, reports covering the period 1 April 2024 - 31 March 2025 would need to be produced by December 2025. In the meantime, the Responsible Investment Advisory Group (RIAG) will look at what advice could be given to funds wishing to do a shadow reporting year, and also what could be done to standardise the development of climate reporting approaches at the pool level.	Officers assessed several methods of complying with TCFD requirements. Officers now suggest the most cost-effective solution is to align with the other 32 London Boroughs and allow the London CIV (LCIV) to contact Bromley's Investment Managers to produce a TCFD consolidated report and sensitivity analysis on behalf of Bromley. This service will be provided pro-bono. **Officers are currently in discussion with LCIV and will brief members on the details.**
2. Investment Policy - pooling	DLUHC has issued a consultation on a number of investment-related proposals for the LGPS. These include imposing a deadline of 31st March 2025 for the transition of listed assets from funds to pools; proposals around increasing LGPS investments in private equity and projects that meet the government's levelling up agenda; details around the implementation of the CMA Order relating to investment consultants, and a technical change	The Scheme Advisory Board will be responding to the consultation and will publish information about its discussions, as well as a draft response, in due course.	LBB has a draft response to the consultation, which will be considered by Members at the 11 September meeting.

	to the 2016 investment regulations. The consultation will run for twelve weeks and closes on Monday 2nd October 2023. (Click here)		
3. The Boycotts, Divestments and Sanctions Bill	The Economic Activity of Public Bodies (Overseas Matters) Bill, also known as the Boycotts, Divestments and Sanctions Bill had its second reading in the House of Commons on 3rd July 2023. The Bill seeks to ban LGPS administering authorities from making investment decisions influenced by political and moral disapproval of foreign state conduct, except where this is required by formal Government legal sanctions, embargoes, and restrictions. In the course of the debate, significant concerns were expressed about the Bill. These centred around its rationale, its practicability and also whether it constituted a significant over-reach of Ministerial authority. •	The Bill reaches the Committee stage in Parliament from 5 September 2023	LBB will keep a watching brief and, through consultation with the Pensions Committee, respond to further developments, guidance and regulations as and when they are published.
Governance			
Topic	**Description**	**Timescale**	
1. The Good Governance Project. (click here)	The SAB expects almost all of its recommendations being taken forward: • The LGPS senior officer • Workforce strategy • Monthly data collection mandated • Administration KPIs • Enhanced training requirements	• Consultation on final regulations expected in 2023	As and when related regulations are published by DLUHC an action plan will be produced.

	• Demonstrating compliance and offering resilience		
Administration			
Topic	**Description**	**Timescale**	
1. Exit Payment Cap	The Government has stated its intention to bring back the exit cap (also known as the £95K cap). In addition, we understand that it still plans to introduce changes to LGPS and Compensation Regulations at the same time as the exit cap is re-introduced.	No timescale has been provided by Government.	LBB will keep a watching brief and, through consultation with the Pensions Committee, respond to further developments, guidance and regulations as and when they are published.
2. McCloud	The Government has previously outlined the key changes that the Government will make to the LGPS regulations to remove the unlawful age discrimination. The statement confirmed that: • the age requirement for underpin protection will be removed; • the remedy period will end on 31 March 2022; • the underpin calculation will be based on final pay at the underpin date, • even when this is after 31 March 2022; there will be two stages to the underpin calculation: the first on the underpin date – the date of leaving or on the normal pension age in the 2008 Scheme, if earlier. The second stage will be applied when the benefits are paid; and the regulations will be retrospective to 1 April 2014.	On 6 April DLUHC published its response to its autumn 2020 consultation on the changes required to the LGPS to address the discrimination outlined in the McCloud judgment. There are no major developments in the response and there are some areas where DLUHC have delayed decisions, including on aggregation and flexible treatment. These topics will be taken forward into a further consultation in the Spring/Summer which will also include the proposed approach to interest on backdated benefits and compensation. The intention is that the final regulations will come into force on 1 October, with backdated effect from 1 April 2014. Any prospective benefit improvement will need to be shown in annual benefit statements from August 2025	Data collection exercise: Under the SAB and LGA guidance, LBB has completed the McCloud data collection exercise (most employers have responded). Resources: Resourcing impact considered and being addressed with Liberata and additional in-house resource Action required (subject to SAB and LGA guidance): - Project management - Data treatments for missing data and overriding current data
Consultation			
Topic	**Description**	**Timescale**	
1. GMP Equalisation	Following the original Lloyd Banking Group judgement in October 2018 to equalise GMP	The position is currently under further consideration with Treasury.	LBB will keep a watching brief and, through consultation with the Pensions Committee,

