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DATE: 15 May 2024

To: Members of the  
**PENSIONS COMMITTEE**

Councillor Keith Onslow (Chairman)

Councillor Christopher Marlow (Vice-Chairman)

Councillors Kira Gabbert, Dr Sunil Gupta FRCP FRCPATH, Simon Jeal,

Jonathan Laidlaw, Shaun Slator, Sam Webber and Rebecca Wiffen

A meeting of the Pensions Committee will be held at Bromley Civic Centre, Stockwell Close, Bromley, BR1 3UH on **THURSDAY 23 MAY 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 Thursday 9 May 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 Friday 17 May 2024.**

**4 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 21 FEBRUARY 2024, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION (Pages 3 - 10)**

**5 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS**

**6 PRESENTATION FROM FIDELITY INTERNATIONAL**

- 7 **PENSION FUND PERFORMANCE Q4 2023/24** (Pages 11 - 42)
- 8 **UPDATES FROM THE CHAIRMAN/DIRECTOR OF FINANCE/PENSIONS INVESTMENT ADVISOR**
- 9 **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**

- |    |   |   |
|----|---|---|
| 10 | <b>PENSION FUND PERFORMANCE Q4 2023/24 - APPENDIX 1 (PART 2) EXEMPT COMMENTARY</b><br>(Pages 43 - 44) | Information relating to the financial or business affairs of any particular person (including the authority holding that information) |
| 11 | <b>UPDATES FROM THE CHAIRMAN/DIRECTOR OF FINANCE/PENSIONS INVESTMENT ADVISOR (PART 2)</b>             | 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 21 February 2024

### **Present:**

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

### **Also Present:**

John Arthur, Apex Group Ltd

#### **39 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS**

Apologies for absence were received from Councillor Ruth McGregor.

#### **40 DECLARATIONS OF INTEREST**

There were no additional declarations of interest.

#### **41 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING**

One question for oral reply and one question 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.

In light of the question asked on Net Zero, a Committee Member underlined the importance of ensuring that the Committee took account of climate risk within its decision-making processes. The Chairman outlined the arrangements in place for the Committee's regular scrutiny of fund managers in the area of Environmental, Social and Governance and noted that the London Collective Investment Vehicle would be giving a presentation on responsible investment later in the meeting. Another Member advocated the benefits of stability in long-term investment which should not be undermined by rapidly changing trends.

#### **42 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 14 DECEMBER 2023, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION**

**RESOLVED:** That the minutes of the meeting held on 14 December 2023 be approved.

**43 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS**

**RESOLVED:** That matters outstanding be noted.

**44 PRESENTATION FROM SCHRODERS**

The Committee received a presentation from Schroders representatives, Dorian Carrell, Head of Multi-Asset Income and Russell Smith, Client Director, UK Institutional providing an investment update on the London Borough of Bromley Fund.

In considering current performance against the benchmark, a Member asked whether a fixed income fund could offer a better return in the short- to medium-term. The Head of Multi-Asset Income clarified that the Fund was anticipated to have an average annual yield of 5.25% over the next three years, whilst preserving capital, but that this was based on a conservative estimate on the performance of equities and that the anticipated return would also likely benefit from capital growth. The Portfolio had a barbell-like structure in which investment in high-growth US companies was paired with valuation opportunities in the US and European markets. Consideration was also being given to incorporating a small-cap strategy that could capitalise on the greater growth potential of undervalued smaller companies.

A Member was concerned that the investment performance in the medium-term had reduced the buying power of the fund and the Head of Multi-Asset Income responded that the COVID-19 pandemic and the rapid rise of interest rates had put unprecedented stress on the financial markets, but the investment climate was now improving with stronger returns over the past 12-months. Going forward, the Portfolio would be reviewed in line with the Committee's stated investment objectives of securing income with a degree of capital growth. The Member asked a more general question about excess cash generated by the investment of the Bromley Fund and the Senior Advisor: Apex Group Ltd explained that distributions from the two Multi-Asset Income funds were fed back into the fund as income but that there was also the option to move these funds into a fixed interest portfolio. Another Member spoke about the collapse of Credit Suisse and asked why hybrids had a zero allocation in the fund despite sizeable returns in some asset classes. The Head of Multi-Asset Income responded that following regulatory clarifications in Germany, France and Switzerland, the new bonds in this area offered reasonably attractive opportunities at Tiers 1 and 2 but that there were better opportunities available in the US market.

A Member queried the overview of Corporate Climate metrics given in the presentation. The Head of Multi-Asset Income clarified that whilst significant work was undertaken to provide a sense of the carbon position of the Portfolio, the quoted figures reflected the position relative to the benchmark rather than an actual carbon reduction. Work was ongoing to improve the quality of reporting in this increasingly important area. Another Member asked whether it would be possible to design a fund which limited carbon emissions to 1.5 degrees. The Head of Multi-Asset Income confirmed that

this would be possible as some areas of the market had a direct impact on temperature change; however, a specific focus on investment type would likely have a substantial impact on investment income. In response to a final question from a Member, the Client Director, UK Institutional stated that Schrodgers was an inclusive organisation which encouraged open debate but that he was not aware of a formal Free Speech policy having been agreed.

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

**RESOLVED: That the presentation from Schrodgers be noted.**

**45 PRESENTATION FROM LONDON COLLECTIVE INVESTMENT VEHICLE ON RESPONSIBLE INVESTMENT**

The Committee received a presentation from London Collective Investment Vehicle (LCIV) representatives, Dean Bowden, Chief Executive Officer, Jacqueline Jackson, Chief Sustainability Officer and Stephanie Aymes, Client Relations Manager on responsible investment.

In considering the presentation, the Chairman welcomed the expertise that the LCIV brought to this emerging area, including for the reporting requirements of the Task Force on Climate-Related Financial Disclosures that was formed of the core elements of Governance, Strategy, Risk Management and Metrics and Targets. The LCIV focus was very much in the area of Metrics and Targets with a view to producing consistent and audited data that would assist the Local Authority in meeting the reporting requirements for the Bromley Pension Fund. The Chairman highlighted that the Task Force on Climate-Related Financial Disclosures was not yet a statutory requirement but that the Local Authority was taking a proactive approach in preparing to meet the new requirements. With regard to climate analytics, a Member was surprised to note that the best performers in Net-Zero Alignment included a manufacturer of building materials whilst the worst performers included a company in the health sector which was notable as the NHS had recently set a target to reach Net Zero for direct emissions by 2040. The Chief Sustainability Officer advised that there was increasing UK Government regulation around the sustainability agenda. This included carbon mandatory reporting for British companies over a certain size, which had led to improvements in data collection and reporting that would help inform future investment.

Another Member noted that the LCIV had committed to achieving Net Zero GHG emissions by 2040 and asked how this would be delivered given the LCIV's role was primarily one of stewardship. The Chief Sustainability Officer advised that LCIV currently offered two funds that were aligned to the Paris Agreement. It was recognised that the diverse investment funds and philosophies of its clients would have different trajectories to Net Zero and the LCIV would shortly be publishing its Net Zero 2024-30 Strategy as well as a Climate Policy that would set out its objectives and targets at each fund level. It was crucial that LCIV did not act as a barrier to its clients in setting

ambitious targets for responsible investment and would be engaging closely with its clients and individual fund managers in support of its Net Zero target, including consideration being given to split voting mechanisms. A Member observed the difficulties inherent to fulfilling the Committee's fiduciary responsibility to maximise investment returns for Pension Scheme members with responsible investment moving forward.

In response to a question from a Member around the LCIV's approach to investment, the Client Relations Manager explained that the LCIV undertook extensive research on its clients, including actively seeking feedback, and also reviewed peer activity and best practice in developing its investment philosophy. The Chairman added that the LCIV was very receptive to the views of its clients but had to take account of the beliefs of 32 London Boroughs and if this was a concern for Members, it could be considered in more depth at a future meeting of the Committee. The Member expressed a concern that responsible investment could be too focused on avoiding risk or mitigating actions, such as investment in renewable or nature capital, and underlined the need to embrace risk and emphasise the opportunities arising from change. The Chairman suggested that this could form part of the Committee's future discussions with its Fund Managers around Environmental, Social and Governance. The Member also queried the approach of LCIV to free speech and the Chief Executive Officer responded that there was no formal Free Speech Policy in place but that employees were encouraged to express themselves freely.

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

**RESOLVED: That the presentation from LCIV be noted.**

**46 PENSION FUND PERFORMANCE Q3 2023/24**  
**Report FSD24018**

The report provided a summary of the investment performance of Bromley's Pension fund in Quarter 3 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 advised that inflation continued to fall but could briefly rally, particularly with stubborn wage inflation, and that further interest rate cuts were anticipated in the UK, US and Europe in the coming months. Whilst the UK was emerging from recession, the growth outlook was not positive and 5-7 year and 20-year forecasts by BCA Research of returns for the areas of Private Equity, Private Debt, Property and Hedge Fund suggested that it could be advisable to consider allocating funds to Direct Lending. With better yields available in most Government Bond markets at present, consideration might also be given to increasing the diversification of the two Multi-Asset Income portfolios to combine a good yield with some prospect of capital growth with

stronger downside protection. In response to a question from a Member about Baillie Gifford's Global High Alpha Equity Portfolio, the Senior Advisor: Apex Group Ltd explained that performance had varied considerably since the establishment of the Portfolio which partly reflected the challenging economic climate and that this would continue to be closely monitored.

