Public Document Pack

Pension Board

Thursday 9 March 2017 at 7.00 pm
Board Room 2 - Brent Civic Centre, Engineers Way, Wembley HA9 0FJ

Membership:

Members	
Mr David Ewart	Independent Chair
Councillor Crane	Employer Representative
Councillor Kabir	Employer Representative
Angela Cattermole	Employer Representative (Other than Council)
Bola George	Member Representative (Trade Union)
Euton Stewart	Member Representative (Trade Union)
Trevor Drawson	Member Representative (Pension Scheme)

For further information contact: Joe Kwateng, Governance Officer
020 8937 1354; joe.kwateng@brent.gov.uk

For electronic copies of minutes, reports and agendas, and to be alerted when the minutes of this meeting have been published visit: **www.brent.gov.uk/committees**

The press and public are welcome to attend this meeting

Agenda

Introductions, if appropriate.

8 Discussion on Training Needs

For Board Members to discuss any future training needs and any training opportunities available.

9 Future Meeting Dates

For the Board to discuss any potential future meeting dates before the end of the 2016-2017 municipal year.

10 Any Other Urgent Business

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

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.

This page is intentionally left blank

Brent

MINUTES OF THE PENSION BOARD
Held on Tuesday 13 December 2016 at 6.45 pm

PRESENT: Mr David Ewart (Chair), Councillors Crane and Kabir, Angela Cattermole, Trevor Dawson and Euton Stewart

1. **Apologies for Absence**

Apologies for absence were received from Bola George.

2. **Declarations of Interests**

The Chair declared that he and David Veale (the Council's Director of HR and Organisational Development, who was present at the meeting) had previously worked together at the London Borough of Ealing.

There were no other interests declared by Members.

3. **Minutes of the Previous Meeting**

RESOLVED that the minutes of the previous meeting, held on 27 July 2016, be approved as an accurate record of the meeting.

4. **Matters Arising (If Any)**

The Chair noted that the *Communication of Pension Board business back to employees and scheme members*, which was mentioned under the matters arising from the previous meeting, would be discussed at the next meeting of the Pension Board.

The Chair also stated that both the update on the performance of Capita and the Re-Enrolment Update, which were due to be resubmitted separately at this meeting, had both been incorporated into the content of the report on Capita's LGPS Pension Administration Performance (agenda item 10 of this meeting).

5. **Breach of Internal Regulations**

Gareth Robinson (the Council's Head of Finance) introduced the report, which notified Pension Board members of a breach of internal regulations. The Board heard that the Council's current statutory Statement of Investment Principles outlined that no more than 35% of the Pension Funds' unit trusts (shares) would be managed by any one body. However, in the first quarter of 2016, the Pension Fund added to its tracker funds (a type of investment fund) beyond the 35% amount allowable with an individual body. This investment was known to be temporarily breaching internal regulations, but was not explicitly reported in the minutes during the February Pension Fund Sub-Committee meeting. Gareth Robinson outlined that whilst the investment into the tracker funds had been appropriate in the sense that it didn't break any of the LGPS regulations and much of the growth had happened through sub-fund performance, it should have highlighted more fully to the Pension Fund Sub-Committee at the time of the investment.

Members of the Board questioned whether the Pensions Fund Sub-Committee knew about the breach at the February meeting and what was being done to ensure that a mistake like this did not happen again. Both the Chair and Gareth Robinson agreed that whilst the Sub-Committee was aware that a lot of money was being placed into the LGIM UK Tracker Fund, they did not believe that the Sub-Committee was aware this would cause a temporary breach of internal regulations. Gareth Robinson outlined that much more rigorous internal controls on investments were being put in place to avoid this scenario re-occurring. The Chair added that the independent review of internal audit should offer some reassurance that this type of scenario should be avoidable in future.

Whilst acknowledging the internal controls being put in place to avoid a repeat of a breach not being reported, the Chair asked that the Board's concern that the lack of adequate reporting occurred in the first instance be placed on record.

RESOLVED that:

(I) The report be noted; and

(ii) A future report be submitted to update members of the Pension Board once the specified controls on investments were fully in place.

6. **Pensions Regulator Questionnaire**

The Board considered the content of the Pensions Board Regulator questionnaire which was designed to review the actual governance arrangements of various schemes in the UK. The Chair commented that the questionnaire highlighted how The Pensions Regulator viewed Pension Boards as having an extremely important role in the administration of Pension Funds. He noted that the questionnaire was generic to the public sector, and unfortunately did not include questions on investment, which could be considered to be the Brent Pensions Fund's biggest risk. Members discussed how wide-ranging the scope of the questionnaire was, and agreed that training from the Council's Pension Scheme Manager would continue to be extremely important going forward.

RESOLVED that:

(i) Members of the Board email Gareth Robinson (the Council's Head of Finance and Pension Scheme Manager) before 5pm on 14 December 2016 if they had any additional comments on the Pensions Regulator Questionnaire; and

(ii) The questionnaire be submitted at the earliest possible opportunity, which was planned to be 5pm on 14 December 2016.

7. **New Regulatory Oversight for Local Government Pension Schemes**

The Board considered a report by the Council's Chief Finance Officer, which informed Members of recent changes to the Public Services Pension Act 2013, which had thereby changed the regulatory framework of the Local Government Pension Scheme (LGPS). In particular, Section 13 of the Act had introduced additional oversight of LGPS Schemes from Central Government via a specific Government Actuary Department (GAD). This included a review of LGPS funding valuations and employer contributions rates to check that authorities were continuing to manage their Pension Schemes appropriately and for remedial steps to be identified and taken by scheme managers where necessary. The Chair stated that he had attended a briefing from the Government Actuary on the changes recently and that this was a highly significant change of which Members should be aware.

A Member of the Committee noted that GAD had stated its current analysis was a 'dry run' based on 2013 local pension fund valuations and questioned when the full report would be ready. The Chair commented that this was typically a long process and would require a lot of data to be gathered and then analysed before an up to date GAD review would be published.

