LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Tuesday, 23 February 2010 at 6.30 pm

PRESENT: Councillor HB Patel (Vice-Chair) and Councillors Mrs Bacchus, Hashmi and Patel together with Ashok Patel (non-voting co-opted member)

Apologies for absence were received from: Councillors CJ Patel and Fraser

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

   None.

2. **Minutes of the previous meeting held on 24 November 2009**

   RESOLVED:-

   that the minutes of the previous meeting held on 24 November 2009 be approved as an accurate record of the meeting.

3. **Matters Arising**

   None.

4. **Deputations (if any)**

   None.

5. **Report from AllianceBernstein Ltd.**

   The Sub-Committee welcomed Anthony Bor (AB - Senior Portfolio Manager) and Douglas Stewart (DS - Director of Client Relations) of AllianceBerstein to the meeting. AB pointed out that the fund returned 4.8% in the fourth quarter, and 28.1% for the year ended December 2009. He continued that the absolute return for the year was -4.2% since inception. It is apparent that Alliance are performing better for Brent in absolute terms, but worse in relative terms, than they are for other clients. The house is in discussion with the Head of Exchequer and Investments to resolve the problem. With reference to their report previously circulated, AB stated that AllianceBernstein had continued to improve on performance despite market uncertainties and investor scrutiny for quality portfolio.

AB added that the market research arm of AllianceBernstein had continued to be one of the main drivers of their stock selection. He pointed out that their holdings in healthcare were growing faster than either the sector benchmark or the benchmark as a whole, citing as an example the performance of Fresenius, a market leader in medical care and dialysis. In response to questions, AB added that they were aware of the risks and the performance of UK equities, He expressed a view that that despite a massive quantitative easing to support world economies, the market remained a difficult one.

The Sub-Committee thanked AB and DS for their presentation.

RESOLVED

That the report from AllianceBerstein be noted.

6. **Report from Mellon Global Investors**

The Sub-Committee welcomed the following representatives of Mellon Capital to the meeting: Jonathan Lubran (JL - Executive Director of Institutional Business), Tom Salopek (TS - Senior Portfolio Strategist) and Martin Campbell (MC - Head of UK Local Authority Business). With reference to the report from Mellon Capital circulated at the meeting, JL pointed out that Mellon Capital had achieved an excellent increase in performance over the year ending December 2009, and were looking to recover previous underperformance. He continued that Mellon Capital's value method was robust enough to enable it to deliver strong returns despite volatilities in world economies. TS said that market volatilities were a source of incentive for forward looking disciplined investors. Outperformance had been driven by a number of sources of extra return.

The Sub-Committee thanked Mellon for the presentation.

RESOLVED:

That the report from Mellon Capital be noted.

7. **Audit Commission - Outline of 2009/10 audit of the Pension Fund**

Paul Viljoen (PV) from the Audit Commission (the Commission) attended the meeting to present an outline of work to be undertaken as part of the 2009/10 audit of the Pension Fund. PV stated that the audit plan would be based on the Audit Commission's (risk based) approach to audit planning which would assess current national and local risks and improvement priorities. The fee for the audit as indicated in the Commission's letter of 23 April 2009 would be £38,475. This figure assumed that the level of risks would not be significantly different from that identified when planning for the 2008/09 audit.

PV outlined the main risks areas as follows: unquoted investments where there were risks around accurate valuation at year end; investment commitments where there were risks regarding completeness of disclosures in the accounts; and the requirement to ensure that Pension Fund accounts complied with the Statement of Recommended Practice (SORP). He drew members' attention to the deadlines as set out in the report starting from the preparation of accounts by 30 June 2010 and ending with the issuing of the Audit Commission's opinion by 30 September 2010.

The Sub-Committee thanked PV for his presentation.

RESOLVED

That the report on the Audit Commission's outline of 2009/10 audit of the Pension Fund be noted.

8. **Monitoring report on fund activity for the quarter ended 31 December 2009**

The Sub-Committee received a report that provided a summary of fund activity during the quarter ended 31st December 2009. The report also examined the actions taken, the economic and market background and investment performance together with comments on events in the quarter. In outlining the main points within the report, the Head of Exchequer and Investments Martin Spriggs (MS) stated that the Fund had grown in value from £418m to £431m and outperformed its benchmark over the quarter by 0.4% mainly as a result of its improved performance in equities, fixed interest and hedge funds. The Fund underperformed the average local authority fund (-0.1%), as a result of lower exposure to equities. Over one year, the Fund had underperformed its benchmark (-1.1%) mainly as a result of poor returns in private equity and underperformed the average fund (-2.1%) as a result of lower exposure to equities

MS highlighted the main changes during the quarter which included £7.6m invested in private equity and £0.5m in UK property. Since the end of the quarter there had also been further investment in private equity (£1.1m) and infrastructure (£0.6m), and sales of UK equities (£5.2m). He added that although the Fund was currently overweight in UK equities and underweight in overseas equities and property, appropriate steps were being taken to correct any imbalance.

Valentine Furniss (Independent Adviser) gave an overview on the economic and market background. He commented that data in January confirmed that the economies of the principal industrialised countries, except the UK, had recovered at a pace that could not have been envisaged a year ago. He continued that against this optimistic background, concerns were being expressed about the size of the fiscal deficits of those countries whose economies were boosted by continuing quantitative easing programmes. He commented that investors and economists would continue to watch out for the possibility that interest rates would have to rise, that inflation may re-emerge and that high rates of unemployment may continue for longer than expected. He drew members' attention to a sobering assessment contained in a warning by the International Monetary Fund (IMF) that the industrialised world could face 10 years of spending cuts and tax rises and that public finances could experience a decade of contraction.

RESOLVED:-

that the report from the Head of Exchequer and Investment be noted.

9. **Henderson Global Investors - Proposals to change UK Gilt Benchmark**

The Sub-Committee gave consideration to a report that examined the UK government gilt benchmark used by Henderson Global Investors (HGI). The Head of Exchequer and Investments reminded members about their decision at the last meeting to defer a decision on advice from HGI to amend the government gilt benchmark within the core portfolio.

He outlined the fundamental reasons why the gilt market may be changing and long term bull market may be ending. HGI expected longer term rates to rise as the UK government issued more gilts, quantitative easing ended and attempts were made to encourage overseas buyers to purchase UK debt. HGI expected the longest dated (over ten years, up to fifty years) to be worst affected as rates rose and prices fell fairly sharply. He added that the HGI view was based on assumptions set out in the report.

RESOLVED:

that the government gilt benchmark within the core portfolio be amended from the Over 15 year gilt to the average length gilt (15.2 years) in the FTSE All Stocks index as suggested by HGI.

10. **European Witholding Tax - Appointment of KPMG**

The Sub-Committee gave consideration to this report which detailed work commissioned to reclaim additional European withholding tax from various states. MS said that withholding tax was levied on dividends paid by companies within the jurisdiction of most European countries. MS informed members that Brent had signed up with KPMG to undertake the reclaim on behalf of the Council in view of their (KPMG) vast experience in this area of work and the danger of losing potential recoveries if claims were not registered. It was anticipated that the claims may amount to around £600,000, the exact amount being dependent on the extent of legal action, retrospection, records of holdings and tax withheld. The fees payable were an initial £29,500, plus a share of costs if legal action was required.

RESOLVED

That the report be noted.

11. **Any other urgent business**

None raised at this meeting.

12. **Date of next meeting**

RESOLVED

To note that the date of the next meeting would be confirmed at the Council's Annual meeting in May 2010.

The meeting closed at 8.50 pm

G CRANE
Chair