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Brent Pension Fund Sub-Committee

Tuesday 19 November 2013 at 6.30 pm
Boardroom 3-5 - Brent Civic Centre, Engineers Way, Wembley, HA9 0FJ

Membership:

Members	first alternates	second alternates
Councillors:	Councillors:	Councillors:
S Choudhary (Chair)	Hirani	Hossain
Crane (Vice-Chair)	Harrison	Hector
Arnold	Mitchell Murray	Gladbaum
Mrs Bacchus	Oladapo	Daly
Brown	Lorber	
Hashmi	CJ Patel	
BM Patel	HB Patel	Baker

Non Voting Co-opted Members

George Fraser	Employees
Ashok Patel	College of North West London

For further information contact: Joe Kwateng, 0208 937 1354, joe.kwateng@brent.gov.uk

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democracy.brent.gov.uk

The press and public are welcome to attend part of this meeting

recycle for Brent

Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

Item		Page
1	**Declarations of personal and prejudicial interests** Members are invited to declare at this stage of the meeting, any relevant financial or other interest in the items on this agenda.	
2	**Minutes of the previous meeting**	1 - 4
3	**Matters arising**	
4	**Deputations (if any)**	
5	**Monitoring report on fund activity for the quarter ended** This report provides a summary of the Fund's activity during the quarter ended 30 September 2013. It examines the actions taken, the economic and market background, and investment performance, as well as commenting on events in the quarter. **Ward affected:** All Wards ***Contact Officer:*** Conrad Hall, Chief Finance Officer Tel: 0120 8937 6529 conrad.hall@brent.gov.uk	5 - 24
6	**London pension fund collaboration** Further to the recent public debate regarding the potential merger of LGPS funds, collaboration is high on the agenda and proposals to set up a voluntary collective investment vehicle (CIV) are being developed by the London Leaders to achieve lower investment management fees and potentially improve investment performance without the loss of operational independence in terms of asset allocation policy which a merger of funds would imply. This report outlines proposals to explore the establishment of a collective investment vehicle (CIV).	25 - 30

Ward affected: All Wards

***Contact Officer**:* Conrad Hall, Chief Finance Officer

Tel: 0120 8937 6529
conrad.hall@brent.gov.uk

7 Use of alternative indices 31 - 34

At its meeting of 25 June 2013, Members of the Pension Fund Sub-Committee were given a presentation on alternative indices by Legal & General. As agreed, this follow-on report has been produced by the Head of Exchequer and Investment, on the use of alternative indices and any recommendations arising in relation to the Brent Pension Fund.

Ward affected: All Wards

***Contact Officer**:* Conrad Hall, Chief Finance Officer

Tel: 0120 8937 6529
conrad.hall@brent.gov.uk

8 Any other urgent business

Notice of items to be raised under this heading must be given in writing to the Democratic Services Manager or his representative before the meeting in accordance with Standing Order 64.

9 Date of next meeting

The next meeting will take place on Tuesday 25 February 2014 at 6:30pm.

10 Exclusion of press and public

The following reports are not for publication as they contain a category of exempt information as specified in Schedule 12A of the Local Government (Access to information) Act 1972, namely;

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

11 Presentation - Review of Contribution Strategy: Asset/Liability Modelling

Douglas Green (Fund Actuary) and Julie Morrison (Fund Actuary), representatives of Hymans Robertson, will attend the meeting to present to the Sub-Committee on the Contribution Strategy which will underpin the triennial valuation of the Fund's assets and liabilities due for sign off in March 2014.

12 2013 Actuarial Valuation of the Brent Pension Fund 35 - 68

This report introduces and summarises a report (attached as an appendix) from the Fund's actuary, Hymans Robertson, on the contribution strategy which will underpin the triennial valuation of the Fund's assets and liabilities due for sign off in March 2014. Douglas Green and Julie Morrison of Hymans Robertson will be attending the meeting of the Sub-Committee to present their findings in more detail.

Ward affected:	All Wards	***Contact Officer**:* Conrad Hall, Chief Finance Officer Tel: 0120 8937 6529 conrad.hall@brent.gov.uk

13 Annual review of fund managers' fees 69 - 78

Ward affected:	All Wards	***Contact Officer**:* Conrad Hall, Chief Finance Officer Tel: 0120 8937 6529 conrad.hall@brent.gov.uk

14 Review of Additional Voluntary Contributions paid by Fund members 79 - 84

Ward affected:	All Wards	***Contact Officer**:* Conrad Hall, Chief Finance Officer Tel: 0120 8937 6529 conrad.hall@brent.gov.uk

Please remember to ***SWITCH OFF*** your mobile phone during the meeting.

- The meeting room is accessible by lift and seats will be provided for members of the public.

Agenda Item 2

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

Brent	**Pension Fund Sub-Committee** 19 November 2013 **Report from the Chief Finance Officer**
For Information	Wards Affected:ALL
Quarterly monitoring report on fund activity	

1. SUMMARY

1.1 This report provides a summary of the Fund's activity during the quarter ended 30 September 2013. It examines the actions taken, the economic and market background, and investment performance, as well as commenting on events in the quarter. The main points arising are:

a) The Fund has increased in value by £7.6m from £540.8m to £548.4m during the quarter ended 30 September 2013, and the Fund's return of 1.5% underperformed its quarterly benchmark of 2.5%.

b) The main negative relative performers compared to benchmark were private equity and infrastructure (mainly denominated in US$) attributable to sterling strengthening against the US dollar in the quarter from $1.517 per £ at 30 June 2013 to $1.619 per £ at 30 September 2013, an increase of 6.7%.

c) The 12-month return as at 30 September 2013 continues to remain in double-digit territory at 11.0%, albeit lagging behind its 12.1% benchmark.

d) The Fund return for the 3 years ended 30 September 2013 is an annualised 6.5% p.a., which is identical to its long term investment return target of 6.5% p.a.

e) Following the quarter ended 30 September 2013, the Fund has continued to increase in value by an estimated £12.9m to £561.3m during the month of October 2013.

