LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Tuesday 30 September 2014 at 6.30 pm

PRESENT: Councillor Crane (Chair) and Councillors S Choudhary, Filson (substitute for Councillor Shahzad), W Mitchell Murray, Thomas, George Fraser and Ashok Patel

Also present: Councillor Perrin

Apologies for absence were received from: Councillors Hylton and Shahzad

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

   None declared.

2. **Minutes of the previous meeting held on 25 February 2014**

   RESOLVED:-

   that the minutes of the previous meeting held on 25 February 2014 be approved as an accurate record of the meeting.

3. **Matters arising**

   None.

4. **Local Government Pension Scheme funds performance**

   Lynn Coventry (WM) gave a presentation on the Local Government Pension Scheme (LGPS) funds performance. Members heard that the average return for a LGPS for 2013/14 was 6.4%. Annual returns in equity continued to perform well ahead of inflation, although they involved more volatility, whilst bonds' performance was also strong overall, although returns had been reducing in the last three years. The sub-committee noted the returns in alternatives and property. In terms of overall annual returns, Lynn Coventry advised that over the last 20 years there had been an average return of 7.2% which was around 4% ahead of inflation. Although alternatives continued to lag well behind equities in returns over the past five years, the average proportion of investment in alternatives had risen in recent years, whilst the average proportion in equities was reducing.

   Turing to Brent's Fund, Lynn Coventry informed members that the Fund's structure was rather different to most other local authorities, with an appreciably larger percentage of investment in alternatives and well below average weighing in equities. The Fund was also relatively complex and had been changed frequently. As the Fund had a lower percentage of equities, it was at lower risk than other local authorities, however the last five years had seen equities achieve higher returns and so the Fund's performance had not compared well in the local authorities universe. The Fund's performance in 2014 registered a return of 6.1%, below the benchmark of 7.2% and local authority average return and in the last ten years the Fund had only performed above the benchmark for two of these years. Lynn Coventry attributed this to the negative impact from active management and unfavourable performance from relative short term investments in some alternatives. The sub-committee noted the returns compared to the benchmark return for each of the fund managers. In terms of relative risk and return, Lynn Coventry advised that the Fund's higher relative risk had not been rewarded in relative return to date. Over a longer period, the above average commitment to alternatives had impacted negatively on the Fund, whilst there had also been examples of unsuccessful management of stock selection, particularly in equities.

During discussion, a member asked if comparisons with other local authorities' fund investments had been made. Another member commented that there had been some improvement in returns. The Chair thanked Lynn Coventry for the helpful presentation and in noting the relatively poor return of the Fund in recent years, enquired whether it was down to appointing the wrong fund managers at the wrong time. He advised that the sub-committee would consider the asset allocation under the strategic asset allocation item later on in the meeting with a view to considering what changes could be made in future to the spread of investments to achieve more favourable rates of returns.

In reply to the issues raised, Lynn Coventry reiterated that the Fund was structured quite differently to other LGPS funds and the current performance was also influenced by the strategy driving it. In respect of fund managers, some had taken an active management approach, however the success of this was dependent on their ability to judge how their actions would lead to better returns, rather than taking a more conventional passive approach.

Julian Pendock (Investments and Pensions Manager, Finance and IT) added that it would not be prudent to make large changes to the Fund's structure at this stage due to the volatility of the market and the risks involved. However, by undertaking an analysis of the performance in various areas, some changes could be made to help bring about an improvement.

5. Quarterly monitoring report on Fund activity for quarter ended 31 March 2014

Members noted the report.

RESOLVED:

that the quarterly monitoring report on Fund activity for the quarter ended 31 March 2014 be noted.

6. Pension Fund annual report 2013/14

Mick Bowden (Operational Director – Finance, Finance and IT) introduced the report and advised that it included the statement of accounts 2013/14 that had been approved by the Audit Committee on 29 September and subsequently signed off by the external auditors on 30 September. He confirmed that the external auditors had raised no issues with the Pension Fund account and members noted that the report also incorporated some governance statements, statement of investment principles, the pensions administration strategy and modest performance targets for the future.

Members noted the annual report.

7. **Auto-enrolment update**

Mick Bowden introduced the report and advised that any employee apart from those on contracts for less than three months or who were casually employed were now auto-enrolled into the council's pension scheme, even though they had previously opted out. I they wished to remain outside of the scheme, they would now have to positively indicate that they wished to opt out again.

During members' discussion, clarification was sought as to whether all employees needed to have a pension scheme. It was also enquired whether Brent schools participating in the pension scheme had been notified of the introduction of auto-enrolment.

In reply, Mick Bowden advised that ultimately it was the employee's decision as to whether they wished to participate in a pension scheme or not and that all employers in the Brent pension scheme had been advised about the implementation of auto-enrolment.

RESOLVED:

that the update on Brent pension fund's auto-enrolment be noted.

8. **Training plan**

Julian Pendock advised that a spreadsheet containing training dates for members had been produced and he added that if any members wished for training on a particular topic to let him know.

During discussion, a member enquired whether there would be pension fund training for Audit Committee members. Another member enquired whether the training providers were suitably objective.

In reply, Julian Pendock advised that there was always a potential sell element from training providers, although overall they provided sound training. The Chair added that there was a list of independent training providers that he would be happy to provide details to any members who were interested.

9. **Any other urgent business**

None.

10. **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 as specified in Schedule 12A of the Local Government Access to Information Act 1972, namely:

Information relating to the financial or business affairs of particular persons (including the Authority holding that information).

