



LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE Tuesday, 28 September 2010 at 6.30 pm

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

1. **Declarations of Personal and Prejudicial Interests**

None declared.

2. **Minutes of the Previous Meeting held on 29 June 2010**

RESOLVED:-

that the minutes of the previous meeting held on 29 June 2010 be approved as an accurate record of the meeting.

3. **Matters Arising**

Monitoring Activity for the quarter ended 31 March 2010 - BP

Valentine Furniss (Independent Adviser) enquired on the impact of the income stream in view of BP's problems in relation to oil spill in the Gulf of Mexico.

In reply, Martin Spriggs (Head of Exchequer and Investment) advised that BP had suspended dividends because of reduced income, however share prices had since risen and the situation had stabilised, so the Council had decided to retain the shares.

Urgent action on currency – amendment to Statement of Investment Principles

Martin Spriggs advised that AllianceBernstein had re-established the currency hedge in August.

4. **Pension Fund Accounts 2009/10**

Martin Spriggs introduced the report and advised that the main change from the draft account presented in June was to amend market values of a selection of funds to agree with the valuations recorded by the custodians as set out in appendix two of the Annual Governance report.

Paul Viljoen (Audit Commission) introduced the Annual Governance report which requested Members to consider matters raised in the report in respect of financial statements, to note the adjustments to the financial statement as set out in the

report, approve the letter of representation on behalf of the Council and agree to the Council's response to the proposed action plan. Paul Viljoen also advised that the Audit Commission proposed to increase the Pension Fund audit by £3,000 based on additional work required to resolve issues.

During Members' discussion, the Chair sought information with regard to the error identified in investment commitments. Councillor Crane enquired whether the Audit Commission fee was fixed or negotiable. Councillor Hashmi asked for further details as to the increase in the fee.

In reply, Paul Viljoen advised that in respect of investment commitments, Capital Dynamics had miscalculated in their original evaluation, however this had been identified by the Audit Commission and duly corrected by the Council. He confirmed that Audit Commission fees were set on a scale basis dependent on the size and type of organisation.

RESOLVED:-

that the report on the Pension Fund Accounts 2009/10 be noted.

5. **WM Annual Report**

Lynn Coventry (WM) presented the report and began by informing Members of the performance of equities, bonds, alternatives and currencies for the year 2009/10. She then described the longer term performance of assets and the level of inflation for 3, 5, 10 and 20 year periods. In respect of performance relative to market indices, Lynn Coventry advised that because of increased manager and administrative fees, investors would want to see increased returns and it was anticipated that UK exposure would continue to fall. Lynn Coventry then referred to local authority average asset allocation as of end of March 2010. Members noted that UK equities only accounted for 44% of total equities, whilst there had been significant movement to alternatives.

Members then noted updates to the Council's Fund in relation to a number of measures. Lynn Coventry concluded by advising that the overall Fund return was 29%, 0.8% behind the benchmark of 29.8%, whilst the WM local authority average return was 35.2%. The three year period Fund return of -3.9% was 3.3% per annum below the benchmark, whilst over the ten year period the Fund return of 1.9% was 0.3% below the benchmark of 2.2%, and below the WM average of 3.8%.

Martin Spriggs added that in relation to the 31% of the Fund being managed internally, this also included private equity management which was undertaken by different managers, so in reality the proportion of the Fund internally managed was considerably less. He advised that the infrastructure fund invested by Henderson had performed well and had started to recover losses from the previous two years. Although the Fund's return had fallen behind the benchmark primarily due to stock allocation, the 29% return still represented a strong one.

Valentine Furniss enquired whether AllianceBernstein's performance compared to its competitors was amongst the lowest performing. Lynn Coventry confirmed that this was the case.

6. **Monitoring Report on Fund Activity for the Quarter Ended 30 June 2010**

Martin Spriggs introduced the report and confirmed that equity markets had fallen sharply during this quarter. However, a recent revival in equity meant that the Fund's reported drop in value of £455m to £424.6m had been reversed (to £465m). He advised that the Fund had underperformed both in terms of the benchmark figure and in comparison with other local authorities. This was principally due to underperformance in both asset allocation and stock selection. Members noted that interest rates were likely to remain stable. The Committee were provided with details in respect of asset allocation and investment returns in individual markets. Martin Spriggs reported that the head of Gartmore, Gervais Williams had resigned, however he been replaced by a well qualified and experienced colleague, Adam McConkey. The Council had been reassured that the Gartmore Team remained strong. However, exposure is being reduced as there are wider concerns about the market reaction to the manager leaving and to problems at Gartmore itself.

