

PENSIONS COMMITTEE

Minutes of the meeting held at 7.00 pm on 1 December 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

16 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

There were no apologies for absence.

17 DECLARATIONS OF INTEREST

Councillor Simon Fawthrop declared that he was a member of the London Borough of Bromley Pension Scheme.

Councillor Tony Owen declared that he received a London Borough of Bromley pension and that his daughter was employed by Coopers School.

18 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

No questions had been received.

19 CONFIRMATION OF MINUTES OF THE MEETINGS HELD ON 8 AND 27 JUNE 2022, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

RESOLVED: That the minutes of the meetings held on 8 and 27 June 2022 be approved.

20 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

There were no matters outstanding.

A) Fund Manager Presentation – Baillie Gifford

The Committee received a presentation from Baillie Gifford representatives, Chris Murphy, Client Service Director: Local Government Client Team and

Tim Gooding, Client Service Director: Global Alpha Team, on the London Borough of Bromley Superannuation Fund.

Due to the current economic climate which had been impacted by geopolitical instability and significant increases in inflation and energy costs, performance during the 2022/23 financial year had been significantly below benchmark. This had been particularly marked in relation to stock held in tech companies which had seen exceptionally high growth during the pandemic and were now going through a period of normalisation but were considered a strong long-term investment in having better margins and much lower debt than the index on average. Performance over the long-term remained robust with active management outperformance of the Local Authority's investment with Baillie Gifford valued at £143.1M since 1 December 1999, with the value of the portfolio as at 30 September 2022 totalling £473,046,311. Over the past year, Baillie Gifford had worked to rebalance the portfolio with less stock held in technology-enabled companies and those with significant Chinese exposure, and more to durable franchises. The weight by category was now about 40% 'compounders', 30% 'disruptors' and 30% 'capital cycle' with the downturn in company valuations enabling the purchase of some outstanding investments at depressed prices. Growth investing would remain a key focus in future with innovation and structural change anticipated across a range of industries, such as healthcare and education, as well in emerging markets beyond China. The example of Moderna was used as a company experiencing reduced cashflow in the post-COVID period that was well-placed for long term growth due to technical innovations linked to the development of its COVID-19 vaccine.

In considering the update, the Chairman observed that just over a year ago, Baillie Gifford had presented to the Committee on the over-performance of its investments and that the recent underperformance demonstrated the impact of the difficult economic climate. A Member queried investments in Russia, and the Client Service Director: Global Alpha Team reported that stock held in the VK Group which was domiciled in Russia had recently been sold. A small holding in Russian stocks remained but were currently frozen and would be divested once trading resumed. The fund held no investments in Qatar but was looking to invest more in the growth markets of Latin America and South-East Asia when suitable opportunities arose. In response to a question by a Member, the Client Service Director: Global Alpha Team confirmed that the fund's exposure to Chinese investments had been reduced from approximately 8-9% to 4-5% over the past 12-months in response to concerns around the Chinese Government's view of foreign investment. Another Member queried Elon Musk's ongoing leadership of Tesla following his high-profile acquisition of Twitter, and the Client Service Director: Global Alpha Team advised that as a leading innovator in electric vehicles and energy, Tesla remained a robust investment option and the company benefitted from a strong leadership team that went beyond its co-founder and CEO.

A Member queried Baillie Gifford's corporate policies around free speech and further details would be provided following the meeting. The Chairman

observed that the Baillie Gifford was a strong advocate for environmental and social governance which was built into their investment practice.

The Chairman thanked the representatives of Baillie Gifford for their excellent presentation.

RESOLVED: That:

- **Matters outstanding be noted; and,**
- **The presentation from Baillie Gifford be noted.**

**21 2021/22 PENSION FUND ANNUAL REPORT AND DRAFT
 ACCOUNTS
 Report FSD22065**

The report presented the draft Pension Fund Annual Report and Accounts 2021/22, which set out details of the administration and performance of the London Borough of Bromley Pension Fund during the 2021/22 financial year for consideration and approval by the Committee. The Pension Fund was required by the Local Government Pension Scheme Regulations 2013 to publish an Annual Report and Statement of Accounts, and this was also subject to external audit.

