

## **PENSIONS INVESTMENT SUB-COMMITTEE**

Minutes of the meeting held at 7.30 pm on 23 September 2015

### **Present**

Councillor Teresa Ball (Chairman)  
Councillor Keith Onslow (Vice-Chairman)  
Councillors Eric Bosshard, Simon Fawthrop, David Livett and  
Russell Mellor

### **Also Present**

Councillor Graham Arthur, Resources Portfolio  
Jane Harding, Employer Representative - Local Pension  
Board  
Alick Stevenson, AllenbridgeEpic Investment Advisers  
Brian Toms, Employer Representative - Local Pension  
Board

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

No apologies were received.

#### **2 DECLARATIONS OF INTEREST**

Councillor Russell Mellor declared a personal interest by virtue of receiving a Pension from the Local Government Scheme. Councillor Simon Fawthrop declared a personal interest as a former Member of the Local Government Pension Scheme.

#### **3 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 19TH MAY 2015**

The minutes were agreed.

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

There were no questions.

#### **5 GENERAL UPDATE**

##### **Report FSD15058**

An update was provided on various matters affecting the Pension Fund. This included: (i) the pooling of Investments; (ii) State Pension Reforms and the cost of Contracted-Out National Insurance removal; (iii) Local

Pensions Board; (iv) a combined Local Pension Board (an Administering Authority discharging its functions through an existing Committee could, with Secretary of State approval and subsequent conditions, combine its Local Pension Board and Pensions Committee); (v) the forthcoming Pension Seminar; (vi) consultation on a Public Sector Exit Payment Cap (including a potential redundancy payments cap and reducing costs of unreduced early retirement pensions); and (vii) reference to the “*Options for Reform*” work for the LGPS Scheme Advisory Board, including a complete separation of pension fund from host authority. Further details of an investment proposal were also provided at Part 2 of the Sub-Committee’s agenda.

Concerning the Local Pensions Board (LPB), it was suggested that members of the Board receive a copy of the Sub-Committee’s full agenda for future meetings (including any Part 2 material).

Noting that the Board unanimously requested to meet at the same frequency as the Sub-Committee, it was highlighted that the Board’s terms of reference would need changing before it could meet more than once per year. Additional meetings each year would increase administration costs to the Pension Fund. Any case for changes to the Board’s Terms of Reference would need Full Council agreement with the Sub-Committee and General Purposes and Licensing Committee first considering the evidence for change. LPB Members have been requested to provide a robust workplan prior to any further consideration of frequency of their meetings. No decisions on changes in frequency had been made at this stage. LPB Members would continue to be invited to each meeting of the Sub-Committee. They could also contribute to discussion and were welcome to attend future Pension seminars.

An update was also provided on Government proposals for the pooling of investments. This included reference to proposals in the Chancellor’s Summer Budget. The Government had subsequently indicated a wish to see all assets (including equities and bonds) pooled within three years, with more time for unlisted assets. Administering Authorities were expected to pool scheme assets into eight or less investment pools, each pooled fund comprising a significant size. In November 2015, the Department of Communities and Local Government (DCLG) was expected to publicise (i) legislative changes to give the Secretary of State increased powers; (ii) proposed changes to investment regulations; (iii) criteria to determine pooling of investments; and (iv) back-stop measures to ensure that Government “common criteria” for pooling could be imposed on non-complying schemes. The Government was expected to formally consult and invite authorities to indicate by February 2016 how assets were to be pooled to fulfil the criteria. For authorities not wishing to join pooled arrangements it was proposed that the Secretary of State would have additional intervention powers.

The Director of Finance indicated that, subject to Members’ views, the response to Government could be on the basis that pooling options should not be geographically based and various pooled schemes could be used according to the largest discount on manager’s fees for different fund

managers. Procurement arrangements for fund managers should continue to be a choice of individual administering authorities and that any new proposal should allow administering authorities to control asset allocation using a mix of pooled fund operators for reducing management fees. Such an approach might enable greater economies of scale should individual pooled funds be limited to a few fund managers. To maximise fee reductions, some national coordination would be necessary. The Government's proposals indicate that Councils would continue to retain decisions on asset allocation and funding responsibilities for current and past deficit contributions would also remain.

If pooling options were regionally based, the London Collective Investment Vehicle (CIV) would be available for London boroughs – two other London Boroughs apart from L B Bromley had not yet joined the CIV. Other Local Authorities were looking at non-regionally based pooling options which would be helpful to L B Bromley. Significant research on pension fund size and performance demonstrated that “big” was not always best - Orkney Islands Council Pension Fund being one of the best performing local authority pension funds.

