

Report No.
FSD21057

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker: PENSIONS COMMITTEE

Date: September 29th 2021

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

Title: PENSION FUND PERFORMANCE Q1 2021/22

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Ward: Borough Wide

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 2021/22. 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 Committee is asked to note the contents of the report and information contained in related appendices.**

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 £5.9m (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: £49.6m expenditure (pensions, lump sums, etc); £57.6m income (contributions, investment income, etc); £1,405m total fund market value at 30th June 2021
 5. Source of funding: Contributions to Pension Fund
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Staff

1. Number of staff (current and additional): 1 FTE
 2. If from existing staff resources, number of staff hours: 36 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): 6,271 current employees; 5,674 pensioners; 6,131 deferred pensioners as at 30th June 2021
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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 £1,405m, up from £1,330m as at 31st March. The comparable value as at 30th June 2020 was £1,178m. 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 has been 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 2021/22 (short-term)

A detailed report on fund manager performance in the quarter ended 30th June 2021 is provided by the fund's external adviser, MJ Hudson Allenbridge in Appendix 5, with information about fund manager fees detailed in Appendix 7, to be considered in Part 2 of the agenda. MJ Hudson Allenbridge have also provided a report on Private Equity (Appendix 6). The total fund return for the first quarter was 5.75% against the benchmark of 5.17%. 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 extremely strong overall, with a return of 34.1% against a benchmark of 23.6% in 2020/21. The returns for 2019/20 and 2018/19 were -2.74% and 8.0% against the benchmark of -1.87% and 8.3% respectively.

The overall Fund ranked second against the 63 funds in the PIRC LGPS universe for the year to 31st March 2021, second over 3 years, first over 5 years, first over 10 years and second 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 very 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				
2020/21	34.1	23.6	22.8	2
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 31/3/21	12.1	9.4	7.6	2
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 31/3/21	13.8	11.0	9.5	1
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 31/3/21	11.2	n/a	8.3	1
20 year ave to 31/3/21	9.0	n/a	6.9	2
30 year ave to 31/3/21	9.5	n/a	8.4	2

*The most recent LA averages and ranking as at 31/03/21 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 was also in the final shortlist for 2019 and 2020. 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 2nd 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 Bromley MyTime have paid their pension deficit repayments until September in line with the draft repayment plan. The variation agreement is with London Borough of Bromley's Legal team.

3.5.2 The bulk transfer payment for GS Plus was calculated by the actuary to be £2.667m and was completed on 11th August.

3.5.3 The three admission agreements relating to Bromley and academies that have outsourced services; Ambient Support Ltd (Respite Services), Diagrama Healthcare Services Ltd (Supported Living Services) and Caterlink (Education for the 21st Century) are being handled by Richmond and Wandsworth Shared Support Services.

3.6 **Fund Manager attendance at meetings**

3.6.1 Meeting dates have not been set beyond February 2022. 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 2nd December 2021 - Fidelity

Meeting 22nd February 2022 – Schroders

4. **POLICY IMPLICATIONS**

4.1 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 Details of the provisional outturn for the 2020/21 pension fund revenue account and the position after the first quarter of 2021/22 are provided in Appendix 4 together with fund membership numbers. A net provisional surplus of £13.8m occurred during 2020/21 and membership numbers rose by 410. In 2021/22, a provisional net surplus of £3.7m has arisen and total

membership numbers reduced by 124.

5.2 It should be noted that the net surplus of £13.8m in 2020/21 includes investment income of £10.5m which was re-invested in the funds so, in cashflow terms, there would have been a £3.3m cash surplus for the year. The first quarter of 2021/22 would be a deficit of £0.05m excluding reinvested income.

6. LEGAL IMPLICATIONS

6.1 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, Fidelity, MFS and Schrodgers.

MOVEMENTS IN PENSION FUND MARKET VALUE SINCE 2002

Date	Baillie Gifford					Fidelity						Blackrock	MFS		Schroders	CAAM	GRAND TOTAL
	Balanced Mandate	DGF	Fixed Income	Global Equities	Total	Balanced Mandate	Fixed Income	MAI	Property	Sterling Bond	Total	Global Equities	Global Equities	DGF	MAI	LDI Investment	
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		220.3		96.1		1,000.3
30/06/2020			65.0	529.8	594.8		88.4	87.5	45.6		221.5		254.3		106.8		1,177.4
30/09/2020/			65.4	524.8	590.2		89.0	128.3	44.7		262.0		259.2		106.6		1,218.0
31/12/2020\				585.3	585.3		91.0	133.0	45.5	67.7	337.2		278.8		111.7		1,313.0
31/03/2021				597.7	597.7		85.7	131.4	46.3	64.8	328.2		293.1		110.9		1,329.9
30/06/2021*				621.2	621.2		87.4	134.8	69.5	66.2	357.9		311.2		114.5		1,404.8

£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.