2. RECOMMENDATIONS

2.1 Members are asked to note the investment report.

3. DETAIL

Economic and market background – quarter ended 30 September 2013

3.1 During the quarter ended 30 September 2013, the US Federal Reserve surprised markets by deciding not to slow down (“taper”) quantitative easing and expressing a more dovish outlook. Supportive fundamentals including low inflation, sub-trend growth, continued deleveraging and significant investor support for bonds which have kept yields at subdued levels so far have all contributed to the sentiment that low interest rates continue to be necessary in order to promote growth in the economy.

3.2 Economic news from around the world continues to improve, though the improvement is not accelerating significantly. Britain’s economic growth is showing an upturn of 1.4% this year, rising to 1.9% in 2014. Europe as a whole is no longer in recession though many national economies are still shrinking and their governments are still reducing expenditure. Consumers’ vulnerability to the level of debt is reducing, but only slowly. This means that there is unlikely to be a smooth recovery and it is likely that there will be further difficulties in several Eurozone economies. Furthermore, the budget difficulties in the US will have increasingly disruptive effects the longer they continue and risks to the wider global economy remain high. So although economic prospects are distinctly brighter than for some years, recovery will be slow and intermittent.

3.3 A market review for the quarter ended 30 September 2013, written by the Independent Financial Adviser, is attached.

Investment performance of the Fund

3.4 The investment performance of the Brent Pension Fund in comparison to the WM Local Authority percentile average for all Local Government Pension Schemes (LGPS) funds nationally is shown below:

	Period ended 30 Sept 2012	Period ended 30 June 2013 *
1 year	98th	88th
3 years	100th	100th
5 years	100th	100th

* 30 September 2013 currently unavailable

3.5 The comparative statistics show that the Fund has been one of the lower performing LGPS funds which has been consistently underperforming for a number of years.

3.6 However, the Brent Pension Fund has benefited from an improvement in investment returns during the periods ended 30 June 2013 and this is reflected in its annual performance relative to the 99 LGPS funds nationally increasing from the 98th to 88th percentile. Whilst this progress is encouraging it is nonetheless quite limited and efforts will be made to build on this improved performance to ensure that it continues over the coming period, and this is reflected in the latest available published quarter ended 30 June 2013 which places the Brent Pension Fund at the 43rd percentile.

3.7 Table 1 shows the changes in asset allocation, how asset allocation compares with the benchmark and with the average fund (WM Local Authority average), and how the change in the market value during the quarter is allocated across asset classes. Items marked (*) in columns 4 and 8 cannot be separately analysed, but are included within the relevant asset class.

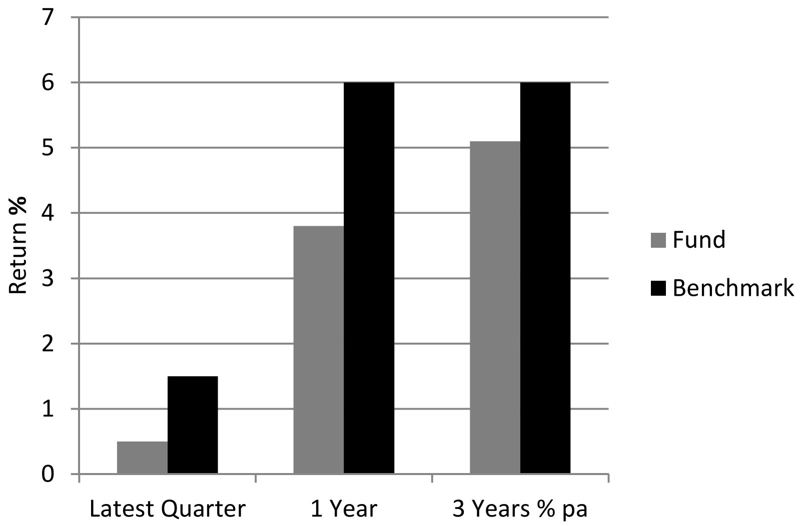
Table 1: Asset allocation as at 30 September 2013 compared to the benchmark

Market (1)	Market Value 30/9/13 £M (2)	Market Value 30/9/13 % (3)	WM LA Average 30/9/13 % (4)	Fund Benchmark 30/9/13 % (5)	Market Value 30/6/13 £M (6)	Market Value 30/6/13 % (7)	WM LA Average 30/6/13 % (8)
Fixed Income							
Henderson – Total Return Bond Fund	82.1	15.0	n/a	15.0	81.8	15.1	17.0
Equities							
UK – Legal & General	81.3	14.8	n/a	13.0	76.9	14.2	26.5
UK - Smaller Companies Fund Henderson	24.1	4.4	*	4.0	21.4	4.0	*
O/seas – developed Legal & General	127.7	23.3	n/a	22.0	126.2	23.3	33.0
O/seas – emerging Dimensional	33.4	6.1	n/a	8.0	33.0	6.1	6.0
Property							
Aviva	33.8	6.2	n/a	8.0	33.6	6.2	6.6
Private Equity							
Capital Dynamics	70.0	12.7	n/a	10.0	70.0	12.9	3.8
Yorkshire Fund	1.1	0.2	*		1.1	0.2	*
Hedge Funds							
Fauchier	28.7	5.2	n/a	5.0	27.9	5.2	1.7
Infrastructure							
Alinda	15.9	2.9	n/a	6.0	16.6	3.1	0.7
Capital Dynamics	16.6	3.0	*		15.3	2.8	*
Henderson PFI Fund II	1.1	0.2	*		0.9	0.2	*
Pooled Multi Asset							
Baillie Gifford DGF	33.4	6.1	n/a	8.0	33.0	6.1	1.5
Cash	-0.8	-0.1	n/a	1.0	3.1	0.6	3.2
Total	**548.4**	**100.0**	**100.0**	**100.0**	**540.8**	**100.0**	**100.0**

