PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.30 pm on 9 November 2011

Present:

Councillor Paul Lynch (Chairman)
Councillor Richard Scoates (Vice-Chairman)
Councillors Julian Grainger, Russell Jackson and Neil Reddin

Also Present:

Mr Glenn Kelly (Non-Voting Staff Representative)
Mr Alick Stevenson, Allenbridge Epic Investment Advisers

13 APOLOGIES FOR ABSENCE AND NOTIFICATION OF ALTERNATE MEMBERS

Apologies were received from Councillors Eric Bosshard and Russell Mellor.

14 DECLARATIONS OF INTEREST

Councillors Paul Lynch, Julian Grainger, Neil Reddin and Richard Scoates declared a personal interest as Members of the Bromley Local Government Pension Scheme.

15 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 14th SEPTEMBER 2011, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes were agreed.

16 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

There were three matters outstanding – from the Sub-Committee's previous meeting - and the position on these was summarised on the agenda front sheet.

Concerning the appointment of an independent adviser to the Sub Committee, the Chairman introduced Mr Alick Stevenson of Allenbridge Epic Investment Advisers. Considering the implications of the Myners review, the Finance Director had discussed the need for an independent adviser with other boroughs and Allenbridge would work with LB Bromley with an agreement for one year. Mr Stevenson would contribute to performance reporting on the Pension Fund - providing independent advice at the meetings - and contribute to the review of the Fund's asset allocation strategy. It was intended that

Members see how the arrangement worked and provide feedback. Mr Stevenson's crucial role would be to provide independent financial advice.

17 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

18 GENERAL UPDATE

Report RES11123

Members considered a general update on changes that will impact on the Pension Fund including proposals for short term savings in the LGPS and key elements of the Government's revised offer on Public Sector Pensions published on 2nd November 2011.

The Finance Director introduced the report. Concerning the Government's revised offer on public sector pensions announced on 2nd November the Director felt that the proposals would not necessarily represent a "sustainable deal that will endure for at least 25 years" as further change would seem inevitable given a cap on employers costs by the cost ceiling. Although there would be potential short term savings with employer savings of £1.5m by year 3, the opt out issue from the scheme was a key factor that could impact on the pension fund.

Mr Glen Kelly felt there would be opt out by staff who were effectively having to take a pay cut and work longer. He felt that the Sub Committee could give a strong measure of support against the Government's proposals. Mr Kelly felt that staff with a lot of service could stop paying into the scheme and the Council would continue to have a liability for those staff leaving the scheme. Mr Kelly also highlighted that a part time worker has to pay the pension scheme contribution rate of a full time worker and proposals for higher contribution rates effectively equated to a real time pay cut. A Member questioned whether it was right that a part time member of staff would have to pay the contribution rate of a full time member of staff and the Director confirmed that this was the position suggesting that there was a larger risk of opt outs within this category of staff. A Member highlighted that contribution rates were not proposed to change for low paid workers.

RESOLVED that the report be noted.

19 PENSION FUND PERFORMANCE

Report RES11129

The report to Members included: details on the investment performance of Bromley's Pension Fund for the first two quarters of 2011/12; information on general financial and membership trends of the Fund; and summarised information on early retirements.

In introducing the report the Director referred to a general concern for short term performance against benchmark – particularly by Fidelity and whether this would continue. A meeting would be held with Fidelity where there would be discussion on whether the company would be looking to change investment strategies.

The Chairman welcomed Mr Stevenson and invited him to provide a report on fund performance and economic outlook. A quarterly investment report had been provided by Mr Stevenson/Allenbridge and emailed to Sub Committee Members in advance of the meeting.

On Fund Performance Mr Stevenson explained that both Fund Managers had under performed during the last quarter and for each of them it was the third quarter of under performance. Baillie Gifford's performance was strong though given the economic climate but Fidelity had slightly under performed over three years and this was a worry.

It was felt that Fidelity's tendency to hug the benchmark asset allocations had had a detrimental effect on their performance and was perhaps an indication that they had lost their appetite for risk. Baillie Gifford, on the other hand, made much more use of the benchmark "band widths" to invest in other places e.g. emerging markets and they invested with intellect.

Additionally Mr Stevenson commented that the two Fund Managers were in separate silos each with their specific benchmark and there was no holistic approach. The Fund had performed well over the past five to ten years but strains were now coming into the structure.

Concerning economic outlook Mr Stevenson explained that the markets were volatile and were, he felt, reacting to disinformation. It was likely that Greece would accept the EU bailout and for Italy, where funding had hit rates of 7%, Mr Stevenson thought it would be difficult for the country to rein in profligate spending. Further afield Chinese domestic inflation had fallen slightly which might mean the US and China having a more level playing field.

The Chairman asked how the positions in Greece and Italy might affect Bromley's Fund. Mr Stevenson explained that the Fund Managers had little investment in either country. Mr Stevenson also suggested that questions be asked of Baillie Gifford on their holdings in Olympus Corporation.

Highlighting a scenario where QE might be used in Europe to pay for debt, a Member felt that this approach risked inflation in the eurozone which could result in certain countries reverting back to former currencies. Accordingly he enquired why the Fund Managers did not report on currency as an asset class. The Member also enquired about benchmark drivers. He felt that the benchmarks should be set relative to a target return (i.e. the rate of future increase in pension fund liabilities) rather than have a position where they are relative to a market which is fluctuating.

Responding on currencies as an asset class, Mr Stevenson felt that Baillie Gifford had not hedged currencies because they had not been asked to when their choice of funds had been approved and their benchmark set on appointment. It was possible to have a hedged benchmark hedging back to sterling but this was a decision LBB needed to make.

Mr Stevenson felt that a benchmark that moved around was not good. If it was possible to calculate the rate of return needed that would become the benchmark. The Principal Accountant (Technical and Control) added that this approach was tried with Credit Agricole in 2008 with the target of matching the rate of future increase in the fund's liabilities (c.6.7% at that time). For the first six months, performance was good, but returns for the following year were poor and the agreement was terminated. In considerations going forward Mr Stevenson explained that benchmarks/structure can be looked at along with actuarial performance and LBB could come to a conclusion on which measure was appropriate for the Fund.

Responding to further questions from another Member, Mr Stevenson referred to chasms having appeared in the Euro project. A low proportion of Bromley's Fund is invested in Europe (c. 16%). The knock on effect of the current euro zone crises was difficult to predict. Overall Mr Stevenson felt that it was not a time to change asset allocation but to think about the future.

Concerning the U.S., Mr Stevenson felt that it would come back at some stage as it was a large economy. The biggest problem he felt for the U.S. was its trade deficit with China. If the U.S. "went wrong" China would suffer as the U.S. was a key market.

RESOLVED that the report be noted.

20 LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND FREEDOM OF INFORMATION ACT 2000

21 CONFIRMATION OF EXEMPT MINUTES - 14TH SEPTEMBER 2011

The Part 2 minutes were agreed.

22 PENSION FUND - INVESTMENT REPORT

Quarterly reports (to 30th September 2011) from Fidelity and Baillie Gifford had been circulated prior to the meeting and two Baillie Gifford representatives attended the meeting to present their report and answer questions.

The Meeting ended at 9.25 pm

Chairman