

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Thursday, 24th September, 2009 at 6.30 pm

PRESENT: Councillor Crane (Chair), Councillor HB Patel (Vice-Chair) and Councillors Mrs Bacchus, Detre and CJ Patel

Also Present: Councillors

Apologies were received from: Councillors Brown, Hashmi, Fraser and Patel

1. Declarations of personal and prejudicial interests

There were none at this meeting.

2. Minutes of the previous meeting

RESOLVED:-

that the minutes of the previous meeting held on 23 June and 9 July 2009 be approved as an accurate record of the meetings.

3. Matters arising

The Head of Exchequer and Investment Martin Spriggs reported that the first payment to Alinda (Infrastructure Manager) would be made next week.

4. Deputations (if any)

None.

5. Pension Fund Accounts 2008/09

Members gave consideration to this report which introduced the final Brent Pension Fund accounts for the municipal year 2008/09. The Head of Exchequer and Investment, Martin Spriggs informed the Sub-Committee that the production of the accounts was as a result of the Department for Communities and Local Government (DCLG) regulations introduced in June 2007 which required each Local Government pension fund to produce a separate annual report and accounts. He added that officers had produced a separate Annual Report and Accounts for many years and that the draft 2008/09 Pension Fund accounts was presented to members on 23rd June. The final accounts were attached as part of Appendix 2 to this report. He continued that the DCLG had stipulated that a number of existing documents and detailed new requirements should be included with the report which had not been possible at this stage. The requirements which included contributions for each employee, analysis of pensioners in receipt of enhanced retirement benefits and age profile of members within five year bandings would be added once the relevant CIPFA Guidance had been finalised.

He informed the Sub-Committee that the accounts would be presented to the Audit Committee at which meeting the auditors would be able to comment on the accounts.

RESOLVED:-

that the Brent Pension Fund Accounts for 2008/09 be noted.

6. **Audit Commission Annual Governance report**

The Sub-Committee considered a report that introduced the Annual Governance Report (AGR) issued by the Audit Commission as part of the audit of the Pension Fund Accounts for 2008/09. Martin Spriggs in his introduction stated that this meeting provided members an opportunity for members to pass comments on the AGR to the Audit Committee which would be considering the report later on in the evening. He introduced the representatives from the Audit Commission Andrea White and Shahida Nasim who attended the meeting to present this item.

Andrea White started by saying that the report which summarised the findings from the 2008/09 audit was substantially complete and included the messages arising from her audit of the financial statements. She added that subject to the satisfactory conclusion of outstanding audit procedures identified in her report, she expected to issue an unqualified opinion on the financial statements subsequent to approval of the final statements by the Council. Andrea White continued that a good audit trail was provided to support the financial statements and that minor disclosure errors identified during the course of her audit had been amended by management. She added that the actual fee charged of £38,000 was in line with the indicative fee set out in the Audit Plan issued in March 2009.

Shahida Nasim started by saying that she had not identified any material weaknesses in internal control and that the following errors identified in the financial statement had been amended;

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| Note 6 | Reclassification of lump sum benefits of £46,000 between scheduled bodies and Brent Council. |
| Note 10 | Under opening balances, equities from one fund manager had been disclosed at mid-price rather than bid-price (not in line with SORP), the adjustment resulting in an amendment of £202,000. |

Unquoted investment valued at December 2008 rather than September 2008 had resulted in an overstatement of £5.88 million.

Contractual commitments of £52.3 million relating to potential future investments had not been disclosed.

She also drew members' attention to the main findings including the key areas of judgement and specific audit risk adding that before issuing her statement auditing standards required her to obtain appropriate written representations from the Council about the financial statements. She then referred members to appendix 3 which contained the draft representation from the Council.

Martin Spriggs advised members that it was highly unlikely that the entire £52.3 million would be paid out and that the contractual commitments would put no squeeze on other investments.

RESOLVED:-

That the Audit Commission Annual Governance report be noted.

7. **WM - Annual Performance report 2008/09**

Karen Thrumble from WM attended the meeting for this item. She went into some detail in her presentation on the annual performance of the fund over the last 12 month period. At the start of her presentation she stated that the overall level of Local Authority performance for the year was poor particularly the returns on equities and hedge funds which continued to be the worst performers. It was noted that Brent's fund underperformed the benchmark by about 6% although the asset allocation projected an overall growth of 3.3%. In analysing the underperformance of the fund, Karen stated that whilst the present economic climate played a part, the underperformance was largely due to poor investment strategies of some fund managers. She drew members' attention to the relevant parts in her report that set out the performance of the fund managers for 12 month, 3 and 5 year periods from which it was noted that AllianceBernstein the portfolio manager in overseas equities had the worst performance.

