Public Document Pack

Brent Pension Fund Sub-Committee

Tuesday 18 November 2014 at 6.30 pm
Boardrooms 4, 5 and 6 - Brent Civic Centre, Engineers Way, Wembley, HA9 0FJ

Membership:

Members Councillors:	**Substitute Members** Councillors:
S Choudhary (Chair) Hylton W Mitchell Murray Perrin Shahzad Thomas Vacancy	Conneely, Daly, Dixon, Duffy, Eniola, Ezeajughi, Farah, Filson, Harrison, Hector, Hoda-Benn and Hossain Councillors: Vacancy

Non Voting Co-opted Members

George Fraser	Employees
Ashok Patel	College of North West London

For further information contact: Toby Howes, Senior Democratic Services Officer
020 8937 1307, toby.howes@brent.gov.uk

For electronic copies of minutes, reports and agendas, and to be alerted when the minutes of this meeting have been published visit:
democracy.brent.gov.uk

The press and public are welcome to attend this meeting

recycle for Brent

Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

Item		Page
1	**Declarations of personal and prejudicial interests** Members are invited to declare at this stage of the meeting, any relevant financial or other interest in the items on this agenda.	
2	**Deputations (if any)**	
3	**Minutes of the previous meeting held on 30 September 2014** The minutes are attached.	1 - 6
4	**Matters arising**	
5	**London pension fund collaboration (collective investment vehicle)** The report provides an update on the voluntary collective investment vehicle (CIV) which is being developed by the London Leaders.	7 - 12
6	**Monitoring report on fund activity for the quarter ended 30 September 2014** The report provides a summary of the Fund's activity during the quarter ended 30 September 2014. It examines the actions taken, the economic and market background, and investment performance, as well as commenting on events in the quarter.	13 - 34
7	**Date of next meeting** The next meeting of the Brent Pension Fund Sub-Committee is scheduled to take place on Tuesday, 24 February 2015 at 6.30 pm.	

8 Any other urgent business

Notice of items to be raised under this heading must be given in writing to the Democratic Services Manager or his representative before the meeting in accordance with Standing Order 64.

9 Exclusion of press and public

The following report is not for publication as it contains exempt information as specified in Schedule 12A of the Local Government Act 1972, namely information relating to the financial or business affairs of particular persons (including the authority holding that information).

10 Diversified growth funds

Please remember to set your mobile phone to silent during the meeting.

- The meeting room is accessible by lift and seats will be provided for members of the public.

This page is intentionally left blank

LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Tuesday 30 September 2014 at 6.30 pm

PRESENT: Councillor Crane (Chair) and Councillors S Choudhary, Filson (substitute for Councillor Shahzad), W Mitchell Murray, Thomas, George Fraser and Ashok Patel

Also present: Councillor Perrin

Apologies for absence were received from: Councillors Hylton and Shahzad

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

   None declared.

2. **Minutes of the previous meeting held on 25 February 2014**

   RESOLVED:-

   that the minutes of the previous meeting held on 25 February 2014 be approved as an accurate record of the meeting.

3. **Matters arising**

   None.

4. **Local Government Pension Scheme funds performance**

   Lynn Coventry (WM) gave a presentation on the Local Government Pension Scheme (LGPS) funds performance. Members heard that the average return for a LGPS for 2013/14 was 6.4%. Annual returns in equity continued to perform well ahead of inflation, although they involved more volatility, whilst bonds' performance was also strong overall, although returns had been reducing in the last three years. The sub-committee noted the returns in alternatives and property. In terms of overall annual returns, Lynn Coventry advised that over the last 20 years there had been an average return of 7.2% which was around 4% ahead of inflation. Although alternatives continued to lag well behind equities in returns over the past five years, the average proportion of investment in alternatives had risen in recent years, whilst the average proportion in equities was reducing.

   Turing to Brent's Fund, Lynn Coventry informed members that the Fund's structure was rather different to most other local authorities, with an appreciably larger percentage of investment in alternatives and well below average weighing in equities. The Fund was also relatively complex and had been changed frequently. As the Fund had a lower percentage of equities, it was at lower risk than other local

authorities, however the last five years had seen equities achieve higher returns and so the Fund's performance had not compared well in the local authorities universe. The Fund's performance in 2014 registered a return of 6.1%, below the benchmark of 7.2% and local authority average return and in the last ten years the Fund had only performed above the benchmark for two of these years. Lynn Coventry attributed this to the negative impact from active management and unfavourable performance from relative short term investments in some alternatives. The sub-committee noted the returns compared to the benchmark return for each of the fund managers. In terms of relative risk and return, Lynn Coventry advised that the Fund's higher relative risk had not been rewarded in relative return to date. Over a longer period, the above average commitment to alternatives had impacted negatively on the Fund, whilst there had also been examples of unsuccessful management of stock selection, particularly in equities.

During discussion, a member asked if comparisons with other local authorities' fund investments had been made. Another member commented that there had been some improvement in returns. The Chair thanked Lynn Coventry for the helpful presentation and in noting the relatively poor return of the Fund in recent years, enquired whether it was down to appointing the wrong fund managers at the wrong time. He advised that the sub-committee would consider the asset allocation under the strategic asset allocation item later on in the meeting with a view to considering what changes could be made in future to the spread of investments to achieve more favourable rates of returns.

In reply to the issues raised, Lynn Coventry reiterated that the Fund was structured quite differently to other LGPS funds and the current performance was also influenced by the strategy driving it. In respect of fund managers, some had taken an active management approach, however the success of this was dependent on their ability to judge how their actions would lead to better returns, rather than taking a more conventional passive approach.

Julian Pendock (Investments and Pensions Manager, Finance and IT) added that it would not be prudent to make large changes to the Fund's structure at this stage due to the volatility of the market and the risks involved. However, by undertaking an analysis of the performance in various areas, some changes could be made to help bring about an improvement.

5. **Quarterly monitoring report on Fund activity for quarter ended 31 March 2014**

Members noted the report.

RESOLVED:

that the quarterly monitoring report on Fund activity for the quarter ended 31 March 2014 be noted.

6. **Pension Fund annual report 2013/14**

Mick Bowden (Operational Director – Finance, Finance and IT) introduced the report and advised that it included the statement of accounts 2013/14 that had been approved by the Audit Committee on 29 September and subsequently signed off by the external auditors on 30 September. He confirmed that the external auditors had

raised no issues with the Pension Fund account and members noted that the report also incorporated some governance statements, statement of investment principles, the pensions administration strategy and modest performance targets for the future.

Members noted the annual report.

7. **Auto-enrolment update**

Mick Bowden introduced the report and advised that any employee apart from those on contracts for less than three months or who were casually employed were now auto-enrolled into the council's pension scheme, even though they had previously opted out. I they wished to remain outside of the scheme, they would now have to positively indicate that they wished to opt out again.

During members' discussion, clarification was sought as to whether all employees needed to have a pension scheme. It was also enquired whether Brent schools participating in the pension scheme had been notified of the introduction of auto-enrolment.

In reply, Mick Bowden advised that ultimately it was the employee's decision as to whether they wished to participate in a pension scheme or not and that all employers in the Brent pension scheme had been advised about the implementation of auto-enrolment.

RESOLVED:

that the update on Brent pension fund's auto-enrolment be noted.

8. **Training plan**

Julian Pendock advised that a spreadsheet containing training dates for members had been produced and he added that if any members wished for training on a particular topic to let him know.

During discussion, a member enquired whether there would be pension fund training for Audit Committee members. Another member enquired whether the training providers were suitably objective.

In reply, Julian Pendock advised that there was always a potential sell element from training providers, although overall they provided sound training. The Chair added that there was a list of independent training providers that he would be happy to provide details to any members who were interested.

9. **Any other urgent business**

None.

10. **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).

11. **Review of fund managers**

Julian Pendock presented the item and began by referring members to the quarterly monitoring report on the Fund's activity for the quarter ended 30 June 2014. Members noted that the Fund had increased in value by a return of 1.4%, below the quarterly benchmark of 2.1%. and the main negative performer compared to the benchmark was private equity. However, Julian Pendock advised that the performance of a fund manager needed to be considered over a three year period rather than by quarter. In addition, private equity assets had performed below previous levels generally over the quarter and so the return achieved was around what was expected.