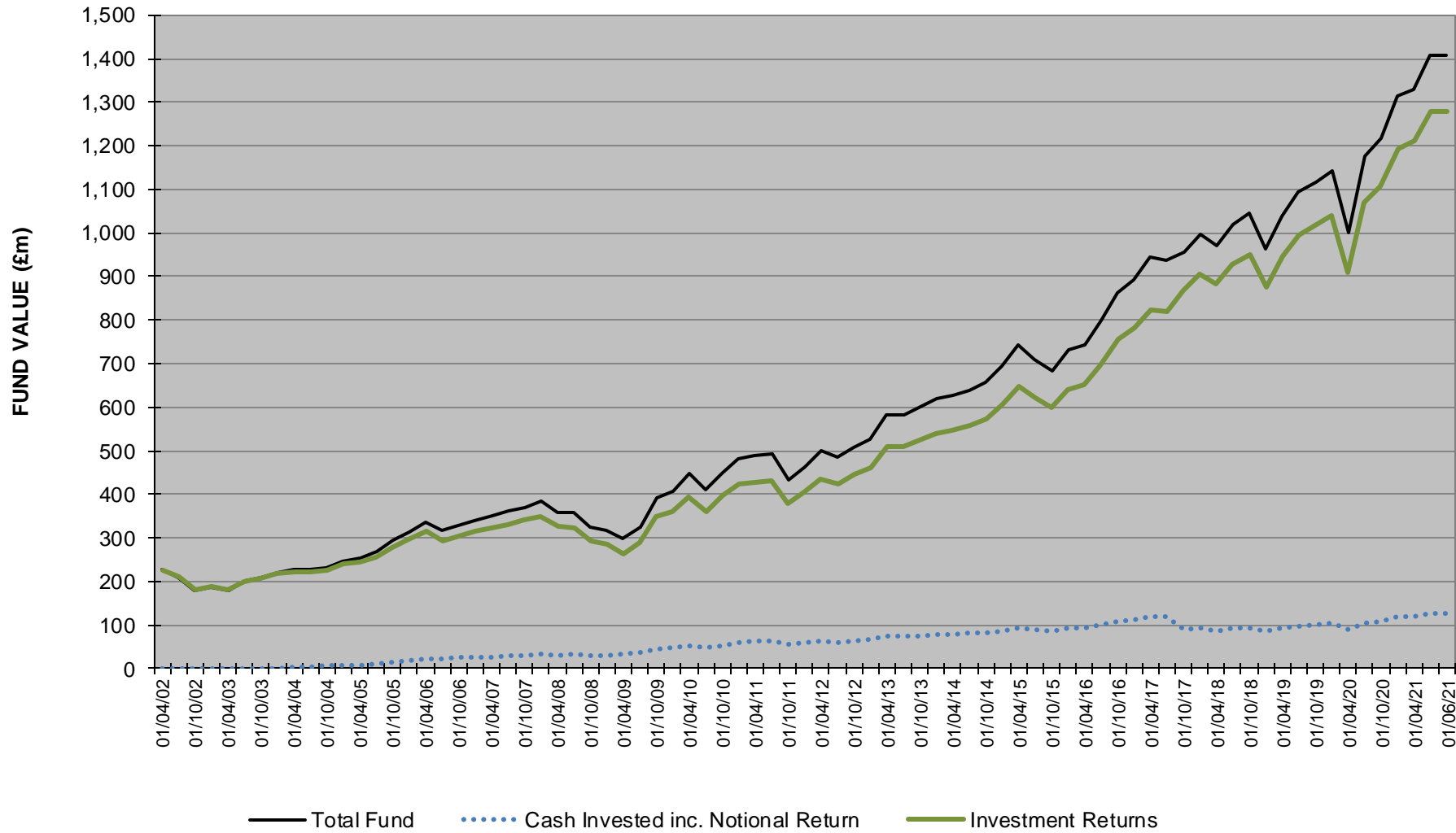
" Assets sold by Blackrock (£11.6m) in May 2019 to fund Fidelity MAI

