

Decision Maker: Pensions Investment Sub-Committee

Date: 28th July 2020

Decision Type: Non-Urgent Non-Executive Non-Key

Title: PENSION FUND PERFORMANCE Q1 2020/21

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Chief Officer: Director of Finance

Ward: All

1. Reason for report

- 1.1 This report provides a summary of the investment performance of Bromley's Pension Fund in the 1st quarter of 2020/21. More detail on investment performance is provided in a separate report from the Fund's external adviser, MJ Hudson Allenbridge, which is attached as Appendix 5. The report also contains information on general financial and membership trends of the Pension Fund and summarised information on early retirements.
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2. RECOMMENDATION

2.1 The Pensions Investment Sub-Committee is asked to:

- (a) note the contents of the report;**
- (b) note the latest cashflow position, and note that the situation will continue to be closely monitored as outlined in the MJHudson report;**
- (c) consider whether to progress with currency hedging to cover a value of up to 50% for the fund's global equities, as outlined in the MJHudson report;**
- (d) consider any action on the weighting of different asset classes, specifically relating to Global Equities and Multi-Asset Income Fund, as highlighted in the MJHudson report;**
- (e) note the latest shortlist for the international property procurement, and note that the final shortlist will be reported to the meeting in September as outlined in Appendix 6 to be considered under Part 2 of this agenda.**

Corporate Policy

1. Policy Status: Existing policy. The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.
 2. BBB Priority: Excellent Council.
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Financial

1. Cost of proposal: No cost
 2. Ongoing costs: Recurring cost. Total administration costs estimated at £5.1m (includes fund manager/actuary/adviser fees, Liberata charge and officer time)
 3. Budget head/performance centre: Pension Fund
 4. Total current budget for this head: £44.6m expenditure (pensions, lump sums, etc); £49.8m income (contributions, investment income, etc); £1,177m total fund market value at 30th June 2020)
 5. Source of funding: Contributions to Pension Fund
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Staff

1. Number of staff (current and additional): 0.4 FTE
 2. If from existing staff resources, number of staff hours: c 14 hours per week
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Legal

1. Legal Requirement: Statutory requirement. Local Government Pension Scheme (LGPS) Regulations 2013 (as amended), LGPS (Management and Investment of Funds) Regulations 2016
 2. Call-in: Call-in is not applicable.
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): 6,190 current employees; 5,610 pensioners; 5,977 deferred pensioners as at 30th June 2020
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? No.
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1 Fund Value

3.1.1 The market value of the Fund ended the June quarter at £1,177.4m, up from £1,000.3m as at 31st March. The comparable value as at 30th June 2019 was £1,094m. Historic data on the value of the Fund are shown in a table and in graph form in Appendix 1.

3.2 Performance Targets and Investment Strategy

3.2.1 Historically, the Fund's investment strategy was broadly based on a high level 80%/20% split between growth seeking assets (representing the long-term return generating part of the Fund's assets) and protection assets (aimed at providing returns to match the future growth of the Fund's liabilities). Between 1998 and 2012, Baillie Gifford and Fidelity managed balanced mandates along these lines, and, a comprehensive review of the Fund's investment strategy in 2012 confirmed this high-level strategy. It concluded that the growth element would, in future, comprise a 10% allocation to Diversified Growth Funds (DGF) and a 70% allocation to global equities, with a 20% protection element remaining in place for investment in corporate bonds and gilts.

3.2.2 The asset allocation strategy was reviewed again during 2016/17, mainly to address the projected cash flow shortfall in future years, and a revised strategy was agreed on 5th April 2017. The revised strategy introduced allocations to Multi Asset Income Funds (20%) and Property Funds (5%), removed Diversified Growth Funds, and reduced the allocations to Global Equities (to 60%) and Fixed Income (to 15%). In order to implement the revised strategy, it was agreed to sell all of the Diversified Growth Funds and the Blackrock Global Equities assets.

