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DATE: 13 February 2024

To: Members of the
PENSIONS COMMITTEE

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

A meeting of the Pensions Committee will be held at Bromley Civic Centre, Stockwell Close, Bromley, BR1 3UH on **WEDNESDAY 21 FEBRUARY 2024 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 Wednesday 7 February 2024**.

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 Thursday 15 February 2024**.

4 **CONFIRMATION OF MINUTES OF THE MEETING HELD ON 14 DECEMBER 2023, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION** (Pages 3 - 12)

5 **MATTERS OUTSTANDING FROM PREVIOUS MEETINGS**

6 **PRESENTATION FROM SCHRODERS**

7 **PRESENTATION FROM LONDON COLLECTIVE INVESTMENT VEHICLE ON RESPONSIBLE INVESTMENT** (Pages 13 - 24)

8 **PENSION FUND PERFORMANCE Q3 2023/24** (Pages 25 - 40)

9 **UPDATES FROM THE CHAIRMAN/DIRECTOR OF FINANCE/PENSIONS INVESTMENT ADVISOR**

10 **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
11	**CONFIRMATION OF EXEMPT MINUTES - 14 DECEMBER 2023** (Pages 41 - 42)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
12	**PRESENTATION FROM LONDON COLLECTIVE INVESTMENT VEHICLE ON RESPONSIBLE INVESTMENT (PART 2) EXEMPT)** (Pages 43 - 54)	Information relating to the financial or business affairs of any particular person (including the authority holding that information)
13	**UPDATES FROM THE CHAIRMAN/DIRECTOR OF FINANCE/PENSIONS INVESTMENT ADVISOR (PART 2)**	Information relating to the financial or business affairs of any particular person (including the authority holding that information)

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PENSIONS COMMITTEE

Minutes of the meeting held at 7.00 pm on 14 December 2023

Present:

Councillor Keith Onslow (Chairman)
Councillor Kira Gabbert (Vice-Chairman)
Councillors Josh Coldspring-White, Robert Evans, Julie Ireland, David Jefferys, Christopher Marlow and Chris Price

Also Present:

John Arthur, Apex Group Ltd

27 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies for absence were received from Councillors Simon Fawthrop, Simon Jeal and Sam Webber and Councillors Robert Evans, Chris Price and Julie Ireland attended as their respective substitutes. Apologies for absence were also received from Councillor Ruth McGregor.

The Chairman led Members in welcoming Councillor Josh Coldspring-White who had been appointed to the Committee.

28 DECLARATIONS OF INTEREST

There were no additional declarations of interest.

29 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

One question for oral reply and three questions for written reply were received at the meeting. A copy of those questions, together with the Chairman's response can be viewed at Appendix A to these Minutes.

30 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 11 SEPTEMBER 2023, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

RESOLVED: That the minutes of the meeting held on 11 September 2023 be approved.

31 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

RESOLVED: That matters outstanding be noted.

32 PRESENTATION FROM MFS

The Committee received a presentation from MFS representatives, Paul Fairbrother, ASIP, Equity Institutional Portfolio Manager and Elaine Alston, Managing Director – Institutional Relationship Management providing an investment update on the London Borough of Bromley Fund.

In considering the presentation, the Chairman was pleased to note that key characteristics of MFS's investment strategy included being defensive and generating cashflow which was a satisfactory approach for the Bromley Pension Scheme that helped to minimise risk. The Chairman queried whether a recession was likely in the short- to medium-term and the Portfolio Manager advised what whilst MFS did not try to predict such turning points, the consensus view of much of the industry was that there would be a recession but that it would be shallower than previously anticipated. It was likely that interest rates would reduce during the course of the year, and this would help stimulate growth. In response to a follow-up question from a Member, the Portfolio Manager agreed that some companies could be said to be displaying exuberance as a result of recent growth and that this was at variance to MFS's value-style approach to investment that was primarily based on business durability and valuation.

A Member asked about the time spent considering effective tax rates and the Portfolio Manager explained that MFS tried to normalise tax rates. Any advantage secured by companies based in low tax regimes would likely be finite in the challenging economic climate where a medium- to long--term trend towards higher interest rates and higher taxes was anticipated. In response to another Member's question on MFS's approach to exchange rates and currencies, the Portfolio Manager confirmed that MFS generally chose not to hedge currencies with a significant proportion of its Portfolio holdings listed in the UK even where revenue was earned elsewhere. Another Member asked how performance would look without the Mega 7 stocks that had driven growth in the United States and the Portfolio Manager advised that just over half of the gap between MFS's performance and that of the Index was caused by the Mega-Cap effect both in terms of the relative growth and the value of stock. The Member went on to ask about the investment in Taiwan Semiconductor Manufacturing Company Limited and queried if there were any concerns over geopolitical risk. The Portfolio Manager clarified that this investment only formed a small proportion of the overall fund, and that risk was mitigated in part by the company's investment in other parts of the world, including the United States and Germany. MFS did not invest in many emerging markets and where it did, it tended to invest in diversified global businesses that were western-listed companies.

The Senior Advisor: Apex Group Ltd noted that an interesting question on climate change and disinvestment had been put to the Committee earlier in the meeting and asked for the Portfolio Manager's view on this. The Portfolio Manager was pleased to announce that MFS was committed to be 100% Net Zero by 2050 and 90% by 2030, with 80% of its Portfolio already having evidence of a Net Zero Plan. MFS was actively engaging with the remaining

12% to support it towards putting a Net Zero Plan in place and would continue to engage and seek positive change in companies in which it was invested, which would not be possible if it chose to divest such stocks.

