LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Tuesday 18 November 2014 at 6.30 pm

PRESENT: Councillor S Choudhary (Chair) and Councillors Hylton, Perrin, Shahzad and Thomas

Also present: Councillors Filson and Pavey (Deputy Leader of the Council)

Apologies for absence were received from: Councillors W Mitchell Murray, George Fraser and Ashok Patel

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

Councillor Perrin advised that he was a Brent pensioner, however he did not view this as a prejudicial interest and remained present for the entire meeting to consider all items on the agenda.

2. **Minutes of the previous meeting held on 30 September 2014**

RESOLVED:-

that the minutes of the previous meeting held on 30 September 2014 be approved as an accurate record of the meeting.

3. **Matters arising**

Review of fund managers

Julian Pendock (Investments and Pensions Manager, Finance and IT) clarified an issue raised at the last meeting in respect of stock lending, advising that fund managers do not disclose whether they undertake such an activity, however in reality it was an action that occurred in passive fund managers, also known as trackers. He added that councils would jointly, through the collective investment vehicle, pressurise fund managers to share the proceeds which emanate from stock lending. He confirmed that the council itself did not directly lend stock.

4. **London pension fund collaboration (collective investment vehicle)**

Julian Pendock introduced the report and explained that the Government had been suggesting for a while that local authorities should be encouraged to merge funds as a more effective way to obtain higher returns. However, there was no information to specifically suggest that there was a direct correlation between a fund's size and its return. Members heard that 30 out of 33 London boroughs, including Brent, were participating in a voluntary collective investment vehicle (CIV) based on a mutual attraction. Julian Pendock informed the committee that the London Leaders and Society of London Treasurers had been comparing a range of options for closer fund pension collaboration and the preferred option was a CIV that operated on a voluntary basis. He advised that the CIV was working closely with the Baillie Gifford Diversified Growth fund with a view to incorporating it onto the CIV. Members heard that the CIV was working with a number of organisations, such as Deloittes, in facilitating the CIV and it was recommended that the council contribute an additional £50,000 for the set up costs of the CIV, with one payment of £25,000 being requested now, and the remaining £25,000 anticipated in April 2016.

During members' discussions, it was commented that some boroughs within the CIV may be minded to continue investing with the same organisations and individuals that they had known for a long while, and these relationships and investments would not be impacted by the CIV. It was queried what the total level of investment of the CIV would be and whether it represented a material amount. Further information on the lower fees and improved performance that the CIV would generate was requested. A member, in noting the amount that each partner borough was being asked to contribute towards the CIV, asked if London Councils was also making a contribution. The committee also asked how the council's pension fund would be managed locally.

In reply to the queries raised, Julian Pendock emphasised that the CIV did not compel local authorities to commit to particular investments and there were also measures being taken to ensure transparency and the appropriate corporate governance arrangements. The CIV would be open to new ideas in how to achieve higher returns. Julian Pendock advised that there would be a gentle roll out in terms of investing in the CIV and there were some equities in particular that he would like to be included in its portfolio. There was potential for some significant returns in the medium to longer term, particularly in private equity. Members heard that the optimal structure of the CIV was being fine tuned, in consultation with the Financial Conduct Authority and HM Treasury. Julian Pendock advised that it was difficult to estimate the approximate savings that could be made through the CIV at this stage, however up to 20% could be achieved overall, on the basis of initial indications from consultations with fund managers. He added that presently there were a number of local authority pension funds that were largely similar in composition and the CIV would provide more time for the partner boroughs to consider other options.

Mick Bowden (Operational Director – Finance, Finance and IT) advised that London Councils was made of individual London boroughs, with London Councils set up on behalf of the boroughs who are the active owners and this is why they made individual contributions to setting up the CIV. He drew members' attention to the table under section 3.4 in the report that set out the estimated savings from the CIV and advised that, on that basis, it would take one year to pay off the total set up costs per borough of £75,000. Mick Bowden advised that membership of the CIV would not change the council's ability to manage its own funds locally and who it wanted to invest in, however it now had the choice to invest either through the CIV where it would achieve better value, or on its own.

RESOLVED:

that the ongoing establishment of a collective investment vehicle (CIV) be supported and delegate authority to the Chief Finance Officer to approve a further £50,000 expenditure relating to the set up costs of the CIV, with one tranche of £25,000 to be paid now, and one more in April 2016.

5. **Monitoring report on fund activity for the quarter ended 30 September 2014**

Julian Pendock introduced the report and advised that although relative performance for the quarter represented an improvement, overall the Fund continued to be one of the lower performing funds in the Local Government Pension Schemes (LGPS) universe. However, this could not be rectified in a short period of time and a thorough analysis of performance in a number of areas needed be undertaken before considering what changes could be made to improve returns on investments.

Peter Davies (Independent Adviser to the Fund) then addressed the sub-committee to report on economies, markets and currencies. He advised that since the report had been produced, equity markets had risen above the level they were at in September 2014, whilst bond yields had normalised. Meanwhile, sterling had continued to weaken compared to other currencies, whilst Brent crude oil, which fell 16% during the quarter, had fallen by a further 9% in the first three weeks of October 2014, which was a positive development for some. Members noted the FTSE capital returns for various markets as set out in the report. Members heard that Japan had increased spending on Government bonds, however it remained in recession and its policy of reflating the stock market did not appear to be working. It was noted that the Fund had few investments in Japan and so would not be affected. Peter Davies added that he expected equity markets to fall back again following their recent rise.

