

PENSIONS COMMITTEE

Minutes of the meeting held at 7.00 pm on 21 February 2024

Present:

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

Also Present:

John Arthur, Apex Group Ltd

39 APOLOGIES FOR ABSENCE AND NOTIFICATION OF SUBSTITUTE MEMBERS

Apologies for absence were received from Councillor Ruth McGregor.

40 DECLARATIONS OF INTEREST

There were no additional declarations of interest.

41 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

One question for oral reply and one question for written reply were received at the meeting. A copy of those questions together with the Chairman's response can be viewed at Appendix A to these Minutes.

In light of the question asked on Net Zero, a Committee Member underlined the importance of ensuring that the Committee took account of climate risk within its decision-making processes. The Chairman outlined the arrangements in place for the Committee's regular scrutiny of fund managers in the area of Environmental, Social and Governance and noted that the London Collective Investment Vehicle would be giving a presentation on responsible investment later in the meeting. Another Member advocated the benefits of stability in long-term investment which should not be undermined by rapidly changing trends.

42 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 14 DECEMBER 2023, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

RESOLVED: That the minutes of the meeting held on 14 December 2023 be approved.

43 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

RESOLVED: That matters outstanding be noted.

44 PRESENTATION FROM SCHRODERS

The Committee received a presentation from Schroders representatives, Dorian Carrell, Head of Multi-Asset Income and Russell Smith, Client Director, UK Institutional providing an investment update on the London Borough of Bromley Fund.

In considering current performance against the benchmark, a Member asked whether a fixed income fund could offer a better return in the short- to medium-term. The Head of Multi-Asset Income clarified that the Fund was anticipated to have an average annual yield of 5.25% over the next three years, whilst preserving capital, but that this was based on a conservative estimate on the performance of equities and that the anticipated return would also likely benefit from capital growth. The Portfolio had a barbell-like structure in which investment in high-growth US companies was paired with valuation opportunities in the US and European markets. Consideration was also being given to incorporating a small-cap strategy that could capitalise on the greater growth potential of undervalued smaller companies.

A Member was concerned that the investment performance in the medium-term had reduced the buying power of the fund and the Head of Multi-Asset Income responded that the COVID-19 pandemic and the rapid rise of interest rates had put unprecedented stress on the financial markets, but the investment climate was now improving with stronger returns over the past 12-months. Going forward, the Portfolio would be reviewed in line with the Committee's stated investment objectives of securing income with a degree of capital growth. The Member asked a more general question about excess cash generated by the investment of the Bromley Fund and the Senior Advisor: Apex Group Ltd explained that distributions from the two Multi-Asset Income funds were fed back into the fund as income but that there was also the option to move these funds into a fixed interest portfolio. Another Member spoke about the collapse of Credit Suisse and asked why hybrids had a zero allocation in the fund despite sizeable returns in some asset classes. The Head of Multi-Asset Income responded that following regulatory clarifications in Germany, France and Switzerland, the new bonds in this area offered reasonably attractive opportunities at Tiers 1 and 2 but that there were better opportunities available in the US market.

A Member queried the overview of Corporate Climate metrics given in the presentation. The Head of Multi-Asset Income clarified that whilst significant work was undertaken to provide a sense of the carbon position of the Portfolio, the quoted figures reflected the position relative to the benchmark rather than an actual carbon reduction. Work was ongoing to improve the quality of reporting in this increasingly important area. Another Member asked whether it would be possible to design a fund which limited carbon emissions to 1.5 degrees. The Head of Multi-Asset Income confirmed that

this would be possible as some areas of the market had a direct impact on temperature change; however, a specific focus on investment type would likely have a substantial impact on investment income. In response to a final question from a Member, the Client Director, UK Institutional stated that Schrodgers was an inclusive organisation which encouraged open debate but that he was not aware of a formal Free Speech policy having been agreed.

The Chairman thanked the representatives of Schrodgers for their excellent presentation.

RESOLVED: That the presentation from Schrodgers be noted.

45 PRESENTATION FROM LONDON COLLECTIVE INVESTMENT VEHICLE ON RESPONSIBLE INVESTMENT

The Committee received a presentation from London Collective Investment Vehicle (LCIV) representatives, Dean Bowden, Chief Executive Officer, Jacqueline Jackson, Chief Sustainability Officer and Stephanie Aymes, Client Relations Manager on responsible investment.

In considering the presentation, the Chairman welcomed the expertise that the LCIV brought to this emerging area, including for the reporting requirements of the Task Force on Climate-Related Financial Disclosures that was formed of the core elements of Governance, Strategy, Risk Management and Metrics and Targets. The LCIV focus was very much in the area of Metrics and Targets with a view to producing consistent and audited data that would assist the Local Authority in meeting the reporting requirements for the Bromley Pension Fund. The Chairman highlighted that the Task Force on Climate-Related Financial Disclosures was not yet a statutory requirement but that the Local Authority was taking a proactive approach in preparing to meet the new requirements. With regard to climate analytics, a Member was surprised to note that the best performers in Net-Zero Alignment included a manufacturer of building materials whilst the worst performers included a company in the health sector which was notable as the NHS had recently set a target to reach Net Zero for direct emissions by 2040. The Chief Sustainability Officer advised that there was increasing UK Government regulation around the sustainability agenda. This included carbon mandatory reporting for British companies over a certain size, which had led to improvements in data collection and reporting that would help inform future investment.

