



LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE Tuesday 13 February 2018 at 7.00 pm

PRESENT: Councillor S Choudhary (Chair) and Councillors Aden and Shahzad.

Also present: Mr David Ewart and Mr William Marshall.

Apologies for absence were received from: Councillors A Choudry, Daly, Davidson, Perrin and co-opted member Francesca Hammond

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

None.

2. **Minutes of the previous meeting held on 7 November 2017**

RESOLVED:-

that the minutes of the previous meeting held on 7 November 2017 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 ending September 2017**

The Sub-Committee considered a report from the Chief Finance Officer that provided a summary of the Fund's activity during the quarter ended 30 September 2017. The report also examines the economic and market background, and investment performance, as well as commenting on events in the quarter. Ms Folake Olufeko, Senior Finance Analyst introduced the report.

Members heard that in the third quarter (Q3) of the calendar year, the Fund increased by 1.9% (£15.1m) from £812.0m to £827.1m compared to an increase in the second quarter (Q2) of 1.2% (£9.3m). Overall, the value of the fund had increased by 6.7% in the first nine months of the year, of which 1.5% related to actual asset appreciation and the remainder, to contributions from capital calls. Although the Fund had seen a consecutive quarterly increase in the value of assets, its performance for the quarter was below benchmark level of 2%.

Ms Olufeko referenced the tables within the report that set out the performance of respective asset class and contractual commitments. Of note was the equities allocation, which had performed well in the last few quarters and therefore the total allocation has exceeded the target. Investments in Infrastructure saw a consecutive depreciation in value with a £3.1m drop in Q2 and £1.7m drop in Q3. Officers would continue to monitor the performance to inform future investment decisions. Ms Folake explained that the cash deposits balance of £70.2m was principally required to fund transfer values in relation to the College of North West London, to honour calls on capital commitments in Private Equity and Infrastructure and to re-allocate to other future investments but in the interim was being invested in Money Market Funds and short term loans to other Local Authorities for interest returns.

Ms Olufeko continued that the Fund also realised a complete sale of the UK property investments in quarter 4 of 2016/17 and subject to market conditions, the European property investments were also planned to be run down in 2018. The Fund is monitoring developments and the opening of investment opportunities on the CIV platform with a view to transitioning assets across as soon as there were suitable sub-funds that are in line with the Fund's investment and asset allocation strategy. She then drew members' attention to table 3 in the report which set out the investment returns in individual market and added that officers would continue to monitor areas where performance was below benchmark.

In the ensuing discussion, members expressed concerns about the performance of Ruffer and sought officers' views on how this could be addressed and the time frame within which the situation could be addressed. Ravinder Jassar (Head of Finance) clarified that the negative performance of Ruffer was a concern but that actions had been taken to address the issues, including investing in short term equities against long term bonds which has had a positive effect.

Peter Davies (Independent Adviser) gave summary of his quarterly report. Members were informed that the forecast growth rate for the UK economy in 2017 had been revised downwards to 1.5% after sluggish growth in the second quarter and the estimated figure for 2018 even lower at +1.3%. Meanwhile, forecast growth rates in the other developed regions have been maintained or revised upwards. Mr Davies continued that for the second successive quarter, equity markets were little changed with the UK market continuing to deliver a return significantly below that of overseas equity markets, while Continental Europe had been by far the strongest region during the past year. The mid- and small-cap sectors of the UK market had out-performed the FTSE 100 over the past quarter and 12 months and in the case with bonds, there was very little net change in the yields on medium-term government bonds in the major markets.

In terms of outlook, Mr Davies informed members that although equity markets had edged gradually upwards despite geo-political concerns surrounding developments in North Korea and the Middle East, the impending interest rate rises in the US and UK, together with the tapering of quantitative easing by the US Fed – and possibly by the European Central Bank – were likely to act as a brake on equity markets as the cost of borrowing rises. Similarly, government bond market yields were likely to rise in response to higher short-term rates, unless they become 'safe havens' in the event of political crisis, or if global economic growth begins to slow down. In either of these situations, equities can be expected to weaken significantly.