Manager performance relative to benchmark

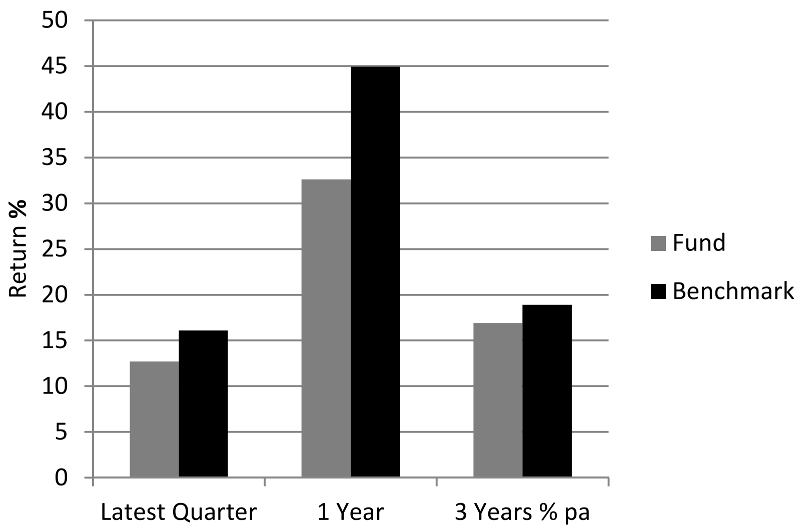
3.8 The following bar charts show the active fund manager performances in comparison to their respective benchmarks for periods to the end of September 2013.

Henderson – Total Return Bond Fund



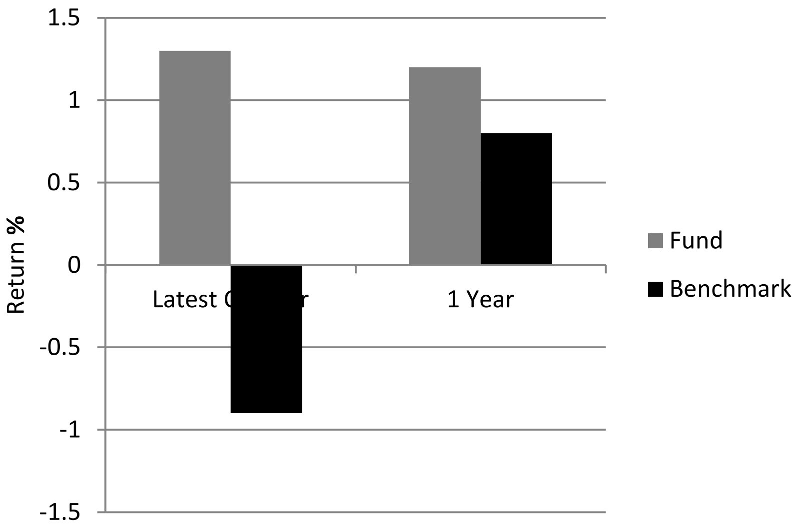
Whilst steady positive returns are being delivered, Henderson's Total Return Bond Fund performance is lagging behind its 6% p.a. absolute return benchmark in respect of the latest quarter, 1 Year and 3 Year periods.

Henderson – UK & Irish Smaller Companies Fund



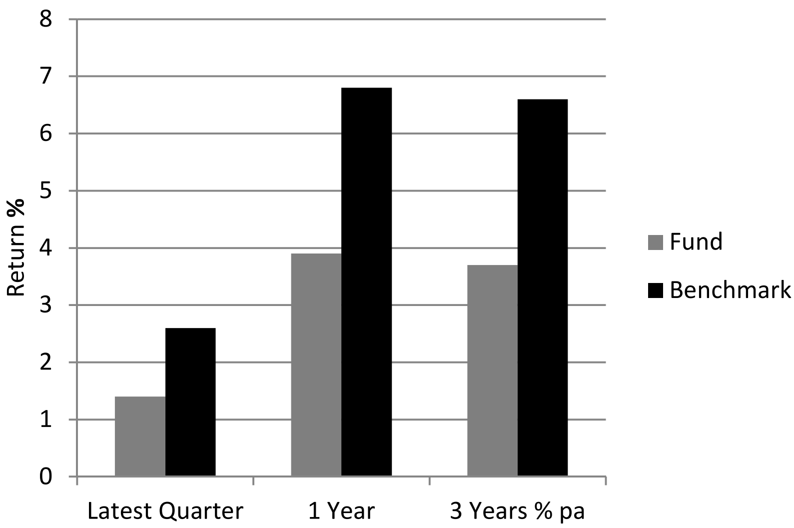
Henderson's UK & Irish Smaller Companies Fund has delivered strongly positive returns over recent periods – up 12.7% over the latest quarter, 32.6% over the last 12 months and an annualised 16.9% p.a. over the past 3 years. However, the Fund has underperformed against its benchmark FTSE SmallCap Index. The benchmark has changed significantly over time. In particular, there has been a significant reduction in the number of companies and an increased concentration within the benchmark which has increasingly called into question the relevance of the FTSE SmallCap Index as a measure of the UK small cap investment universe. This is something Henderson are currently in the process of reviewing.

