

PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.30 pm on 21 September 2016

Present

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

Also Present

Rowan Worrall, AllenbridgeEpic Investment Advisers
Jane Harding, Employer Representative - Local Pension
Board
Brian Toms, Employer Representative - Local Pension
Board

10 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies for absence were received from Alick Stevenson of AllenbridgeEpic as adviser to the Council for the L B Bromley Pension Fund.

Mr Stevenson was replaced at the meeting by Mr Rowan Worrall from AllenbridgeEpic.

11 DECLARATIONS OF INTEREST

There were no declarations.

12 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 18TH MAY 2016 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes were agreed.

In so doing, it was also agreed that future meetings of the Sub-Committee for 2016/17 should start at 7.30pm.

13 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

14 GENERAL UPDATE

Members were updated on a number of matters.

An update was provided on the London-wide Collective Investment Vehicle (CIV). It was confirmed that asset allocation would continue to stay with individual boroughs in the future, and there was a brief discussion regarding the future arrangements for the procurement of Fund Managers.

Under Fair Deal and TUPE requirements, a private company contracted to run a Council service was permitted to join the Local Government Pension Scheme. This could present an element of risk to the Fund, and it will be necessary to review the strength of the covenant for each individual employer and ensure that a bond or guarantee was in place.

It was also highlighted that Mr Glenn Kelly had resigned from Council employment and as such had effectively resigned membership of the Local Pension Board. This position was confirmed by Members and it was noted that Mr Tony Conboy would replace Mr Kelly as a Member Representative on the Board (the resignation of Mr Kelly was also noted at the General Purposes and Licensing Committee meeting on 14th September 2016 with Mr Conboy formally appointed as replacement Member Representative on the Board).

A brief update was also provided on the Mears scheme. At the end of September Mears were due to have 34 properties for housing placements. The gifting agreed to the pension fund was expected to reduce initial employer contributions by £1.7m with a deficit repayment period of 12 years or £1.5m with a 15 year deficit repayment period. This would be reflected in the triennial valuation.

A proposed Asset Allocation Review would include consideration of benefits from DGFs as well as other investment classes. The Fund's Investment Advisers, AllenbridgeEpic, would undertake the review and a separate workshop with Fund Managers, the Sub-Committee's Chairman and Vice-Chairman, the Resources Portfolio Holder and Officers would take place facilitated by Allenbridge. A similar event worked well previously.

Government guidance for the Local Government Pension Scheme had been received earlier in the day on preparing and maintaining an Investment Strategy Statement. New investment regulations to be introduced later in the year would include a requirement for administering authorities to publish the new Statements by 1st April 2017. The Secretary of State for Communities and Local Government would have new powers to issue a Direction if satisfied that an administering authority failed to act in accordance with the guidance. The requirements would help control Local Authorities not making investment decisions in the best interests of pension members. It would be necessary to provide a report to the head of the London CIV as part of the requirements and the Director of Finance would circulate a brief note to Members on the guidance.

15 PENSION FUND PERFORMANCE Q1 2016/17

Report FSD16067

Details were provided of the Fund's investment performance for the first quarter, 2016/17. Additional detail was provided in an appended report from the Fund's external advisers, AllenbridgeEpic. Baillie Gifford provided further commentary on its performance and view of the economic outlook.

Information on general financial and membership trends of the Pension Fund was also outlined along with summarised information on early retirements.

The market value of the Fund ended the June quarter at £798.2m and had risen further to £851.8m as at 31st July. Overall, the total fund returned +7.0% (net of fees) in the latest quarter, compared to the benchmark return of +7.3%.

Following termination of the performance measurement service by WM Company (State Street), Local Authority comparator data was no longer available and most funds would use their custodian to provide a performance measurement service in future. Accordingly, and having agreed to waive competitive tender, the Director of Finance awarded a contract for performance measurement to the Fund's custodian, BNY Mellon, for a period of up to three years, to be reviewed annually. Although the service would not include LA comparator data (as BNY Mellon was not custodian for all LGPS Funds), there were a couple of potential providers for this; however, take up from other Funds was presently unknown and officers would continue to monitor the position, reporting back to a future meeting.

A timetable of Fund Manager attendance for Sub-Committee meetings in 2016/17 had been proposed as follows:

- 16th November 2016 – Blackrock (global equities)
- 22nd February 2017 – Standard Life (DGF) and Fidelity (fixed income)
- 16th May 2017 – Baillie Gifford (global equities, fixed income and DGF).

With further services being outsourced as part of the Council's commissioning programme, an application from Amey was being progressed for admitted body status in advance of the transfer of Total Facilities Management Services from 1st October 2016.

Following approval by the Sub-Committee and Full Council to support Bromley College's request for the London Pension Funds Authority to be its administering body in place of L B Bromley, a direction order was approved by the Secretary of State and the transfer of liabilities had now taken place with effect from 1st August 2016. Discussions were currently in progress regarding the transfer of an appropriate share of the Fund's assets and transfer of administration functions. Authority to agree the asset share had been delegated to the Director of Finance, in consultation with the Chairman and Vice-Chairman of the Sub-Committee and the advice of AllenbridgeEpic.

In discussion, it was agreed that the style of quarterly performance and fund manager reporting should be modified in future so that fund manager and other comments are provided not only for the relevant quarter but also for the period between quarter end and a Sub Committee meeting (by means of an update). This would be conveyed to all Fund Managers.

