

PENSIONS COMMITTEE

Minutes of the meeting held at 7.00 pm on 11 September 2023

Present:

Councillor Keith Onslow (Chairman)
Councillor Kira Gabbert (Vice-Chairman)
Councillors Simon Fawthrop, Simon Jeal, David Jefferys,
Christopher Marlow, Ruth McGregor and Sam Webber

Also Present:

John Arthur, Apex Group Ltd

11 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

There were no apologies for absence.

12 DECLARATIONS OF INTEREST

Councillor David Jefferys declared that he had been involved in HM Treasury's Patient Capital Review.

Councillor Simon Fawthrop declared that he was a member of the Local Government Pension Scheme.

13 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

No questions had been received.

14 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 24 MAY 2023, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

RESOLVED: That the minutes of the meeting held on 24 May 2023 be approved.

15 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

RESOLVED: That matters outstanding be noted.

16 PRESENTATION FROM BAILLIE GIFFORD

The Committee received a presentation from Baillie Gifford representatives, Tim Gooding, Global Equities Specialist, and Chris Murphy, Client Service Director providing an investment update on the London Borough of Bromley Pension Fund.

In considering the presentation, a Member queried why Baillie Gifford had not met its performance target over the five-year rolling period. The Global

Equities Specialist responded that the difficult financial climate of late-2021 and 2022 period had impacted performance in the short term, but that Baillie Gifford had every confidence in the strength of its investment portfolio in the medium to long-term. The Member asked why Netflix was still categorised as a 'Disrupter' investment and the Global Equities Specialist clarified that this reflected the flexibility of the company's business model including the recent introduction of Netflix Ad-Supported Plans that had attracted new subscribers and the significant potential for growth in markets such as China. Tesla Inc was also categorised as a 'Disrupter' as it had similar resilience within its business model and was well-placed to benefit from its innovation in new areas including grid-level battery storage. With regard to complete sales, the Global Equities Specialist advised that Baillie Gifford worked closely with the companies in which it invested, including promoting environmental social governance with a particular emphasis on strong governance and that complete sales were made for a number of reasons including performance and governance.

In response to a question from a Member about the United States, the Global Equities Specialist confirmed that significant investment opportunities were anticipated as a result of the passing of the Inflation Reduction Act, Infrastructure Investment and Jobs Act and the Chips and Science Act, including in the development and deployment of clean energy technology and the domestic research and manufacturing of semi-conductors. The Member also asked about the threat to intellectual property at a global-level and the Global Equities Specialist stated that whilst this remained a concern, countries that had previously disregarded intellectual property were now making their own advances. Another Member flagged a concern around ethical investment with Elon Musk, CEO of Tesla Motors choosing to limit Ukraine's access to satellite services and the Global Equities Specialist advised that the focus of Baillie Gifford was solely in relation to its investment in Tesla Inc. On a similar note, a Member queried the inclusion of Rio Tinto in the Investment Portfolio as this company had been criticised for its destruction of aboriginal rock shelters as well as for its workplace culture. The Global Equities Specialist confirmed that Baillie Gifford continued to engage closely with Rio Tinto regarding its governance and that the company had accepted all recommendations of the external review of its workplace culture. Environmental concerns would be a key area moving forward and Baillie Gifford would be particularly engaging with Rio Tinto around reducing its carbon emissions.

Another Member observed that the value of the fund as of 30 June 2023 was reported differently within the presentation and other sources and underlined the importance of ensuring clarity in financial reporting to support robust decision-making and scrutiny by the Committee.

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

RESOLVED: That the presentation from Baillie Gifford be noted.

17 PRESENTATION FROM MORGAN STANLEY

The Committee received a presentation from Morgan Stanley representatives, Gareth Dittmer and Brian Niles, Managing Directors providing an investment update on the London Borough of Bromley Pension Fund.

