

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE

Tuesday 23 June 2009 at 6.30 pm

PRESENT: Councillor Crane (Chair), Councillor H B Patel (Vice Chair) and Councillors Bacchus, Detre, Hashmi and C J Patel.

ALSO PRESENT: Valentine Furniss (Independent Adviser), Duncan McLeod (Director of Finance & Corporate Resources) and Martin Spriggs (Head of Exchequer and Investment).

1. **Declarations of Interest**

None declared.

2. **Minutes of Previous Meeting**

RESOLVED:

that the minutes of the meeting held on 3 March 2009 be approved as an accurate record.

3. **Matters Arising**

Item 4 – Report and Presentation from Henderson Global Investors

Martin Spriggs (Head of Exchequer and Investment) reported that the appointment for Infrastructure Manager would take place on Thursday 9th July 2009 at 9.30am. The report for the meeting marked private and confidential had been sent to members only.

3. **Monitoring Report on Fund Activity for the Quarter Ended 31 December 2008**

Martin Spriggs introduced the summary of fund activity during the quarter ended 31st March 2009 and answered questions from members. Martin Spriggs stated that the fund had outperformed its benchmark over the quarter (0.7%) mainly as a result of asset allocation, the termination of the currency mandate and overweighting of hedge fund and private equity exposures. The Fund outperformed the average local authority fund (1.5%) as a result of similar issues. Over one year, the Fund underperformed its benchmark (-5.0%) and the average fund (-6.1%) as a result of poor manager performance in fixed interest, global equities, currency and GTAA. He added that although the GDP had shrunk and interest rates were expected to remain low, there were signs that the economy had 'bottomed out' in March/April, but recovery was expected to be slow. He continued that equity markets had risen during April and May as investors focused on low share prices and the possibility that the worst falls of the recession may have occurred. Martin Spriggs then gave a summary of fund managers' outlook.

Valentine Furniss (Independent Adviser) briefed members on the economic and market background. He commented that the UK and global economies should begin to recover in the first quarter of 2010 and this should be reflected in the market place in the final quarter of

2009. He stressed that, although most markets had demonstrated recent and worthwhile recoveries, the underlying economies they represented remained shaky. The Independent Adviser was of the view that when economies eventually recovered the leaders were likely to be the USA and Germany in the Western Hemisphere and China and certain emerging markets in the Eastern Hemisphere

RESOLVED:

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

4. **Report and Presentation from Henderson Global Investors (HGI)**

Kevin Adams (Head of Institutional Fixed Income) and Mark Fulwood (Client Director) introduced the presentation and answered questions from members on HGI, fixed income market review, Brent portfolio and fixed income market outlook. In respect of fixed income market review, they informed that for the 6 months to 31 March 2009, market returns had been below the average mainly due to weaknesses in the banking sector. They continued that for the 2 months to 31 May 2009, the trend had been reversed with secured loans adding value. Members noted that the fund value had fallen from £78.8m (31 December 2008) to £75.9m (31 March 2009) but by 31 May 2009 it had risen to £77.8 million. They clarified that the key activities that impacted on Brent's portfolio were secured loans, credit and holdings in UK and US inflation-linked portfolio. They also reported that policy actions taken to address the current economic difficulties appeared to have averted a 1930's style depression and although there were green shoots of recovery they were scant and the rate of growth was not fast.

In answer to a member's question on the portfolio's performance below the benchmark for the quarter, Mark Fulwood stated that the figures were largely due to unexpected events arising from secured loans and indiscriminate selling. In response to questions by the Director of Finance & Corporate Resources on private finance initiatives (PFI), the representatives confirmed that HG had put in place measures which would prevent the recurrence of problems encountered with PFI schemes. They added that the investment with J Laing was sound and that HGI were in close consultation with pension fund trustees

The Chair thanked HGI for their report and presentation.

RESOLVED:

that the report from Henderson Global Investors be noted.

5. **Report and Presentation from Blackrock Investment Management**

Pete Rosenbauer, Honor Solomon, Catriona Allen and Ashok Parekh introduced the presentation and answered questions from members on Blackrock's offer to purchase Barclays Global investment (BGI), changes within the company including support for existing teams, a review of the market, performance, and the outlook for the future. Pete Rosenbauer informed members that the acquisition would bring

together two market leaders to create an extraordinary investment platform with ability to develop investment solutions for clients.

