PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.00 pm on 15 May 2019

Present

Councillor Keith Onslow (Chairman)

Councillors Gareth Allatt, Simon Fawthrop, Simon Jeal, David Jefferys, Christopher Marlow and Gary Stevens

Also Present

John Arthur, M J Hudson Allenbridge Investment Advisers

1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

There were no apologies.

2 DECLARATIONS OF INTEREST

Cllr Gareth Allatt declared an interest by virtue of having a self-invest personal pension with Fidelity.

Cllr Christopher Marlow also declared an interest as an employee of Prudential plc.

3 MINUTES OF THE PENSIONS INVESTMENT SUB-COMMITTEE MEETING HELD ON 5TH MARCH 2019

The minutes were agreed.

4 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

5 UPDATE FROM LONDON CIV CHIEF EXECUTIVE

Mr Mike O'Donnell (LCIV Chief Executive Officer) and Mr Kevin Cullen (LCIV Client Relations Director) attended to update on a number of LCIV matters and respond to questions/comments. A printed slide presentation handed to Members formed the basis of LCIV commentary.

Assets to the value of £18bn are now under LCIV oversight, including Legal and General Investment Management (LGIM) funds and Blackrock passive funds. LCIV also have 14 active sub-funds and the presentation reported that

over 50% of London's assets are now pooled. A Quarter 2 London Local Authorities (LLA) Investment Forum would also take place on 6th June 2019 and consultation is in progress concerning a Service Level Agreement (SLA) with each LLA. An organisation chart for the LCIV outlined a current staffing structure including details of vacant posts.

The presentation also outlined the LCIV's governance structure and oversight arrangements. The LCIV Board provides independent oversight acting in the interest of all LCIV shareholders (comprising three executive and seven independent non-executive directors and one independent chair). External independent oversight is provided by: the Financial Conduct Authority (approving persons, permissions for business and prospectus approval); the Depositary (providing independent oversight of assets to protect investors' interests); and Auditors (auditing the LCIV company and ACS pooling vehicle). Government oversight is provided by the Ministry of Housing, Communities and Local Government (looking at progress against pooling criteria).

Details of the current LCIV fund offering were also provided. These comprised a fund for UK equities, six funds for global equities, a fund for emerging market equities, four multi-asset funds, and two fixed income funds. Total Assets under Management (AUM) for the funds amounted to £8.2bn. Details were also provided of a further 14 fund products being planned for launch and their progress. Future launch of four of the products (Private Equity, Global Equity Blend, Active Credit Blend and UK Credit) is subject to demand in the selected strategy.

Starting his presentation, Mr O'Donnell congratulated L B Bromley on achieving its nationally recognised performance awards. Mr O'Donnell had completed just over two months as CEO with previous experience including Director level finance responsibility in Local Government and previous involvement in establishing the LCIV.

The LCIV aimed to add value to London boroughs and help boroughs meet their pooling requirements. With pooling mandatory, Mr O'Donnell looked to help facilitate a response to the requirement.

New LCIV governance arrangements were introduced last autumn in response to the earlier Willis Towers Watson review of LCIV governance and Mr O'Donnell outlined the LCIV's position on matters of concern for L B Bromley.

<u>Remuneration Policy</u>

This is being reviewed by the LCIV and a number of boroughs are concerned about LGPS provision for LCIV staff. Ongoing LGPS membership will be looked at and Mr O'Donnell referred to pension fund options. New joiners subsequently promoted to salaries over £120k will not be entitled to LGPS membership; it is necessary to bring forward the review and report to the LCIV Shareholders Committee this summer.

LCIV Chair

The term of the current Chair, Lord Kerslake, will end in September 2019. Any decision on continued appointment will need to be endorsed at the LCIV Annual General Meeting (AGM) this summer.

