



LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE Tuesday 19 November 2013 at 6.30 pm

PRESENT: Councillor S Choudhary (Chair) and Councillors Arnold, Brown, Hashmi, Hector (alternate for Crane), Oladapo (alternate for Mrs Bacchus), BM Patel and George Fraser

Apologies for absence were received from: Councillors Crane, Mrs Bacchus and Ashok Patel

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 7 October 2013 be approved as an accurate record of the meeting.

3. **Matters arising**

None.

4. **Deputations**

None.

5. **Monitoring report on fund activity for the quarter ended September 2013**

Members considered a report that provided a summary of the Fund's activity during the quarter ended 30 September 2013. In highlighting the Fund's main activity in the quarter, Anthony Dodridge, Head of Exchequer and Investment informed members that the Fund had increased in value by £7.6m from £540.8m to £548.4m during the quarter ended 30 September 2013 and the Fund's return of 1.5% underperformed its quarterly benchmark of 2.5%. Following the quarter ended 30 September 2013, the Fund had continued to increase in value by an estimated £12.9m to £561.3m during the month of October 2013

Members heard that the main negative relative performers compared to benchmark were private equity and infrastructure. He continued that the 12-month return as at 30 September 2013 continued to remain in double-digit territory at 11.0%, albeit lagging behind its 12.1% benchmark. The Head of Exchequer and Investment

informed members that the Fund return for the 3 years ended 30 September 2013 was an annualised 6.5% p.a., which was identical to its long term investment return target of 6.5% p.a.

Peter Davies, Independent Adviser to the Fund presented his quarterly report to the Sub-Committee. Members heard that the UK economy grew by 0.7% in the second quarter with all areas of the economy contributing. Together with positive industry surveys, this caused a sharp increase in forecasts for growth in 2013 and 2014 to 1.4%. The second-quarter growth in the Eurozone turned positive for the first time in six quarters. The Japanese and Chinese economies also maintained their growth levels, although there had been slight reductions in the outlook for the United States and the Emerging Markets.

The Independent Adviser continued that equities had risen by some 5% in July, but most of this gain had been lost by the end of August, partly on fears that the chemical attacks in Syria would provoke military intervention by the Western powers. Within the UK Equity market, the medium- and small-cap sectors continued to outpace the FTSE 100 stocks by a wide margin. Provided the US situation is resolved soon, the improving economic outlook in the UK and Europe should underpin equity markets there, while the eventual start of tapering by the Federal Reserve was likely to cause US bond yields to move higher.

In response to Members' questions, the Independent Adviser stated that it was unlikely that interest rates would be raised within the foreseeable future for fear that a rise in rates could depress spending and growth. Members also heard that there had been very little changes in the bond and currency markets.

RESOLVED:

That the quarterly investment report for the period ended 30 September 2013 be noted.

6. London pension fund collaboration

The Sub-Committee received a report that sought their support to investigate and establish collective investment vehicle (CIV). Anthony Dodridge, Head of Exchequer and Investment explained that the establishment of CIV which was being led by Wandsworth Council was a voluntary structure which would harness the joint purchasing power of participating boroughs. He stressed that participating boroughs in the CIV would retain their autonomy in asset allocation and funding strategy whilst providing them with a wide choice of funds within each asset class, selection of fund managers, negotiation and monitoring of fee and service level. As each participating authority was expected to commit up to £25,000 towards meeting the cost of creating such a London-wide vehicle he suggested that authority be delegated to the Chief Finance Officer to approve such expenditure up to a limit of £25,000.

In the discussion that followed, Members enquired as to whether the financial commitment would be borne by the Council or the Fund and whether officers had given any thoughts to the prospect of less than thirty three London boroughs committing to join the scheme. Officers were also asked to clarify the implications of CIV on member control and autonomy.

Conrad Hall, Chief Finance Officer confirmed that the expense of up to £25,000 towards the investigation and establishment of a CIV would be borne by the Fund. Members heard that all London boroughs were working towards committing to the CIV and that if that was not the case, the decision to proceed would be reviewed. He continued that CIV would provide an expedient way of enhancing investment objectives of the Fund without undermining member control and autonomy.

