PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.30 pm on 9 May 2013

Present

Councillor Paul Lynch (Chairman)
Councillor Julian Grainger (Vice-Chairman)
Councillors John Ince, Russell Mellor, Neil Reddin FCCA and Richard Scoates

75 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies were received from Councillor Stephen Wells.

76 DECLARATIONS OF INTEREST

Councillors Paul Lynch, Julian Grainger, Russell Mellor, Neil Reddin and Richard Scoates each declared an interest as members of the Bromley Local Government Pension Scheme.

77 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 12TH FEBRUARY 2013 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes were agreed subject to the first sentence of the penultimate paragraph at Minute 70 being amended to read: *"Councillor Grainger indicated that it could be difficult to grasp how the Pension Fund can increase in value and yet be further from meeting the future liabilities."*

78 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

Members were updated on the matters below.

(a) Auto-enrolment

At their meeting on 14th February 2013, the General Purposes and Licensing Committee agreed that the transitional period (between 1st March 2013 and September 2017) be used to defer automatic enrolment for eligible jobholders who, on 1st March 2013, were not members of either the LGPS or the TPS. This would mean that costs would also be spread over a period of years.

(b) London Mutual Pension Fund

The Director of Finance provided an update to reflect recent developments.

There have been various recent appointments to the London Pensions Fund Authority (LPFA) Board and they all appear to favour a merger of London Boroughs pension funds. Recent press reports indicate that the Parliamentary

Under-Secretary of State will announce a consultation paper later this month considering the option of merging pension funds. Poorer performing pension funds are likely to be keen to merge with better performing funds.

L B Bromley does not support the merger of funds for various reasons including, for example, significant set up costs, lack of evidence that “big is best”, risks of inefficiency and diversion into investments that would not provide the best financial returns. Bromley’s fund had chased returns with a high level of equity investment and larger funds did not necessarily perform better. The earliest a merger could start would be around 2017.

London Councils were proposing an alternative arrangement based on a collective fund which would provide more buying power and enable greater co-operation across the London boroughs. The structure would enable each borough to retain autonomy in asset allocation and funding strategy. There would be no obligation on London Boroughs to join and Boroughs could “pick and choose”.

Cllr. Grainger felt that economies of scale on merger were significantly overstated and there would also be a lack of flexibility. The Chairman was also concerned and he sent a letter opposing the merger and there was discussion about the engagement of a local MP to support Bromley’s concerns.

It was felt that any future direction could lead to infrastructure investment in certain sectors which may provide the best long term investment solution.

(c) Consultation on access by Councillors and other elected office holders to the LGPS

The consultation period had started with responses due to Government by 5th July 2013. Following the meeting, Sub Committee Members considered the questions posed in the Consultation document and options outlined for future arrangements.

(d) LGPS changes from 2014

Regulations on new LGPS arrangements would come into effect in 2014. The Council had indicated to Government that the measures did not go far enough in reducing employer costs. Additionally, non-consolidated bonuses continued to be pensionable in contrast to other public sector schemes e.g. Civil Service and Health Service. The Government had not reflected the Council’s concerns in the latest proposals. The Leader of the Council had also made representations with support of various other local authorities.

(e) Changes to State Pension

New state pension arrangements had been brought forward to 2016/17. Contracted out National Insurance would be abolished resulting in a potential additional cost to the Council of £1.3m per annum.

(f) Triennial valuation

The actuary would start work on the Pension Fund's Triennial valuation in June 2013. Initial figures would be provided in July 2013 with actual figures available in October 2013.

Although returns had been good, there was concern over liabilities. An update will be provided at the Sub Committee's next meeting. Any worsening deficit position will need be considered as part of the 2014/15 Budget process including reporting to the Executive and E&R PDS Committee.

79 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

80 PENSION FUND PERFORMANCE Q4 2012/13

Report RES13088

Summary details were provided of the investment performance of Bromley's Pension Fund for the financial year 2012/13 along with information on general financial and membership trends of the Fund and summarised information on early retirements. The Fund's external advisers, AllenbridgeEpic provided further detail on investment performance and Fidelity and Baillie Gifford each provided an update report on performance and economic outlook/prospects.