With reference to the Government's proposal for a living wage (also highlighted in the Chancellor's Summer Budget), no staff at L B Bromley were thought to be affected and employer contributions to the fund would not therefore increase. If any staff in admitted bodies were eligible, the admitted organisation would be liable for increased employer contributions although few contractors admitted to the Fund were thought to have staff earning less than the minimum wage.

The Chairman encouraged Members to attend the Pension seminar on Wednesday 11<sup>th</sup> November 2015 at 7.30pm.

**RESOLVED that:**

**(1) the report be noted; and**

**(2) the opportunity identified at Appendix 1 to Report FSD15058 (considered in Part 2 proceedings) be progressed further.**

**6 PENSION FUND PERFORMANCE Q1 2015/16**

**Report FSD15055**

Summary details were provided of the investment performance of Bromley's Pension Fund for the first quarter 2015/16 along with information on general financial and membership trends of the Fund and summarised information on early retirements.

AllenbridgeEpic provided further detail on investment performance and Baillie Gifford provided commentary on first quarter performance, future economic outlook, and recent developments in financial markets.

Representatives of Blackrock gave a presentation on performance, economic outlook/prospects and other matters related to their portfolio. A representative of the WM Company presented an annual investment performance review for the period ending 31<sup>st</sup> March 2015.

The market value of the Fund ended the June quarter at £710.9m (£742.9m as at 31<sup>st</sup> March 2015) but by the end of August 2015 it had fallen to £695.0m. The Fund's medium and long-term returns remained particularly strong.

The total fund returned -4.5% (net of fees) in the latest quarter, compared to the benchmark return of -4.2% and the local authority average of -2.5%. In regard to the local authority average, the fund's performance in the June quarter was in the 100<sup>th</sup> percentile (the lowest rank being 100%).

Mr Stevenson outlined market conditions and, from an investment perspective, assessed the first quarter 2015/16 as poor. Markets had been volatile and conditions could continue to be volatile going forward. However, the Fund's long term performance was significantly higher than the 5.6% actuarial assumption. The Fund's value had regained in the past and Mr Stevenson suggested a stable performance when markets normalise and central banks opt for interest rate rises. Although tempting to take action in such conditions, Fund Managers were doing their best to search for best of breed investments - long term performance was key. As long as returns paid pensions, Mr Stevenson advised Members to delay taking action, as he was confident that markets would turn and returns would be driven upwards. He advised against buying more fixed income to reduce risk.

Concerning Phase 3 of the Investment Strategy, the Sub-Committee agreed at its previous meeting to switch £6m from the Baillie Gifford Sterling Aggregate Plus Fund to their Global Bond Fund (£3m) and Emerging Market Bond Fund (£3m). A proposal to switch a further £6m from Fidelity's UK Aggregate Bond Fund into the Fidelity FIDA Fund was not agreed.

The matter was given further consideration and a short report from Mr Stevenson appended to Report FSD15055 recommended no further action with funds earmarked for the "switch" retained in the fixed interest portfolio managed by Fidelity. Should Members proceed with the switch, Mr Stevenson recommended where the funds could be placed.

The Chairman was mindful of actuarial views and base requirements and following discussion it was agreed to support Mr Stevenson's primary recommendation. In the meantime work could be undertaken to further investigate fixed income asset classes.

It was noted that the level of employee contributions at year end was expected to reduce with the level of normal employer contributions expected to increase. However, the contribution rates were determined by the triennial valuation and actuarial review. Actual staff contributions had reduced with low

earning staff contributing less and high earners contributing more. It was felt that the level of employer contributions was not sustainable (for the future) and discussions had been held with local MPs.

Report FSD15055 also provided an update on admission agreements for outsourced services.

**RESOLVED that:**

**(1) the report be noted;**

**(2) the position regarding admission agreements for outsourced services, as set out at paragraphs 3.11 to 3.13 of Report FSD15055, be noted; and**

**(3) no action be taken to switch funds from Fidelity's UK Aggregate Bond Fund and further work be undertaken to investigate fixed income asset classes.**

**7 PENSION FUND - INVESTMENT REPORT**

Before receiving a presentation from Blackrock representatives, a representative from WM Global Services (now known as State Street) presented on the investment performance of L B Bromley's Pension Fund to March 2015.