Peter Davies (Independent Adviser to the Fund) then informed members about the UK's economic performance during the quarter which had recorded 0.8% in growth and compared its performance to other countries and the Eurozone. He referred members to the equity returns in the FTSE indices and also advised that the gains in Government bonds had not worked to the Fund's advantage.

During discussion, a member noted that eight fund managers had been appointed for the Fund which he felt could be excessive and he asked how this compared with other local authorities' funds. He also enquired whether there were any standing instructions for fund managers not to undertake stock lending.

In reply, Mick Bowden advised that the Fund appointed perhaps one or two more fund managers, or mandates, than average. Julian Pendock added that fund managers were not actively instructed not to stock lend, however he would check to see if there was any specific statement that the Fund would not undertake such activity.

RESOLVED:

that the quarterly monitoring report on fund activity be noted.

12. **Markets and the current investment climate**

Julian Pendock presented the report that provided a historical context on how the national and world economies had reached their current point. From the 1980s to 2007, the markets had experienced a remarkably good run, however since then markets were generally expensive, with volatility across all asset classes. In such circumstances, investments of many types, including pension funds were finding it

difficult to consistently make the high returns that some funds had previously managed. Julian Pendock then invited comments from members.

During discussion, a member commented that the Fund was performing below average compared to other LGPS and with a significantly different strategy. In view of this, he felt that an analysis of what other local authorities were doing could be beneficial and would help identify any trends that may assist the Fund in future.

In reply, Julian Pendock advised that it could be more fruitful to look at how active fund managers were performing and paradoxically, appointing a fund manager who was achieving high returns may not be the most prudent action in the longer term as they may also be taking much greater risks.

The Chair added that there was lower risk with the Fund compared to other LGPS and lessons had been learnt in the past where riskier investments had failed.

13. **Strategic asset allocation**

Julian Pendock presented the report and stated that investments were increasingly moving from a regional to a global level and it was also important to consider where a company was selling its assets from. There was a trend towards multi-assets as these provided more tactical flexibility and freedom for the fund manager and avoid the situation of being forced to buy assets. Active equities involving investing in companies was also desirable. Julian Pendock advised members that the Fund was moving towards using more active fund managers as opposed to passive ones. A good active fund manager would be able to achieve good returns at low cost. However, one of the reasons for the Fund's relatively low performance compared to other LGPS was attributable to disappointing performances from some of the active fund managers and in particular there was one poorly performing fund manager who also had a large weighting of investments that was adversely affecting performance. As a result, Julian Pendock advised that it was timely to undertake a review of the strategic asset allocation.

During members' discussion, it was commented that flexibility provided by multi-assets and timing of investments were both desirable. It was also queried how assets would be reallocated in the event that a fund manager was replaced by another. A member commented that although he agreed with the broad direction the Fund was taking, he still felt that it would be useful to undertake comparisons and weightings of investments with other LGPS. He also asked whether the views of other local authorities could be obtained with regard to the poorest performing fund manager in the Fund. It was also remarked that from an employer's point of view concerning their pension contributions, there needed to be reassurance that there had been an element of ill fortune and technical naivety, rather than a fundamental flaw with the Fund, that accounted for past underperformance. Another member stated that the employer contribution rates for the Fund was fairly average compared to other London boroughs. He also sought observations regarding the outcome of the meeting between the council and the lowest performing fund manager. A member requested that in future, where reports stated that there were no legal implications, they should include an explanation as to why.

In reply to the issues raised, Julian Pendock stated that an active fund manager was good from a governance perspective. In terms of measures to improve the

Fund's performance, there were a number of things he thought could be done better. He confirmed that he could include the views of other local authorities who also used the same lowest performing manager for this Fund. Julian Pendock added that setting sensible contribution rates was the best way of recovering debt.

Peter Davies referred to the meeting with the poorest performing fund manager and advised that their private equity investments were based on a complicated structure and in his view the figures that they were providing were not robust. He also felt that their accountability for performance was not presently up to the standards required.

Mick Bowden confirmed that he would circulate to members the strategic asset review report from the previous meeting on 25 February 2014 that compared the Fund's performance and asset allocation with some other local authorities. He advised that the percentage of contribution rates could be misleading and the relative size of the deficit needed to be taken into account, adding that the Fund was not relying on markets to wipe the deficit out.

The Chair advised that the council and Peter Davies would continue to meet with the Fund's poorest performing fund manager and then provide an update on this at the next meeting. Members also agreed to the Chair's suggestion that a report be produced at the next meeting comparing multi-asset funds, passive and active fund managers, the views of other local authorities who used the Fund's lowest performing fund manager, a synopsis of the structure of other local authorities' funds and their investments and the implications in the event of replacing a fund manager.

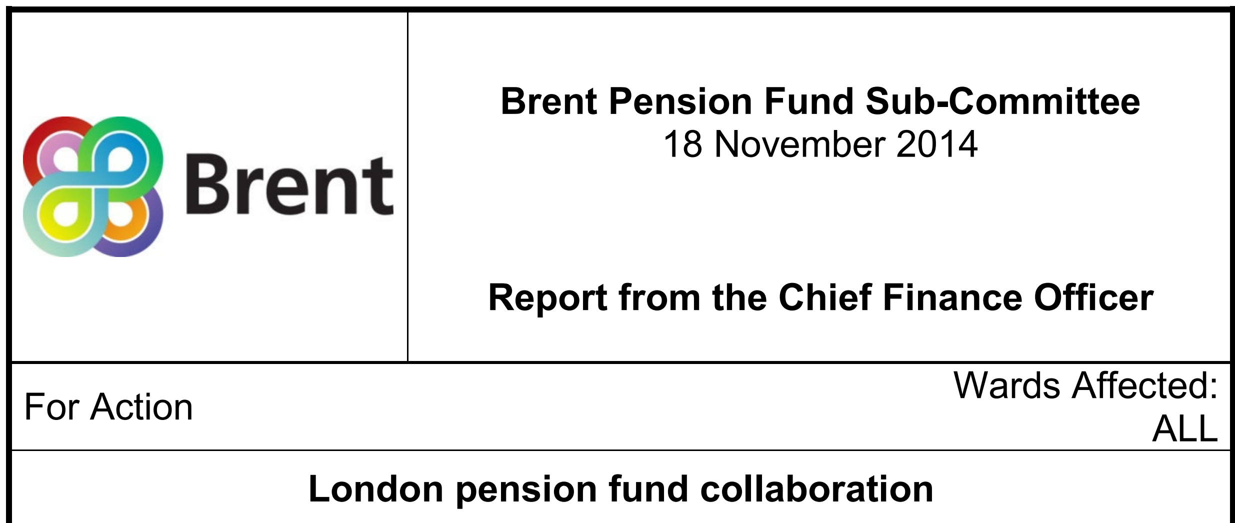
RESOLVED:

(i) that an update on the outcome of meetings with the Fund's lowest performing Fund manager be provided at the next meeting; and

(ii) that a report including comparisons of multi-asset funds, passive and active fund managers, the views of other local authorities who used the Fund's lowest performing fund manager, a synopsis of the structure of other local authorities' funds and their investments and the implications in the event of replacing a fund manager be provided at the next meeting.

The meeting closed at 8.00 pm.

G CRANE
Chair



Brent Pension Fund Sub-Committee
18 November 2014

Report from the Chief Finance Officer

For Action	Wards Affected: ALL

London pension fund collaboration

1. SUMMARY

1.1 This is an update on the voluntary collective investment vehicle (CIV) which is being developed by the London Leaders. The CIV aims both to achieve lower investment management fees and potentially improve investment performance without the loss of operational independence in terms of asset allocation policy (which a merger of funds would imply). The London CIV has moved from an exploratory stage into the technical process of deciding upon, and creating, the most appropriate structure.

1.2 Some 30 out of 33 London boroughs and councils are participating. They have each paid £25,000 for the exploratory stage, and most of this money has been spent on external technical services, to tackle the legal, regulatory, and other aspects of the CIV.