The market value of the Fund rose during the March quarter to £583.9m compared to £499.5m at 31st March 2012. By 24th April 2013, the Fund value had risen to £585.9m.

Until 2006, the target for Fund managers was to outperform the local authority universe average by 0.5% over rolling three year periods. Following a review of management arrangements in 2006, both managers were set performance targets relative to their strategic benchmarks; Baillie Gifford's target to outperform the benchmark by 1.0% - 1.5% over three-year periods and Fidelity's to outperform by 1.9% over three-year periods. Although the 2012 strategy review saw maintenance of an 80%/20% split between growth seeking assets and protection assets, the growth element would comprise a 10% investment in Diversified Growth Funds (DGF) and 70% in global equities, the latter removing arbitrary regional weightings in favour of flexibility in world stock markets and potentially improved long-term returns.

Baillie Gifford and Standard Life each received £25m on 6th December 2012 from Fidelity's equity holdings to establish the 10% DGF allocation (Phase 1 of the new strategy). For this, Baillie Gifford achieved a 5.0% return In the March quarter against a benchmark of 3.5% above base rate and Standard Life achieved a 3.7% return against a benchmark of 5% above the six month Libor rate.

On performance generally, Baillie Gifford returned 11.9% in the March quarter (2.2% above the benchmark) and Fidelity returned 11.5% (1.9% above benchmark). The Fund's medium and long-term returns also remained strong and long-term rankings to 31st December 2012 were good. Baillie Gifford's returns for three years and ten years ended 31st March 2013 (10.0% and 11.5% respectively) compared favourably with those of Fidelity. Over five years, both made an annualised return of 9.7%.

Details were also provided of the provisional outturn for the 2012/13 Pension Fund Revenue Account along with fund membership numbers. A provisional net surplus of £7.5m was achieved (due to investment income of £10.2m).

Expanding on his performance report, Mr Alick Stevenson provided further commentary on global economic conditions and highlighted key points on the Fund's performance. Overall he felt it was a good quarter.

With reference to L B Bromley's £13m investment in Baillie Gifford's Active Gilts Plus Fund, Councillor Russell Mellor enquired of the background to the BG Fund being ranked 547 from 647. Mr Stevenson thought the investment performance provided a solid return over the previous 12 months. The fund returned 6.5% against an index of 5.3% and Mr Stevenson indicated that the index was the FTSE Active Gilt Index. Mr Ken Barker of Baillie Gifford indicated that the index comprised a return on all gilts and the fund had performed well against that index, 647 providing the highest yields.

RESOLVED that the report be noted.

81 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

82 CONFIRMATION OF EXEMPT MINUTES - 12TH FEBRUARY 2013

The Part 2 minutes were agreed.

83 AFFINITY SUTTON PENSION ARRANGEMENTS

Report RES12161

In line with a recommendation from the General Purposes and Licensing Committee on 26th September 2012, Members considered proposals from Affinity Sutton concerning their Admitted Body pension arrangements.

84 REVISED INVESTMENT STRATEGY - PHASE 2 UPDATE (GLOBAL EQUITIES)

Report RES12161

Members considered an update on Phase 2 of the Council's revised investment strategy along with proposals related to the tendering process for Phase 2 of the Strategy.

THE FOLLOWING ITEM, NOT INCLUDED IN THE PUBLISHED AGENDA, WAS CONSIDERED AS A MATTER OF URGENCY ON THE FOLLOWING GROUNDS:

To enable the Sub Committee to consider Investment Reports from the Council's Fund Managers for quarter ended 31st March 2013 and to receive a presentation on performance from representatives of Bailie Gifford.

85 PENSION FUND - INVESTMENT REPORT

Quarterly performance reports (to 31st March 2013) from Baillie Gifford and Fidelity had been circulated to Sub Committee Members prior to the meeting along with quarterly reports (to 31st March 2013) from Standard Life Investments and Baillie Gifford in respect of the Diversified Growth Fund investments.

Representatives from Baillie Gifford attended the meeting to present their investment review and answer questions.

The Meeting ended at 9.39 pm

Chairman