**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 comprised a presentation by the London Collective Investment Vehicle (LCIV) on responsible investment.**

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

A Part 1 (Public) update was provided to the Committee on recent developments relating to pensions.

The Chairman advised that he had met with William Bourne, Independent Investment and Governance Advisor to the Local Government Pension Scheme to discuss the ramifications of the 'Mansion House' pension reforms. Whilst it was not anticipated that any action would be taken in the short-term, the continued direction of travel for local government pension funds was towards larger collective investment vehicles and increased Government involvement.

The Chairman thanked Members, Officers and the Senior Advisor: Apex Group Ltd for their excellent contribution to the work of the Pensions Committee during the 2023/24 municipal year.

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

**48           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**

**49 CONFIRMATION OF EXEMPT MINUTES - 14 DECEMBER 2023**

The Part 2 (Exempt) minutes of the meeting held on 14 December 2023 were approved.

**50 PRESENTATION FROM LONDON COLLECTIVE INVESTMENT  
VEHICLE ON RESPONSIBLE INVESTMENT (PART 2) EXEMPT)**

The Committee considered Part 2 (Exempt) information for Item 7: Presentation from London Collective Investment Vehicle on Responsible Investment.

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

No Part 2 (Exempt) update was given.

The Meeting ended at 9.46 pm

Chairman



**PENSIONS COMMITTEE  
21 FEBRUARY 2024**

**QUESTIONS FOR ORAL REPLY**

**1. From Gill Slater, Local Pension Board Member**

Regarding Item 7: Presentation from LCIV on Responsible Investment:

The agenda notes LBB funds are committed to Net Zero, seeking to limit heating to 1.5°C, [MFS\* by 2050, LCIV\*\*by 2040]. Heating is accelerating significantly faster than anticipated and 1.5°C is / will soon be breeched\*\*\*. Will the Committee urgently reappraise the timeframe for funds to reach Net Zero?

\* MFS commitment (Pg 4 mins 14.12.23)

\*\*LCIV TCFD Report 2023 (strategy pg 10) – recognising that faster CO2 reductions increase the probability of limiting warming to 1.5°C

\*\*\*12 month running average ([Copernicus Agency](#)) / Paris agreement long term average

*Reply:* You raise a very topical question and certainly an important one. Bromley acknowledges the climate change issue and is making good progress on this. We continue to investigate, in partnership with our Investment Managers, the best way to comply with Net Zero. We have invited Jacqueline Jackson, Head of Responsible Investment of the London Collective Investment Vehicle to present on responsible investment to our Pensions Committee this evening. This will be public record and minuted. Secondly, Bromley Pensions Committee does not rush into anything with regards to investments as this is the worst thing you can do, particularly without adequate scrutiny. It is unlikely that the Pensions Committee will urgently reappraise its investments but does undertake a process of constant reappraisal in light of the mixed reports and scientific evidence published on climate change. However, this is a pensions investment committee, so investment must remain the primary focus of the committee. I would be happy to attend a future meeting of the Local Pension Board to discuss this in further detail if that is felt useful or necessary by the Board Members.

Supplementary Question: Accelerating towards Net zero should also involve investment in ‘climate related opportunities’ – part of the TCFD reporting noted throughout the LCIV documentation (Item 7). The Quarterly Investment Report (Item 8 Appendix 5) suggests consideration of an allocation to Direct Lending. Could subsequent reports also outline consideration of ‘climate related opportunities’ either through direct lending or fund management?

*Reply:* That is an interesting question. As a matter of principle, some green funds have turned out not to be as ‘green’ as we think they are. I saw a report recently that suggested that a flight from green funds by private sector investment is mainly due to the fact that they don’t think that the opportunities for investment returns are where they should be, but also due to a fair amount of ‘green washing’ by some companies. The Pensions Committee needs to be confident that it is investing in what it thinks it is investing in and undertakes a process of asset allocation review via a three-year

*cycle. This helps ensure stability of investment but does not mean that minor adjustments cannot be made when it is felt appropriate or necessary. Part of the role of the Senior Advisor: Apex Group Ltd is to put forward ideas regarding investment returns and at present, Direct Lending is an area of interest. The comments made tonight will be taken on board and considered as part of the asset allocation review cycle but it should be noted that whilst areas such as low carbon can be explored for investment, the Committee does not make forced decisions for its fund managers to invest in a particular area.*

## **QUESTIONS FOR WRITTEN REPLY**

### **1. From Daniel Sillman, Local Resident to the Pensions Committee**

The ICJ has found South Africa's case against Israel meets jurisdiction requiring Israel take measures to prevent 'irreparable prejudice' against Palestinians of Gaza. How will Bromley respond to these interim measures, and prevent complicity in what may legally be ruled genocide, considering pension investments in Israeli weapons and aerospace companies?"

*Reply: Bromley is deeply concerned with the situation in Gaza and would very much like to see peace in this situation and an end to hostilities. There are very strict rules on how pension funds can invest, and Bromley ensures it complies with all rules and regulations.*

Report No.  
FSD24031

## London Borough of Bromley

### PART 1 - PUBLIC

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**Decision Maker:** PENSIONS COMMITTEE

**Date:** 23<sup>rd</sup> May 2024

**Decision Type:** Non-Urgent                      Non-Executive                      Non-Key

**Title:** PENSION FUND PERFORMANCE Q4 2023/24

**Contact Officer:** James Mullender, Head of Corporate Finance & Accounting  
Tel: 020 8313 4196 E-mail: james.mullender@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 fourth 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 4, quarterly performance reporting; and**

b) **Appendix 5, 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. Making Bromley Even Better Priority: To manage our resources well, providing value for money, and efficient and effective services for Bromley's residents.
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## 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); £1,401m total fund market value at 31st March 2024
  5. Source of funding: Contributions to Pension Fund
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## 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.
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## Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,526 current employees; 6,139 pensioners; 6,666 deferred pensioners as at 31st March 2024
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## Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.
2. Summary of Ward Councillors comments: N/A

### **3. COMMENTARY**

#### **3.1 Fund Value**

3.1.1 The market value of the Fund ended the March quarter at £1,440.6m, an increase of £107.6m from 31<sup>st</sup> December. The comparable value as at 31<sup>st</sup> March 2023 was £1,269.6m. 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 5<sup>th</sup> 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 21<sup>st</sup> November and 14<sup>th</sup> 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 15<sup>th</sup> 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 22<sup>nd</sup> 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 31<sup>st</sup> March 2024 is provided by the fund's external adviser, Apex in Appendix 4. The total fund return for the fourth quarter was 5.02% against the benchmark of 5.56%. 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, although for 2023/24 it underperformed the benchmark, with a return of 11.08% against the benchmark of 13.37%. 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 overall Fund ranked 63<sup>rd</sup> against the 63 funds in the PIRC LGPS universe for the year to 31<sup>st</sup> March 2023, 50<sup>th</sup> over 3 years, 20<sup>th</sup> over 5 years, second over 10 years and 20 years and first over 30 years. The figures for the years to 31<sup>st</sup> March 2024 were not available at the time of writing and will be included in a supplementary appendix in advance of the meeting.

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 31<sup>st</sup> 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				
<b>2023/24</b>	<b>11.1</b>	<b>13.4</b>		
2022/23	-3.7	-2.6	-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
<b>3 year ave to 31/3/23</b>	<b>9.1</b>	<b>9.4</b>	<b>9.5</b>	<b>50</b>
<b>5 year ave to 31/3/23</b>	<b>6.4</b>	<b>6.8</b>	<b>5.9</b>	<b>20</b>
<b>10 year ave to 31/3/23</b>	<b>8.9</b>	<b>n/a</b>	<b>7.3</b>	<b>2</b>
<b>20 year ave to 31/3/23</b>	<b>10.0</b>	<b>n/a</b>	<b>8.4</b>	<b>2</b>
<b>30 year ave to 31/3/23</b>	<b>8.5</b>	<b>n/a</b>	<b>7.7</b>	<b>1</b>

\*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 fourth 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 **Fund Manager attendance at meetings**

3.5.1 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 – Fidelity

Meeting 27 Aug 2024 – Morgan Stanley

Meeting 14 Nov 2024 – MFS

Meeting 27 Feb 2025 – Baillie Gifford

## 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 2023/24 Pension Fund revenue account will be provided at the next meeting of the Committee.

## 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.

<b>Non-Applicable Sections:</b>	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.