RESOLVED:

that the investigation and establishment of a collective investment vehicle (CIV) be supported and that delegated authority be granted to the Chief Finance Officer to approve expenditure relating to the investigation and set up costs of the CIV up to a limit of £25,000.

7. Use of alternative indices

At its meeting of 25 June 2013, members of the Sub-Committee received a presentation on alternative indices by Legal & General. Following the presentation, members decided that the Head of Exchequer and Investment would produce a follow-on report to the Sub-Committee on the use of alternative indices and any recommendations in relation to the Fund.

Anthony Dodridge, Head of Exchequer and Investment informed the Sub-Committee that the growing interest in alternatively weighted index funds, most notably the Research Affiliates Fundamental Index 3000 (RAFI) Index was the prompt for the presentation by Legal and General to the Pension Fund Sub-Committee meeting. Members heard that in each of the last three calendar years of 2011, 2012 and 2013 the RAFI 3000 Index did not outperform the standard FTSE All World Index and indeed, the RAFI 3000 Index performance was marginally worse than its mainstream counterpart. In addition, the licence fee for RAFI Index would be a substantial addition to the existing management fees.

The Head of Exchequer and Investment advised that the case for Brent Pension Fund using an alternatively weighted index seemed unconvincing based on the information available and would only serve to further complicate an already relatively small but complex Fund.

RESOLVED:

That the report on the use of alternative indices be noted.

8. Date of next meeting

It was noted that the next meeting would take place on Tuesday, 25 February 2014 at 6:30pm

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;

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

11. **2013 Actuarial Valuation of the Brent Pension Fund**

The Committee received a report which introduced and summarised the contribution strategy which would underpin the triennial valuation of the Fund's assets and liabilities due to be signed off in March 2014. Douglas Green and Julie Morrison, representatives of Hymans Robertson, the Fund's actuary gave a detailed presentation on the methods and assumptions of the contribution strategy and their provisional findings of the triennial valuation. This was a requirement under regulation 36 of The Local Government Pension Scheme (Administration) Regulations 2008.

RESOLVED:

that the method and assumptions of the contribution strategy for the Brent Pension Fund triennial valuation be approved.

12. **Annual review of fund managers' fees**

The Sub-Committee considered a report from the Chief Finance Officer that provided an update on investment management fees incurred by the Brent Pension Fund. Members heard that on-going savings were being achieved as a result of the successfully negotiated reduction in fund managers' fees and changes to the Fund's investment portfolio. Anthony Dodridge, Head of Exchequer and Investment advised the Sub-Committee that from December 2013, Brent's average fee rate would be lower than those paid by a representative sample much larger Local Government Pension Scheme (LGPS) funds with similar mandates. It was also comparable to a peer group of 20 large international pension funds from the US, Canada and Europe. This provided members with reasonable assurance that fees were as low as can be expected.

RESOLVED:

that the report on annual review of fund managers' fees be noted.

13. **Review of Additional Voluntary Contributions paid by Fund members**

The Sub-Committee received a report which outlined the findings and recommendations arising from of a recent independent review of the Additional Voluntary Contribution (AVC) arrangements undertaken by Hymans Robertson, the Fund's actuary. Anthony Dodridge, Head of Exchequer and Investment informed

members that following a review by the Fund's actuary, a number of shortcomings as set out in the report were identified with the present provider.

The Head of Exchequer and Investment therefore proposed the appointment of Prudential as the Brent Pension Fund's AVC provider in respect of new fund members who wished to make AVCs, with existing fund members being allowed to either continue with Clerical Medical or transfer their AVC investment arrangements to Prudential. These views were echoed by Andrew Gray, Pensions Manager and Mildred Phillips Head of Transactional Services. For the avoidance of doubt and in order to ensure clarity, the Sub-Committee emphasised the need for the Council's Pensions' Team to communicate the changes to the Fund's members.

RESOLVED:

- (i) that Prudential be appointed as the Fund's AVC provider;
- (ii) that the Council's pensions team should communicate the changes to the Fund's members.

The meeting closed at 8.25 pm

S CHOUDHARY
Chair