Tom Wright (Baillie Gifford) was then invited to give a presentation on the Fund. Tom Wright informed members that Baillie Gifford had been appointed by the council on 20 June 2012 to manage the diversified growth fund on the council's behalf and had set a target to provide a return that outperformed the UK base rate by at least 3.5% per annum over rolling five year periods. A target of annualised volatility of less than 10% over rolling five year periods had also been set. Members noted the asset allocation and performance of the Fund and valuation from December 2008 to July 2014 and were advised that the net return of the Fund since 20 June 2012 was 6.9%. Tom Wright advised that there was some encouraging news in respect of improvements in economic data in parts of the developed world, such as the United States of America and good news from companies also gave grounds for optimism. However, risks remained and the end of quantitative easing and an increase in interest rates may hit some assets. Tom Wright added that many asset classes had benefitted from an accommodative monetary policy and now appeared expensive and so caution should be applied.

During discussion, a member enquired what the implications of the price of crude Brent oil going down would be. A member noted the slight increase in bonds returns and commented that the returns were likely to remain similar for the next three months. In view of this, he stated that there appeared to be a cautious approach in investing and that the Fund was not likely to make much inroads compared to the performance of other funds. He added that in view of the overall global economic situation, it was perhaps prudent to continue with a cautious approach. He also asked whether there should be more investment in emerging markets such as Mexico, which had been economically reformed and was more stable. A member commented that there was a comparatively large amount of investment in alternatives that had not performed well and he queried whether funds could be divested from these. It was also asked whether the Fund was actively investing in China and India.

In reply to the issues raised, Peter Davies advised that oil producers had not scaled back on supply and this had been a surprise to the market as it had been anticipated the supply would be reduced and so prices would continue to remain lower for now.

Julian Pendock advised that the Henderson Total Return Bond Fund took a safety first approach, however the various funding strategies including tracking had not worked out in the way that had been anticipated. Members heard that there was very active corporate governance in terms of the larger funds within the Pension Fund, however there would need to be consideration given to dropping the lower performing funds. In respect of alternative investments, Julian Pendock advised that some investments were unlikely to meet their targets and members noted that Julian Pendock, Conrad Hall (Chief Finance Officer, Finance and IT) and Peter Davies had met with fund managers to hold them to account. However, the sub-committee heard that the funds were legally “locked up” and so could not be redeemed, but the council would continue to fight for fee reductions. Julian Pendock advised that a cautious approach was being taken in the sense that there had been a distribution of risk and the Fund was also being considered holistically. He added that the emerging markets mandate urgently needed to be reviewed in the light of both the structure and performance of the existing emerging markets fund manager.

Tom Wright advised that in terms of investments in companies, most were western listed however some were based in China and India, such as Prudential and there was a notable proportion of the population in these countries who had sufficient income to set aside money for matters such as insurance and pensions and other financial arrangements.

RESOLVED:

that the monitoring report on Fund activity for the quarter ended 30 September 2014 be noted.

6. **Date of next meeting**

It was noted that the next meeting of the Brent Pension Fund Sub-Committee was scheduled to take place on Tuesday, 24 February 2015 at 6.30 pm.

7. **Any other urgent business**

None.

8. **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 as specified in Schedule 12A of the Local Government Access to Information Act 1972, namely:

Information relating to the financial or business affairs of particular persons (including the Authority holding that information).

9. **Diversified growth funds**

Julian Pendock introduced the item and stated that a number of organisations and institutions were in a similar situation to the council in terms of their pension funds. He advised that Baillie Gifford managed multi-asset funds effectively on behalf of a number of local authorities. The advantage of multi-asset funds was that they afforded fund managers much greater tactical freedom and it was felt desirable to increase allocation in diversified growth funds and for these to be managed by a diversified growth manager.

During members' discussions, a member sought further information about how diversified growth funds would help the Fund and would it be prudent to remain with the current asset allocation to maintain consistent returns, especially as the global economic situation was still volatile. He also asked what proportion of the Fund would come under diversified growth funds and how many other local authorities were looking at diversified growth funds.

In reply, Julian Pendock advised that diversified growth funds was not a new concept and that such funding would not be a short term measure, but a sensible activity to undertake in view of the current global economic volatility. It was intended that diversified growth funds would be in the first wave of investments to go into the CIV.

Mick Bowden advised that it would be open to the sub-committee to determine the amount of funds allocated for diversified growth funds at a later date. An assessment of what areas in diversified growth the Fund would benefit having exposure to was being undertaken and it would be for the diversified growth managers to decide on what to invest in.

Tom Wright added that he was aware of five other London boroughs who were developing a diversified growth funds strategy and there were also a few others in the UK that were undertaking this. These authorities were initially investing modest amounts in diversified growth funds, although it was anticipated the amounts would rise as confidence grew in their ability to achieve good returns.

RESOLVED:

(i) that the benefits to the Fund of increased investment in diversified growth funds be noted; and

(ii) that the commencement of the selection process for diversified growth managers be approved.

The meeting closed at 7.45 pm

S CHOUDHARY
Chair