Dimensional – Emerging Markets Value Fund



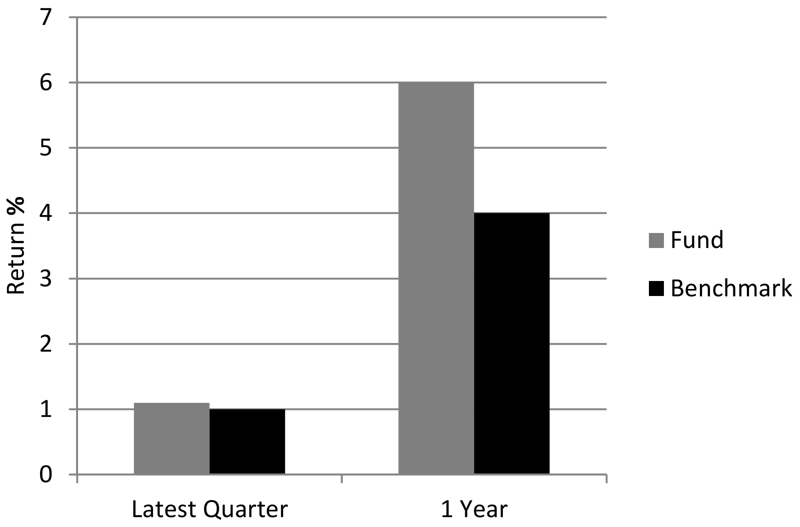
Dimensional's Emerging Markets Value Fund has delivered an investment return of 1.2% over the last year. This compares favourably to its benchmark MSCI Emerging Markets Index which was 0.8% during the year, with the outperformance coming in the latest quarter where the manager achieved a return of 1.3% when compared to the benchmark MSCI Emerging Markets Index of -0.9%.

Aviva – Property



The Aviva property portfolio aims to maximise total return through a combination of capital growth and income return. Whilst steady positive returns are being delivered, Aviva's property portfolio performance continues to lag behind its IPD All Properties Index based benchmark in respect of the latest quarter, 1 Year and 3 Year periods.

Baillie Gifford – Diversified Growth Pension Fund



Baillie Gifford's Diversified Growth Fund (DGF) significantly outperformed its benchmark Base Rate plus 3.5% p.a. over 1 Year, with the latest quarter broadly matching the benchmark. The Baillie Gifford DGF was the Fund's newest investment acquisition in June 2012.

3.9 The independent WM Company measures the returns on the Brent Pension Fund. Table 2 sets out returns for the periods to 30 September 2013.

Table 2: Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Quarter Ending 30/9/13			Year Ended 30/9/13			
	Fund %	Benchmark %	WM Local Auth %	Fund %	Benchmark %	WM Local Auth %	
Fixed Income							
Total Return Bond Fund Henderson	0.5	1.5	n/a	3.8	6.0	n/a	Absolute return 6% p.a.
Equities							
UK – Legal & General	5.6	5.6	n/a	19.1	18.9	n/a	FTSE All Share
UK - Small Companies Henderson	12.7	16.1	n/a	32.6	44.9	n/a	FTSE Small Cap
O/seas – developed Legal & General	1.2	1.2	n/a	20.7	20.7	n/a	FTSE Dev World ex UK
O/seas – emerging Dimensional	1.3	-0.8	n/a	1.6	1.0	n/a	MSCI Emerging Markets
Property							
Aviva	1.4	2.6	n/a	3.9	6.8	n/a	IPD All Properties Index
Private Equity							
Capital Dynamics	-3.7	2.0	n/a	9.8	8.0	n/a	Absolute return 8% p.a.
Yorkshire Fund Managers	4.7	2.0	*	6.2	8.0	*	Absolute return 8% p.a.
Hedge Funds							
Fauchier	2.8	1.4	n/a	12.9	5.5	n/a	LIBOR + 5% p.a.
Infrastructure							
Alinda	-5.7	2.0	n/a	0.1	8.0	n/a	Absolute return 8% p.a.
Capital Dynamics	-7.3	2.0	*	-15.5	8.0	*	Absolute return 8% p.a.
Henderson PFI Fund II	17.2	2.0	*	-1.8	8.0	*	Absolute return 8% p.a.
Pooled Multi Asset							
Baillie Gifford DGF	1.1	1.0	n/a	6.0	4.0	n/a	Base Rate + 3.5% p.a.
Cash	0.1	0.1	n/a	0.5	0.5	n/a	Base Rate
Total	**1.5**	**2.5**	**n/a**	**11.0**	**12.1**	**n/a**	

3.10 The Fund's overall return of 1.5% underperformed its quarterly benchmark of 2.5%. Whilst Emerging Market Equities and Fund of Hedge Funds outperformed their respective benchmarks, Fixed Income, UK Smaller Companies, Property, Private Equity and Infrastructure underperformed against their benchmarks.

3.11 Over one year, the Fund return of 11.0% was below its benchmark of 12.1%. Whilst Emerging Market Equities, Hedge Funds, Diversified Growth and Private Equity outperformed their respective benchmarks, Fixed Income, UK Smaller Companies, Property and Infrastructure underperformed against their benchmarks.

Compliance with statutory investment limits

3.12 LGPS investment regulations state that the Administering Authority shall have regard both to the diversification and the suitability of investments. The following table demonstrates full compliance when comparing the Fund's actual investment exposure with the statutory limits under regulation:

Investment	Statutory limit under regulation	Actual exposure at 30 Sept 2013	Compliant Yes / No
Any single holding	10%	3%	Yes
Unit trusts managed by any one body	35%	23%	Yes
Lending to any one borrower	10%	Nil	Yes
Unlisted securities of companies	15%	Nil	Yes
Any single partnership	5%	3%	Yes
Total investment in partnerships	30%	19%	Yes

Indicative performance of the Fund since September 2013

3.13 Following the quarter ended 30 September 2013, the Fund has increased in value by an estimated £12.9m:

	As at 31 October 2013 £M	As at 30 September 2013 £M	Movement
Fixed Income			
Henderson	82.8	82.1	↑
Equities			
UK Legal & General	84.7	81.3	↑
UK - Small Companies Henderson	24.9	24.1	↑
O/seas – Developed Legal & General	133.8	127.7	↑
O/seas – Emerging Markets Dimensional	35.3	33.4	↑
Property			
Aviva	33.8	33.8	=
Private Equity			
Capital Dynamics	70.0	70.0	=
Yorkshire Fund Managers	1.1	1.1	=
Hedge Funds			
Fauchier	28.9	28.7	↑
Infrastructure			
Alinda	15.9	15.9	=
Capital Dynamics	16.6	16.6	=
Henderson PFI Fund II	1.1	1.1	=
Pooled Multi Asset			
Baillie Gifford DGF	44.2	33.4	↑
Cash	-11.8	-0.8	↓
Total	**561.3**	**548.4**	↑