Broader Permissions

A decision had been taken at the 31st January AGM for the LCIV's 'business purpose definition' to be amended so the LCIV can have broader permissions. Originally, the LCIV was an FCA authorised operator of an ACS but is now defined as the FCA authorised company to provide a collaborative platform through which the Administering Authorities of the LGPS funds can aggregate their pension monies and other investments. Management of funds will provide the LCIV with flexibility for all London boroughs and arrangements can be set up for funds. Authorisation was given at the AGM to ask shareholders to sign a letter confirming approval to amend the Shareholder Agreement to reflect the LCIV's amended business purpose definition.

Business Planning

Work with the Shareholders Committee would start soon on the medium term business model and decision making would take place later in the year. Overall, over 50% of London's assets are now pooled; by 2020 (following actuarial valuations), 95% of the value of a pool member's assets (at the point of investment) was expected by the Ministry of Housing and Local Government (MHLG) to be invested via a pool for revised strategies, with new investments outside only made in very limited circumstances. For all concerned with the LCIV pool, the question is what a sensible target and shared transition plan across London should look like.

Chief Investment Officer (CIO) appointment

Although the CIO post has been vacant for some time, the LCIV are now close to an appointment. In the meantime, an interim CIO started the previous week.

Governance

The LCIV is due to review its governance after 12 months of the new arrangements. This will be started by the Shareholder Committee considering the matter at its June meeting. The LCIV aim to provide good fund officers and deliver investment needs - the LCIV can deliver scale and invest in different areas e.g. infrastructure.

On custodianship, the cost per fund will vary, the LCIV using Northern Trust for custody. A number of boroughs have tendered for custodian services on non-pooled funds. Although the level of non-pooled investment is reducing, Northern Trust (through the LCIV) offers a low custodian rate for authorities

with investments outside of the LCIV. Reference was made to the extra cost of custodianship fees in using the LCIV and LCIV advised that they would provide more details of the Northern Trust offer in this area.

Referring to consultation on statutory guidance for asset pooling, the Chairman highlighted the Government's intention for at least 95% of a Fund's assets to be invested through a pool. The Chairman felt the Government had not grasped the difficulties involved with this.

On performance, although there might be advantages in larger funds (e.g. lower fees), the Chairman indicated that smaller funds are better performing. He also felt there is little the LCIV can do to benefit L B Bromley's good performance; the performance of other boroughs in the LCIV will improve through benefiting from L B Bromley's performance.

The Chairman also highlighted his preference for the LCIV Chairman position to be appointed by competition for the next term. Another Member was concerned that the current LCIV Chairman might be automatically appointed. The Chairman's performance, he felt, has been poor and his position should have been re-considered following the Willis Towers Watson report; the process for appointment needs to be fair and independent.

The Member also suggested that the LCIV has moved away from its core mission, widening its scope. He likened Bromley's position to having a self-select ISA where services provided by an adviser are not wanted. However, It seemed that L B Bromley is being intimidated into taking a course when its Fund is already performing well. He felt the LCIV should provide a passive offering and an active offering - the active element being available for poorer performing authorities with the passive element provided for L B Bromley.

Additionally, he felt that LCIV staff should not be LGPS members. However, the Chairman referred a salary cap (£120k) being in place above which LCIV staff are not eligible for LGPS membership; the LGPS membership part of the remuneration review has also been brought forward by the Chief Executive.

In considering any transfer from Bromley's Baillie Gifford Global Equities to the near identical Baillie Gifford fund held by the LCIV, the Chairman highlighted that fee savings via the LCIV's fund are not materialised for some six to ten years following transfer (given considerations such as legal costs, membership fee of the LCIV etc.). As such, he felt the benefits are too far into the future and L B Bromley is looking for something better. The Chairman also understood that the LCIV had negotiated standard rate fees for its Baillie Gifford product and there appeared to be no negotiation to reduce fees further.

Responding to the above points Mr Cullen made a number of comments including those summarised below.

- Concern about widening of scope was understood but Mr Cullen was not sure there has been much of this.

- The LCIV set up funds within the parameters of the ACS as it originally set out to do. It is not for the LCIV to force boroughs to invest via its pool but in the context of Government pooling requirements it is necessary to satisfy risks of not doing so.

