

## **PENSIONS INVESTMENT SUB-COMMITTEE**

Minutes of the meeting held at 7.30 pm on 11 February 2016

### **Present**

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

### **Also Present**

Alick Stevenson, AllenbridgeEpic Investment Advisers  
Brian Toms, Employer Representative - Local Pension  
Board

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

Apologies were received from Cllr Richard Williams and from Jane Harding as a member of the Local Pension Board.

#### **24 DECLARATIONS OF INTEREST**

There were no declarations of interest.

#### **25 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 18TH NOVEMBER 2015, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION, AND MATTERS ARISING**

The minutes were agreed.

The Director of Finance also updated Members on developments concerning the Mears scheme. The position looked promising following a recent meeting with financiers. Should necessary legal and financial considerations be finalised it was intended to have the scheme in place from April 2016. Upon a vote, Members agreed that the 2017/18 fund valuation should fully reflect the gifting of the scheme to the L B Bromley Pension Fund.

Members also considered a fluctuating fund performance; L B Bromley was ranked in the 100<sup>th</sup> percentile and 66<sup>th</sup> percentile for the June and September 2015 quarters respectively with a significantly higher ranking expected for the December quarter. The fund had traditionally retained a high proportion of equities with consequent volatility. Long term equities had served the fund well. As an alternative to widely performing equities, equities investment for a solid income was suggested. Consideration would be given to reasons for a decreasing equities income but given the fund's liabilities to deferred and current pensioners, a Member advised against moving away from the current

approach. This would ensure that returns continue to be maximised and provided faster for the fund.

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

There were no questions.

## **27 POOLING OPTIONS**

### **Report FSD16019**

Members were updated on Government proposals for Local Government pension scheme reform and pooling options, each pool being expected to have at least £25bn of scheme assets. Within a pool, authorities would retain decision making on investment strategy and asset allocation along with funding responsibilities for current and past deficit contributions; the pool would manage fund investments and manager selection using an authority's asset allocation. A pool would be accountable to an authority for any poor investment decision. A limited number of investments could also be outside of a pool e.g. direct property investments.

Initial proposals from administering authorities were to be submitted to Government by 19<sup>th</sup> February 2016 with final submissions expected by 15<sup>th</sup> July 2016. A final pooling arrangement was expected to "go live" by April 2018.

Two pools being explored at L B Bromley were ACCESS, "*a Collaboration of Central, Eastern and Southern Shires*" (with a potential value of £38bn) and the London Collective Investment Vehicle (CIV), currently comprising London Boroughs (with a potential value of £24bn).

Currently at an early formation stage, ACCESS included authorities having a similar investment approach to L B Bromley with a heavy reliance on external fund managers. L B Bromley would have the second lowest fund value if part of ACCESS. ACCESS would enable participating authorities to benefit from pooled investments, preserve the best aspects of local practice, and maintain a desired level of local decision making/control. It would also provide a range of asset types so that participating authorities can execute locally decided investment strategies as far as possible.

The London CIV was now established and operational. It comprised the City of London and 30 London Boroughs with another London borough expected to join shortly. By the end of 2016 it was estimated to deliver £3m savings in fund fees from £6bn of assets, with an ambition to deliver fund management savings of £30m per annum by 2020.

To help determine the best pool to join, the Director of Finance was liaising with the Chairman, Vice Chairman and Resources Portfolio Holder. Separate meetings were also being arranged with L B Wandsworth (on their London

CIV experience) and Kent County Council (concerning their progress with ACCESS). Pooling could potentially deliver cost savings through scale, increased resilience, knowledge sharing, and robust governance/decision making without compromising a Council's sovereignty. Individual pension funds would retain separate identities and local accountability; pooling could also provide access to opportunities not available to individual funds with greater benefits being gained from some asset types such as infrastructure. Net savings would be realised in the medium and longer term, particularly from investment fees but initial costs would be necessary to establish a pooled arrangement and associated transition costs.

In discussion there was concern that L B Bromley would have to subsidise poorly performing funds in a pooled arrangement along with scepticism on fee reductions and a large enough return being obtained from any infrastructure investment.