In considering the presentation, the Chairman queried the modal shift to providing mezzanine debt and preferred equity. The Managing Director provided reassurance that investments made up 85-90% of the Portfolio but that the current economic climate had created an opportunity to secure a good return from lending short-term capital as well as by leasing assets on behalf of investment partners. With regard to other investments, the Managing Director advised that the increase in the proportion of spend invested in Europe had been in relation to specific investments that were likely to see a strong return, including hotel properties. The value of an investment in Garfield (UK) had declined significantly since it was first made in 2021 and the Managing Director explained that this was due to the increasing cost of construction and high inflation rates but that a profit was still anticipated on the overall investment. A Member asked about leverage and the sources of debt finance, and the Managing Director advised that borrowing was undertaken on a deal-by-deal basis using local currency and that a credit facility was also in place to help manage liquidity.

A Member observed that the G10 Portfolio snapshot presented an overall picture of the fund and requested that in future, reports focus on the specific investments of the London Borough of Bromley Pension Fund. Another Member queried the stated Projected Gross Return (Local Currency) for G10 of 16.2% / 1.5x as of 2023 and the Managing Director explained that this equated to the current projected return for all fund investments on a pooled basis being 1.5 times the original investment.

The Chairman thanked the representatives of Morgan Stanley for their excellent presentation.

RESOLVED: That the presentation from Morgan Stanley be noted.

18 LGPS CONSULTATION RESPONSE Report FSD23058

The report presented the draft response of the Local Authority to the Government consultation on accelerating collective pooling of Pension Fund assets, Levelling Up and Private Equity Investments.

In introducing the proposed consultation response, the Director of Finance advised that the draft had been strengthened to reflect Member feedback. This included changes in relation to proposed reporting requirements which were considered to be excessive in some areas, as well as the lack of reporting obligations for regional pools. The Chairman added that the consultation response had also been amended to include minor changes suggested by the CEO of the London Collective Investment Vehicle (LCIV)

who had voiced similar concerns to the Local Authority and other London Boroughs on the proposals for accelerating collective pooling of Pension Fund assets, Levelling Update and Private Equity investments.

A key question within the consultation was whether there should be a deadline for the transfer of funds to regional pools and the Director of Finance requested Members' views, suggesting that any such deadline should be set following tri-annual valuation with a further period allowed for asset allocation which for the Local Authority would be some time after April 2026. The Chairman suggested that no date should be set for transfer as it was likely to become a deadline, and this was agreed by Members. Another Member underlined the importance of feeding back how no decision should be made on mandatory investment until changes to the powers or structures of regional pools had been fully implemented. The Member also raised a concern regarding the response to Question 8 which asked whether funds should be able to invest through their own pool in another pool's investment vehicle, observing that any such arrangement would complicate asset ownership and that it would be more effective for Local Authorities to invest their funds directly in another pool. Another Member noted the proposed requirements for 'levelling up' and queried what would happen to investments made under this requirement should there be a change of Government for whom the 'levelling up' agenda was not a priority.

The Committee went on to discuss the response to Question 11 which asked whether funds should have an ambition to invest 10% of their funds into private equity. It was the strongly held view of Members that the lack of transparency of private equity as an asset class combined with a lack of existing in-house and fund manager expertise in this highly-complex area would make any such ambition an inappropriate and risky investment. This was particularly the case as the Local Government Pension Scheme was not a public fund but was a privately-owned fund that the Committee had a fiduciary duty to manage on behalf of Scheme Members. A Member asked that a statement to this effect be included in the consultation response and this was supported by the Committee. Another Member suggested that a paragraph that formed part of the response to Question 11 on investments outside the UK be removed as it contradicted an earlier statement and this was also supported by Members.

The Chairman advised that the draft Local Government Pension Scheme consultation response would be updated in line with the suggestions made with a view to submitting the consultation response by the end of September 2023.

RESOLVED: That the draft Local Government Pension Scheme consultation response be approved for submission.

19 PENSION FUND PERFORMANCE Q1 2023/24
Report FSD23060

The report provided a summary of the investment performance of Bromley's Pension fund in Quarter 1 of the 2023/24 financial year and included information on general financial and membership trends of the Pension Fund

as well as details of key developments in the Local Government Pension Fund (LGPS) expected during the next five years.