4. FINANCIAL IMPLICATIONS

4.1 These are included within the report.

5. DIVERSITY IMPLICATIONS

5.1 None.

6. STAFFING IMPLICATIONS

6.1 None.

7. LEGAL IMPLICATIONS

7.1 None.

8. BACKGROUND INFORMATION

Henderson Investors – September 2013 quarter report
Legal & General – September 2013 quarter report
Fauchier Partners – September 2013 quarter report
Dimensional Asset Management – September 2013 quarter report

9. CONTACT OFFICERS

9.1 Persons wishing to discuss the above should contact the Treasury and Pension Investment Section, Governance and Corporate Services, on 020 8937 1472 at Brent Town Hall.

CONRAD HALL	**ANTHONY DODRIDGE**
Chief Finance Officer	**Head of Exchequer and Investment**

AllenbridgeEpic
investment advisers

QUARTERLY REVIEW PREPARED FOR

Brent Council Pension Fund

Q3 2013

15 October 2013

Peter Davies
AllenbridgeEpic Investment Advisers Limited (AllenbridgeEpic)

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BRENT COUNCIL PENSION FUND
Quarterly Review, July – September 2013

The Economy

1. The UK economy grew by 0.7% in the second quarter, with all areas of the economy contributing. Together with positive industry surveys, this has caused a sharp increase in forecasts for growth in 2013 and 2014, as highlighted in the table below. Second-quarter growth in the Eurozone turned positive for the first time in six quarters. The Japanese and Chinese economies have maintained their growth levels, although there have been slight reductions in the outlook for the United States.

   (In the table below, bracketed figures show the forecasts at the time of the previous Quarterly Review in July)

Consensus real growth (%)						**Consumer prices latest (%)**
	2010	**2011**	**2012**	**2013E**	**2014E**	
UK	+1.6	+0.9	-0.1	**+1.4 (+1.0)**	**+2.3 (+1.6)**	+2.7 (CPI)
USA	+2.9	+1.7	+2.2	+1.6 (+1.9)	+2.7 (+2.8)	+1.5
Eurozone	+1.7	+1.5	-0.5	-0.3 (-0.6)	+1.0 (+0.8)	+1.1
Japan	+4.2	-0.7	+1.9	+1.8 (+1.8)	+1.6 (+1.6)	+0.9
China	+10.3	+9.2	+7.8	+7.5 (+7.5)	+7.3 (N/A)	+2.6

[Source: The Economist, 05.10.13]

2. In early August, the new Governor of the Bank of England, Mark Carney, pledged to keep Base Rate at 0.5% until UK unemployment falls to a level of 7% from its current 7.8%. The Bank's own forecasts do not expect this to happen until mid-2016. He also said, however, that this interest rate policy would be altered if inflation was threatening to get out of control.

3. In the United States, the rate of unemployment had been edging downwards, so that it was a great surprise to markets when the Chairman of the Federal Reserve, Ben Bernanke, announced in mid-September that he did not intend to start 'tapering' the rate of Quantitative Easing yet. It had been generally expected that the $85 bn per month of bond purchases would be reduced by $10-15bn from September, but the Fed decided (with some dissenters) that economic growth was not yet well enough established to permit this. In a mirror image of the markets' reaction to the initial tapering announcement in May, equities and bonds rose sharply in the following days.

4. In Japan Prime Minister Abe's LDP party performed strongly in the Upper House elections in July, so that the LDP with its coalition partner now has a majority in both Houses of the Diet, and should be able to push through its structural reforms. He has since announced that he will implement the planned rise in consumption tax from 5% to 8% in April 2014, as a step towards tackling the country's fiscal deficit.

5. The German Chancellor, Angela Merkel's CDU party made big gains in the German elections in September, but her former coalition partners, the FPD, failed to reach the 5% threshold for representation in Parliament. The Chancellor is now in talks with the SPD about forming a Grand Coalition, and possibly also with the Greens, so that the shape of the new government may not become clear until December. In Australia Tony Abbott replaced Kevin Rudd as Prime Minister after a resounding win for his Liberal party over Labor in the election in September.

Markets

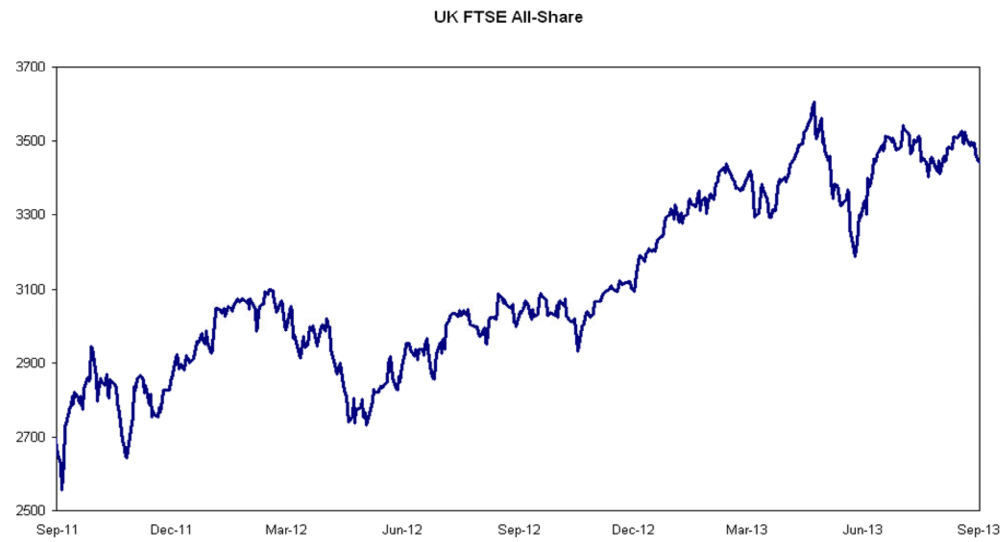
6. **Equities** had risen by some 5% in July, but most of this gain had been surrendered by the end of August, partly on fears that the chemical attacks in Syria would provoke military intervention by the Western powers. When the UK parliament failed to back any military action, and President Obama also deferred a decision until Congress had discussed it, markets stabilised. The subsequent agreement with Russia and the West for Syria to dispose of its chemical weapons calmed investors' nerves.