- A wider offer from the LCIV and change in the LCIV's business purpose would be for those boroughs who want to benefit from it. On options to invest, the LCIV generally offer active assets. The LCIV have a range of funds available and if it is necessary for L B Bromley to change its strategy the LCIV can offer products.

- Investment in the LCIV's Baillie Gifford product (global equities) does produce an immediate saving and the LCIV hoped to do some work on increasing the fee saving. Although the LCIV can offer a large scale fee saving, Mr Cullen hoped the LCIV can go further and he referred to savings in direct fees.

If investing through the LCIV, a question was asked on why it is necessary for L B Bromley to pay for add-ons that are not wanted. In such circumstances, L B Bromley should be able to opt for a passive approach and a "pay as you go" arrangement. Instead, it seemed the LCIV has a "one size fits all" approach; if it is necessary to spend £1bn through the LCIV, the client should expect a bespoke arrangement in line with the client's preference. Such an approach had not been developed - the LCIV seemingly having a top-down, monolithic approach.

Mr Cullen referred to the LCIV requesting a service fee and finance development fee - a decision for this being taken at the start of the LCIV so it could be established and running. Should L B Bromley not wish to invest in infrastructure it is not necessary to pay for that element. Some initial funding is necessary to develop the LCIV.

In further discussion, reference was made to the Council's duty to its residents. Referring to awards recently afforded the Council for its Fund performance, a Member indicated that L B Bromley would not be so persistent in its approach if it is not a high performing fund. He also noted that the LCIV still has a number of vacancies. Concerning scope widening, he heard at a previous meeting that the LCIV was applying for a dealer's licence and he sought a view on future LCIV direction.

Mr Cullen referred to pooling being driven by Government guidance needing all authorities to pool. There is sufficient flexibility not to go into a pool and the LCIV is not saying to boroughs they must pool. Instead, the LCIV is established to meet borough pooling requirements as they emerge. It looked to increase Assets Under Management (AUM) beyond 50%. The "Lift and Shift" phase has been slow and the fund launch programme needed to be more effective. It is open to question whether there are also options to work with other pools and it will be necessary to meet in this regard.

Concerning LCIV vacancies, approval has been given to employ up to 35 staff but this is not to say 35 staff will be employed. A priority is to fill current vacancies. The LCIV has a model of everyday and project type work with a business model for this on a more flexible resourcing arrangement. This would be looked at under the Medium Term Financial Strategy (MTFS).

The Chairman was aware that other boroughs are also yet to pool and he asked why this was the case. Mr Cullen explained that there are various reasons. He indicated that one borough should start pooling in the next six months with another following closely behind. However, there is no movement with two other boroughs. Often it is a case of where a Fund's investments are.

A Member highlighted that the L B Bromley Fund can change a Manager when needing to do so but understood this would not be the case in the LCIV. Should the LCIV change and it became necessary to move assets, there would again be less authority/flexibility for L B Bromley to do so i.e. less opportunity for response. He suggested that L B Bromley's circumstances should be reflected in the MTFS investment approach. He also enquired of other assets that might be envisaged for the LCIV.

Additionally, the Member asked whether the current CIO appointment is interim and further enquired of the Chief of Staff role. In regard to the LCIV's current fund offering he asked whether the LCIV is planning to take on portfolio management for the funds; he also asked for details of any extra costs there might be (in this scenario) and how these might affect fee savings.

Mr Cullen indicated that there are no plans as yet to move assets around – this needed to be looked at by way of specific proposals. There are also no plans for direct management of assets which are all to be undertaken by Fund Managers. However, having 32 Funds in the LCIV, all undertaking investment in different ways, would undermine the benefit of the pool. There needs to be an element of coming together of approaches as an inevitable consequence of pooling. The LCIV is happy to send its product design to boroughs each quarter; however, it is not possible to build 32 different flavours in pooling as it will defeat the objective. Some compromise will be needed by boroughs and collaboration is key.

Responding to a further question, Mr Cullen indicated that costs associated with "Lift and Shift" (e.g. Stamp Duty) depend upon the asset class and the Director felt that the LCIV should assist boroughs in dealing with taxation for any transfer of investments. Rather than each borough have its own adviser and costs, one taxation adviser is best. Mr Cullen advised that the LCIV cannot co-ordinate transition; the LCIV can make more cost savings but need permissions to do so.

