



LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE Tuesday 26 February 2013 at 6.30 pm

PRESENT: Councillor S Choudhary (Chair) and Councillors Mrs Bacchus, Mitchell Murray, Hashmi, BM Patel, Harrison, George Fraser and Ashok Patel.

Apologies for absence were received from: Councillors Crane and Brown

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

None declared.

2. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 20 November 2012 be approved as an accurate record of the meeting.

3. **Matters arising**

None.

4. **Deputations**

None.

5. **Presentation by Baillie Gifford**

Mr Tom Wright and Mr Chris Murphy, representatives from Baillie Gifford (Diversified Growth Fund Manager) gave a presentation on their performance. Mr Tom Wright informed the Sub-Committee that the current estimate of capacity for their Diversified Growth Fund was £5billion and that the guiding principle of the Diversified Growth Fund was to close the Fund well before it reached its capacity. This was to ensure that Baillie Gifford maintained flexibility in asset allocation as well as retain some capacity for existing clients to make further investments. Mr Wright added that with that principle in mind, the Fund would close to new business enquiries from the end of February 2013.

Members sought the views of the representatives on gold as an asset class and the level of gold holdings in the portfolio. Chris Murphy responded that gold was relatively expensive as an asset class and whilst it was mainly held as a form of insurance, it constituted than less 5% of its portfolio. Councillor Mrs Bacchus enquired about the risk level of the Diversified Growth Fund investment product in

comparison to, say, global equities. Tom Wright explained that the Baillie Gifford Diversified Growth Fund offered an equity-like return but with a lower volatility risk level.

Members heard from Chris Murphy that since inception in June 2012, Brent Pension Fund's initial investment of £27million had grown to £28.547million (5.7%) due to positive performance over the period mainly from emerging market bonds and high yield bonds. This contrasted with listed equities which had negative returns mainly as a result of the level of exposure to volatility in the US stock market. Although Chris Murphy cautioned that the double digit annualised performance was not sustainable over a longer term due to a wide range of possible outcomes for financial markets, he added that by investing across a wide range of assets, Ballie Gifford expected continued moderate global growth.

RESOLVED:

that the presentation on the performance of Ballie Gifford be noted.

6. Presentation by Dimensional

Akbar Ali, Christopher Morgan and Nicholas Evans, representatives from Dimensional, Emerging Market Fund Managers gave a presentation on the emerging markets performance to the Sub-Committee. They gave an overview of the geographical distribution of their global investments adding that despite strong performance the fund performed below benchmark level. Members noted that the initial investment of £35million which fell to £25.896million in 2011 due to state of the then financial markets, had recovered to £33.09million by February 2013.

In analysing the investment climate of the emerging markets, members heard that Dimensional were investing across diversified markets and that the best performing market for the quarter was Turkey which experienced its first investment grade rating in almost two decades, followed by Egypt despite its political unrest. In setting out the emerging markets equity climate, they stated that strong performance of the Chinese stocks helped emerging market of Asia to provide the strongest contribution across the emerging market region. It was also noted that for 2012, there was a significant size premium with small caps out-performing large caps by 4.43%. In response to a member's enquiry, the Sub-Committee heard that Dimensional Emerging Market Fund would achieve the benchmark, judging by the encouraging news about recent performance.

RESOLVED:

that the presentation on the performance of Dimensional Emerging Market Fund be noted.

7. Monitoring report on fund activity for the quarter ended 31 December 2012

The Sub-Committee considered a report that provided a summary of the Fund's activity during the quarter ended 31 December 2012 and examined the actions taken, the economic and market background, and investment performance.

Anthony Dodridge, Head of exchequer and Investments informed members that the Fund had increased in value by £12.0m from £489.0m to £501.0m, and the Fund return of 2.6% was slightly ahead of its quarterly benchmark of 2.4%. The increase in performance had continued into January 2013. He attributed the strong performance to results in Emerging Market Equities, UK Smaller Companies Equities, UK Equities, Fixed Income and Diversified Growth which delivered returns of between 2.9% and 6.2%.