/ Assets sold by Baillie Gifford (£41.2m) in Aug 2020 to fund Fidelity MAI fund

\ Assets sold by Baillie Gifford (£65.5m) in Oct 2020 to fund Fidelity Sterling Corporate Bond fund

*Assets sole by Baillie Gifford (£20m) in June 2021 to fund Fidelity Property fund

PENSION FUND - QUARTERLY VALUES SINCE 2002



Appendix 2

PENSION FUND MANAGER PERFORMANCE TO JUNE 2021

Portfolio	Month %	3 Months %	YTD %	1 Year %	3 Years %	5 Years %	Since Inception %
Baillie Gifford Global Equity	5.90	7.28	7.28	31.03	19.31	21.28	10.25
Benchmark	4.29	7.39	7.39	25.10	13.41	14.45	8.52
Excess Return	1.61	-0.11	-0.11	5.93	5.89	6.83	1.73
Fidelity Fixed Income	0.93	2.02	2.02	-0.24	5.18	4.53	6.45
Benchmark	0.76	1.74	1.74	-2.43	4.01	3.09	5.57
Excess Return	0.17	0.28	0.28	2.19	1.17	1.44	0.88
Fidelity MAI	0.96	3.50	3.50	8.46	4.15		3.72
Benchmark	0.33	0.99	0.99	4.00	4.00		4.00
Excess Return	0.63	2.51	2.51	4.46	0.15		-0.28
Fidelity Property	4.43	6.78	6.78	12.90	3.47		3.70
Benchmark	3.78	6.11	6.11	13.30	3.72		4.49
Excess Return	0.65	0.66	0.66	-0.40	-0.25		-0.79
MFS Global Equity	1.41	6.20	6.20	22.42	12.70	12.02	13.38
Benchmark	4.26	7.26	7.26	24.56	12.85	13.86	12.79
Excess Return	-2.84	-1.06	-1.06	-2.14	-0.14	-1.85	0.59
Schroder MAI	0.80	3.83	3.83	12.14	3.11		2.71
Benchmark	0.41	1.23	1.23	5.00	5.00		5.00
Excess Return	0.39	2.60	2.60	7.14	-1.89		-2.29
Total Fund	3.35	5.75	5.75	20.42	12.37	13.49	9.27
Benchmark	2.93	5.17	5.17	15.69	9.69	10.53	
Excess Return	0.42	0.59	0.59	4.73	2.68	2.96	

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, in 2019/20 there were three with a long-term cost of £173k, and in 2020/21 there were six with a long-term cost of £520k. 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 14 non ill-health retirements with a total long-term cost of £734k, in 2016/17 there were 22 with a total cost of £574k, in 2017/18 there were 10 with a long-term cost of £245k, in 2018/19 there were eight with a long-term cost of £392k, in 2019/20 there were 14 with a long-term cost of £433k and in 2020/21 there were 14 with a long-term cost of £203k. 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
April 20–Jun 21 - LBB	0	0	0	0
- Other	0	0	0	0
- Total	0	0	0	0
2020/21 total - LBB	2	346	6	72
- Other	4	174	8	131
- Total	6	520	14	203
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

PENSION FUND REVENUE ACCOUNT AND MEMBERSHIP

	Draft Outturn 2020/21 £'000	Budget 2021/22 £'000	Draft to 30/06/21 £'000
INCOME			
Employee Contributions	7,389	7,700	1,650
Employer Contributions			
- Normal	23,560	23,600	4,952
- Past-deficit	-	-	-
Transfer Values Receivable	2,409	2,400	1,049
Investment Income			
- Re-invested	10,500	9,500	3,758
- Distributed to Fund	10,850	14,412	2,616
Total Income	<u>54,708</u>	<u>57,612</u>	<u>14,025</u>
EXPENDITURE			
Pensions	29,821	31,300	7,430
Lump Sums	5,227	5,900	1,050
Transfer Values Paid	2,187	6,267	551
Administration			
- Manager fees	2,968	4,840	1,100
- Other (incl. pooling costs)	672	1,100	168
Refund of Contributions	74	200	19
Total Expenditure	<u>40,949</u>	<u>49,607</u>	<u>10,318</u>
Surplus/Deficit (-)	<u>13,759</u>	<u>8,005</u>	<u>3,707</u>
MEMBERSHIP	31/03/2021		30/06/2021
Employees	6,411		6,271
Pensioners	5,669		5,674
Deferred Pensioners	6,120		6,131
	<u>18,200</u>		<u>18,076</u>