



LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE Tuesday 20 November 2012 at 6.30 pm

PRESENT: Councillor S Choudhary (Chair), Councillor and Councillors Mrs Bacchus, Brown, Hashmi, Hirani (alternating for Mitchell Murray), BM Patel, and co-opted member George Fraser

Apologies for absence were received from: Councillors Crane and Mitchell Murray

1. **Declarations of prejudicial interests**

None declared

2. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 25 September 2012 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 30 September 2012**

Members gave consideration to a report that provided a summary of Fund activity during the quarter ended 30 September 2012. The report also examined the actions taken, the economic and market background, and investment performance, as well as comments on events in the quarter. Anthony Dodridge, Head of Exchequer and Investment, highlighted that it had been a positive quarter with the Fund increasing in value by £11.5m, matching the benchmark return figure of 3.0%. It was noted that there had been a particularly strong performance in UK small companies as well as and emerging markets, and whilst property did not make any movements this was only represents a small proportion of the Fund. It was explained that private equity funds were currently out of favour as pension funds were not looking to take on more risk diversify despite the current political drive to increase investment in UK infrastructure to bolster the flagging UK economy. It was stated that the Brent Pension Fund was highly diversified across a range of asset classes which protected the Fund if an investment performed poorly, although did restrict the potential benefits from growth in any one particular investment. Anthony Dodridge highlighted that the Fund held a minimal amount of its assets in cash which was good in a times when investments were performing well.

The Independent Advisor, Valentine Furniss, provided the Sub-Committee with a snapshot of the economy, highlighting the impact of the Eurozone crisis on various global economies. It was noted that it was uncertain when the Eurozone crisis would be resolved, although it would clearly be beneficial for all economies of the Eurozone not to fracture.

Valentine Furniss highlighted the increasingly strong position of the Asian economy economies with strong growth and a worldwide influence. One exception to this was Japan's economy which was based on an its outdated political system and the outcome of its forthcoming a general election was seen to be key.

It was explained that whilst there were signs that the UK economy was coming out of recession, and that investment in UK infrastructure was to be encouraged, it was noted that continued market volatility should be expected particularly in the light of with the Government's continued harsh austerity programme.

RESOLVED:-

members noted the report.

6. **Report from Alinda Capital Partners**

Alinda Capital Partners attended the meeting and provided the Sub-Committee with an update of the current investments performance. The fund comprised total investments of \$4bn of which approximately \$3bn had already been invested, with the intention to invest the remainder of the fund over the next 6 – 12 months. Alinda Capital Partners felt that they had invested conservatively in terms of leverage, adding incremental value each year. An overview of the investments was given and they highlighted their track record of adding value in North American investments despite the complex energy issues. Steady growth was anticipated given the position on the J-curve, and Alinda Capital Partners highlighted the merit of having chosen not to file in the USA and paying tax on Brent Pension Fund's behalf.

Members queried the apparent anomaly of an improving yield net of fees yet given the downward trend in the gross cash yield. It was clarified that short term high yields were skewing the figures. It was explained that a 5-8% gross cash yield should be expected in 2013/14 but depended on the timescale for investing timing of the remaining capital. Due to the changing dynamics of pension funds as persons living longer, Alinda Capital partners felt that their infrastructure investments which would deliver a 5-7% yield would represent a good match for pensions. It was anticipated that as the gross and net figures would began to converge, with a typical spread of between 1.5% and 2.0%.

An overview of the investments within the USA was given particularly in view of hurricane Sandy which had not impacted the investments significantly. The 310-acre site of the HFOTCO investment was felt to have been bought at approximately half its true market value based on the long term contracts it holds. It was noted that the energy investment market had changed dramatically, particularly in light of the USA's intention to become self-sufficient and that a proactive approach was required but the investments' the fund has place had held it in a good position for the future.

Alinda Capital Partners are confident in the long-term prospects of their European investments, which are considered to be an important part of the overall asset portfolio. It was explained that the Agri.Capital investment had a value added strategy of substantial expansion through opportunities in Germany and the rest of Europe. Alinda Capital Partners informed the Sub-Committee that they intended to expand the Binnenlandse Container Terminals Nederland investment by expanding the existing terminal and the acquisition of new terminals. It was noted that although it was a small investment it was important and hoped to be doubled in size over the next five years.

The Deputy Director of Finance, Mick Bowden, queried whether the Government's encouragement towards investing in UK infrastructure would be successful or have implications for the Fund. Alinda Capital Partners noted that the infrastructure was a complex investment and appeared to be the right asset for pension funds and Canadian pension funds frequently invested in this particular asset class. It was clarified that it would need to be the right asset for the Fund but felt to be an appropriate area to be looked at, particularly in line with the Government's intention to encourage UK infrastructure growth and investment. It was highlighted that a third fund was hoped to be raised over the next 12 months with a similar yield but pre-established framework although this would mean less value to be added but a sustainable cash yield from day one. Alinda Capital Partners concluded that although their fees were high, these needed to be viewed within the context of having achieved a reasonable performance to date and would continue to invest in the right manner going forward.