The Head of Exchequer and Investments explained that the Fund return of 2.6% represented an underperformance when compared to the WM Local Authority average fund return of 2.9% for the quarter. This was as a result of Brent's asset allocation with its relatively low exposure to Equities which had a strongly positive quarter and high exposure to Alternatives which performed rather less so. He drew members' attention to the asset allocation table compared to the benchmark and pointed out that Dimensional and Baillie Gifford Funds were both under invested. The Head of Exchequer and Investments recommended that £8million of the monies recalled from Fauchier, following a decision by the Sub-Committee on 25 September 2012, be split between the two funds. Valentine Furniss, the Independent Adviser endorsed this recommendation

Valentine Furniss, the Independent Adviser gave an overview of the UK and global markets. Members heard that the Chancellor of Exchequer's revenue from 4GEE broadband which was far below his expectations would have an impact on the budget, thus the likelihood of the austerity programme being extended for a couple of years. In respect of the US economy, he emphasised the need for a fundamental amendment to the American Constitution that would provide a lasting solution to the fiscal cliff. He pointed out that the IMF's global economic outlook had estimated an acceptable rate of world economic growth in 2013 of 3.5%.

The Independent Adviser predicted that, by the calendar year end, equities would have markedly outperformed fixed interest and corporate bonds and with a possibility of an increased number of corporate mergers and acquisitions. He continued that with poor returns on cash and gradual recovery on property but good yields on emerging markets and equities, he endorsed the recommendation to re-allocate funds to Baillie Gifford and Dimensional to increase the level of the Fund's investment

RESOLVED:

- (i) that the investment report be noted.
- (ii) that an additional £8m funds split equally between Baillie Gifford and Dimensional Emerging Market Fund be approved.

8. Statement of investment principles review

The Sub-Committee considered a report that provided an update on the review of Brent Pension Fund's Statement of Investment Principles (SIP) in compliance with the Local Government Pension Scheme (Management and Investment of Funds) regulations 2009.

In setting the background to the report, Anthony Dodridge, Head of Investments and Exchequer informed members that the review was prompted most recently by a request from the Health Partnerships Overview and Scrutiny Committee at their meeting of 18 July 2012 for the Brent Pension Fund Sub-Committee to reconsider the Fund's approach to investments in tobacco firms.

He reminded the Sub-Committee about its decision at its last meeting that the Fund's Statement of Investment Principles should be amended to state that no direct investments would be made in tobacco firms but that the appointed fund managers should not be fettered in their management of indirect or pooled investments. The Head of Exchequer and Investments informed members that Brent Pension Fund had delegated to the external investment managers the responsibility for taking social, environmental and ethical considerations into account when assessing the financial potential and suitability of investments. In reiterating the recommendation for approval the Head of Exchequer and Investments drew members attention to the appendix attached to the report, paragraphs 36 to 38 under the heading 'Responsible Ownership'.

RESOLVED:

that the updated Statement of Investment Principles be approved.

9. **Any other urgent business**

None.

10. **Date of next meeting**

The date of next meeting will be confirmed at the Annual meeting of the Council in May 2013.

11. **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 a category of exempt information as specified in Schedule 12A of the Local Government (Access to information) Act 1972, namely;

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

12. **Actuarial contract**

The Sub-Committee received a report which outlined the recent changes in the Fund's actuary and confirmed that the targeted cost savings had been achieved.

RESOLVED:

that the report be noted.

13. **Review of asset allocation**

The Sub-Committee considered a report which outlined the recent changes made to the Fund's investment strategy with a view to identifying an optimal asset allocation to obtain the best investment returns within the context of acceptable risk parameters.

RESOLVED:

- (i) that the Brent Pension Fund's past investment performance relative to some of the top performing LGPS funds be noted;
- (ii) that the recent actions taken to improve the Fund's investment returns be noted;
- (iii) that the proposed revisions to the Fund's asset allocation as outlined in the report from the Deputy Director of Finance be approved.

The meeting closed at 8.30 pm

S CHOUDHARY
Chair