Another Member noted that the LCIV had committed to achieving Net Zero GHG emissions by 2040 and asked how this would be delivered given the LCIV's role was primarily one of stewardship. The Chief Sustainability Officer advised that LCIV currently offered two funds that were aligned to the Paris Agreement. It was recognised that the diverse investment funds and philosophies of its clients would have different trajectories to Net Zero and the LCIV would shortly be publishing its Net Zero 2024-30 Strategy as well as a Climate Policy that would set out its objectives and targets at each fund level. It was crucial that LCIV did not act as a barrier to its clients in setting

ambitious targets for responsible investment and would be engaging closely with its clients and individual fund managers in support of its Net Zero target, including consideration being given to split voting mechanisms. A Member observed the difficulties inherent to fulfilling the Committee's fiduciary responsibility to maximise investment returns for Pension Scheme members with responsible investment moving forward.

In response to a question from a Member around the LCIV's approach to investment, the Client Relations Manager explained that the LCIV undertook extensive research on its clients, including actively seeking feedback, and also reviewed peer activity and best practice in developing its investment philosophy. The Chairman added that the LCIV was very receptive to the views of its clients but had to take account of the beliefs of 32 London Boroughs and if this was a concern for Members, it could be considered in more depth at a future meeting of the Committee. The Member expressed a concern that responsible investment could be too focused on avoiding risk or mitigating actions, such as investment in renewable or nature capital, and underlined the need to embrace risk and emphasise the opportunities arising from change. The Chairman suggested that this could form part of the Committee's future discussions with its Fund Managers around Environmental, Social and Governance. The Member also queried the approach of LCIV to free speech and the Chief Executive Officer responded that there was no formal Free Speech Policy in place but that employees were encouraged to express themselves freely.

The Chairman thanked the representatives of the LCIV for their excellent presentation.

RESOLVED: That the presentation from LCIV be noted.

46 PENSION FUND PERFORMANCE Q3 2023/24
Report FSD24018

The report provided a summary of the investment performance of Bromley's Pension fund in Quarter 3 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.

The Committee received an update from the Senior Advisor: Apex Group Ltd who advised that inflation continued to fall but could briefly rally, particularly with stubborn wage inflation, and that further interest rate cuts were anticipated in the UK, US and Europe in the coming months. Whilst the UK was emerging from recession, the growth outlook was not positive and 5-7 year and 20-year forecasts by BCA Research of returns for the areas of Private Equity, Private Debt, Property and Hedge Fund suggested that it could be advisable to consider allocating funds to Direct Lending. With better yields available in most Government Bond markets at present, consideration might also be given to increasing the diversification of the two Multi-Asset Income portfolios to combine a good yield with some prospect of capital growth with

stronger downside protection. In response to a question from a Member about Baillie Gifford's Global High Alpha Equity Portfolio, the Senior Advisor: Apex Group Ltd explained that performance had varied considerably since the establishment of the Portfolio which partly reflected the challenging economic climate and that this would continue to be closely monitored.

RESOLVED: That the contents of the report and appendices be noted including:

- **Appendix 5 which provided quarterly performance monitoring;**
- **Appendix 6 which set out the key developments in the Local Government Pension Fund expected during the next five years; and,**
- **Appendix 7 which comprised a presentation by the London Collective Investment Vehicle (LCIV) on responsible investment.**

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

A Part 1 (Public) update was provided to the Committee on recent developments relating to pensions.

The Chairman advised that he had met with William Bourne, Independent Investment and Governance Advisor to the Local Government Pension Scheme to discuss the ramifications of the 'Mansion House' pension reforms. Whilst it was not anticipated that any action would be taken in the short-term, the continued direction of travel for local government pension funds was towards larger collective investment vehicles and increased Government involvement.

The Chairman thanked Members, Officers and the Senior Advisor: Apex Group Ltd for their excellent contribution to the work of the Pensions Committee during the 2023/24 municipal year.

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

**48 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**

49 CONFIRMATION OF EXEMPT MINUTES - 14 DECEMBER 2023

The Part 2 (Exempt) minutes of the meeting held on 14 December 2023 were approved.

**50 PRESENTATION FROM LONDON COLLECTIVE INVESTMENT
VEHICLE ON RESPONSIBLE INVESTMENT (PART 2) EXEMPT)**

The Committee considered Part 2 (Exempt) information for Item 7: Presentation from London Collective Investment Vehicle on Responsible Investment.

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

No Part 2 (Exempt) update was given.

The Meeting ended at 9.46 pm

Chairman