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## MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002

Date	Baillie Gifford					Fidelity							Blackrock	MFS		Schroders	CAAM	GRAND TOTAL
	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	
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		1,039.2
31/03/2020			60.9	411.85	472.7		83.5	80.6	47			211.1		220.3		96.1		1,000.3
31/03/2021\				597.7	597.7		85.7	131.4	46.3	64.8		328.2		293.1		110.9		1,329.9

## MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002 CONTINUED

	<b>Baillie Gifford</b>	<b>Fidelity</b>							<b>MFS</b>	<b>Schroders</b>	<b>MS</b>	
Date	Global Equities (LCIV)	Fixed Income	MAI	Property	Sterling Bond	USD ILF	SD CB	Total	Global Equities	MAI	USD Property	<b>GRAND TOTAL</b>
31/03/2022*	527.8	81.2	125.5	77.9	61.2	14.8		360.6	332.9	108.7		1,330.1
31/03/2023 <sup>x</sup>	438.3	78.6	124.4	65.1	63.5	20.5		352.1	350.2	114.8	14.2	1,269.6
30/06/2023 <sup>y</sup>	454.7	74.6	120.7	63.9	61.8	20.2		341.2	359.4	113.3	14.1	1,282.7
30/09/2023	435.6	74.1	118.8	63.1	61.9	13.7		331.6	364.0	113.9	22.9	1,268.0
31/12/2023 <sup>z</sup>	399.9	79.2	123.0	60.4	66.7	10.2	65.7	405.2	384.3	118.3	25.3	1,333.0
31/03/2024	433.1	78.6	123.7	59.9	65.5	14.5	66.1	408.3	412.4	122.0	24.8	1,400.6

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

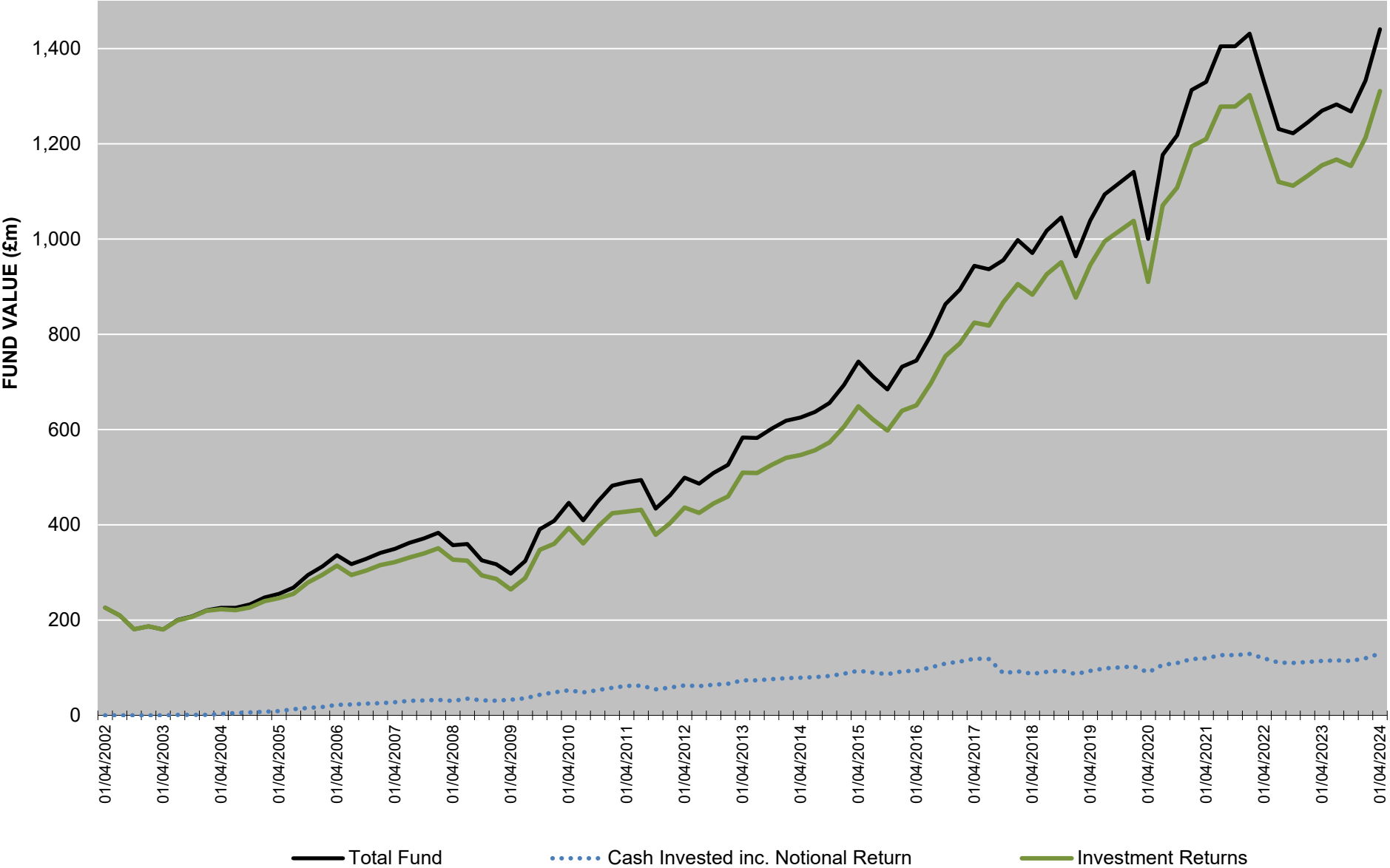
\*Assets sold by Baillie Gifford (£14.4m) in June 2021 to fund Fidelity Property fund

<sup>x</sup> 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.

<sup>y</sup> Assets transferred in-specie from Baillie Gifford (£444m) in May 2023 to Baillie Gifford LCIV Global Alpha Growth Fund.

<sup>z</sup> 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



## PENSION FUND MANAGER PERFORMANCE TO MARCH 2024

Portfolio	Month %	3 Months %	YTD %	1 Year %	3 Years %	5 Years %	Since Inception %
Baillie Gifford Global Equity	(0.32)	(0.34)	3.53	3.53	(2.25)	7.69	8.43
Benchmark	3.33	9.31	21.18	21.18	10.67	12.15	8.56
Excess Return	(3.65)	(9.65)	(17.65)	(17.65)	(12.92)	(4.46)	(0.13)
Baillie Gifford LCIV GAG	2.13	8.87					15.39
Benchmark	3.33	9.31					21.38
Excess Return	(1.20)	(0.43)					(5.99)
Fidelity Fixed Income	2.57	(0.84)	1.83	1.83	(6.12)	(1.88)	4.90
Benchmark	1.74	(0.86)	2.74	2.74	(5.62)	(2.18)	4.19
Excess Return	0.83	0.01	(0.91)	(0.91)	(0.50)	0.30	0.70
Fidelity MAI	1.44	1.43	5.23	5.23	(1.60)	0.34	0.64
Benchmark	0.33	0.99	4.00	4.00	4.00	4.00	4.00
Excess Return	1.11	0.44	1.23	1.23	(5.60)	(3.66)	(3.36)
Fidelity Property	0.11	(0.86)	(8.05)	(8.05)	(0.94)	0.20	0.45
Benchmark	0.17	0.51	(0.70)	(0.70)	1.51	1.39	2.02
Excess Return	(0.06)	(1.38)	(7.36)	(7.36)	(2.45)	(1.19)	(1.58)
Fidelity Short Dated Bond	0.08	(0.32)					0.83
Benchmark	1.08	0.62					4.29
Excess Return	(1.00)	(0.94)					(3.46)
MFS Global Equity	4.73	7.32	17.78	17.78	11.98	12.35	12.66
Benchmark	3.28	9.19	20.60	20.60	10.15	11.61	11.58
Excess Return	1.45	(1.87)	(2.82)	(2.82)	1.83	0.74	1.07
Schroder MAI	2.59	3.16	9.62	9.62	1.76	1.93	1.68
Benchmark	0.41	1.23	5.00	5.00	5.00	5.00	5.00
Excess Return	2.18	1.94	4.62	4.62	(3.24)	(3.07)	(3.32)
Lon Borough Bromley USD	0.91	2.63	3.77	3.77			7.00
MS Northhaven	0.13	0.56	4.45	4.45			(4.94)
<b>Total Fund</b>	2.66	5.02	11.08	11.08	2.50	7.03	8.61
<b>Benchmark</b>	2.30	5.56	13.37	13.37	6.28	7.76	
<b>Excess Return</b>	0.36	(0.54)	(2.28)	(2.28)	(3.78)	(0.73)	

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 31<sup>st</sup> March 2022) the actuary assumed a figure of 0.4% of pay (approx. £0.5m p.a from 2023/24) compared to £1.4m in the 2019 valuation, £1.2m in the 2016 valuation, £1m in the 2013 valuation and £82k p.a. in the 2010 valuation. 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, in 2020/21 there were six with a long-term cost of £520k, in 2021/22 there as 1 with a cost of £618k and in 2022/23 there were 3 with a cost of £316k. 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, in 2020/21 there were 14 with a long-term cost of £203k, none in 2021/22 and 1 with a cost of £25k in 2022/23. 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
Jan 24 – Mar 24 - LBB	0	0	0	0
- Other	0	0	0	0
- Total	0	0	0	0
2023/24 total - LBB	2	540	0	0
- Other	1	51	4	28
- Total	3	591	4	28
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



# London Borough of Bromley

## Quarterly Investment Report

Q1 2024

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## Key Indicators at a Glance

