LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Tuesday 25 February 2014 at 6.30 pm

PRESENT: Councillor S Choudhary (Chair), Councillor Crane (Vice-Chair) and Councillors Arnold, Mrs Bacchus, Brown, Hashmi and BM Patel

An apology for absence was received from: George Fraser

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

   None declared.

2. **Minutes of the previous meeting held on 19 November 2013**

   RESOLVED:-

   that the minutes of the previous meeting held on 19 November 2013 be approved as an accurate record of the meeting.

3. **Matters arising**

   None.

4. **Presentation by Henderson - Total Return Bond Fund**

   Mark Fulwood (Henderson Global Investors) began the presentation by advising that the economic data for 2013 had shown encouraging improvement overall, particularly for countries such as the USA and the UK, although some areas such as the EU continued to struggle. Members noted that Government bonds (Gilts) and emerging markets had been the lowest performers, whilst high yield investments and secured loans had been the highest. The market had seen investors encouraged to take more risks for higher yields. The committee heard that in 2012, UK Gilt yields had hit their lowest ever since records had begun and this was due to low interest rate and borrowing costs and the Government undertaking quantitative easing. Meanwhile, a fall in global interest rates since 2008 had led to a strong performance from high quality investment grade UK corporate bond yields.

   Kevin Adams (Henderson Global Investors) then described the Total Return Bond Fund that they operate on behalf of the Brent Pension Fund that aims to achieve an average return of 6% per annum over a three to five year rolling period. He explained that the previous portfolio had focused on UK Gilts and corporate bonds. Under the Total Return Bond Fund portfolio introduced in April 2012, there is a broader range of investments that offer good returns whilst providing the ability to protect capital. Members noted the present asset allocation of the Brent Pension Fund's investment portfolio and that the duration of 0.9 years helped protect the council's investments from rising interest rates. The committee also acknowledged the good sterling share class performance of the Total Return Bond Fund in comparison with other fixed income asset classes.

Mark Fulwood then updated members of the performance review of the portfolio, which although it had not met the average annual target return of 6.0%, gross of fees, for 2013, he felt would be achievable over the medium term. Members also acknowledged that the current portfolio had significantly outperformed the previous benchmark and an added value of an estimated £5m. Kevin Adams then concluded the presentation by providing members with an overview of the market outlook, suggesting that global growth would continue to improve, particularly in the USA and the UK. UK Gilt yield prices were also expected to normalise, whilst corporate bonds would continue to perform strongly all the while low interest rates remained.

During members' discussion, a member noted that asset backed securities accounted for around only 12% of the portfolio and he queried the reasons for this. In respect of the More London investment, he enquired what steps would be taken to protect funds if the tenants moved out or were unable to keep up with payments. As interest rates were likely to rise in future, he asked if any modelling had been done as to the likely impact on corporate bonds and what was the proportion of bonds in sterling and how were currency risks managed. Another member sought the details of the relative size of investment holdings with governments in the emerging markets of Russia, Mexico and Singapore.

Mick Bowden (Operational Director – Finance, Finance and IT) noted that there had been significant movement in asset allocation over the last two years and he sought further details of these. Anthony Dodridge (Head of Exchequer and Investment, Finance and IT) sought clarification of the total value of the Total Return Bond Fund and whether there was there a risk that the Fund was overly diversified.

In reply to the issues raised, Kevin Adams advised that although there was some attraction to asset backed securities, at present they did not match that of corporate bonds. In respect of More London, he advised that there was a category of investors below the Brent Pension Fund that would be affected by loss of tenants or tenants' income before any potential loss to the Brent Pension Fund, however as the Fund had a share in ownership of the building, it had the ability to seize its assets if necessary. Kevin Adams explained that stress testing of companies and of the total portfolio value of corporate bonds in relation to potential interest rate rises had been undertaken. Members noted that approximately a third of bonds were in sterling, and the remaining two thirds were hedged back into sterling. In respect of changes to asset allocation, Kevin Adams advised that the proportion of high yield investment had risen from 10% to 24% and that the new portfolio afforded more flexibility. The total value of the portfolio was presently just over £500m, with the average holding around £1m, although some were considerably more. Kevin Adams advised that it was desirable to be well diversified in the current market and a range of between 200 to 400 holdings was in his view prudent. The committee heard that the relative size of investment holdings in governments in the emerging markets of Mexico and Singapore were 4%, 2% and 0.5% respectively.