	accrued between 17 May 1990 and 5 April 1997 between male and female members.		respond to further developments, guidance and regulations as and when they are published. Note: LBB has completed the GMP reconciliation project (Fund's GMP data vs HMRC). We are now in the process of completing the GMP rectification project.
2. Goodwin (click here for details)	On 20 July 2020, HMT issued a note confirming that, following a successful case against the Teachers' Pension Scheme (TPS), historical widowers' pensions in the public sector pension schemes discriminated against male members.	Consultation is expected in Spring/Summer 2023 on a retrospective award of widowers' pensions backdated to 2005.	LBB will keep a watching brief and, through consultation with the Pensions Committee, respond to further developments, guidance and regulations as and when they are published.
3. Removing age 75 limit for death grant lump sums	LGPS regulations do not allow for death grant lump sums to be paid if the member is aged 75 or over. The Government now considers this rule to be discriminatory.	Consultation was expected in Spring/Summer 2023 but has been delayed on a retrospective award of death grant lump sum to affected beneficiaries backdated to 2011.	LBB will keep a watching brief and, through consultation with the Pensions Committee, respond to further developments, guidance and regulations as and when they are published.
4. Moving CARE revaluation date from 1 April to 6 April.	The annual allowance (AA) is the maximum amount of pension savings an individual can make in any one tax year, from 6 April to 5 April, that benefit from tax relief. The standard AA limit is currently £40,000. For the 2022 to 2023 tax year, the September 2022 CPI of 10.1% is higher than it has been in recent years. This higher CPI would have led to high revaluation of CARE pensions for active members in the 22/23 tax year.	In March 2023, DLUHC passed the LGPS (Amendment) Regulations 2023 moving the annual revaluation date from 1 April to 6 April in effect deferring the inflationary uplift into the next tax year. This has minimised the risk of annual allowance tax charges for active members.,	No action needed.
5. Increase to the minimum pension age	In the Finance Act published on 1st March 2022, the Government has confirmed the increase in Normal Minimum Pension Age or	With effect from 6 April 2028.	LBB will ensure that communications to members reflect this change.

	"NMPA" from 55 to 57 with effect from 6 April 2028. The legislation protects members of registered pension schemes who before 4 November 2021 have a right to take their entitlement to benefit under those schemes at or before the existing NMPA.		
6. Pensions Dashboards Programme (PDP) (click here for details)	Dashboards will enable anyone who has a UK pension not in payment (including LGPS pensions) to be able to view some key details of their pension information. Dashboards will present information from UK-based pension providers including the State Pension. The legislation assumes that all UK pensions will be included. The Pensions Dashboards Regulations 2022 were given approval by Parliament, empowering PDP to set dashboards standards that underpin legislation.	The Department for Work and Pensions (DWP) has laid the Pensions Dashboards (Amendment) Regulations 2023. A revised staging timeline will be set out in guidance, and all schemes in scope will need to connect by 31 October 2026. The staging timeline will indicate when schemes (by size and type) are scheduled to connect.	In February 2023, LBB signed a contract to June 2025 with its current pensions software provider Heywood Ltd for the purchase of a digital interface to connect to pensions dashboards and conduct any necessary data cleansing to help pensions savers match with LBB data. LBB, along with all Pensions administering authorities, now awaits the update on the new connection deadline.

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Report No.
CSD23089

London Borough of Bromley

PART ONE - PUBLIC

Decision Maker:	**LOCAL PENSION BOARD** **PENSIONS COMMITTEE** **COUNCIL**
Date:	**27 June 2023** **11 September 2023** **16 October 2023**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**LOCAL PENSION BOARD ANNUAL REPORT**
Contact Officer:	Martin Doyle – Head of Pensions Shared Service Tel No: 020 8871 6522 E-mail: martin.doyle@richmondandwandsworth.gov.uk
Chief Officer:	Director of Finance
Ward:	Borough Wide

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1. Reason for report

1.1 The Local Pension Board Terms of Reference require that an Annual Report is 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 via the Pensions Investment Sub-Committee and the General Purposes and Licensing Committee. The Pensions Committee is no longer a sub-committee of the General Purposes and Licensing Committee so the report will be presented to Pensions Committee and Council only.