11. **Review of fund managers**

Julian Pendock presented the item and began by referring members to the quarterly monitoring report on the Fund's activity for the quarter ended 30 June 2014. Members noted that the Fund had increased in value by a return of 1.4%, below the quarterly benchmark of 2.1%. and the main negative performer compared to the benchmark was private equity. However, Julian Pendock advised that the performance of a fund manager needed to be considered over a three year period rather than by quarter. In addition, private equity assets had performed below previous levels generally over the quarter and so the return achieved was around what was expected.

Peter Davies (Independent Adviser to the Fund) then informed members about the UK's economic performance during the quarter which had recorded 0.8% in growth and compared its performance to other countries and the Eurozone. He referred members to the equity returns in the FTSE indices and also advised that the gains in Government bonds had not worked to the Fund's advantage.

During discussion, a member noted that eight fund managers had been appointed for the Fund which he felt could be excessive and he asked how this compared with other local authorities' funds. He also enquired whether there were any standing instructions for fund managers not to undertake stock lending.

In reply, Mick Bowden advised that the Fund appointed perhaps one or two more fund managers, or mandates, than average. Julian Pendock added that fund managers were not actively instructed not to stock lend, however he would check to see if there was any specific statement that the Fund would not undertake such activity.

RESOLVED:

that the quarterly monitoring report on fund activity be noted.

12. **Markets and the current investment climate**

Julian Pendock presented the report that provided a historical context on how the national and world economies had reached their current point. From the 1980s to 2007, the markets had experienced a remarkably good run, however since then markets were generally expensive, with volatility across all asset classes. In such circumstances, investments of many types, including pension funds were finding it difficult to consistently make the high returns that some funds had previously managed. Julian Pendock then invited comments from members.

During discussion, a member commented that the Fund was performing below average compared to other LGPS and with a significantly different strategy. In view of this, he felt that an analysis of what other local authorities were doing could be beneficial and would help identify any trends that may assist the Fund in future.

In reply, Julian Pendock advised that it could be more fruitful to look at how active fund managers were performing and paradoxically, appointing a fund manager who was achieving high returns may not be the most prudent action in the longer term as they may also be taking much greater risks.

The Chair added that there was lower risk with the Fund compared to other LGPS and lessons had been learnt in the past where riskier investments had failed.

13. **Strategic asset allocation**

Julian Pendock presented the report and stated that investments were increasingly moving from a regional to a global level and it was also important to consider where a company was selling its assets from. There was a trend towards multi-assets as these provided more tactical flexibility and freedom for the fund manager and avoid the situation of being forced to buy assets. Active equities involving investing in companies was also desirable. Julian Pendock advised members that the Fund was moving towards using more active fund managers as opposed to passive ones. A good active fund manager would be able to achieve good returns at low cost. However, one of the reasons for the Fund's relatively low performance compared to other LGPS was attributable to disappointing performances from some of the active fund managers and in particular there was one poorly performing fund manager who also had a large weighting of investments that was adversely affecting performance. As a result, Julian Pendock advised that it was timely to undertake a review of the strategic asset allocation.

During members' discussion, it was commented that flexibility provided by multi-assets and timing of investments were both desirable. It was also queried how assets would be reallocated in the event that a fund manager was replaced by another. A member commented that although he agreed with the broad direction the Fund was taking, he still felt that it would be useful to undertake comparisons and weightings of investments with other LGPS. He also asked whether the views of other local authorities could be obtained with regard to the poorest performing fund manager in the Fund. It was also remarked that from an employer's point of view concerning their pension contributions, there needed to be reassurance that there had been an element of ill fortune and technical naivety, rather than a fundamental flaw with the Fund, that accounted for past underperformance. Another member stated that the employer contribution rates for the Fund was fairly average compared to other London boroughs. He also sought observations regarding the outcome of the meeting between the council and the lowest performing fund manager. A member requested that in future, where reports stated that there were no legal implications, they should include an explanation as to why.

In reply to the issues raised, Julian Pendock stated that an active fund manager was good from a governance perspective. In terms of measures to improve the

Fund's performance, there were a number of things he thought could be done better. He confirmed that he could include the views of other local authorities who also used the same lowest performing manager for this Fund. Julian Pendock added that setting sensible contribution rates was the best way of recovering debt.

Peter Davies referred to the meeting with the poorest performing fund manager and advised that their private equity investments were based on a complicated structure and in his view the figures that they were providing were not robust. He also felt that their accountability for performance was not presently up to the standards required.

Mick Bowden confirmed that he would circulate to members the strategic asset review report from the previous meeting on 25 February 2014 that compared the Fund's performance and asset allocation with some other local authorities. He advised that the percentage of contribution rates could be misleading and the relative size of the deficit needed to be taken into account, adding that the Fund was not relying on markets to wipe the deficit out.

The Chair advised that the council and Peter Davies would continue to meet with the Fund's poorest performing fund manager and then provide an update on this at the next meeting. Members also agreed to the Chair's suggestion that a report be produced at the next meeting comparing multi-asset funds, passive and active fund managers, the views of other local authorities who used the Fund's lowest performing fund manager, a synopsis of the structure of other local authorities' funds and their investments and the implications in the event of replacing a fund manager.

RESOLVED:

(i) that an update on the outcome of meetings with the Fund's lowest performing Fund manager be provided at the next meeting; and

(ii) that a report including comparisons of multi-asset funds, passive and active fund managers, the views of other local authorities who used the Fund's lowest performing fund manager, a synopsis of the structure of other local authorities' funds and their investments and the implications in the event of replacing a fund manager be provided at the next meeting.

The meeting closed at 8.00 pm.

G CRANE
Chair