Members were also advised that the top borough for AUM with the LCIV is L B Bexley (active funds at 60%). Other boroughs behind L B Bexley are: L B Havering; L B Tower Hamlets; City of Westminster; L B Lambeth; and L B Merton.

The Chairman thanked Mr O'Donnell and Mr Cullen for attending.

6 CHAIRMAN'S UPDATE

The Chairman had no update for Part 1 of the agenda.

7 DIRECTOR OF FINANCE UPDATE

In updating the Sub-Committee, the Director of Finance highlighted a number of matters including those summarised below.

Local Government Pension Scheme: Fair Deal – Strengthening pension protection - Policy consultation

The Government had sought views on proposals to make amendments to the LGPS in England and Wales requiring service providers to offer LGPS membership to individuals who have been compulsorily transferred from an LGPS employer. The proposed reforms would mean that independent providers no longer have the option of providing transferred staff access to a broadly comparable scheme. Instead, employees would always have continued access to the LGPS.

A L B Bromley response had been sent to the Ministry of Housing, Communities and Local Government (copy at **Appendix A** for information). The requirement would be a disincentive to businesses looking to compete for outsourced Council services. The requirement would, in effect, mean the LGPS being transferred to an independent provider who would then become an admitted body to a local Fund. The requirement, and a provider having to take on LGPS liabilities, is not sustainable in the longer term.

Changes to the Valuation Cycle and Management of Employer Risk

Within this Government consultation is an intention to change the LGPS valuation cycle from three to four years, bringing the cycle in line with other Public Sector schemes. The consultation also refers to reviewing the risk that employers have in LGPS pension funds and looking at how this is assessed and managed. Currently, when a last remaining member retires it is necessary for an admitted organisation to pay the Council a cessation fee to represent liabilities to the Council. However, what would not be welcome is Councils having to accept such a liability when an organisation goes out of business.

L B Bromley Pension Fund Audit Plan Report for 2018/19

The Director advised Members that the External Auditors will report to the Audit Sub-Committee on planning arrangements for the 2018-19 audit of the Fund.

Local Pension Board (LPB) Membership

For the LPB member representative vacancy, a nomination for appointment would be considered at the General Purpose and Licensing (GP&L) Committee meeting on 16th May 2019. *(Democratic Services Note: Lesley Rickards and Vinit Shukle were appointed by GP&L Committee on 16th May 2019 as LPB member representatives for a four-year period from 1st July 2019 and Emma Downie and Pinny Borg were appointed by Full Council on 22nd May 2019 as LPB employer representatives for a four-year period from 1st July 2019)*.

McCloud judgement

This relates to transitional protections given to scheme members in the judges and firefighters schemes as part of public service pensions reform who in 2012 were within 10 years of their normal retirement age. Tapered protections were provided for those 3-4 years younger. On 20th December 2018 the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified.

In all public service schemes, protections were applied to members of the schemes within 10 years of retirement. The form that protection took varies from scheme to scheme. Although the case only directly relates to two schemes, it is anticipated that the principles of the outcome could be accepted as applying to all public service schemes. If the protections are unlawful then members found to have been discriminated against will need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members.

Government are expected to appeal to the Supreme Court (as final court of appeal) but should the Government lose, the decision could potentially cost the Council between £1m to £2m per annum which will be dependent on the implications of resultant changes to LGPS. It was understood the matter can take up to 12 months afterwards to remedy and in either case of the Government winning or losing, a valuation would be needed.

Exit Cap of £95k

The Director also explained a Government proposal on exit costs for staff which will be capped at a maximum of £95k, including pension strain costs (where there is a clear shortfall in the assumed level of funding needed to provide benefits - often occurring when benefits are drawn by Fund members earlier than expected). On behalf of the Sub-Committee, the Director would support the change.