A Member referenced the four key areas that GAD would be assessing LGPS on: Compliance, Consistency, Solvency and Long-Term Cost Efficiency and asked how confident Brent was in its Pensions Fund being judged favourably against these criteria. Gareth Robinson ran through each area in turn, and replied firstly that LGPS funds tended to be very compliant with the regulations. On consistency, he stated that this had been a slight issue because different organisations had different assumptions to GAD on their Pensions Fund base and drew Members' attention to the table on page 58 on the public agenda pack as an example of this. He outlined that GAD viewed Brent as one of the more prudent authorities and less of a risk in addressing its Pensions Fund deficit. On solvency, the Committee heard that Brent was aiming to achieve a 100 percent solvency level and that there was a 19 year strategy in place to achieve this. On long-term efficiency, Gareth Robinson outlined that the Fund had a high contribution rate that meant costs were not pushed off into the future, a planned rate of return consistent with its investments and a realistic timeframe for achieving 100% funding, as reviewed by GAD in the 'dry run' with 2013 data, subject to the standard caveats.

Gareth Robinson also noted that the Fund was well invested in tracker funds, which have lower charges. Choosing to invest through the London CIV was also intended to reduce fees. It was hoped that combining this with higher pension contribution rates over a period of time would aid the Fund's long-term efficiency. He reiterated that the strategic approach of focusing on investments with lower fee structures was seen as less risky and endorsed by the Government.

In response to a Member's question on what the possible negative impact of the new regulatory oversight would be for other employers, which formed part of Brent's Pensions Scheme, Gareth Robinson said that some other employers would be deemed to have a higher level of risk. He noted that some of the possible solutions to this would be either putting guarantees in place to ensure employers met their obligations or raising the contribution rates for their respective employees. The Committee heard specifically that the data quality issues in some smaller admitted bodies and academies, which contributed to their level of risk, was an area that needed to be looked at going forward.

RESOLVED that:

(i) The report be noted;

(ii) The Pension Fund would need to comply with the Section 13 process, responding to all queries and requirements of the Government's Actuary Department (GAD); and

(iii) The results on the review by GAD come back to the Pension Board when GAD had completed its report in early 2018.

8. **Triennial Review**

Gareth Robinson introduced the report, which had previously been discussed by the Brent Pensions Fund Sub-Committee and had been brought to the Pension Board for information purposes. The Triennial Review process aimed to identify the Pension Fund's overall funding level and highlight any differences over a three-year period. This then informed a stage of modelling different financial scenarios to assist the setting of contribution rates for various employers for the period 2017/18 through 2019/20.

Gareth Robinson informed the Board that, unfortunately, whilst this modelling process was ongoing, very recently some of the data relating to the career average revalued earnings (CARE) fund calculations had been determined to be incomplete and potentially inaccurate. The local government pension scheme bases calculation of pension earned from April 2014 was based on average earnings and not final salary. He explained that the valuation was not able to be completed until the data had been reviewed and corrected if necessary. As such, it was not possible currently to approve the draft Funding Strategy Statement or enable the Chief Finance Officer to finalise the contribution rate for the Pension Fund. Members acknowledged that this was disappointing as it had delayed the progress being made in the review process.

A Member of the Committee questioned if there was an estimated timeframe for this to be rectified to allow the contribution rate to be set. Gareth Robinson responded that this was not possible yet but it was hoped that it might be possible in January 2017, before the Council's Budget in February 2017.

RESOLVED that:

(i) The report be noted; and

(ii) An update be provided to the Board at the next meeting.

9. **Actuarial Contract Re-Procurement**

Gareth Robinson introduced the report, which noted that the actuarial contract ended in April 2017. It was noted that this timeframe conflicted with the Triennial Review process. The Committee heard Officers had proposed that, in future, the actuarial contract be scheduled to end in September/October to ensure it took place after the Triennial Review and end of year accounts which also avoided any potential conflicts of interest. Gareth Robinson stated to the Pensions Board the approximate contract value over three and a half years would likely be over £500k. He stated that it was a very important contract as a source of advice on the long-term strategy for the

Pensions Fund, but that the timescales needed to be modified for the next contract procurement process.

Members questioned whether there were any additional changes to the detail of the contract to be expected and whether the contract would change due to the Council being part of a Collective Investment Vehicle (CIV). Gareth Robinson stated that further changes were not likely and it was simply the timescales which needed to be different. He added that the contract was not within the CIV so wouldn't be affected by this.

RESOLVED that:

(i) The report by noted; and

(ii) The Board's recognition be placed on record that the quality of the information that the authority received from the actuary within this contract was of the utmost importance.

10. **Capita's LGPS Pension Administration Performance 2016**

David Veale (the Council's Director of HR and Organisational Development) introduced the report, which reviewed the performance during the contract year October 2015 – September 2016 of Capita Employee Benefits. This company provided pension administration services for Brent's local government pension scheme. As the Pension Board had already heard, the Pension fund was managed separately.

David Veale began by explaining that the LGPS was a contributory Career Average Revalued Earnings (CARE) Defined Benefit Scheme. He outlined that one of the significant issues with Capita's administration of the Pensions Fund was that some of the 2015/16 data relating to the 'CARE funding pots' appeared to have not been included as part of data supplied to be analysed for the Triennial Review process. The Board heard that this was a troubling occurrence and that the Council had addressed this with Capita as a matter of real urgency and that significant steps were being taken to ensure that correct data was supplied.

David Veale also noted that another issue that had arisen was that 782 delayed Annual Benefit Statements (section 5.4 of the report) had not been sent out to active members by Capita, despite the agreed 30 November 2016 deadline, which was already late. There were also a number of Annual Benefit Statements, which had been sent out, which had inaccuracies, although these were in a minority. David Veale specified that the matter arising was that the Council would now have to contact The Pensions Regulator to state that there had been non-compliance in sending out the Annual Benefit Statements. With regards to the Scheme's deferred members (employees who have left the Council), he noted that there was an additional problem whereby there were a high number of deferred members without a current address on either the Council's or Capita's records and therefore couldn't be sent their Annual Benefit Statements. This was almost inevitable as it was the responsibility of the deferred member to inform the LGPS when they changed address and this regularly did not happen. He again noted that the Council and Capita were exploring the potential actions to address this. David Veale concluded that an underlying issue was the performance issues around timeliness involving payments (section 4.3 of the report) and that the Council would be considering all of these issues before any discussions on contract renewal with Capita next year.