Valentine Furniss circulated a paper detailing index returns for the period 1 July to 17 September 2010. Valentine Furniss reported that global GDP was forecast to increase by 4.6% for this year and by 4.3% next year. Other positive factors included the fact that exports were quite healthy and there was strong growth in Europe. Problems continued to remain in respect of high national deficits, high rates of unemployment and the collapse of residential property prices. Valentine Furniss felt that a double dip recession and a break-up of the Eurozone were unlikely. Valentine Furniss commented that a 7-8% return of the Council's Pension Fund would be an achievement considering the circumstances this year.

During discussion, Councillor Hashmi commented that IMF had been quite bullish about the UK economy and he sought views with regard to the outcome of the Comprehensive Spending Review (CSR). Councillor Mitchell Murray expressed concerns in respect of the CSR and the prospect of a double dip recession. She also expressed some doubts over India's economic development. Councillor Crane commented that CSR would affect local authorities and the public sector generally more than the economy overall. The Chair sought views on measures by the USA to ban countries from exporting to them where these countries had deliberately kept their currency value low.

In reply to the issues raised, Valentine Furniss felt that the austerity measures expected in the CSR had been widely reported for some time and that public funded bodies anticipated that further significant savings would be required. He suggested that the positive outcomes would outweigh the negative ones, whilst he remained optimistic about India's economic growth, stating that the right infrastructure was being put in place and considerable investment continued. Valentine Furniss advised that the USA needed to be mindful in respect of banning exports from other countries, particularly as there were other economies that these countries could turn to. He added that there were various trading groups performing well, including Asia, South America and also the Eurozone to a lesser extent.

Clive Heaphy (Director of Finance and Corporate Resources) added that it would be a few weeks after the announcement of CSR was made before local authorities would be able to assess the impact upon their budgets. He advised that it was

likely that sharper and deeper cuts would be made in the early years, whilst spending was likely to increase as the date of the next General Election neared.

RESOLVED:-

that the monitoring report on Fund Activity for the Quarter Ended 30 June 2010 be noted.

7. Investment in Private Equity

Martin Spriggs introduced the report and advised that private equity investments were long term investments, with private equity returning 5-10% above public equity markets over the long term. A revised private equity programme had been agreed in 2007 with a target exposure of 8% with a view to rise to 10% in the long term. However, falling markets in 2007/09 meant that the current investment programme may take private exposure to around 11% of the Fund in 2011/12. The programme had recently been reviewed and it had been identified that there were opportunities for good returns and to increase exposure to emerging markets. Martin Spriggs advised that it was being recommended to invest £10m in the Solar Fund in the USA as it would offer the potential to provide both short and long term returns.

During discussion, Councillor Hashmi expressed approval in the investing in the Solar Fund and Councillor Crane added that it would provide a good opportunity to generate returns. Councillor Mitchell Murray enquired whether investment in the Solar Fund would help the Council achieve its green targets. Councillor Bacchus felt it was prudent to consider investment in emerging markers.

Valentine Furniss enquired what percentage of the Fund the Solar Fund would represent. Martin Spriggs advised that it would represent 10% of funds in private equity and 1.5% of the total Fund overall. He advised that the investing in the Solar Fund was a business decision, but that it would also add to the Council's green credentials.

RESOLVED:-

- (i) that the revised investment programme be agreed; and
- (ii) that investment in the Solar Fund be agreed.

8. Date of Next Meeting

It was noted that the next meeting was scheduled to take place on Tuesday, 30 November 2010 at 6.30 pm.

9. Any Other Urgent Business

None.

10. **Exclusion of Press and Public**

This item was not for publication as it relates to the following category of exempt information as specified in the Local Government Act 1972 namely:
Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Review of Investment Mandate

Members had before them a report in respect of the review of an investment mandate. It was recommended that the manager be replaced by the appointment of an alternative. Martin Spriggs suggested that Members meet with the proposed alternative organisation to consider their suitability to be appointed.

During discussion, it was agreed that a meeting with the proposed alternative organisation take place on 13 October 2010 at 1.30 pm and that information also be provided on alternative organisations at the meeting by way of comparison.

RESOLVED:-

- (i) that the recommendations as set out in the report be agreed; and
- (ii) that a meeting with the proposed alternative organisation take place on 13 October 2010 at 1.30 pm to assess their suitability and that information be provided on a second alternative organisation at the meeting by way of comparison.

The meeting closed at 8.30 pm

S CHOUDHARY
Chair