Draft Service Level Agreement (SLA) between L B Bromley and LCIV

Concerning the LCIV's proposed SLA with each London borough, the Director referred to a change in the LCIV service(s) to boroughs.

Good Governance Survey

Governance proposals in the Government survey centred on the following options:

- Option 1 - Introduce guidance or amendments to LGPS Regulations 2013 to enhance the existing arrangements by increasing the independence of the management of the fund and clarifying the standards expected in key areas;

- Option 2 - Greater ring-fencing of the LGPS within existing structures - greater separation of pension fund management from the host authority, including budgets, resourcing and pay policies;

- Option 3 – Use of new structures: Joint Committees; and

- Option 4 - An alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act provisions. This might be through a combined authority route or through a public body established by statute.

The Director indicated that the Scheme Advisory Board is concerned about conflicts of interest. For L B Bromley, the options could mean the Director of Finance role being separated from the Sub-Committee's role in view of the Director being seen to support the Council's Executive function as well as the Sub-Committee. As such, a separate Section 151 (S.151) officer would need to be in post to support the Sub-committee. In addition to L B Bromley, Treasurers in other authorities were also taking a robust view on this that such changes are unnecessary.

A Member could understand why it seemed necessary to create the separation but a certain level of staff is needed to manage a separate entity. A need could be seen where Councils are merging and he indicated that the concept is worth considering in a proportionate manner. However, the Chairman saw another S.151 officer as expensive with no evidence to suggest the current system is not working. The concept was also opposed by another Member and the Director suggested the actuary's role for L B Bromley is helpful in this regard. It would also be difficult to recruit the necessary staff – a significant proportion of S.151 positions in London have interims; additionally, the Chartered Institute of Public Finance and Accountancy (CIPFA) has also expressed concerns that many of the options are not necessary and could become unnecessarily costly. However, CIPFA has written to Finance Directors about the need to ensure there are adequate staff resources for administering authorities of the LGPS, with the many changes taking place.

8 PENSION FUND PERFORMANCE Q4 2018/19

Report FSD19060

The market value of the Fund ended the March quarter at £1,039.2m (£963.7m at 31st December). A detailed report from MJ Hudson Allenbridge on fund manager performance for the quarter was appended to Report FSD19060 as was historic data on the Fund's value.

With market conditions positive in Q4, particularly for equities, the total Bromley fund return was +8.68% against a +6.60% benchmark exceeding the Q3 fall. Nevertheless, the Fund's annual return of +7.99% was slightly below the +8.27% benchmark. Details of individual fund manager performance against their benchmarks for the quarter, year to date, 1, 3 and 5 years and since inception were also appended to Report FSD19060.

The Fund's medium and long-term returns have remained very strong overall underlining a consistently strong Fund performance over a long period. In addition to winning the LGPS Investment Performance of the Year in 2017, the LGPS Fund of the Year (assets under £2.5bn) in 2018, L B Bromley also recently won the Pensions, Treasury and Asset Management Award at CIPFA's Public Finance Awards 2019.

Concerning a previous recommendation to invest the balance of the Blackrock Global Equities fund in a Fixed Income fund following implementation of the revised Asset Allocation Strategy (less a sum to meet the cash shortfall during 2017/18), a Multi-Asset Credit fund was subsequently suggested as an alternative to Fixed Income. MJ Hudson Allenbridge was asked to provide further details and their report on the matter was also appended to Report FSD19060.

With a £2.1m cash surplus generated during 2018/19 (excluding reinvested income), a reduced sum of £1.8m is now required to meet the Fund's cash deficit at 31st March 2019, leaving a sum of around £9.6m to be invested in a new fund (see below). A further appendix to Report FSD19060 outlined details of early retirements.

On admission agreements for outsourced services, Mytime Active ceased as an admission body on 31st March 2019 with four active members remaining in the scheme. The cessation debt and deficit repayment plan are being finalised for agreement by the Director of Finance, in consultation with the Chairman and Chairman of the General Purposes & Licensing Committee under delegated authority from that Committee. Additionally, the actuaries are considering a transfer payment for GS Plus and the Sub-Committee would be updated in due course.