The Chairman thanked the representatives of MFS for their excellent presentation.

RESOLVED: That the presentation from MFS be noted.

33 PENSION FUND PERFORMANCE Q2 2023/24 Report FSD23081

The report provided a summary of the investment performance of Bromley's Pension fund in Quarter 2 of the 2023/24 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.

The Committee received an update from the Senior Advisor: Apex Group Ltd who suggested three possible outcomes to the current economic situation. This comprised a slowing of United States economy as interest rate rises took effect; that economic growth in the United States would continue and prompt further raising of interest rates; or that something would break creating a highly destabilising investment environment. The Chairman queried what action the Committee could take to protect against any such destabilisation and the Senior Advisor: Apex Group Ltd observed that the recent transfer of 5% or £65M from the Baillie Gifford Global Equity Portfolio into a Short-Dated UK Corporate Bond fund to rebalance the Bromley Fund's tactical asset allocation nearer to the Strategic Asset Allocation Benchmark had helped mitigate the potential risk. The contrasting investment strategies of MFS and Baillie Gifford also provided a key balancing factor in what was an increasingly volatile economic environment. A Member expressed concern at potential overlap between the MFS and Baillie Gifford Portfolios and the Senior Advisor: Apex Group Ltd agreed to undertake an analytical exercise to identify the level of overlap between the two Portfolios as well as relative performance against the benchmark to be reported to a future meeting of the Pensions Committee. The Member also requested that further details on the investment in Taiwan Semiconductor Manufacturing Company Limited be included in the next quarterly report with the geopolitical risk flagged on the risk register.

A Member was concerned about Baillie Gifford's recent performance and voiced their increasing scepticism about Baillie Gifford's approach to investing what was the Bromley Pension Scheme's biggest fund. The Senior Advisor: Apex Group Ltd emphasised Baillie Gifford's strong investment philosophy and process, including in the area of Environmental, Social and Governance. Close scrutiny would be placed on Baillie Gifford's performance moving forward by both the Local Authority and the London Collective Investment Vehicle in which this investment was held. Baillie Gifford could also be invited to attend meetings of the Pension Committee whenever it was felt that additional scrutiny was needed. The Senior Advisor: Apex Group Ltd further suggested that moving forward, the Committee consider producing documentation that set out its ongoing commitment to Environmental, Social and Governance and the Chairman confirmed that the Committee would take this forward over the coming year.

The Committee went on to discuss the purpose of the investment strategy of the Bromley Pension Fund which was to secure sufficient cashflow to cover outgoing pension payments without the sale of investments and, as a fully funded Pension Scheme, alleviate any pressure on Council Tax payers by not requiring any top-up from the Local Authority's General Fund. The Chairman added that it was important to remember that the Bromley Pension Fund belonged to Scheme members, many of whom were paid modest salaries, and that the Local Authority was merely the trustee of this fund. A Member flagged that there had been an increase in staff choosing to opt-out of the Bromley Pension scheme which likely reflected the challenging economic climate. The Committee discussed the benefits of joining the Bromley Pension scheme which was a Defined Benefit Pension Scheme with a generous employer contribution, and the Member agreed to approach the Director of Human Resources about arranging a pensions seminar to encourage higher take-up. Further details about the salary bands with the highest proportion of opted-out employees would be circulated to the Committee following the meeting.

RESOLVED: That:

- **The contents of the report and appendices be noted including:**
  - **Appendix 5 which provided quarterly performance monitoring;**
  - **Appendix 6 which set out the key developments in the Local Government Pension Fund expected during the next five years; and,**
  - **Appendix 7 which set out the Climate Change Scenario report prepared by the Actuary in March 2023 as part of the triennial valuation.**
- **The existing contract with WTax UK Ltd to provide specialist tax advice be extended for a further two years from 1 April 2024 to 31 March 2026.**

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

The Chairman and the Director of Finance provided a Part 1 (Public) update to the Committee on recent developments relating to pensions.

The Chairman advised that work was ongoing with Fidelity to address concerns around the performance of its Multi-Asset Income Funds. This would be closely monitored and Fidelity had also agreed to waive its fund management fee for the 2023/24 financial year. The Local Authority continued to strengthen its relationship with the London Collective Investment Vehicle (LCIV), including the Chairman serving on the Cost Transparency Working Group, and the LCIV had recently agreed a 10% reduction in the Development Funding Charge that would realise a saving for the Local Authority. Going forward, the Chairman had proposed that representation by London Councils on the LCIV Board be reviewed as it did not fit the current governance model and was also advocating for the formal Shareholder Committees to be abolished and replaced by a more informal arrangement to encourage greater participation and an active exchange of ideas by all London Boroughs.

The Director of Finance announced that the annual Pension seminar would take place at 7.00pm on 6 March 2024 and all Members were encouraged to attend.

RESOLVED: That discussions under the Part 1 (Public) update be noted.

35 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

36 PENSION FUND PERFORMANCE Q2 2023/24 - APPENDIX 8

The Committee considered Part 2 (Exempt) information for Item 7: Pension Fund Performance Q2 2023/24.

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

No Part 2 (Exempt) update was given.