The Board acknowledged these performance problems with Capita and expressed its frustration at the errors which had been described. One Member of the Board offered their own anecdotal experience of their Annual Benefit Statement being issued with errors and Capita's interface being more difficult for smaller employers to use. There were also discussions over Capita's relocation of Brent's Pension Administration from Surbiton to Darlington as being a key potential reason for the some of the mistakes being made. It was agreed that the most important point going forward would be how the Council continued to address these issues.

RESOLVED that:

(i) In noting the report, the Board record its deep concern at the ongoing performance problems with Capita in administering Brent's Pensions Fund;

(ii) A report providing an update on Capita's administration performance be provided at the next meeting of the Pension Board; and

(iii) Any review from The Pensions Regulator on these issues also be provided at a future meeting of the Pension Board.

11. **Exclusion of Press and Public**

There were no members of the press or public present at the meeting to exclude for discussion of exempt items. The discussions which related to the exempt sections of the agenda pack have not been included in this set of minutes.

12. **Any Other Urgent Business**

The Chair asked that Pension Board members look at prospective training dates in January/ February 2017 which were circulated informally before the meeting.

13. **Date of the Next Meeting**

The Chair proposed that, subject to approval from the Head of Executive and Member Services, the next scheduled meeting of the Pension Board (2 February 2017) be postponed until an appropriate date in early March 2017 to allow for a more comprehensive update on some of the issues addressed within this meeting.

The meeting was declared closed at 8.17 pm

MR DAVID EWART
Chair

ITEM NO:

Brent	**Pension Fund Sub-Committee** 14th February 2017 **Report from the Chief Finance Officer**
For Information	Wards Affected: ALL
Quarterly monitoring report on fund activity: Quarter to December 2016	

1.0 SUMMARY

1.1 This report provides a summary of the Fund's activity during the quarter ended 31 December 2016. It examines 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 increased in value from by 3.6% £749.7m to £776.9m during the quarter 4 ended 31 December 2016.

2.0 RECOMMENDATIONS

2.1 Members are asked to note the investment report.

3.0 DETAIL

3.1 Economic growth in the fourth quarter in the UK has been solid. Economic growth has surprised most commentators and investment performance has been greater than expected. However, it is hard to determine how much of that is due to the Bank of England's actions to re-start quantitative easing and the weakened pound; the long-term economic outlook is profoundly unclear. It is important to note that growth was already underway long before Brexit. The lack of clarity around the Government's position and that businesses would be differentially impacted by the different approaches taken has made the future unusually difficult to forecast. It is likely interest rates will cannot go much lower. This has made long-term investment returns more challenging, even as in the short-term there has been significant appreciation, as cheap money pumps up asset prices.

3.2 A full market review for the quarter ended 31 December 2016, written by the Independent Financial Adviser, is attached. However, It is important to note in the table below that the majority of growth in the fund has come from appreciation and this quarter has seen more than 3% return solely due to appreciation.

3.3 The Fund's position in cash has also risen to the point it now has the cash on-hand to re-allocate to its intended strategic allocation. With Capital Dynamics entering a mature stage in its portfolio and distributing large amounts of cash, this strengthens the Fund's ability to achieve this strategic goal. This is counter-balanced by uncertainty over one of the largest sub-funds, as either £30m approximately will leave Brent Pension Fund or £20m will move to Brent Pension Fund.

3.4 UK-AVIVA and YFM have reduced to £5.8m and £0.6m respectively, as the Fund is exiting the former, gradually subject to commercial market conditions and the latter is already being run round down.

3.5 The following distributions or capital proceeds took place in Q4 2016:
a) £13.7m sales proceeds from the Aviva UK property fund
b) Capital Dynamic private equity distributions in the quarter of £3.5m.
c) £2.1m distributions from Alinda Parallel II Infrastructure.

Table 1: Asset allocation as at 31 December 2016 compared to the benchmark

ASSET CLASS	30/09/2016 Value (£m)	Net Investment Value (£m)	Appreciation (£m)	31/12/2016 Value (£m)	% of Fund	Allocation Target (%)	Deviation (%)
Fixed Income							
Henderson-Total Return Bond Fund	**90.6**	**0**	**-0.8**	**89.8**	**11.6**	**15.0**	**-3.4**
Equities							
UK - L&G	98.7	0	3.8	102.5	13.2		
UK Smaller Cos - Henderson	27.3	0	0.7	28	3.6		
Overseas Developed - L&G	236.3	0	17.3	253.6	32.6		
Equities - Total	**362.3**	**0**	**21.8**	**384.1**	**49.4**	**45.0**	**4.4**
Diversified Growth							
Baillie Gifford	**72.3**	**0**	**1.5**	**73.8**	**9.5**	**21.0**	**-11.5**
Property							
UK - AVIVA	16.7	-13.7	-0.8	2.2	0.2		
Europe - AVIVA	3.7	0	-0.1	3.6	0.5		
Property - Total	**20.4**	**-13.7**	**-0.9**	**5.8**	**0.7**	**0.0**	**0.7**
Private Equity							
Capital Dynamics	83.3	-3.5	4.6	84.4	10.8		
Yorkshire	0.6	0	0	0.6	0.1		
Private Equity Total	**83.9**	**-3.5**	**4.6**	**85**	**10.9**	**10.0**	**0.9**
Infrastructure							
Alinda	40.2	-2.1	2.4	40.5	5.2		
Capital Dynamics	11.2	0.1	0.2	11.5	1.5		
Infrastructure Total	**51.4**	**-2**	**2.6**	**52**	**6.7**	**8.0**	**-1.3**
Cash Deposits	**68.8**	**17.7**	**0**	**86.5**	**11.1**	**1.0**	**10.1**
Grand Total	**749.7**	**-2.2**	**25.1**	**777.0**	**100.0**	**100.0**	**0.0**

3.6 The independent Custodian Northern Trust measures the returns on the Brent Pension Fund. Table 2 sets out returns for the periods to 31 December 2016.