Future Fund Manager attendance at Sub-Committee meetings, was scheduled as follows:

- 24th July 2019 – Fidelity (fixed income, multi-asset income and property)
- 27th August 2019 – Schroders (multi-asset income)
- 3rd December 2019 – Baillie Gifford (global equities and fixed income)
- 3rd January 2020 – MFS (global equities)
- 13th February 2020 – Fidelity (fixed income, multi-asset income and property).

Final outturn details for the 2017/18 Pension Fund Revenue Account and the provisional outturn for 2018/19 were also appended to Report FSD19060 along with Fund membership numbers.

Mr Arthur provided a brief commentary on global economic and market conditions for Q4 2018/19 drawing comparison to how market conditions were much less favourable in Q3. Markets turned around rapidly in Q4 as the Fed changed its view on continuing to raise interest rates and removed the threat of further rises. As such, with a change in central bank policy, all asset classes showed a positive return. US-China trade tensions also looked set to be potentially resolved and major central banks titled towards a more accommodative stance and back to stimulating the economy.

Performance of the L B Bromley Fund has been strong long term against its Strategic Benchmark and in absolute terms. Over 5 years the Fund has returned 11.6% per annum and over 15 years, 8.9% per annum. Mr Arthur is not unhappy with Bromley's Fund Managers but anticipating continued market volatility with more quarters similar to the last few, and an expectation of lower returns, Mr Arthur provided some recommendations for adjusting allocations.

Given Mr Arthur's current 2-5 year market outlook, and being uncomfortable with the Fund's overweight position against its Strategic Benchmark in equities (Mr Arthur also felt that equity had over-performed), he asked the Sub-Committee to consider selling the 1.1% of the Fund currently held in Blackrock's Enhanced Alpha Global Equity Fund so reducing equity exposure from 63.4% to 62.3% and lowering the overweight position in equities from +3.4% to +2.3% against the Strategic Benchmark. As the Fund is currently 1.3% underweight in its Multi Asset Income (MAI) mandates, Mr Arthur suggested the Blackrock funding be reinvested in the Fidelity MAI Fund.

Mr Arthur also favoured a further reduction in equities to the Strategic Benchmark level of 60% requiring a sale of some of the Baillie Gifford equity or the MFS equity. Mr Arthur's preference was for Baillie Gifford as their equity portfolio accounts for over 40% of the Fund and is one of the main determinants of the Fund's future performance against Benchmark. If reducing equity to 60%, Mr Arthur recommended reinvesting the extra (some 2%) in Fidelity's Multi Asset Credit Fund (currently yielding 6% return and targeting a 5% return across a full market cycle rather than targeting a benchmark) along with 2% from Fidelity's Fixed Income mandate, leaving the Fund with 10% in the existing two bond mandates (Fidelity Fixed Income and Baillie Gifford Fixed Income) and 4% in Fidelity's Multi Asset Credit Fund (as an Absolute Return Bond Fund). This could be seen as the first step in

moving all of Fidelity's current mandate across to their Absolute Return mandate in due course. Mr Arthur expected the Fund's two Fixed Interest mandates to deliver low returns, potentially no more than the current yield of around 2% per annum.

The Chairman had visited Fidelity offices in January about the Multi Asset Credit Fund and a presentation on the product would be given at a future meeting. Mr Arthur preferred more multi-asset income, being currently sceptical of other asset classes (in view of anticipated market volatility).

The Vice-Chairman supported a re-balance of fixed interest and if risk is not needed another Member preferred its removal foreseeing both volatility and a future recession. With a 2% fixed interest return he asked whether something active might be worthwhile or considering a Manager who might achieve better returns. He was less convinced on absolute return funds and not keen to take multi-asset credit forward at this point preferring to first see more evidence of bond fund performance. He was however supportive of money in Blackrock's Equity Fund going to Fidelity's MAI Fund.

Mr Arthur was not so inclined towards passive bond funds and would push against the Fund having a passive bond manager. Fidelity's Fixed Interest is a conservative mandate which achieves through duration – this magnifies interest rate moves. Bonds are inclined to provide either interest payments or they go wrong. The Finance Director indicated benefit in considering the Multi-Asset Credit Fund at a later meeting and Mr Arthur would circulate facts for the meeting.