The Meeting ended at 8.47 pm

Chairman

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PENSIONS COMMITTEE
14 DECEMBER 2023

SPECIFIC QUESTIONS FOR ORAL REPLY

1. From Gill Slater, Local Pension Board Member to the Pensions Committee

Regarding Item 7: Pension Fund Performance Q2 2023/24:

The Mercer Report (Appendix 7) merits thorough Committee debate. A tipping point for climate scenarios highlights subsequent research stating that climate scenarios used significantly underestimate climate risk, ignoring ‘tipping points’, financial stability and insurance “breakdown”. Will the Committee, as Mercer suggests, engage further to understand climate risks, transitional and physical, of pension scheme funding?

Reply: The Mercer's report is part of the Pension Committee's ongoing research into the impact of climate change on the LB Bromley Pension Fund assets. It will be reviewed at the December Pension Committee meeting. The Pension Committee do believe that climate change is likely to impact financial returns into the future and will, therefore, continue to discuss this issue with the Fund's investment managers, their Independent Investment Advisor and external consultants going forward.

Supplementary Question: At COP28, the Government explicitly recognized the loss and damage caused by fossil fuels and concluded a deal signalling the beginning of the end for fossil fuels. This Committee has the luxury and responsibility to play its part in the global transition away from fossil fuels. The ability to make a significant difference rests in the hands of a relatively select few, including you as Members of this Committee. I ask that in drafting your Responsible investment Statement for the Taskforce of Climate Related Financial Disclosure Reporting, you seize the opportunity to respond to this essential and historic shift from fossil fuels and commit to divest.

Reply: It is interesting that you raised COP28 as only this morning I got a report back on what was actually agreed there. Sometimes when these statements are issued at the end of the COP meetings, they aren't saying much and this is the case with COP28. The report looks like a meaningless fudge with a ‘get out’ clause that will allow China, India and the rest of the 24-strong like-minded developing countries who vetoed the phrase out of COP26 to carry on using as much fossil fuels as they like. If the intention was to phase out fossil fuels, I think COP28 hasn't been robust enough. Regarding Taskforce of Climate Related Financial Disclosure Reporting, the Committee's Independent Investment Advisor has been doing work on this and will continue to do more with the London Collective Investment Vehicle. There are two reasons for this. Firstly, the LCIV is better resourced to deal with this on behalf of London as a whole and secondly, they are not charging for this service. Climate Related Financial Disclosure Reporting is not a statutory requirement at present but it is coming and as Chairman, I think it is important that we get ahead of the game and start producing this report before it is needed which will allow us time to ensure we address any issues. The Head of Responsible Investment at the LCIV will be attending the Pensions Committee in February to explain what they do, not just for environment but the whole of the wider Environmental Social Governance agenda.

PENSIONS COMMITTEE
14 DECEMBER 2023

SPECIFIC QUESTIONS FOR WRITTEN REPLY

1. From Stephen Wells, Bromley resident

Regarding Item 7: Pension Fund Performance Q2 2023/24:

The attached quarterly report (Appendix 5) by Apex has a section on ESG, which looks at the narrower definitions of scope 1&2 emissions. Regularly monitoring such emissions is useful, but are there plans to reduce these over time, or have a qualitative assessment of their level and drivers?

<u>Reply:</u> *Reporting on the emission of greenhouse gasses (as defined in the Kyoto agreement) by companies is still at an early stage and the data is incomplete and can be misleading, especially, as you note, as we are unable to include scope 3 emissions at the current time with any sense of conviction in the underlying data. The Pensions Committee are working with their managers and Independent Investment Adviser to improve the quality of this data and will look to include scope 3 emissions at the earliest opportunity. In the meantime, we believe it is important to start reporting what data we have and to monitor this data going forward. Our expectation is for the level of carbon emissions made by the Fund's investments to fall over time, but we are currently wary of putting in place numeric targets for this where there are obvious data issues.*

2. From Emilie Macmullen, Bromley resident

Regarding Item 7: Pension Fund Performance Q2 2023/24:

The quarterly report doesn't document any underlying investment managers' engagements with the companies that they invest in. How are the committee monitoring such engagements with companies on ESG issues and tracking their effectiveness and does the committee engage with underlying investment managers to understand their commitment to net zero?

[NB Explanation of terminology: 'Underlying Managers' / ' Underlying Investment Managers' - Bromley doesn't directly buy companies to create a portfolio, instead, they appoint investment managers to do that with their assets. For example, it looks like Bromley either directly or indirectly (through a London Borough Common Investment Fund 'CIV') utilize the services of Ballie Gifford, MFS, Fidelity etc.]

<u>Reply:</u> *The Pension Committee receives quarterly reports from each of its underlying investment managers which detail the performance of the individual portfolio; any changes made to the holdings; the economic and market outlook and what engagement they have had with individual portfolio companies as well as their voting record. In addition to this the Committee chair, your pension officer and the Fund's Independent Investment Advisor met with each investment manager to specifically discuss their approach to climate change and how they were engaging with the companies held in each portfolio during the last 18 months and will repeat this cycle of meeting going forward.*

2. From Parisa Wright, Bromley resident

Regarding Item 7: Pension Fund Performance Q2 2023/24:

Given the substantive risks to the potential valuation and funding of the Pension Scheme brought about by climate change highlighted in Mercer's report (Appendix 7), what measures are the committee implementing to help mitigate such risks and is the Pension Scheme aligned to the council's target of net zero by 2029?