Table 2: Investment Returns in Individual Markets

31-Dec-16									
Investment Category	**RETURNS**								Benchmark/ Index Description
	Qtr Ending 30/09/16				**Qtr Ending 31/12/16**				
	Fund %	**Benchmark %**	**Relative Return %**		**Fund %**	**Benchmark %**	**Relative Return %**		
Fixed Income									
Henderson Total Return Bond Fund	3.0	0.1	2.9		-0.7	0.1	-0.8		Absolute Return 6% pa
Equities									
UK - Legal & General	7.8	7.8	0.0		3.9	3.9	0.0		FTSE All Share
UK - Small Companies Henderson	17.1	12.8	4.3		2.6	4.5	-1.9		FTSE Small Cap
O'seas Developed - Legal & General	8.3	8.3	0.0		7.3	7.3	0.0		FTSE Dev World ex UK
Property									
Aviva Investors	-2.4	0.1	-2.5		-4.6	2.3	-6.9		IPD All Properties Index
Private Equity									
Capital Dynamics	*	*	*		*	*	*		Absolute Return 8% pa
Yorkshire Fund Managers	*	*	*		*	*	*		Absolute Return 8% pa
Infrastructure									
Alinda Capital Partners	2.7	1.9	0.8		3.7	1.9	1.8		Absolute Return 8% pa
Capital Dynamics	*	*	*		*	*	*		Absolute Return 8% pa
Pooled Multi Asset									
Baillie Gifford	4.7	1.0	3.7		2.0	0.9	1.1		Base Rate + 3.5% pa
Cash	0	0.1			0	0.1			Base Rate
Total	5.5	5.1	0.4		3.3	3.3	0		

3.7 As you will note above, there have been varying levels of performance. After a surprising performance in Q3, Henderson Bond Fund has returned to under-performing the benchmark. Legal & General have performed at the market rate of return because they are tracker funds. Henderson Small-caps has performed slightly below the benchmark but it is volatile and overall, as a sector, it has performed well, therefore it is not an area of concern. Aviva has under-performed but the Pension Fund is getting out of commercial property. YFM and Capital Dynamics are not compared in this manner because they are private equity. This is planned to be rectified and officers are seeking to find an alternative comparison methodology. Alinda's Infrastructure investment has done very well in large part because it is primarily denominated in American dollars and this has appreciated versus the UK pound. Baillie Gifford had its second strong quarter in a row. Cash has just started being invested via Treasury to enable a return and protect the principal, but returns will inevitably be commensurate with the level of risk tolerated.

3.8 LGPS investment regulations state that the Administering Authority shall have regard both to the diversification and the suitability of investments. The following table notes the compliance record when comparing the Fund's actual investment exposure with the Pension Fund's planned investment levels, as agreed within the FSS. There is a known problem with LGIM as the Council had limited options with regards to investments except for liquidating into cash a year ago. Members were told previously about being over-weight in passive equities in February 2016. There was a clear plan to invest through the CIV and this was anticipated to be a short-term issue at that time.

Table 3: Compliance with Investment limits as noted within the FSS

Investment	Planned Limits	Actual exposure at 31 December 2016	Compliant Yes / No
Any single holding	10%	3%	Yes
Unit trusts managed by any one body	35%	46%	No
Unit trusts under one policy managed by one body	35%	32%	Yes
Lending to any one borrower	10%	3%	Yes
Unlisted securities of companies	15%	Nil	Yes
Any single partnership	5%	3%	Yes
Total investment in partnerships	30%	17%	Yes

3.9 Outstanding contractual commitments:

Table 4: The outstanding contractual commitments on existing investments

	30 June 2016 £'000	30 Sep 2016 £'000	31 Dec 2016 £'000
Capital Dynamics	20,819	21,389	21,729
Alinda	23,540	19,405	21,427
Yorkshire Fund Managers	0	0	0
Total	**44,359**	**40,794**	**43,156**

These outstanding investment commitments mean that the Fund needs to retain a sizeable cash balance to meet capital call payments as they arise.

4. FINANCIAL IMPLICATIONS

4.1 These are no direct financial implications of this report.

5. DIVERSITY IMPLICATIONS

5.1 None.

6. STAFFING IMPLICATIONS

6.1 None.

7. LEGAL IMPLICATIONS

7.1 None.

8. BACKGROUND INFORMATION

8.1 Henderson Investors – December 2016 quarterly report
Legal & General – December 2016 quarterly report
Northern Trust Performance Report December 2016

9. CONTACT OFFICERS

9.1 Persons wishing to discuss the above should contact Gareth Robinson in the Investment and Pensions Section, on 020 8937 6567 at Brent Civic Centre.

QUARTERLY REVIEW PREPARED FOR

Brent Council Pension Fund

Q4 2016

17th January 2017

Peter Davies

AllenbridgeEpic Investment Advisers Limited (Allenbridge)

Peter.Davies@allenbridge.com
www.allenbridge.com

BRENT COUNCIL PENSION FUND

Quarterly Review, October – December 2016

Report by the Independent Financial Adviser

Economy

1. The UK economy has held up better than expected, with a growth rate of +0.6% for the third quarter. UK inflation is beginning to rise from abnormally low levels as the effect of a weaker pound becomes apparent.

(In the table below, bracketed figures show the forecasts made in October)

Consensus real growth (%)						**Consumer prices latest (%)**
	2013	**2014**	**2015**	**2016E**	**2017E**	
UK	+1.7	+2.8	+2.3	+2.0 (+1.8)	+ 1.2	+1.2(CPI)
USA	+1.9	+2.4	+2.4	+1.6 (+1.5)	+ 2.3	+ 1.7
Eurozone	-0.4	+0.8	+1.5	+1.6 (+1.5)	+ 1.4	+ 1.1
Japan	+1.7	+0.3	+0.6	+0.9 (+0.6)	+1.1	+0.5
China	+7.7	+7.4	+6.9	+6.7 (+6.6)	+6.4	+2.1

[Source of estimates: The Economist, January 14th, 2017]

2. The surprise victory by Donald Trump in the US Presidential Election was initially greeted with sharp falls in equity markets, but these were soon reversed in developed markets as investors concentrated on Trump's plans to cut taxes, deregulate energy, healthcare and financial services, and to offer tax incentives for infrastructure. The dollar strengthened to its highest level in 14 years on a trade weighted basis.

