LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Tuesday, 30 November 2010 at 6.30 pm

PRESENT: Councillor S Choudhary (Chair), Councillor and Councillors Crane, Hashmi and A Choudry

The Director of Finance and Corporate Services (Clive Heaphy), the Head of Exchequer and Investment (Martin Spriggs) and the Independent Adviser (Valentine Furniss), were also present.

Apologies were received from: Councillors Mrs Bacchus and BM Patel

1. **Declarations of personal and prejudicial interests**

   None at this meeting

2. **Minutes of the previous meeting**

   RESOLVED:-

   that the minutes of the previous meeting held on 28 September 2010 be approved as an accurate record of the meeting.

3. **Matters arising**

   None.

4. **Deputations (if any)**

   None.

5. **Managers report on Private Equity - Capital Dynamics**

   Mark Drugan (MD) and Carolyn White (CW) attended on behalf of Capital Dynamics. MD explained that private equity had a different investment model from public equity, investing in privately held companies over a long period. In order to reduce risk, private equity was diversified with a typical investment horizon of 10 years, showing negative returns for the first 5 years followed by another 5-7 year phase of high returns ("J curve"). MD referred to his slide to support the view that private equity outperformed public equity whilst having a similar level of risk. He also updated the Sub-Committee that in the last 12 months, Capital Dynamics had increased its staff, opened offices, and had new product launches including the US solar fund. He drew members' attention to the highlights of Brent Pension Fund's diversified portfolio and added that the harvest period of the portfolio had been delayed by current economic uncertainty though there were signs of recovery.

During discussions, Councillor Crane asked how the fund manager managed the problems of currency exposure. Councillor Hashmi enquired about the extent of the fund's exposure to real estate and the impact that could result in the present economic climate. The Independent Adviser pointed out that quantitative easing was likely to result in inflationary pressures and that investment in India could carry high political risks.

In response, MD stated that as most managers denominated in euros, exchange rate movements did not affect trading in Europe. He added that the fund had no exposure to real estate. MD emphasised that capital Dynamics took into account of all known risks including political when investing particularly in India, Israel and China. He accepted the view expressed by the Independent Adviser that quantitative easing could create inflationary pressures.

Mark Drugan and Carolyn White were thanked for their presentation.

RESOLVED:-

That the report by Capital Dynamics on private equity be noted.

6. Managers report on UK Small Companies - Gartmore Investment Management

RESOLVED:-

That the presentation by Gartmore Investment Management on UK Small companies be deferred to a future meeting.

7. Monitoring report on fund activity for the quarter ended 30 September 2010

Members gave consideration to this report which provided a summary of the fund's activity during the quarter ended 30th September 2010. The Head of Exchequer and Investment informed members that during the quarter, equity markets rose sharply, recovering the losses sustained in the previous quarter, whilst other markets rose but less rapidly. Members noted that the Fund rose in value from £424.6m to £454.1m and outperformed its benchmark over the quarter (0.8%), but underperformed the average local authority fund (-1.4%). Over one year, the Fund outperformed its benchmark but underperformed the average fund (-3.4%).

MS drew members' attention to the main changes to the Brent Fund that had occurred as a result of market movements including agreed rebalancing and increased exposure to private equity. He explained that the main stock selection factors were fixed interest - the outperformance of core portfolio and the satellite fund; the outperformance of GTAA and the improved returns on European property helped by the recovering value of the euro. He noted that the hedge funds manager, Fauchier, continued to struggle.

The Independent Adviser stated that world trade was forecast to grow by 13% with global GDP expected to rise sharply. He noted that interest rates had been kept artificially low to prevent anaemic growth but expressed a view that the continued quantitative easing could produce inflationary pressures in future.

In the discussion that ensued, Councillor Choudry enquired as to whether the continuing low interest rates could have a ripple effect on the economy and if that was to happen, the role that the banks would play in minimising the impact. In response the Independent Adviser stated that the low interest rate could make it difficult to raise capital which would adversely impact on mergers and acquisitions. Councillor Crane also enquired about the impact on the fund's investment if China revalued its currency. The Independent Adviser felt that any revaluation of China's currency would harm their export trade but with a healthy internal economy, the overall impact would be minimal.