2. RECOMMENDATION

2.1 Members are asked to support the ongoing establishment of a collective investment vehicle (CIV) 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 tarnche of £25,000 being requested now, and one more in April 2016.

3. DETAIL

3.1 A CIV is a structure which would harness the joint purchasing power of the participating boroughs. It should be stressed that participation by boroughs in the CIV will be voluntary and boroughs would retain their autonomy in asset allocation and funding strategy. The CIV is built entirely on attraction. The CIV will provide boroughs with cheaper access to high quality funds within each asset class, and also do the "heavy lifting" in terms of monitoring and compliance, thus eliminating widely duplicated efforts across London boroughs. Fund managers are attracted by having "one client" in terms of

reporting and hence save marketing resources. The prospect of economies of scale for both the providers and customers of fund management services sells itself.

3.2 The vast majority of authorities are in favour of creating a CIV. Some 30 of the 33 London schemes have contributed £25,000 towards meeting the cost of creating such a London-wide vehicle. In the longer term, costs incurred in operating the CIV would be recoverable from participating boroughs which would be more than paid for from reduced fees.

3.3 Fund managers (without whom the CIV could not function) are keen to be put onto the CIV structure, as they see the benefits accruing to them. The firm levels of indicated demand provide reassurance that the projected fee reductions will be realised.

3.4 It is possible to estimate the recurring cost savings from participation in the CIV, on account of the reduction in fund management fees. The working assumption, based on initial indications, is that fees will be some 20% lower once funds are migrated to the CIV, although the first wave of formal interviews has yet to commence. For the sake of calculations, it is assumed that index trackers (passive) investments will be in the first wave to go on to the CIV. The Baillie Gifford Diversified Growth fund is also likely to go onto the CIV. Lastly, the example also includes the Henderson Total Return Bond Fund. The data shows the projected cost saving both including and excluding Henderson:

Savings excluding Henderson TR Bond Fund				
Fund Manager	**Product**	**AMC (Fee) £**	**Estimated Savings (%)**	**Estimated Savings (£)**
Baillie Gifford	Diversified Growth	220,316	20%	44,063
L&G	Global Equity Tracker	130,640	20%	26,128
L&G	UK Equity Tracker	45,461	20%	9,092
Total Savings per annum				**79,283**

Savings excluding Henderson TR Bond Fund				
Fund Manager	**Product**	**AMC (Fee) £**	**Estimated Savings (%)**	**Estimated Savings (£)**
Baillie Gifford	Diversified Growth	220,316	20%	44,063
L&G	Global Equity Tracker	130,640	20%	26,128
L&G	UK Equity Tracker	45,461	20%	9,092
Hendersons	Total Return Bond Fund	325,181	20%	65,036
Total Savings per annum				**100,256**

3.5 It is anticipated that the reduction in fees will be greater as more asset classes and fund managers come onto the CIV, and as the Brent Pension Fund portfolio changes, provided that the desired fund managers are on the CIV.

3.6 The benefits of participating in the CIV are extended to non-pecuniary issues. Better monitoring and oversight will reduce the (duplicated) workload of Pension Fund officers, and in time, give access to new opportunities in unlisted investments, such as infrastructure. Overall governance is expected to be boosted from the outset.

3.7 The development of the CIV structure has gone far beyond the original idea of "exploring the proposal", as Mayor Jules Pipe's letter put it. The ongoing development of the operating model has required the use of outside expertise. Although simple in concept, there is a raft of issues to consider and work through, before the final structure is submitted to the FCA.

3.8 The first payment of £25,000 paid by the 30 participating boroughs has enabled many of the conceptual issues to be resolved. Some £479,000 of the £750,000 raised has been spent. Boroughs are requested to submit another payment of £25,000, in order to pay for the ongoing technical and legal advice which must be outsourced, as well as to pay for the recruitment and remuneration of the CIV's management and non-executive board members, who must be *in situ* before the final version of the structure is submitted to the FCA. The costs for the CIV are therefore front-loaded. The next payment is not anticipated until April 2016, one year after the current projected launch date in April 2015. (The launch date is subject to FCA approval and other external factors).

4. BACKGROUND

4.1 The London Leaders and Society of London Treasurers have been comparing a range of options for closer pension fund collaboration in terms of their impact and practicality. The preferred option is a CIV that operates on a voluntary basis. The proposal is that the CIV will be a bridge between individual schemes and fund managers. The CIV will identify and monitor one or more fund managers for each asset class, agreeing fees. Individual schemes such as Brent would then be able to opt into those arrangements.

4.2 The advantage of a CIV compared with merger is that there will be no change to the Brent fund structure and the Sub-Committee will retain local decision making in the setting of investment and funding strategies. The additional available choice will be that when it comes to manager selection, Brent will be able to use the managers selected to manage the CIV. Monitoring of fund managers and decisions to de-select would continue to be undertaken by Brent. With additional resources and a larger mandate, the hope is that a CIV would result in improved investment performance (which is debatable) and lower fees (a more reasonable expectation).

4.3 London pension funds have collected information on individual fund performance compared with the larger county councils and concluded that while there is a wide distribution of returns across London, which might indicate poor management by some councils, on average the larger county councils generated returns that were no higher than the London average. The research did suggest that there is scope for fee savings, but not to the extent suggested by earlier commentators.

4.4 It is clear that the Government seeks change, possibly by compulsion if not achieved voluntarily. The CIV route addresses many of the concerns raised in previous discussions on compulsory merger, and should achieve many of the benefits of scale. The merits of the CIV route are listed as follows:

- It leaves unchanged the structure of the scheme, the setting of strategy and the determination of manager mandate (active versus passive);
- By operating at asset class level, it allows choice as to which asset classes should be collectively managed and which excluded;
- Greater scale would enable investments to be managed in a different way – an example would be avoiding use of 'fund of funds' approaches because the CIV pool would be large enough to diversify adequately;
- There is no compulsion to use the CIV, although there needs to be adequate support from a sufficient number of funds to ensure its success;
- The CIV will have running costs (staff, accommodation and advisers), although these should be wholly offset by reduced management fees through larger pools of assets;
- Individual schemes may save on adviser fees;
- By acting to achieve the fee savings and improved performance the Government expects from the pooling of assets, the establishment and use of a CIV may avoid more drastic action being imposed.

5. FINANCIAL IMPLICATIONS

5.1 These are included within the report.

6. DIVERSITY IMPLICATIONS

6.1 None.

7. STAFFING IMPLICATIONS

7.1 None.

8. LEGAL IMPLICATIONS

8.1 None.

9. BACKGROUND

9.1 None.

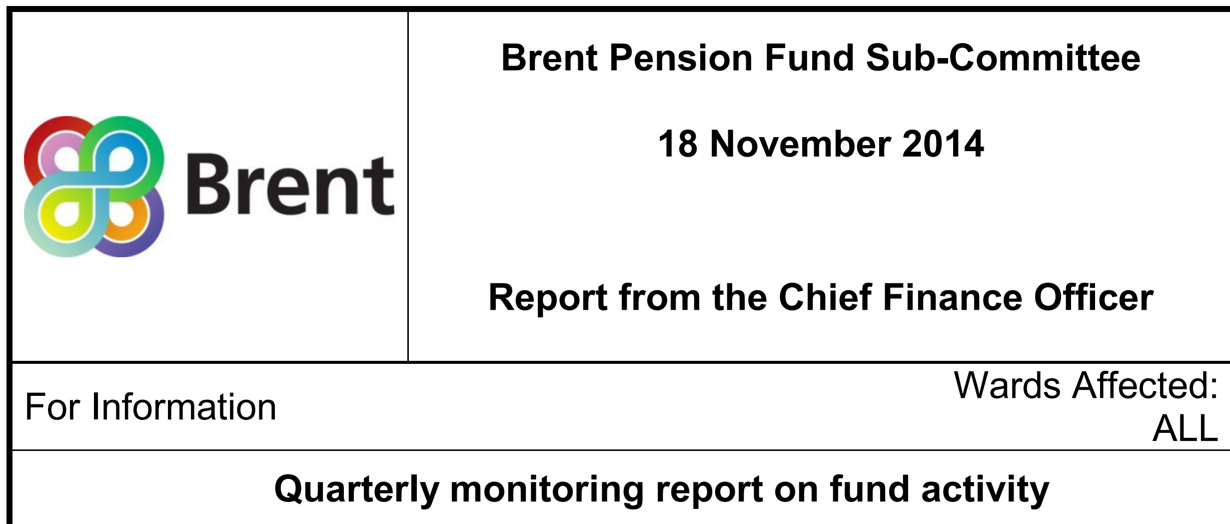
10. CONTACT OFFICERS

10.1 Persons wishing to discuss the above should contact the Treasury and Pension Investment Section, Governance and Corporate Services, on 020 8937 7633 or 07884 997 633 at Brent Civic Centre.

