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Brent Pension Fund Sub-Committee

Tuesday 13 February 2018 at 7.00 pm
Board Room 4 - Brent Civic Centre, Engineers Way, Wembley HA9 0FJ

Membership:

Members	**Substitute Members**
Councillors:	Councillors
S Choudhary (Chair)	Denselow, Khan and Moher
Aden	
A Choudry	Councillors
Daly	Maurice and Warren
Davidson	
Perrin	
Shahzad	
Peter Davies	Independent Adviser
Non Voting Co-opted Members	
Francesca Hammond	Employees UNISON
Stephen Holley	College of North West London

For further information contact: Joe Kwateng, Governance Officer
0208 937 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:
democracy.brent.gov.uk

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

Notes for Members - Declarations of Interest:

If a Member is aware they have a Disclosable Pecuniary Interest* in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent and must leave the room without participating in discussion of the item.

If a Member is aware they have a Personal Interest** in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent.

If the Personal Interest is also a Prejudicial Interest (i.e. it affects a financial position or relates to determining of any approval, consent, licence, permission, or registration) then (unless an exception at 14(2) of the Members Code applies), after disclosing the interest to the meeting the Member must leave the room without participating in discussion of the item, except that they may first make representations, answer questions or give evidence relating to the matter, provided that the public are allowed to attend the meeting for those purposes.

***Disclosable Pecuniary Interests:**

(a) **Employment, etc. -** Any employment, office, trade, profession or vocation carried on for profit gain.

(b) **Sponsorship -** Any payment or other financial benefit in respect expenses in carrying out duties as a member, or of election; including from a trade union.

(c) **Contracts -** Any current contract for goods, services or works, between the Councillors or their partner (or a body in which one has a beneficial interest) and the council.

(d) **Land -** Any beneficial interest in land which is within the council's area.

(e) **Licences-** Any licence to occupy land in the council's area for a month or longer.

(f) **Corporate tenancies -** Any tenancy between the council and a body in which the Councillor or their partner have a beneficial interest.

(g) **Securities -** Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

****Personal Interests:**

The business relates to or affects:

(a) Anybody of which you are a member or in a position of general control or management, and:

- To which you are appointed by the council;
- which exercises functions of a public nature;
- which is directed is to charitable purposes;
- whose principal purposes include the influence of public opinion or policy (including a political party of trade union).

(b) The interests a of a person from whom you have received gifts or hospitality of at least £50 as a member in the municipal year;

or

A decision in relation to that business might reasonably be regarded as affecting, to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the electoral ward affected by the decision, the well-being or financial position of:

- You yourself;
- a member of your family or your friend or any person with whom you have a close association or any person or body who employs or has appointed any of these or in whom they have a beneficial interest in a class of securities exceeding the nominal value of £25,000, or any firm in which they are a partner, or any company of which they are a director
- any body of a type described in (a) above.

Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

Ward affected:	All Wards	***Contact Officer**:* Conrad Hall, Chief Finance Officer Tel: 020 8937 6528 conrad.hall@brent.gov.uk

This report updates the committee on the investment strategy review.

Ward affected:	All Wards	***Contact Officer**:* Conrad Hall, Chief Finance Officer Tel: 020 8937 6528 conrad.hall@brent.gov.uk

a) Exclusion of Press and Public

The following items are not for publication as they relate to the following category of exempt information as specified under Part 1, Schedule 12A of the Local Government Act 1972, namely Paragraph 3

“Information relating to the financial or business affairs of any particular person (including the authority holding that information)”:

The purpose of this report is to update the committee on recent developments within the London CIV and the timescales attached to making investment decisions.

I have attached appendices A-C to the report.

Ward affected:	All Wards	***Contact Officer**:* Conrad Hall, Chief Finance Officer Tel: 020 8937 6528 conrad.hall@brent.gov.uk

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 set your mobile phone to silent during the meeting.
- The meeting room is accessible by lift and seats will be provided for members of the public.

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LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Tuesday 7 November 2017 at 7.00 pm

PRESENT: Councillor S Choudhary (Chair) and Councillors Aden, A Choudry and Moher (substitute for Councillor Shahzad)

Also present: David Ewart (Chair of Pension Board), William Marshall (Hymans Robertson LLP), Julian Pendock (Director London CIV) and Euton Stewart (GMB).

Apologies for absence were received from: Councillors Daly, Davidson, Perrin, Shahzad and Hammond (UNISON)

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

   None.

2. **Minutes of the previous meeting**

   RESOLVED:-

   that the minutes of the previous meeting held on 22 June 2017 be approved as an accurate record of the meeting.

3. **Matters arising**

   None.

4. **Deputations (if any)**

   None.

5. **Implementation of the Markets in Financial Instruments Derivative (MiFID II)**

   The Sub-Committee received a report that outlined the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") and in particular the risk to the administering authority of becoming a retail client on 3rd January 2018.

   Ravinder Jassar (Head of Finance), informed members that Brent would be classified as a 'retail' investor from 3 January 2018 unless the Sub-Committee agreed to apply for elected professional client status. As a 'retail' investor, the fund's current investment strategy would not be possible. He continued that in order to pursue Brent Pension Fund's current investment strategy, electing to opt up to professional status was essential. In contrast a retail investor would only be able to pursue a fraction of the investment methods and techniques that a professional investor had access to. It would be therefore inappropriate for Brent Pension Fund, as an institutional investor, with over £800 million in assets to be classified as a retail investor, a prospect which would severely reduce the Fund's ability to improve its funding level to fully funded status. He added that it was expected that all London Boroughs and other Councils which belonged to the LGPS Administering Authorities would elect up to professional investor status.

In welcoming the report, members requested regular updates at their future meetings on the professional client status.

RESOLVED:

(i) that the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018 be noted;

(ii) that the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy be agreed;

(iii) that in electing for professional client status the Sub-Committee acknowledged and agreed to forgo the protections available to retail clients attached as appendix 1 to the report;

(iv) that delegated responsibility be granted to the Chief Finance Officer for the purposes of completing the applications and determining the basis of the application as either full or single service.

6. **Brent Pension Fund: Annual Report and Accounts 2016/17**

Members received a report that presented the audited Pension Fund Annual Report and Annual Accounts for the year ended 31 March 2017. Members noted the following elements of the audited accounts which Ravinder Jassar (Head of Finance) headlined the salient elements as follows:

a) Against a backdrop of continued uncertainty in the global economy and volatility in the financial markets, the value of the Fund's net investment assets is £803.6m, up from £675.9m in 2015/16.

b) Total contributions received from employers and employees totalled £48.5m for the year, an increase on the previous year's £46.3m.

c) Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, totalled £40.0m, an increase on the previous year's £37.9m, demonstrating a positive cash flow position for the year.

d) The Pension Fund has recently had its Triennial Review, which set the rates for 2017/18 through 2019/20.

RESOLVED:

That the audited Pension Fund Annual Report and Annual Accounts for the year ended 31 March 2017 be noted.

7. **Monitoring report on fund activity for the quarter ended June 2017**

The Sub-Committee received a report the provided a summary of the Fund's activity during the quarter ended 30 June 2017 and examined the economic and market background, and investment performance, as well as commenting on events in the quarter. In summary, in the second quarter (Q2) of the calendar year, the Fund increased by 1.2% (£9.3m) from £802.7m to £812.0m compared to a 3.5% (£27.3m) increase in the first quarter (Q1). This equates to a 4.7% increase in the value of the fund in the first six months of the year.

Ravinder Jassar drew members' attention to the asset allocation list compared to the benchmark and the investment returns in individual markets. He spotlighted on the cash deposits of £60.4m and clarified that it was being held principally for calls on capital commitments in private equity and infrastructure as well as to re-allocate to other investments. In addition, cash would also be required to fund transfer values in relation to the College of North West London as it has been agreed by their governing body to merge with the City of Westminster College and transfer their element of the Pension Fund to the London Pension Fund Authority (LPFA). This was currently planned for January 2018. He then highlighted the investment returns in individual markets.

Members heard that in fixed income, the Henderson Bond Fund had outperformed the benchmark, primarily due to positive returns from fund holdings in emerging markets and high yield corporates. On UK and overseas Equities, Legal & General funds had performed in line with benchmark figures. European properties with Aviva had considerably out-performed the benchmark in Q2. On private equity, he explained that Capital Dynamics investments were not analysed in this manner as measuring performance of private equity performance against public market indices could be misleading. This was planned to be rectified and officers were seeking to find an alternative comparison methodology. On Infrastructure, Alinda saw another negative return, a trend which was not expected to continue. He stated that officers would continue to monitor their performance in the following quarters in the year. On Pooled Multi Asset, Baillie Gifford had another strong quarter but that Ruffer had poor results. It was understood that to improve future performance, Ruffer would be investing in short term equities against long term bonds as an effective offset and to help the fund respond positively.

In the ensuing discussion, members questioned the performance of Ruffer investment and enquired as to whether this was due to their investment strategy. Conrad Hall, Chief Finance Officer, clarified that the performance could be attributed to short term volatility and added that the investment strategy was based on long term returns over 25 year period which officers considered appropriate.

Peter Davies (Independent Adviser) presented his quarterly report to the Sub-Committee. In his introduction, Peter highlighted the geo-political events, in particular North Korea and the Trump administration, the results of the last UK general elections and the Brexit negotiations and their impact on the global markets. The events made uncertain global market outlook. He drew members' attention to the table in his report which showed that Equity markets were little changed on balance during the quarter, with UK and US indices remaining close to their all-time high levels. Within the equity market sectors, Oil & Gas and

Telecommunications were significantly weak in the quarter, while Technology has become the leading sector over one year, spurred on by the strength of the 'FAANGs' (Facebook, Apple, Amazon, Netflix and Google within the equity market

Against this background, Peter Davies issued a note of caution on equity markets adding that it would be difficult to see equities moving into new high ground, while the 'safe-haven' government bond markets may well attract investors and thereby keep yields in those markets at current levels.

RESOLVED:

That the performance monitoring report and the Independent Financial Adviser's investment report, attached to the main body of this report, for the quarter ending June 2017 be noted.

8. **Update on the London CIV and the fund's investment options**

The report updated members on the London CIV and the timescales attached to making investments within it. In light of the investment options available, scrutiny of the Fund's current investment strategy and asset allocation is also provided. Julian Pendock (Director of LCIV) attended the meeting to provide the update. He informed members that at its recent meeting on 19th October 2017, the Investment Advisory Committee (IAC) of the London CIV updated officers on existing and upcoming investments including equities over the next 12 months. Having showcased all of the equity products available, each needs to be reviewed in more detail to understand which product or mix of products is right for the Brent Pension Fund. Each product has different portfolio constructions, investment processes and philosophies.

Julian Pendock explained that in order to achieve a balanced portfolio, it was proposed to provide the Fund with a diversified set of managers who, when put together, can outperform the broader index. With that in mind, an asset liability modelling exercise to consider the Fund's investment strategy in the context of the 31 March 2016 Actuarial Valuation and experience up to 31 March 2017 would be conducted. The purpose of the exercise was to re-assess the Fund's investment strategy in the context of the Fund's updated liabilities and to ensure appropriateness with the Committee's investment beliefs, views and objectives. The exercise would not delay actions already in train to exit asset classes or investments or future investment opportunities, however, it will make decisions about fixed income more challenging in the short term. Therefore relative weightings between DGFs can also be reviewed during this period. He also provided an update on the work of the Fixed Income Working Group including an investment due diligence exercise with a view to having products for LLAs by October 2018 and outlined the new investment products on offer.

RESOLVED:

That the update on the London CIV and the Fund's investment options be noted.

9. **Minutes of Pension Board**

Members received the minutes of the Pension Board of 26 July 2017. David Ewart highlighted the Board's dissatisfaction with the level of funding, the performance of the pensions administration contractor and in general terms, the complexities of the renewal of the contract. He added that at its next meeting the Board would consider standard reports as well as reports on the above issues.

RESOLVED:

That the minutes of the Pension Board of 26 July 2017 be noted.

10. **Any other urgent business**

None.

11. **Exclusion of press and public**

RESOLVED:

That the press and public be excluded from the remainder of the meeting as the report to be considered contained the following category of exempt information as specified in the Local Government (Access to Information) Act 1972, namely:

"Information relating to the financial or business affairs of any particular person (including the authority holding that information)"

12. **Final cessation valuation**

The report updated the Sub-Committee on the outcome of an employer ceasing to be an employing authority in the Brent Pension Fund. Ravinder Jassar (Head of Finance) gave a detailed account of the circumstances and referenced the actuarial valuation report attached as an appendix to the report, for clarity. He continued that based on advice from the Fund's actuary and Brent's Head of Legal Services, the Chief Finance Officer had accepted the terms set out in the report.

It was expected that further cessation situations would become more frequent, however, the current Funding Strategy Statement allowed for an element of flexibility to address different cessations whilst ensuring a consistent and fair approach to all employers.

Members took comfort in the knowledge that the funding Strategy Statement would address future cessation situations, however, they asked that an updated report be submitted to the next meeting on other employers which officers expected might be in similar situations.

RESOLVED:

(i) That the final cessation report and the decision taken by the Chief Finance Officer be noted;

(ii) That the Chief Finance Officer submit a report updating members on other employers which officers expected may be in cessation situations.

The meeting closed at 8.40 pm

S CHOUDHARY
Chair

Brent	**Pension Fund Sub-Committee** 13 February 2018 **Report from the Chief Finance Officer**
For Information	Wards Affected: ALL

Quarterly monitoring report on fund activity:
Quarter to September 2017

1.0 SUMMARY

1.1 This report provides a summary of the Fund's activity during the quarter ended 30 September 2017. It examines the economic and market background, and investment performance, as well as commenting on events in the quarter.

1.2 In the third quarter (Q3) of the calendar year, the Fund increased by 1.9% (£15.1m) from £812.0m to £827.1m compared to a 1.2% (£9.3m) increase in the second quarter (Q2). Overall, the value of the fund has increased by 6.7% in the first nine months of the year.

