

PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.30 pm on 9 February 2012

Present

Councillor Paul Lynch (Chairman)
Councillor Richard Scoates (Vice-Chairman)
Councillors Eric Bosshard, Julian Grainger and Russell Mellor

22 APOLOGIES FOR ABSENCE AND NOTIFICATION OF ALTERNATE MEMBERS

Apologies were received from Councillors Neil Reddin and Russell Jackson.

23 DECLARATIONS OF INTEREST

Councillors Paul Lynch, Eric Bosshard, Julian Grainger, Russell Mellor and Richard Scoates declared a personal interest as Members of the Bromley Local Government Pension Scheme.

24 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 9TH NOVEMBER 2011 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes were agreed.

25 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

It was reported that the Pension Fund Annual Report 2010/11 was published by the statutory deadline of 1st December 2011.

The latest position agreed by Government on the Local Government Pension Scheme was also reported and provided the following main proposals:

(a) the planned increase in employee contributions would not be implemented in 2012/13 and 2013/14;

(b) the changes arising from the Hutton proposals would be implemented from April 2014 (brought forward from April 2015).

26 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

27 PENSION FUND PERFORMANCE Q3 2011/12

Report RES12030

Summary details were provided of the investment performance of Bromley's Pension Fund for the first three quarters of the 2011/12 financial year along with information on general financial and membership trends of the Fund and summarised information on early retirements. Further detail on investment performance was provided by the Fund's external advisers, AllenbridgeEpic, and appended to Report RES12030.

The market value of the Fund rose during the December quarter to £462.1m and at 30th January 2012 the fund value had increased to £483.2m. Both managers were 0.4% ahead of their respective benchmarks for the December quarter but over the year to 31st December 2011, both Managers had a negative return of -4.5%, Baillie Gifford being 0.4% behind their index and Fidelity being 2.6% behind theirs. Nevertheless the Fund's medium and long-term returns remained strong. Comparative returns for the fund managers over 3, 5 and 10 years to 31st December 2011 showed that Baillie Gifford's returns compared favourably with those of Fidelity.

The Fund Managers had provided a brief commentary on recent developments in financial markets, their impact on the Council's Fund and the future outlook. A further appendix to Report RES12030 provided commentary and a summary of early retirements by employees in the Fund in the current and previous years.

Details of the position to 31st December 2011 for the 2011/12 Pension Fund Revenue Account was additionally provided along with fund membership numbers. A net surplus of £6.4m was achieved in the first three quarters of the year (mainly due to investment income) and total membership numbers rose by 129. The overall proportion of active members, however, was declining and had fallen from 38.5% at 31st March 2011 to 36.7% at 31st December 2011.

The Sub-Committee's Independent Adviser, Mr Alick Stevenson, provided views on the Fund's performance during the last quarter. He felt that Baillie Gifford continued to do well but on a rolling three years he felt that Fidelity had started to drift, simply hugging the benchmark and indices. At total Fund level returns were still good but with Baillie Gifford producing most of them. It was important to find out how Fidelity intended to improve their performance and was it the case that Fidelity's mandate was not suiting their purposes? Mr Stevenson also highlighted that four senior Partners were leaving Baillie Gifford and the company were to be congratulated on the smooth handover of responsibilities to those who had been shadowing the Partners in their work. Responding to a suggestion from Councillor Julian Grainger that Allenbridge Epic's quarterly investment report on the Fund included some commentary on

currency exposure, Mr Stevenson suggested that Councillor Grainger define in writing what he particularly wanted to see.

RESOLVED that the report be noted.

28 PENSION FUND INVESTMENT STRATEGY REVIEW

RES12031

In September 2011, the Sub-Committee agreed that *“a review of the Fund’s asset allocation strategy, including property and absolute return funds, be undertaken, with outcomes reported to the Sub-Committee in February 2012”*. The report to the Sub Committee included an Investment Strategy Review report prepared by the Council’s actuary, Barnett Waddingham LLP, and a future investment strategy was recommended for the Fund.

At a meeting of interested parties shortly before Christmas, there was a degree of consensus with discussions and views matching fairly closely the thoughts and conclusions of Barnett Waddingham’s detailed report, which, although not available at the meeting, was nearing its first draft stage. Detailed minutes of the meeting were appended to Report RES12031.

The proposals for a future investment strategy sought to retain an 80%/20% growth/protection profile similar to the existing strategy. They also sought to improve the underlying long-term investment return by eliminating arbitrary regional weightings (e.g. UK, Europe, US, etc), so providing more flexibility for Fund Managers to take advantage of investment opportunities in the world’s stock markets. This approach to improving long-term investment returns was endorsed by the Fund Managers and the Council’s external advisers, AllenbridgeEpic. The fee profile would change, but this was expected to be offset by higher investment returns.

The proposals also included investment in Diversified Growth Funds (DGF), which was expected to provide a proportion of investment in property assets as well as in a variety of other investment opportunities. A 20% protection profile remained for investment in corporate bonds and gilts.

Given the importance of medium and long-term performance, other future changes related to implementation of the Hutton Report recommendations from April 2014, and potential implications arising from a reduction in the proportion of active Fund members, there would need to be ongoing periodic review of the investment strategy as well as any long-term changes arising from economic events.

Introducing the item, the Finance Director referred to the economic times and the expectation of at least 7% ongoing returns as an underlying assumption with the aim of an even higher return. A positive cash position continued to be maintained. Regional classes were held on equities but it was important for Fund Managers to make the right choices and achieve the best returns. The

approach was also about how employer contributions to the fund could be minimised.

Linked to Barnett Waddingham's Investment Strategy Review, a Partner of Barnett Waddingham gave a presentation detailing considerations and recommendations from the review. Details of the presentation are provided at **Appendix A** and Baillie Gifford and Fidelity representatives were also present during this item. Barnett Waddingham also provided a handout of asset classes available to local government pension funds.

Concerning an 80% proportion of the proposed mandate allocation recommended for growth (paragraph 3.11 of Report RES12031), the Finance Director indicated a preference to see further consideration given to the balance between passive global equities at 30% and unconstrained (active) growth at 40% with 10% to DGF. He indicated that the proposed further report to the next meeting would include consideration of the passive and active balance of the Fund's global equities element. This approach was agreed.

RESOLVED that the Sub-Committee:

(1) note the report;

(2) agree proposed changes to the asset allocation strategy outlined in Report RES12031, including a strategy allocation of 80% for growth and 20% for Protection, subject to the balance between passive global equities and unconstrained growth being considered further at the next meeting; and

(3) receive a further report at the Sub Committee's next meeting outlining (i) the detailed arrangements required to implement the new asset allocation strategy and (ii) any further consideration of the allocation of global equities between passive and unconstrained as referred to at (2) above.

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

30 CONFIRMATION OF EXEMPT MINUTES - 9TH NOVEMBER 2011

The Part 2 Minutes were agreed.

31 PENSION FUND - INVESTMENT REPORT

Quarterly reports (to 31st December 2011) from Baillie Gifford and Fidelity had been circulated prior to the meeting and on this occasion representatives of

both Baillie Gifford and Fidelity attended independently to present their investment report and answer questions.

The Meeting ended at 9.40 pm

Chairman