Members supported moving funds from Blackrock's equity mandate to Fidelity's MAI Fund. The Chairman also highlighted that the Fund's actuarial review (triennial review) was taking place. Practically, (a larger) rebalancing of Fund assets would take place next year in response to the review; nevertheless, the Sub-Committee would look at Fidelity's Multi-Asset Credit in July. Concluding debate on the matter, the Chairman summarised the Sub-Committee's views as:

- move money from Blackrock's equity fund to Fidelity's MAI Fund;
- consider Fidelity's Multi Asset Credit Fund at the Sub-Committee's July meeting; and
- undertake any (larger) asset allocation shift next year (following outcomes from the triennial actuarial review).

Concerning Schroders Multi-Asset Income Fund the and their proposal to switch the current dollar based fund for L B Bromley to a sterling fund (agreed at the Sub-Committee's previous meeting), the Chairman indicated that a delay was being encountered with the new fund and Mr Arthur was having further discussions with Schroders. The MAI Fund would switch to the new sterling Fund when conditions are met.

(Democratic Services Note: as Members were content earlier in the meeting to re-order the agenda, this item was taken towards the end of the meeting. As the time was approaching 10pm, a vote was taken at the Chairman's initiative on whether to adjourn or continue the meeting. Upon a vote Members agreed to continue the meeting and conclude the Sub-Committee's business.)

Concerning a £12.193m surplus in the Pension Fund Revenue Account, surplus cash not needed to pay pensions would be invested. Auto-enrolment and permanent recruitment of social workers also contributed to increased employee numbers in the Bromley Scheme (from 6,198 at 31st March 2018 to 6,316 at 31st March 2019).

RESOLVED that:

(1) the report be noted including MJ Hudson Allenbridge's report at Appendix 6 to Report FSD19060 concerning the review of Fixed Income;

(2) funds currently held in Blackrock's Enhanced Alpha Global Equity Fund be sold and transferred to L B Bromley's Pension Fund holding in Fidelity's Multi-Asset Income (MAI) Fund; and

(3) Fidelity's Multi Asset Credit Fund product be considered in further detail at a future meeting.

9 PENSION FUND - INVESTMENT REPORT

MFS reported on the performance of their Global Value Equity Fund for L B Bromley. MFS were represented for the item by their Investment Product Specialist Director and their Relationship Management Director.

Providing a 12 month performance overview to 31st March 2019, an executive summary showed performance over one year, three years, five years, and since inception (18th December 2013). Over three years, five years and since inception, gross performance has been in excess of 13% with net performance for the same periods over 12%. One-year performance was a little less at 11.35% gross and 10.87% net against an MSCI World Index (net div) of 11.98%. Detractors for the one-year performance review were stock selection in information technology, consumer staples and energy along with an overweight position to financials. Stock selection in industrials and materials contributed to performance. A subsequent slide highlighted performance results as of 31st March 2019, (gross and net of fees GBP), relative to the MSCI World Index (net div) covering: 2018/19 quarterly returns; annual returns for each year since 2016 (including 2019 year to date); and annualised returns for the periods of 1 year, 3 years, 5 years and since inception. An analysis was also presented of historic relative outperformance between July 2003 and March 2019 over rolling 10, 7, 5 and 3 year periods against the MSCI World Index (net div). MFS tended to outperform in falling markets. In terms of historical relative performance in diverse markets, the number of outperforming quarters exceeds the number of underperforming quarters between July 2003 and March 2019.

The MFS presentation also included content on their investment approach where an emphasis is placed on valuation and business durability to exploit market inefficiencies. Further reference was made to Global Value and Growth Valuations and performance drivers of sectors showing top contributors and top detractors. Another slide indicated certain big name stocks that MFS would not be inclined to invest in with data to show why this should be the case. An investment case study in this regard was provided on Apple where comments were made on what there is to admire about the company but also reasons why MFS feel it is necessary to be cautious. Specific performance drivers in stocks were also highlighted with the names of top contributors and top detractors provided. Additionally, an investment case study was provided on Diageo with key points highlighted focusing on the long term compounding power of the business. Companies such as IT consultancies were considered by MFS to be more durable.