<u>Reply:</u> *The Mercers report uses the Fund's current asset allocation but does not take into account the actions taken by the Fund and its underlying managers to include climate change in their analysis of investment risks and opportunities.*

At the Fund level, your Pension Committee has purposely selected investment managers who believe in investing for the long term. They analyse the business opportunity and risk for their investments over a multi-year future and because of this, the impact of climate change becomes a key part of their analysis. The Pension Committee look to work with these managers over the long-term and because of this can build a good understanding of each manager's investment philosophy and process and can challenge each manager as appropriate including on their assumptions on climate risk.

At the individual manager level, whilst we do not force our managers to only invest in companies which claim to be Paris Aligned, we do expect our managers to build a portfolio which is aware of the risks and opportunities presented by climate change. Whilst data on carbon emissions is still of a poor quality we do believe, where we can match the individual investment managers mandate to an index, that in each case the manager has built a portfolio which emits a lower level of carbon (and associated greenhouse gases) than its benchmark index and that this level of carbon emissions will fall over the long-term.

The Committee are conscious of the desire to align with the LBB goal, but investments have different difficulties in providing robust data, and we are pressing all our contacts for more work on this. At this time, we would not wish to give an assurance of alignment with 2029 but will continue to work towards that aim.

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London Borough of Bromley Pension Fund

Pension Committee meeting
21 February 2024

London CIV | Delivering sustainable prosperity for our communities

2024132

1. **Overview**

   London CIV's approach to Responsible Investment & Engagement

2. **The Task Force on Climate-Related Financial Disclosures (TCFD)**

   Core elements
   Metrics & Targets

3. **London CIV Quarterly Investment Report**

4. **Appendix**

Working together to deliver sustainable prosperity for the communities that count on us all

www.londonciv.org.uk

London CIV

London CIV | Working together to deliver sustainable prosperity for the communities that count on us all

Dean Bowden

Chief Executive Officer

Jacqueline Jackson

Chief Sustainability Officer

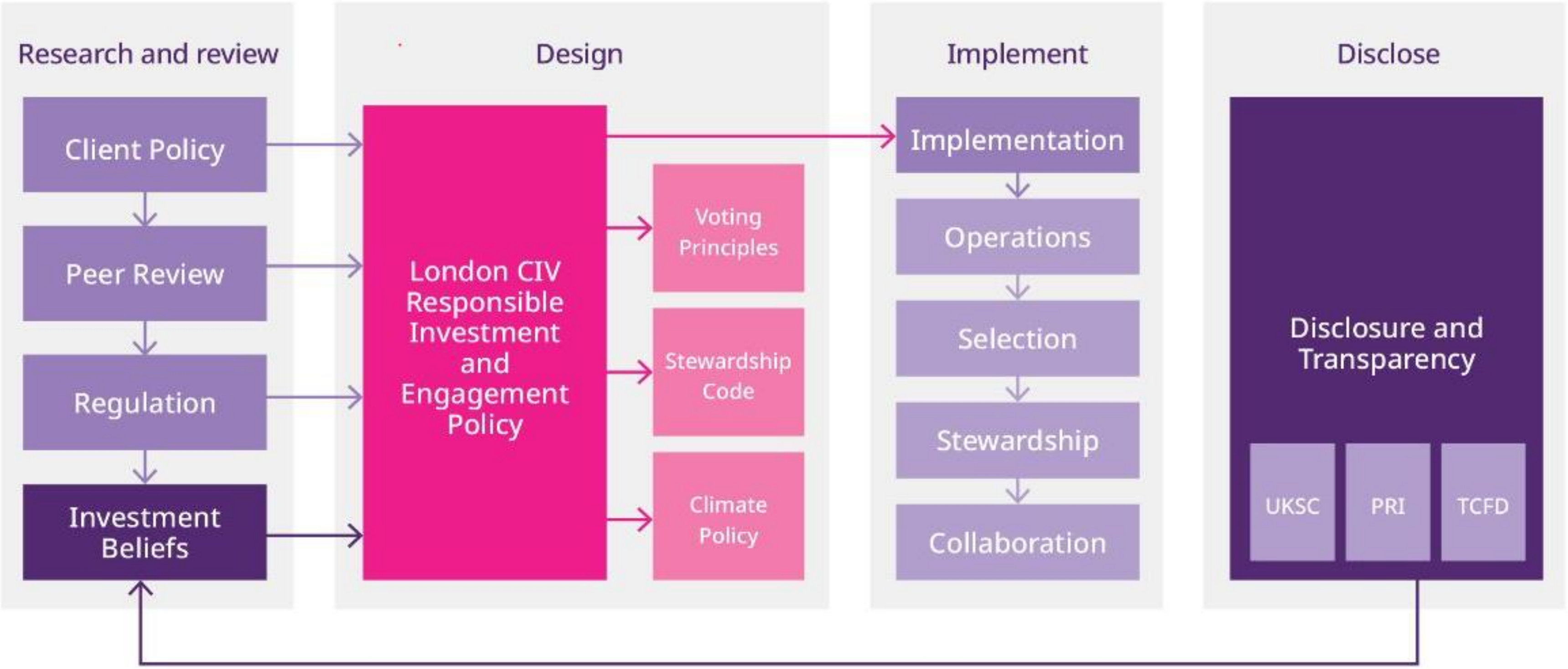
Stephanie Aymes

Client Relations Manager

Three key steps to our Responsible Investment & Engagement approach

Source: London CIV

Our Responsible Investment & Engagement Programme



Source: London CIV

London CIV | Delivering sustainable prosperity for our communities

Core Elements of Recommended Climate-Related Financial Disclosures

Governance
The organization’s governance around climate-related risks and opportunities