3. In his Autumn Statement on November 23, Philip Hammond confirmed that UK **government borrowing** would be much higher in each of the next 5 years than previously forecast. In total the additional borrowing required over the 5 years amounts to £122bn. This is largely due to slower GDP growth of 2.1% in 2016, 1.4% in 2017, 1.7% in 2018 and 2.1% in next two years, giving a cumulative reduction of 2.4% over the 5-year period. He has replaced George Osborne's target of achieving budget surplus on in 20/21 with an upper limit on the deficit of 2% of GDP (and a forecast level of 0.7%) in 20/21. He hopes to balance the budget as soon as possible after 2020.Debt/GDP will peak at 90% in 2017/8. Among other measures, Hammond announced the government is to spend £23bn on a **National Productivity Investment Fund**, to cover R&D, innovation in housing, rail &road, digital network etc

4. On December 14th, the US Federal Reserve raised the Fed Funds interest rate from 0.5% to 0.75% - the first increase since December 2015. They said they expect to make three more rises during 2017. The European Central Bank announced it would continue its programme of quantitative easing from April to December 2017, but at a reduced rate of €60bn per month, instead of the current €80bn.

5. The Italian Prime Minister, Matteo Renzi, resigned after a heavy defeat in the constitutional referendum on December 4th. His successor is the former Foreign Minister Paolo Gentiloni. In the French Presidential primaries, Francois Fillon gained the nomination of the centre-right party, eliminating ex-President Sarkozy from the race, while President Hollande announced he would not be standing for re-election as the Socialist Party candidate.

Markets

Equities

6. After the result of the US Election, most **equity markets** gained ground – with the exception of Pacific Basin and Emerging Markets which would be disadvantaged by the stronger dollar. Japan was helped by the weakening of the yen.

	Capital return (in £, %) to 31.12.16		
Weight %	Region	**3 months**	**12 months**
100.0	FTSE All-World Index	**+6.1**	**+26.2**
56.1	FTSE All-World North America	+8.4	+31.2
8.4	FTSE All-World Japan	+5.0	+20.0
11.3	FTSE All-World Asia Pacific ex Japan	+0.3	+24.6
15.3	FTSE All-World Europe (ex-UK)	+5.1	+15.3
6.2	FTSE All-World UK	+3.4	+14.3
8.8	FTSE All-World Emerging Markets	+1.8	+31.4

[Source: FTSE All-World Review, December 2016]

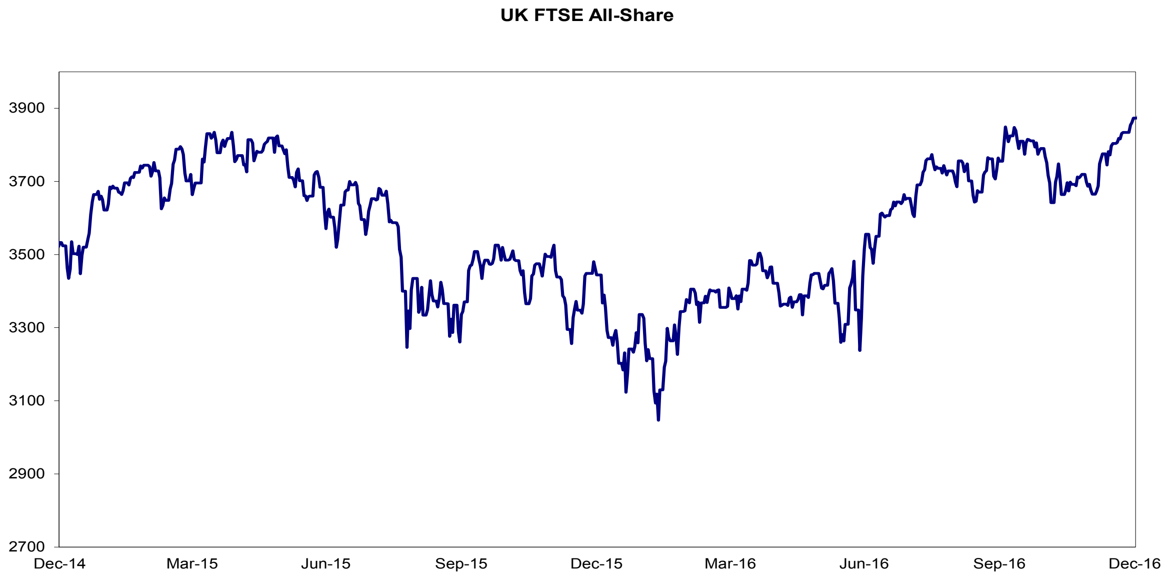
7. Within the UK market the mid-cap section was the weakest in the quarter and – by a wide margin – for the full year. These companies were seen as being more reliant on the domestic economy and not enjoying the boost to foreign earnings from £ weakness which many large-cap companies received.

(Capital only%, to 31.12.16)	**3 months**	**12 months**
FTSE 100	**+3.5**	**+14.4**
FTSE 250	**+1.2**	**+3.7**
FTSE Small Cap	**+3.4**	**+11.0**

FTSE All-Share	+3.1	+12.4

[Source: Financial Times]

The All-Share Index has surpassed its previous high from March 2015



8. The turnaround in energy and resource prices from the early days of 2016 propelled the Oil & Gas and Basic Materials sectors from the two bottom places in 2015 to the top two rungs in 2016. Relative to the All-World Index, Oil & Gas went from -20% to +20%, between 2015 and 2016, while Basic Materials went from -16% to + 17%. Conversely, the non-cyclical sectors were the weakest in 2016, having been very buoyant in 2015.