1.3 1.5% of this quarter's increase relates to actual asset appreciation and the balance relates to contributions from capital calls. Although there has been a consecutive quarterly increase in the value of assets, performance for the quarter was below benchmark of 2%.

1.4 Further information on performance is provided in the main body of this report.

2.0 RECOMMENDATIONS

2.1 Members are asked to note the performance report and the independent financial adviser's investment reports which are attached to the main body of this report.

3.0 DETAIL

3.1 In November 2017, the official figures from the Office for National Statistics estimated that GDP increased by 0.4% in the three months to September 2017. This represented a slight increase compared to the 0.3% growth in the previous quarter of the same year.

3.2 UK growth has been steady over the last two quarters of the year with the service industry, including IT and retail, remaining the strongest contributor to GDP growth as it was in Q2. There was a drop in Construction output for the second consecutive quarter.

3.3 In Q3, the United Kingdom recorded the slowest growth (1.5%) among the Major Seven economies, including the Eurozone, which saw an average increase of 2.6%. UK growth has remained slow compared to growth in the Eurozone which almost doubled that of the UK in the third quarter of the year.

3.4 As reported to the committee in Q2, it was expected that a stronger than expected growth in the UK economy could raise the prospect of an interest rate rise as early as November. This was confirmed when the Bank of England raised the official bank rate from 0.25% to 0.5%, the first increase since July 2007

3.5 In his BBC interview on 2 November 2017, the Bank of England Governor, Mark Carney stated that the official interest rate is likely to rise twice more over the next three years. This potential increase in long-term interest rates is expected to reduce inflation rates and also reduce the overall budget deficit.

3.6 Table 1 summarises the Council’s asset allocation as at Q3.

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

ASSET CLASS	30/06/2017 Value (£m)	Net Investment Value (£m)	Appreciation (£m)	30/09/2017 Value (£m)	% of Fund	Allocation Target (%)	Deviation (%)
Fixed Income							
Henderson-Total Return Bond Fund	**92.7**		**0.6**	**93.3**	**11.3**	**15.0**	**-3.7**
Equities							
UK - L&G	108.5		2.4	110.9	13.4		
UK Smaller Cos - Henderson	31.6	0.1	0.6	32.3	3.9		
Overseas Developed - L&G	269.0		4.5	273.5	33.1		
Equities - Total	**409.1**	**0.1**	**7.5**	**416.7**	**50.4**	**45.0**	**5.4**
Diversified Growth Fund							
LCIV Baillie Gifford	77.2		0.5	77.7	9.4		
LCIV Ruffer	49.2		-0.4	48.8	5.9		
Total London CIV	**126.4**	**0.0**	**0.1**	**126.5**	**15.3**	**21.0**	**-5.7**
Property							
Europe - AVIVA	3.7	-1.5	1.2	3.4	0.4		
Property - Total	**3.7**	**-1.5**	**1.2**	**3.4**	**0.4**	**0.0**	**0.4**
Private Equity							
Capital Dynamics	77.7	-3.8	4.3	78.2	9.5		
Yorkshire	0.6		-0.1	0.5	0.1		
Private Equity Total	**78.3**	**-3.8**	**4.2**	**78.7**	**9.5**	**10.0**	**-0.5**
Infrastructure							
Alinda	32.4	-1.4	-1.4	29.6	3.6		
Capital Dynamics	9.0	0.0	-0.3	8.7	1.0		
Infrastructure Total	**41.4**	**-1.4**	**-1.7**	**38.3**	**4.6**	**8.0**	**-3.4**
Cash Deposits							
Other/Northern Trust	**60.4**	**9.8**	**0.0**	70.2	**8.5**	**1.0**	**7.5**
Grand Total	**812.0**	**3.2**	**11.9**	**827.1**	**100.0**	**100.0**	**0.0**

3.7 The total Fund value (including contributions) increased by £15.1m in this quarter. Assets rose by £11.9m compared to a £5.6m increase in Q2. This quarter has seen a significant gain of £11.7m from Listed and Private Equity. This follows a trend from Q2.

3.8 Investments in Infrastructure has seen a consecutive depreciation in value with a £3.1m drop in Q2 and £1.7m drop in Q3. Officers will continue to monitor performance in this area to inform future investment decisions.

3.9 There is a balance of £70.2m in cash deposits which is currently being invested in Money Market Funds and short term loans to other Local Authorities for interest returns. This amount of cash is principally being held for the following reasons:

3.9.1 Cash is required to fund transfer values in relation to the College of North West London, as it has been agreed by their governing body to merge with the City of Westminster College and transfer their element of the Pension Fund to the London Pension Fund Authority (LPFA). This transfer was originally planned for January 2018 however this has been pushed back to early March 2018.

3.9.2 Cash is also being held to honour calls on capital commitments in Private Equity and Infrastructure and to re-allocate to other future investments.

3.10 The table below illustrates the Funds outstanding contractual commitments in Private Equity and Infrastructure investments.

Table 2: Outstanding contractual commitments on existing investments

	30 Jun 2017	**30 Sep 2017**
	£'m	**£'m**
Capital Dynamics	18.7	17.8
Alinda	22.8	20.1
Total	**41.5**	**37.9**

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

3.12 The fund realised a complete sale of the UK property investments in quarter 4 of 2016/17. Subject to market conditions, the European property investments are also planned to be run down in 2017/18.

3.13 The Fund is monitoring developments and the opening of investment opportunities on the CIV platform. This is with a view to transitioning assets across as soon as there are suitable sub-funds that are in line with the Fund's investment and asset allocation strategy. While the Fund awaits decisions on investment managers available through the CIV, an on-going review is being carried out to update or refine the current asset allocation.

3.14 The independent Custodian Northern Trust measures the returns on the Brent Pension Fund. Table 3 sets out returns for the periods to 30 September 2017.

Table 3: Q3 Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Qtr Ending 30/06/17			Qtr Ending 30/09/17			
	Fund %	Benchmark %	Relative Return %	Fund %	Benchmark %	Relative Return %	
Fixed Income							
Henderson Total Return Bond Fund	1.6	1.0	0.6	0.7	1.0	-0.3	Absolute Return 4% pa
Equities							
UK - Legal & General	1.4	1.4	0.0	2.2	2.1	0.1	FTSE All Share
UK - Small Companies Henderson	8.1	2.9	5.2	2.2	3.5	-1.3	FTSE Small Cap
O'seas Developed - Legal & General	0.5	0.5	0.0	1.7	1.6	0.1	FTSE Dev World ex UK
European Property							
Aviva Investors	9.4	2.3	7.1	36.0	2.4	33.6	IPD All Properties Index
Private Equity							
Capital Dynamics	*	*	*	*	*	*	
Yorkshire Fund Managers	*	*	*	*	*	*	
Infrastructure							
Alinda Capital Partners	-1.8	1.9	-3.7	-4.3	1.9	-6.2	Absolute Return 8% pa
Capital Dynamics	*	*	*	*	*	*	
Pooled Multi Asset							
Baillie Gifford	1.8	1.0	0.8	0.6	0.9	-0.3	Base Rate + 3.5% pa
Ruffer	-0.4	1.0	-1.4	-0.7	0.9	-1.6	Base Rate + 3.5% pa
Cash	0	0.1		0	0.1		Base Rate
Total	**0.7**	**1.4**	**-0.7**	**1.5**	**2.0**	**-0.5**	

3.15 **Fixed Income**

The Henderson Bond Fund saw an appreciation of £0.6m in the quarter, although this represented a lower than expected increase compared to the benchmark figures.

The increase in value was mainly due to high yield bonds and emerging market bonds. In addition to this, on-going search for yield by investors fuelled demand for corporate bonds which out-performed government bonds.

3.16 **Equities**

Both UK and overseas Legal & General funds have performed in line with benchmark figures as they are tracker funds. In contrast to Q2, Henderson Small-caps has fallen below the benchmark, with an appreciation of £0.6m, compared to a £2.3m appreciation in Q2 and a £1.2m appreciation in Q1. Performance in this area has been volatile and has been below benchmark for six out of the last ten quarters. Officers will continue to monitor this fund to inform decisions on asset allocation later this year.

3.17 **European Property**
Similar to Q1 and Q2, Aviva has considerably out-performed the benchmark this quarter. However, it is worth noting that valuations of real estate assets are inherently uncertain and sometimes are subject to a lack of comparable transactions for appraisers to consider.

This fund was placed into Liquidation on 31 December 2017 and is due to terminate in December 2018. The Fund will continue to make capital distributions in 2018 when the remaining 6 underlying funds sell their last assets and distribute sale proceeds.

3.18 **Private Equity**
Performance of Capital Dynamics investments are not analysed in this manner because they are private equity, as measuring performance against public market indices can be misleading. This is planned to be rectified and officers are seeking to find an alternative comparison methodology.

It is worth noting that the Fund's holdings in these investments are very mature and approaching the end of the investment period; therefore, more cash is being distributed to investors as assets are sold.

3.19 **Infrastructure**
This quarter has seen a third consecutive drop in value, with a depreciation of £1.4m. The fall in value has continued to reduce the overall asset allocation which currently sits at 4.6% compared to a target allocation of 8%.
Infrastructure investments are by their nature volatile in the short term and it is expected that over the long term the investment will perform well against the benchmark.

3.20 **Pooled Multi Asset**
Baillie Gifford has seen a drop in performance this quarter compared to benchmark figures. However, similar to the previous quarters, the fund has continued to grow, primarily due to continued positive performance in investment markets.

Ruffer joined the fund in March 2017. As in Q2, performance in Q3 was below benchmark. The negative performance was linked to concerns about the possibility of a rise in the official interest rate as the Central Bank was pondering higher interest rates as inflation increased. To improve future performance, Ruffer will be investing in short term equities against long term bonds as an effective offset and to help the fund respond positively.

3.21 LGPS investment regulations state that the Administering Authority shall have regard both to the diversification and the suitability of investments. In 2016 the previous restrictions that applied since 2009 have been removed. The Fund has agreed a number of its own restrictions as set out in the table below. All other investment restrictions will be negotiated with fund managers and the London CIV, subject to the Fund receiving appropriate investment and/or legal advice.

Table 4: Compliance with Investment limits

Type of investment	Maximum investment by the Fund % of assets	Actual exposure at 30 Sep 2017	Compliant Yes / No
Contributions invested in any single partnership	5%	4%	Yes
Contributions invested in partnerships	30%	14%	Yes
Cash deposits	10%	8%	Yes
Investment with any single manager strategy either directly or via the London CIV (excluding investments in passive index tracking strategies)	15%	11%	Yes
Total investment in illiquid assets	30%	15%	Yes

4.0 FINANCIAL IMPLICATIONS

4.1 These are no direct financial implications of this report.

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 – September 2017 quarterly report
Legal & General – September 2017 quarterly report
Northern Trust Performance Report – September 2017
Websites: https://www.ons.gov.uk, www.oecd.org

9.0 CONTACT OFFICERS

9.1 Folake Olufeko, Senior Finance Analyst, 020 8937 2491

QUARTERLY REVIEW PREPARED FOR

Brent Council Pension Fund

Q3 2017

11th October 2017

Peter Davies

AllenbridgeEpic Investment Advisers Limited (Allenbridge)

Peter.Davies@allenbridge.com
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BRENT COUNCIL PENSION FUND
Quarterly Review, July – September 2017
Report by the Independent Financial Adviser

Economy

1. The forecast growth rate for the UK economy in 2017 has been revised downwards to 1.5% after sluggish growth in the second quarter. Meanwhile, forecast growth rates in the other developed regions have been maintained or revised upwards.

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

[Source of estimates: The Economist, October 7th 2017]

Consensus real growth (%)						**Consumer prices latest (%)**
	2014	**2015**	**2016**	**2017E**	**2018E**	
UK	+2.8	+2.3	+2.0	+1.5 (+1.6)	+1.3	+2.9(CPI)
USA	+2.4	+2.4	+1.6	+2.2 (+2.2)	+2.3	+ 1.9
Eurozone	+0.8	+1.5	+1.6	+2.1 (+1.9)	+1.9	+ 1.5
Japan	+0.3	+0.6	+0.9	+1.5 (+1.3)	+1.2	+ 0.6
China	+7.4	+6.9	+6.7	+6.8 (+6.7)	+6.4	+ 1.8

2. The Bank of England hinted that UK interest rates could rise before the end of 2017, while the US Federal Reserve is to start reducing its balance sheet by not re-investing the proceeds of maturing bonds, and is expected to increase rates again in December. The European Central Bank deferred a decision on changing its quantitative easing policy until its October meeting.

3. On September 22nd, in a speech in Florence, Theresa May set out more details of the UK's approach to the Brexit negotiations, but discordant voices within her Cabinet, and a troubled Conservative Party conference, have created renewed uncertainty about her tenure as Prime Minister.

4. In the German Federal elections on September 24th, Angela Merkel won a fourth term as Chancellor, but her CDU party's share of the vote declined sharply, and the extremist AfD party won 13% of the votes. She must now seek a coalition with the Greens and the FDP, after the SPD withdrew as a coalition partner. In Japan, Prime Minister Abe has called a snap election for October 22nd.

5. Tensions between North Korea and the United States escalated after North Korea carried out several missile tests, and President Trump responded with bellicose statements. Domestically, Trump has provoked more controversy with his equivocal comments after the rallies in Charlottesville, and disbanded two business advisory councils when members began to resign in protest at his remarks. Late in September, the Republicans published a tax reform plan, including reductions in corporate tax rates, which will now be debated in Congress.

Markets

Equities

6. For the second successive quarter, equity markets were little changed. The UK market continues to deliver a return significantly below that of overseas equity markets, while Continental Europe has been by far the strongest region during the past year.