Strategy
The actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning

Risk Management
The processes used by the organization to identify, assess, and manage climate related risks

Metrics and Targets
The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Source: London CIV

Appendix

London CIV | Delivering sustainable prosperity for our communities

Download here

Fund	Coverage (%AUM)	Direct + First Tier GHG WACI (tCO2e/mGBP revenues)	Scope 1-2-3 GHG WACI (tCO2e/mGBP revenues)	Revenue-weighted Fossil Fuel Exposure (%)	Implied Temperature (°C)14	SBTI Verified Near-term targets	SBTI Verified Long-term targets	SBTI Net-Zero Commitment
LCIV Global Alpha Growth Fund	98%	300 tCO2e/mGBP	1335 tCO2e/mGBP	0.4%	**<3°C**	24.11%	4.88%	22.54%

Source: London CIV TCFD Report 2023

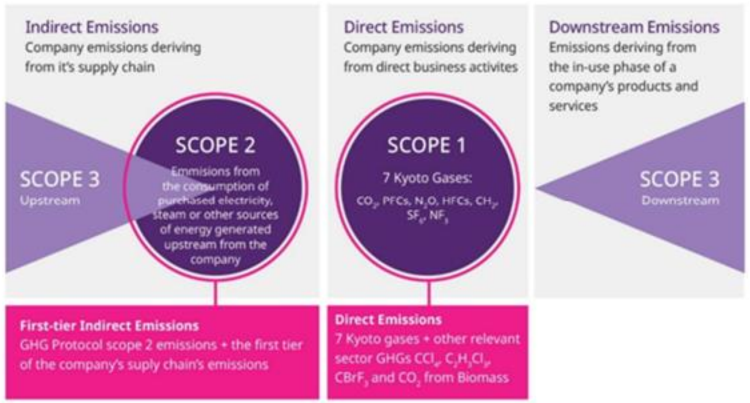
Glossary of Terms

Responsible Investment/ESG

- **Carbon Intensity:** Carbon emissions should be 'normalized' by a financial indicator (either annual revenues or value invested) to provide a measure of carbon intensity. The three most common approaches to normalization are:
  - Carbon to Revenue (C/R): Dividing the apportioned CO2e by the apportioned annual revenues
  - Carbon to Value Invested (C/V): Dividing the apportioned CO2e by the value invested.
  - Weighted Average Carbon Intensity (WACI): Summing the product of each holding's weight in the portfolio with the company level C/R intensity (no apportioning).

  C/R gives an indication of carbon efficiency with respect to output (as revenues are closely linked to productivity). C/V gives an indication of efficiency with respect to shareholder value creation. The WACI approach circumvents the need for apportioning ownership of carbon or revenues to individual holdings. Whilst the first two methods act as indicators of an investor's contribution to climate change, the weighted average method seeks only to show an investor's exposure to carbon intensive companies, i.e. is not an additive in terms of carbon budgets.

- **ClimateAction100+** is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. These include 100 'systemically important emitters', alongside more than 60 others with significant opportunity to drive the clean energy transition. For more information see http://www.climateaction100.org.
- **Emissions Scopes:**



  - Direct (Scope 1) = CO2e emissions based on the Kyoto Protocol greenhouse gases generated by direct company operations.
  - Direct (Other) = Additional direct emissions, including those from CCl4, C2H3Cl3, CBrF3, and CO2 from Biomass.
  - Purchased Electricity (Scope 2) = CO2e emissions generated by purchased electricity, heat or steam.
  - Non-Electricity First Tier Supply Chain (Scope 3) = CO2e emissions generated by companies providing goods and services in the first tier of the supply chain.
  - Other Supply Chain (Scope 3) = CO2e emissions generated by companies providing goods and services in the second to final tier of the supply chain.
  - Downstream (Scope 3) = CO2e emissions generated by the distribution, processing and use of the goods and services provided by a company

