



LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE Tuesday 7 November 2017 at 7.00 pm

PRESENT: Councillor S Choudhary (Chair) and Councillors Aden, A Choudry and Moher (substitute for Councillor Shahzad)

Also present: David Ewart (Chair of Pension Board), William Marshall (Hymans Robertson LLP), Julian Pendock (Director London CIV) and Euton Stewart (GMB).

Apologies for absence were received from: Councillors Daly, Davidson, Perrin, Shahzad and Hammond (UNISON)

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

None.

2. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 22 June 2017 be approved as an accurate record of the meeting.

3. **Matters arising**

None.

4. **Deputations (if any)**

None.

5. **Implementation of the Markets in Financial Instruments Derivative (MiFID II)**

The Sub-Committee received a report that outlined the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") and in particular the risk to the administering authority of becoming a retail client on 3rd January 2018.

Ravinder Jassar (Head of Finance), informed members that Brent would be classified as a 'retail' investor from 3 January 2018 unless the Sub-Committee agreed to apply for elected professional client status. As a 'retail' investor, the fund's current investment strategy would not be possible. He continued that in order to pursue Brent Pension Fund's current investment strategy, electing to opt up to professional status was essential. In contrast a retail investor would only be able to

pursue a fraction of the investment methods and techniques that a professional investor had access to. It would be therefore inappropriate for Brent Pension Fund, as an institutional investor, with over £800 million in assets to be classified as a retail investor, a prospect which would severely reduce the Fund's ability to improve its funding level to fully funded status. He added that it was expected that all London Boroughs and other Councils which belonged to the LGPS Administering Authorities would elect up to professional investor status.

In welcoming the report, members requested regular updates at their future meetings on the professional client status.

RESOLVED:

- (i) that the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018 be noted;
- (ii) that the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy be agreed;
- (iii) that in electing for professional client status the Sub-Committee acknowledged and agreed to forgo the protections available to retail clients attached as appendix 1 to the report;
- (iv) that delegated responsibility be granted to the Chief Finance Officer for the purposes of completing the applications and determining the basis of the application as either full or single service.

6. **Brent Pension Fund: Annual Report and Accounts 2016/17**

Members received a report that presented the audited Pension Fund Annual Report and Annual Accounts for the year ended 31 March 2017. Members noted the following elements of the audited accounts which Ravinder Jassar (Head of Finance) headlined the salient elements as follows:

- a) Against a backdrop of continued uncertainty in the global economy and volatility in the financial markets, the value of the Fund's net investment assets is £803.6m, up from £675.9m in 2015/16.
- b) Total contributions received from employers and employees totalled £48.5m for the year, an increase on the previous year's £46.3m.
- c) Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, totalled £40.0m, an increase on the previous year's £37.9m, demonstrating a positive cash flow position for the year.
- d) The Pension Fund has recently had its Triennial Review, which set the rates for 2017/18 through 2019/20.

RESOLVED:

That the audited Pension Fund Annual Report and Annual Accounts for the year ended 31 March 2017 be noted.

7. **Monitoring report on fund activity for the quarter ended June 2017**

The Sub-Committee received a report the provided a summary of the Fund's activity during the quarter ended 30 June 2017 and examined the economic and market background, and investment performance, as well as commenting on events in the quarter. In summary, in the second quarter (Q2) of the calendar year, the Fund increased by 1.2% (£9.3m) from £802.7m to £812.0m compared to a 3.5% (£27.3m) increase in the first quarter (Q1). This equates to a 4.7% increase in the value of the fund in the first six months of the year.

Ravinder Jassar drew members' attention to the asset allocation list compared to the benchmark and the investment returns in individual markets. He spotlighted on the cash deposits of £60.4m and clarified that it was being held principally for calls on capital commitments in private equity and infrastructure as well as to re-allocate to other investments. In addition, cash would also be required to fund transfer values in relation to the College of North West London as it has been agreed by their governing body to merge with the City of Westminster College and transfer their element of the Pension Fund to the London Pension Fund Authority (LPFA). This was currently planned for January 2018. He then highlighted the investment returns in individual markets.

Members heard that in fixed income, the Henderson Bond Fund had outperformed the benchmark, primarily due to positive returns from fund holdings in emerging markets and high yield corporates. On UK and overseas Equities, Legal & General funds had performed in line with benchmark figures. European properties with Aviva had considerably out-performed the benchmark in Q2. On private equity, he explained that Capital Dynamics investments were not analysed in this manner as measuring performance of private equity performance against public market indices could be misleading. This was planned to be rectified and officers were seeking to find an alternative comparison methodology. On Infrastructure, Alinda saw another negative return, a trend which was not expected to continue. He stated that officers would continue to monitor their performance in the following quarters in the year. On Pooled Multi Asset, Baillie Gifford had another strong quarter but that Ruffer had poor results. It was understood that to improve future performance, Ruffer would be investing in short term equities against long term bonds as an effective offset and to help the fund respond positively.

