LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Tuesday, 28 June 2011 at 6.30 pm

PRESENT: Councillor S Choudhary (Chair), and Councillors Bacchus, Crane, Mitchell Murray, Brown, Hashmi and BM Patel

Clive Heaphy (CH - Director of Finance and Corporate Services), Martin Spriggs (MS - Head of Exchequer & Investment), Andrew Gray (AG – Pensions Manager) and Valentine Furniss (VF - Independent Adviser) were also present.

Apologies were received from: George Fraser

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

2. **Minutes of the previous meeting held on 1 March and 23 March 2011**

RESOLVED:-

(i) that the minutes of the previous meeting held on 1 March 2011 be approved as an accurate record of the meeting

(ii) that the minutes of the meeting held on 23 march 2011 be approved as an accurate record subject to the following amendments in minute 9 paragraph 3;
Insert “and autumn” before 2011 (line 2)
Delete “should grow” and replace with “would grow slowly” (line 7)

3. **Matters arising**

In respect of minute 8 of the meeting held on 23 March, the Chair commented on the poor performance of Gartmore Investment Managers and enquired as to whether it was appropriate for the its current key staff to be retained and to maintain an unchanged investment approach. MS explained that the fund managers who ran the UK and Irish Small Companies Fund had actually outperformed and that we were keen that they should be retained.

Martin Spriggs advised the Sub-Committee that investment in the pooled emerging markets fund managed by Dimensional Fund Advisers would occur in July 2011.

4. **Deputations (if any)**

None.

5. **Report from Legal & General Investment Managers**

Representatives from Legal and General Investment Management, Helen Gaukrodger (HG - Client Relationship Manager) and Julian Harding (JH - Director, Index Funds) attended the meeting and gave a presentation on the funds mandate and its valuation.

HG informed the Sub-Committee that the pooled funds had a team of specialists monitoring closely to ensure that composition and performance were close to the benchmark. She pointed to the summary of activities and valuation to show that the performance for world developed and emerging markets met the benchmark inclusive of transaction costs for the period ending 31 May 2011.

In presenting an outlook for the future, JH stated that world economic growth would be sluggish chiefly due to high oil and commodity prices and the events in Japan, a picture which would be mirrored in the UK. He did not expect interest rate rises in UK until sometime next year, and expressed a pessimistic view on the Greek economy.

Helen Gaukrodger and Julian Harding were thanked for their presentation, and for the training session immediately before the sub-committee meeting.

RESOLVED:

that the report by Legal and General Investment Management be noted.

6. **Report from Mellon Asset Management**

Jonathan Lubran (JL - Executive Director of Institutional Business) and Tom Salopek (TS - Senior Portfolio Strategist) attended the meeting. JL informed members that since July 2007, £29m had been invested in Global Tactical Asset Allocation (GTAA) management through a limited liability offshore pooled vehicle with 20% target rate of return. He clarified that the GTAA strategy sought to exploit relative mis-valuations in stock, bond and currency markets both within and across the major developed economies using a quantitative process.

TS stated that the fund had outperformed during the first quarter of 2011. He added that the global economy was recovering, although the situation in Europe was of some concern. TS informed members that Mellon saw significant opportunities in 2011 yet remained aware of the macro risk factors.

With reference to the poor performance figures in 2007/08, CH asked if Mellon's investment signals had been improved. JL explained that Mellon now used eight signals, instead of the four that had been in use, and that these were forward looking and considered market sentiment. The signals had been backtested to 2007, and indicated that losses would have been reduced significantly had they been in use. He added that the signals require interpretation – they can contradict each other. The value of the individual signals can vary over time – market sentiment does not always predominate.

JL and TS were thanked for their presentation.

RESOLVED:

that report by Mellon Asset Management be noted.

7. **Pensions Administration Contract**

AG informed members that the Executive had approved proposals for the council's participation in a collaborative procurement exercise with other boroughs for a pensions administration contract. Members noted that the Tender Evaluation Panel identified Capita Hartshead as submitting the most economically advantageous tender.