Capital return (in £, %) to 31.12.16		
Industry Group	**3 months**	**12 months**
Oil & Gas	+12.2	+46.8
Basic Materials	+ 9.3	+43.3
Technology	+ 4.7	+32.9
Industrials	+ 6.5	+32.1
Financials	+13.8	+26.8

FTSE All-World	**+6.1**	**+26.2**
Utilities	+ 1.0	+23.9
Telecommunications	+ 2.3	+22.0
Consumer Services	+ 4.4	+20.7
Consumer Goods	+ 0.7	+19.7
Health Care	-1.1	+10.1

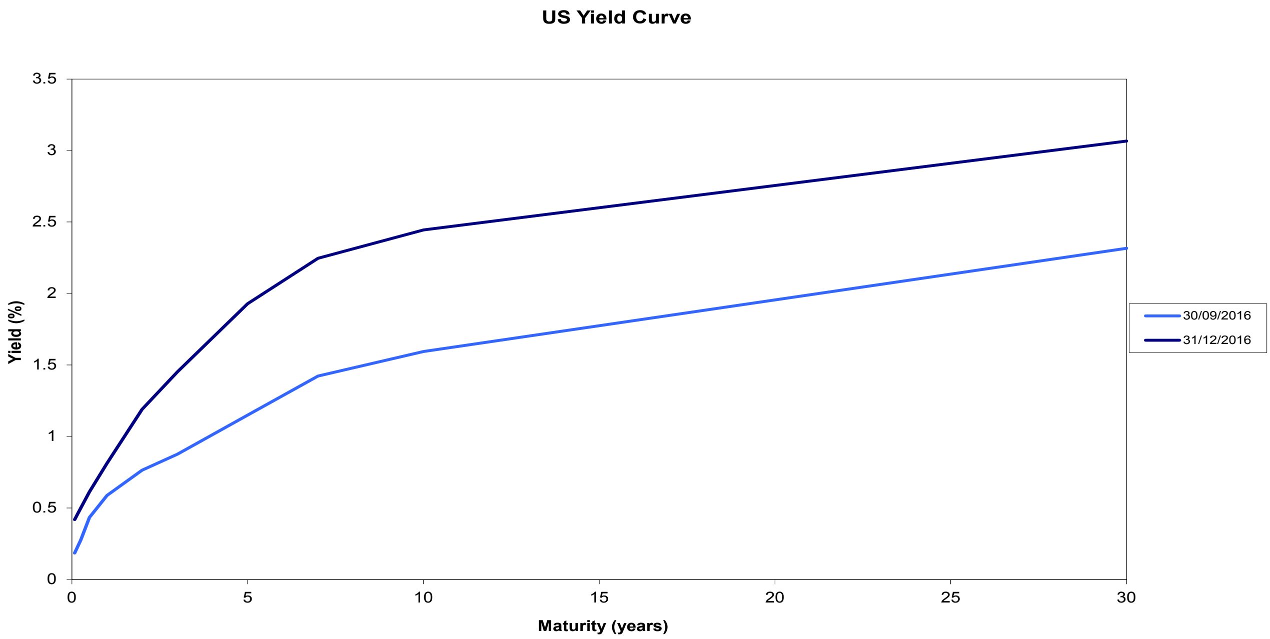
[Source: FTSE All-World Review, December 2016]

Bonds

9. **Government bond** yields rose sharply during the quarter, as markets began to price in the reflationary impact of Donald Trump's election, and the likely surge in new bond issuance. Apart from US bonds, however, the other three main bond markets all recorded sizeable falls in yield (i.e. gains in price) during the year 2016.

10-year government bond yields (%)					
	Dec 13	**Dec 2014**	**Dec 2015**	**Sept 2016**	**Dec 2016**
US	3.03	2.17	2.27	1.59	2.46
UK	3.04	1.76	1.96	0.75	1.24
Germany	1.94	0.54	0.63	-0.19	0.11
Japan	0.74	0.33	0.27	-0.08	0.04

US government medium – and long – dated bond yields have risen by almost 1% during the past quarter.

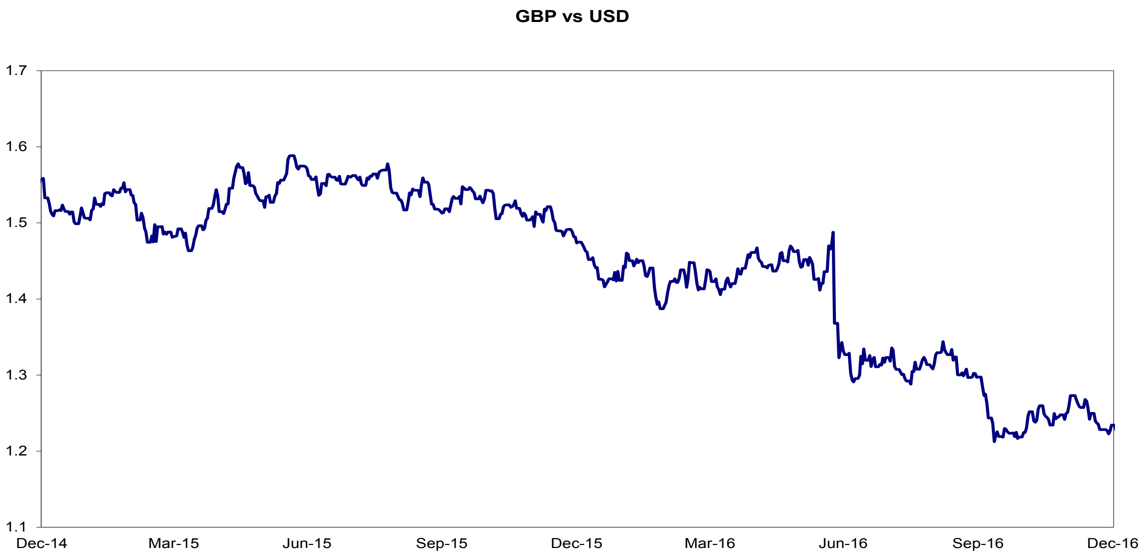


Currencies

10. The pound managed some brief rallies – at one stage reaching \$1.27 – but the US Election and the interest rate rise pushed the dollar stronger against all the major currencies.