Source: London CIV

Glossary of Terms

- **ESG** This stands for Environmental, Social and Governance and refers to the three main areas of concern that have developed as central factors in measuring the sustainability and ethical impact of an investment in a company or business.
- **Fossil Fuel Exposure:** London CIV assesses Fossil Fuel exposure by calculating the combined value of holdings with business activities in either fossil fuel extraction or fossil fuel energy generation industries. Company level exposure represents the combined weight in the portfolio or benchmark of companies deriving any revenues from fossil fuel related activities, while the Extractives Revenue and Energy revenue segments indicate the weighted average exposure to the revenues themselves.
- ***Net* Zero** is often referred to as a state in which any human-produced carbon dioxide or other planet-warming gases are balanced by removal from the atmosphere.
- ***NZAMI*** stands for Net Zero Asset Manager Initiative. This is a global group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius, and to supporting investing aligned with net zero emissions by 2050 or sooner.
- **Relative Efficiency:** The percentage difference between the carbon intensity of the benchmark and the fund.
- **UK Stewardship Code** A code which aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. Details of all signatories, with links to the statements on their websites are available on the Financial Reporting Council website https://www.frc.org.uk/investors/uk-stewardship-code.
- **Alpha** The incremental return of an investment manager when the market is stationary. In other words, it is the extra return due to non-market factors. A positive alpha indicates that an investment manager has produced higher returns than expected for a given level of risk.
- **Benchmark** An index which is representative of the performance of a Sub-fund based on the nature of risks taken and instruments used within the Sub-fund.
- **Beta** A measure of the sensitivity of the investment portfolio to the stated benchmark. A Beta of 1.0 implies a high degree of correlation of movement in returns between the portfolio and the benchmark. A Beta above or below 1.0 implies that the portfolio is more or less volatile than the benchmark.
- **Comparator Benchmarks** Indices which represent a style-appropriate reference index to compare performance. These have been selected following back-testing to ensure that they are appropriate to the Sub-fund.
- **Correlation** A statistical term which defines the percent of time two variables, such as portfolios or benchmark indices, move in the same direction. Correlation coefficients range from -1 to +1, with +1 indicating that the variables are perfectly positively correlated and are expected to move by the same amount in the same direction.
- **Current Yield** The annual income expected from a bond, or portfolio of bonds, divided by the market price of the underlying securities. This measure will fluctuate as the market value of bonds changes. However, the income received, which is based on par values, is constant.
- **Duration/Interest rate duration** A measure of the sensitivity of the price of a bond, or a portfolio of bonds, to changes in interest rates. An accurate predictor of price changes only for small, parallel shifts of the yield curve. For every 1 basis point fall/ (rise) in interest rates, a portfolio with duration of 1 year is expected to rise /(fall) in price by 1 basis point.

Source: London CIV

DISCLAIMER

Important information

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Report No.
FSD24018

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**PENSIONS COMMITTEE**
Date:	**21 February 2024**
Decision Type:	Non-Urgent Non-Executive Non-Key
Title:	**PENSION FUND PERFORMANCE Q3 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 4338 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 3rd 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 note;

a) Appendix 5, quarterly performance reporting (To Follow);

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

c) Appendix 7, the Task Force on Climate Related Disclosures (TCFD) presentation prepared for Bromley, by the London Collective Investment Vehicle (Part 1 and Part 2 - Exempt)

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
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 December quarter at £1,268.0m, up £65.1m as at 30th September. The comparable value as at 31st December 2022 was £1,244.8m. 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.

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 (Q3) is available from London CIV and has been included in the agenda pack.

3.2.7 In September 2023, the Committee agreed to sell a further £65m of Baillie Gifford and transfer to a new Fidelity Short Term Bond Fund. This occurred at the end of October 2023.

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 31st December 2023 is provided by the fund's external adviser, Apex in Appendix 5 (To Follow). The total fund return for the third quarter was 5.47% against the benchmark of 5.13%. 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 third quarter, and there has been a slight overperformance 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 £0.55m.

3.5.2 The December Year End Accounting exercise for Schools and Academy Employers is completed.

3.5.3 The I-Connect (employer) portal is being implemented by Aquilla Heywood.

3.6 **Fund Manager attendance at meetings**

3.6.1 Meeting dates have been set to March 2025. 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 23 May 2024 – Baillie Gifford (TBC)
Meeting 23 July 2024 – Morgan Stanley (TBC)
Meeting 14 Nov 2024 – Fidelity (TBC)
Meeting 27 Mar 2025 – MFS (TBC)

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 202 in the year. In the third quarter of 2023/24 total membership numbers increased by 61.

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 Fidelity, London CIV, MFS, Morgan Stanley and Schroders.