RESOLVED:-

That the report on fund activity for the period ended 30 September 2010 be noted.

8. **Hedge Fund Investment - proposal by Fauchier Partners**

The report examined a proposal by Fauchier Partners that the Brent Pension Fund invests in the Jubilee Special Situations Fund. The Head of Exchequer and Investment informed the Sub-Committee that the Brent Pension Fund Jubilee Absolute Return Fund (JARF) invested in a number of strategies and managers and managed by Fauchier Partners was currently valued at 41m, having grown from an investment of £34m. He continued that the credit related crisis since 2007 had highlighted a number of investment opportunities where companies had defaulted on debt, or were in financial or operational difficulties, or were seeking new investment capital, or whose bonds were trading at distressed prices in the market resulting in distressed credit opportunities. In these situations, specialist managers could work with management/other interested parties to realise value for investors.

Fauchier believe that there would be increasing opportunities over the next four years as leveraged and high yield loans matured and needed to be refinanced. Fauchier had therefore suggested that Brent invest in their Jubilee Special Situations Fund, both to improve returns and to increase diversification. The Fund would invest with 15 top quality managers chosen on the basis of their research, sourcing of opportunities, ability to identify undervalued situations, knowledge of processes and experience of driving change. The main opportunities would be in USA and Asia, but not much in Europe. Within Fauchier, the process would be controlled by the Investment Committee and two experienced analysts. The processes within Fauchier should allow managers to benefit from opportunities while maintaining downside protection. The new Fund would be around $220m, and Fauchier would commit $30m of its own resources (including individual investments).

He outlined the main risks attached to investment in the Special Situations Fund which included more risky and volatile situations than the average JARF and the need for a longer notice period to exit the Fund. There was a one year lock up period, thereafter investors can exit quarterly after giving 120 business days notice.

Fauchier were keen that Brent joined the Special Situations Fund, and had agreed that Brent would pay a similar fee to that paid in the JARF. The Head of Investment & Exchequer recommended that Brent invest 2% of the overall Brent Fund in the new Special Situations Fund (around £9m), taking the money from the existing JARF.

RESOLVED:-

That 2% of the Fund (£9m) be invested in the Jubilee Special Situations Fund, taking the money from existing investment in the Jubilee Absolute Return Fund.

9. **Brent Pension Fund - socially responsible investment**

The Sub-Committee gave consideration to a report that reviewed Socially Responsible Investment (SRI) policies for the Brent Pension Fund. In setting the background to the report Martin Spriggs informed members that the Health Partnerships Overview and Scrutiny Committee meeting on 14th October made a recommendation to the Pension Fund Sub Committee to reconsider the investments that Brent Council had in tobacco firms. The overview and scrutiny committee did not believe that the council should be investing pension fund money in companies that made profits at the expense of peoples' health and that it contradicted the council's work to promote tobacco control and its "no smoking policy"

He reminded members about the Council meeting of 13th February 1996 that re-confirmed its policy of non-political or administrative interference with the investment manager's investment decisions or involvement with companies in which the fund managers have acquired shares on behalf of the fund. In advising against the recommendation, Martin Spriggs reminded members about its decision on 20th February 2008 which reconfirmed its policy of non-political or administrative interference with managers' investment decisions. He added that fund managers were required to take investment decisions on the basis of the best interests of the Fund, which was held for beneficiaries.

Councillor Hashmi emphasised his concern that excluding tobacco investment would be the thin end of the wedge for other investments – members were guardians of the Fund, on behalf of beneficiaries. Councillor Crane believed that the issue would not go away, and that the Annual Report should outline the Brent approach to the issue. The Director of Finance and Corporate Services advised that the issue was one of stewardship.

RESOLVED:-

the existing investment policies as set out in paragraph 3.3 of this report and in the Statement of Investment Principles be re-confirmed.

10. **Any other urgent business**

None.

11. **Date of next meeting**

Tuesday 1 March 2011 at 6.30pm

The meeting closed at 8.45 pm

S CHOUDHARY
Chair