CONRAD HALL
Chief Finance Officer

JULIAN PENDOCK
Investment and Pensions Manager

This page is intentionally left blank



Brent Pension Fund Sub-Committee

18 November 2014

Report from the Chief Finance Officer

For Information

Wards Affected: ALL

Quarterly monitoring report on fund activity

1. SUMMARY

1.1 This report provides a summary of the Fund's activity during the quarter ended 30 September 2014. It examines the actions taken, the economic and market background, and investment performance, as well as commenting on events in the quarter. The main points arising are:

a) The Fund has increased in value by £9.8m from £597.3m to £607.om during the quarter ended 30 September 2014, and the Fund's return of 1.4% under-performed its quarterly benchmark of 1.7%. During the quarter, Sterling fell by 4.67% against the US dollar. This change in currencies must be taken into consideration given the sizable non-Sterling holdings in the fund, which are not hedged against movements in sterling.

b) Against this backdrop, the biggest fallers were Sterling-dominated assets. The single-largest contributor to this positive return during the quarter was Global Equities, but this 2.9% gain was entirely due to the weakness in Sterling, without which, it too would have registered a loss in local currency terms. In a turbulent quarter for markets, returns can almost exclusively be attributed to currency fluctuations which acted in Brent PF's favour.

c) Notable positive performers against their benchmark include "Diversified Growth"; in other words, Baillie Gifford.

d) The 12-month return as at 30 September 2014 was 8.6%, marginally higher than the benchmark return of 8.2% again largely due to the foreign exchange translation effects.

e) The Fund return for the 3 years ended 30 September 2014 is an annualised 9.8% p.a., which again lags the benchmarked return of 10.6%.

f) The investment performance of the Brent Pension Fund in comparison to its benchmark for the period ended 30 September 2014 is shown below:

	Total Fund Return	Fund Benchmark Return	Local Authority Average
1 year	8.6 %	8.2%	N/A
3 years	9.8%	10.6%	N/A
5 years	7.4%	7.7%	N/A

2. RECOMMENDATIONS

2.1 Members are asked to note the investment report.

3. DETAIL

Economic and market background – quarter ended 30 September 2014

3.1 Global equities ran into gathering political and economic storm clouds. In Q3, the Ukraine developments turned decisively for the worse, crystallised by the downing of the Malaysia Airlines flight. In a similar vein, the situation in the Middle East continued to deteriorate. Intra-EU political squabbles increased. Current policies appear unlikely to solve the mounting problems of failed economic policies, which serve to entrench and increase austerity fatigue against the backdrop of the widening democratic deficit.

3.1 During the quarter ended 30 September 2014, the UK's FTSE 100 fell by 1.8%. Market gyrations indicated that economic fundamentals were unlikely to provide much support in the medium term, as was evinced by lacklustre earnings.

3.2 In the US, the strong USD weighed on international earnings. Earnings continued to benefit from lower energy prices (shale, international demand shortfall and an supply glut in oil). Jobs "onshoring" is likely to prove a continued boost.

3.3 Government bond markets continued to defy expectations by to performing well. Long duration bonds in particular did well, once again, despite (or maybe because of) almost universal bearish sentiment towards the asset class. The fixed income investments did well, but once again lagged the benchmark as the fund (Henderson) had reduced exposure to longer duration government bonds and therefore did not benefit from the market's strength.

3.4 Data from the Eurozone was mixed, but negative news was largely viewed as a reason for further unconventional policy measures by the ECB, and therefore “bad” news did not dent sentiment.

3.5 Emerging markets had a tough quarter. The asset class is traditionally viewed as a geared play on global monetary conditions. Given that Central Banks are increasingly marching to their own tune (“Policy Divergence”), the turbulence was unsurprising. The only asset class that continued to do well were mega-cap Chinese companies, such as large, politically-controlled banks, which are optically cheap. They have enjoyed a strong rally of late, but remain 60% lower than their 2009 highs.

3.6 A market review for the quarter ended 30 September 2014, written by the Independent Financial Adviser, is attached.

Investment performance of the Fund

3.7 The investment performance of the Brent Pension Fund in comparison to the WM Local Authority percentile average for all Local Government Pension Schemes (LGPS) funds nationally is shown below:

	Period ended 30 Jun 2014	Period ended 30 Sept 14
1 year	86th	63rd
3 years	93rd	95th
5 years	92nd	97th
10 years	98th	100th

3.8 The comparative statistics show that the Fund has been one of the lower performing LGPS funds for a period of many years, but relative performance has picked up of late.

3.9 As the rate of equity markets’ vertiginous climb eases, Brent Pension Fund’s performance becomes more in line with the Local Authority average performance. The Fund has under-performed over the past few years, largely due to its lower weighting in equities (49% of the fund, compared to the Local Authority average of 63%).

3.10 The second factor pertains to the large allocation (almost 20% of Brent Pension Fund’s assets, compared with a Local Authority Average of 5%) to unquoted Private Equity and Infrastructure investments, which continue to remain relatively immature, with many in their investment (rather than payout) phase of development. The values of these investments do not change continuously in the way quoted investments do, so that their recent investment performance may not reflect their true underlying worth. Their real performance can only be assessed when distributions are made to investors in future years as the funds realise their assets. Brent Pension Fund’s Private Equity investments are legacy investments,

dating back to 2003, in some cases. The investments are legally binding, and no ready market exists for those who wish to sell prematurely.

3.11 Valuations for unquoted investments take up to six months to collate. This year, any improvement in values is likely to be helped by sterling's recent weakness, given that a large portion of the assets are held in US$.

3.12 Table 1 shows the changes in asset allocation, how asset allocation compares with the benchmark and with the average fund (WM Local Authority average), and how the change in the market value during the quarter is allocated across asset classes. Items marked (*) in columns 4 and 8 cannot be separately analysed, but are included within the relevant asset class.

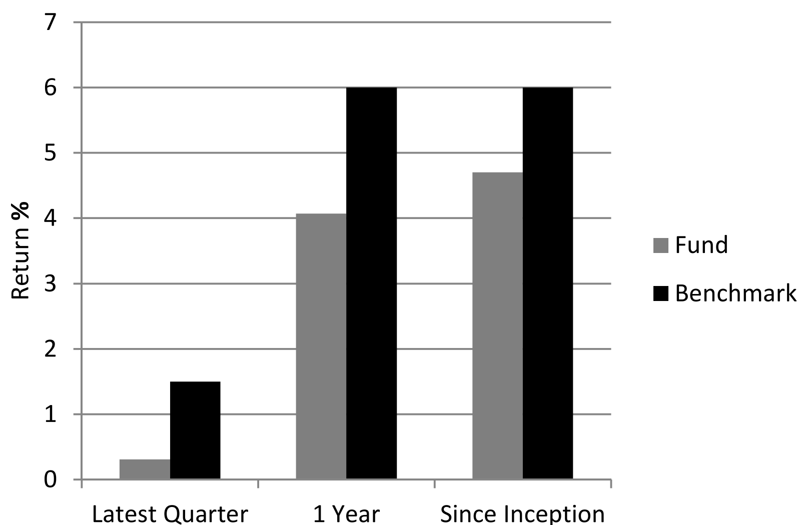
Table 1: Asset allocation as at 30 September 2014 compared to the benchmark