7. Socially responsible investment

The Sub-Committee received a report that responded to a recommendation by the Council's Health Partnerships Overview and Scrutiny Committee at its meeting on 18 July 2012 requesting members to reconsider their decision made on 30 November 2010 to reaffirm its existing investment policies included in its Statement of Investment Principles: fund managers would take investment decisions on the basis of the best interests of the Fund, held for the best interest of beneficiaries.

During discussion, members felt that the information could appear contradictory although noted that other councils had managed to achieve socially responsible investment whilst acting in the best interests of the fund by recognising that companies can enhance their long-term performance and increase their financial returns by adopting positive social, environmental and ethical principles in planning and running their activities. It was clarified that although Brent Pension Fund did not directly invest in tobacco companies but only indirectly through pooled funds, this was not cited in the Statement of Investment Principles.

It was highlighted that members of the Sub-Committee were acting on behalf of the interest of the Pension Fund rather than policies of the Council and had an overriding fiduciary duty in law to invest Fund monies to achieve the best possible financial return for the Fund consistent with an acceptable level of risk. It was further clarified that if the Sub-Committee should have a concern regarding investing in a certain industry due to the potential long term risk and future of the industry, then it would be acceptable and lawful for the Sub-Committee to cite this in the Statement of Investment Principles.

Officers queried whether members wished to look at the wider concept of social investment and members felt that they were being asked to address the issue of tobacco company investment and could not make decisions on the general concept of socially investing. Concern was expressed regarding the limitations of socially investing and the potential impact that stifling fund managers in this way could have on investment performance. Members felt that the current practice of not directly investing in tobacco companies should be incorporated into the Statement of Investment Principles and the following recommendation was proposed and seconded:

“that officers be instructed to amend the Statement of Investment Principles in line with the discussion of incorporating current practice of not directly investing in tobacco companies and brought back to the Sub-Committee for approval”

The recommendation was carried unanimously.

RESOLVED:-

that officers amend the Statement of Investment Principles in line with the discussion of incorporating the current practice of not directly investing in tobacco companies and bring to the next Sub-Committee for approval.

8. **2013 Actuarial valuation of Brent Pension Fund**

The Deputy Director of Finance submitted a report which updated the Pension Fund Sub-Committee on the progress of the 2013 actuarial valuation currently under way. It was highlighted that further information would be reported back to the Committee on completion of the exercise.

RESOLVED:-

members noted the report.

9. **Any other urgent business**

Anthony Dodridge, Head of Exchequer and Investments informed the Sub-Committee that the Statement of Investment Principles required the position of Independent Advisor to be reviewed periodically. A test of the market would be carried out during March/April 2013, with the current Independent Advisor competing alongside three other shortlisted candidate for a three year contract with the option to extend for a further two years.

10. **Date of next meeting**

The next meeting will take place on 26 February 2013.

11. **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 information as specified in Schedule 12A of the Local Government Act 1972, namely:

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

12. **Pensions administration contract**

The report provided progress on the contract for pension administration services. Andrew Gray, Pension Manager, drew members' attention to the background to the appointment of the contractor, and the joint framework established with the Borough of Hammersmith and Fulham. It was reported that the contract was awarded on the basis of achieving savings of approximately £60,000 - £80,000 per annum and a good quality service provision. Andrew Gray informed the Sub-Committee of the initial concerns regarding the quality of the service provided and the actions undertaken to increase performance to a satisfactory level. He continued to highlight that although the service currently provided was adequate, it was not at the level expected when the contract was originally awarded and he would be exploring actions to address this underperformance in due course.

During discussions, the Sub-Committee highlighted that they were responsible for ensuring the best level of service to their membership and felt that action to invoke rebates be recommended. Additionally it was felt that the contractors should be held accountable to the Sub-Committee and be invited to attend a future Sub-Committee meeting.

RESOLVED:-

- (i) members noted the report
- (ii) members recommended that the Pension Manager invoke the rebate policy to encourage an improved performance.

13. **Review of fund managers' fees**

Members received a report that outlined the action taken by Anthony Dodridge, the Head of Exchequer and Investment, on investment management fees incurred by the Brent Pension Fund. He reported on the successful negotiations that had taken place highlighting an annual ongoing saving of £81,000, which ensured that the fund managers' fees paid by the Brent Pension Fund were now highly competitive.

RESOLVED:-

members noted the report

The meeting closed at 8.30 pm

S CHOUDHARY
Chair