				£ move (%)	
	31.12.15	**30.9.16**	**31.12.16**	**3m**	**12m**
$ per £	1.483	1.299	1.236	- 4.8	-16.7
€ per £	1.359	1.156	1.172	+ 1.4	-13.8
Y per £	178.8	131.5	144.1	+9.6	-19.6

The pound has continued to weaken against the dollar

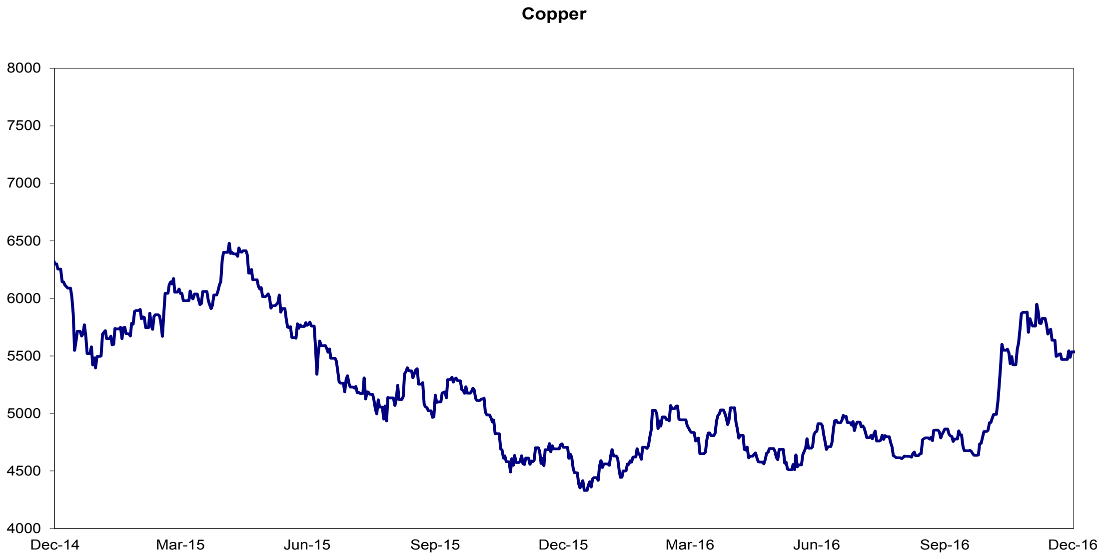


Commodities

11. The price of **Oil** (Brent Crude) rose above $50 in early December when the OPEC producers confirmed an agreement to cut output by 1.2m barrels/day, to be followed by the news that some non-OPEC countries would cut production by 0.5m b/d. Oil ended the year just below $57, for a gain of 50% (in dollar terms) during 2016. **Copper** spiked sharply – gaining 20% in the weeks after the US Election, on hopes for increased infrastructure spending in the US and revived demand from China. By contrast **Gold** weakened in response to higher US interest rates and the stronger dollar.

Oil has rallied strongly since early 2016 …..

……. and copper too since the US Presidential Election



Property

12. The December figures are not yet available, but the IPD Monthly Index readings for September show that capital values of UK commercial property fell in the third quarter, amid the fallout from the Brexit vote. The levels of redemption requests from retail investors, combined with uncertainty over the future demand for office space in London, have made valuation more difficult than usual.

	3-month	12-month
All Property	**- 2.3%**	**+ 3.2%**
Retail	**- 2.4%**	**+ 1.5%**
Office	**- 3.5%**	**+ 2.5%**
Industrial	**- 0.7%**	**+ 6.6%**

[IPD Monthly Index of total returns, September 2016]

Outlook

13. The reaction of equity markets to Donald Trump's unexpected victory has been equally surprising. The hope that the new president will stimulate the US economy with tax cuts and higher spending has generated gains of up to 5% in Western equities, although Emerging Markets have reacted badly to the stronger dollar. It remains to be seen whether other aspects of Trump's manifesto – such as renouncing trade deals and penalising imports – will provoke a downturn in equities as their impact becomes apparent.

14. The sharp rise in US – and other – government bond yields is more logical, and may well have further to run as inflation begins to return and funding requirements expand to meet the larger US budget deficit.

15. Uncertain times are ahead in Europe: the UK will trigger Article 50 by the end of March, and its negotiating position on withdrawal from the EU will gradually become clearer. Already every hint that the UK will leave the single market triggers a further fall in sterling. With elections coming up in Holland, France and Germany, there is likely to be more upheaval within the European Union if anti-EU parties gain power.

16. With so many potential pitfalls looming, continuing caution on equity and bond markets seems the wisest course to adopt at present.

Peter Davies
Senior Adviser – AllenbridgeEpic Investment Advisers

January 17th, 2017

[All graphs supplied by Legal & General Investment Management]

Agenda Item no.

Brent	**Pension Fund Sub-Committee** 14th February 2017 **Report from the Chief Finance Officer**
For Information	Wards Affected: ALL
Investment Strategy and Asset Allocation	

1.0 SUMMARY

1.1 This report notes the Council's approved asset allocation strategy and investment overview, particularly in relation to the London Collective Investment Vehicle (CIV).

2.0 RECOMMENDATIONS

2.1 Members are asked to note the report.

3.0 DETAIL

3.1 The Pension Fund approved its strategic allocation in November 2015. Since then, it has been disinvesting in asset classes that do not meet that strategic allocation and re-allocating to assets that do.

3.2 The Pension Fund has exited all but £6m out of Property and has invested £6m into Infrastructure. It has no allocation towards Property and currently an 8% allocation towards Infrastructure. It has a £11.5m gap before it hits the allocation target. However, it is likely that we will over-allocate temporarily into Alinda Infrastructure III, as there are £20m of capital commitments. The Capital Dynamics Infrastructure element is more mature and it is anticipated that it will become more of a cash contributing asset than element of growth to the Fund.

3.3 The Private Equity Element is broadly on track to reduce to the intended 10% level. YFM represents the last few elements of a Fund that are being kept to maximise value. Capital Dynamics is also maturing and throwing off large amounts of cash naturally. In the next couple of years, subject to developments within the London CIV, the Pension Fund will need to consider re-allocating cash to it so that it maintains its allocation. It is not a priority according to the current asset allocation.

3.4 Fixed Income is under allocated at present. The fixed bond fund from Henderson only contains 11.6% of the 15% allocation but under the original investment strategy, multi-assets and other fixed income products were considered more appropriate investments, particularly in light of the risks of a bond market that many view as significantly over-priced. Henderson has also substantially under-performed the benchmark. It is being reviewed, as to how it protects itself against the potential down-turn in the market.