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2. RECOMMENDATIONS

2.1 Members of the Local Pension Board are asked to approve

- The draft LPB Annual Report at Appendix 1
- The draft LPB Workplan for 2023-24 at Appendix 2.

2.2 Members of the Pensions Committee and Council are asked to note the contents of the report.

Impact on Vulnerable Adults and Children

1. Summary of Impact: N/A

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.

2. BBB Priority: Excellent Council

Financial

1. Cost of proposal: No Cost
2. Ongoing costs: N/A.
3. Budget head/performance centre: Any costs associated with the reimbursement to Board Members of directly incurred expenses are chargeable to the Pension Fund.
4. Source of funding: Contributions to Pension Fund

Personnel

1. Number of staff (current and additional): The Local Pension Board comprises of two Employer Representatives and two Member Representatives. The Board is supported by the Pensions Manager.
2. If from existing staff resources, number of staff hours: N/A

Legal

1. Legal Requirement: Statutory Requirement Local Government Pension Scheme Regulations 2013 (as amended).
2. Call-in: N/A: No Executive Decision.

Procurement

1. Summary of Procurement Implications: N/A

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,509 current employees; 6,019 pensioners; 6443 deferred pensioners as at 31 March 2023.

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 The London Borough of Bromley Local Pension Board was established by Council on 23rd February 2015. The Board held an introductory meeting on 27th July 2015 and its first formal annual meeting on 26th October 2015.

3.2 In accordance with the Terms of Reference the Board are required to produce a single annual report to the Pensions Manager. This report should include:

- A summary of the work of the Local Pension Board and a work plan for the coming year
- Details of areas of concern reported to or raised by the Board and recommendations made
- Details of any conflicts of interest that have arisen in respect of individual Local Pension Board members and how these have been managed
- Any areas of risk or concern the Board wish to raise with the Scheme Manager
- Details of training received and identified training needs
- Details of any expenses and costs incurred by the Local Pension Board and any anticipated expenses for the forthcoming year.

3.3 Members are asked to approve the contents of the Local Pension Board Annual Report and work plan for 2023-24.

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.

5. FINANCIAL IMPLICATIONS

5.1 Although permitted under Regulations, Local Pension Board members are not paid an allowance. As set out in the terms of reference, remuneration for Board members is limited to a refund of actual expenses incurred in attending meetings and training.

5.2 As the administering authority the Council is required to facilitate the operation of the Local Pension Board including providing suitable accommodation for Board meetings as well as administrative support, advice and guidance. This is currently done within existing in-house resources.

5.3 Any costs arising from the establishment and operation of the Local Pension Board are treated as appropriate administration costs of the scheme and, as such, are chargeable to the Pension Fund.

6. LEGAL IMPLICATIONS

6.1 The Public Service Pensions Act 2013 provides primary legislation for all public service schemes including the LGPS 2014. A requirement is the establishment of Local Pension Boards.

Non-Applicable Sections:	Procurement/Personnel Implications; Impact on Vulnerable Adults and Children
Background Documents: (Access via Contact Officer)	Public Service Pensions Act 2013; Local Government Pension Scheme (Amendment) (Governance) Regulations 2015; Local Government Pension Scheme Regulations 2013; Local Pension Board Report, Supplementary Report and Appendices to Pensions Investment Sub-Committee, General Purposes & Licensing Committee and Council 3rd, 10th and 23rd February 2015.

LONDON BOROUGH OF BROMLEY

LOCAL PENSION BOARD

ANNUAL REPORT June 2023

DRAFT

LONDON BOROUGH OF BROMLEY - LOCAL PENSION BOARD
ANNUAL REPORT
INDEX

Contents	**Page No**
Foreword	3
Background	4
Board Membership	4
Board Meetings	5
Board Activity	6
Training	6
Board Observations & Comments	6
Conflicts of Interest	7
Expenses and Costs	7

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1. Foreword

1.1 The purpose of this London Borough of Bromley Local Pension Board Annual report is to provide information regarding the activities and role of the Board for Scheme Members, Scheme Employers and the Scheme Manager (Administering Authority).

1.2 The Local Pension Board was established by the London Borough of Bromley Pension Fund in response to new regulatory requirements introduced into the Local Government Pension Scheme Regulations 2013.

1.3 The role of the Local Pension Board is to provide assistance to the London Borough of Bromley in its role as an Administering Authority within the Local Government Pension Scheme in ensuring it remains compliant with the relevant legislation and requirements of the Pensions Regulator.

