

**Decision Maker:** PENSIONS COMMITTEE

**Date:** 21 February 2024

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

**Title:** PENSION FUND PERFORMANCE Q3 2023/24

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**Ward:** Borough Wide

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1. Reason for report

- 1.1 This report provides a summary of the investment performance of Bromley's Pension Fund in the 3rd quarter of 2023/24. The report also contains information on general financial and membership trends of the Pension Fund and summarised information on early retirements.
- 1.2 The report also includes key developments in the Local Government Pension Fund (LGPS) expected during the next 5 years.
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2. **RECOMMENDATIONS**

- 2.1 **The Pensions Committee is asked to note the contents of the report and information contained in the related appendices.**
- 2.2 **The Pensions Committee is asked to note;**
- a) **Appendix 5, quarterly performance reporting (To Follow);**
  - b) **Appendix 6, which sets out the key developments in LGPS expected during the next 5 years.**
  - c) **Appendix 7, the Task Force on Climate Related Disclosures (TCFD) presentation prepared for Bromley, by the London Collective Investment Vehicle (Part 1 and Part 2 - Exempt)**

## 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
    3. Total current budget for this head: £49.6m expenditure (pensions, lump sums, etc); £57.6m income (contributions, investment income, etc); £1,269m total fund market value at 31st March 2023
  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): 6,509 current employees; 6,019 pensioners; 6,443 deferred pensioners as at 31st March 2023
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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 December quarter at £1,268.0m, up £65.1m as at 30<sup>th</sup> September. The comparable value as at 31<sup>st</sup> December 2022 was £1,244.8m. 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 5<sup>th</sup> 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 21<sup>st</sup> November and 14<sup>th</sup> December 2017 the 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 15<sup>th</sup> 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%).

3.2.5 In February 2023, the portfolio was rebalanced. The Committee agreed to sell £70m of the Baillie Gifford Global Equity Fund to purchase £20m of the Fidelity Fixed Interest Fund, £15m each of the Fidelity and Schroders Multi-Asset Income Funds and put £20m into the US Dollar account awaiting drawdown into the Morgan Stanley International Property Fund.

3.2.6 The Committee voted to pool the remaining Baillie Gifford Global Equity Fund with the London Collective Investment Vehicle. An in-specie transfer finalised on 22<sup>nd</sup> May 2023 and a new quarterly report on performance (Q3) is available from London CIV and has been included in the agenda pack.

3.2.7 In September 2023, the Committee agreed to sell a further £65m of Baillie Gifford and transfer to a new Fidelity Short Term Bond Fund. This occurred at the end of October 2023.

### 3.3 Summary of Fund Performance

#### 3.3.1 Performance data for 2023/24 (short-term)

A detailed report on fund manager performance in the quarter ended 31<sup>st</sup> December 2023 is provided by the fund's external adviser, Apex in Appendix 5 (To Follow). The total fund return for the third quarter was 5.47% against the benchmark of 5.13%. 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 strong overall, though this year there was variable performance in the third quarter, and there has been a slight overperformance versus benchmark. In 2022/23 there was a return of -3.72% against a benchmark of -2.59%. In 2021/22 there was a return of 0.7% against a benchmark of 8.7%. There was a return of 34.1% against a benchmark of 23.6% in 2020/21. The returns for 2019/20 and 2018/19 were -2.7% and 8.0% against the benchmark of -1.8% and 8.3% respectively.

Performance rankings were available at the time this report was drafted. The overall Fund ranked 63<sup>rd</sup> against the 63 funds in the PIRC LGPS universe for the year to 31<sup>st</sup> March 2023, 50<sup>th</sup> over 3 years, 20<sup>th</sup> over 5 years, second over 10 years and 20 years and first over 30 years.

The following table shows the Fund's long-term rankings in all financial years back to 2012/13 and shows the medium to long-term returns for periods ended 31<sup>st</sup> 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				
<b>2022/23</b>	<b>-3.72</b>	<b>-2.59</b>	<b>-1.6</b>	<b>63</b>
2021/22	0.7	8.7	8.6	60
2020/21	34.1	23.6	22.8	2
2019/20	-2.7	-1.8	-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
<b>3 year ave to 31/3/23</b>	<b>9.1</b>	<b>9.4</b>	<b>9.5</b>	<b>50</b>
<b>5 year ave to 31/3/23</b>	<b>6.4</b>	<b>6.8</b>	<b>5.9</b>	<b>20</b>
<b>10 year ave to 31/3/23</b>	<b>8.9</b>	<b>n/a</b>	<b>7.3</b>	<b>2</b>
<b>20 year ave to 31/3/23</b>	<b>10.0</b>	<b>n/a</b>	<b>8.4</b>	<b>2</b>
<b>30 year ave to 31/3/23</b>	<b>8.5</b>	<b>n/a</b>	<b>7.7</b>	<b>1</b>

\*The most recent LA averages and ranking as at 31/03/23 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 2021, 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 has made its pension deficit repayments in line with the draft repayment plan. The amount outstanding is approximately £0.55m.

3.5.2 The December Year End Accounting exercise for Schools and Academy Employers is completed.

3.5.3 The I-Connect (employer) portal is being implemented by Aquilla Heywood.

### 3.6 **Fund Manager attendance at meetings**

3.6.1 Meeting dates have been set to March 2025. 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 be subject to change.

Meeting 23 May 2024 – Baillie Gifford (TBC)

Meeting 23 July 2024 – Morgan Stanley (TBC)

Meeting 14 Nov 2024 – Fidelity (TBC)

Meeting 27 Mar 2025 – MFS (TBC)

## 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 outturn for the 2022/23 pension fund revenue account are provided in Appendix 4 together with fund membership numbers. A net provisional surplus of £24.4m including re-invested income of £11m. A net provisional surplus of £13.4m excluding re-invested income occurred during 2022/23 and membership numbers rose by 202 in the year. In the third quarter of 2023/24 total membership numbers increased by 61.

## 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.

<b>Non-Applicable Sections:</b>	Personnel Implications, Impact on Vulnerable Adults and Children, Procurement Implications
Background Documents: (Access via Contact Officer)	Monthly and quarterly portfolio reports of Fidelity, London CIV, MFS, Morgan Stanley and Schroders.