		Index (Local Currency)	Q1 2024	Q1	2023
<b>Equities</b>				<b>Total Return</b>	
UK Large-Cap Equities	FTSE 100		7,953	3.98%	7.68%
UK All-Cap Equities	FTSE All-Share		4,338	3.56%	7.70%
US Equities	S&P 500		5,254	10.55%	26.26%
European Equities	EURO STOXX 50 Price EUR		5,083	12.94%	23.21%
Japanese Equities	Nikkei 225		40,369	21.43%	31.01%
EM Equities	MSCI Emerging Markets		1,043	2.41%	10.20%
Global Equities	MSCI World		3,438	9.01%	24.44%
<b>Government Bonds</b>					
UK Gilts	FTSE Actuaries UK Gilts TR All Stocks		3,079	-1.62%	3.69%
UK Gilts Over 15 Years	FTSE Actuaries UK Gilts Over 15 Yr		3,621	-3.56%	1.65%
UK Index-Linked Gilts	FTSE Actuaries UK Index-Linked Gilts TR All Stocks		3,965	-1.81%	0.93%
UK Index-Linked Gilts Over 15 Years	FTSE Actuaries UK Index-Linked Gilts TR Over 15 Yr		4,218	-3.44%	-4.28%
Euro Gov Bonds	Bloomberg EU Govt All Bonds TR		222	-0.65%	7.12%
US Gov Bonds	Bloomberg US Treasuries TR Unhedged		2,255	-0.96%	4.05%
EM Gov Bonds (Local)	J.P. Morgan Government Bond Index Emerging Markets Core Index		134	-2.24%	10.91%
EM Gov Bonds (Hard/USD)	J.P. Morgan Emerging Markets Global Diversified Index		911	2.04%	11.09%
<b>Bond Indices</b>					
UK Corporate Investment Grade	S&P UK Investment Grade Corporate Bond Index TR		362	0.19%	9.63%
European Corporate Investment Grade	Bloomberg Pan-European Aggregate Corporate TR Unhedged		233	0.56%	8.84%
European Corporate High Yield	Bloomberg Pan-European HY TR Unhedged		447	1.81%	12.78%
US Corporate Investment Grade	Bloomberg US Corporate Investment Grade TR Unhedged		3,208	-0.40%	8.52%
US Corporate High Yield	Bloomberg US Corporate HY TR Unhedged		2,517	1.47%	13.45%
<b>Commodities</b>					
Brent Crude Oil	Generic 1st Crude Oil, Brent, USD/bbl		87	13.55%	-10.32%
Natural Gas (US)	Generic 1st Natural Gas, USD/MMBtu		1.76	-29.87%	-43.82%
Gold	Generic 1st Gold, USD/toz		2,217	7.03%	13.45%
Copper	Generic 1st Copper, USD/lb		401	2.99%	2.10%
<b>Currencies</b>					
GBP/EUR	GBPEUR Exchange Rate		1.17	1.40%	2.12%
GBP/USD	GBPUSD Exchange Rate		1.26	-0.85%	5.36%
EUR/USD	EURUSD Exchange Rate		1.08	-2.26%	3.12%
USD/JPY	USDJPY Exchange Rate		151	7.31%	7.57%
Dollar Index	Dollar Index Spot		104	3.11%	-2.11%
USD/CNY	USDCNY Exchange Rate		7.22	1.72%	2.92%
<b>Alternatives</b>					
Infrastructure	S&P Global Infrastructure Index		2,738	1.36%	6.82%
Private Equity	S&P Listed Private Equity Index		225	7.26%	40.75%
Hedge Funds	Hedge Fund Research HFRI Fund-Weighted Composite Index		19,823	5.53%	7.21%
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP		3,704	-0.39%	3.59%
<b>Volatility</b>				<b>Change in Volatility</b>	
VIX	Chicago Board Options Exchange SPX Volatility Index		13	4.50%	-42.55%

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



## Performance

The Fund rose by 5.0% in the first quarter of 2024 to a value of over £1.4bn, close to its all-time high of autumn 2021. This was against a rise in the Fund’s benchmark of 5.6% over the period. The Fund’s underperformance of its benchmark over the quarter was driven by the two Global Equity portfolios, particularly MFS which returned 1.9% below its benchmark. The Multi-Asset Income portfolios outperformed their benchmark which is of a cash + X% style (which means the benchmark rises by a fixed amount over the return of cash in any given quarter irrespective of the movement of asset prices). Schroders returned 3.2% against Fidelity returning 1.4% over the quarter. This stronger performance by Schroders continues the trend of the recent past with the Schroders portfolio returning noticeably above Fidelity this year and now having returned 1.5% per annum over the Fidelity portfolio over the last 5-years. Schroders do have a higher return target and therefore take more risk. At the asset allocation level, the slight overweight in Bonds weighed on returns slightly over the quarter. The switch from equities to bonds in the third quarter of 2023 has, so far, reduced returns marginally but short-dated UK bonds remain my preferred asset class at the current time.

The Fund remains noticeably behind its benchmark over 1 and 3 years and marginally behind over 5 years but with returns of 8.67% per annum over the last 37 years being above the Fund’s actuarial discount rate assumption for future investment returns, investment returns have driven the improvement in the funding ratio over the long-term. A further comment on Performance is made in appendix 1 to be taken in part 2 of this meeting.

## Comment

Global Equity markets continued to rise in the first quarter of 2024 following on from the strong rally in Q4 2023. This was driven by the major central banks, led by the US Federal Reserve (US Fed), stating in September 2023 that inflation was now under control and that they expected the next move in interest rates to be down. By the end of 2023, markets were discounting 6 quarter percent cuts in US interest rates taking the headline interest rate from 5.5% to 4% over the course of 2024. This spurred both equity and bond returns in the fourth quarter of 2023.

As I noted in my last report, this speed of interest rate cuts seemed optimistic and, over the first quarter 2024, expectations have been scaled back as the US economy has continued to show solid economic growth and inflation has proved stickier than assumed. With the expectation of interest rate cuts being scaled back, government bond markets fell across the board over the first quarter 2024 although not precipitously with credit outperforming Government bonds and short-dated bonds outperforming those of a longer duration.

The table below shows annualised, seasonally adjusted, economic growth (GDP) after taking into account inflation for the major economies over the last few quarters.

**Table 1: Annual Real GDP Growth**

GDP growth	1Q 23	2Q 23	3Q 23	4Q 23	1Q24
US	2.2%	2.1%	4.9%	3.4%	1.6%
EU	1.2%	0.6%	0.1%	0.2%	0.8%*
UK	0.2%	0.0%	-0.1%	-0.3%	0.6%*
Japan	2.6%	2.3%	1.6%	1.2%	0.5%*

\*Forecast

As can be seen in the table above, it is the US which has maintained strong economic growth through 2023 despite the rise in interest rates. This would seem to be driven by a number of factors:

1. repatriation of supply chains away from lower cost countries to a more home grown base for greater security;

2. a longer duration debt profile of both corporates and individuals with many US residential mortgages fixed for 25 year terms. This has slowed down the impact of raising interest rates;
3. the effect of high European gas prices in 2022 pushing a number of industries, particularly fertilised and chemical, away from the EU to the US due to cheaper feed stocks;
4. US domestic policy around the Inflation Reduction Act which encouraged corporates to reinvest back into the US leading to signs of higher corporate investment and improved productivity;
5. a higher natural immigration rate in the US boosting the supply of labour.

Whilst the US has continued to post strong economic growth numbers, the EU and UK have been much weaker with the UK in a technical recession (two consecutive quarters of negative economic growth in the second half of 2023).

In the US, it is the strong economic performance which is keeping employment rates high and wages rising thereby keeping inflation above expectations. If we assume that the potential non-inflationary US economic growth rate is around 2-2.5% per annum in real terms, any rate of economic growth above this will be inflationary and, for inflation to fall, economic growth will have to slow further. US GDP growth does appear to be on a downward projection at present although the figure reported for Q1 2024 may be revised up. Any sign that the US economy is not slowing as forecast will concern markets as it may then require even higher interest rates to slow the economy and bring inflation back to the US Fed's 2% target.

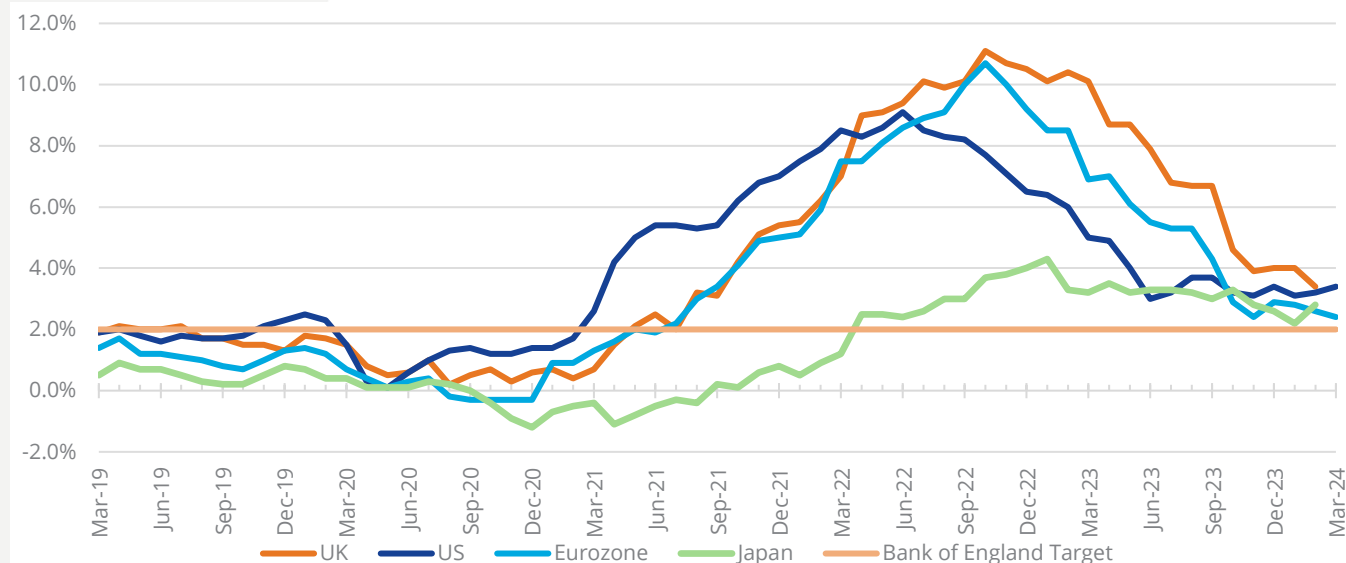
The situation in the EU and UK is different, inflation here is not being held up by strong economic growth but by rising costs and more structured labour markets. The transition mechanism by which higher interest rates impact the underlying economy remains effective in these regions with the availability of credit reducing and loan growth slowing. Inflation in the EU is expected to fall further with only service sector and wage inflation remaining above target but these are lagging indicators, especially in more structured European labour markets. The potential non-inflationary economic growth rate for the EU and UK is estimated to be below that of the US at around 1-1.5% due, in part, to lower immigration and very limited productivity gains in the recent past. The EU and UK economies are already growing below this figure and therefore the scope for interest rates to fall remains the central expectation for investors with the EU potentially cutting interest rates in the early summer 2024. This compares with the US now expected to cut interest rates no earlier than November 2024, in part due to the timing of the US presidential elections in October 2024. (Central banks are wary of cutting interest rates in the run up to elections due to the potential for this to be seen as politically motivated.)