	Capital return (in £, %) to 30.9.17		
Weight %	Region	**3 months**	**12 months**
100.0	FTSE All-World Index	**+1.3**	**+12.7**
54.2	FTSE All-World North America	+0.9	+12.6
8.3	FTSE All-World Japan	+0.1	+9.3
12.2	FTSE All-World Asia Pacific ex Japan	+0.7	+12.3
16.4	FTSE All-World Europe (ex-UK)	+3.6	+18.9
6.2	FTSE All-World UK	+0.8	+6.9
9.6	FTSE All-World Emerging Markets	+3.3	+13.2

[Source: FTSE All-World Review, September 2017]

7. The rise in the price of oil, and the improving outlook for global economic growth boosted the Oil & Gas and Basic Materials sectors, while most other sectors showed little change over the quarter.

	Capital return (in £, %) to 30.9.17		
Weight %	**Industry Group**	**3 months**	**12 months**
13.0	Technology	+4.3	+22.3
22.9	Financials	+1.6	+20.4
4.9	Basic Materials	+6.2	+20.3
13.0	Industrials	+2.3	+17.0
100.0	**FTSE All-World**	**+1.3**	**+12.7**
13.0	Consumer Goods	-0.9	+7.7
10.5	Health Care	-1.0	+6.8
10.2	Consumer Services	-2.2	+6.5
3.2	Utilities	-0.2	+4.5
6.2	Oil & Gas	+5.2	+1.5
3.1	Telecommunications	-0.7	-3.6

[Source: FTSE All-World Review, September 2017]

8. The mid- and small-cap sectors of the UK market have out-performed the FTSE 100 over the past quarter and 12 months.

(Capital only%, to 30.9.17)	3 months	12 months
FTSE 100	+ 0.8	+ 6.9
FTSE 250	+ 2.8	+11.2
FTSE Small Cap	+ 2.3	+14.8
FTSE All-Share	+ 1.2	+ 7.8

Bonds

9. As was the case in the second quarter, there was very little net change in the yields on medium-term government bonds in the major markets.

10-year government bond yields (%)					
	Dec '14	Dec 2015	Dec 2016	June 2017	Sept 2017
US	2.17	2.27	2.46	2.28	2.32
UK	1.76	1.96	1.24	1.33	1.41
Germany	0.54	0.63	0.11	0.47	0.47
Japan	0.33	0.27	0.04	0.09	0.05

Currencies

10. The dollar and the yen were the weaker currencies during the quarter, while the pound kept pace with the euro. At one stage the pound reached $1.36 – its highest level against the dollar since the EU referendum – but in early October it retreated to $1.31.

				£ move (%)	
	30.9.16	30.6.17	30.9.17	3m	12m
$ per £	1.299	1.299	1.342	+ 3.3	+ 3.3
€ per £	1.156	1.139	1.135	- 0.4	- 1.9
Y per £	131.5	146.0	151.0	+ 3.4	+14.8

Commodities

11. The price of Brent crude rose by over 15% during the quarter to reach $57 per barrel, its highest level for two years. This has been the result of a number of factors – the maintenance of the production curbs announced by OPEC countries and Russia in November 2016; the threat by President Erdogan of Turkey's to turn off an Iraqi pipeline, and the interruptions to refining operations in Texas caused by Hurricane Irma.

Outlook

12. Equity markets have edged gradually upwards despite geo-political concerns surrounding developments in North Korea and the Middle East. The impending interest rate rises in the US and UK, together with the tapering of quantitative easing by the US Fed – and possibly by the European Central Bank – are likely to act as a brake on equity markets as the cost of borrowing rises.

13. Similarly, government bond market yields are likely to rise in response to higher short-term rates, unless they become 'safe havens' in the event of political crisis, or if global economic growth begins to slow down. In either of these situations, equities can be expected to weaken significantly.

Peter Davies
Senior Adviser – AllenbridgeEpic Investment Advisers

October 11th, 2017

QUARTERLY REVIEW PREPARED FOR

Brent Council Pension Fund

Q4 2017

22nd January 2018

Peter Davies

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Report by the Independent Financial Adviser

Economy

1. Economic growth in the 3rd quarter has exceeded expectations in most regions, and forecasts for 2018 have also been upgraded.

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

[Source of estimates: The Economist, January 13th 2018]

Consensus real growth (%)						Consumer prices latest (%)
	2014	**2015**	**2016**	**2017E**	**2018E**	
UK	+2.8	+2.3	+2.0	+1.6 (+1.5)	+1.4	+3.0(CPI)
USA	+2.4	+2.4	+1.6	+2.3 (+2.2)	+2.6	+ 2.2
Eurozone	+0.8	+1.5	+1.6	+2.3 (+2.1)	+2.3	+ 1.4
Japan	+0.3	+0.6	+0.9	+1.7 (+1.5)	+1.5	+ 0.5
China	+7.4	+6.9	+6.7	+6.8 (+6.8)	+6.5	+ 1.8

2. The Bank of England announced a ¼% rise in interest rate on November 2nd, while the US Federal Reserve is to start reducing its balance sheet by not re-investing the proceeds of maturing bonds. As expected, the Fed increased rates by ¼% in December and three more such rises are thought likely to take place in 2018. The European Central Bank is to halve its level of monthly bond purchases to €30bn from January 2018, with no specified end-date to the programme.

3. In the UK Budget on November 22nd, the official forecasts for UK GDP growth were revised down to 1.5% in 2017, and in the following four years to between 1.3% and 1.6% per annum. The Budget deficit will decline gradually from the current 2.4% of GDP to 1.1% of GDP in '22/'23. Public sector net debt is 86.5% of GDP in this fiscal year and will still be almost 80% of GDP in '22/'23.
4. Specific measures included the removal of stamp duty for most first-time buyers, funding to support the housebuilding sector, with penalties on the hoarding of undeveloped land, and more spending on infrastructure. Overall, the Budget contained £7bn of net tax cuts and £18bn of additional spending over the next six years.

5. The United States Congress passed the much-vaunted tax reform bill in December, which, amongst other measures, substantially cut the rate of Corporation Tax and also cut the top rate of Income Tax. While the US equity market welcomed the bill, the political impact of its apparent generosity to the wealthiest remains to be seen.

6. The **UK**'s negotiations with the EU over Brexit were allowed to proceed to the next stage, while Mrs May had to deal with three resignations from her Cabinet towards the end of the year, and announced a reshuffle in January. In **Germany** the CDU/CSU are moving closer to a renewal of their 'grand coalition' with the SPD, but the terms still need to be ratified by the SPD membership. Tensions in **Spain** increased after the call for independence from

Catalonia; Madrid dissolved the regional parliament and assumed direct rule of the region pending a December election, which produced a narrow majority for the pro-independence parties. In **Japan**, Prime Minister Abe called a snap election for October 22nd in which he gained an important two-thirds majority in the Lower House.

Markets

Equities

7. Shares ended the year strongly, with the passing of the US Tax Reform Bill providing an extra fillip in the final weeks of December. For the full year, the UK market lagged all overseas regions, as it had done in 2016.

	Capital return (in £, %) to 31.12.17		
Weight %	Region	**3 months**	**12 months**
100.0	FTSE All-World Index	**+4.6**	**+11.1**
54.2	FTSE All-World North America	+5.1	+9.1
8.6	FTSE All-World Japan	+7.7	+12.1
12.7	FTSE All-World Asia Pacific ex Japan	+7.0	+19.7
15.7	FTSE All-World Europe (ex-UK)	+0.2	+13.4
6.1	FTSE All-World UK	+4.2	+7.5
10.0	FTSE All-World Emerging Markets	+5.8	+17.6

[Source: FTSE All-World Review, December 2017]

8. With the Technology and Basic Materials sectors again advancing strongly, it has been another year when 'growth' stocks have outpaced 'value' stocks. Oil & Gas, meanwhile, had a dull year after gaining nearly 50% in 2016.

	Capital return (in £, %) to 31.12.17		
Weight %	**Industry Group**	**3 months**	**12 months**
13.5	Technology	+8.0	+26.2
4.8	Basic Materials	+7.2	+18.0
12.9	Industrials	+4.2	+14.4
12.9	Consumer Goods	+4.1	+11.3
100.0	**FTSE All-World**	**+4.6**	**+11.1**
22.8	Financials	+4.6	+10.6
10.6	Consumer Services	+7.4	+9.6
10.2	Health Care	+0.6	+8.6
3.1	Utilities	-1.2	+2.3

6.2	Oil & Gas	+5.3	-4.8
3.0	Telecommunications	+0.0	-5.8

[Source: FTSE All-World Review, December 2017]

9. The mid- and small-cap sectors of the UK market have out-performed the FTSE 100 over the past 12 months, although they all performed similarly during the 4th quarter.

(Capital only%, to 31.12.17)	**3 months**	**12 months**
FTSE 100	**+4.3**	**+ 7.6**
FTSE 250	**+4.3**	**+14.7**
FTSE Small Cap	**+3.5**	**+14.9**
FTSE All-Share	**+4.2**	**+ 9.0**

[Source: Financial Times]

Bonds

10. The yield on US Treasuries edged upwards on the back of strong US economic growth and the December interest rate rise, but, as with the UK gilt yield, ended the year at its end-2016 level. With the recovery in Eurozone economic growth, Bund yields rose during the year from their exceptionally low level of December 2016.

10-year government bond yields (%)					
	Dec '14	**Dec 2015**	**Dec 2016**	**Sept 2017**	**Dec 2017**
US	2.17	2.27	2.46	2.32	2.43
UK	1.76	1.96	1.24	1.41	1.23
Germany	0.54	0.63	0.11	0.47	0.43
Japan	0.33	0.27	0.04	0.05	0.05

[Source: Financial Times]

Currencies

11. The dollar and the yen continued to weaken during the quarter against the pound and the euro. In January 2018 the pound has reached $1.38 – its highest level since the EU Referendum in June 2016.

				£ move (%)	
	31.12.16	**30.9.17**	**31.12.17**	**3m**	**12m**
$ per £	1.236	1.342	1.353	+0.8	+9.5
€ per £	1.172	1.135	1.127	-0.7	-3.8
Y per £	144.1	151.0	152.4	+0.9	+5.8

[Source: Financial Times]

Commodities

12. The price of Brent crude continued its third-quarter strength, rising from $57 to $67 per barrel, its highest level for three years. Factors behind this rise include fears about the political unrest in Iran (the 3rd-largest oil producer in OPEC), increasing demand for oil as global growth accelerates, and the continuation of supply restrictions agreed between OPEC, Russia and other big producers.

Outlook

13. Although equity markets have continued to rise in recent months, encouraged by the positive outlook for growth in most regions, valuations as a multiple of profits are reaching historically high levels. Nearly two years have passed since the last significant setback in equity markets, and it would be rash to assume that this period of steady gains can continue for much longer – particularly when viewed against a background of rising interest rates, reducing central bank bond-buying programmes and the ever-present geo-political threats.

14. US government 10-year bond yields have moved above 2.5% in January, which could presage similar moves in other government bond markets and impart a negative influence to equity valuations as future cashflows are discounted at higher long-term interest rates.

Peter Davies
Senior Adviser – AllenbridgeEpic Investment Advisers

January 22nd, 2018

Brent	**Pension Fund Sub-Committee** 13 February 2018
	Report from the Chief Finance Officer

Report on PIRC 2016/17 local authority pension fund benchmarking

Wards Affected:	N/A
Key or Non-Key Decision:	N/A
Open or Part/Fully Exempt:	Open
No. of Appendices:	2
Background Papers:	N/A
Contact Officer(s):	Name: Michael Almond Title: Finance Graduate Trainee Tel: 020 8937 1754 Email: Michael.Almond@brent.gov.uk

1.0 Purpose of the Report

1.1 This report provides a summary of the benchmarking data for 2016/17, produced on behalf of the Fund by PIRC. It compares the Fund's performance and asset allocation with the best performing local authority pension funds.

1.2 The report then comments on some possible conclusions from the data and limitations of the benchmarking exercise.

2.0 Recommendation(s)

2.1 Members are asked to note the results of PIRC's benchmarking exercise in the appendices as discussed within this report.

3.0 Detail

3.1 The benchmarking undertaken by PIRC for 2016/17 compared the historic performance and asset allocation of the Fund against a universe of 60 local authority pension funds (approximately two thirds of all local authority pension funds).

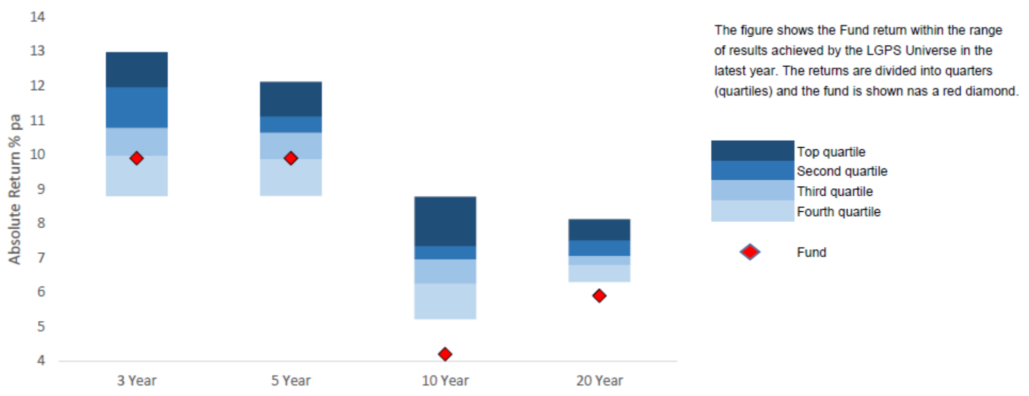
3.2 PIRC's analysis of the results for the whole universe is Appendix A of this report. The underlying statistics are used throughout this report to compare the Fund's performance and asset allocation with the best performing funds in the universe. Fund names have been removed from this data for anonymity.

3.3 PIRC's performance summary for the Fund for the year ending 31 March 2017 is Appendix B of this report.

Short term (1 year) performance

3.4 The Fund made an overall return of 17.3% in 2016/17, compared to the universe average of 21.4%, ranking the Fund in the 88th percentile. Table 1, shows that the Fund has also been outperformed by its peers over the medium to long term.