RESOLVED:

That the performance report and the independent financial adviser's investment reports attached to the main body of this report be noted.

6. **Report on PIRC 2016/17 local authority pension fund benchmarking**

Members received a report which provided a summary of the benchmarking data for 2016/17, produced on behalf of the Fund by Pensions and Investment Research Consultants (PIRC). The report compared the Fund's performance and asset allocation with the best performing local authority pension funds. In presenting the report, Mr. Michael Almond (Finance Graduate Trainee) explained that the benchmarking undertaken by PIRC for 2016/17 compared the historic performance and asset allocation of the Fund against a universe of 60 local authority pension funds (approximately two thirds of all local authority pension funds). The Fund made an overall return of 17.3% in 2016/17, compared to the universe average of 21.4% and was outperformed by its peers over the medium to long term. This ranked the Fund in the 88th percentile.

Mr Almond continued that the best performing fund in the universe (Fund 1) made an overall return of 26.8% in 2016/17 with an equity allocation of 78%, which made a return of 32.7%. Most of the top 10 had an equity allocation above 60%, compared to the Fund's allocation of 50%, on which a return of 28.5% was achieved. Most of the top 10 also had a larger allocation to bonds and property. Furthermore, the Fund achieved a relatively low return of 5.4% from an 11% bonds allocation, compared to the Top 10 average of 11.7% from a 14.8% allocation. Over the long term, Brent had achieved a return of 5.9%, placing the Fund in the 98th percentile. The top 10 funds over this time period achieved returns of between 7.7% & 9%. There was a clear need for the Fund to achieve better returns from its existing allocation. This may be due to a number of factors including the subdivision of asset classes (e.g. UK Equity/Global Equity), which have not been analysed through this benchmarking exercise.

He informed members that the Fund had historically taken a relatively low risk approach to asset allocation than its peers and consequently had achieved a lower return over the same periods than the majority of funds. The analysis further reinforced the need for a review of the Fund's investment strategy, asset allocation and the level of risk that the committee believes the fund should be exposed to.

RESOLVED:

That the results of PIRC's benchmarking exercise in the appendices as discussed within this report be noted.

7. **Investment Strategy Review**

The Sub-Committee received a report that provided an update on the investment strategy review. Mr William Marshall (Head of LGPS Investments Clients) from Hymans Robertson circulated copies of the report and presented to the Sub-Committee. Mr Marshall started by giving an overview of key area of focus which covered the following area; objectives and beliefs; investment strategy review;

investment structure and implementation. He noted that the current strategy was one in which the committee set its own strategy, appoint managers and assumed responsibility for monitoring and governance. He continued that as we live in changing times, investment strategy ought to be a journey with key priorities on returns, high tolerance of volatility, increasing income and protecting gains with a high level of strategic review of risks every 3 years. In his view, the core attributes of a good Fund should include clarity of objectives, well defined investment beliefs with a clear an appropriate strategy and structure, fit for purpose managers and strong leadership.

Based on the Fund's beliefs (the framework for investment decisions), members should ask themselves whether the Fund's strategy reflected the beliefs, whether there were any gaps and whether they reflected the Fund's latest thinking. With these in view Hymans Robertson would undertake a survey which Mr Marshall encouraged members to complete and return.

RESOLVED:

That the work required to complete the review be noted.

8. **Minutes of Pension Board - 21 November 2017**

RESOLVED:

The minutes of Pension Board held on 21 November 2017 be noted.

9. **Any other urgent business**

None.

10. **Exclusion of Press and Public**

The following item is not for publication as it related to the following category of exempt information as specified under Part 1, Schedule 12A of the Local Government Act 1972, namely Paragraph 3

“Information relating to the financial or business affairs of any particular person (including the authority holding that information)”:

11. **London CIV Update**

The Sub-Committee received a report that provided an update on the recent developments within the London CIV and the timescales attached to making investment decisions. Ravinder Jassar (Head of Finance) in his presentation referenced a report by Towers Watson on London CIV which highlighted various issues including governance arrangements and performance.

RESOLVED:

That the recent developments with the London CIV be noted.

The meeting closed at 8.50 pm

S CHOUDHARY
Chair