Since the end of the first quarter, the economic data has become more confusing regarding the speed of any further slowdown with a number of leading indicators, particularly around the Purchasing Managers Index (PMI), rising in both the US and EU suggesting the potential for an economic recovery post the very muted slowdown experienced in the last few years. However, there are some signs of a weakening consumer, particularly around the budget and low price sector. The details and some corporate earnings reports suggest that those who have insecure jobs, being unable to maintain their wages in real terms and have no assets to benefit from higher interest rates, are struggling. The better off with stable employment and assets which benefit from rising markets continue to spend strongly and it is this sector which is keeping consumer spending strong and thereby the US economy (consumer spending accounts for 70% of GDP).

**An economic acceleration from here is not a central market assumption and would lead to higher interest rates particularly in the US to contain any resultant surge in inflation. I would expect this to undermine investor sentiment. However, my central expectation is for a continued gentle slowdown in the US with inflation remaining stickier than expected and therefore interest rates higher for longer in the US but with scope for a gentle decline in the EU and UK.**

One issue for the major central banks is that they all realise that an inflation target of 2% per annum is probably too low, it leaves open the prospect of undershooting this target and hitting deflation but also a focus on the 2% figure may lead interest rates to remain too high for too long to squeeze the last drops out of inflation and in doing so cause longer lasting damage to the underlying economy. I suspect that all the major central banks would like to move away from their 2% inflation target, settling for 2.5% or even 3% but feel constrained by how bond investors would take this and whether they would lose confidence in the central banks' commitment to controlling inflation and therefore push bond yields higher.

**Chart 1: CPI - Annual rate of Inflation - Five Years to March 2024**



Source: Bloomberg

Notes: UK: UK CPI EU Harmonised YoY NSA (Ticker: UKRPCJYR Index); US: US CPI Urban Consumer YoY NSA (Ticker: CPI YOY Index); Eurozone: Eurostat Eurozone MUICP All Items YoY Flash Estimate (Ticker: ECCPEST Index); Japan: Japan CPI Nationwide YOY (Ticker: JNCPIYOY Index)

As can be seen in the chart above, inflation, as measured by the Consumer Price Index (CPI), seems to have stopped falling over the last few quarters and we are seeing rising prices across a number of commodity markets from Oil (due to raised political tensions in Russia and the Middle East); Cocoa and a number of soft commodities (due to disrupted harvests from abnormal weather patterns); Gold (due to high investor demand as an inflation hedge) and Copper (due to supply shortages).

With US interest rates likely to remain higher for longer than those of the EU and UK, it would seem probable that the US Dollar continues to strengthen in the near term.

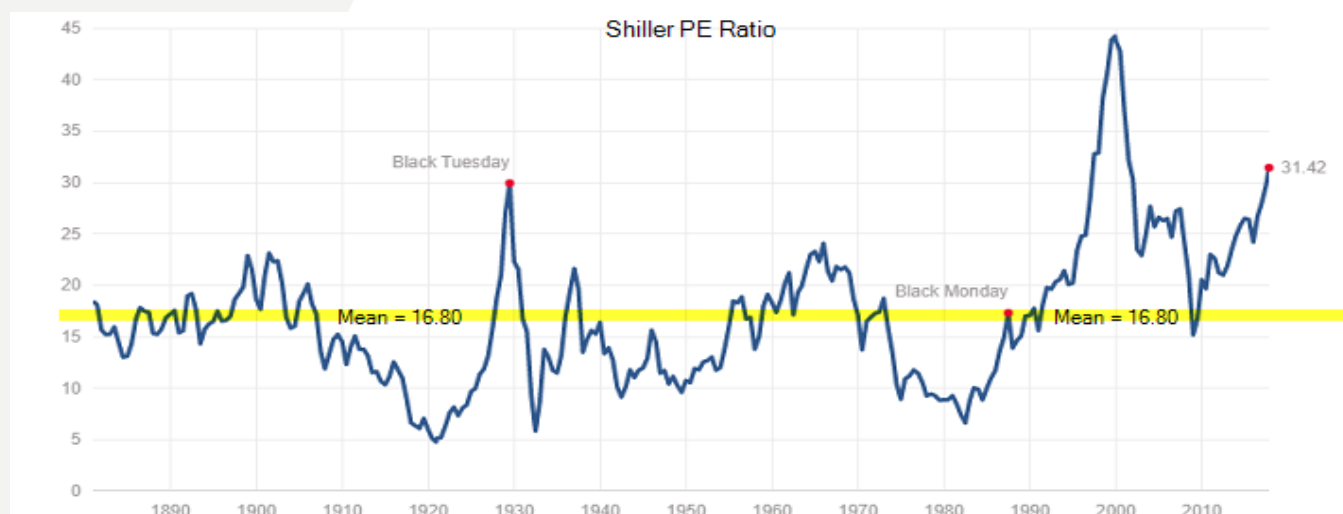
Given bond yields are now pricing in much slower interest rate cuts than three months ago, bond markets may have some scope for yields to fall as actual interest rate cuts come through in the UK and EU and then eventually in the US. This may provide support to equity markets but, given the recent strength in global equities, up 20% in the last 6 months, I would be surprised to see much further progress in the near term.

Much of the rise in equity markets over the last 6 months has been on the basis of better future growth, i.e. it has been the valuation of equities which has risen rather than higher current earnings. There are some exceptions to this and a number of the US mega tech companies continue to perform well, particularly Meta and Nvidia. However, Q1 did see a broadening out of the equity market rally from the 7 big US technology names. It does, however, feel to me that markets are purely extrapolating current trends rather than thinking through possible future outcomes at present.

The chart below shows a simple valuation measure of global equity markets against their long-term history using share prices divided by the average 10-year earnings per share.

There are several reasons why this chart can be a poor measure of current market valuations, but I do find the long-term comparison useful. It shows the climb in equity market valuations from 1980 through to 2008 as interest rates fell from cyclical highs to the near zero levels we became accustomed to during the early part of the 21<sup>st</sup> Century. In theory, the valuation of equity markets should fall as interest rates rise but that has not been the case so far and valuations are beginning to look stretched. Any further strength in the US economy and a realisation that US rates need to rise further rather than fall as forecast could lead to a sudden reappraisal of equity market valuations.

**Chart 2: Shiller Price/Earnings ratio using average 10-year earnings per share**



The outlook for alternative, less liquid asset classes remains linked to that of equity and bond markets. Private Equity has still not repriced to reflect current market conditions post the rise in interest rates and I would expect returns to lag those of the quoted markets for a few quarters yet, Private Debt continues to hold up well returning around 10-12% at present but competition in this area is increasing, Infrastructure has taken time to reflect the higher bond yields and, in addition, trading conditions for a number of the renewables sectors have been poor in the UK, especially around battery storage and wind. Commercial Property has also taken time to reflect higher bond yields but may now have over discounted a potential economic recession with scope for higher yields to drive returns from here.