APPENDIX 1

MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002

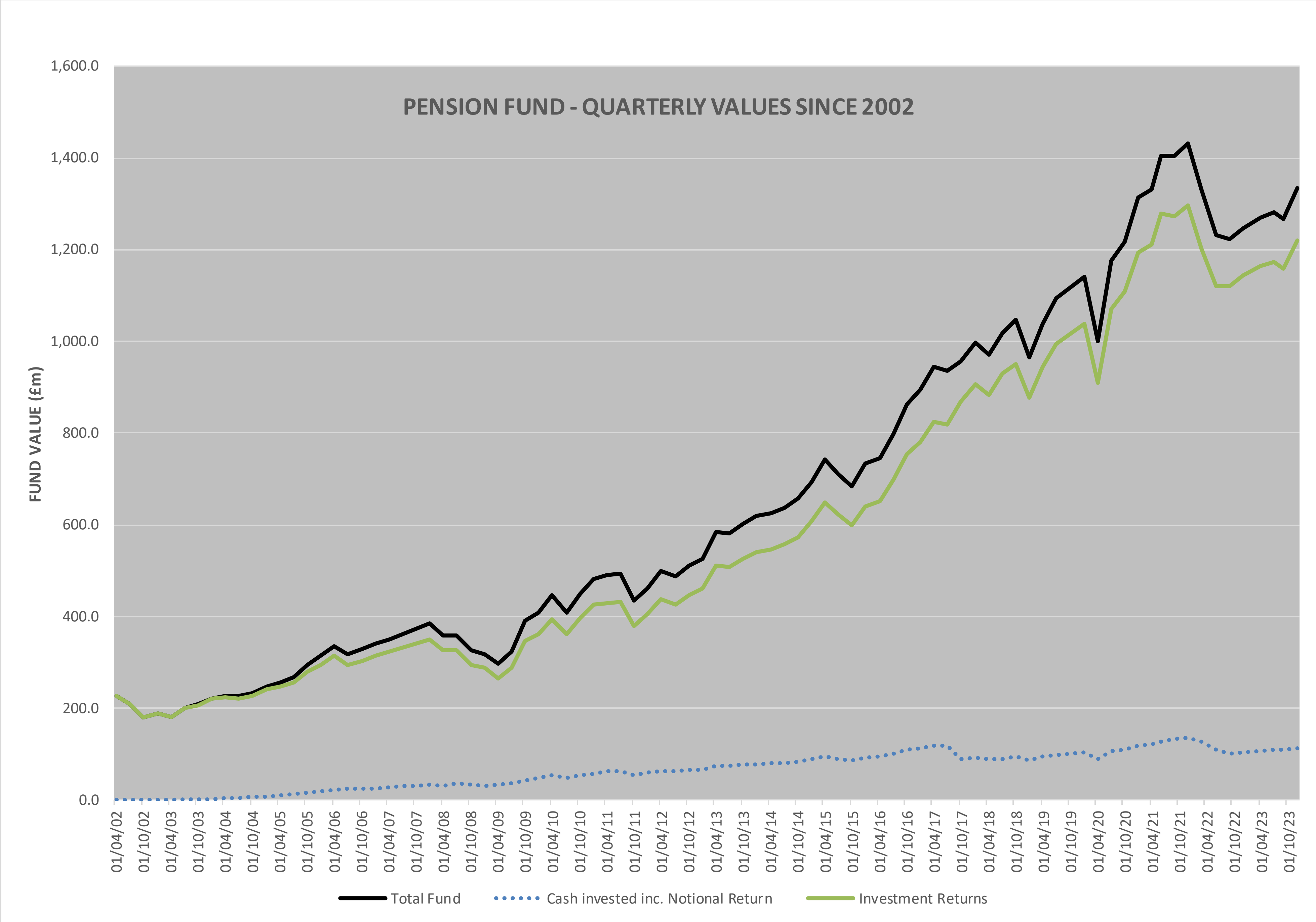
	Baillie Gifford					Fidelity							Blackrock	MFS		Schroders	CAAM	
Date	Balanced Mandate	DGF	Fixed Income	Global Equities	Total	Balanced Mandate	Fixed Income	MAI	Property	Sterling Bond	USD ILF	Total	Global Equities	Global Equities	DGF	MAI	LDI Investment	**GRAND TOTAL**
31/03/2002	113.3				113.3	112.9						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	SD CB	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		352.1	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
30/09/2023	435.6	435.6	74.1	118.8	63.1	61.9	13.7		331.6	364.0	113.9	22.9	1,268.00
31/12/2023[z]	399.9	399.9	79.2	123.0	60.4	66.7	10.2	65.7	405.2	384.3	118.3	25.3	1,333.00

N.B. Custodian valuations may differ to fund manager reports due to different valuation/return calculation methods and / or timing differences.

£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.
[z] Assets sold by Baillie Gifford (£65.0m) in Oct 2023 to rebalance the portfolio, and fund £65m into the Fidelity Short Dated Bond 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
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01/10/19
01/04/20
01/10/20
01/04/21
01/10/21
01/04/22
01/10/22
01/04/23
01/10/23
Total Fund
Cash invested inc. Notional Return
Investment Returns

APPENDIX 2

PENSION FUND MANAGER PERFORMANCE TO DECEMBER 2023

Portfolio	Month %	3 Months %	YTD %	1 Year %	3 Years %	5 Years %	Since Inception %
Baillie Gifford Global Equity	0.19	0.32	3.89	9.13	(1.42)	10.41	8.53
Benchmark	4.11	6.42	10.86	15.88	8.74	12.25	8.25
Excess Return	(3.92)	(6.10)	(6.97)	(6.75)	(10.16)	(1.83)	0.28
Baillie Gifford LCIV GAG	5.70	8.92					5.99
Benchmark	4.11	6.42					11.05
Excess Return	1.59	2.51					(5.06)
Fidelity Fixed Income	4.38	7.29	2.70	4.25	(7.50)	(1.04)	4.96
Benchmark	5.00	7.95	3.63	6.11	(7.20)	(1.28)	4.27
Excess Return	(0.63)	(0.66)	(0.94)	(1.85)	(0.30)	0.24	0.69
Fidelity MAI	3.68	5.78	3.75	3.83	(2.19)	0.93	0.42
Benchmark	0.33	0.99	2.99	4.00	4.00	4.00	4.00
Excess Return	3.36	4.80	0.76	(0.17)	(6.19)	(3.07)	(3.58)
Fidelity Property	(1.43)	(4.36)	(7.25)	(6.96)	0.24	0.41	0.62
Benchmark	(0.39)	(1.16)	(1.20)	(1.42)	2.07	1.34	2.02
Excess Return	(1.04)	(3.20)	(6.05)	(5.54)	(1.83)	(0.93)	(1.41)
Fidelity Short Dated Bond	1.02						1.15
Benchmark	2.30						3.65
Excess Return	(1.28)						(2.50)
MFS Global Equity	4.85	5.58	9.75	10.38	11.21	12.84	12.20
Benchmark	4.08	6.31	10.46	15.31	8.24	11.70	10.91
Excess Return	0.77	(0.73)	(0.71)	(4.93)	2.98	1.14	1.29
Schroder MAI	3.29	5.33	6.26	9.04	0.71	2.28	1.19
Benchmark	0.41	1.23	3.73	5.00	5.00	5.00	5.00
Excess Return	2.88	4.10	2.53	4.04	(4.29)	(2.72)	(3.81)
Lon Borough Bromley USD	0.26	(3.01)	2.21	(4.71)			2.75
Total Fund	4.16	5.47	5.77	8.10	1.35	7.76	8.52
Benchmark	3.24	5.13	7.40	10.88	4.94	7.96	
Excess Return	0.91	0.35	(1.63)	(2.77)	(3.59)	(0.21)	