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2. Background

2.1 The Local Government Pension Scheme Regulations 2013 (as amended) required that the Local Pension Board be established by 1st April 2015 to assist the Administering Authority (London Borough of Bromley) to:

- Secure compliance with the Local Government Pension Scheme (LGPS) regulations and the requirements imposed by the Pensions Regulator.
- Ensure effective and efficient governance and administration of the LGPS

2.2 The Local Pension Board is not a decision making body but is expected to support the Council's current committee structure.

2.3 The London Borough of Bromley Local Pension Board was approved at Full Council on 23rd February 2015.

3. Board Membership

3.1 The London Borough of Bromley Local Pension Board requires a total of four members. The membership is constituted as follows:

- 2 members representing the interests of the Fund's employers – Employer Representatives.
- 2 members representing the interests of the Fund's members – Member Representatives.

3.2 At the last meeting of Local Pension Board held on 7th February 2023, the board members were:

Employer Representatives:

- Brayan Bernal-Gil
- Emma Downie (chair)

Member Representatives:

- Lesley Rickards
- Vinit Shukle

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. Board Meetings

4.1 In the year from April 2022 to March 2023, formal meetings of the Board took place on 22nd June 2022, 22nd November 2022 and 7th February 2023. The table below shows the attendance of those meetings:

	Employer Representatives		Member Representatives	
	Ms E Dow nie	Mr B Bernal-Gil	Mrs L Rickards	Mr V Shukle
Formal Meeting 22-06-22	✓	✓	✓	✓
Formal Meeting 22-11-22	✓	✓	✓	✓
Formal Meeting 07-02-23	✓	✓	✓	X

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4.2 At the Local Pension Board meeting held on 22nd November 2022, Vinit Shukle was elected by the members of the Board to act as its Chair for a period of 12 months, succeeding Emma Downie, in line with the requirements of the Terms of Reference.

5. Board Activity

5.1 Members of the Board are also invited to attend meetings of the Pensions Committee.

6. Training

6.1 It is a requirement of the Public Service Pensions Act that Board members have the capacity to become conversant with the rules governing the Local Government Pension Scheme and the policy documents of the Administering Authority.

6.2 The following training has been made available to the Local Pension Board members:

- The Pensions Regulator e-learning package, covering conflicts of interest, managing risk and internal controls, maintaining accurate member data, maintaining member contributions, providing information to members and others, resolving internal disputes and reporting breaches of the law.
- A presentation on "Cyber Risk and the LGPS" was presented to the Local Pension Board Meeting on 22nd November 2022 by the Head of the Pensions Shared Service.
- A training/consultation update on recent consultations, changes and developments affecting the Pension Fund was carried out by the Head of Pensions Shared Service at the Local Pension Board Meetings on 22nd June 2022, 22nd November 2022 and 7th February 2023.

6.3 Members have also been provided with the following documentation;

- The Local Government Pension Scheme Regulations
- Administration, HR, Payroll and Member Guides to the Local Government Pension Scheme
- Guidance on the creation and operation of Local Pension Boards
- Mercer Newsletters 'Local Government Pension Scheme – Current Issues'
- Agendas and reports for the Pensions Committee meetings

7. Board Observations and Comments

7.1 The Local Pension Board terms of reference set out that the Board should raise any areas of risk or concern with the Scheme Manager in the first instance. No such matters have been raised during the reporting period.

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8. Conflicts of Interest

8.1 It is explained to each Board member that they are required to observe both the Code of Conduct for Councillors/Co-opted Members and Data Protection policies of the London Borough of Bromley. Members are also required to complete 'The Notification of Disclosable Pecuniary Interests Form', 'The Notification of Non-Pecuniary Interests Form' and a 'Declaration of Acceptance of Office Form'.

