



LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND Tuesday 25 June 2013 at 6.30 pm

PRESENT: Councillor S Choudhary (Chair), Councillor and Councillors Mrs Bacchus, Brown, Hashmi, BM Patel and George Fraser

Apologies for absence were received from: Councillors Crane and Arnold

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

None declared.

2. **Mr Peter Davies**

On behalf of the Sub-Committee, the Chair welcomed Mr Peter Davies, the newly appointed Independent Adviser to Brent Pension Fund, to his first meeting. The Chair also paid tribute to the Mr Valentine Furniss the former Independent Adviser for his invaluable services to the Fund for a considerable number of years.

3. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 26 February 2013 be approved as an accurate record of the meeting.

4. **Matters arising**

None.

5. **Deputations**

None.

6. **Presentation on alternative indices by Legal & General**

Stephen Castle (Client Relationship Manager) and Nick Hodges (Index Funds Product Specialist), representatives of Legal and General Investment Management (LGIM) gave a presentation on alternative weighted indices. In providing the LGIM business update, Stephen Castle stated that the annual growth of new business was around £43billion and that the index equity assets were £269billion of which Local Government Pension Schemes (LGPS) accounted for £28.3billion and 54 funds. Brent's assets in the scheme were £210million. He continued that the

product range included emerging market debt funds, transition management and currency overlay.

Nick Hodges provided an insight into capitalisation weighted indices and informed members that the main advantages were that they were clear and easily understood and in theory, provided maximum diversification. He continued that by being easily traded, the indices allowed for sufficient liquidity and had lower transaction costs. He however advised members that due to market inefficiencies, the theory was imperfect and always overweight in overvalued shares and underweight in undervalued shares.

Nick Hodges continued that significant interest in alternatively weighted indices had arisen due to their key advantages of index management including transparency, diversification, risk minimisation and liquidity. Members heard that capitalisation weighted indices provided were tried and tested benchmarks which were easily understood globally, although they were more complex than traditional indices.

RESOLVED:

that the presentation on alternative indices be noted and that Anthony Dodridge, Head of Exchequer and Investment be tasked with producing a follow-on report to Members regarding the use of alternative indices and any recommendations arising in relation to the Brent Pension Fund for the next Pension Fund Sub-Committee meeting..

7. Monitoring report on fund activity for the quarter ended 31 March 2013

The Sub-Committee considered a report that summarised the Fund's activity during the quarter ended 31 March 2013 and examined the actions taken, the economic and market background, and investment performance, as well as commenting on events in the quarter. Members noted that the Fund had increased in value by £40.9m from £501.0m to £541.9m and outperformed its quarterly benchmark with a return of 7.5% (6.4%).

Anthony Dodridge, Head of Exchequer and Investment attributed the strong performance to results in Overseas Equities, UK Smaller Companies Equities, UK Equities, Infrastructure, Private Equity, Emerging Market Equities, Diversified Growth, Fund of Hedge Funds and Fixed Income which all delivered positive returns ranging from 1.6% to 13.2%. The cumulative result was an increase in the value of the Fund by an estimated £16.0m and the annual performance relative to the 99 Local Government Pension Scheme (LGPS) funds nationally increasing from the 98th to 85th percentile. Members heard that despite the improved quarterly performance, it represented an underperformance when compared to the WM Local Authority average fund return of 9.0% for the quarter. The Head of Exchequer and Investment advised members that efforts would be made to further build on the improved performance to ensure that it continued over the coming year. He then gave an analysis of the asset allocation as at 31 March 2013 and returns on investment in individual markets as set out in his quarterly report.

Peter Davies, the Independent Adviser to the Fund reported that the pattern of rising equity market in the first quarter was maintained overall during April and May, although Pacific Basin and Emerging Markets lost ground. He added that equities

had been advancing steadily until May, when Federal Reserve indicated envisaging a 'tapering' of the rate of Quantitative Easing (QE) if the US economic recovery gathered pace. In response, equities retreated sharply the next day, with Japan losing 7% and most other markets down by 2% – 3%, and continued to drift lower for the rest of the month. He also attributed the fall to weaker than expected economic data from China and the rise in Japanese bond yields from exceptionally low levels which caused sharp losses in the shares of regional Japanese banks. Members heard that among commodities, gold had fell sharply – from almost \$1600/oz to just above \$1400/oz in the past two months, while the prices of both copper and oil declined on signs that China's rate of growth this year would be slower than previously expected.

RESOLVED:

that the monitoring report for the quarter ending 31 March 2013 be noted.

