



LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE Monday 7 October 2013 at 6.30 pm

PRESENT: Councillor S Choudhary (Chair), Councillor Crane (Vice-Chair) and Councillors Arnold, Mrs Bacchus, Brown, Hashmi and BM Patel

Apologies for absence were received from: Mr George Fraser

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

None declared.

2. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 25 June 2013 be approved as an accurate record of the meeting.

3. **Matters arising**

None.

4. **Deputations (if any)**

None.

5. **WM Company - Annual Performance Review**

A representative of WM Company, Lynn Coventry, gave a slide presentation on the investment performance review of Brent Pension Fund (the Fund) for 1, 3, 5 and 10 year periods ending March 2013. In drawing members' attention to the risk and return slide Lynn Coventry stated that in general local authorities tended to have similar investment strategies with typical asset allocation however in Brent's case, the investment strategy was concentrated in lower than average risk and lower than average return resulting in underperformance over the past ten years except for one year. This contrasted with higher performing Funds which had fewer managers with long term tenure, a lesser governance burden and lower administration costs.

Lynn Coventry clarified that the Fund was relatively small but complex in structure and that it had changed fund managers to a greater extent than the peer group. As a result, the Fund had been unable to achieve its strategic targeted benchmark return for a number of years although it was pointed out that the Fund had

managed to outperform its benchmark in the most recent financial year ended 31 March 2013. She continued that the Fund needed to achieve an annual return of 6.5% in order to meet current and future payments, however, 29% of the assets were currently benchmarked against a return that was lower than 6.5% per annum. Members heard that Alternatives were usually held to diversify risk but at a lower level of return than equity and as the Fund had 29% of the benchmark in Alternatives whilst the average was only 9%, there was a need for a review of the level of risk for return. She attributed part of the underperformance to the negative impact of active management (Alliance Bernstein), short term investments in some Alternatives such as active currency, Global Tactical Asset Allocation (GTAA) and the cost of changes.

Lynn Coventry concluded that despite the above benchmark performance over the latest year, the Fund was below the benchmark over the longer term and was the worst performing fund of all local authority funds over all long term periods. Its complex and frequently changed structure had added to costs and over the past five years had failed to deliver the required rate of return. She noted that the Fund's manager arrangements had been altered to increase the level of passive management which would assist in taking out some of the active risks in underperformance.

Peter Davies, the Independent Adviser asked about the likelihood of the annual return on bonds achieving 6.5% and Councillor Brown asked whether 6.5% was a realistic target in a low investment return environment. Lynn Coventry responded that whilst the return on bonds may be exceptional in a given year, it normalised over a ten year period. She added that 6.5% return was required for the Fund to meet its liabilities. Anthony Dodridge added that the current portfolio had been significantly reconfigured to ensure improved performance of the Fund and that the tri-annual actuarial review which would be reported to the Sub-Committee in November would confirm this viewpoint.

RESOLVED:

that the performance review of Brent Pension Fund for the investment period ended March 2013 be noted.

6. Pension fund annual report and accounts 2012/13

Members considered a report on Brent Pension Fund (the Fund) annual report and accounts together with a draft report from KPMG, the external auditors. Anthony Dodridge, Head of Exchequer and Investment informed members that the external auditors, KPMG, had undertaken a statutory audit of the Brent Pension Fund accounts for the year ended 31 March 2013 and reviewed the Annual Report. KPMG reported that their audit of the Fund's financial statements identified only one audit adjustment which was a minor presentational adjustment to a disclosure note and had since been addressed. They anticipated issuing an unqualified opinion on the Fund's financial statements and its Annual Report.

The Head of Exchequer and Investment continued that against a backdrop of continued uncertainty in the global economy and volatility in the financial markets, the Fund had a positive year in terms of investment performance, exceeded overall investment benchmarks, resulting in an increase in the value of the Fund's net

investment assets by 10.9% to £547.9m (2011/12 £493.9m). Total contributions income from employers and employees for the year were £45.1m (£43.8m previous year) whilst total benefits paid remained unchanged at £38.4m, resulting in a net positive cash flow position of £6.7m. He added that during the course of the year, the Fund reduced its commitment to hedge funds and appointed Baillie Gifford to manage a new diversified growth fund investment portfolio.