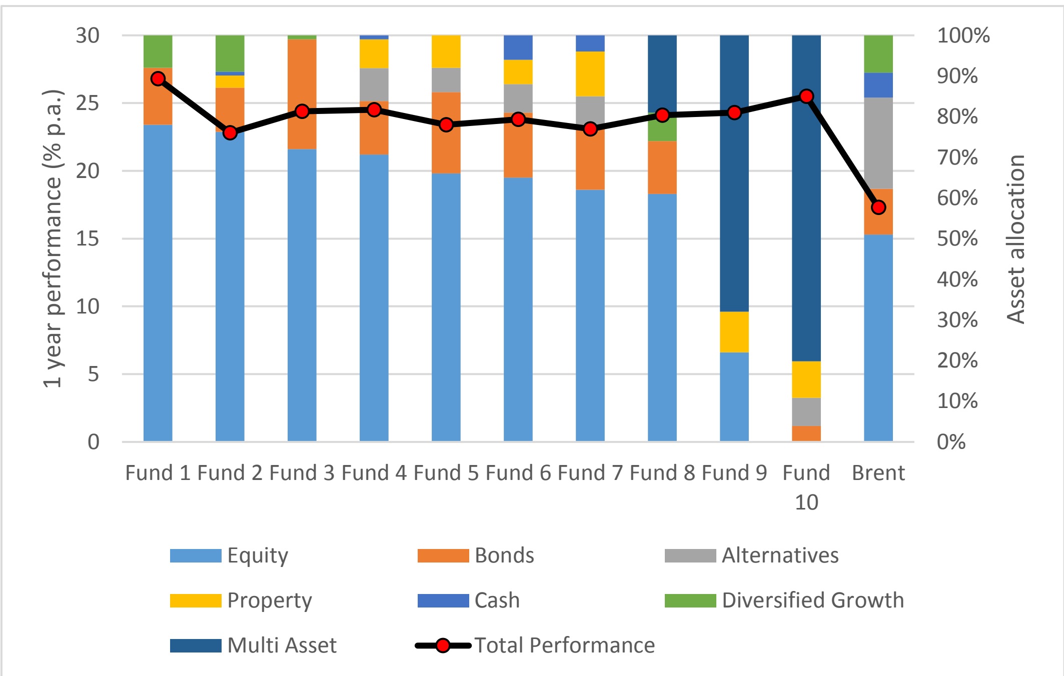
Table 1: Medium to long term LGPS fund absolute returns



Source: Appendix B - Brent Pension Fund Performance Summary 2016/17 (PIRC)

3.5 Table 2 compares the one year performance of the Fund with the 10 best performing funds from the universe in 2016/17. It also compares the asset allocations of these funds.

Table 2: Comparison of the Fund's asset allocation with the Top 10 funds (2016/17 one year performance)



3.6 The best performing fund in the universe (Fund 1) made an overall return of 26.8% in 2016/17. This was achieved with an equity allocation of 78%, which made a return of 32.7%. Most of the top 10 had an equity allocation above 60%, compared to the Fund's allocation of 50%, on which a return of 28.5% was achieved.

3.7 Most of the top 10 also had a larger allocation to bonds and property (the latter of which the Fund does not have an allocation to), but a smaller allocation to alternatives, which in the Fund's case consists of Private Equity and Infrastructure investments.

3.8 Furthermore, the Fund achieved a relatively low return of 5.4% from an 11% bonds allocation, compared to the Top 10 average of 11.7% from a 14.8% allocation.

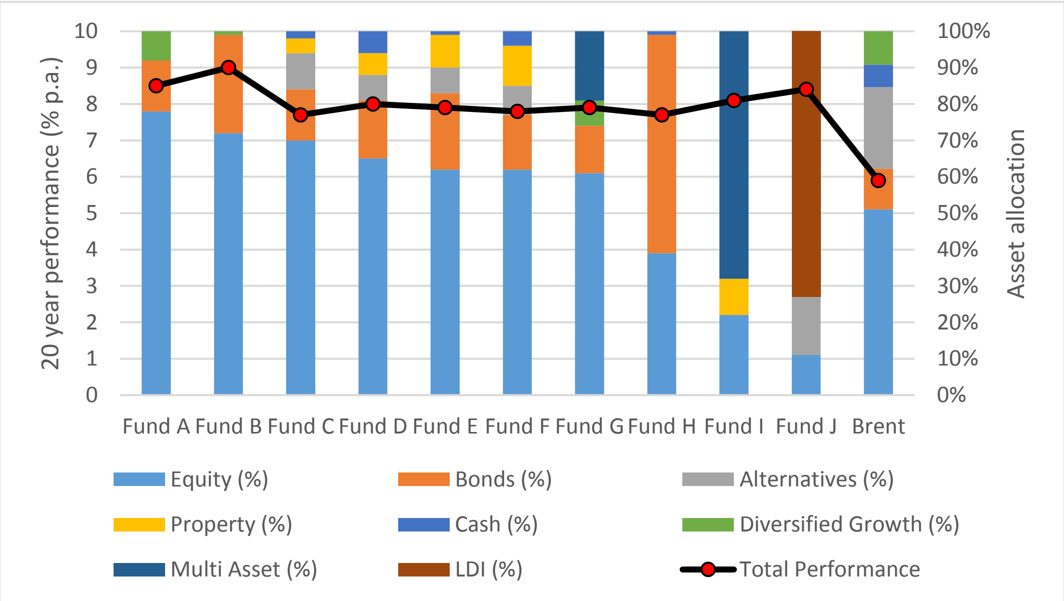
3.9 The average return within the Top 10 from property was only 4.2% from a 7.7% allocation. Like Brent, the best performing fund, did not have an allocation to property.

3.10 Overall, the one year performance analysis is not long enough of a period of time to make any meaningful comparisons to other pension funds and therefore the results need to be read with this context in mind.

Long term (20 years) performance

3.11 Over the long term, Brent has achieved a return of 5.9%, placing the Fund in the 98th percentile. The top 10 funds over this time period achieved returns of between 7.7% & 9%, as shown in Table 3.

Table 3: Comparison of Fund asset allocation with twenty year performance top 10 funds

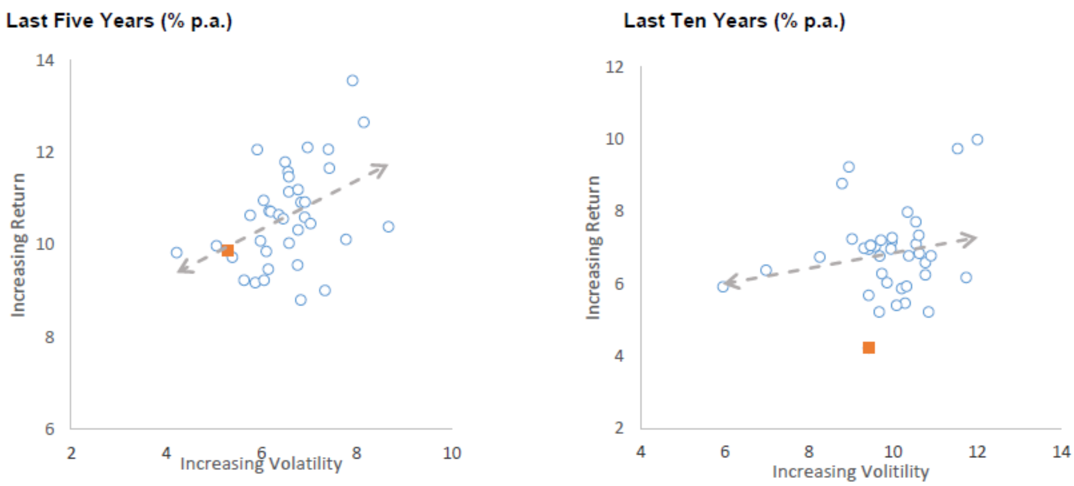


3.12 As with the short term comparison, equity allocations of above 60% feature prominently in Table 2. Most of the top 10 also have a higher allocation to bonds and a smaller allocation to alternative investments.

4.0 Conclusions and Limitations

4.1 When setting the Fund's asset allocation, the rewards from higher returns must be balanced against the associated higher risk. Table 4 shows the link between risk and return, although this correlation weakens in the longer term. The Fund has historically taken a relatively low risk approach to asset allocation than its peers and achieved a lower return over the same periods than the majority of funds. That being said, having a low risk strategy also correlates to low volatility, which means that in years like 2016/17 when the stock market has performed very well the Fund will perform relatively poorly and vice versa during down years the Fund should perform relatively well. This is further exemplified in the table below where over a 5 year period the Fund has generally had the right risk adjusted return.

<u>Table 4: Relationship between risk and return</u>



Source: Appendix B - Brent Pension Fund Performance Summary 2016/17 (PIRC)

4.2 In order to put the historical performance into context, at least 10 years ago the Fund entered into some illiquid investments (principally private equity) which have performed relatively poorly. As a consequence this has reduced the assets that could have been allocated to classes that would have performed better in the long run. This therefore correlates to the historical performance that has been shown through this benchmarking exercise, in particular the 10 year analysis shown in Table 4.

4.3 The very strong recent performance of the equity markets could help to explain why funds with high allocations to equity are performing relatively well. However, the equity markets are volatile, meaning that to achieve the higher returns, these funds have accepted a higher level of risk.

4.4 Other factors that must be considered include the length of time that investments are required to be held for. Appendix A, Figure 8, shows that returns from property and alternative investments overtake those from equity in the long term. For funds with a focus on long term returns, such investments may be more appropriate.

4.5 It is clear that the Fund could achieve better returns from its existing allocation. This may be due to a number of factors including the subdivision of asset classes (e.g. UK Equity/Global Equity), which have not been analysed through this benchmarking exercise.

4.6 PIRC's benchmarking report also did not consider investment management fees. For example, the best performing funds may have had to accept higher fees in order to achieve the higher returns. Managing these fees is an important part of any investment strategy. The Fund is currently involved in further benchmarking which will include analysis of these issues.

4.7 This analysis further reinforces the need for a review of our investment strategy, asset allocation and the level of risk that the committee believes the fund should be exposed to. A report on the proposal for this review is on the same agenda as this report.

5.0 Financial Implications

5.1 There are no direct financial implications associated with noting this report.

6.0 Legal Implications

6.1 None arising directly from this report

7.0 Equality Implications

7.1 None arising directly from this report

8.0 Consultation with Ward Members and Stakeholders

8.1 None necessary for this report.

9.0 Human Resources/Property Implications (if appropriate)

9.1 None arising directly from this report

10.0 Appendices

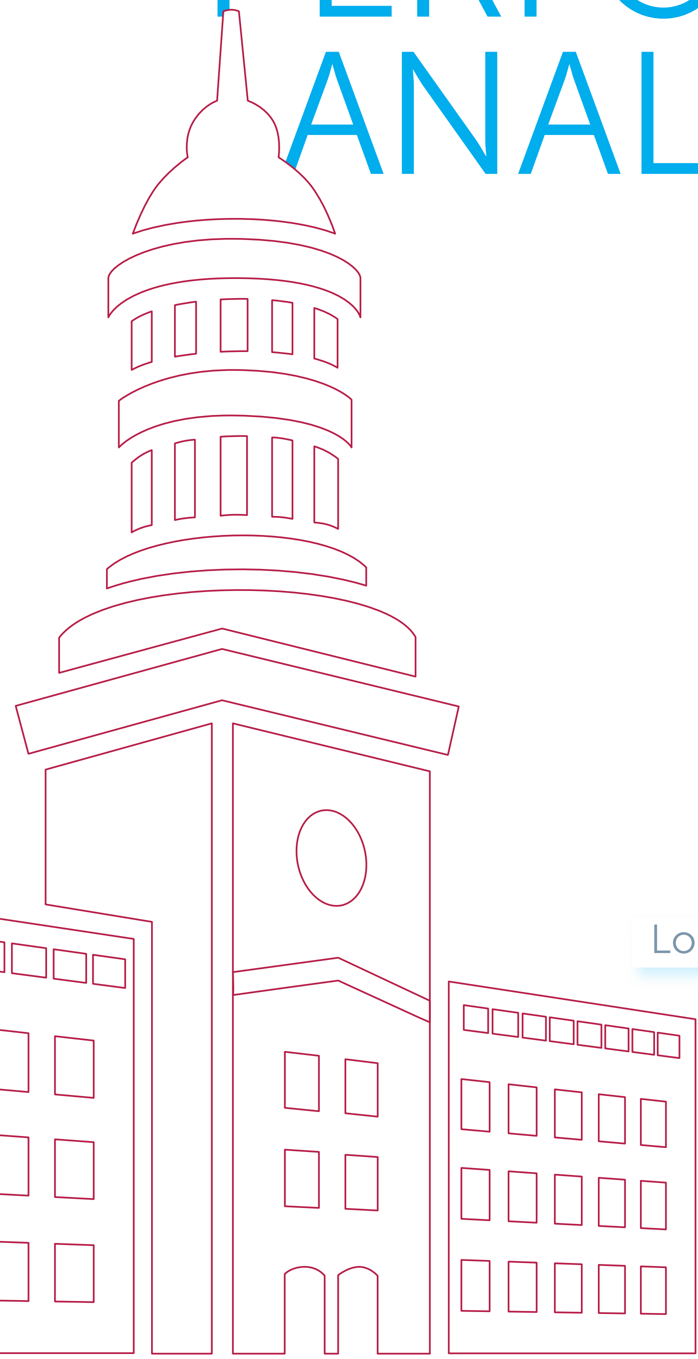
Appendix A - Local Authority Pension Performance Analytics Annual Report 2016/17 (PIRC)
Appendix B - Brent Pension Fund Performance Summary 2016/17 (PIRC)

<u>Report sign off:</u>

Conrad Hall, Chief Finance Officer

PIRC

LOCAL AUTHORITY PENSION PERFORMANCE ANALYTICS



ANNUAL REPORT

2016/17

2016/17 Local Authority Universe results

Long term results and trends

Comment and analysis

INTRODUCTION

WELCOME TO the 2016/17 PIRC Local Authority Pension Performance Analytics Annual Review.