During debate the Independent Investment Adviser, Valentin Furniss stated that in view of the poor performance of AllianceBernstein, consideration ought to be given to monetising their underperformance and possibly having their portfolio. Karen Thrumble in response to members' enquiries emphasised the need for members to ensure to fund managers got the long term investment strategy right and advised that the Council should not panic into changing fund managers at this stage.

Karen Thrumble was thanked for her presentation of the performance report.

RESOLVED:-

that the WM annual performance report 2008/09 be noted.

8. **Report from AllianceBernstein Ltd.**

George Blunden (Director, Client relations) and Adrian Brown (Senior Blend Manager) attended the meeting for this item. At the start of the presentation, George Blundell informed the Sub-Committee that he would be retiring at the end of the year and that his replacement would be introduced to the Sub-Committee at the next meeting when AllianceBernstein (AB) would give a presentation. In reference to their report he outlined the factors that had contributed to the underperformance adding that the economic climate in 2008 gave rise to investor fear which drove down equity prices and led many investors to flee from risks. He continued that aware of the fact that long term fundamentals were the main drivers for security pricing, both teams (Value and Growth) had worked to exploit large opportunities and in his view, outperformance had been restored with improved returns in the second and third quarters of 2009. Adrian Brown added out that the cumulative impact of improvements in business and consumer sentiments, a thaw in credit

markets as debt issuance and credit spread narrowed had led AB to the conclusion that the economy would achieve a modest economic growth level.

The Chair asked the representatives from AB to explain the time cycle between analysing a particular company and taking the results of their analysis into account in buying stocks of that company. Councillor Detre asked the representatives to explain why AB had fared worse than most fund managers, whether it had lost any local Authority mandate as a result and whether it intended to change its investment strategy as a result of its underperformance. In continuation of his enquiry Councillor Detre asked the representatives to justify why Brent should not terminate its mandate with AB. Adrian Brown stated that over the last year the market had been driven by fear and therefore AB's analysis of the market had been destabilised. He continued that AB had lost about 5 or 6 out of 35 Local Authority mandates however AB did not plan to change its investment strategy. He stated that by holding on to them, the stocks would return to "favour" as markets stabilised due to less uncertainty, drawing members' attention to the relevant part of their report on how AB expected to restore Brent's premium. He continued that as the current portfolio was oddly priced he expected earnings to recover as market anxiety reduced, thus enabling AB to outperform the market in about 3 months.

George Blunden and Adrian Brown were thanked for their presentation.

Members discussed in some detail as to whether AB's mandate should be halved or possibly terminated due to its consistent underperformance. Martin Spriggs advised members to consider further monitoring of AB's performance until the end of this year after which period he would submit a report on their performance and setting out options for members' decision.

RESOLVED:-

that the Head of Exchequer and Investment be requested to monitor the performance of AllianceBernstein until 31/12/09 and to submit a report setting out options for members' consideration.

9. **Monitoring report on fund activity for the quarter ended 30th June 2009**

The Sub-Committee received a report that provided a summary of fund activity during the quarter ended 30th June 2009 and examined the actions taken, the economic and market background, and investment performance together with comments on events during the quarter.

Martin Spriggs summarised the main changes that had occurred during the quarter which included £1.74m investment in private equity, £0.75m returned from the fixed interest portfolio each month and £2.5m per month invested in global equities. He added that since the end of the quarter there had also been further investment in private equity of £1m. He drew members' attention to the asset allocation table and individual manager's performance from which it was noted that the fund's returns underperformed the benchmark by 2.7% for the quarter and the average local authority fund by 6.8% over one year. He outlined the main factors that contributed to underperformance against the benchmark.

The Independent adviser Valentine Furniss presented his report to the Sub-Committee. He commented that a sustained recovery in markets was not expected until the final quarter of the year in anticipation of positive increases in respective rates of GDP growth in the first quarter of 2010. He forecasted that rates of GDP growth in the Western Hemisphere countries of the USA, the UK and the Eurozone nations would probably be somewhat weak compared with the more positive growth rates of China, India and other emerging markets. Japanese growth was likely to be distinctly lacklustre. With regard to other asset classes, he stated that fixed interest returns could be flat (with the exception of corporate bonds), the property down cycle would remain and private equity would continue to suffer from both lack of investor interest and a scarcity of liquidity. He continued that infrastructure would remain attractive and that hedge fund of funds should continue to build on their good performances so far in 2009.

RESOLVED:-

that the monitoring report for the quarter ended 30 June 2009 be noted.

10. **Any Other Urgent Business**

None raised at this meeting.

11. **Date of Next Meeting**

The next meeting will take place on Tuesday 24 November 2009 at 6.30pm.

The meeting closed at 9.10 pm

G CRANE
Chair