

## **PENSIONS INVESTMENT SUB-COMMITTEE**

Minutes of the meeting held at 7.30 pm on 10 May 2011

### **Present:**

Councillor Nicholas Bennett J.P. (Chairman)  
Councillor Paul Lynch (Vice-Chairman)  
Councillors Eric Bosshard, Julian Grainger, Russell Jackson,  
Russell Mellor and Stephen Wells

### **37 APOLOGIES FOR ABSENCE AND NOTIFICATION OF ALTERNATE MEMBERS**

Following the meeting apologies were provided by Mr Glenn Kelly.

### **38 DECLARATIONS OF INTEREST**

All Members present with the exception of Councillor Russell Jackson declared a personal interest as Members of the Bromley Local Government Pension Scheme.

### **39 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 10TH FEBRUARY 2011 EXCLUDING THOSE CONTAINING EXEMPT INFORMATION**

The minutes were agreed.

### **40 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS**

The two matters from the Committee's previous meeting as highlighted on the agenda had been actioned.

Concerning the Chairman's enquiry on whether there was any level of company ownership above which it was necessary to make a declaration, it was agreed that any declaration be left to each member to make in the light of guidance provided and where there might be any uncertainty it was agreed to err on the side of caution and make a declaration.

### **41 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING**

There were no questions.

## **42 GENERAL UPDATE**

### **Report RES11009**

A general update was provided on changes that will impact on the Pension Fund and Council finances including: (1) those arising from the commission headed by John Hutton into public sector pensions; (2) plans to change the state pension scheme; and (3) the introduction of legislation to restrict pension tax relief for individuals.

Concerning the Hutton recommendations and introduction – possibly this summer - of legislation to implement them, Councillor Stephen Wells enquired whether sufficient detail would be available to make budgetary decisions. The Director of Finance indicated that costs of the proposals would be known by the end of the summer and budgeted for 2012/13.

Councillor Wells was concerned that staff could opt out of the Local Government Pension Scheme particularly at the lower end of salary scales; a scenario was also suggested where a number of high earning staff might wish to retire early. Councillor Wells asked whether it was possible to predict the impact of proposals for staff. The Director of Finance indicated that any fall-out was unknown; in the longer term if sufficient pension savers were lost it would not be advisable to opt for high risks and the viability of the fund could be affected.

The Vice-Chairman suggested there might be a temptation for younger people not to save for a pension preferring instead to have the money now. To help prevent lower paid staff opting out of the Scheme the Chairman felt that it was necessary to emphasise contributions by the employer; it was also necessary to advise young people on the relevance of saving for a pension. Councillor Grainger felt that a defined contribution scheme was easier to “sell” to younger people. Councillor Grainger also suggested that Human Resources consult confidentially with high earning staff so that an overall position on early retirement could be obtained which could affect succession planning. This was agreed and it was **RESOLVED that:**

- (1) the report be noted; and**
- (2) the General Purposes and Licensing Committee or the Executive and Resources PDS Committee, as appropriate, consider the overall impact of any high earning staff wishing to take early retirement.**

## **43 PENSION FUND PERFORMANCE**

### **Report RES11008**

Members were apprised of the investment performance of Bromley’s Pension Fund for 2010/11 along with information on general financial and membership trends of the Fund and summarised information on early retirements.

In 2010/11 the fund value rose to £489.7m as at 31st March 2011 and at 25<sup>th</sup> April 2011 the value stood at £492.3m.

Medium and long-term returns had been good with Bromley's Fund ranked in the 2<sup>nd</sup> percentile over the last 3 years, in the 1<sup>st</sup> percentile over 5 years and in the 5<sup>th</sup> percentile over 10 years. In 2010/11 to date, Bromley's Fund had achieved rankings of 94%, 6% and 8% respectively in the June, September and December quarters; the rankings for the March 2011 quarter were not yet available and would be reported to the Sub Committee's next meeting.

A summary of performance by the two fund managers in 2010/11 was provided although local authority averages for the March 2011 quarter were not yet known and would be reported to the Sub Committee's next meeting. Baillie Gifford returned 1.3% in the March quarter (0.3% below benchmark) and achieved a cumulative return of 10.7% between 1<sup>st</sup> April 2010 and 31<sup>st</sup> March 2011 (2.3% above benchmark). The WM Company attributed their relative underperformance in the latest quarter to stock selection, primarily in the European equities sector. Fidelity returned 1.2% in the March quarter (0.2% below benchmark) and achieved a cumulative return of 7.1% in the year (0.7% below benchmark). In the latest quarter, the WM Company attributed their relative outperformance to stock selection, primarily in Global equities.

Comparative returns were provided over 1, 3, 5 and 10 years for both Baillie Gifford and Fidelity for periods ending 31st March 2011 and 31<sup>st</sup> March 2010. Baillie Gifford's 1, 5 and 10-year returns to March 2011 (10.7%, 6.8% and 7.3% respectively) were better than those of Fidelity (7.1%, 6.6% and 6.5% respectively) although Fidelity's 3-year return (9.9%) was marginally better than that of Baillie Gifford (9.7%). Performance since the revised benchmarks were adopted in 2006 had been particularly strong.

Comments from Baillie Gifford on their performance in short-term, medium-term and long-term periods ended 31<sup>st</sup> March 2011 were appended to Report RES11008 as was an extract from the Executive Summary of Fidelity's Quarterly Investment Review. Comments from Fidelity were also reported.