8. Brent Pension Fund accounts for 2012/13

The Sub-Committee received a report that introduced the draft Pension Fund accounts for 2012/13. Anthony Dodridge, Head of Exchequer and Investments advised members that the accounts (which were unaudited) aimed to give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2013 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2013.

Members noted that the value of contributions to the Fund rose in 2012/13 as a result of increased employer contribution rates, although this may not continue in future years given declining staff numbers and that the value of benefits payable (pensions and lump sums) had remained broadly unchanged in 2012/13. He continued that while the value of pensions paid had risen to reflect both price inflation and additional pensioners, this had been offset by a corresponding fall in lump sums paid. Contributions into the Fund continued to exceed pension payments out of the Fund, leaving a surplus of £6.7m (2011/12: £5.4m) to invest in order to meet the Fund's future pension liabilities. It was also noted that overall, the Fund's net assets at 31 March 2013 had increased to a new all-time high of £547.9m (31 March 2012: £493.9m).

In response to a member's enquiry, Anthony Dodridge clarified that changes in the provision of audit services were made by Central Government and following competitive tendering process that resulted in KPMG replacing the Audit Commission as the Council's external auditor. He added that financial savings made as a result of that change and lower manager fees had all contributed to the increase in the Fund's net assets.

RESOLVED:

that the Brent Pension Fund accounts for 2012/13 be noted.

9. **Statement of Investment Principles (SIP) review**

In accordance with the Access to Information Rules, the following report was considered urgent in the opinion of the Chair due to the need to increase the limit on the maximum proportion of a Fund which can be invested in partnerships to 30%. Given that the proportion is already at the current maximum limit of 15%, the report needed to be considered before the next meeting. The report was not available when the agenda was published given the additional officer time required to reconfigure the Fund's accounts for 2012/13 into a best practice format.

Anthony Dodridge, Head of Exchequer and Investments informed the Sub-Committee that in order to comply with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the Brent Pension Fund's Statement of Investment Principles (SIP) must be reviewed and, if necessary, revised from time to time. It was noted that the latest review prompted by the Secretary of State for Communities and Local Government had increased the maximum proportion of a local government pension fund which can be invested in partnerships from 15% to 30%. The Fund's SIP document attached as appendix 1 to the report had been revised to incorporate the greater investment flexibility provided which came into force on 1 April 2013.

RESOLVED:

that the Brent Pension Fund Statement of Investment Principles (SIP) incorporating investment in partnerships from 15% to 30% be approved.

10. **Any other urgent business**

None.

11. **Date of next meeting**

It was noted that as the scheduled date of next meeting (24/09/13) in the calendar was likely to clash with party conferences, a new date would be confirmed following consultations.

12. **Exclusion of press and public**

RESOLVED:

that the press and public be excluded from the remainder of the meeting as the reports to be considered contained the following category of exempt information as specified in Schedule 12A of the Local Government Access to Information Act 1972, namely;

“3 Information relating to the financial and business affairs of particular persons (including the authority holding that information”.

13. Fund of Hedge Funds mandate - Fauchier Partners

Members considered a report that reviewed the fund of hedge funds mandate managed by Fauchier Partners. Members took note of the performance figures and the advice by the Head of Exchequer and Investments.

RESOLVED:

that the recommendation set out in paragraph 2.1 of the report by the Deputy Director of Finance be agreed.

14. Proposal to appoint a global custodian

In accordance with the Access to Information Rules, the following report was considered urgent in the opinion of the Chair in order to commence the process of making a saving to the Council of approximately £40,000 per annum. The report was not available when the agenda was published given the additional officer time required to reconfigure the Fund's accounts for 2012/13 into a best practice format

Members considered a report by the Deputy Director of Finance that sought to improve the long term performance of the Fund by appointing a global custodian to manage its affairs. Members heard that the decision to appoint a global custodian would be cost neutral in broad terms. The total fees for a comprehensive global custodian service of an estimated £50,000 to £60,000 per year would be offset by financial savings arising from accessing more competitive foreign exchange rates together with removing the need to incur existing costs with BNY Mellon for a very limited custodian service. The appointment of a global custodian service would enable the Fund to focus on returns, reduce risk and enhance governance and regulatory compliance. Instating a global custodian would also deliver efficiency improvements over the long term through standardised processes and consolidated reporting.

RESOLVED:

that approval be given to commence proceedings to appoint a global custodian and grant the Deputy Director of Finance the power under delegated authority to make an appointment and the award to be made through Brent's participation in a collaborative national procurement framework exercise led by Norfolk County Council.

The meeting closed at 8.10 pm

S CHOUDHARY
Chair