In considering the draft Pension Fund Annual Report and Accounts 2021/22, the Committee was notified that the terminology 'Pensions Sub-Committee' was used throughout as the period of reporting pre-dated the establishment of the Pensions Committee as a full committee. With regard to the Governance Compliance Statement, a Member queried why there was only partial compliance in some areas designed to make the administration and stewardship of the scheme more transparent and accountable to stakeholders. The Chairman advised that this was primarily due to the size of the scheme, but that membership of the Local Pension Board was divided equally between employer and scheme member representatives who were invited to attend all meetings of the Pensions Committee. In response to a question from a Member regarding terminology, the Chairman explained that a deferred pension was one which was taken later than pensionable age and that scheme members had the option to defer taking their pension if it met their individual needs.

The Chairman moved that the draft Pension Fund Annual Report and Draft Accounts for the 2021/22 financial year be approved as recommended. The motion was seconded by Councillor Christopher Marlow, put to the vote and CARRIED unanimously.

RESOLVED: That the draft Pension Fund Annual Report and Draft Accounts for the 2021/22 financial year be approved.

22 PENSION FUND PERFORMANCE Q2 2022/23
Report FSD22087

The report provided a summary of the investment performance of Bromley's Pension Fund in Quarter 2 of the 2022/23 financial year and included information on general financial and membership trends of the Pension Fund, including early retirements, as well as details of training options for Members and key developments in the Local Government Pension Fund (LGPS) expected during the next 5 years.

The Committee received an update from John Arthur, Senior Advisor: MJ Hudson who confirmed that 2022 had been a difficult year for investors after central banks across the world had raised interest rates to curb rising inflation. Whilst this had been anticipated, inflation levels had been higher than expected due to the geopolitical situation and spiralling wholesale gas prices which had served to destabilise the markets. The Senior Advisor: MJ Hudson advised that in his view, inflation was now peaking and would reduce in the short to medium-term provided there were no more unexpected events impacting the markets. Increased interest rates also offered investment opportunities with the 10-year forecast on UK Gilts now projected at 4.2% for 2022 against 0.0% for 2021. MJ Hudson had undertaken stress testing of cashflow assumptions for more persistently high inflation which provided reassurance that the Bromley Pension Fund was covered to the 2026/27 financial year using investment income currently distributed from the underlying portfolios, and that a further year could be covered should income from Global Equities be distributed to the fund. The performance of Bromley Pension Fund's two equity managers, Baillie Gifford and MFS Global Equity had varied widely over the past year with MFS Global Equity outperforming its benchmark by 6.9% whilst Baillie Gifford's investments had underperformed by -21.3% during the same period. This demonstrated the impact of different philosophies and investment styles in varying market conditions and illustrated how the two equity funds could act in counterpoint to each other.

In considering the update, the Chairman emphasised that active engagement with the challenges presented by the economic climate would be critical moving forward. The Bromley Pension Fund was a resilient scheme between 110-120% funded, even allowing for the reduction in investment values over the past year, and continued to have strong cashflow. The Senior Advisor: MJ Hudson underlined the need to determine the level of risk the Local Authority was prepared to accept in its investment strategy as lower risk investments generally yielded low returns. Furthermore, the Committee may also like to review the proportion of the fund given over to equity investment if there were concerns over the volatile economic climate. A Member stressed the importance of maintaining a simple investment strategy and highlighted that the nature of long-term investment meant that short-term losses often recovered over time. The Chairman observed that this was borne out by independent research which had identified that the relative simplicity of Bromley's fund management practices had supported its long-term stability.

The Committee discussed the Asset Allocation Review which had been commissioned to reassess the Fund's Strategic Asset Allocation from an asset-only perspective and suggest potential alternative portfolios that optimised risk and return based on updated long-term capital market assumptions, expected cashflow requirements and other constraints. The review made two recommendations comprising rebalancing the portfolio to the Strategic Asset Allocation to reduce volatility and to implement a 50% currency hedge on the global equities' portfolio based on the current standing of global currencies. Four potential portfolios to de-risk the fund had also been proposed which comprised 5% allocation to infrastructure; 5% allocation to social/affordable housing; 5% allocation to private debt; and 5% allocation to global credit (hedged), all of which were designed to offer greater diversification and increased yield, albeit with a slightly lower expected return relative to the Strategic Asset Allocation and increased illiquidity.