Assets (1)	Market Value 30/6/14 £M (2)	Market Value 30/6/14 % (3)	WM LA Average 30/6/14 % (4)	Fund Benchmark 30/9/14 % (5)	Market Value 30/9/14 £M (6)	Market Value 30/9/14 % (7)
Fixed Income						
Henderson – Total Return Bond Fund	85.2	14.4	16.5	15.0	85.5	14.1
Equities						
UK – Legal & General	87.1	14.7	24.8	15.0	86.3	14.2
UK - Smaller Companies Fund Henderson	26.4	4.4	*	4.0	26.1	4.6
O/seas – developed Legal & General	139.1	23.4	35.4	24.0	144.0	23.7
O/seas – emerging Dimensional	39.8	6.7	6.5	8.0	40.1	6.6
Property						
Aviva	35.3	6.0	7.6	8.0	36.0	5.9
Private Equity						
Capital Dynamics	75.8	12.8	3.8	10.0	78.3	12.8
Yorkshire Fund	1.1	0.2	*		1.1	0.2
Infrastructure						
Alinda	22.9	3.9	1.2	6.0	23.8	3.9
Capital Dynamics	14.3	2.4	*		15.6	2.6
Henderson PFI Fund II	1.3	0.2	*		1.3	0.2
Pooled Multi Asset						
Baillie Gifford DGF	45.9	7.7	1.1	8.0	46.8	7.7
Cash	19.2	3.2	3.1	2.0	23.8	3.9
Total	**593.5**	**100.0**	**100.0**	**100.0**	**607.0**	**100.0**

Manager performance relative to benchmark

3.13 The following bar charts show the active fund manager performances in comparison to their respective benchmarks for periods to the end of September 2014.

Henderson – Total Return Bond Fund

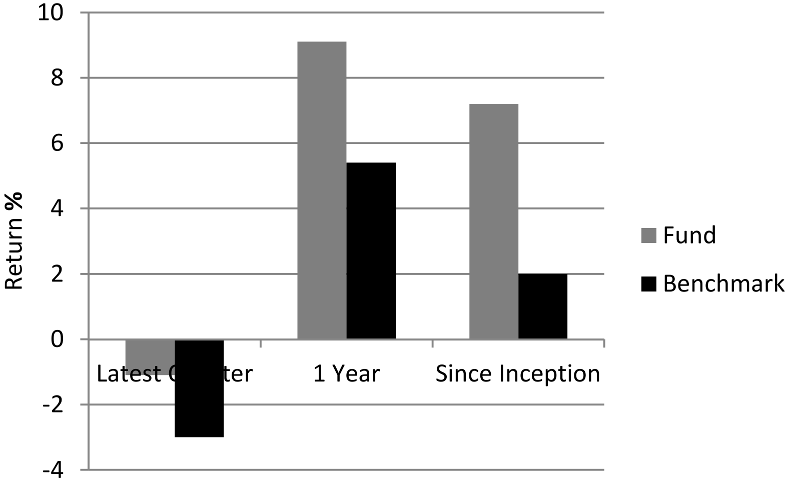


The fund was positioned in line with consensus views. For much of 2014, consensus has followed the prognostications of Central Banks, which in turn tried to give the impression that they were "driven by data" and not (as one might argue) just playing for time and shooting from the hip. The headline macro data was positive; falling unemployment in the West, "green shoots" of a Eurozone recovery; a rebound from soft data in China. Thus most talk in markets was given to how soon rate rises would occur in the UK and the USA, especially given the valid uncertainty over the real level of economic spare capacity in the US. Elsewhere, China would have a "soft landing" and the Eurozone growth would gently accelerate.

This viewpoint led to the fund having a short duration i.e. not exposed to long duration government bonds, which would have fallen hard should the economic data have continued in the same trend. This meant that the fund did not participate in the best pricing action, which occurred in the long end of the bond yield curves, as market optimism waned. Corporate bond prices fell, especially lower rated and "junk" bonds, as markets became increasingly concerned over the outlook for corporate earnings, combined with record issuance.

The fund is positioned for further recovery in the UK (more momentum was lost after their report was written), and for the ECB to maintain an accommodative policy. The fund has fallen further behind its benchmark after being wrong-sided by the direction of the world's major economies. Markets remain difficult, as shown by Central Bankers' constant change in their outlook and positioning.

Henderson – UK & Irish Smaller Companies Fund



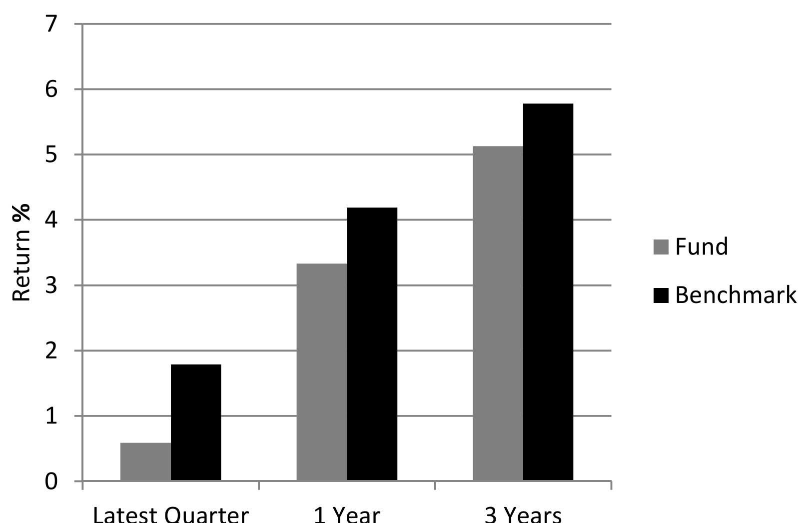
The fund had a good quarter on a relative – but not absolute – basis. The fund manager reported that intra market turbulence was far more elevated than the 3.0% drop in the index would suggest. Aside from the Global political and economic factors which have been discussed, UK Small Caps were also hit by uncertainty over the outcome of the Scottish independence referendum. Also of relevance to the sector was the deceleration in UK manufacturing.

As the liquidity-induced market rally faded, stock dispersion increased. This means that a company's operating fundamentals are once again the key share price drivers. This has a number of implications for the fund manager. Firstly, it makes sense to increase the fund's concentration, as it makes more sense to "ride the winners" and be more ruthless in the Sell discipline with companies over which question marks hang. Markets will no longer tolerate a "wait and see" approach. Secondly, this adjustment in portfolio style throws up other risks and opportunities in terms of trading. Fund outflows and changes in fund manager at several of the larger funds led to substantial lines of stock being offered to the market. In some cases, it made sense to buy these, given the increase in weighting given to select companies in the portfolio and the rare opportunity to acquire lines of stock without driving up the share price (Small Caps are of course less liquid than Large Caps).

It was disappointing that the fund was running a cash weighting going into October that was only in the middle of the range (i.e. 4-5%). However, there was no panic selling at the bottom of the market correction, but more buying, which shows that the process is sound. The fund manger will however continue to run a cash position which is slightly higher than normal, in order to have "dry powder" for opportunistic acquisitions or increases in weight.

Although the fund manager continues to reduce the cyclical nature of companies held in the portfolio, this asset class appears to be vulnerable, if the UK's recovery loses further momentum.