In introducing the report, the Chairman noted that the Bromley Pension Fund's tactical asset allocation continued to deviate from the Strategic Asset Allocation Benchmark in being overweight in equities and it was proposed to undertake further rebalancing in the form of transferring 5% or £65M from the Baillie Gifford Global Equity Portfolio that was currently managed through the LCIV into a Short-Dated UK Corporate Bond fund managed by Fidelity. This proposal was supported by Members, although a Member underlined that should the transfer be agreed, the effect of this in rebalancing the Strategic Asset Allocation would mean there was no need to revise the Strategic Benchmark which was a subsequent recommendation of the report. It was also recommended to work with Fidelity on the costs and benefits of moving the Fund's fixed interest investments to a single segregated portfolio and should this be supported by Members, an update on this work would be provided to the Committee at its next meeting on 6 December 2023. It was also planned to revisit the Strategic Asset Allocation benchmark at the next meeting of the Committee and a Member suggested that consideration be given to disinvest from multi-asset income funds at that time as the increase in interest rates in recent months had made equity and bond funds a more attractive investment option.

With regard to other matters, the Chairman was pleased to note that progress had been made in implementing the Member Self-Service Pensions Portal and I-Connect (Employer) Portal and that the Member Self-Service Pensions Portal was scheduled to go live to deferred and active Pension Fund Members in October 2023. The Chairman also flagged that a Government consultation was anticipated on the potential removal of the age limit of 75 years for death grant lump sums as such a rule was now considered discriminatory and further updates would be provided to the Committee when available.

Councillor Simon Fawthrop moved that the proposal to switch 5% or £65m from the Baillie Gifford Global Equity Portfolio currently managed through the LCIV into a Short-Dated UK Corporate Bond fund managed by Fidelity be approved alongside the other report recommendations, excluding the recommendation seeking a revision of the Strategic Benchmark. The motion was seconded by Councillor Simon Jeal, put to the vote and CARRIED unanimously.

RESOLVED: That:

- **The contents of the report and appendices be noted.**
- **The recommendations in Appendix 5 be agreed as shown below:**
 - i) **To switch 5% or £65m from the Baillie Gifford Global Equity portfolio currently managed through the LCIV into a Short-Dated UK Corporate Bond fund managed by Fidelity;**

- ii) **Agree to follow up with Fidelity the costs and benefits of moving the Fund's fixed interest investments to a single segregated portfolio; and,**
- iii) **Agree the cash management arrangement as highlighted in the Apex report.**
- **Appendix 6 which set out the key developments in the Local Government Pension Fund expected during the next five years be noted.**

**20 PENSION FUND ANNUAL REPORT 2022/23 WITH DRAFT ACCOUNTS
Report FSD23061**

The report presented the draft Pension Fund Annual Report and Accounts 2022/23, which set out details of the administration and performance of the London Borough of Bromley Pension Fund during the 2022/23 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.

Councillor Simon Fawthrop moved that the draft Pension Fund Annual Report and Draft Accounts for the 2022/23 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 2022/23 financial year be approved.

**21 LOCAL PENSION BOARD ANNUAL REPORT
Report CSD23089**

The report presented the Local Pension Board Annual Report which had been approved by the Local Pension Board at its meeting on 27 July 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 undertaken by Board Members.

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

**22 LOCAL PENSION BOARD: APPOINTMENT OF BOARD MEMBERS
Report CSD23097**

The report sought approval to appoint two Scheme Member representatives to the Local Pension Board as Board Members.

RESOLVED: That Lesley Rickards and Gill Slater be formally appointed as Scheme Member representatives to the Local Pension Board for four-year terms of office commencing 11 September 2023.

23 UPDATES FROM THE CHAIRMAN/DIRECTOR OF FINANCE/PENSIONS INVESTMENT ADVISOR

The Chairman and the Director of Finance provided a Part 1 (Public) update to the Committee on recent developments relating to pensions.

The Charman advised that the annual Pension seminar would take place on 2 December 2023 and all Members would be invited to attend.

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

24 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**

25 CONFIRMATION OF EXEMPT MINUTES - 24 MAY 2023

The Part 2 (Exempt) minutes of the meeting held on 24 May 2023 were approved.

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

No Part 2 (Exempt) update was given.

The Meeting ended at 10.03 am

Chairman