When the existing provider exited from providing peer group performance at the end of March 2016 funds faced the possibility that the peer group benchmark would cease to exist. Fortunately, many within the industry agreed with us that this information is not only useful but essential, for individual funds, for the new pools and for the LGPS in its entirety.

In recognition of this, the Local Authority Pension Fund Forum (LAPFF) stepped in early in the proceedings and voluntarily wrote to every fund to help to secure funds' historical data in a consistent, standardised format which would allow the historical aggregates to be recreated. As a result we now have a full 30 year historical record of local authority fund performance.

The Society of London Treasurers advocated strongly for the need for funds to participate and we would like to thank them together with all of our participating funds for your support. We have now been appointed as the National Framework provider for this service which should now enable any funds who wanted to appoint through this route to participate.

We are delighted to be able to publish this year's peer group results, based on a Universe of 60 funds with a value of £162bn. This represents some two thirds of local authority pension fund assets and includes all of the Welsh and Northern Pools, all bar three of the London Pool, with funds from all other pools except Central. We look forward to this number continuing to grow as more funds come on board.

The LGPS is under constant scrutiny and often attack. We hope the Universe provides objective evidence of how strong and well run the investment side of the funds has been. Enjoy!
If you need to know anything more please get in touch.

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CONTENTS

2016-17 UNIVERSE RESULTS

OVER the last twelve months the average Local Authority pension fund has returned 21.4%. This return is well ahead of the 30 year average of 8.7% p.a. and well ahead of actuarial assumptions which are currently estimating around 5% p.a. With the full LGPS currently valued at around £200bn this year's return represents a net gain of some £40bn for the public sector schemes.

Funds also had an unusually strong year compared to their own benchmarks – with more than three quarters outperforming. This is in contrast to the ten year results where the majority of funds underperformed their benchmarks after fees.

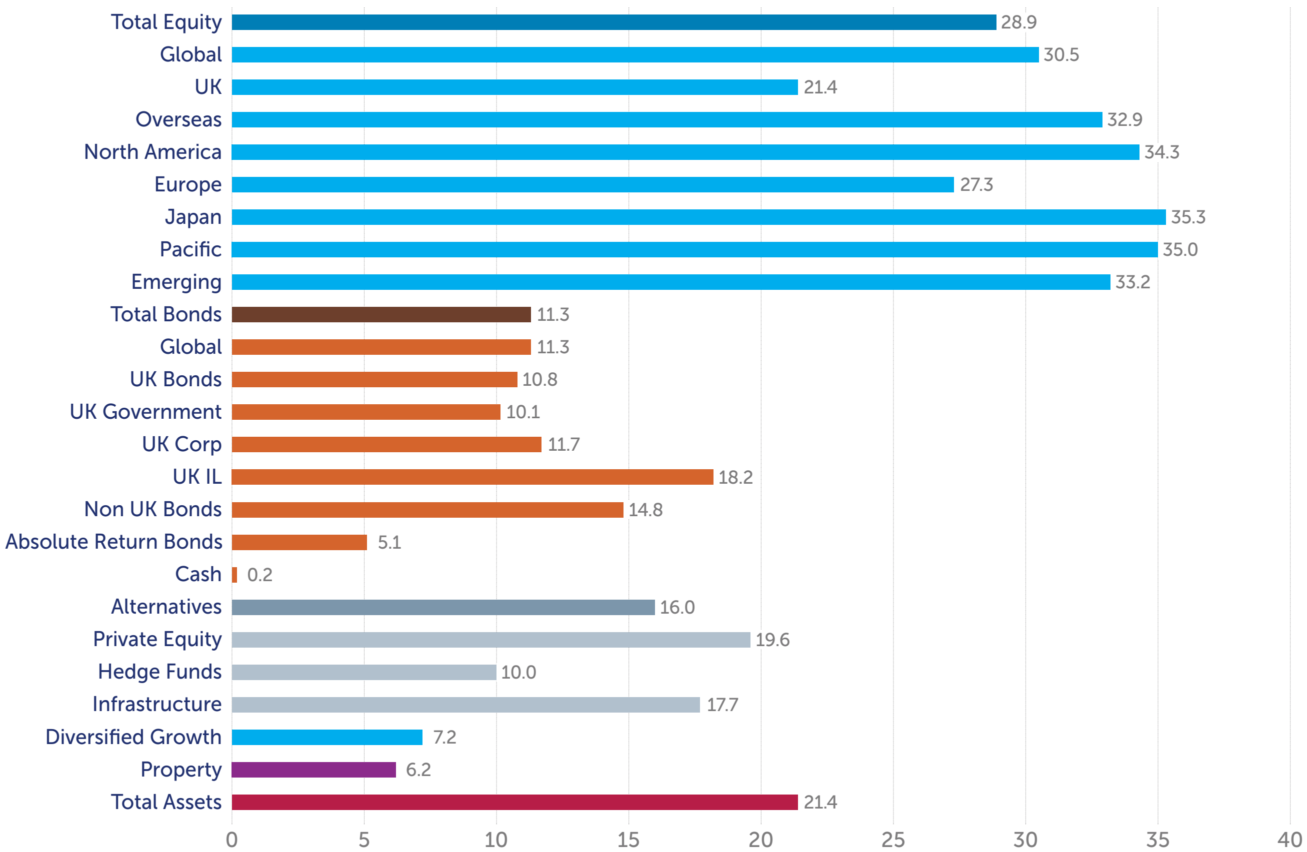
> An excellent year for investment returns with funds returning 21.4%, well ahead of the long term average of just below 9% and actuarial assumptions of around 5%

Local authority funds have retained a high commitment to equities which, this year, has been extremely favourable. The strong overall returns have been driven by the excellent performance from equity markets in the last twelve months.

UK equities performed well despite the large fall in the value of Sterling. Whilst initially counterintuitive, this reflects the importance of large overseas earnings of many of the UK quoted companies. The UK returned 21.4% for the year with large companies, as represented by the FTSE 100, outperforming their smaller peers (within the FTSE 250 and Small Cap indices) for the first time in eight years.

Overseas returns were better still, boosted for those

Figure 1: 2016/17 performance



funds who did not hedge their assets, by the marked decline in Sterling following the surprise decision to leave the EU. Local authority funds saw returns of around 35% across their US, Japanese and Pacific Rim investments with a marginally lower 33% from Emerging Markets and 27% from Europe. Most funds invest on an unhedged basis –funds that were fully hedged would have produced returns around 15% lower on their overseas assets.

Despite the increased political instability and resulting volatility, **bond markets** produced positive results. Funds achieved an average return from UK government bonds of 10.1% with corporates rather better at 11.7%. Index Linked gilts returned 18.2%.

Alternative investments as usual had a mixed time and there was a very wide dispersion of returns across this group. The average fund produced a return of 16.0% from this grouping. Private equity investments delivered close to 20% for the year, Infrastructure almost 18% whilst hedge funds returned 10%.

A good year in relative terms as most funds outperformed their benchmark, helped by relatively strong performance within their alternative portfolios

How to appropriately benchmark these investments has long been a source of contention. Some funds benchmark these against relatively soft targets such as cash or inflation whilst others are benchmarking against more demanding (and arguably better aligned targets) such as cash plus 4% p.a. or absolute return targets such as 8% p.a. In the latest year, regardless of which approach was taken, most funds outperformed their benchmark for alternative assets.

This outperformance was the key driver in the unusual statistic that more than three-quarters of funds managed to outperform their benchmark in the latest year.

Diversified Growth funds, with an average return of 7.2%, outperformed their benchmarks but produced returns well below most other investments.

Property produced a return of 6.2%.

If we exclude the transport funds, which have very different liability profiles, the range of results in the latest year ranged from a high of 26.8% to a low of 13.9%. Generally funds with a higher equity component were towards the top of the range with those that had a higher commitment to absolute return strategies towards the bottom.

Many **active equity managers** struggled to add value in the peculiar market conditions with the majority of global equity managers employed across the LGPS underperforming, and some quite significantly. Managers who had a value type approach to investing – where there is a greater focus on dividends, tended to perform better.

Local authority funds still retain a high commitment to active management with the average fund having just under a quarter of its assets managed passively. Whilst the weighting in passive has been increasing it has been doing so very slowly – ten years ago the average fund's passive exposure was already 20%. The increased focus on cost reduction may promote a further move towards index-tracking, however this may be balanced by the asset allocation decisions being made, with funds continuing to increase exposure to assets for which there is no passive alternative.

Local authority funds still retain a high commitment to active management

The median (middle) performing fund returned 20.6%, 0.8% below the average. This reflects the relatively strong performance of the larger funds in the Universe this year. These funds have benefited from a relatively high exposure to equities and better returns within this area.

Asset Allocation

In terms of asset allocation, there was no significant change at the macro level over the year. The relatively small changes observed resulted from differential market movements rather than cash flow, with equities

There was no significant change at the macro level of fund asset allocation over the year increasing in proportion as a result of the strong results achieved over the year and property reducing because of the relatively poor results. At 62% of the average fund, equities represent the largest component by a significant amount as can be seen in Figure 2.

Within the equity allocation the average fund saw its overseas commitment reach its highest ever level at two thirds of the overall exposure. This was in part a continuation of the disinvestment from the UK that has been happening for a decade now and in part due to the relative underperformance of UK equities in the last year.

There were a number of portfolio changes: some on the back of disappointing performance, some structural, and others as a result of funds, particularly in London where asset pooling is further advanced, aligning their managers to take advantage of the new pool structures.

Figure 2: Asset allocation in the latest year

% allocation	31/3/2016	31/3/2017
Equities	60	62
Bonds	16	15
Alternatives	9	10
Property	9	8
Cash	3	2
Diversified Growth	3	3

Note: 3% of the Universe by value is invested in segregated multi asset portfolios – these have been removed and the % allocation adjusted accordingly

LONGER TERM PERFORMANCE

PERFORMANCE has been extremely strong over the medium and longer term. Figure 3 shows that there have been only six years of negative performance in the last thirty – following the crash of 1987, at the start of the millennium (the bursting of the dot-com bubble) and the global financial crisis of 2008/9. All periods were followed by double-digit returns which meant that even the three-year results had turned positive by the end of the following year.

Long term performance has been excellent. Funds delivered a positive return in 24 of the last 30 years and delivered an annualised performance of 8.6%p.a.

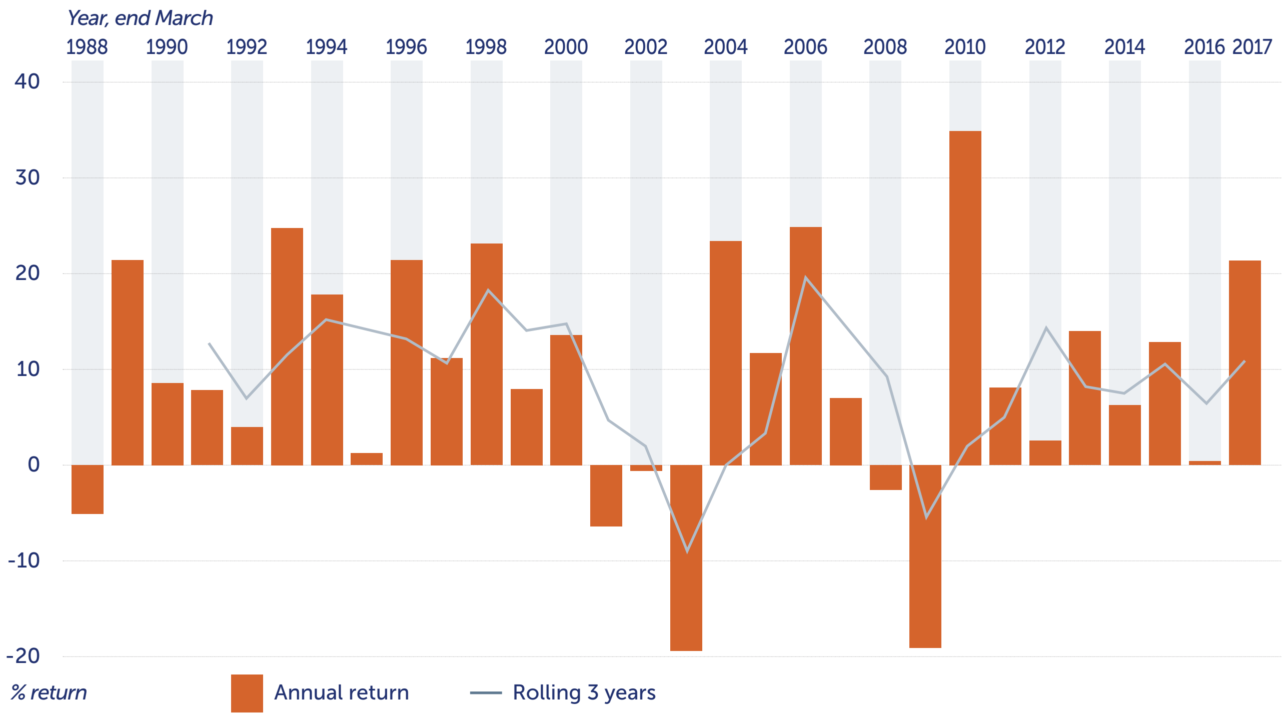
Over the recent past, performance has been strong. Figure 4 shows that over the three years the average fund returned 11.2% p.a. and over the ten years (which includes the period of the global financial crisis) has returned 7.0% p.a. These results are particularly impressive when viewed in the context of very low single digit inflation.

The median result is below the average over all periods indicating the relatively strong performance of larger funds in aggregate over their smaller peers. This result does not reflect the range of results across the smaller funds, a group within which there is a marked dispersion. Indeed over all periods the very best performances have come from some of the smallest funds.