In the ensuing discussion, members questioned the performance of Ruffer investment and enquired as to whether this was due to their investment strategy. Conrad Hall, Chief Finance Officer, clarified that the performance could be attributed to short term volatility and added that the investment strategy was based on long term returns over 25 year period which officers considered appropriate.

Peter Davies (Independent Adviser) presented his quarterly report to the Sub-Committee. In his introduction, Peter highlighted the geo-political events, in particular North Korea and the Trump administration, the results of the last UK general elections and the Brexit negotiations and their impact on the global markets. The events made uncertain global market outlook. He drew members' attention to the table in his report which showed that Equity markets were little changed on balance during the quarter, with UK and US indices remaining close to their all-time high levels. Within the equity market sectors, Oil & Gas and

Telecommunications were significantly weak in the quarter, while Technology has become the leading sector over one year, spurred on by the strength of the 'FAANGs' (Facebook, Apple, Amazon, Netflix and Google within the equity market

Against this background, Peter Davies issued a note of caution on equity markets adding that it would be difficult to see equities moving into new high ground, while the 'safe-haven' government bond markets may well attract investors and thereby keep yields in those markets at current levels.

RESOLVED:

That the performance monitoring report and the Independent Financial Adviser's investment report, attached to the main body of this report, for the quarter ending June 2017 be noted.

8. **Update on the London CIV and the fund's investment options**

The report updated members on the London CIV and the timescales attached to making investments within it. In light of the investment options available, scrutiny of the Fund's current investment strategy and asset allocation is also provided. Julian Pendock (Director of LCIV) attended the meeting to provide the update. He informed members that at its recent meeting on 19th October 2017, the Investment Advisory Committee (IAC) of the London CIV updated officers on existing and upcoming investments including equities over the next 12 months. Having showcased all of the equity products available, each needs to be reviewed in more detail to understand which product or mix of products is right for the Brent Pension Fund. Each product has different portfolio constructions, investment processes and philosophies.

Julian Pendock explained that in order to achieve a balanced portfolio, it was proposed to provide the Fund with a diversified set of managers who, when put together, can outperform the broader index. With that in mind, an asset liability modelling exercise to consider the Fund's investment strategy in the context of the 31 March 2016 Actuarial Valuation and experience up to 31 March 2017 would be conducted. The purpose of the exercise was to re-assess the Fund's investment strategy in the context of the Fund's updated liabilities and to ensure appropriateness with the Committee's investment beliefs, views and objectives. The exercise would not delay actions already in train to exit asset classes or investments or future investment opportunities, however, it will make decisions about fixed income more challenging in the short term. Therefore relative weightings between DGFs can also be reviewed during this period. He also provided an update on the work of the Fixed Income Working Group including an investment due diligence exercise with a view to having products for LLAs by October 2018 and outlined the new investment products on offer.

RESOLVED:

That the update on the London CIV and the Fund's investment options be noted.

9. **Minutes of Pension Board**

Members received the minutes of the Pension Board of 26 July 2017. David Ewart highlighted the Board's dissatisfaction with the level of funding, the performance of the pensions administration contractor and in general terms, the complexities of the renewal of the contract. He added that at its next meeting the Board would consider standard reports as well as reports on the above issues.

RESOLVED:

That the minutes of the Pension Board of 26 July 2017 be noted.

10. **Any other urgent business**

None.

11. **Exclusion of press and public**

RESOLVED:

That the press and public be excluded from the remainder of the meeting as the report to be considered contained the following category of exempt information as specified in the Local Government (Access to Information) Act 1972, namely:

"Information relating to the financial or business affairs of any particular person (including the authority holding that information)"

12. **Final cessation valuation**

The report updated the Sub-Committee on the outcome of an employer ceasing to be an employing authority in the Brent Pension Fund. Ravinder Jassar (Head of Finance) gave a detailed account of the circumstances and referenced the actuarial valuation report attached as an appendix to the report, for clarity. He continued that based on advice from the Fund's actuary and Brent's Head of Legal Services, the Chief Finance Officer had accepted the terms set out in the report.

It was expected that further cessation situations would become more frequent, however, the current Funding Strategy Statement allowed for an element of flexibility to address different cessations whilst ensuring a consistent and fair approach to all employers.

Members took comfort in the knowledge that the funding Strategy Statement would address future cessation situations, however, they asked that an updated report be submitted to the next meeting on other employers which officers expected might be in similar situations.

RESOLVED:

- (i) That the final cessation report and the decision taken by the Chief Finance Officer be noted;
- (ii) That the Chief Finance Officer submit a report updating members on other employers which officers expected may be in cessation situations.

The meeting closed at 8.40 pm

S CHOUDHARY
Chair