Dimensional – Emerging Markets Value Fund

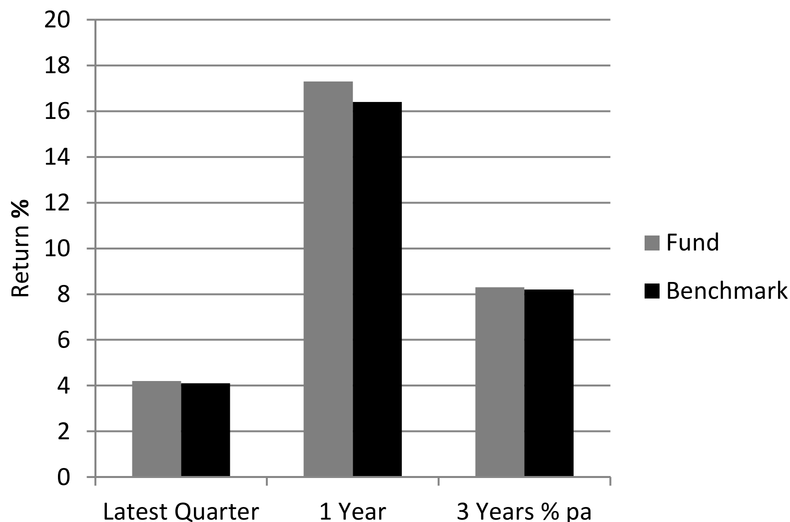


The investment in Dimensional has been a poor performer. Since inception in July 2011 (the midst of the global tremors which emanated from the eurozone crisis), the fund has returned a -4.4% per annum, whilst the MSCI Emerging Markets has fallen by 2.4% per annum. On a 3 year annualised basis, the fund has risen by 5.1% against 5.8% for the index. The damage done in the initial investment still shows: the fund is up by 2.4% against 4.1% for the Index over a five year period.

The issue here is that the fund performed very poorly during period of extreme volatility, such as in 2008 and in 2011. Since the fund was launched in 2006, it has outperformed the index by only 31bps. This index-like performance is not surprising given that the fund has 1,920 holdings, vs 834 in the Index. The fund is nominally active; companies are screened on the basis of existing valuation, without any fundamental research conducted into the companies. The quest for value has thrown the question of whether something is of real value rather than apparent value, into stark relief. Bets on large opaque Chinese banks finally paid off, after years of price de-rating.

The threats to the GEM universe stem from policy divergence, which could be one of several factors that could trigger a US$ rally. Such a rally could lead to a dramatic unwind of US$ “carry trades” into GEM. Some estimate the value of these trades to be in the region of US$ 5 trillion. The Dimensional Fund is poised for a cyclical recovery, which is why the biggest sector bets are in financials and industrial companies. It remains to be seen whether this is akin to catching a falling knife, or is a brave call, which will come right if and when the dark economic clouds looming on the horizon are burnt off.

Aviva – Property



NB The above chart relates to the UK portfolio, which is 85% of Brent PF's allocation to Aviva.

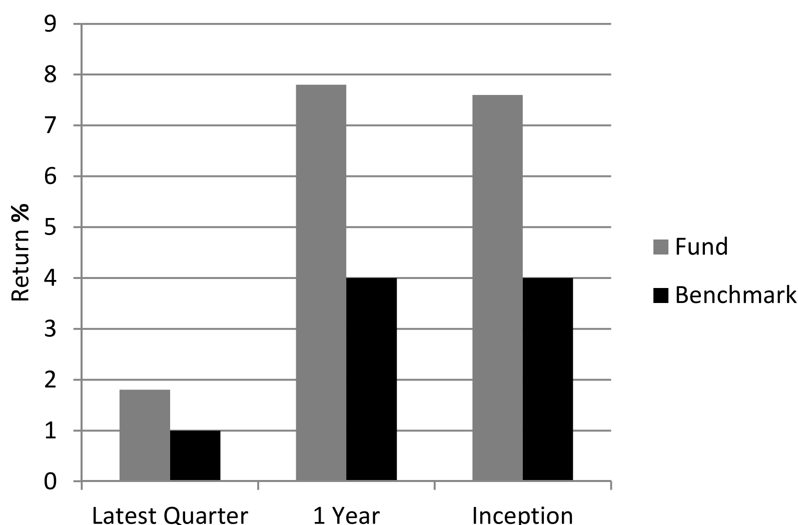
Aviva posted another strong quarter, recording a total return of 4.2%. The fund has also outperformed the benchmark on a one year and three year view. However, attention must be paid to the sources of return. In 3Q14, the fund registered 3.1% capital growth and an income yield of 1.1%. There would be greater confidence in this investment if the ratios were reversed; i.e. the fund's performance was not so reliant on capital growth. It remains to be seen whether the UK property market as a whole, and London in particular, entered a soft patch, or whether the property cycle has matured and could reverse.

However, the make-up of the fund does give some comfort. The fund has a 15% weighting in industrial specialists holdings. The sector's fundamentals remain robust, as the availability of industrial space in the South East of the U.K. is at a 10 year low. This sector's performance has driven the yield compression; it does not appear that rents will keep pace with capital values. Rents increased by 0.8% again in 3Q14. The rate of increase in rents is expected to accelerate as vacancies drop to a level last seen before the GFC.

Interestingly, the fund partially redeemed a holding in the West End of London Property Unit Trust as it is expected that yields on London offices will rise (i.e. prices will fall). Nonetheless, office rents in the City rose again for the third quarter in a row.

The fund manager's hope is that the baton for growth can be passed from capital values to rental growth, as vacancy rates come down. The obvious catalyst for re-pricing to the downside would be a hike in interest rates.

Baillie Gifford – Diversified Growth Pension Fund



Baillie Gifford's Diversified Growth Fund (DGF) has most definitely regained its poise, after a wobble in the "Taper Tantrum" of 2013. The fund returned 1.8% in the last quarter, which compares with the benchmark of 1.0%. The performance of the fund has mostly been consistent, and consistently good – no mean feat given the febrile markets.

The performance of the fund in the last quarter demonstrates the importance of allowing fund mangers to pursue opportunities globally. Tactical positions are not constrained to equities and bonds. For example, the fund was boosted by 0.4% (almost a third of the overall gain) by the short position in the Australian dollar (AUD). The AUD fell by 7.3% on Chinese growth concerns. This position has been patiently held for quite some time (January 2014). Other strongly performing assets include Insurance Linked bonds (also known as "Cat Bonds").

The fund managers have been anticipating the impact of policy divergence. Markets started to reflect this, as well as other factors such as geopolitical risk, in 3Q14. Correlation between and within asset classes fell. This should prove beneficial for fund managers who are ready, willing and able to invest in a tactical manner.

The three largest asset allocations at the end of 3Q14 were listed equities at 17.7% of the fund; structured finance at 14.2% and EM bonds at 12.9%. Further discussion with the managers revealed that they are careful to avoid EM positions which are vulnerable to a US$ rally.

At the end of the quarter, the fund had 9.1% in cash and cash equivalents, which was increased going into October, but was tactically redeployed after markets fell. In conclusion, the DG fund continues to deliver.

3.14 The independent WM Company measures the returns on the Brent Pension Fund. Table 2 sets out returns for the periods to 31 September 2014.

Table 2: Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Quarter Ending 30/9/14			Year Ended 30/9/14			
	Fund %	Benchmark %	WM Local Auth %	Fund %	Benchmark %	WM Local Auth %	
Fixed Income							
Total Return Bond Fund Henderson	0.3	1.5	0.3	4.1	6.0	4.6	Absolute return 6% p.a.
Equities							
UK – Legal & General	-1.0	-1.0	1.5	6.2	6.1	6.1	FTSE All Share
UK - Small Companies Henderson	-1.3	-2.2	*	9.1	5.4	*	FTSE Small Cap
O/seas – developed Legal & General	3.6	3.6	2.4	12.9	13.0	9.8	FTSE Dev World ex UK
O/seas – emerging Dimensional	0.6	1.8	2.3	3.2	4.2	7.2	MSCI Emerging Markets
Property							
Aviva	3.0	4.0	*	10.5	16.8	*	IPD All Properties Index
Private Equity							
Capital Dynamics	1.5	1.9	*	11.2	7.4	*	Absolute return 8% p.a.
Yorkshire Fund Managers	*	*	*	*	*		Absolute return 8% p.a.
Infrastructure							
Alinda	3.3	1.9	*	15.4	8.0	*	Absolute return 8% p.a.
Capital Dynamics	2.2	1.9	*	9.7	8.0	*	Absolute return 8% p.a.
Henderson PFI Fund II	*	*	*	*	*	*	Absolute return 8% p.a.
Pooled Multi Asset							
Baillie Gifford DGF	1.8	1.0	*	7.7	4.0	*	Base Rate + 3.5% p.a.
Cash	0.1	0.1	*	0.4	0.5	*	Base Rate
Total	**1.4**	**1.7**	**1.8**	**8.6**	**8.2**	**8.5**	

3.15 The Fund’s return of 1.4% under-performed its benchmark of 1.7% in 3Q14, but returned 8.6% over one year, beating its benchmark of 8.2%.