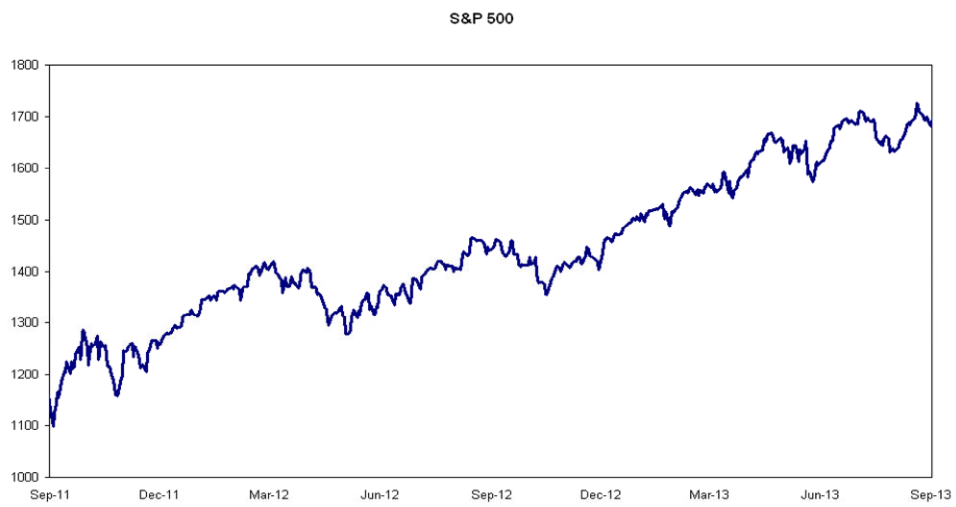
7. The recovery of equities in September was then stopped in its tracks by the Fed's decision to delay tapering (see para 3), and markets ended September close to where they had started the month. As the following table shows, the UK and Europe were the only markets to gain ground (in sterling) during the quarter, and Emerging Markets continued to lag behind all Developed Market regions.

	Capital return (in £, %) to 30.09.13		
Weight %	**Region**	**3 months**	**12 months**
100.0	**FTSE All-World Index**	**+0.6**	**+15.1**
50.3	FTSE All-World North America	-1.3	+15.8
8.8	FTSE All-World Japan	-0.5	+28.7
12.0	FTSE All-World Asia Pacific ex Japan	-0.5	+3.7
17.3	FTSE All-World Europe (ex-UK)	+6.6	+22.9
8.2	FTSE All-World UK	+4.1	+13.1
9.4	FTSE All-World Emerging Markets	-3.1	-2.8

[Source: FTSE All-World Review, September 2013]

Since the market correction in the summer of 2011, the UK equity market has gained 30% and the US market over 40%, in sterling terms, as shown in the graphs below.





8. There was very little dispersion in the performances of the different industrial sectors during the third quarter. As shown in the table below, Basic Materials recovered some of its earlier lost ground, but remains the weakest performer over the past year.

Capital return (in £, %) to 30.09.13		
Industry Group	**3 months**	**12 months**
Consumer Services	+1.5	+23.5
Industrials	+3.5	+23.2
Health Care	-1.0	+22.4
Financials	+0.2	+21.5
Consumer Goods	-1.6	+18.2
FTSE All-World	**+0.6**	**+15.1**
Technology	+1.3	+8.3
Telecommunications	-0.3	+6.5
Utilities	-3.4	+3.6
Oil & Gas	+0.1	+2.5
Basic Materials	+4.4	-3.0

[Source: FTSE All-World Review, September 2013]

9. Within the UK Equity market, the medium- and small-cap sectors have continued to outpace the FTSE 100 stocks by a wide margin, as shown in the table below.

(Capital only %, to 30.9.13)	**3 months**	**12 months**
FTSE 100	**+ 4.0**	**+12.5**
FTSE 250	**+ 8.0**	**+27.0**
FTSE Small Cap	**+10.2**	**+30.8**
FTSE All-Share	**+ 4.7**	**+14.9**

[Source: Financial Times]

10. **Government Bond** yields in US, UK and Germany rose for most of the quarter, with US and UK 10-year yields reaching the 3% level in mid-September. The Fed's surprise decision to delay the start of tapering caused an immediate fall in yields on the prospect of undiminished purchasing by the Fed for at least three more months. In Japan, by contrast, the Central Bank's programme of bond purchases is well underway, and government bond yields there have declined steadily.

10-year government bond yields (%)					
	Dec 11	**Dec 12**	**Mar 2013**	**June 2013**	**Sept 2013**
US	1.88	1.76	1.85	2.49	2.62
UK	1.98	1.85	1.78	2.45	2.73
Germany	1.83	1.32	1.29	1.73	1.78
Japan	0.98	0.79	0.57	0.86	0.69

[Source: Financial Times]

Currencies

11. The improved outlook for the UK economy has resulted in a strong move for sterling during September, and it registered gains against all the main currencies in the quarter.

	30.06.13	**30.09.13**	**£ move**
$ per £	1.517	1.619	+ 6.7%
€ per £	1.167	1.196	+ 2.5%
Y per £	150.7	158.9	+ 5.4%

[Source: Financial Times]

Sterling has risen from below $1.50 during June to above $1.60 at the end of September – equalling its highest level against the dollar in the past two years as illustrated below.