8.2 No declarations of interests were made at the formal meetings of the Board in the year.

9. Expenses and Costs

9.1 All costs regarding the administration of the Local Pension Board have been contained within existing resources.

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APPENDIX 2

London Borough of Bromley
Local Government Pension Scheme

Local Pension Board Annual Work-Plan

Task	Method	Frequency
1. Review monthly Pensions Administration Reports and Key Performance Indicators (KPI's). These are produced by our third party administrator and will be circulated on a monthly basis to all Board Members.	By consideration of the Pensions Administration Reports sent by email to Board members.	Monthly
2. Review the compliance of scheme employers (i.e. LBB, Schools, Academies & Admission Bodies) with their duties under the Regulations and relevant legislation.	By consideration of Pensions Administration Reports sent by email to Board members, together with attendance at General Purposes and Licensing Committee meetings where appropriate.	As and when required.
3. Assist in the development and review of scheme documentation as is required by the Regulations.	By consideration of draft documentation as and when it is produced or reviewed, together with attendance at and/or participation in Pensions Investment Sub-Committee meetings and General Purposes and Licensing Committees where appropriate.	As and when required.
4. Consider Fund Investment reports to ensure compliance with the published Statement of Investment Principles and relevant legislation.	By consideration of the Fund Investment reports sent to Board members, together with attendance at and/or participation in Pensions Committee meetings.	In line with meetings of the Pension Committee.
5. Assist with the development and review of scheme member communications, as required by the Regulations and relevant legislation.	By consideration of draft documentation produced by the Head of the Pensions Shared Service and/or Liberata UK Ltd, as and when produced or reviewed, at which time Board members will be invited to provide comments and recommend amendments.	As and when required.

Task	Method	Frequency
6. Review the outcome of both internal and external audit reports for any issues of non-compliance.	By consideration of internal and external Audit reports together with the Annual Audit Letter.	Annually
7. Review of the Pension Fund Annual Accounts and Statutory Accounts.	Consideration of documents issued directly to Board members.	Annually
8. Monitor complaints relating to the Administration and Governance of the Scheme.	By consideration of the Pensions Administration Reports sent by email to Board members. Together with individual cases brought to the attention of the Board.	Monthly
9. Review the training requirements of Board members.	Self-assessment against the standards expected of Board members.	Ongoing
10. Any other activities within the stated purpose (i.e. assisting the Administering Authority) to secure compliance with the Regulations and other associated legislation.	By whatever means is appropriate to the task	As and when required.

Report No.
CSD23097

London Borough of Bromley

PART ONE - PUBLIC

Decision Maker:	**PENSIONS COMMITTEE**
Date:	**Monday 11 September 2023**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**LOCAL PENSION BOARD - APPOINTMENT OF BOARD MEMBERS**
Contact Officer:	Kerry Nicholls, Democratic Services Officer Tel: 0208 461 7840 E-mail: kerry.nicholls@bromley.gov.uk
Chief Officer:	Director of Corporate Services and Governance
Ward:	All Wards

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1. Reason for decision/report and options

1.1 This report seeks approval from the Pensions Committee to appoint two Scheme Member Representatives to the Local Pension Board as Board Members.

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2. RECOMMENDATION(S)

2.1 That Lesley Rickards and Gill Slater be formally appointed as Scheme Member Representatives to the Local Pension Board for four-year terms of office commencing 11 September 2023.

Impact on Vulnerable Adults and Children

1. Summary of Impact: Not Applicable.

Transformation Policy

1. Policy Status: Existing Policy
2. Making Bromley Even Better Priority:
   (5) To manage our resources well, providing value for money, and efficient and effective services for Bromley's residents.

Financial

1. Cost of proposal: No Cost
2. Ongoing costs: Non-Recurring Cost
3. Budget head/performance centre: Pension Fund
4. Total current budget for this head: TBC
5. Source of funding: Contributions to the Pension Fund

Personnel

1. Number of staff *(current and additional)*: The Local Pension Board comprises two Employer Representatives and two Scheme Member Representatives. The Board is supported by the Head of Pensions Shared Service.
2. If from existing staff resources, number of staff hours: Not Applicable

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Legal

1. Legal Requirement: Statutory Requirement: Local Government Pension Scheme Regulations 2013 (as amended)
2. Call-in: Not Applicable: No Executive decision.

Procurement

1. Summary of Procurement Implications: Not Applicable

Property

1. Summary of Property Implications: Not Applicable

Carbon Reduction and Social Value

1. Summary of Carbon Reduction/Sustainability Implications: Not Applicable

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Impact on the Local Economy

1. Summary of Local Economy Implications: Not Applicable

Impact on Health and Wellbeing

1. Summary of Health and Wellbeing Implications: Not Applicable

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Customer Impact

1. Estimated number of users or customers *(current and projected)*: 6,509 current employees; 6,019 pensioners; 6443 deferred pensioners as at 31 March 2023.