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
Oct 23 – Dec 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

APPENDIX 4

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Outturn 2022/23	Provisional as at 30 Dec 2023	Estimate 2023/24
	£'000	£'000	£'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	**30/09/2023**	**31/12/2023**
Employees	6,208	6,226
Pensioners	6,064	6,112
Deferred Pensioners	6,591	6,586
	18,863	18,924

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.

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. When it comes, we expect funds to be asked to: • assess the risks to their investment portfolio; • conduct scenario analysis; • report on carbon emission measures; • set a target against one of the emissions measures.	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.	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. **Officers have engaged LCIV to produce a climate analytics report pro bono. Officers will consult with Members on which scenarios are to be modelled, and for approval of the final report. Apex has been approached to cover any TCFD requirements not covered by the LCIV service.**
2. Investment Policy - pooling	DLUHC issued a consultation in 2023 on a number of investment-related proposals for the LGPS. After having considered the responses, the Government has announced (see here) that the statutory guidance on investment strategy statements (ISS) will change to say that funds should **transfer all assets into their respective investment pools by 31 March 2025**, with 'comply or explain' provisions backing this expectation. The revised guidance will also require that funds formulate plans to **invest up to 5% of their assets in levelling-up projects** (actual investments may be more or less than 5%, depending on what is appropriate for the fund) whilst other guidance will expect them to report on progress against the plan. The ISS guidance will reflect the Government's 'ambition' for funds to **invest 10% in private equity**; they will be encouraged to explore suitable opportunities with the British Business Bank.	We await revised pooling statutory guidance. In the upcoming months, we expect there to be a revised draft of the Investment Strategy Statement guidance issued and possibly some amendments to the 2016 Investment Regulations.	LBB provided a full response to the consultation, after consideration by Members at the 11 September meeting.

3. The Boycotts, Divestments and Sanctions Bill	The Economic Activity of Public Bodies (Overseas Matters) Bill was introduced in June 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. The Bill when enacted will directly impact on decisions to invest or divest, actual or intended, made by an LGPS administering authority (Section 5 provides for legal proceedings, Section 12 overrides LGPS Investment Regulations, Section 13 gives TPR enforcement powers over LGPS). There is a risk of vexatious and time-consuming complaints.	The Bill has reached the 2nd reading stage in the House of Lords.	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 • Demonstrating compliance and offering resilience	• Consultation on final regulations is expected in 2024.	As and when related regulations are published by DLUHC an action plan will be produced.
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,	In accordance with section 131 of the Public Service Pensions and Judicial Offices Act 2022, the McCloud remedy (to the extent not already in force) came into force on 1 October 2023. The Local Government Pension Scheme (Amendment) (No. 3)	<u>Data collection exercise:</u> Under the SAB and LGA guidance, LBB has completed the McCloud data collection exercise (most employers have responded). <u>Resources:</u> Resourcing impact considered and being addressed with Liberata and additional in-house resource

	• 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.	Regulations 2023 also came into force on 1 October 2023. These regulations extend the statutory underpin so that all eligible members benefit from a guarantee that their benefits under the reformed LGPS, in respect of relevant service, will not be less than the amount they would have been entitled to under the legacy LGPS.	<u>Action required (subject to SAB and LGA guidance):</u> - Project management - Data treatments for missing data and overriding current data
3. Cost control mechanisms for the LGPS following the 2016 Valuation	The "employer costs cap" was introduced by the Public Service Pensions Act 2013. Its aim is to cap the cost of the scheme to employers. The employer costs cap also includes a "cost floor". The employer costs cap is reviewed at each scheme valuation: every 3 years for the LGPS. If the ceiling or floor are breached, there is a consultation to allow the scheme manager, employers and members to agree the steps needed to bring costs back within target. These steps might include changes to future benefit accrual, or to employee contributions. The Government had considered the cost control mechanism to be closed for the 2016 valuation as it determined that the cost to employers for McCloud remediation should be included in the calculations. Adding the expense of the McCloud remedy has been challenged by judicial review brought by several unions in late January 2023. If the Government were to be defeated on this point then the cost of the scheme would then be considered lower and therefore changes to the scheme would be needed.	The Court of Appeal will be hearing the unions' challenge to McCloud costs being included in the 2016 cost cap mechanism on 20th February. A Government loss would mean that the LGPS benefit structure would need amending retrospectively.	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.
Consultation			
Topic	**Description**	**Timescale**	
1. GMP Equalisation	Following the original Lloyd Banking Group judgement in October 2018 to equalise GMP accrued between 17 May 1990 and 5 April 1997 between male and female members.	The position is currently under further consideration with Treasury.	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. 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 2024 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.	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 "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.	With effect from 6 April 2028.	LBB will ensure that communications to members reflect this change.
4.	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. DWP [Department for Work and Pensions] is consulting informally on revised connection deadlines – it looks likely that this will be September 2025 for public sector pension schemes like the LGPS.	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.

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

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