Catriona Allen informed members that the European economy was still in a recession with banking and financials in turmoil against the backdrop of limited and expensive credit availability. She added that the European real estate market remained weak and challenging with rising vacancies and falling rents. In contrast, the UK direct real estate markets were beginning to show signs of yield stabilisation and was expected to recover in 2010.

In responding to questions from the Sub-Committee, Peter Rosenbauer confirmed that Blackrock would concentrate on ensuring that the interest of clients was paramount. He continued that a well resourced team with full support would be in place to ensure that investment continuity and focus did not suffer.

The Chair thanked Blackrock for their report and presentation.

RESOLVED:

that the report from Blackrock Investment Management be noted.

7. Pension Fund Accounts for 2008/09

Director of Finance of Finance and Corporate Resources Duncan McLeod introduced the draft Pension Fund accounts for 2008/09 and the revised external audit arrangements. This was in accordance with 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 continued that the Accounts included a number of new and existing requirements as set out in the report and drew members' attention to the draft 2008/09 Accounts (appendix 2) and the Audit Plan and Fee letter (appendices 3 and 4). He added that this was in compliance with the Audit Commission's requirement for a separate audit plan and fee in view of the scale and complexity of pension fund activity. The auditor would probably attend the Sub-Committee's meeting in September.

RESOLVED:

that the pension fund accounts for 2008/09 and the audit arrangements be noted.

8. Review of Myners' Investment Principles

Martin Spriggs (Head of Exchequer and Investment) introduced this report which set out the revised Investment Principles and the progress of the Brent Pension Fund in meeting them. Martin Spriggs advised that there were a number of areas that may require further attention. These included effective decision making, whether active or passive management was more appropriate for particular investments and the effectiveness of advisers and investment managers.

He continued that the revised principles, and compliance with them, would continue to be published as part of the Statement of Investment Principles. The decision to assist learning and development by occasional afternoon seminars, additional evening training sessions and the inclusion of training items on the agenda for future Sub-Committee meetings would be pursued. Martin added that although Brent currently used passive management in the in-house UK FTSE350 portfolio, and active management elsewhere, the problems experienced by both the current and previous global equity managers in underperforming global equity indexes may require re-examination of the active / passive issue if performance did not improve. He also added that the effectiveness of the advisers, the investment managers and the Sub-Committee would continue to be the subject of regular reports.

RESOLVED:

that the revised Myners Principles of Investment and the Brent Pension Fund's compliance with them be noted.

8. **Business & Training Plans for the Pension Fund Sub-Committee**

Members had before them a report from the Director of Finance and Corporate Resources that outlined the planned activities of the Pension Fund Sub Committee for the year to February 2010, and the three years to February 2012.

Martin Spriggs reviewed the business plans for the year 2008/09 which he said had been delivered with the exception of a review of the Statement of Investment Principles. He drew members' attention to the Business Plan for 2009/10 that covered both regular and other reports / work areas that were anticipated during the year. In giving a broad outline of the business plans for future years, Martin Spriggs stated that the period 2010/11 would consider new investment opportunities, the actuarial valuation and the review of the provision of additional voluntary contributions. In the period 2011/12, there would be reviews of both the actuary and asset allocation. He added that the plan would give a framework to ensure that long-term issues and other issues that may arise over the three year period were considered

RESOLVED:

that the business and training plans for the Brent Pension Fund be noted.

8. **Investment Management Fees**

The Sub-Committee received a report from the Director of Finance and Corporate Resources that detailed the investment management fees paid by Brent Pension Fund and examined possible options for change. The Head of Exchequer and Investment, Martin Spriggs clarified the two main fee structures used in paying investment managers appointed by the Fund: ad valorem and performance based. He outlined the main

advantages and disadvantages of each fee structure adding that a particular fee structure was unlikely to be the key to performance. He continued that an investment manager's performance was likely to be determined by factors including investment approach, team, market cycle and research.

In the discussion that followed, members expressed a view to in favour of a performance based fee structure.

RESOLVED:

that the report on investment fees be noted.

9. **Date of Next Meeting**

It was noted that a special meeting for the appointment of Infrastructure Manager would take place on Thursday 9 July 2009 at 9.30am. The next ordinary meeting of the Sub-Committee would take place on Thursday 24 September 2009 at 6.30pm.

10. **Any Other Urgent Business**

None.

The meeting ended at 8.55 pm.

GEORGE CRANE

Chair