3.2.3 At the meetings on 21st November and 14th December 2017 the Sub-Committee appointed Schroders (60%) and Fidelity (40%) to manage the MAI fund mandates and Fidelity to manage a UK pooled property fund mandate. The Fidelity MAI and initial drawdown of the property fund were completed in February 2018 and the Schroders MAI investment completed in May 2018. A further drawdown of the Fidelity property fund was completed in August 2018. The final drawdown of the Fidelity property was completed in December 2018. The sale of the balance of the Blackrock fund was completed in May 2019 and transferred to Fidelity's MAI Fund, as agreed by this Committee at its meeting held on 15th May 2019.

3.2.4 The asset allocation strategy was reviewed again during 2019/20, and a revised strategy is currently being finalised. The revised strategy has amended the allocations as follows: Equities (58%), Multi Asset Income Funds (20%), Fixed Income (13%), UK Real Estate (4%) and International Property (5%).

3.3 Summary of Fund Performance

3.3.1 Performance data for 2020/21 (short-term)

A detailed report on fund manager performance in the quarter ended 30th June 2020 is provided by the fund's external adviser, MJ Hudson Allenbridge, in Appendix 5. The total fund return for the first quarter was +17.75% against the benchmark of +12.35%. Further details of individual fund manager performance against their benchmarks for the quarter, year to date, 1, 3 and 5 years and since inception are provided in Appendix 2.

3.3.2 Medium and long-term performance data

The Fund's medium and long-term returns have remained very strong overall, although due to the Covid-19 pandemic the total return in 2019/20 was -2.74% against a benchmark of -1.98%. The returns for 2018/19 and 2017/18 were 8.0% and 6.7% against the benchmark of 8.3% and 3.1% respectively.

The overall Fund ranked twenty second against the 63 funds in the PIRC LGPS universe for the year to 31st March 2020, third over 3 years, third over 5 years, second over 10 years and first over 20 and 30 years.

The following table shows the Fund's long-term rankings in all financial years back to 2005/06 and shows the medium to long-term returns for periods ended 31st March. The medium to long-term results have been good and have underlined the fact that the Fund's performance has been consistently strong over a long period.

Year	Whole Fund Return	Benchmark Return	Local Authority Average*	Whole Fund Ranking*
	%	%	%	
Financial year figures				
2019/20	-2.74	-1.87	-4.8	22
2018/19	8.0	8.3	6.6	11
2017/18	6.7	3.1	4.5	3
2016/17	26.8	24.6	21.4	1
2015/16	0.1	0.5	0.2	39
2014/15	18.5	16.4	13.2	7
2013/14	7.6	6.2	6.4	29
2012/13	16.8	14.0	13.8	4
3 year ave to 31/3/19	13.5	11.6	10.5	1
2015/16	10.6	8.9	8.3	1
2014/15	14.6	13.4	11.2	1
2013/14	8.4	7.5	6.4	6
2012/13	14.2	12.1	11.1	5
2011/12	2.2	2.0	2.6	74
2010/11	9.0	8.0	8.2	22
5 year ave to 31/3/19	11.6	10.3	8.8	2
2013/14	11.5	9.8	8.8	2
2012/13	13.6	12.0	10.7	1
2011/12	8.8	7.6	7.1	6
2010/11	10.7	9.2	8.8	11
2009/10	48.7	41.0	35.2	2
2008/09	-18.6	-19.1	-19.9	33
2007/08	1.8	-0.6	-2.8	5
2006/07	2.4	5.2	7.0	100
2005/06	27.9	24.9	24.9	5
10 year ave to 31/3/19	13.7	n/a	10.7	1
20 year ave to 31/3/19	7.9	n/a	6.4	1
30 year ave to 31/3/19	9.2	n/a	8.4	1

*The most recent LA averages and ranking as at 31/03/20 are based on the PIRC LA universe containing 63 of the 89 funds.

3.3.3 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, Bromley also recently won the Pensions, Treasury and Asset Management Award at CIPFA's Public Finance Awards 2019, recognising the consistent high performance of the Fund.

3.3.4 Performance Measurement Service

As previously reported in April 2016, the Council was informed that WM Company (State Street) would cease providing performance measurement services to clients to whom they do not act as custodian with effect from June 2016. There are currently no providers offering a like for like service so the Council is using its main custodian, BNY Mellon, to provide performance measurement information and the 1st quarter summary of manager performance is provided at Appendix 2. PIRC currently provide LA universe comparator data and, at the time of writing, has 63 of the 89 LGPS funds (71%) signed up to the service including the London Borough of Bromley.