Looking ahead to the future, Anthony Dodridge referred to a number of challenges facing Local Government Pension Schemes (LGPS):

- The implementation of a reformed LGPS due to be introduced from April 2014 with a new scheme design, controlling future costs and managing longevity.
- Auto enrolment to the Fund which commenced from 1 June 2013 resulting in eligible employees who had previously opted out of the pension scheme, now becoming automatic members of the scheme.
- The on-going volatility and uncertainty in the global economy, and linked to that the continuing regime of public sector austerity over the medium and quite possibly longer term. These issues have significant implications for the Fund and Fund employers.

Members heard that the actuarial valuation of the Fund as at 31 March 2013 was in progress, and would play a part in setting employer contribution rates for three years from 2014/15 onwards. The valuation results were expected later this year and following its publication, the Pension Fund Sub-Committee would review the investment managers' performance and its investment strategy for the coming years, making changes where it was considered necessary. Anthony Dodridge added that further measures including the termination of investment mandates would ease governance burden, reduce costs and help to increase the Fund's future investment returns.

In welcoming the report, the Chair paid tribute and expressed his appreciation to all members of the Pension Fund Sub-Committee and officers for their continued input to the strong governance and management arrangements of the Fund.

RESOLVED:

that the Pension Fund annual report and accounts for the year 2012/13 be noted.

7. Monitoring report on fund activity for the quarter ended June 2013

The Sub-Committee received a report which provided a summary of the Brent Pension Fund's (the Fund) activity during the quarter ended June 2013. Anthony Dodridge, Head of Exchequer and Investment informed members that the Fund had fallen in value by £3.0m from £543.8m to £540.8m during the quarter ended 30 June 2013 but had subsequently risen by £5.9m by the end of August to £546.7m. He explained that the Fund's quarterly return of -0.7% underperformed its benchmark of 0.4% which he attributed to results in Emerging Market Equities, UK Equities, Fixed Income and Diversified Growth. Members heard that the drop in the Fund's overall value during the quarter disguised positive returns in the asset classes of Hedge Funds, Property, Private Equity, Infrastructure and Overseas Equities as set out in the relevant table in the report.

He drew members' attention to the graph tables on each manager's performance and added that the areas where performance was poor would need to be closely monitored over the coming period. It was noted that cash had been drawn down due to outstanding private equity and infrastructure commitments. The Fund would be returned to a comfortable cash flow positive position by December when around £30m would be returned to the Fund following the recent termination of an investment mandate.

Peter Davies, the Independent Adviser presented his quarterly investment report. He informed members that the statement by the Federal Reserve (Fed) in May that it would taper off Quantitative Easing (QE) had a profound impact on the markets but which had since recovered some lost ground. Government bond markets had also stabilised at yields some 0.7% above their lowest levels and now that investors had become used to the idea that QE by the US would end during 2014, their focus had turned to the outlook for Chinese economic growth. He expected equities to trade in their recent range for the remainder of 2013 and bond yields could move higher if growth in the US brings QE to an earlier end than currently envisaged. Members heard that Emerging Markets had continued their weakness with the additional burden of investment flows out of the markets in anticipation of the slowdown of Quantitative Easing (QE) by the Federal Reserve. This had also caused further falls in Emerging Market currencies relative to the dollar – notably the Indian rupee. Peter Davies highlighted the forecast economic growth indicators for the UK economy which had been raised to 1.4% this year and 2.3% next year. The cumulative impact had been the rise in the value of the pound sterling.

Members welcomed the report by the Independent Adviser which they felt was quite comprehensive.

RESOLVED:

that the monitoring report for the quarter ended June 2013 be noted.

8. Any other urgent business

None.

The meeting closed at 7.25 pm

S CHOUDHARY
Chair