Figure 4: Long term performance of local authority funds

% P.A.	3 YRS	5 YRS	10 YRS	20 YRS	30 YRS
Average	11.2	12.7	7.0	7.4	8.6
Median	10.8	10.7	6.8	7.1	-
RPI	1.9	2.3	2.8	2.8	3.3
CPI	0.9	1.4	2.3	2.0	2.6

Figure 3: Long term performance of local authority funds



Risk and volatility

The long-term performance is always dominated by the results from equities, the area that makes up over 60% of most funds' asset allocation and increasingly the impact of the US market, which makes up an ever increasing weighting within the global equity benchmark.

Over recent years we have seen a large increase in lower risk investments such as absolute return strategies and in assets with strong income generating potential, such as infrastructure

Funds have different attitudes to the investment (asset) risk that they are taking. Whilst many view their funds as very long term investments and are therefore prepared to live with market volatility in the short term, others are increasingly looking to mitigate the impact of these short term fluctuations. Over recent years we have seen a large increase in lower risk investments such as absolute return strategies and in assets with strong income generating potential, such as infrastructure.

These lower risk strategies are being put in place because of the changing circumstances in which funds find themselves. After decades of being in a situation where the money coming in (through contributions and income) has been greater than that going out (in pension payments) some funds are experiencing negative cashflow for the first time. This brings new challenges as funds try to avoid a situation where they are forced to sell assets at distressed values. Concerns are also being expressed around how to protect assets from a steep rise in inflation over the coming years.

Figure 5: Relation between risk and return

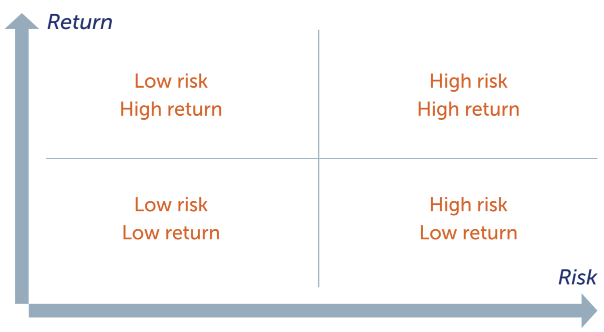
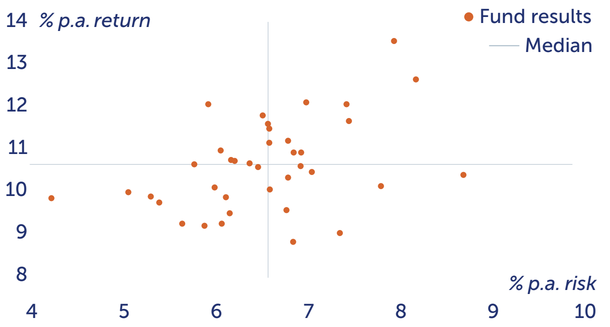


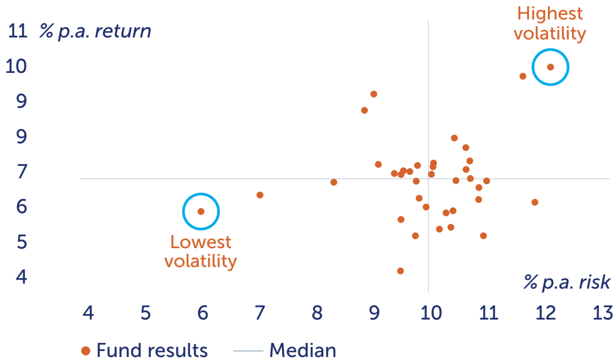
Figure 5 shows there is a direct (and ordinarily obvious) relationship between risk and return. As such, we should expect to see the more risk averse funds deliver lower volatility but achieve lower returns than their peers. Over the last five years this is exactly the relationship that resulted. Figure 6 shows fund performance over the period in risk and return space. Each fund is represented by an orange dot. The higher the fund lies on the vertical y axis the better its return, the further to the right on the horizontal x axis the greater the volatility experienced. The cross-hair lines represent the median risk and return.

Figure 6: Risk and return distribution of funds over the 5 years to end March 2017



Quite visibly, the best returns over this period are those delivered by the funds with the highest level of volatility. The funds that have taken the lowest levels of risk have delivered below median returns.

Figure 7: Risk and return distribution of funds over the 10 years to end March 2017



A similar pattern can be seen over the longer term in Figure 7 above. Over the ten-year period, the fund with the lowest level of volatility (circled) produced a return 4% p.a. below that of the fund with the highest volatility (circled). This represents a compounded cumulative shortfall of 46% over the period. To put it another way, had the former fund been valued at

£1bn at the start of the period and produced the same results as the latter, its value would have been half a billion pounds better off by the end of the period.

Whilst we would not, nor could not, comment on the efficacy of one approach over the other, it is important that investment committees, officers and other decision makers appreciate the potential value implications of 'de-risking'. Most LGPS funds have liabilities that are extremely long term in nature. This should allow funds to be less concerned with short term volatility. However the strictures put in place by the cycle of triennial revaluations can have the effect of reducing funds' time horizons and focussing them on much shorter term periods.

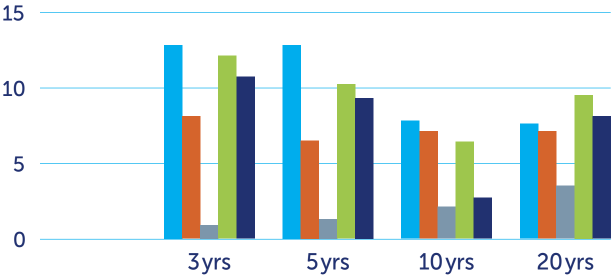
There are funds that have produced well above average returns at below average levels of volatility. These funds held high levels of index linked gilts as a liability matching strategy. Over the last ten years index linked gilts have returned 9.2% p.a. with a volatility of less than 5% p.a.

Asset class performance

Asset class performance is becoming increasingly difficult to disentangle as funds become ever more complex. Even within asset subclasses, we see funds with markedly different investments and benchmarks as they seek quite different outcomes – infrastructure is probably the best example of this currently.

Figure 8: Longer term performance by asset class

Return % p.a. to end March 2017



	3yrs	5yrs	10yrs	20yrs
Equity	12.8	12.8	7.8	7.6
Bonds	8.1	6.5	7.1	7.1
Cash	0.9	1.3	2.1	3.5
Alternatives	12.1	10.2	6.4	9.5
Property	10.7	9.3	2.7	8.1

As can be seen in Figure 8, Equities have produced the best returns over the short and medium term periods, substantially ahead of other asset types over the three and five years but closer over the ten year period. Alternatives have produced strong returns over all periods, in part reflecting the exposure to equity / equity type investments that many of these investments incorporate. The very strong twenty year return for this asset class is driven by the first half of the period when there was very small amounts invested, almost all of which was in private equity which performed very well.

Any exposure to cash over any of the periods would have reduced overall fund performance.

Over the ten year period property returns are relatively poor. Even ten years is quite a short time over which to judge property performance. If we look out to 20 years the return achieved is ahead of that of equities.

Long term asset allocation

Figure 9: Asset allocation, last ten years

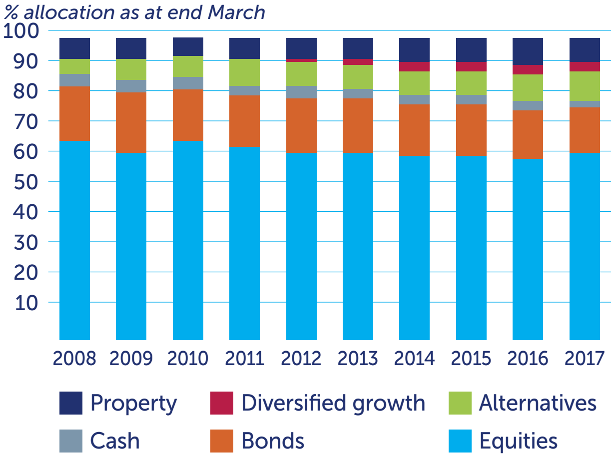


Figure 9 shows that asset allocation has remained broadly unchanged over the last decade - with equities remaining the dominant asset class in most funds' allocations. This continued commitment to equities is in marked contrast to the corporate sector where schemes have shrunk their equity component as they have sought to 'de-risk' their assets, moving instead to bonds and cash flow matching investments. Given the strong

The key flow has been a continued disinvestment from equities into less traditional 'alternative' asset classes performance of equities over the recent past this decision will have made the corporate schemes considerably more expensive for the employer. In contrast, LGPS funds have seen their asset values increase significantly: offsetting some of the increases brought about by increased longevity and falling bond yields (the metric on which they are measured) in their liabilities over the same period.

Most of the changes that have occurred within public sector schemes' asset allocations have come about more from relative market movements than from directional cash-flows. The key flows that we have seen has been a continued disinvestment from equities into less traditional 'alternative' asset classes, the aggregate of which has increased from five to ten per-cent of the average fund over the decade (and from close to zero twenty years ago).

There has been considerable change to the detail of funds at the micro level with alternatives portfolios in particular becoming ever more diverse

Despite this broadly static high level asset allocation there has been considerable change to the detail of funds at the micro level with alternatives portfolios in particular becoming ever more diverse. This is resulting in some funds holding large numbers of portfolios of relatively small value. Such an approach brings considerable burdens in terms of administration, monitoring and governance (particularly for relatively illiquid investments) whilst the impact on the fund bottom line is likely to be minimal.

We fully appreciate funds' decisions to improve their risk/return profiles, provide downside protection and lock in strong historical returns, but would question how these strategies are being implemented.

Equities

Equities probably remain the 'cleanest', most transparent of the asset classes insofar as most funds have a dedicated equity component benchmarked against a market index.

Most external funds now view their equities on a global basis, with the assets given to managers to manage against a global index. The benchmark used most commonly is the MSCI All Countries World, although the MSCI World (which excludes emerging markets) and the FTSE All World and FTSE World are used too.

Equities are mostly managed on a global basis but most funds still retain a separate allocation to the UK market

Two thirds of funds still retain a separate allocation to UK equities. This is in part an historical artefact – funds believed that UK assets were a better match for their UK liabilities and that domestic managers had a better chance of success in outperforming the UK market. This has been consistent with a 'home country' asset allocation bias by investors across the world. The 'home country' argument has lost some traction in recent years; increasing globalisation has resulted in the UK market becoming significantly less domestic in composition, and manager domicile is no longer the guarantee of alpha generation success evidenced ten or twenty years ago.

Unsurprisingly, and despite the commitment of funds to UK manager biases, as can be seen in Figure 10 the exposure to UK Equities has significantly reduced. Even adding back the UK weighting in the global index the average UK exposure is around a third of total equity exposure compared to over 50% ten years before.

Figure 10: Equity allocation over time (at end March)

% allocation at end March	2007	2017	2017 reweighted
UK	54	28	33
Non-UK	46	4	67
Global*		68	

* UK Equities currently comprise around 8% of global equity indices

Funds that held a relatively high exposure to the UK within their equity portfolios would have achieved returns below their peers in the latest year. Over the longer term, UK equities have also trailed overseas equities as can be seen in Figure 11. The latest year underperformance is attributable to the sharp decline in Sterling. However, over the medium and longer term, there are more structural factors involved.

The UK market has a greater exposure to oil and gas and mining stocks than other major markets and these stocks have suffered from the decline in oil and commodity prices throughout these periods.

UK equities have performed relatively poorly compared to overseas markets over both the short and medium term

Over the medium term, the overall global equity return has been exceptionally strong – more than double any assumption made by actuaries in their scheme modelling. US equities have outperformed the other major markets over all longer term periods, assisted by the strength of the Dollar.

Figure 11: Equity performance by region to end March 2017

	2016/17	3yrs % p.a.	5yrs p.a.	10yrs p.a.
Global	30.5	15.0	13.9	8.3
UK	**21.4**	**7.5**	**10.3**	**6.0**
Non-UK	32.9	15.7	14.1	9.1
North America	34.3	20.0	18.2	11.5
Europe	27.3	10.4	13.3	6.7
Japan	35.3	18.4	14.0	6.4
Pacific ex Japan	35.0	13.5	10.1	10.0
Emerging	33.2	11.7	7.9	7.9

Around a quarter of funds hold a separate allocation to emerging markets, giving them the opportunity to flex their equity risk profile – the assumption being that these markets experience higher volatility because of the additional risks involved but that this risk will be rewarded by higher returns. However, the decision to hold emerging markets has not been rewarded over most of the last decade with returns from this area below those delivered by most developed markets.

Over the last decade investors in emerging markets have not been rewarded for the risk they have taken on

UK equity managers have, in aggregate trailed the index over the last three years, however, very strong performance in the previous four years has meant that they are still well ahead over the five and ten year periods.

Bonds

Historically funds held most of their bond exposure within two main investments – UK Government (nominal gilts) and UK Government Index-Linked securities. These assets were seen broadly as a diversifier for equities and a proxy for scheme liabilities.

Funds began to diversify their exposure into overseas government issues in the late 1980's and in the mid noughties into corporate issues. Now the average fund holds more in UK corporate bonds than it does in government gilts, currently the ratio is almost 2:1.

More recently we have seen funds invest in bond portfolios that are not benchmarked against market indices but which are seeking instead to deliver an absolute level of return (often defined as Cash plus x% or Inflation plus x %). These absolute return portfolios aspire to tap into better returns from a diversity of issuers, unencumbered by the straightjacket of the machinations of domestic interest rates and manipulated yields (sometimes negative in real terms) that have been available across bond markets in recent years.