Details were also provided of significant transactions by MFS from 1st April 2018 to 31st March 2019 comprising securities purchased and securities sold. A further investment case study was provided on Accenture with a subsequent slide showing sector weights relative to the MSCI World Index. This indicated the percentage of MFS investment per sector as at 31st March 2019 and the benchmark for each sector along with the percentage of underweight/ overweight exposure in each of the sectors and details of the largest holdings by MFS. This was followed by weightings of MFS investment by region and country including regions underweight/overweight. It was explained that U.S. companies had been successful through cost cutting and there are unsustainable high margins in the U.S.

A further slide covered Domicile and Revenue weightings by region with 20.5% of MFS Global Value Equity invested in emerging markets (by revenue). The final slide identified specific characteristics of the MFS Global Value Equity Portfolio along with a listing of the top ten company holdings by MFS. The remainder of the MFS presentation material related to ESG matters and an appendix covered: Portfolio Holdings; Historical Risk Appetite; Market Capitalisation (GBP); Composite Performance (GBP); Structure and Additional Information; Disclosure; and Composite Report (GBP).

In discussion, the Chairman highlighted a 2.2% holding in AON PLC and a brief explanation was given for the holding along with a brief outline of the company's business model. Concerning technology stocks, the MFS position on crypto currencies was also outlined.

It was not known how the China/US trade war might end up. Not investing in Huawei could benefit Apple. MFS also referred to Brexit and re-negotiation of the North American Free Trade Agreement (NAFTA). There is a role for individual analysts and it is necessary to model for each company and to look through cycles and find companies that will navigate returns.

Responding to a question on Microsoft, MFS acknowledged that Microsoft had turned itself around; however, MFS explained that they try not to invest in

a turn-around situation and Microsoft's valuation is not deep. Many of their markets were also second e.g. Azure. MFS suggested Pfizer Inc as an example of a "front runner" company which is also cheap. MFS also indicated Fidelity International financing services as a further example and there are other technology companies. Although such companies are not particularly exciting, they are attractive to MFS.

In terms of risks to the portfolio in the current macro environment, the energy sector posed a risk as oil prices are high; energy companies buy property etc and when the oil price falls the companies continue to have loans.

MFS confirmed that they only invest in public companies. On battery technology, much investing by MFS is done through direct investments such as Tesla.

For future investments reports, a Member indicated that he would be pleased to see why MFS vote against matters. In response, MFS indicated as an example that they would be prepared to vote against where remuneration does not match performance. Voting against could also take place where there is little diversity on boards and where there is no alignment with shareholder value.

The Chairman thanked the MFS representatives for attending. Both the Chairman and Vice-Chairman felt that MFS had delivered an excellent presentation and the Chairman commented positively on the level of expertise conveyed in the presentation. Baillie Gifford and MFS were thought to balance out well in the Fund's Global Equities allocation.

10 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

11 EXEMPT MINUTES OF THE PENSIONS INVESTMENT SUB-COMMITTEE MEETING HELD ON 5TH MARCH 2019

Members received the exempt minutes which the Chairman signed on conclusion of the meeting.

12 ANY EXEMPT UPDATE MATTERS FROM THE LONDON CIV CHIEF EXECUTIVE

Following the LCIV's presentation to the Sub-Committee and subsequent discussion at item 4a, Members and the Director of Finance had a brief internal discussion under Part 2 proceedings without LCIV representatives present.

13 CHAIRMAN'S UPDATE ON ANY EXEMPT MATTERS

Under Part 2 proceedings, the Chairman reported to Members on certain recent matters.

14 DIRECTOR OF FINANCE UPDATE ON ANY EXEMPT MATTERS

The Director had no update on matters under Part 2 proceedings.

The Meeting ended at 10.25 pm

Chairman