3.4 **Early Retirements**

3.4.1 Details of early retirements by employees in the Fund are shown in Appendix 3.

3.5 **Admission agreements for outsourced services**

3.5.1 The cessation debt and deficit repayment plan for MyTime Active has been finalised and was signed and sealed on 17th March 2020. MyTime has paid monthly contributions for April, May & June. The payment date for the remaining balance (including interest for late payment) is to be finalised in early July.

3.5.2 The final transfer payment for GS Plus was commissioned to our Actuary on July 6th 2020. An update will be provided to this Sub-Committee when we have the results.

3.5.3 There are currently two admission agreements being arranged relating to Academies that have outsourced services; Gray's Farm and Red Hill Primary.

3.6 **Fund Manager attendance at meetings**

3.6.1 Meeting dates have been set for 2020/21. While Members reserve the right to request attendance at any time if any specific issues arise, the timetable for subsequent meetings is as follows although this may change given future social-distancing requirements:

Meeting 15th September - MFS (global equities)

Meeting 1st December 2020 – Baillie Gifford (global equities and fixed income)

Meeting 27th January 2021 – Fidelity (fixed income, multi-asset income and property)

Meeting 29th April 2021 - Schroders (multi asset income)

4. **POLICY IMPLICATIONS**

4.1.1 The Council's Pension Fund is a defined benefit scheme operated under the provisions of the Local Government Pension Scheme (LGPS) Regulations, for the purpose of providing pension benefits for its employees. The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) allow local authorities to use all the established categories of investments, e.g. equities, bonds, property etc, and to appoint external investment managers who are required to use a wide variety of investments and to comply with certain specific limits.

5. **FINANCIAL IMPLICATIONS**

5.1.1 Details of the final outturn for the 2019/20 Pension Fund Revenue Account and the position after the first quarter of 2020/21 are provided in Appendix 4 together with fund membership numbers. A net surplus of £19.5m occurred during 2019/20 and total membership numbers

rose by 136. In the first quarter of 2020/21, a net surplus of £3.6m has arisen, and membership numbers increased by 209.

5.1.2 It should be noted that the net surplus of £19.5m in 2019/20 includes investment income of £12.1m which was re-invested in the funds so, in cashflow terms, there would have been a £7.4m cash surplus for the year. The first quarter of 2020/21 would be a cash surplus of £0.1m excluding reinvested income.

6. LEGAL IMPLICATIONS

6.1.1 The statutory provisions relating to the administration of the Local Government Pension Scheme are contained in the Local Government Pension Scheme (LGPS) Regulations 2013 (as amended). The investment regulations (The LGPS (Management and Investment of Funds) Regulations 2016) set out the parameters for the investment of Pension Fund monies.

Non-Applicable Sections:	Personnel Implications, Impact on Vulnerable Adults and Children, Procurement Implications
Background Documents: (Access via Contact Officer)	Monthly and quarterly portfolio reports of Baillie Gifford, Blackrock, Fidelity, MFS and Schroders.

MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002

Date	Baillie Gifford				Fidelity				Blackrock	MFS	Standard	Schroders	CAAM	GRAND	
	Balanced Mandate	DGF	Fixed Income	Global Equities	Total	Balanced Mandate	Fixed Income	MAI			Property				Total
	£m	£m	£m	£m	£m	£m	£m			£m	£m	£m	£m	£m	
31/03/2002	113.3				113.3	112.9				112.9					226.2
31/03/2003	90.2				90.2	90.1				90.1					180.3
31/03/2004	113.1				113.1	112.9				112.9					226.0
31/03/2005	128.5				128.5	126.7				126.7					255.2
31/03/2006	172.2				172.2	164.1				164.1					336.3
31/03/2007	156.0				156.0	150.1				150.1			43.5		349.6
31/03/2008	162.0				162.0	151.3				151.3			44.0		357.3
31/03/2009	154.4				154.4	143.0				143.0					297.4
31/03/2010	235.4				235.4	210.9				210.9					446.3
31/03/2011	262.6				262.6	227.0				227.0					489.6
31/03/2012	269.7				269.7	229.6				229.6					499.3
31/03/2013#	315.3	26.5			341.8	215.4				215.4		26.1			583.3
31/03/2014@	15.1	26.8	45.2	207.8	294.9		58.4			58.4	122.1	123.1	27.0		625.5
31/03/2015		45.5	51.6	248.2	345.3		66.6			66.6	150.5	150.8	29.7		742.9
31/03/2016		44.8	51.8	247.9	344.5		67.4			67.4	145.5	159.2	28.3		744.9
31/03/2017		49.3	56.8	335.3	441.4		74.3			74.3	193.2	206.4	28.5		943.8
31/03/2018\$&			58.0	380.0	438.0		75.6	79.2	15.9	170.7	155.2	206.8			970.7
31/03/2019			59.2	416.5	475.7		78.7	78.8	48.6	206.1	11.4	230.2	115.8		1,039.2
31/03/2020			60.9	411.85	472.7		83.5	80.6	47.0	211.1	0	220.3	96.1		1,000.3
30/06/2020			65.0	529.8	594.8		88.4	87.5	45.6	221.5	0	254.3	106.8		1,177.4

£50m Fidelity equities sold in Dec 2012 to fund Standard Life and Baillie Gifford DGF allocations.

@ Assets sold by Fidelity (£170m) and Baillie Gifford (£70m) in Dec 2013 to fund MFS and Blackrock global equities.

\$ £32m Blackrock global equities sold in July 2017 to pay group transfer value re Bromley College.

& Assets sold by Baillie Gifford (£51m), Standard Life (£29m) and Blackrock (£19m) in Feb 2018 to fund Fidelity MAI and Property funds.

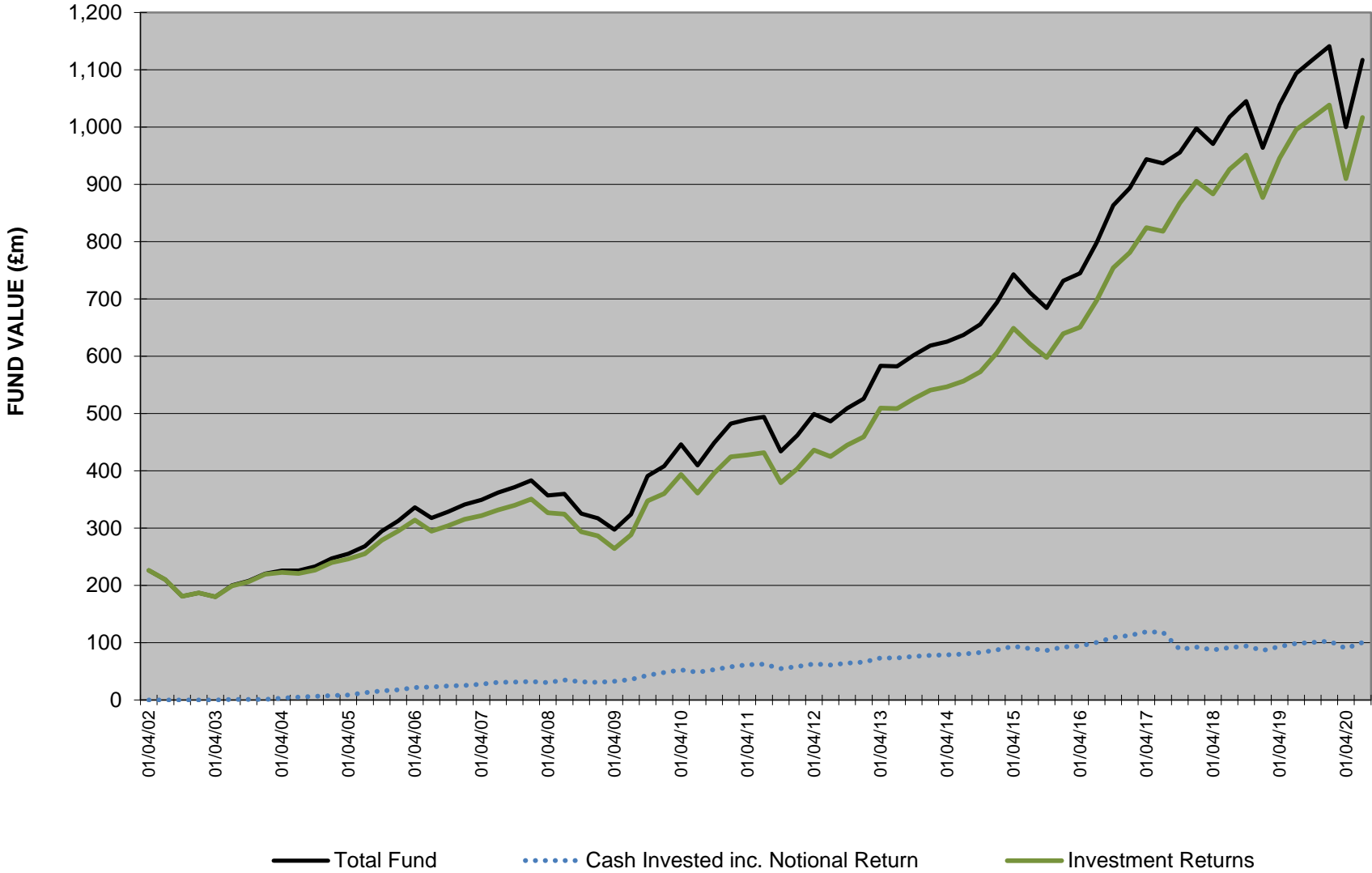
£ Assets sold by Blackrock (£120m) in May 2018 to fund Schroder MAI fund.