Compliance with statutory investment limits

3.17 LGPS investment regulations state that the Administering Authority shall have regard both to the diversification and the suitability of investments. The following table demonstrates full compliance when comparing the Fund's actual investment exposure with the statutory limits under regulation:

Investment	Statutory limit under regulation	Actual exposure at 31 Sept 2014	Compliant Yes / No
Any single holding	10%	3%	Yes
Unit trusts managed by any one body	35%	24%	Yes
Lending to any one borrower	10%	Nil	Yes
Unlisted securities of companies	15%	Nil	Yes
Any single partnership	5%	3%	Yes
Total investment in partnerships	30%	18%	Yes

Outstanding contractual commitments

3.18 The Brent Pension Fund has not entered into any new investments in private equity/infrastructure since November 2011 and whilst significant capital call payments have been made over the past two years, the outstanding contractual commitments on existing investments continue to remain significant as follows:

	31 March 2012 £'000	31 March 2013 £'000	30 Sept 2014 £'000
Capital Dynamics	77,545	54,077	30,404
Alinda	10,435	10,636	3,231
Yorkshire Fund Managers	1,113	266	0
Total	**89,093**	**64,979**	**33,632**

3.19 These outstanding investment commitments mean that the Fund needs to retain a sizeable cash balance to meet capital call payments as they arise. It also prevents the Fund from moving to its strategic allocations in Property and limits the extent to which any new investments can be considered at the present time.

4. FINANCIAL IMPLICATIONS

4.1 These are included within the report.

5. DIVERSITY IMPLICATIONS

5.1 None.

6. STAFFING IMPLICATIONS

6.1 None.

7. LEGAL IMPLICATIONS

7.1 None.

8. BACKGROUND INFORMATION

8.1 Henderson Investors – September 2014 quarter report
Legal & General – September 2014 quarter report
Dimensional Asset Management – September 2014 quarter report
Baillie Gifford – September 2014 quarter report

9. CONTACT OFFICERS

9.1 Persons wishing to discuss the above should contact the Investment and Pensions Section, Governance and Corporate Services, on 020 8937 1472 at Brent Civic Centre.

CONRAD HALL
Chief Finance Officer

JULIAN PENDOCK
Investment and Pensions Manager

AllenbridgeEpic
investment advisers

QUARTERLY REVIEW PREPARED FOR

Brent Council Pension Fund

Q3 2014

20 October 2014

Peter Davies
AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)

peter.davies@allenbridgeepic.com www.allenbridgeepic.com

This document is directed only at the person(s) identified above on the basis of our investment advisory agreement with you. No liability is admitted to any other user of this report and if you are not the named recipient you should not seek to rely upon it. It is issued by AllenbridgeEpic Investment Advisers Limited, an appointed representative of Allenbridge Capital Limited which is Authorised and Regulated by the Financial Conduct Authority.

We understand that your preference is for your adviser to issue investment advice in the first person. We recognise that this preference is a matter of style only and is not intended to alter the fact that investment advice will be given by AllenbridgeEpic Investment Advisers Limited, an authorised person under FSMA as required by the Pensions Act.

AllenbridgeEpic Investment Advisers Limited is a subsidiary of Allenbridge Investment Solutions LLP.

BRENT COUNCIL PENSION FUND
Quarterly Review, July – September 2014

The Economy

1. The UK economy continued to grow strongly, recording 0.8% growth in the second quarter, with unemployment falling to below 2 million; average wage growth, however, continues to lag the rate of inflation. Growth in the US was strong in Q2, but much of this growth was due to restocking of inventory. The Eurozone slowed further, with even Germany reporting negative growth, while Japan suffered from the after-effects of the April 1 consumption tax increase.

   (In the table below, bracketed figures show the forecasts at the time of the previous Quarterly Review in July)

Consensus real growth (%)					**Consumer prices latest (%)**
	2012	**2013**	**2014E**	**2015E**	
UK	-0.1	+1.7	+3.1 (+3.1)	+2.7	+1.2 (CPI)
USA	+2.2	+1.9	+2.2 (+2.1)	+3.0	+1.7
Eurozone	-0.5	-0.4	+0.8 (+1.1)	+1.3	**+0.3**
Japan	+1.9	+1.7	+1.0 (+1.5)	+1.2	+3.3
China	+7.8	+7.7	+7.3 (+7.3)	+7.0	+2.0

[Source of estimates: The Economist, October 11th, 2014]

2. In early September the European Central Bank announced a further cut in base rate, from 0.15% to 0.05%, and lowered its negative interest rate on central bank deposits to – 0.2%, in a bid to prevent the Eurozone from slipping into deflation. The ECB also said it would start buying asset-backed securities in October, and buy debt from banks. Meanwhile the Bank of England hinted in August that the weakness in UK wage growth could cause a delay in the first rise in UK base rate into early-2015. The subsequent slowdown in CPI inflation, and the weakness of the European economy, have moved this expectation into the second half of 2015.

3. Geopolitical tensions have increased sharply in several different regions. The shooting-down of passenger airline MH17 over Eastern Ukraine on July 17th has resulted in a tightening of the sanctions imposed by the EU and the US on Russia's financial, energy and defence sectors. The rapid advance of Islamic State forces in Iraq provoked a response from the United States in the form of aerial bombing to protect endangered minorities there, and later extended their operations, with regional allies, to Northern Syria. In late September the UK government agreed to join these actions in Iraq, but not in Syria. In Hong Kong, protesters took to the streets for over a week to demand greater democracy in the election of the Chief Executive of the region.

4. The Scottish Referendum on September 18th resulted in a 55-45% defeat for the independence campaign, but extracted promises of enlarged powers of devolution from Westminster. The French Cabinet was dissolved and re-formed without three left-wingers who had resigned because they disagreed with the country's economic policy.

Markets

5. With the exception of the UK and Europe, **equity** markets gained further ground during the quarter, although Emerging Markets went into sharp retreat in September, losing 5%. The market reversal during October is dealt with in para 13 of this report.

	Capital return (in £, %) to 30.09.14		
Weight %	**Region**	**3 months**	**12 months**
100.0	**FTSE All-World Index**	**+2.6**	**+9.0**
53.1	FTSE All-World North America	+5.5	+16.3
8.0	FTSE All-World Japan	+2.3	-0.9
11.6	FTSE All-World Asia Pacific ex Japan	+1.4	+3.4
16.6	FTSE All-World Europe (ex-UK)	-2.9	+2.0
7.6	FTSE All-World UK	-1.8	+2.2
9.2	FTSE All-World Emerging Markets	+2.0	+3.6

[Source: FTSE All-World Review, September 2014]

6. In the UK equity market, the large-cap stocks – as represented by the FTSE 100 index – continued to keep pace with the mid-and small-cap stocks, so that there is now very little difference in their one-year returns.

(Capital only %, to 30.09.14)	3 months	12 months
FTSE 100	**- 1.8**	**+2.5**
FTSE 250	**-2.2**	**+3.2**
FTSE Small Cap	**-1.4**	**+4.1**
FTSE All-Share	**-1.8**	**+2.6**

[Source: Financial Times]

7. Globally, the Technology and HealthCare sectors have been by far the strongest performers over 3 and 12 months, buoyed up by corporate activity in both areas.