## Asset Allocation

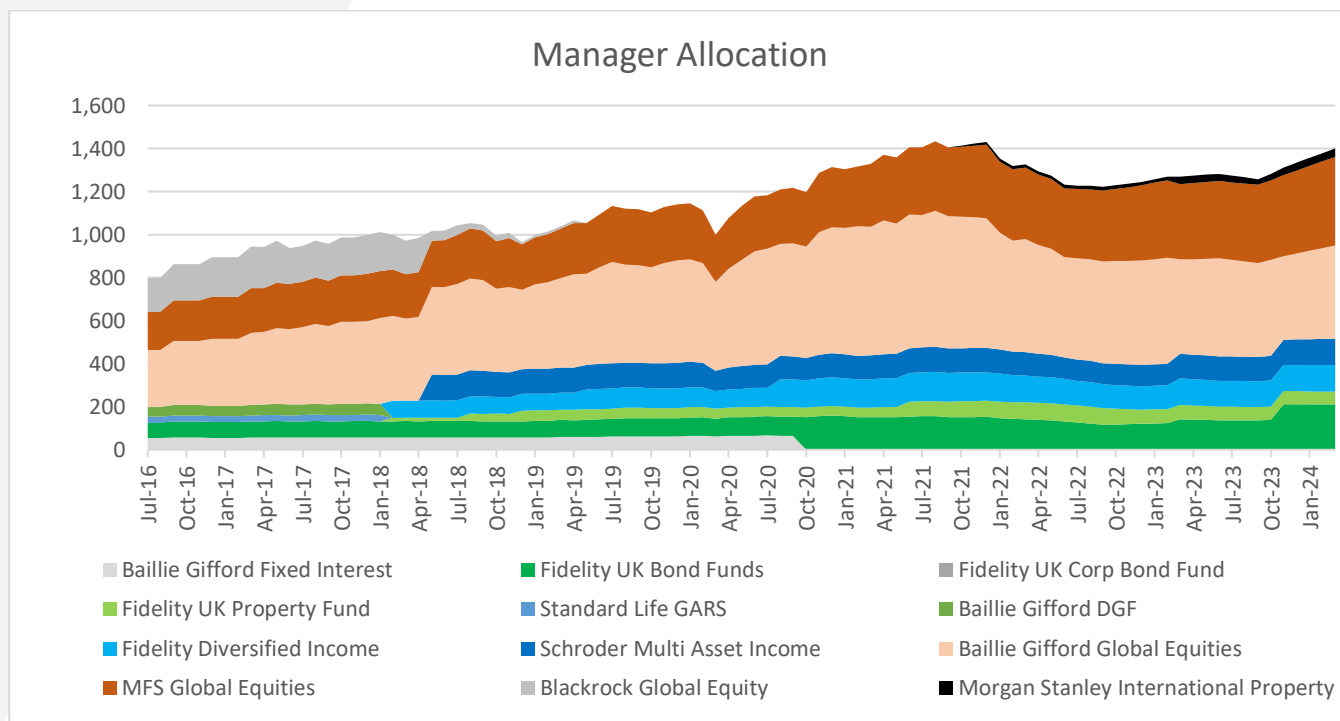
**Table 2: The Fund’s current asset allocation against the Strategic Benchmark**

Asset class	Asset Allocation as at 31/12/2023	SAA Benchmark	Position against the benchmark	Cash over/under weight
Global Equities	60.3%	58%	+2.3%	£32m
Fixed Interest	15.0%	13%	+2.0%	£28m
UK Property	4.3%	4%	+0.3%	£4m
Multi-Asset Income	17.5%	20%	-2.5%	£35m
Int’l Property +US\$ cash	2.8%	5%	-2.2%	£30m

Figures may not add up due to rounding

The column on the right of this table shows the amount of money which would need to be moved from each asset class to bring it to an on-weight position against the Strategic Asset Allocation benchmark. I regard all of the current weightings as within acceptable tolerances, particularly as the money awaiting drawdown into the International Property portfolio is now, in essence, held in short-dated UK corporate bonds which will be much less volatile than Global Equities, thereby reducing the risk. I regard the overweight in Global Equities and the corresponding underweight in Multi-Asset Income as a tactical decision which reflects the committee’s continuing commitment to a long-term holding in Equities and some elements of concern over the Multi-Asset Income portfolios at the current time..

### Chart 5: Assets by manager/mandate.



With asset values moving back towards the Fund’s peak valuation of autumn 2021 and bond yields having risen since then, there will have been limited change in the value of the Fund whilst the actuarial valuation of the Fund’s liabilities will have fallen markedly since the last actuarial revaluation thereby further raising the funding ratio. Given my view of inflation remaining above historic levels going forward, I would expect the actuary to have to alter their long-term inflation expectations slightly at the next triennial valuation which may counter this to a small extent.

I would note that both the current government and the opposition party seem to be intent on engaging more directly with the LGPS sector at present. LGPS pensions is one of the very few pots of money that parties believe they can influence and hence wish to use it to enact policy, particularly as the current departmental budgets are quite probably unachievable so there will be no financial slack in the system going forward unless we see greater economic growth in the UK. I do not see Government involvement in the LGPS as a positive as they are not the ultimate beneficiaries of this money nor are they acting entirely in those beneficiaries’ best interests.

## Environmental, Social and Governance (ESG)

In my report for the committee for the third quarter of 2023, I set out the requirements for the **Taskforce for Climate Related Financial Disclosure (TCFD) reporting**. Since then the Fund Chair and officers have had further discussions with the LCIV about the Fund producing a TCFD report and how LCIV could feed into the process and assist in the provision of data

As a reminder:

The Financial Stability Board established the TCFD to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system’s exposures to climate-related risks. The required reporting disclosure has four core elements:

- 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.

Each of these sections will require the Committee to think through its current approach to climate change, how this will evolve into the future and what metrics and targets it will monitor to hold itself to account. In essence, it will need to describe and quantify its existing practice and understanding and think through how this might change into the future.

As I noted in my 2023 report ‘TCFD reporting has already commenced for large, private sector pension schemes with the LGPS sector expected to follow using 2023/4 data. **I feel it is now best practice for LGPS Funds to complete TCFD reporting even if the current Government does not specifically mandate action on this point.**’

In order to achieve this, the committee will need to spend time deciding how to respond to the four headings for the report set out above, this needs to be done before the LCIV can help provide any data. In order for the Committee to think through what is required, I note below the web addresses of the latest review of TCFD reporting by the Pensions Regulator as well as a TCFD report for other funds which I think are well set out.

The Pension Regulator Review 2023

[Review of climate-related disclosures by occupational pension schemes: Year 2 | The Pensions Regulator](#)

Smart Pensions Master Trust TCFD report:

[https://assets-global.website-files.com/5de10f93d41c9be073b7c9ce/65a00a7c6af7557599e24218\\_tcf-report-june-2024.pdf](https://assets-global.website-files.com/5de10f93d41c9be073b7c9ce/65a00a7c6af7557599e24218_tcf-report-june-2024.pdf)

Oxfordshire LGPS TCFD report:

<https://www.oxfordshire.gov.uk/sites/default/files/file/pensions/OxfordshireTCFDReport.pdf>

## Executive Summary

- Inflation (including core inflation) fell slightly in Q1, but less than expected, driven by persistent wage and services prices, causing central banks to revise the more dovish stances they took in Q4 2023. All major central banks held their current rates in Q1, though the prevailing direction is still downward, albeit at a slower pace. Generally, economic indicators proved more positive than expectations, reducing some fears of stagnating growth and recessionary risk, but the UK and Europe are still showing declining GDP growth (with the UK entering a technical recession). China, whilst beginning to recover, is doing so slowly and is still struggling with its property crisis. The US once again led the way with a resilient domestic job market (unemployment at 3.8%) and a healthy consumer market leading to steady GDP growth.
- Q1 was positive for most markets bar government bonds, in keeping with the largely positive trend of 2023. Global equities (MSCI World) rose sharply by 9.0% in local currency terms over the quarter, with Growth (+10.0%) rising more sharply than Value (+6.9%). Emerging Market and UK equities notably lagged behind other markets, with Emerging Markets returning 2.4% in local currency and UK equities returning 3.6%. Following a strong 2023, Japanese equities had a spectacular quarter (returning c.20%) as optimism over positive economic indicators and the Bank of Japan’s (BoJ) monetary overhaul signalling a departure from negative rates drove foreign investment. UK equities suffered slightly from a value bias as well as the lack of rate cuts as the UK entered a technical recession. US equities performed strongly (+10.5%) as Q4 GDP growth was revised up and economic indicators improved. Bonds had weaker performance this quarter, as rate cuts were held across the major markets. Longer-dated Government Bonds (and index-Linked Bonds) showed the biggest fall,

particularly in the UK. Shorter-dated credit did better, with credit spreads tightening and investment grade credit underperformed high yield. Alternatives generally performed well, with private equity (+7.3%) as measured by the S&P Listed Private Equity Index showing the strong performance but real estate proving more mixed.

**It is worth highlighting the following themes, impacting investment markets:**

- **Core inflation continues stubbornly high – is c.4% rates the “new” normal?** Inflation generally fell slightly during the quarter but, particularly in the US, ticked up again towards the end of the quarter. Annual CPI fell to 3.4% in the UK (February) compared to 3.4% for the US and 2.4% for the Eurozone (March). But the fall in core inflation (excluding energy and food prices) has slowed and it remains uncomfortably high (3-5%), resulting in a more cautious reaction from central banks who mostly chose not to cut rates. Meanwhile, rising tension in the Middle East and continued strong growth (including a pick-up in China) have led oil back up over \$90/bbl, up almost 15% year-to-date which will close the gap between CPI and core inflation. It is likely that rates may stay elevated through much of 2024, and central banks will need to see evidence of weakening demand (e.g. recession) to cut them, i.e. a traditional “cycle”!
- **“Higher for longer“ interest rates may favour more defensive positioning.** High rates are a drag on businesses requiring funding and favour those businesses with strong free cash flows (FCF): this usually drives investors to favour large companies over smaller companies, cheaply valued equity over expensive (UK on 11x forward price/earnings ratio vs US on >20x), strong FCF yields (typically defensive business models, but also tech majors where cash generation is high; it penalizes leverage of all varieties (real estate, utilities etc) and also caveats higher yield fixed income; it increases cyclical risk, and, with credit spreads tight and US 10-year bonds yielding 4.6%, urges increased caution with credit risk. The accompanying inflationary pressure can benefit commodities (mining and energy equities are currently rallying). Having said all that, with expectations of interest rate cuts reset (fewer cuts now expected), it may be time to consider longer duration assets with some inflation characteristics (e.g. unlevered infrastructure, real estate).
- **Investment risk is higher and harder to diversify in inflationary environments.** In inflationary environments, where central banks have to balance taming inflation with causing recessions, equity/bond correlations tend to be positive: raising rates is mathematically bad for bond prices, but also increases recession risk, impacting equities. This means the traditionally stable assets (bonds), as well as being inherently more volatile, are also less likely to offset movements in risk assets (equities).

