

PENSIONS COMMITTEE

Minutes of the meeting held at 7.00 pm on 2 December 2021

Present:

Councillor Keith Onslow (Chairman)
Councillor Gary Stevens (Vice-Chairman)
Councillors Simon Fawthrop, Kira Gabbert, Simon Jeal,
Christopher Marlow and Tony Owen

Also Present:

John Arthur, MJ Hudson

148 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

There were no apologies for absence.

149 DECLARATIONS OF INTEREST

There were no declarations of interest.

150 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

Two questions had been received for written reply – the questions and answers are attached as Appendix A to these minutes.

151 CONFIRMATION OF MINUTES OF THE MEETINGS HELD ON 29 SEPTEMBER AND 15 NOVEMBER 2021, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

RESOLVED that the minutes of the meeting held on 29th September 2021 be confirmed.

The exempt minutes of the meeting held on 15th November 2021 were not yet available.

152 MFS PRESENTATION

Elaine Alston and Paul Fairbrother of MFS attended the meeting. Ms Alston began by reporting that a new Portfolio Manager would be joining them in January, and emphasising that their investment process focussing on business durability and sustainability would continue.

Paul Fairbrother led the Committee through the main points of the MFS presentation. From a trough in March 2020, world markets had recovered and

the equity market was strong. However, although inflation had been falling for fifty years it was now increasing in raw materials and wages. In particular, there was higher wage-growth pressure amongst low-wage employees than in high-skills sectors for the first time in thirty years. While central banks were saying that this inflation would be temporary, he predicted that it would be more long-lasting, and that there was possibly a testing decade ahead. He commented on technology companies that their value would decline as interest rates rose, and the dominance of a small number of companies could be challenged by regulators. MFS did have a holding in Microsoft, but not any of the other major technology stocks. He concluded by stating that the MFS value approach complemented Baillie Gifford's growth approach.

In response to questions, Mr Fairbrother confirmed that they had a small holding in one Chinese company, there was little exposure to China. He also explained that MFS mainly used CPI to measure inflation, and that figures were not usually adjusted for inflation. Addressing the issues around ESG, Mr Fairbrother stated that the MFS approach was to talk to companies and seek to influence them, rather than to disinvest - they invested in companies prepared to change. They did not want to rule out whole sectors, and accepted, for example, that the world needed the oil industry for the next ten or fifteen years. It was important to talk to companies and to pick companies to invest in very carefully.

Mr Fairbrother argued that the MFS investment strategy was effective in difficult markets and would protect the Council in a downturn. It was important that investment managers pursued a consistent approach, not chopping and changing in response to short-term events and conditions.

The Chairman thanked Ms Alston and Mr Fairbrother for their presentation.

153 PENSION FUND PERFORMANCE - Q2 2021/22
Report FSD21076

The report provided a summary of the investment performance of Bromley's Pension Fund in the 2nd quarter of 2021/22. The report also contained information on general financial and membership trends of the Pension Fund and summarised information on early retirements.

The report included a quarterly report from MJ Hudson, the Fund's external investment advisor. John Arthur of MJ Hudson presented the report. He commented in particular on inflation, which had been expected at around 3%, but was now anticipated to peak at 6%, then decline as supply chain issues lessened. Wage inflation, particularly at the lower end, was currently a factor, and the impact of de-carbonising the world economy would have a lasting impact. He expected inflationary pressures to linger longer than central banks were currently predicting. With a high level of government debt, central banks would be reluctant to raise interest rates to protect growth. Overall, he expected returns to struggle for the next couple of years. There was diversification in the Fund, but other approaches that could be considered were direct lending and investment in social/affordable housing.

The Fund had risen 0.37% in value over the quarter, and was valued at over £1.4bn. However, the figures excluded the US dollar cash holding and the Morgan Stanley International Property fund – this would be corrected in the next quarter's figures. Baillie Gifford had underperformed over the quarter, after their earlier exceptional performance, but Mr Arthur was confident that their approach would add value in the long-term. UK Property was the best performing asset over the quarter at 6.6% per annum. A first drawdown into the International Property Fund had been made during the quarter, with a second drawdown having now been made after quarter end.

The report also included a section on Environmental, Social and Governance (ESG) – Mr Arthur suggested that he reported on this annually in future. Fund managers were taking ESG into account, especially in Fixed Interest, but not all companies were producing figures, especially in emerging markets.

The Committee discussed the recent performance of Baillie Gifford, and their prospects for the next few years, compared with the contrasting lower risk approach of MFS. Mr Arthur advised that Baillie Gifford were good at anticipating which companies would be successful; they were expecting the major technology companies to be restricted by regulatory challenges, leading to disruption and opportunities for the next generation of companies. While he would not be against switching funds to MFS, he still had confidence in the Baillie Gifford approach, and reminded the Committee that there would be transition costs. The Chairman suggested that rather than incurring costs by switching managers a cheaper alternative might be to consider some of Baillie Gifford's lower-risk products.

Commenting on the Pension Fund Revenue Account and Membership table at page 13 in the agenda, a Member raised the issue of the declining number of employees making contributions into the Fund, and requested a more detailed cashflow. Officers had carried out a revised cashflow forecast recently, and this could be circulated. The change to the figures requested at the previous meeting had been incorporated – an additional line covering the surplus or deficit.

RESOLVED that the contents of the report and the information contained in the related appendices be noted.

154 LOCAL PENSION BOARD - ANNUAL REPORT 2021

The Local Pension Board Terms of Reference required that an Annual Report was produced and provided to the Pensions Manager each year. In a report to the Pensions Investment Sub Committee, General Purposes and Licensing Committee and Council in February 2015, it was also confirmed that the Local Pension Board's Annual Report would be provided to Council. It was noted that the Board had only met once a year, although this was being reviewed – some Members considered that the Board should not be encouraged to hold unnecessary meetings.

RESOLVED that the Local Pension Board report be noted and referred to full Council.

155 PENSION SCHEME: MEMBERS ANNUAL NEWSLETTER
Report FSD21077

The Committee received details of the Pension Fund's Annual Member's Newsletter. A Member commented that the Newsletter did not add value, was not very reader-friendly and did not report on the investment of funds, but another Member considered that it was a bright and useful document.

RESOLVED that the contents of the report be noted.

156 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**

157 CONFIRMATION OF EXEMPT MINUTES - 29 SEPTEMBER and 15 NOVEMBER 2021

The exempt minutes of the meeting held on 29th September 2021 were confirmed. The exempt minutes of the meeting held on 15th November 2021 were not yet available.

158 PENSION FUND PERFORMANCE Q2 2021/22 - APPENDIX 6

The Committee received and noted Appendix 6 to the Pension Fund Performance Report.

159 UPDATES FROM THE CHAIRMAN/DIRECTOR OF FINANCE/PENSIONS INVESTMENT ADVISOR (PART 2)

The Chairman briefed the Committee on recent developments involving the London CIV.

The Meeting ended at 9.26 pm

Chairman