AG highlighted the potential efficiencies and financial savings to local authorities that Framework contracts represented, adding that further economies of scale and savings could be achieved as more councils joined. AG added that the annual savings as a result of the new contract would be £59,421.

RESOLVED:

that the migration of the pension service to a new contractor, Capita Hartshead, be noted.

8. **Monitoring report on fund activity for the quarter ended 31st March 2011**

Members considered the report which provided a summary of fund activity during the quarter ended 31st March 2011 as well as examining the actions taken, the economic and market background, investment performance and the economic background. MS informed members that the Fund had risen in value from £476m to £486m, and outperformed its benchmark over the quarter (+0.3%) as a result of stock selection (outperformance in bonds, infrastructure, GTAA and private equity). The Fund also outperformed the average local authority fund (+0.3%), mainly as a result of good returns in infrastructure and GTAA. Over one year, the Fund has equalled its benchmark (+2.1%) but had underperformed the average fund (-1.5%) as a result of lower exposure to equities / higher exposure to alternative assets and poor performance in global equities, hedge funds and private equity, offset by good performance in GTAA, infrastructure and UK small companies.

He outlined the main changes to the Brent Fund that had occurred during the quarter and since quarter end. He noted Henderson Global Investors had completed the takeover of Gartmore Investment Management, and that the transfer of emerging market equity investment from LGIM to Dimensional Fund Advisers was expected to occur early in July.

VF circulated an updated paper on index returns for the period 31 March to 23 June 2011. He highlighted the volatility of the market and added that inflation would continue to rise due to rising food, oil and gas prices, the increase in Value Added Tax to 20% and the impact of quantitative easing (QE). He added that interest rates may have to rise, but that would result in anaemic growth as retail trade suffered and unemployment levels continued to rise. VF emphasised that the Fund should embrace globalisation.

RESOLVED:

that the monitoring report for the quarter ending 31 March 2011 be noted.

9. **Business and Training Plans for 2010/11 and Business Plans for 2012/14**

MS introduced the report that outlined the planned activities of the Pension Fund Sub Committee for the year to February 2012, and the three years to February 2014. He advised members that the Business Plan for 2009/10 had been delivered with the exception of reports on pension fund administration and a review of Additional Voluntary Contribution (AVC arrangements which had been put back to 2011). Additional reports had been delivered on other investment areas, such as private equity and overseas equity investment.

MS drew members' attention to the Business Plan for 2011/12 which would cover both regular and other reports / work areas that were anticipated during the year. The programme for the period and subsequent years would be amended frequently in the light of new developments. CH added that as pensions were in the forefront it was essential for members' to receive continuous learning process and in that regard he requested members to identify which areas they would like to receive additional training on.

RESOLVED:

that the report on Business Training Plans for 2011/12 and 2012/14 be noted.

10. **Pension Funds Accounts 2010/11**

MS introduced the report on the draft 2010/11 Pension Fund Accounts, informing members that the value of the Fund had increased. However, taking into account pension strain payments, employer contributions had fallen by around £800,000, reflecting the large redundancy programmes initiated by employers. Declining staff numbers may reduce the value of contributions in future years, though increases in both employer and employee rates may offset such falls. MS stated that the value of benefits payable – pensions and lump sums - had risen sharply (by £4.6m) in 2010/11. In particular, the value of lump sums paid has risen (£3.7m). The rising cost of benefits had reduced the surplus of income over expenditure. MS cautioned that if rising employee pension fund contribution rates reduced the active membership in the Fund, investment strategy may need to be reviewed.

RESOLVED:

that the draft Pension Fund Accounts for 2010/11 be noted.

11. **Any Other Urgent Business**

None.

12. **Date of Next Meeting**

The next meeting will take place on Tuesday 27 September 2011.

The meeting closed at 8.50 pm

S CHOUDHARY
Chair