Last year (2014/15) had been a strong year for Local Government Pension Fund returns. An analysis of Total Fund Performance demonstrated that Bromley's Fund had outperformed benchmark over one, three, five, and ten years. Stock selection was adding value. On longer term attribution, the Fund had outperformed its benchmark for nine of the ten years from 2006 to 2015. There was a good performance in converting risk to return. A Member suggested that Asset Allocation since 2010 represented five years of under-performance. Another enquired whether performance would have improved with more or less equities. To answer the enquiry, the representative offered to undertake some more analysis on the Fund's history.

The review also considered Manager Performance and amongst its conclusions highlighted a particularly good annual return of 18.5% for the fund, 1.8% ahead of benchmark, driven by equity returns. There was also outperformance over three, five and ten year periods.

The Chairman thanked the representative for a succinct and informative presentation.

Members then received Blackrock's presentation from their Client Director and Portfolio Manager. This included first quarter performance and market outlook comprising three months and 12 months index performance to 30 June 2015 for Equities, Bonds and Other. Reference was also made to key trends and key investment themes looking ahead. Other performance related

aspects included market forces, attribution, current positioning, country positioning and industry positioning. Reference was also made to stock type investment and stock selection process.

The presentation highlighted that the value of Blackrock's *Ascent Life Enhanced Global Equity* fell in value at 30<sup>th</sup> June 2015 compared to 31<sup>st</sup> August 2015. This was attributed to market movements rather than performance of the fund. However, the fund outperformed its performance target (index) over 12 months. In considering fund performance, softer performance continued to be ahead of the market but the fund was not achieving the performance pace experienced last year. There were clear trends in the market but much more volatility this year. There had been much movement – if purchasing stocks in a volatile market it was difficult to generate returns.

It was confirmed that figures reported (in the presentation) were inclusive of fees (the portfolio was paying the fee to the broker).

**RESOLVED that the presentations from WM Global Services (now known as State Street) and Blackrock be noted.**

## **8 PENSION FUND ANNUAL REPORT 2014/15**

### **Report FSD15057**

Members considered the annual report and accounts of the L B Bromley Pension Fund for year ended 31<sup>st</sup> March 2015. The annual report included a number of documents requiring the Sub-Committee's approval namely: Governance Policy Statement; Funding Strategy Statement; Statement of Investment Principles; and Communications Policy Statement. The annual report would be published on the Council's website by 1<sup>st</sup> December 2015. The report had been audited by the Fund's external auditor, PricewaterhouseCoopers LLP (PWC), with a statement from PWC included.

Concerning administration, fund management costs had risen due to an increased number of Fund Managers upon re-structuring the investment strategy. Fund manager fees were linked to the values of portfolio funds.

It was suggested that consideration be given to how the fees are structured; however, with an increased diversity of fund managers the level of fees could be expected to increase. Fund Managers looked to apply the same level of costs for all local authorities; if it were possible to negotiate lower fees for L B Bromley, Fund Managers would need to match those fees for other local authority clients. They would not therefore be prepared to reduce their fees and officers had previously sought a lower proportion of fees for LB Bromley. For the future, lower management fees could be possible through pooled arrangements. A combined value of funds in a London-wide Collective Investment Vehicle would amount to some £3bn potentially leading to reduced management fees for all London boroughs.

**RESOLVED that:**

- (1) the Pension Fund Annual Report 2014/15 be noted and approved;**
- (2) the Statement of Investment Principles be amended as outlined at paragraph 3.7 of Report FSD15057;**
- (3) the Governance Policy Statement, the Funding Strategy Statement, the Statement of Investment Principles and the Communications Policy Statement set out in the Annual Report be adopted; and**
- (4) arrangements be made to ensure publication of the Annual Report by the statutory deadline of 1<sup>st</sup> December 2015.**

**9            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**

**10           GENERAL UPDATE**

Members considered a Part 2 appendix to the General Update Report (FSD 15058) concerning further details of an investment proposal. A separate Part 2 report on the proposal was also at item 11 on the meeting agenda covering views and a recommendation from the Pension Fund Investment Adviser. As such, Members combined their consideration of items 10 and 11 of the agenda.

**11           RESIDENTIAL PROPERTY ACQUISITIONS - PROPOSAL BY  
MEARS GROUP LIMITED**

**Report FSD15059**

Members considered a report from the Fund's Investment Adviser on the investment proposal referred to above (Minute 10) along with a recommendation. The report also sought to answer questions that Members had previously raised.

The Meeting ended at 10.35 pm

Chairman