3.5 Diversified Growth Funds (DGFs) are at 9.5% of the 21% allocation. It is recommended to only add 6.5% or £50m of the Fund to another DGF until an internal review has identified as to whether the Triennial Review and the shift in the economic landscape might warrant an updated asset allocation. It is considered unlikely, all things being equal, that the asset allocation would move below 16%, if a new asset allocation was chosen, and therefore it should be safe to invest this amount. The split between the two DGFs is uncertain, as more detailed analysis needs to be undertaken, in the light of any investment decisions, therefore the figures in the table below are simply illustrative of the increase required to achieve the target.

3.6 Equity is divided into global and UK equity components. Together they equal 45%. It is broadly on a 2:1 allocation, respectively. Currently, it sits at 49.5% with the bulk of that in passive equity. The over-allocation stems from exiting Dimensional and prudently putting the difference into cheap tracker funds that performed very well over the past year (29.45% in L&G –World). However, this level of performance has led to the Pension Fund running up against the LGPS regulation of 35% under one mandate with the provider. The Pension Fund may choose to cut is global passive equity to keep below 35% but it would rather use up cash in the short-term as cash returns very little. The Fund will have greater latitude when it approves the new Investment Strategy Statement and tracker funds with their low costs are generally reviewed positively.

3.7 The increase to 5% of small cap equity was previously anticipated, so the Fund is simply delivering on its existing target allocation. However, that will temporarily its allocation to equity further. However, it is anticipated that once fixed income becomes available through the London CIV that the allocation would substantially reduce. Also, the passive equity will be replaced by active global equity managers under the current investment allocation. More details will follow from the London CIV presentation.

3.8 Cash currently comprises 11.1% of the Fund and without further investments, it would have grown due to Aviva proceeds and cash releases from Capital Dynamics exceeding the likely capital calls. The Fund would wish to keep a larger amount of cash on-hand than is normal, due to the need to re-allocate to other investments but it is still likely to end the year with cash at larger than it would have preferred (2.5-4%). It will make use of the Treasury to obtain investment returns greater than zero and protect the principal.

3.9 The asset allocation was developed in a significantly different economic environment to which the Pension Fund now finds itself. Furthermore, the actuarial results of the Triennial Review needs to be digested. Therefore, while the Fund awaits decisions on the investment managers available through the London CIV, it will review as to whether the Asset allocation needs updating or refining. This will not delay actions already in train to exit asset classes or investments or future investment opportunities as the research cannot take place until cost-effective managers through the London CIV become available. However, it will make decisions about fixed income more challenging. Relative weightings between DGFs can also be reviewed during this period.

Current Asset Allocation Strategy

		Current		**Allocation**		**Proposed**	**Variance**	**Solution**
Asset Class	**Fund**	**£'000s**	**%**	**£'000s**	**%**	**£'000s**	**£'000s**	
Equity	L&G - UK	102,507	13.19%	77,698	*10.00%*		(24,810)	Henderson small cap will hit target but Passive Equity will remain overweight till appropriate investments through the CIV become available.
Equity	L&G - World	253,643	32.64%	155,395	*20.00%*		(98,248)	
Equity	Global Active	0		77,698	*10.00%*		77,698	
Equity	Henderson – small cap	28,069	3.61%	38,849	5.00%	10,780	0	
Equity Total		**384,219**	**49.45%**	**349,639**	**45.00%**	**10,780**	**(45,360)**	
DGF	Baillie Gifford	73,820	9.50%	73,820	9.50%		0	Taking time to ensure investment allocation is correct but on track.
DGF	2nd DGF	0	0.00%	89,345	11.50%	50,000	39,345	
Diversified Growth Fund Total		**73,820**	**9.50%**	**163,165**	**21.00%**	**50,000**	**39,345**	
Fixed Income	Henderson	89,886	11.57%	0	0.00%		(89,886)	Staying in Henderson for the moment. However, under active review due to risks within bond market.
Fixed Income	Multi-Asset Credit?	0		116,546	15.00%		116,546	
Fixed Income Total		**89,886**	**11.57%**	**116,546**	**15.00%**	**0**	**26,660**	
Infrastructure	Alinda	40,564	5.22%	62,158	8.00%		21,594	Slowly growing as and when Capital Calls are actioned. No action required.
Infrastructure	Capital Dynamics	11,532	1.48%	0	0.00%		(11,532)	
Infrastructure Total		**52,096**	**6.70%**	**62,158**	**8.00%**	**0**	**10,062**	
Private Equity	Capital Dynamics	84,109	10.83%	77,698	10.00%		(6,412)	Will drift down automatically. No action required.
Private Equity	YFM Equity Partners	585	0.08%	0	0.00%		(585)	
Private Equity Total		**84,694**	**10.90%**	**77,698**	**10.00%**	**0**	**(6,997)**	
Property	Aviva UK	2,224	0.29%	0	0.00%		(2,224)	Exiting property market gradually. No action required.
Property	Aviva Europe	3,622	0.47%	0	0.00%		(3,622)	
Property Total		**5,846**	**0.75%**	**0**	**0.00%**	**0**	**(5,846)**	
Cash		86,414	11.12%	7,770	1.00%	(60,780)	(17,865)	Cash will be needed to fund re-allocation.
GRAND TOTAL		776,975	100.00%	776,975	100.00%	0	0	

4.0 FINANCIAL IMPLICATIONS

4.1 These are no direct financial implications of this report. However, it is important that having the correct investment allocation, as arguable this has the biggest impact on fund performance. The timing of accessing cost effective investment managers that fit the Fund's asset allocation is inevitably both an enabling factor in the Fund performance and also an obstacle, when there are delays.

5.0 DIVERSITY IMPLICATIONS

5.1 None.

6.0 STAFFING IMPLICATIONS

6.1 None.

7.0 LEGAL IMPLICATIONS

7.1 None.

8.0 BACKGROUND INFORMATION

8.1 Henderson Investors – December 2016 quarterly report
Legal & General – December 2016 quarterly report
Northern Trust Performance Report December 2016

9.0 CONTACT OFFICERS

9.1 Persons wishing to discuss the above should contact Gareth Robinson in the Investment and Pensions Section, on 020 8937 6567 at Brent Civic Centre.

4.0