A summary was provided of early retirements by employees in Bromley's Fund during the current and previous years. In 2010/11, there was one ill-health retirement at £94k with other retirements totalling £291k.

Details were also provided of the provisional outturn for the 2010/11 Pension Fund Revenue Account along with fund membership numbers - a provisional net surplus of £9.6m was achieved in the year with total membership numbers rising by 247.

In discussion Councillor Grainger highlighted that the quarterly Fund values were broadly in line with the FTSE 100 and therefore moving in step with expectations.

Councillor Grainger also enquired whether it was worth the Sub Committee considering Absolute Return Funds at its next meeting and it was agreed to have a report on the Funds.

**RESOLVED that:**

- (1) the report be noted; and**
- (2) a report be provided for the Sub Committee's next meeting on Absolute Return Funds.**

**44 PENSION FUND 2010/11 AUDIT PLAN**

**Report RES11010**

Members noted the Pension Fund Audit Plan for 2010/11 prepared by the auditor, PricewaterhouseCoopers LLP.

**RESOLVED that the Pension Fund Audit Plan for 2010/11 be noted.**

**45 INVESTMENT IN PROPERTY**

**Report RES11011**

Following the Sub Committee's consideration of property investment on 8<sup>th</sup> September 2010 Members considered a further report.

This included advice that Barnett Waddingham felt that they could not add to their previous comments on property investment and were happy to reiterate concerns. However Baillie Gifford, Fidelity and the WM Company had all provided views which were reported to Members.

The Officer view on property investment was also reported which indicated that it would not be appropriate to hold individual properties directly given the low number of physical assets and liability risks; it was felt that property investment would require the use of some type of pooled vehicle.

Officers were of the view that the fund's performance returns in the short, medium and long-term had been sufficiently strong to more than justify the existing fund management strategy and it was felt that a change was not required at this time.

In discussion Councillor Grainger referred to reducing the 12 year deficit recovery period through yields higher than a 6.9% return. Councillor Grainger referred to property types such as shopping outlets where risk could be spread. Examples quoted by Councillor Grainger included a Business Park offered at £23m providing a yield at 8% and another Business Park offered at £23.3m providing a net initial yield at 9.7%. A further example comprised a

Business Park offered at £13m with an initial yield of 12.5%. Councillor Grainger suggested that further working examples could be sought of such investments yielding higher than 7% along with an assessment of their applicability for the fund.

Noting that Bromley's Pension Fund was comparatively small, the Chairman enquired of any percentage that could be invested in property and the difference it would make. On income from property, Councillor Grainger suggested a need to look at the quality of tenants and the identification of a good credit check. Members were also advised that there were not many local authorities who were prepared to invest much in property. The Director of Finance suggested that the matter be kept open and it would first be necessary to look at investment type vehicles and liquidity. Councillor Bosshard felt that if rents were not secure there would be risks. Councillor Grainger commented that rents were often fixed for five year periods and suggested that if rental payment was maintained with business park type investments, liquidity would not be important. Councillor Russell Jackson felt that business park and shopping centre assets could get into terminal decline and liquidity would then be an issue. The Vice Chairman asked why the business park examples were being sold. Councillor Wells referred to a Business Park at Cambridgeshire where there seemed to be a voidage level of some 40-45% and suggested that there could be more fluctuation with this type of investment than wanted. Councillor Grainger suggested an occasional officer visit to one of the Business Park examples he quoted earlier.

The Chairman remained sceptical of property investment, referring to comments of the WM Company and Baillie Gifford as outlined in report RES11011. He would be unhappy to agree to do too much at his stage but felt that a watching brief should be maintained. Councillor Grainger suggested a need for some workable examples and criteria in order to strike with any investment at an appropriate time. The Chairman agreed that a criterion was necessary on matters such as flexibility, liquidity and spread of risk. Councillor Wells felt that it would also be interesting to find out what other funds used as criteria. Councillor Russell Mellor felt that any future property investment should be at the high end and agreed that liquidity was an issue unlike investment in equities.

In concluding debate the Sub-Committee agreed that a further report should be provided in six months (November 2011) which would include information on criteria used by other funds, costs involved, liquidity matters and practical examples of property investment.

**RESOLVED that:**

**(1) the report be noted;**

**(2) a watching brief continue to be taken on investment in property; and**

**(3) a further report on Property investment be provided for the Sub Committee's meeting on 2<sup>nd</sup> November 2011 including information on**

**flexibility, liquidity, spread of risk, criteria used by other funds, costs and practical examples of property investment.**

**46 LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND FREEDOM OF INFORMATION ACT 2000**

**47 CONFIRMATION OF EXEMPT MINUTES - 10TH FEBRUARY 2011**

The Part 2 minutes were agreed.

**48 PENSION FUND - INVESTMENT REPORT**

Quarterly reports (to 31<sup>st</sup> March 2011) from Fidelity and Baillie Gifford had been circulated prior to the meeting and two representatives from Baillie Gifford attended the meeting to present their report and answer questions from Members.

**49 PENSION FUND ADMINISTRATION COSTS**

Following a request from the Chairman at the Sub Committee's previous meeting, a Part 2 report was provided on Pension Fund administration costs.

In concluding the meeting the Chairman thanked Members of the Sub Committee and officers for their work during the year.

The Meeting ended at 9.44 pm

Chairman