The Chairman underlined the need to consider the findings of the Asset Allocation Review alongside the actuarial review of the Bromley Pension Fund when this information became available and proposed that rebalancing of the fund's Strategic Asset Allocation be reviewed by the Committee on a regular basis moving forward. Following discussion, this was supported by Members, and it was agreed that the Committee would review rebalancing of the fund's Strategic Asset Allocation on a six-monthly basis. A Member voiced support for action being taken to de-risk the portfolio as it was incumbent on the Committee to take a prudent and responsible approach to investment on behalf of the Bromley Pension Fund members. The Member requested the Senior Advisor: MJ Hudson provide an analysis of how the fund would look if rebalancing had taken place regularly over the past four years and this would be taken forward following the meeting.

With regard to the four potential portfolios to de-risk the fund, Members generally expressed a preference for investing in social housing over infrastructure, although some infrastructure options might be worth exploring, such as renewable energy. A Member suggested that if social housing was considered a viable investment, investment in a future phase of the Meadowship Homes scheme could offer a low-risk long-term investment that would also contribute towards the delivery the Local Authority's housing objectives. Members discussed this possible investment opportunity which would also represent an investment in the Borough and its residents; however, it was recognised that any such scheme was liable to create a conflict of interest and the Committee would need to be mindful of its fiduciary duty and pursue only the best investment options for the fund. Investment in social housing in the Borough which bought rather than built houses also had the potential to impact the local housing market and disadvantage buyers. It was noted that whilst the Government had asked local authorities to plan for investing 5% of local pension funds in social investment across England and Wales, there was no requirement to invest any funds as yet, and a Member underlined the importance of considering other secure fixed income investments to de-risk the portfolio, such as UK gilts. Another Member argued against the recommendation to implement a 50% currency hedge on

the global equities' portfolio in light of the difficulties predicting the dynamic between global currencies over time.

In summation, the Committee agreed not to make any decisions regarding the recommendation to the Asset Allocation Review at this time and to revisit it at the next meeting of the Pensions Committee on 22 February 2023, including the proposal to invest in a future phase of the Meadowship Homes scheme.

RESOLVED: That:

- **The contents of the report and information contained in the related appendices be noted including:**
 - a) **Appendix 7 which sets out the key developments in LGPS expected during the next 5 years;**
 - b) **Appendix 8 which is the response of the Bromley Pension Fund to the Task Force for Climate Related Financial Disclosures (TCFD) consultation; and,**
 - c) **Appendix 9 which formalises Bromley's Discretionary Policy on the Abatement of Pensions.**
- **Members' comments on Appendix 10: Asset Allocation Review document considered in conjunction with Appendix 11: Notes of the MJ Hudson meeting of 2 November 2022 be noted.**

**23 LOCAL PENSION BOARD - DRAFT ANNUAL REPORT
Report CSD22128**

The report presented the Local Pension Board – Draft Annual Report which had been approved by the Local Pension Board at its meeting on 22 November 2022 and would also be provided to Council for noting. The Draft Annual Report comprised a range of information including a summary of the work of the Local Pension Board during the past year and details of areas of concern reported to or identified by the Board as well as any training that had been undertaken by Board Members.

RESOLVED: That the Annual Report of the Local Pension Board be noted.

**24 UPDATES FROM THE CHAIRMAN/DIRECTOR OF
FINANCE/PENSIONS INVESTMENT ADVISOR**

The Committee agreed that the special meeting of Pensions Committee scheduled for 17 January 2023 be cancelled to allow more time for key workstreams to be completed.

RESOLVED: That discussions under the Part 1 (Public) update be noted.

25 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**

26 CONFIRMATION OF EXEMPT MINUTES - 8 AND 27 JUNE 2022

The Part 2 (Exempt) minutes of the meetings held on 8 and 27 June 2022 were approved.

27 PENSION FUND PERFORMANCE Q2 2022/23 PART 2 (EXEMPT) INFORMATION

The Committee considered Part 2 (Exempt) information on Pension Fund Performance Q2 2022/23.

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

The Chairman and the Director of Finance provided a Part 2 (Exempt) update to the Committee on recent developments relating to pensions.

The Meeting ended at 9.50 pm

Chairman