^ Assets sold by Blackrock (£20m) in August 2018 to fund Fidelity Property fund.

* Assets sold by Blackrock (£13.7m) in December 2018 to fund Fidelity Property fund.

" Assets sold by Blackrock (£11.6m) in May 2019 to fund Fidelity MAI.

PENSION FUND - QUARTERLY VALUES SINCE 2002



Appendix 2

PENSION FUND MANAGER PERFORMANCE TO JUNE 2020

Portfolio	Month %	3 Months %	YTD %	1 Year %	3 Years %	5 Years %	Since Inception %
Baillie Gifford Global Equity	7.28	28.47	28.47	18.07	14.67	17.48	9.33
Benchmark	3.30	19.81	19.81	5.72	8.49	12.32	7.77
Excess Return	3.99	8.65	8.65	12.35	6.18	5.16	1.56
Baillie Gifford Fixed Income	1.33	7.21	7.21	7.40	4.40	5.55	6.00
Benchmark	0.42	5.14	5.14	8.11	4.97	5.79	5.98
Excess Return	0.90	2.07	2.07	-0.70	-0.57	-0.23	0.02
Fidelity Fixed Income	0.75	5.89	5.89	9.81	5.89	6.72	6.76
Benchmark	0.32	4.75	4.75	9.24	5.33	5.88	5.94
Excess Return	0.42	1.14	1.14	0.57	0.56	0.83	0.82
Fidelity MAI	2.09	9.72	9.72	-1.33			1.75
Benchmark	0.33	0.99	0.99	4.00			4.00
Excess Return	1.76	8.73	8.73	-5.33			-2.25
Fidelity Property	-0.81	-2.93	-2.93	-1.97			-0.01
Benchmark	-1.97	-4.06	-4.06	-3.33			0.93
Excess Return	1.16	1.13	1.13	1.36			-0.94
MFS Global Equity	1.74	15.52	15.52	2.91	6.59	12.33	12.07
Benchmark	3.25	19.64	19.64	5.18	7.92	11.72	11.72
Excess Return	-1.51	-4.11	-4.11	-2.27	-1.33	0.61	0.97
Schroder MAI	1.56	10.62	10.62	-5.19			-1.52
Benchmark	0.41	1.23	1.23	5.00			5.00
Excess Return	1.15	9.39	9.39	-10.19			-6.52
Total Fund	3.96	17.75	17.75	8.52	8.70	11.88	8.95
Benchmark	1.99	12.35	12.35	5.61	6.94	9.94	
Excess Return	1.97	5.40	5.40	2.92	1.76	1.94	