It was confirmed that deficits and asset allocation strategy would remain with authorities and infrastructure investment is not obligatory at this stage. Existing fund managers could continue for different asset classes and transfer existing investments into a chosen pool. To bring competition, a variety of fund managers would be necessary. Fees would also reduce and a similar level of performance could be expected. Although costs associated with Financial Conduct Authority (FCA) regulation and establishing a pool could result in significant costs and be subject to tax, the fund would start to see savings from about year ten of a pooled arrangement. Longer term, fund manager choice would be a matter for the pool rather than individual authorities; however, it would be possible to influence choice at meetings of Pension Committee Chairmen and to hold fund managers to account.

It was suggested that L B Bromley align with other funds having a similar investment approach. There was probably more certainty with the London CIV which included L B Wandsworth (a top performer) but the pool was more diverse in approach including ethical investment. ACCESS on the other hand was more expensive but appeared closer to L B Bromley's investment thinking. Looking at comparable funding levels was suggested as a key principle - were L B Bromley to pool with authorities of a different mind-set, it would be necessary to consider how to mitigate future risks. ACCESS would also avoid any pressure to follow a different approach. It was hoped that each member authority in ACCESS would have an equal voice in decision making but this may result in an equal share of set up costs (rather than proportional to fund value) and, for example, Kent County Council had a fund six times larger than the L B Bromley fund. Following a question from a Member, there is no certainty that Bromley would retain an equal share in voting with ACCESS in choosing fund managers in the future.

It was agreed to delegate to the Chairman any decision on costs associated with investigating the ACCESS option.

**RESOLVED that:**

- (1) key principles in considering a pooling arrangement be noted (section 3.2 of Report FSD16019);**
- (2) the L B Bromley fund be pooled, where possible, with funds of a comparable funding level;**
- (3) of the pooling options being explored, ACCESS be highlighted as the Sub-Committee's preferred pooling arrangement at this stage, subject to the outcome of proposed meetings with L B Wandsworth on their London CIV experience and Kent County Council concerning their progress with ACCESS;**
- (4) any decision on costs associated with investigating the ACCESS option be delegated to the Chairman;**
- (5) the Director of Finance, in consultation with the Chairman and Vice-Chairman, submit the formal consultation response to Government (by 19<sup>th</sup> February 2016), incorporating views expressed by Members; and**
- (6) the final consultation response be emailed separately to all Sub-Committee Members when available.**

**28 PENSION FUND PERFORMANCE Q3 2015/16**

**Report FSD16014**

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

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

The market value of the Fund ended the December quarter at £732.0m (£684.4m as at 30<sup>th</sup> September 2015) but as of 26<sup>th</sup> January 2016 it had fallen to £701.5m. The comparable value as at 31<sup>st</sup> December 2014 was £693.7m.

Overall, the total fund returned +6.9% (net of fees) in the latest quarter, compared to the benchmark return of +5.7%. Local authority average rankings for the December quarter were not available for the report. The Fund's medium and long-term returns remained particularly strong.

Concerning admission agreements for outsourced services, an update was provided at the Sub-Committee's previous meeting and Report FSD16014 advised of no significant developments since. Further updates would be provided in future quarterly performance reports.

**RESOLVED that:**

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

**(2) the position regarding admission agreements for outsourced services be noted as set out in paragraphs 3.11 to 3.12 of Report FSD16014.**

**29 PENSION FUND - INVESTMENT REPORT**

Members received presentations from representatives of Fidelity and Standard Life . Copies of quarterly reports from all of the Council's Fund Managers had been circulated to Members in advance of the meeting.

Fidelity's presentation concerned performance of the company's UK Aggregate Bond Fund (fixed income). Although a volatile year, the fund outperformed its index (benchmark) over the review period. It was agreed that future presentations would highlight gross and net figures.

Standard Life's presentation concerned the performance of its Global Absolute Return Strategies (Diversified Growth).

**30 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**

**31 CONFIRMATION OF EXEMPT MINUTES - 18TH NOVEMBER  
2016**

The exempt minutes were agreed.

The Chairman also thanked Mr Martin Reeves, Principal Accountant, Finance for his service over many years advising the Sub-Committee. Mr Reeves would be retiring from the Council's service in March 2016.

The Meeting ended at 9.39 pm

Chairman