Ward Councillor Views

1. Have Ward Councillors been asked for comments? Not Applicable
2. Summary of Ward Councillors comments: Not Applicable

3. COMMENTARY

3.1 Under the Public Service Pension Act 2013, all public sector pension schemes are required to establish a Local Pension Board (LPB) to assist in the governance of the pension scheme and to provide challenge and accountability to the administration and management of public sector pension schemes.

3.2 The establishment of the Local Pension Board and its Terms of Reference for the London Borough of Bromley were formerly approved by Full Council on 23 February 2015.

3.3 In accordance with Regulation 107 of the Local Government Pension Scheme (LGPS) Regulations 2013, the Board must consist of an equal number of Employer and Scheme Member Representatives with a minimum number of four Board members in total.

3.4 The current Terms of Reference for the Local Pension Board states that the Board shall consist of four Board members comprising two Scheme Member Representatives to be appointed by the Pensions Committee (this responsibility was held by the General Purposes and Licensing Committee prior to May 2021). and two Employer Representatives to be appointed by Full Council. Board members will ordinarily serve a term of four-years, except where they are appointed to replace an outgoing Board member mid-term, in which case they will complete the balance of the existing four-year term. Board members may express the wish to be reselected at the end of their term.

3.5 There are currently two vacancies for Scheme Member Representatives. Expressions of interest were sought from the Departmental Representatives of the London Borough of Bromley and from the relevant Trade Unions (GMB, Unite and Unison) with further nominations sought via an advert placed on the Local Authority's website and by way of a written appeal to all scheduled and admitted bodies.

3.6 An expression of interest was received from existing Scheme Member Representative, Lesley Rickards who was formally appointed a Scheme Member Representative of the Local Pension Board by the General Purposes and Licensing Committee at its meeting on 16 May 2019 for a four-year term ending 30 June 2023. She has attended all but one meeting of the Local Pension Board convened during her four-year term of appointment and has made a valuable contribution to the work of the Board.

3.7 Gill Slater has expressed interest in being appointed as a new Scheme Member Representative. Further information regarding this nominee can be viewed at Appendix A.

3.8 There is currently one vacancy for an Employer Representative for which nominations are being sought.

4. TRANSFORMATION/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.

5. FINANCIAL IMPLICATIONS

5.1 Although permitted under Regulations, Local Pension Board members are not paid an allowance. As set out in the terms of reference, remuneration for Board members will be limited to a refund of actual expenses incurred in attending meetings and training.

5.2 As the administering authority the Local Authority is required to facilitate the operation of the Local Pension Board including providing suitable accommodation for Board meetings as well as

administrative support, advice and guidance. This is currently done within existing in-house resources.

5.1 Any costs arising from the establishment and operation of the Local Pension Board are treated as appropriate administration costs of the scheme and, as such, are chargeable to the Pension Fund.

6. PERSONNEL IMPLICATIONS

6.1 All Local Government Pension Scheme employers and members must have an equal opportunity to be nominated to become Board members through an open and transparent process.

7. LEGAL IMPLICATIONS

7.1 The Public Service Pensions Act 2013 provides primary legislation for all public service schemes including the LGPS 2014.

7.2 The LGPS (Amendment) (Governance) Regulations 2015 were laid before Parliament on 28th January 2015 and came into force on 1st April 2015.

Non-Applicable Headings:	Impact of Vulnerable Adults and Children; Procurement/ Property/Carbon Reduction and Social Value Implications; Impact on the Local Economy/Health and Wellbeing; Customer Impact; Ward Councillor Views.
Background Documents: (Access via Contact Officer)	Local Pension Board – Appointment of Board Members (GP&L Committee 6 May 2019 / Council 22 May 2019) Public Service Pension Act 2013 LGPS Regulations 2013 LGPS (Amendment)(Governance) Regulations 2015

APPENDIX A

<u>Supporting Statement – Gill Slater</u>

I am interested in a position as a Scheme Member employee representative of the London Borough of Bromley Local Pension Board.

Whilst I was unable to attend the Pensions Training Session held in December 2022 and do not currently have a detailed knowledge of pensions and the Local Government Pension Scheme, I have previously asked questions about the pension scheme, both as a member of the scheme and separately as a Trade Union Representative and as Vice-Chair of the Local Joint Consultative Committee.

I have worked for Bromley since 1988 and, whilst at 56 I am still some way off retirement, I have a strong interest in the pension scheme. I appreciate that training will be required in addition to attending the three meetings a year and have sought the agreement of my line manager, who has confirmed that is acceptable should I be appointed.

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

Agenda Item 15

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