RESOLVED that:

- (1) the contents of Report FSD16067 be noted;**
- (2) information regarding the Performance Management Service, as detailed at paragraph 3.3.3 of Report FSD16067, be noted;**
- (3) the position regarding admission agreements for outsourced services, as outlined at section 3.7 of Report FSD16067, be noted; and**
- (4) the position regarding Bromley College, as outlined at section 3.8 of Report FSD16067, be noted.**

16 PENSION FUND - INVESTMENT REPORT

Quarterly reports from fund managers had been circulated to Sub-Committee Members and Members of the Local Pension Board with the meeting agenda pack.

Representatives of MFS attended the meeting, reporting on the performance of its Global Equities portfolio for the Pension Fund.

It had been a volatile market over the past year with earlier uncertainty in the year replaced by strongly recovered markets following the UK Referendum vote. Markets had risen during August. Overall one year performance results for MFS as of 31st July showed both gross and net performance ahead of the MSCI World index (net div). Following the Referendum outcome it was necessary for the markets to assess its impact and MFS looked to mitigate downside risks and generate returns.

Quarterly, Annual, and Annualised performance returns for MFS were highlighted. Average holdings were six years with the company not reacting to short term events. MFS looked to invest in high quality companies with stock selection the main driver for strong performance. Industrials performed well, delivering good results, with some British businesses returning well. Financials also performed well although MFS tended to steer clear of investment in continental banks; instead, MFS looked to find more diverse banks, particularly retail banks. Cash was held for transaction purposes.

MFS was not favourable toward investing in materials such as mining given a volatility of performance. No investment was held in rare earth metals and there was no investment in actual commodities. With a lower oil price, energy companies often had to sell assets to pay dividends. Mining companies were under pressure last year and this year the U.S. had the most overdeveloped

market which was highly valued. As such a correction was expected. Apart from some U.S. tightening, there had been a pumping of money into the global economy which was also expected to result in future correction.

Within the presentation material, details were also provided on significant transactions, sector weights, and Region and Country weights. Portfolio Holdings were also detailed as was the MFS investment approach.

A Member indicated that it was necessary to be a little more challenging on corporate directors and asked that MFS provide commentary in future reports on voting at the shareholder meetings of companies in which it invested.

17 PENSION FUND ANNUAL REPORT 2015/16

Report FSD16066

Members considered the annual report and accounts for the Bromley Pension Fund, year ending 31st March 2016, including the following documents:

- the Governance Policy Statement
- the Funding Strategy Statement
- the Statement of Investment Principles (SIP) and
- the Communications Policy Statement.

Following its audit of the Annual Report, a statement from the Fund's external auditor, KPMG LLP, was also included. The Council would publish the Annual Report on its website by 1st December 2016.

Approved by the Sub-Committee on 23rd September 2015, the Statements were kept under review and no changes were currently proposed. As such Members were requested to formally re-approve the Statements.

The Bromley Pension Fund had total net assets of £748.0m as at 31st March 2016 (£745.4m as at 31st March 2015). The Fund underperformed against its benchmark by 0.4% over the year (+0.1% against a benchmark return of +0.5%). Performance compared to the local authority universe (average return of +0.2%) was fair and a ranking in the 39th percentile was achieved in the year (1% being the best and 100% being the worst).

Total fund membership had risen from 15,796 at 31st March 2015 to 16,605 at 31st March 2016 (6,234 employees, 5,084 pensioners and 5,287 deferred members). Payments into the Fund from contributions (employee and employer), transfers in and investment income totalled £42.1m in 2015/16 (£40.7m in 2014/15) and payments from the Fund for pensions, lump sums, transfers out and administration totalled £35.1m (£35.5m in 2014/15).

Linked to this item a representative from State Street (formerly the WM Company) gave a presentation reviewing the investment performance of the Fund during 2015/16.

It was noted that State Street no longer provided its service to funds in monitoring performance against the Local Authority universe and providing a benchmark. Member comments were made in support of the service and an alternative provision through Collective Investment Vehicles (CIVs) was being developed for which it was hoped a large enough proportion of the 89 LGPS funds would participate to provide meaningful comparator information. The Director of Finance had written to his counterpart in each London borough encouraging participation in the arrangement related to the London-wide CIV; should all London boroughs participate, there would be a significant discount to participating authorities and should all local authority funds nationally participate, a further discount would be available. Members supported the Director actively pursuing L B Bromley's inclusion so it can continue to receive a similar service for the future.

A Member suggested that the fund's ranking in the local authority universe had fallen due to the fund's Diversified Growth Fund (DGF) investments failing to perform well. He noted that Blackrock investments had also not performed well.

Members were advised that a briefing on the triennial fund valuation might be available in November with the final valuation details provided in February 2017.

RESOLVED that:

- (1) the Pension Fund Annual Report be noted and approved;**
- (2) the Governance Policy Statement, Funding Strategy Statement, Statement of Investment Principles and, Communications Policy Statement be approved;**
- (3) arrangements be made to ensure publication of the Annual Report by the statutory deadline of 1st December 2016; and**
- (4) the Director of Finance actively pursue L B Bromley's inclusion amongst London boroughs wishing to receive a service similar to the provision formerly provided by State Street.**

18 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**

19 CONFIRMATION OF EXEMPT MINUTES - 19TH MAY 2016

The Part 2 (exempt) minutes were agreed.

The Meeting ended at 9.32 pm

Chairman