Global equities rose in Q1 on the back of good corporate earnings, positive economic data (particularly in the US) and increasing enthusiasm over AI. The VIX increased slightly over the quarter from 12 to 13, having fallen over the course of last year from the previous highs. Growth continued to outperform Value.

- In the US, the S&P 500 and NASDAQ rose by 10.6% and 8.7%, respectively. GDP growth for Q4 was revised up to 3.4%, above expectations, and Manufacturing PMI increased above 50 for the first time in over a year. Whilst this caused a positive reaction, the US Fed holding rates for the quarter tempered market sentiment. However, US Fed open markets committee still predicts three interest rate cuts this year.
- UK equities increased by 3.6% but continued to underperform global equities. Inflation continued to fall slightly to 3.4% but the Bank of England (BoE) held rates despite Britain entering a technical recession. Energy (excluding natural gas) and financial sectors, which the UK is biased to, performed well but the UK’s value bias hindered performance.
- The Euro Stoxx 50 rose by 12.9%, with the IT sector leading returns over AI enthusiasm. Inflation and core inflation continued to fall, now both under 3% but the European Central Bank (ECB) was more cautious in commentary around rate cuts as it wants to avoid a reversal. Composite PMI hit 50 again showing business levels are almost at stable levels (although Manufacturing PMI still lags significantly).
- Japanese equities returned 20% in Q1 in local currency. Optimism over wage growth and positive economic indicators drove foreign investment with the Nikkei reaching 40,000 Yen for the first time. The BoJ’s monetary overhaul (lifting negative interest rates, abandoning Yield Curve Control and the market purchase programme) led to further weakening of the Yen.
- Emerging market equities rose by 2.4% in Q1, with Asian Markets returning slightly better as China began to recover (although slowly), Indian Manufacturing grew due to relocations from China and Taiwan enjoying the AI boom. Outside of Asia markets saw mixed results as Turkey’s more orthodox interest rate policy instilled confidence, but South Africa and Egypt suffered from political tensions and 35% currency devaluation respectively. Colombian and Peruvian markets

saw positive monetary policy developments but generally Latin American returns were low, in part due to sensitivity to US rates.

- Yields generally rose over the quarter, dovish stances taken by central banks last quarter were tempered, resulting in mildly negative performance for most government bonds. Japan's Central Bank raised its policy rate for the first time in 17 years. The inversion of US yield curve (10-year minus 2-year yields) increased slightly but remained around -40bps. In corporate bonds, credit spreads tightened as default rates remain low and recessionary fears further reduced over the quarter.
  - The US 10-year Treasury yield rose from 3.88% to 4.20%, while the 2-year yield rose from 4.25% to 4.62%. The US Fed policy rates remained the same, but the US Fed slightly reigned back dovish rhetoric and delayed rate cuts whilst still predicting three quarter of a percent cuts for 2024.
  - The UK 10-year Gilt yield rose from 3.53% to 3.93% while 2-year yields rose from 3.95% to 4.17%. The BoE held rates this quarter as despite its continued fall, the inflation rate (particularly core inflation) remains above its peers as does wage growth.
  - European government bonds also fell in Q1 as yields rose, the ECB was also cautious and tempered previous dovish rhetoric. Italian – German spreads continued to tighten causing Italian bonds to outperform German bonds.
  - Corporate bonds outperformed Government bonds, with high yield leading but all returns were muted. US and European high yield returned 1.5% and 1.8%, while US, UK and European investment grade credit returned -0.4%, 0.2% and 0.6% respectively.
- Energy and livestock prices rose during Q1, with crude oil rising by 13.55% as supply and distribution difficulties met with an increased demand. Natural Gas was a notable exception falling almost 30%. Agriculture showed more modest returns, although West African supply shortages increased the cocoa price. Industrial metals showed mixed returns, but precious metals were broadly positive.
  - US gas prices fell even further in Q1 due to record production and abundant inventories with relatively mild winter temperatures.
  - OPEC+ supply cuts and geopolitical uncertainties limited supply (particularly Houthi attacks in the Red Sea redirecting shipping) causing the high Q1 demand to raise oil prices. Poor weather conditions also impacted supply from non-OPEC+ sources.
  - Gold and copper rose 7.0% and 3.0% respectively over Q1. Precious metals prices (particularly Gold) rose following concerns around geopolitical stability, while industrial metals were more mixed.
- Global listed property fell slightly this quarter, with the FTSE EPRA Nareit Global Index falling by -0.4% in Q1.
  - The Nationwide House Price Index in the UK has increased again this quarter, with the seasonally adjusted price index up 1.1% for the quarter and up 1.6% for the last 12 months.
  - European commercial property has finally bounced back slightly this quarter after a steady decline since early 2022, with the Green Street Pan European Commercial Property Price Index up by 1.4% this quarter versus -4.7% over the past 12 months.
- In currencies, US Dollar strengthened generally throughout the quarter (DXY 3.1%), slightly against Sterling, more against the Euro and significantly against the Japanese Yen. Bitcoin and Ethereum saw another quarter of very strong performance in Q1 (69% and 60% respectively) after the approval of the US spot bitcoin Funds by the US Securities commission and subsequent successful launch of multiple Funds.



## Performance report

Asset Class/ Manager	Global Equities/ Baillie Gifford via the LCIV
Fund AuM	£433m Segregated Fund; 30.9% of the Fund (inc £5m still held directly with BG)
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/Tim Golding 28/1/24

This portfolio is now held within the London CIV.

The portfolio returned 8.8% against a strong benchmark return of 9.3% over the quarter. It has now underperformed over the last 3 and 5 years. I have downgraded the manager to amber given the poor recent performance but remain supportive of their investment approach.

I continue to believe that the investment philosophy and process focusing on high growth businesses should aid performance going forward, especially in a lower growth environment. The companies held exhibit strong underlying growth in both sales and earnings and this will be reflected in market valuations over the longer term.

Asset Class/ Manager	Global Equities/MFS
Fund AuM	£412m Segregated Fund; 29.4% 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 4/12/23

The MFS portfolio returned 7.3% over the quarter, underperforming its benchmark by -1.9%. This brings the 1-year performance to a return of 17.8% which is 2.8% behind the benchmark. The portfolio has outperformed over the medium and longer term adding 1.1% p.a. over the benchmark since inception in January 2013. MFS retain a 'value' bias within the portfolio focusing on stocks which have a strong and defensible business model and have pricing power which is important in more inflationary times.

MFS remain cautious of the economic outlook at present and are stress testing their investments for the durability of the business franchise as well as concentrating on valuation support. Given that I remain somewhat cautious over the market outlook and expect that we are entering a lower growth, more challenging situation for many corporates, I do think that 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	£210m pooled fund; 14.9% of the Fund
Performance target	28.8% Sterling Gilts; 28.8% Sterling Non-Gilts; 42.5% 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 holds 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 and 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.

In addition the Fund now also holds a third Fidelity bond fund which is focused on the UK short duration investment grade bonds following an allocation to this Fund in October last year.

The two existing bond portfolios returned 0.8% over the quarter, in line with their index. Over the longer term the portfolio has outperformed, adding 0.7% per annum over the benchmark over the last 25 years.

The short-dated bond portfolio returned -0.3% against a benchmark return of 0.6% over the quarter.

The first quarter saw UK Gilt yields stabilise after falling across the duration curve in the final quarter of last year as central banks in the US, EU and UK all took a more dovish tone on the outlook for inflation and thereby interest rates. Economic data during the quarter showed more resilient growth with stickier inflation than expected forcing investors to assume a slower reduction of interest rates than previously expected.

Asset Class/Manager	Multi-Asset Income / Fidelity
Fund AuM	£123m Pooled Fund; 8.8% of the Fund
Performance target	LIBOR +4% including a yield of 4% per annum
Adviser opinion	
Last meeting with manager	Talib; Tom Jeffrey; Jessica Miley/John Arthur various

Asset Class/Manager	Multi-Asset Income / Schroders
Fund AuM	£122m Pooled Fund; 8.7% of the Fund
Performance target	LIBOR +5% including a yield of 4% per annum
Adviser opinion	
Last meeting with manager	John Arthur/ Russel Smith/Remi Olu-Pitan 9/2/24

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 assets into unfavourable market conditions but can continue to invest for the long-term.