Recently we have seen funds invest in bond portfolios that are not benchmarked against market indices but which are seeking instead to deliver an absolute level of return

Bond performance was strong in the latest year with all areas bar the above mentioned absolute return bond portfolios delivering double digit returns as can be seen in Figure 12:

Figure 12: Bond performance to end March 2017

	2016/17	3yrs %p.a.	5yrs %p.a.	10yrs %p.a.
UK	10.8	7.5	6.7	6.7
UK Government	10.1			
UK Corporate	11.7			
UK Index Linked	18.2	13.2	9.0	9.2
Overseas	14.8	9.1	6.1	7.1
Absolute Return	5.1			
Global	11.3			

Index-linked gilts produced the strongest returns, as fears about the possibility for rising inflation post – Brexit took hold and led to an increase in demand.

Overseas bonds were assisted by the same currency effects that aided the overseas equity returns. Funds saw their UK conventional bonds perform ahead of the broad market index assisted by their weighting towards the longer duration – long-dated bonds producing returns around three times that produced by the shorter dated issues.

Over the longer term too, index-linked gilts have been the best performing of the bond assets, outperforming conventional issues, both government and corporate with a return of 9.2% p.a. over ten years.

Longer term, funds have outperformed the market indices because of their over-weighting to longer dated issues, a sector that has performed extremely well over this period driven by high demand from pension funds trying to buy assets that more closely match their liability profiles almost regardless of price.

Bond markets have delivered a far wider range of results in recent years than has been seen before. Long dated gilts significantly outperformed shorter dated issues

Alternatives

It was just over ten years ago that alternative investments rose from being a relatively insignificant part of the average fund to reach ten percent of total assets today. At that time around half of all alternative investment was held within private equity, a percentage that has stayed broadly consistent through the period. However, the investments that funds held ten years ago in active currency and tactical asset allocation funds have all but disappeared.

Hedge fund investment increased markedly following the credit crisis as funds sought to reduce equity volatility, peaking in 2011 before falling back, partly on the grounds of disappointing returns and in part, as funds diversified into an increasingly broad and complex, but arguably more transparent, pool of other absolute return investments.

Infrastructure has only been identified as a distinct component of many funds' strategies in recent years but is becoming increasingly important as funds seek diversified forms of risk and relatively high yields. It now makes up just under a quarter of the total Alternative exposure of the average fund. This was one of the key drivers behind the setting up of the pools – allowing better access for smaller funds to infrastructure investments and we expect that the exposure of many funds will increase over the relatively short term.

Infrastructure continues to increase its weighting within funds asset allocation. It now makes up just under a quarter of the total Alternative exposure of the average fund

In the latest year, alternative assets performed strongly as can be seen in figure 13. One year is, however, generally too short a period over which to take a meaningful measure of these types of assets which often seek to deliver their returns over much longer time-horizons. Over three and five years (the longest periods that are currently available) and evidences that, whilst hedge funds have delivered returns in line with or ahead of their benchmarks, the return achieved has been well below the other alternative asset classes over the medium term.

Figure 13: Alternatives performance to end March 2017

	1 yr %	3 yrs % pa	5 yrs % pa
Alternatives	16.0	12.1	10.2
Private Equity	19.6	16.5	13.2
Hedge Funds	10.0	6.1	5.9
Infrastructure	17.7	12.4	9.8

Diversified Growth Funds

These funds make up 3% of the average fund but commitment to this asset is skewed, with just over half of all funds having no exposure at all. The average return on this asset in the latest year was 7.2% with most portfolios outperforming their benchmarks which tend to be three or four percentage points above either cash or inflation.

Over the last five years, these funds returned 5.5% p.a. Whilst this level of return is well below that of most other assets (which perhaps explains why the asset class has not grown as fast as had been expected) it has been delivered at relatively low volatility.

Property

In the latest year the average property return was 6.2%. Most funds hold all, or almost all of their property portfolio in the UK, but those funds who had overseas exposure performed considerably better, assisted by the decline of Sterling. In local currency terms however, non-UK property has performed weakly in recent years and funds' exposure has reduced substantially.

After its significant fall in value immediately post the global financial crisis in 2008/09 property has recovered strongly. Although the near term returns trail those of equities, at 10.7% p.a. and 9.3% p.a. over the three and five years respectively, the recent performance has been well above the long term (20 year) average for this area of 8.1% p.a.

APPENDIX

Figure 14: Longer term returns, %

	2016/17	3 yrs p.a.	5 yrs p.a.	10 yrs p.a.	20 yrs p.a.
Total Assets	**21.4**	**11.2**	**10.7**	**7.0**	**7.4**
Total Equity	28.9	12.8	12.8	7.8	7.6
Global	30.5	15.0	13.9	8.3	
UK	21.4	7.5	10.3	6.0	
Overseas	32.9	15.7	14.1	9.1	
North America	34.3	20.0	18.2	11.5	
Europe	27.3	10.4	13.3	6.7	
Japan	35.3	18.4	14.0	6.4	
Pacific	35.0	13.5	10.1	10.0	
Emerging	33.2	11.7	7.9	7.9	
Total Bonds	11.3	8.1	6.5	7.1	7.1
Global	11.3				
UK Bonds	10.8	7.5	6.7	6.7	
UK Government	10.1				
UK Corp	11.7				
UK IL	18.2	13.2	9.0	9.2	
Non UK	14.8	9.1	6.1	7.1	
Absolute Return	5.1				
Cash	0.2	0.9	1.3	2.1	3.5
Alternatives	16.0	12.1	10.2	6.4	9.5
Private Equity	19.6	16.5	13.2	9.9	
Hedge Funds	10.0	6.1	5.9	3.3	
Infrastructure	17.7	12.4	9.8	5.1	
Diversified Growth	7.2	4.5	5.5		
Property	6.2	10.7	9.3	2.7	8.1

Figure 15: Asset allocation

	% Allocation as at end March									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Equities	65	62	66	64	62	63	63	62	60	62
Bonds	18	20	17	17	18	18	18	18	16	15
Cash	4	4	4	3	4	3	3	3	3	2
Alternatives	5	7	7	9	8	8	8	8	9	10
Diversified Growth					1	2	3	3	3	3
Property	7	7	6	7	7	7	8	8	9	8

Figure 16: Long term real returns

	10 years to end March, % p.a.									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total assets	5.1	2.0	3.8	5.3	5.7	9.4	7.8	7.9	5.6	7.0
RPI	2.8	2.6	2.7	3.0	3.3	3.3	3.3	3.0	3.0	2.8
Real return	**2.2**	**-0.6**	**1.1**	**2.2**	**2.3**	**5.9**	**4.4**	**4.8**	**2.5**	**4.1**
	20 years to end March, % p.a.									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total assets	9.4	7.2	8.3	8.3	8.3	7.8	7.2	7.8	6.8	7.4
RPI	3.6	3.2	3.0	2.9	2.9	2.9	2.8	2.8	3.0	2.8
Real return	**5.6**	**3.9**	**5.1**	**5.2**	**5.2**	**4.8**	**4.3**	**4.9**	**3.7**	**4.5**

The questions that the Universe seeks to address

THE PIRC Local Authority Pension Fund Performance Universe is a survey of UK local authority defined benefit pension funds. As at 31st March 2017 it comprised 60 funds with a value of £162 bn.

At aggregate level

- How has the LGPS performed in absolute terms over the short, medium and longer term?
- Is the LGPS adding value relative to the strategic benchmarks that funds have set?
- How is the LGPS structured in terms of asset allocation and how has this changed over time?
- What is the performance of the aggregate LGPS in the major asset classes in which it invests over the short, medium and longer term?
- How does this performance compare against benchmarks?
- Is risk taken being rewarded?
- What is the spread of performance – why are some funds performing better than others, can strengths and key drivers of performance be identified?

At fund level

- How does the absolute level of investment return achieved by the fund compare with others in the LGPS?
- What level of risk has been taken to achieve this return and how does this compare with others?
- How does the relative performance compare to that achieved by others in the LGPS?
- What level of risk has been taken to achieve this return and how does this compare with others?

These questions can be answered relative to the full LGPS or split in a variety of ways including by region/funding level/structure

- How have these differences come about?
- How does the structure of the fund differ from other funds?

New questions relating to pooling

- How does the level of investment return achieved by the fund compare with others in the pool?
- How does the relative performance compare to that achieved by others in the pool?
- How has the pool manager performed relative to its benchmark, target and other pool managers operating the same mandate?
- How has the overall pool performed in absolute terms relative to other pools?
- How has the overall pool performed in relative terms relative to other pools?
- Is the performance of the pool improving?
- Is the volatility/risk of the pool reducing? How does this compare to the other pools?
- Is manager change within the pool reducing? How does this compare to the other pools?
- How does the structure of the pool differ from that of the other pools?

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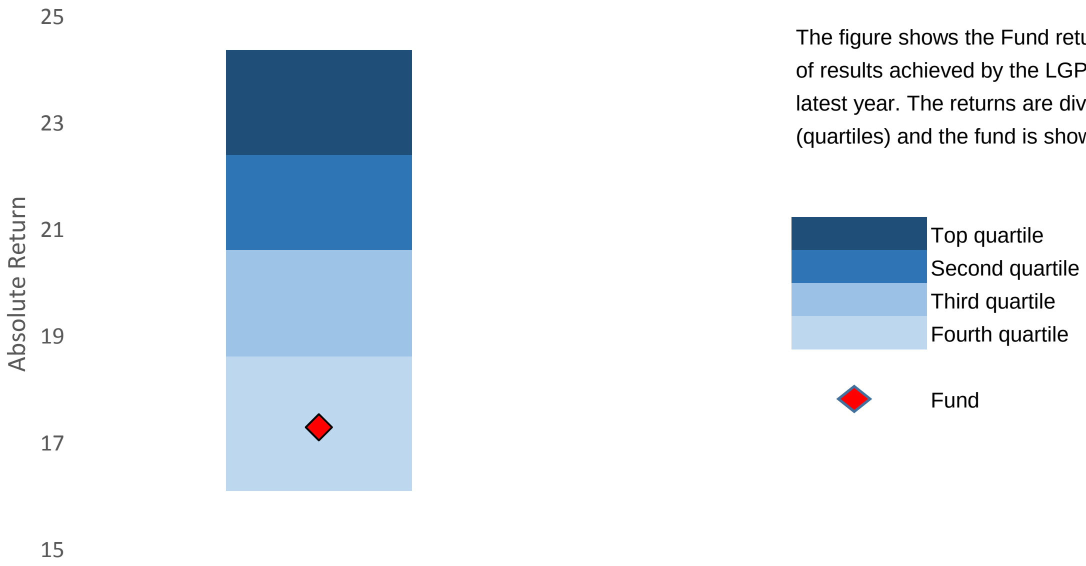
PERFORMANCE SUMMARY FOR PERIODS TO END MARCH 2017

LATEST YEAR RETURN

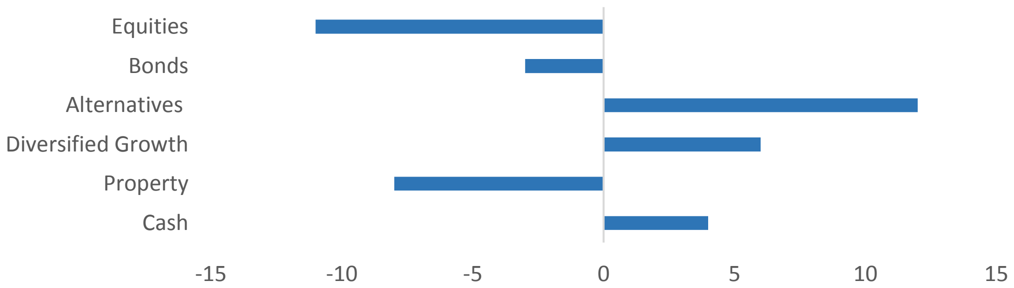
- The Fund returned 17.3% in the latest year. This ranked it in the 88th percentile.
- Asset allocation dominated the outcome for fund rankings
- The best performers were heavily invested in growth assets
- The lowest returns were delivered by funds with more defensive allocations



The figure shows the Fund return within the range of results achieved by the LGPS Universe in the latest year. The returns are divided into quarters (quartiles) and the fund is shown nas a red diamond.

ASSET ALLOCATION

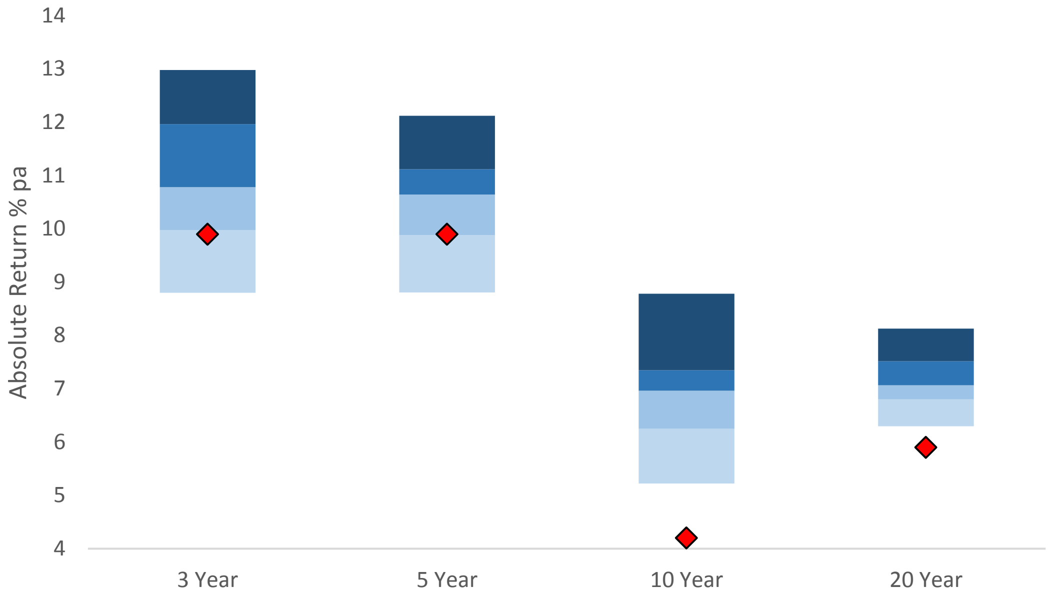
- The Fund has a different asset strategy from the average LGPS fund
- The key difference is the relatively high commitment to alternatives and diversified growth
- The Fund is relatively underweight equities and property.
- In the latest year this asset allocation had a detrimental impact on performance.