N.B. returns may differ to fund manager reports due to different valuation/return calculation methods

EARLY RETIREMENTS

A summary of early retirements and early release of pension on redundancy by employees in Bromley's Pension Fund in the current year and in previous years is shown in the table below. With regard to retirements on ill-health grounds, this allows a comparison to be made between their actual cost and the cost assumed by the actuary in the triennial valuation. If the actual cost of ill-health retirements significantly exceeds the assumed cost, the actuary will be required to consider whether the employer's contribution rate should be reviewed in advance of the next full valuation. In the last valuation of the Fund (as at 31st March 2019) the actuary assumed a figure of 0.9% of pay (approx. £1.4m p.a from 2020/21) compared to £1.2m in the 2016 valuation, £1m in the 2013 valuation and £82k p.a. in the 2010 valuation. In 2015/16 there were nine ill-health retirements with a long-term cost of £1,126k, in 2016/17 there were six with a long-term cost of £235k, in 2017/18 there were five with a long-term cost of £537k, in 2018/19 there were five with a long-term cost of £698k and in 2019/20 there were 3 with a long-term cost of £173k. Provision has been made in the Council's budget for these costs and contributions have been and will be made to reimburse the Pension Fund as result of which the level of costs will have no impact on the employer contribution rate.

The actuary does not make any allowance for other (non-ill-health) early retirements or early release of pension, however, because it is the Council's policy to fund these in full by additional voluntary contributions. In 2015/16 there were 23 non ill-health retirements with a total long-term cost of £733k, in 2016/17 there were 22 with a total cost of £574k, in 2017/18 there were ten with a long-term cost of £245k, in 2018/19 there were eight with a long-term cost of £392k and in 2019/20 there were 14 with a long-term cost of £433k. Provision has been made in the Council's budget for severance costs arising from LBB staff redundancies and contributions have been and will be made to the Pension Fund to offset these costs. The costs of non-LBB early retirements are recovered from the relevant employers.

Long-term cost of early retirements	Ill-Health		Other	
	No	£000	No	£000
Qtr 1 – Jun 20 - LBB	1	289	1	-
- Other	1	98	-	-
- Total	2	387	1	-
Actuary's assumption - 2019 to 2022		1,400 p.a.		N/a
- 2016 to 2019		1,200 p.a.		N/a
- 2013 to 2016		1,000 p.a.		N/a
- 2010 to 2013		82 p.a.		N/a
Previous years – 2019/20	3	173	14	433
- 2018/19	5	698	8	392
- 2017/18	5	537	10	245
- 2016/17	6	235	22	574
- 2015/16	9	1,126	14	734
- 2014/15	7	452	19	272
- 2013/14	6	330	26	548
- 2012/13	2	235	45	980
- 2011/12	6	500	58	1,194

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Final Outturn 2019/20 £'000	Estimate 2020/21 £'000	Actuals to 30/06/20 £'000
INCOME			
Employee Contributions	7,091	7,400	1,575
Employer Contributions			
- Normal	24,969	23,700	4,997
- Past-deficit	2,501	-	-
Transfer Values Receivable	5,511	3,900	651
Investment Income			
- Re-invested	12,114	6,100	3,520
- Distributed to Fund	10,554	8,700	946
Total Income	<u>62,740</u>	<u>49,800</u>	<u>11,689</u>
EXPENDITURE			
Pensions	29,076	29,600	7,400
Lump Sums	5,658	6,100	1,507
Transfer Values Paid	3,064	3,600	(903)
Administration			
- Manager fees	4,144	3,900	(260)
- Other (incl. pooling costs)	1,175	1,200	315
Refund of Contributions	133	200	24
Total Expenditure	<u>43,250</u>	<u>44,600</u>	<u>8,083</u>
Surplus/Deficit (-)	<u>19,490</u>	<u>5,200</u>	<u>3,606</u>
MEMBERSHIP			
	31/03/2020		30/06/2020
Employees	6,253		6,190
Pensioners	5,592		5,610
Deferred Pensioners	5,945		5,977
	<u>17,568</u>		<u>17,777</u>