Commodities

12. Gold rallied strongly during July, following its earlier weakness, and both gold and oil strengthened on worries about the developing situations in Egypt and in Syria. The removal of the threat of Western intervention in Syria allowed the price of both commodities to stabilise in September.

Property

13. **UK Property** values have made good progress during the quarter. According to the IPD Monthly Index, the total return on All Property was +2.9%, with both Office and Industrial returning 3.7% and Retail 2.0%. The total return figures for the year to end-September are:

All Property	+6.5%
Office	+8.8%
Industrial	+8.6%
Retail	+4.2%

Outlook

14. October has begun in rather bizarre fashion with the US Federal Government shutdown, after the House Republicans refused to pass the budget unless President Obama's healthcare reforms were delayed or rescinded. This raised the spectre of disruption to the servicing of Treasury debt unless the deficit ceiling was increased on October 17th. The Republican leadership has offered to postpone this deadline for six weeks, but at the time of writing the federal shutdown continues. This threatens to slow the rate of economic growth in the US, which could further delay the start of 'tapering' by the Federal Reserve.

15. Provided the US situation is resolved soon, the improving economic outlook in the UK and Europe should underpin equity markets there, while the eventual start of tapering by the Federal Reserve is likely to cause US bond yields to move higher. In the absence of any negative news on China's economic outlook or the Eurozone's recovery, I believe equities are well supported at current levels.

Peter Davies

Senior Adviser – AllenbridgeEpic Investment Advisers

October 15th, 2013

[All graphs supplied by Legal & General Investment Management]

Brent	**Pension Fund Sub-Committee** 19 November 2013 **Report from the Chief Finance Officer**
For Action	Wards Affected: ALL

London pension fund collaboration

1. SUMMARY

1.1 Further to the recent public debate regarding the potential merger of LGPS funds, collaboration is high on the agenda and proposals to set up a voluntary collective investment vehicle (CIV) are being developed by the London Leaders to achieve lower investment management fees and potentially improve investment performance without the loss of operational independence in terms of asset allocation policy which a merger of funds would imply.

1.2 A CIV is a structure which would harness the joint purchasing power of the participating boroughs. It should be stressed that participation by boroughs in the CIV would be voluntary and boroughs would retain their autonomy in asset allocation and funding strategy. The CIV would provide the boroughs with a wide choice of funds within each asset class, would select the "best of breed" fund managers and negotiate and monitor fee and service levels.

1.3 A summary of the Government's 'Call for Evidence' on the future structure of the LGPS is attached at Appendix A to provide Members with some contextual background. The vast majority of LGPS funds (including Brent) have responded by asserting that the Government's objectives can be achieved through greater collaboration between funds without structural change that would reduce local accountability, point to the lack of correlation between size and performance across LGPS funds and highlight the value of current collaborative initiatives already taking place between funds.

1.4 The majority of authorities are in favour of exploring the scope for collaboration and each of the 33 London schemes are expected to commit up to £25,000 towards meeting the cost of creating such a London-wide vehicle. In the longer term, costs incurred in operating the CIV would be recoverable from participating boroughs which would be more than paid for from reduced fees.

1.5 Wandsworth Council has offered to act as a lead borough for a CIV for the London pension funds. The lead authority would procure an investment adviser followed by a transition manager and investment funds/fund managers within each asset class, including alternatives like infrastructure. The CIV would operate by maintaining a “best of breed” selection of funds/managers for each asset class, with the CIV using its buying power to secure lower investment manager fees.

1.6 Such a scheme would counter the argument for a single London pension fund and mitigate against the imposition of other, unwelcome initiatives given that the maintenance of the status quo is not a viable option.

2. RECOMMENDATION

2.1 Members are asked to support the investigation and establishment of a collective investment vehicle (CIV) and delegate authority to the Chief Finance Officer to approve expenditure relating to the investigation and set up costs of the CIV up to a limit of £25,000.

3. DETAIL

3.1 The London Leaders and Society of London Treasurers have been comparing a range of options for closer pension fund collaboration in terms of their impact and practicality. The preferred option is a CIV that operates on a voluntary basis. The proposal is that the CIV will be a bridge between individual schemes and fund managers. The CIV will identify and monitor one or more fund managers for each asset class, agreeing fees. Individual schemes such as Brent would then be able to opt into those arrangements.

3.2 The advantage of a CIV compared with merger is that there will be no change to the Brent fund structure and the Sub-Committee will retain local decision making in the setting of investment and funding strategies. The additional available choice will be that when it comes to manager selection, Brent will be able to use the managers selected to manage the CIV. Monitoring of fund managers and decisions to de-select would continue to be undertaken by Brent. With additional resources and a larger mandate, the hope is that a CIV would result in improved investment performance (which is debatable) and lower fees (a more reasonable expectation).

3.3 London pension funds have collected information on individual fund performance compared with the larger county councils and concluded that while there is a wide distribution of returns across London, which might indicate poor management by some councils, on average the larger county councils generated returns that were no higher than the London average. The research did suggest that there is scope for fee savings, but not to the extent suggested by earlier commentators.

3.4 It is clear that the Government seeks change, possibly by compulsion if not achieved voluntarily. The CIV route now being investigated addresses many of the concerns raised in previous discussions on compulsory merger and should achieve many of the benefits of scale. The merits of the CIV route are listed as follows:

- it leaves unchanged the structure of the scheme, the setting of strategy and the determination of manager mandate (active versus passive);
- by operating at asset class level, it allows choice as to which asset classes should be collectively managed and which excluded;
- greater scale would enable investments to be managed in a different way – an example would be avoiding use of 'fund of funds' approaches because the CIV pool would be large enough to diversify adequately;
- there is no compulsion to use the CIV, although there needs to be adequate support from a sufficient number of funds to ensure its success;
- the CIV will have running costs (staff, accommodation and advisers), although these should be wholly offset by reduced management fees through larger pools of assets;
- individual schemes may save on adviser fees;
- by acting to achieve the fee savings and improved performance the Government expects from the pooling of assets, the establishment and use of a CIV may avoid more drastic action being imposed.