The chart shows the Fund's relative % weightings at asset class level at 31st March 2017.

LONGER TERM RETURNS

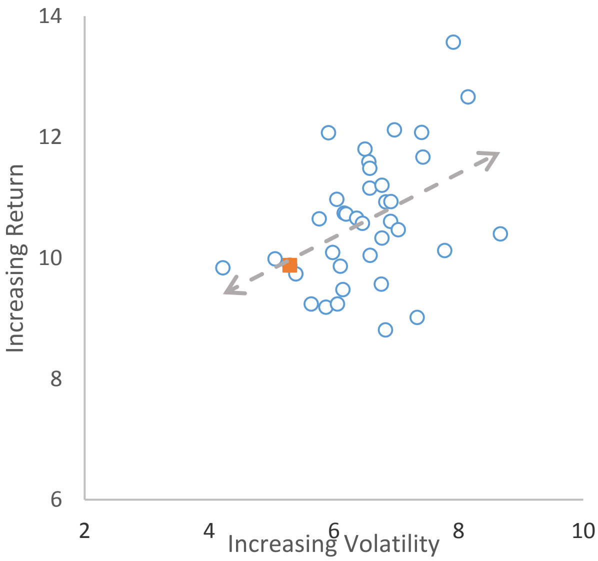
• The Fund has performed behind its peers over the medium term - 75th percentile over the last three and five years.
• The Fund is at the bottom of the range over the decade and over the last twenty years.



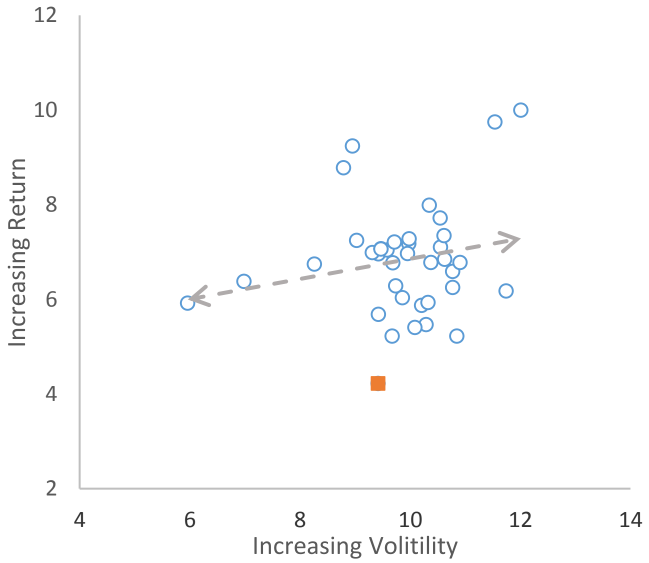
RISK & RETURN

• Funds have typically been rewarded for additional volatility i.e. higher exposure to equity - more so nearer-term
• Over both periods the Fund has acieved a lower return than most of its peers. However the level of risk taken has also been lower.

Last Five Years (% p.a.)



Last Ten Years (% p.a.)



The charts show the funds (blue rimmed dots) in the LGPS Universe in risk/return space. The further up the vertical axis a fund is the better the return achieved. The further along the horizontal axis the more risk has been taken.
The grey dotted trend line shows that there has been a positive relationship between the level of risk taken and the return achieved.

Brent	**Pensions Sub Committee** 13 February 2018
	Report from the Chief Finance Officer

Investment Strategy Review

Wards Affected:	N/A
Key or Non-Key Decision:	N/A
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	0
Background Papers:	▪ N/A
Contact Officer(s): (Name, Title, Contact Details)	Conrad Hall, Chief Finance Officer

1.0 Purpose of the Report

1.1 The purpose of this report is to update the committee on the investment strategy review.

2.0 Recommendation(s)

2.1 That members of the committee note the work required to complete the review.

3.0 Detail

3.1 As agreed by the committee in November 2017, the Fund has commissioned a project to review its investment strategy. This is in light of the range of equity and fixed income products available, or soon to be available, for investment in 2018, which has created an opportunity to review the investment strategy. The outcome expected is that the Fund will be able to make quicker and more robust investment decisions when new products become available. It will also allow us to direct the LCIV to create the specific products that the Fund needs in order to execute the investment strategy. In addition, the actuarial results of the Triennial Review needs to be analysed to better understand our liabilities. Inevitably, the liability profile will have changed alongside a change in the economic environment since the last investment strategy review in 2015. Completing the strategic re-allocation of the Fund is necessary to meet its long-term return targets and match its liabilities.

3.2 The Fund has asked Hymans Robertson LLP to undertake a review of the Fund's investment strategy. This short note sets out the proposed scope of the review and the timescales for completion.

3.3 There are three key objectives to the review

1. To establish a set of Investment Beliefs that will support the long term strategic approach of the Pension Fund's Sub-Committee.

2. To gain a broader understanding of the risk/return dynamics of the Fund's investment strategy and to ensure that the strategy remains fit for purpose in supporting the Fund's long term objectives.

3 To set a medium term agenda and timetable on how the Fund might comply with the requirement to pool its assets, and to consider a process for mapping the existing portfolio across to the London CIV pool.

3.4 The review will involve a number of stages from establishing the Fund's investment beliefs via a short questionnaire, analysing alternative investment strategies in terms of achieving the long term funding target and the corresponding level of risk being taken, and finally presenting a plan to illustrate how the Fund can map its portfolio across to the London CIV.

3.5 Following this meeting, an update will be provided to the committee at its next meeting.

4.0 Financial Implications

4.1 None arising directly from this report

5.0 Legal Implications

5.1 None arising directly from this report

6.0 Equality Implications

6.1 None arising directly from this report

7.0 Consultation with Ward Members and Stakeholders

7.1 Not applicable for this report.

8.0 Human Resources/Property Implications (if appropriate)

8.1 None arising directly from this report

<u>Report sign off:</u>

Conrad Hall, Chief Finance Officer

MINUTES OF THE PENSION BOARD
Tuesday 21 November 2017 at 7.00 pm

PRESENT: Councillor Mr Ewart (Chair) and Councillors Crane, Kabir, Mr Dawson and Mr Steer

Apologies were received from: Mr Stewart

1. **Apologies for absence**

Apologies for absence were received from received from Mr Euton Stewart (GMB).

2. **Declarations of interests**

There were no declarations received from Members.

3. **Minutes of the previous meeting**

RESOLVED: -
That the minutes of the last meeting held on 26 July 2017 be approved as an accurate record.

4. **Matters arising (if any)**

Ravinder Jassar (Head of Finance) informed members that the Pension Fund Annual Accounts had been fully audited since the last meeting with no changes required. In welcoming the update, the Chair thanked officers for their all their work on this matter.

5. **Implementation of the Markets in Financial Instruments Derivative (MiFID II)**

At the invitation of the Chair, the Board received a report previously presented to the Brent Pension Fund Sub-committee on 7th November 2017, which outlined the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 ("MiFID II"). Focusing on the key points in the report, Ravinder Jassar (Head of Finance) drew members' attention to the possibility of the administering authority becoming a retail client on 3rd January 2018, unless it applied for a professional client status. An application for professional status was being considered by the appropriate authority.

RESOLVED that:

i) the contents of the report be noted;

ii) the approval be given to the administrative authority to continue with the application process for elected professional client status in order to ensure it can continue to implement an effective investment strategy working on the opting up process.

6. **Quarterly monitoring report on fund activity: Quarter to June 2017**

The Board received a report that provided a summary of the Fund's activity during the quarter ended 30 June 2017 and examined the economic, market background and investment performance as well as commenting on events in the quarter.

Ravinder Jassar (Head of Finance) drew members' attention to the asset allocation list as of 30 June 2017 compared to the benchmark and investment return in the individual markets (Table 1 from the report). He highlighted the cash deposits of £60.4m and explained that these were being held for any capital commitments in private equity and infrastructure, to meet the payment required as a result of the transfer of a college to another fund, as well as to re-allocate other investments.

On investment returns in individual markets, members were informed that figures had been as expected, except for the Ruffer Diversified Growth Fund which had performed less than expected. It was understood that to improve future performance, Ruffer would be investing in short term equities against long term bonds as an effective offset and to help the fund respond positively.

Finally, the Board's attention was drawn to Table 3 from the report and members asked to note the compliance with investment limits as specified within the FSS.

RESOLVED that:

i) the contents of the report and the Independent Financial Adviser's investment report, attached to the main body of the report, be noted;

ii) compliance with investment limits as specified within the FSS be noted.

7. **Update on the London CIV and the Fund's Investment Options**

Ravinder Jassar (Head of Finance) gave an update on London Collective Investment Vehicle (CIV) since the last meeting and the timescales attached to making investments within it. Members heard that the CIV had a range of investment options available, mostly global equities but also fixed income and infrastructure investments. It was further explained that suitability of products for a pension fund were correlated to the type of liabilities at stake and level of accepted risk. Therefore, officers explained that an asset liability exercise would be conducted with the primary aim of identifying those liabilities, subsequently re-assessing the Fund's investment strategy and allowing for a more effective asset allocation and better understanding of the appropriateness of the Council's investment beliefs.

RESOLVED that:

i) The update on London CIV be noted;

ii) Approval be given for the assessment of asset liability to be carried out.

8. Pension Administration Service Update

David Veale (Director of Human Resources and Organisational Development) presented the report, which updated members on the performance of the pension administration contract and progress on the appointment of a new provider. Focusing on the key points of the report, David Veale drew members' attention to the performance on issuance of annual benefit statements to members of the Local Government Pension Scheme (LGPS), Brent record keeping plan and provision of the Pension Administration Service (PAS) when the current contract with Capita expired.

In terms of annual benefit statements, Mr Veale explained that the LGPS regulations required that statements be issued to all active members by 31st August each year, following the end of the tax year. The end of year returns required to be sent by Capita were 5, 666 in total. However, only 4,265 statements had been sent by 31 October 2017, with 1,401 statements still outstanding. This was mostly due to incomplete records, calculation errors and members who had left or retired between April 2017 and March 2017. With regards to deferred memberships, Mr Veale explained that although there had been an improvement by approximately 9% in comparison to the previous year, 1,987 statements had not yet been sent out due to a range of queries, mostly because deferred members had changed addresses and had not informed either the PAS or Brent administering authority. As a result of not meeting the 100% distribution of Annual Benefit Statements, a material breach was self-reported to the Pension Regulator on 28th September 2017. Subsequently, there had been significant engagement between the Pension Regulator and Brent Administrating Authority with fortnightly updates to the Pension Regulator being given.

Referencing the appendices to the report, he drew members' attention to the regulatory requirement for maintaining a record keeping plan and the need to improve the pension scheme data held by the Council. The Plan set out specific data which required attention and remedial action. Quotes for conducting data cleansing and correcting specific data such as address tracing had been obtained and considered a necessary expenditure in order to meet the legislative requirements for such service provision.

He then drew members' attention to the main part of the report, which focused on the progress with finding a new pension administration service provider._Members heard that the administration of the Local Government Pension Scheme (LGPS) for Brent Council had been outsourced since 1994. The current contract was awarded to Capita Hartshead now Capita Employee Benefits in 2011, originally assigned to Capita on 1st October 2011 for a period of six years. The contract was extended by one year in September 2017, an option within the contract, whilst the process for finding a new suppler and other options were being explored. Upon agreement by the Council's Management Team (CMT), it was decided that rather than going down the procurement route, the Council would aim for a shared service with another Local Authority and seek to enter an inter-authority agreement.

At an engagement event held on 4 September 2017, attended by officers, including the Chair of the Pension Board, the Council met with three of the invited providers – Local Pensions Partnership (LPP), Orbis and West Yorskhire Pension Fund

(WYPF) who delivered their presentations. Referencing Table 1 from the report, Mr Veale explained that following a process of due diligence and based on a range of factors as laid out in the report, Local Pensions Partnerships and West Yorkshire were shortlisted. He further elaborated that despite West Yorkshire Pension Fund offering a more competitive quote, the Local Pension Partnership was ultimately chosen as the new pension administration service provider to the Council. This was due not only to their IT systems and experience with delivering sustained quality service but also their reputation and experience with migrating shared services. The Board heard that the recommendation had already been approved by both Cabinet and the General Purposes Committee and work on migrating the service to LPP would shortly begin.

RESOLVED that:

i) The updates in the report regarding the new pension administration service provider be noted;

ii) The appointment of the Local Pension Partnership be supported by the Board;

iii) Officers be commended for their work and efforts on the project

9. **Any other urgent business**

David Veale and Mildred Phillips

The Board noted that this was David Veale and Mildred Phillips' last meeting. The Chair wished them well and expressed sincere gratitude for their professionalism and commitment to the Board.

10. **Exclusion of Press and Public**

RESOLVED:

That the press and public be excluded from the remainder of the as the report to be considered contained the following category of exempt information as specified in the Local Government Act 1972, namely:

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

11. **Final Cessation Valuation**

The report updated the Board on the outcome of an employer ceasing to be an employing authority in the Brent Pension Fund. Ravinder Jassar (Head of Finance) gave a detailed account of the circumstances and referenced the final valuation report. Members were informed about the final cessation valuation outcome and the amount to settle the debt.

Members took comfort in hearing that the funding strategy was flexible in dealing with cessation situations and that the Council would seek to engage with other employers to support them as they approached similar situations

RESOLVED that:

The contents of the final cessation report be noted.

12. **Date of next meeting**

The next meeting would be held on 6 February 2018.

The meeting closed at 7.30 pm

D EWART
Chair

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