



Pension Fund Sub-Committee
19 November 2013

Report from the Chief Finance Officer

For Information

Wards Affected: ALL

Use of Alternatively Weighted Indices

1. SUMMARY

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

2. RECOMMENDATION

- 2.1 Members are asked to note the report.

3. DETAIL

- 3.1 Legal & General manages two investment mandates on behalf of the Brent Pension Fund:
- a UK equities fund which automatically tracks the FTSE All Share index; and
 - a global equities fund which automatically tracks the FTSE All World Developed Markets (excluding UK) Share index.
- 3.2 When opting for passive management, care must be taken to choose an appropriate benchmark. Members should be happy that the benchmark their fund is tracking is the appropriate one for their circumstances.
- 3.3 Whilst the Brent Pension Fund has opted for the most popular benchmarks available, there has been growing interest in alternatively weighted index funds, most notably the RAFI 3000 Index. It was this

growing interest which prompted the request for Legal & General to provide a presentation to the Pension Fund Sub-Committee.

- 3.4 The presentation outlined that Legal & General passively manages around £269bn worldwide on behalf of its clients, of which only £4bn (or less than 2%) tracks alternatively weighted indices.
- 3.5 The annual performance during each of the last three calendar years of 2011, 2012 and 2013 showed that the RAFI 3000 Index did not outperform the standard FTSE All World Index. Indeed, the RAFI 3000 Index delivered a marginally worse performance than its mainstream counterpart.
- 3.6 Using an alternatively weighted index incurs a licence fee to the index provider and encompasses the intellectual property rights to track the index. For example, the RAFI (Research Affiliates Fundamental Index) attracts a licence fee of 7.2bps which would be a substantial addition to the existing management fees.
- 3.7 The case for Brent Pension Fund using an alternatively weighted index seems unconvincing based on the information available and would only serve to further complicate an already relatively small but complex Fund.

4. FINANCIAL IMPLICATIONS

- 4.1 These are included within the report.

5. STAFFING IMPLICATIONS

- 5.1 None.

6. DIVERSITY IMPLICATIONS

- 6.1 None.

7. LEGAL IMPLICATIONS

- 7.1 None.

8. BACKGROUND

- 8.1 None.

9. CONTACT OFFICERS

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

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