Capital return (in £, %) to 30.09.14		
Industry Group	**3 months**	**12 months**
Technology	+8.5	+25.8
Health Care	+8.8	+22.9
FTSE All-World	**+2.6**	**+9.0**
Utilities	-0.2	+8.8
Industrials	+1.6	+7.3
Consumer Services	+3.3	+6.9
Financials	+3.3	+6.8
Telecommunications	+4.0	+5.3
Oil & Gas	-5.2	+5.0
Consumer Goods	+0.5	+3.1
Basic Materials	-1.8	-0.1

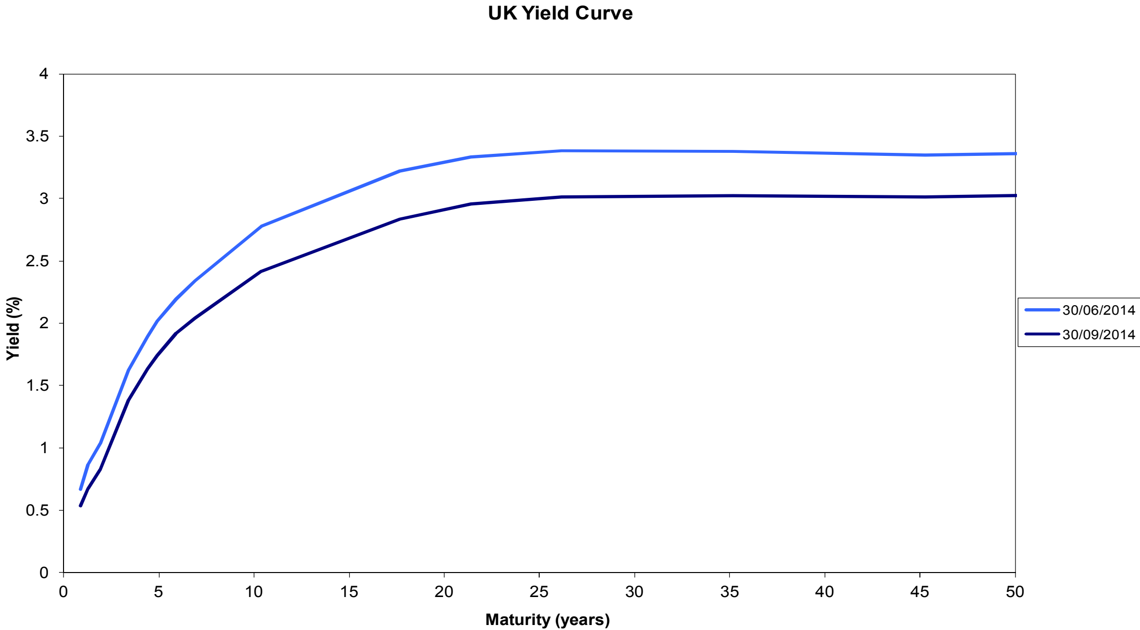
[Source: FTSE All-World Review, September 2014]

8. **Government Bonds** have appreciated, with yields falling on consideration of slower growth and lower levels of inflation, especially in Continental Europe, where 10-year German Bund yields fell below 1%.

10-year government bond yields (%)					
	Dec 11	**Dec 12**	**Dec 2013**	**June 2014**	**Sept 2014**
US	1.88	1.76	3.03	2.52	2.49
UK	1.98	1.85	3.04	2.68	2.43
Germany	1.83	1.32	1.94	1.25	**0.95**
Japan	0.98	0.79	0.74	0.57	0.53

[Source: Financial Times]

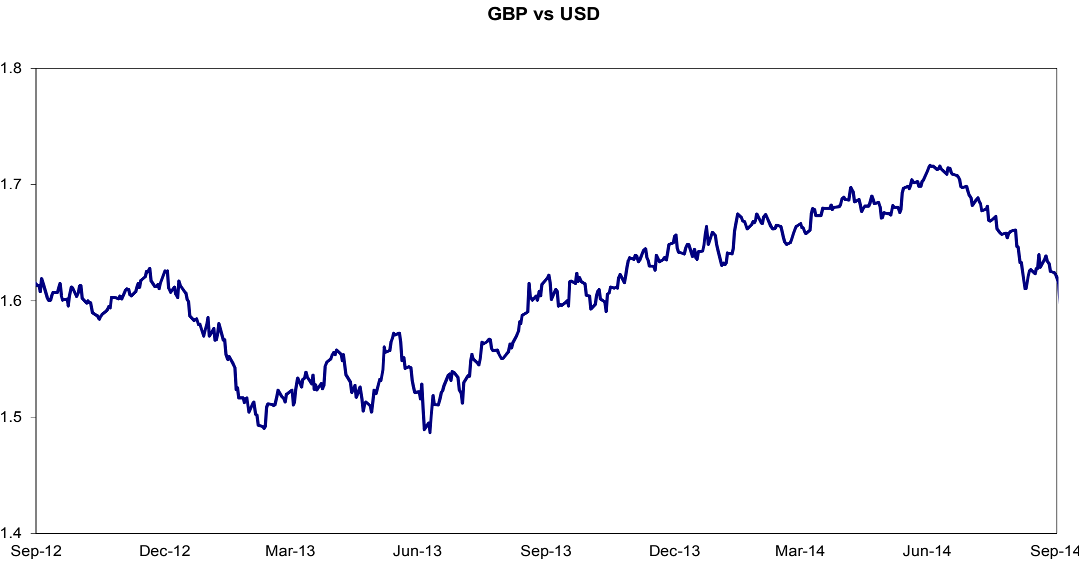
9. In the UK, yields at all durations fell significantly during the quarter, as the graph below illustrates.



Currencies

10. The dollar rebounded sharply against all the other major currencies, in part as a 'safe haven' in the face of the military action in Iraq and Syria and the tense relationship with Russia. The pound weakened ahead of the Scottish referendum when it appeared that the independents would win, and then remained weak when the Bank of England discouraged the idea of an early rise in interest rates.

	30.9.13	30.06.14	30.09.14	£ move 3m	£ move 12m
$ per £	1.619	1.710	1.621	- 5.2%	+ 0.1%
€ per £	1.196	1.249	1.283	+ 2.7%	+ 7.3%
Y per £	158.9	173.2	177.8	+ 2.7%	+11.9%



Commodities

11. The most unexpected development was the weakening of the oil price. The risk of interruption to Iraqi oil production would normally have caused a rise in the oil price, but Iraqi oil continued to flow, and supplies from US and Libya increased. Saudi Arabia also appears reluctant to curb supply in order to maintain prices. The price of Brent crude fell 16% during the quarter, and by a further 9% in the first three weeks of October.

Property

12. The UK Property market maintained its recent rapid rate of growth, with a total return of 4.7% in the third quarter. The IPD UK Monthly Property Index to end-September 2014 shows 12-month total returns of :

All Property	**+19.7%**
Retail	**+ 14.5%**
Office	**+ 25.2%**
Industrial	**+ 24.8%**

Markets since end-September

13. The first three weeks of October have seen greatly increased volatility in equity and bond markets, in contrast to the relative calm since the start of the year. The release of data showing a slowdown in the rate of Chinese growth, and the spectre of recession in the Eurozone, mixed with concerns over the possible spread of the ebola virus to Europe and the US, have combined to create nervousness among equity investors. The moves in the major **equity** markets in the period September 30 – October 17 have been (in local currency):

UK	**All-Share**	**- 4.7%**
US	**Dow Jones**	**- 3.9%**
	S&P 500	**- 4.3%**
France	**CAC 40**	**- 8.7%**
Germany	**DAX**	**- 6.6%**
Japan	**Nikkei**	**-10.1%**

Meanwhile **government bonds** in the four major markets have strengthened, as investors look for security, and as low levels of inflation make the yields obtainable look attractive in real terms. The changes in 10-year yields from those shown in the table in paragraph 8 have been:

US	**- 0.28%**
UK	**- 0.23%**
Germany	**- 0.09%**
Japan	**- 0.05%**

Oil has continued to become cheaper, having fallen by 9% so far in October.

Outlook

14. Equity markets have experienced their first bout of nerves this year, and as is normally the case, there is no single cause for the change of sentiment. The ending of Quantitative Easing by the US Federal Reserve at the end of October has been flagged well in advance, but this has acted as a reminder that one of the safety nets is being removed, and that the US economy may slow down as a result. A sharp fall in the price of oil would usually be welcomed by equity markets, as lowering the cost of a key input, but instead its weakness is seen as a symptom of slowing industrial activity globally. I do not regard recent equity market weakness as the start of a prolonged downturn, but markets may well fall further before regaining their equilibrium.

Peter Davies

Senior Adviser – AllenbridgeEpic Investment Advisers

October 20th, 2014

[All graphs supplied by Legal & General Investment Management]

This page is intentionally left blank