During the quarter the Fidelity portfolio returned 1.4% whilst the Schroders portfolio rose by 3.2%. Over the last year a noticeable performance gap has opened up between the two portfolios with Fidelity up 5.2% and the Schroders portfolio up 9.6%. Fidelity have bought in a new lead manager who is experienced in managing Multi-Asset portfolios, he appears to be slightly more market orientated putting more weight on market direction and momentum whilst hunting for greater upside potential but with downside protection.

I continue to see these two portfolios as important building blocks in the construction of the Fund as, by providing income to the Fund, the Fund's cash flow is supported and the ability to cover pension payments ensured. This allows the Fund to take

on more investment risk elsewhere as they will not be forced to sell more volatile, higher risk assets to cover pension payments in difficult market conditions. I will, however, continue to challenge both managers over the structure of their portfolio over the next few months.

Asset Class/Manager	UK Commercial Property / Fidelity
Fund AuM	£60m Pooled Fund 4.3% of the Fund
Performance target	IPD UK All Balanced Property Index
Adviser opinion	
Last meeting with manager	Alison Puhar; Tom Jeffery; Jessica Miley/ John Arthur 12/3/24

### See appendix 1

Asset Class/Manager	International Property / Morgan Stanley
Fund AuM	USD80m (£63.2m) committed / £24.8m drawn. Limited Partnership; 1.8% of the Fund
Performance target	Absolute return
Adviser opinion	
Last meeting with manager	John Arthur/Gareth Dittmer New Haven AGM 11/11/23

The speed of investment is now picking up as the manager becomes more comfortable with current valuations within international property markets. Existing investments are performing well but the portfolio's independent valuers are only prepared to give credit to an uplift in their valuations at the point of sale given the uncertainties around property markets at present and as the portfolio has sold very few assets to date, its valuation remains conservative. The portfolio has made a number of small property divestments so far, each returning above initial expectations with a gross return of 25-30% and with 1.4 – 1.8 times the initial investment being realised at the time of sale.

## London Borough of Bromley Pension Fund

## 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.	<p>We await the final regulations.</p> <p>DLUHC have confirmed that implementation of climate reporting obligations will be delayed at least until next year. (<a href="#">Click Here</a>)</p> <p>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.</p> <p>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.</p>	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. <b>Officers have engaged LCIV to produce a climate analytics report pro bono. Apex will cover any TCFD requirements not covered by the LCIV service.</b>
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 ( <a href="#">see here</a> ) that the statutory guidance on investment strategy statements (ISS) will change to say that funds should <b>transfer all assets into their respective investment pools by 31 March 2025</b> , with 'comply or explain' provisions backing this expectation. The revised guidance will also require that funds formulate plans to <b>invest up to 5% of their assets in levelling-up projects</b>	We await revised pooling guidance.	LBB provided a full response to the consultation, after consideration by Members at the 11 September meeting.

	(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 <b>invest 10% in private equity</b> ; they will be encouraged to explore suitable opportunities with the British Business Bank.		
3. The Boycotts, Divestments and Sanctions Bill	<p>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.</p> <p>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.</p>	The Bill reached the committee stage in the House of Lords in March 2024.	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. 'Preparing the Pension Fund Annual Report' updated guidance new published	<p>This guidance published by SAB, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Department for Levelling Up, Housing and Communities (DLUHC).</p> <p>It replaces the 2019 guidance produced by the CIPFA Pensions Panel, which was</p>	The new guidance applies to 2023/24 annual reports which are due for publication by 1 December 2024, and later years. The guidance says funds should use their best endeavours to comply fully with the requirements for 2023/24 but exercise judgement where, because of changes to the previous content, to do so would require disproportionate effort or	LBB will use its best endeavours to comply fully with the requirements for 2023/24.

	disbanded in 2021.	cost.	
<b>Governance</b>			
<b>Topic</b>	<b>Description</b>	<b>Timescale</b>	
1. The Good Governance Project. ( <a href="#">click here</a> )	<p>The SAB expects almost all of its recommendations being taken forward:</p> <ul style="list-style-type: none"> <li>• The LGPS senior officer</li> <li>• Workforce strategy</li> <li>• Monthly data collection mandated</li> <li>• Administration KPIs</li> <li>• Enhanced training requirements</li> <li>• Demonstrating compliance and offering resilience</li> </ul>	<ul style="list-style-type: none"> <li>• Consultation on final regulations is expected in 2024.</li> </ul>	As and when related regulations are published by DLUHC an action plan will be produced.
2. Cost control mechanisms for the LGPS following the 2016 Valuation and 2020 Valuation	<p>Public service pension schemes are subject to a cost cap mechanism. Scheme costs are measured at each actuarial valuation.</p> <p>If costs move too far from a target cost, then member contributions or benefits must be adjusted to return costs to the target level.</p> <p>The government decided that the McCloud remedy should be included in the costs compared against the target cost for the cost control exercise following the 2016 Valuation.</p> <p>Two union challenged this in the High Court and Court of Appeal and were defeated both times.</p>	<ul style="list-style-type: none"> <li>• The cost control exercise following the 2016 Valuation appears now to be closed without any backdated changes to scheme benefits.</li> <li>• The Scheme Advisory Board has already stated that it is not minded to recommend to the Secretary of State any changes to scheme benefits through the 2020 cost cap process.</li> </ul>	No action needed.
3. TPR's General Code	<p>In March 2024, TPR's new General code of practice came into force.</p> <p>It covers all governance (including investment governance) and administration conduct and practices required of an LGPS fund. TPR has categorised the new General Code into five areas:</p> <ul style="list-style-type: none"> <li>○ The Governing Body</li> <li>○ Funding and investment</li> </ul>	<p>The General Code (see <a href="#">here</a>) provides LGPS funds with a strong framework to assess existing fund compliance levels concerning the running of the Fund, managing advisers and service providers, risk management and, importantly, the administration of the scheme for members.</p>	LBB will conduct a gap analysis.

	<ul style="list-style-type: none"> <li>○ Communications and disclosure</li> <li>○ Administration</li> <li>○ Reporting to TPR</li> </ul>		
<b>Administration</b>			
<b>Topic</b>	<b>Description</b>	<b>Timescale</b>	
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	<p>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:</p> <ul style="list-style-type: none"> <li>• the age requirement for underpin protection will be removed;</li> <li>• the remedy period will end on 31 March 2022;</li> <li>• the underpin calculation will be based on final pay at the underpin date,</li> <li>• even when this is after 31 March 2022;</li> </ul> <p>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.</p>	<p>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.</p> <p>The Local Government Pension Scheme (Amendment) (No. 3) 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.</p>	<p><u>Data collection exercise:</u> Under the SAB and LGA guidance, LBB has completed the McCloud data collection exercise (most employers have responded).</p> <p><u>Resources:</u> Resourcing impact considered and being addressed with Liberata and additional in-house resource</p> <p><u>Action required (subject to SAB and LGA guidance):</u></p> <ul style="list-style-type: none"> <li>- Project management</li> <li>- Data treatments for missing data and overriding current data</li> </ul>
3. Sharia Law and the LGPS report	The Scheme Advisory Board has received a report from a King's Counsel into the relationship between Sharia Law and the LGPS. The key messages from her advice are that the legal risk of a case being successfully brought	The summary of Counsel's advice is <a href="#">here</a>	No action needed.

	<p>against a scheme employer in an Employment Tribunal on the basis of indirect discrimination, or a judicial review being brought against an administering authority or the Department for Levelling Up, Housing and Communities (DLUHC) for breach of the public sector equality duty, remain extremely low.</p>		
<p>4. Increase to the minimum pension age</p>	<p>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.</p> <p>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.</p>	<p>With effect from 6 April 2028.</p>	<p>LBB will ensure that communications to members reflect this change.</p>
<p>5. Pensions Dashboards Programme (PDP) (<a href="#">click here for details</a>)</p>	<p>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.</p> <p>The Pensions Dashboards Regulations 2022 were given approval by Parliament, empowering PDP to set dashboards standards that underpin legislation.</p>	<p>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.</p> <p>There will be engagement between the Pensions Dashboards Programme (PDP), DWP [Department for Work and Pensions], industry, and regulators on draft guidance before it is finalised.</p>	<p>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.</p>



<p>6. Tax changes from 6 April 2024</p>	<p>From 6 April 2024, the Lifetime Allowance has been abolished (the “LTA” was the limit on the amount of savings that an individual can build up in all their pension arrangements without incurring a tax charge).</p> <p>There is no longer a specific limit on how much pension savings an individual can build up in their lifetime.</p> <p>However, there is still a limit on the amount of tax-free cash that can be taken</p> <p>There are 2 pension tax limits instead of the LTA:</p> <ol style="list-style-type: none"> <li>1. Lump Sum Allowance (LSA). The LSA is £268,275. It is the maximum amount of tax-free lump sums taken across all pensions.</li> <li>2. Lump Sum and Death Benefit Allowance (LSDBA). The LSDBA is £1,073,100. It limits the amount of tax-free cash across all pensions when members die or on the payment of a serious ill-health lump sum.</li> </ol> <p>Most members will not meet these limits.</p>		<p>LBB will ensure that communications to members reflect the changes.</p>
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**Consultation**

Topic	Description	Timescale	
<p>1. Goodwin (<a href="#">click here for details</a>)</p>	<p>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.</p>	<p>Consultation is expected in 2024 on a retrospective award of widowers’ pensions backdated to 2005.</p>	<p>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.</p>

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