PENSIONS COMMITTEE

Minutes of the meeting held at 7.00 pm on 8 June 2022

Present:

Councillor Keith Onslow (Chairman)
Councillor Kira Gabbert (Vice-Chairman)
Councillors Simon Fawthrop, Simon Jeal, Jonathan Laidlaw, Christopher Marlow, Ruth McGregor, Tony Owen and Sam Webber

Also Present:

John Arthur, MJ Hudson

1 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

There were no apologies for absence.

2 DECLARATIONS OF INTEREST

Councillor Simon Fawthrop declared that he had contributed to the Local Government Pension Scheme in the past.

Councillor Tony Owen declared that he received a London Borough of Bromley pension.

3 QUESTIONS FROM MEMBERS OF THE PUBLIC

No questions had been received.

4 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 2 DECEMBER 2021, 22 FEBRUARY 2022 AND 17 MARCH 2022, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

RESOLVED that the minutes of the meetings held on 2 December 2021, 22 February 2022 and 17 March 2022 be confirmed.

5 PRESENTATION FROM SCHRODERS

The Committee received a presentation from Remi Olu-Pitan, Head of Multi-Asset Growth and Income, and Russell Smith, Client Director and Co-Head, UK Institutional, on the Schroders Global Diversified Income Fund. The Fund offered a level of income averaging 4% over a market cycle, invested in a broad spectrum of assets to deliver a well-diversified and stable income stream and reflected a return and risk profile consistent with a 30% equity/70% bond portfolio over a market cycle. Key features included diversification across a broad range of income generating securities, direct investment in underlying securities and active management, dynamic asset allocation across economic regimes and market cycles and sustainability embedded into every stage of the investment process. The fund was supported by an experienced team integrated with Schroders' global resources.

Figures to the end of May showed negative performance, and the expectation for the next few months was that conditions would remain challenging, with markets ill-prepared for inflation. However, they anticipated that there would be opportunities going into 2023. Since December, the fund had concentrated on selling fixed income and raising cash, but there was a great reset and yields were now rising. They expected to move into an environment with yields of 5%.

Responding to questions from Members, the Schroders representatives agreed that there was a high probability that inflation was would be entrenched for several years - there were many underlying structural factors causing inflation. A Member suggested that in a time of high inflation real estate offered good protection, but Schroders favoured infrastructure. Questioned about the interest rate, they agreed that they expected it to rise and they were waiting for further increases. They were confident that they could still deliver good returns this year and confirmed that they did invest in the bonds of energy and agricultural companies. Questioned about the governance aspect of ESG, they confirmed that when engaging with companies they did ensure that employees did have a right to free speech. They did intend to rebuild risk in the portfolio, but the fund would remain balanced rather than adventurous. The fund was carrying a high level of cash, but this was in response to the highest inflation for forty years, and now was not the right moment to re-invest in equities.

The Chairman thanked the Schroders representatives for attending and for their presentation.

6 PENSION FUND PERFORMANCE Q4 2021/22
Report FSD22035

The report provided a summary of the investment performance of Bromley's Pension Fund in the 4th 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.

John Arthur of MJ Hudson, the Council's Investment Advisor, introduced his quarterly report for Q1, 2022. He confirmed that it had been a difficult quarter for the Fund – the Fund fell 6.88% in the quarter, underperforming its benchmark, although in the longer term returns remained above actuarial assumptions. The underperformance in the quarter was largely due to the Baillie Gifford fund, but this was more about the market than the fund manager.

Central banks had continued to believe into 2022 that inflation would be transitory, but Covid lockdowns in China further disrupting global supply chains, and the Russian invasion of Ukraine, were ensuring that inflation would continue to be a major challenge. Equities were a hedge against inflation, but not when the expectations around inflation changed. He thought that this amounted to a regime change in financial markets, with a period of uncertainty where it would be harder to predict and understand how markets would perform. Most of the major factors were likely to be negative or add costs, such as interest rate policy, the reverse of globalisation, the costs of de-carbonising the economy and demographics. Only technological innovation was likely to be positive – and this was an area that Baillie Gifford invested in. Inflation was likely to remain higher and more volatile than for decades. This would be accompanied by heightened unrest, possibly exacerbated by ongoing Russian aggression.

He concluded by stating that the Fund's cash-flow situation had been stress-tested, and the Fund remained able to cover expected benefit payments from contributions and investment income. There was no need to sell assets to finance expected drawdowns for the International Property Fund.

The Chairman reported that he was due to have a meeting with Baillie Gifford the following Monday – he would report back from this. £14.4m of Baillie Gifford equities had been sold to fund the Morgan Stanley investment. Mr Arthur referred to the lessons to be learnt from the sudden underperformance of the Baillie Gifford Global Equities Fund, which had fallen nearly 20% behind the index over the past year. The Committee had discussed moving money out of the Fund at the end of 2021, and he now regretted not pushing this more firmly at the time. However, long-term performance was still good and he did not expect Baillie Gifford to change their strategy. His feeling was that the Baillie Gifford fund had already taken most of its reductions. Members would look at their strategy in the asset allocation review due later in the year.

Members commented that, as an active Committee, they were willing to take difficult advice, and several Members commented that it was important not to have too many Fund Managers – the Chairman suggested that six was the maximum.

A Member commented that he was disappointed to hear that Schroders were holding so much cash and waiting for the opportunity to re-invest. He also expected MFS to have performed better, and questioned whether more money should be switched from Baillie Gifford to MFS in the current conditions. Mr Arthur repeated that the differing investment approaches of Bailie Gifford, more growth orientated, and MFS taking less risk, offered a natural counterweight. This balance was now working. It was suggested that as no fund managers were lined up to attend for the 19th September meeting Bailie Gifford should be asked to attend then.

The Committee discussed whether cash was the best option with equities struggling. The Chairman asked Mr Arthur to keep an eye on Schroders and their cash holding, and questioned whether other Managers were taking a similar approach.

Members also commented on the situation with Russia and China. The Baillie Gifford Fund had disinvested in these countries, but there was still some Russian holdings in Fixed Income portfolios which had become difficult to trade and had zero value.

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

7 2020/21 PENSION FUND ANNUAL REPORT AND DRAFT ACCOUNTS
Report FSD22036

The Committee received the draft Pension Fund Annual Report and Accounts for 2020/21. These were still subject to external audit and it was noted that some revisions may be required prior to finalisation.

RESOLVED that the Pension Fund Annual Report and Draft Accounts for 2020/21 be approved.

8 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

9 CONFIRMATION OF EXEMPT MINUTES - 2 DECEMBER 2021, 22 FEBRUARY 2022 AND 17 MARCH 2022

The exempt minutes of the meetings held on 2 December 2021, 22 February 2022 and 17 March 2022 were confirmed.

10 PENSION FUND PERFORMANCE Q4 2021/22 (PART 2)

The Committee considered part 2 elements of the Performance report, including Fund Manager fees and potential training providers.

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

The Chairman and the Director of Finance updated the Committee on the latest developments relating to possible new Pensions regulations and relations with the London Collective Investment Vehicle (LCIV).

The Meeting ended at 9.44 pm

Chairman