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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