3.5 It is suggested that the Sub-Committee supports further investigation of the CIV option and remain open-minded about using the CIV. It is possible that Brent will be asked to contribute to the investigation and set-up costs of the CIV, and it is suggested that authority be delegated to the Chief Finance Officer to approve such expenditure up to a limit of £25,000. It is considered that if London councils refuse to explore the potential for a CIV that the Government is more likely to force change, such as a merger.

3.6 The report on the 'Annual review of fund managers' fees' included in the exempt section of this particular meeting agenda highlights the significant progress which has been made by the Brent Pension Fund in reducing its fund management costs over the past 12 months. Therefore, whilst the scope to achieve further savings on fees is considered to be limited a reduction of a single basis point, i.e., 0.01%, which equates to £50,000 on a £0.5bn fund would more than offset the proposed £25,000 contribution towards meeting the costs of creating a CIV.

4. FINANCIAL IMPLICATIONS

4.1 These are included within the report.

5. DIVERSITY IMPLICATIONS

5.1 None.

6. STAFFING IMPLICATIONS

6.1 None.

7. LEGAL IMPLICATIONS

7.1 None.

8. BACKGROUND

8.1 None.

9. CONTACT OFFICERS

9.1 Persons wishing to discuss the above should contact the Treasury and Pension Investment Section, Governance and Corporate Services, on 020 8937 1472 at Brent Town Hall.

CONRAD HALL	**ANTHONY DODRIDGE**
Chief Finance Officer	**Head of Exchequer and Investment**

Appendix A

CALL FOR EVIDENCE ON THE FUTURE STRUCTURE OF THE LOCAL GOVERNMENT PENSION SCHEME

The Department for Communities and Local Government (DCLG) has launched an informal 'Call for Evidence' on the question of LGPS Fund sizes, potential mergers and cost management.

The Call for Evidence had been announced by Local Government Minister Brandon Lewis at the National Association of Pension Funds' annual local government conference in May. The Minister stated *"I am neither ruling anything in nor ruling anything out at this stage. However, the clear message from me this morning is that I am not wedded to the existing number of 89 funds in England and Wales. If it takes a smaller number of funds to improve the efficiency and cost-effectiveness of the scheme, I shall not shy away from pursuing that goal."*

The call for evidence sets out two high level objectives and six secondary objectives. These are as follows:

<u>High level objectives</u>

1. Dealing with deficits

2. Improving investment returns

<u>Secondary objectives</u>

1. To reduce investment fees

2. To improve the flexibility of investment strategies

3. To provide for greater investment in infrastructure

4. To improve the cost effectiveness of administration

5. To provide access to higher quality staffing resources

6. To provide more in-house investment resource

There is also the suggestion that, although there is a wide range of data available on Local Government Pension Scheme funds, it is currently widely dispersed and would benefit from enhancement, collation and further analysis. The call for evidence also asks for views on how best to achieve a high level of accountability to local taxpayers, particularly if services are to be shared or funds merged.

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Brent	**Pension Fund Sub-Committee** 19 November 2013 **Report from the Chief Finance Officer**
For Information	Wards Affected: ALL
Use of Alternatively Weighted Indices	

1. SUMMARY

1.1 At its meeting of 25 June 2013, Members of the Pension Fund Sub-Committee were given a presentation on alternative indices by Legal & General. It was agreed that the Head of Exchequer and Investment would produce a follow-on report to Members regarding the use of alternative indices and any recommendations arising in relation to the Brent Pension Fund.

2. RECOMMENDATION

2.1 Members are asked to note the report.

3. DETAIL

3.1 Legal & General manages two investment mandates on behalf of the Brent Pension Fund:

- a UK equities fund which automatically tracks the FTSE All Share index; and
- a global equities fund which automatically tracks the FTSE All World Developed Markets (excluding UK) Share index.

3.2 When opting for passive management, care must be taken to choose an appropriate benchmark. Members should be happy that the benchmark their fund is tracking is the appropriate one for their circumstances.

3.3 Whilst the Brent Pension Fund has opted for the most popular benchmarks available, there has been growing interest in alternatively weighted index funds, most notably the RAFI 3000 Index. It was this growing interest which prompted the request for Legal & General to provide a presentation to the Pension Fund Sub-Committee.

3.4 The presentation outlined that Legal & General passively manages around £269bn worldwide on behalf of its clients, of which only £4bn (or less than 2%) tracks alternatively weighted indices.

3.5 The annual performance during each of the last three calendar years of 2011, 2012 and 2013 showed that the RAFI 3000 Index did not outperform the standard FTSE All World Index. Indeed, the RAFI 3000 Index delivered a marginally worse performance than its mainstream counterpart.

3.6 Using an alternatively weighted index incurs a licence fee to the index provider and encompasses the intellectual property rights to track the index. For example, the RAFI (Research Affiliates Fundamental Index) attracts a licence fee of 7.2bps which would be a substantial addition to the existing management fees.

3.7 The case for Brent Pension Fund using an alternatively weighted index seems unconvincing based on the information available and would only serve to further complicate an already relatively small but complex Fund.

4. FINANCIAL IMPLICATIONS

4.1 These are included within the report.

5. STAFFING IMPLICATIONS

5.1 None.

6. DIVERSITY IMPLICATIONS

6.1 None.

7. LEGAL IMPLICATIONS

7.1 None.

8. BACKGROUND

8.1 None.

9. CONTACT OFFICERS

9.1 Persons wishing to discuss the above should contact the Treasury and Pension Investment Section, Governance and Corporate Services, on 0208 937 1472 at Brent Town Hall.

CONRAD HALL
Chief Finance Officer

ANTHONY DODRIDGE
Head of Exchequer and Investment

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Agenda Item 12

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Agenda Item 13

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Agenda Item 14

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