On behalf of the committee, the Chair thanked Kevin Adams and Mark Fulwood for their presentation and their answers to members' and officers' queries.

5. **Quarterly monitoring report on fund activity**

Anthony Dodridge introduced the report and confirmed that the total value of the Fund had increased by £14.1m in value to £562.5m in the quarter ending 31 December 2013. The Fund's return for the quarter was 2.9% which was only a small margin away from the benchmark of 3.2%. The largest contributors to the positive return were publicly quoted UK and overseas developed market equities and encouragingly, after a number of years of underperformance, UK property. It was noted that private equity, infrastructure, European property and emerging market equities had a negative impact. Anthony Dodridge advised that as of 31 December 2013, the 12 month return was 11.6% as compared to the benchmark of 13% and for 3 years an annualised 5.6% compared to the long term investment return target of 6.5% per annum. Members noted that although at the time of the publication of the report, the Fund had reported an estimated drop in value of £8.5m for January 2014, the most recent indicators suggested that a strong performance in February 2014 had since reversed this loss.

Anthony Dodridge explained that the UK's strong sterling performance against other currencies, in particular the US dollar and the Euro, had dampened investment performance in the Fund's investment holdings in overseas currencies, such as private equity, infrastructure, emerging market equities and European property. Whilst the Fund had been one of the lower performing Local Government Pension Schemes (LGPS) for a number of years, Anthony Dodridge advised that almost 20% of the Fund's assets were held in unquoted private equity and infrastructure investments that would continue to remain immature for now, although these should bear fruit in the long term. Furthermore, in some investment areas, the Brent Pension Fund compared well to other LGPS, such as fixed income where it had performed as the tenth highest percentile nationally. Members noted the asset allocation as of 31 December 2013 compared to the benchmark and investment returns in individual markets. Anthony Dodridge also welcomed the fact that outstanding contractual commitments on private equity and infrastructure had been almost halved since 31 March 2012.

Peter Davies (Independent Adviser to the Fund) then advised members that the last quarter of 2013 and for the whole year had been good for equities in Northern European countries and the USA, but much weaker in the emerging markets. UK inflation had continued to fall and the Consumer Price Index had fallen for the year to January 2014 to 1.9%, below the 2% target rate. There were encouraging forecasts for UK growth in 2014, with the growth rate significantly higher than previous forecasts. Turning to equities, Peter Davies advised that although there had been some optimism at the end of 2013, this had been disrupted by the fall of the Argentinian peso which had triggered weaknesses in several other currencies, including Brazil, Chile, South Africa and Turkey and investors remained cautious in respect of emerging markets. Members noted the year to date moves in equity markets for the UK, which had increased by 1.1%, and for Europe, the USA, Pacific Basin, Japan and the emerging markets.

During members' discussion, clarification was sought as to the grounds for optimism for the Fund in the longer term and whether an 8% return on private equity and infrastructure was achievable. Members asked what were the main currencies used for investments and was it anticipated that the UK Government would undertake any further quantitative easing. Views were also sought in respect of the Bank of England's forecast growth of 3.4% for the UK in 2014. With regard to the UK's GBP growth rate announced as 1.9% for 2013, a member enquired whether this had now been officially confirmed. The committee also sought further reasons as to why the Fund's performance had been lower in comparison with other LGPS.

In reply to the issues raised, Anthony Dodridge advised that the Fund was beginning to see significant distributions from its private equity and infrastructure investments, and these latest evaluations which had not been available at the time of drafting the quarterly monitoring report were beginning to evidence a marked improvement in returns in this area. Private equity and infrastructure had clearly contributed to dragging down the historic performance of the Fund. The 8% benchmark for returns in respect of these two asset classes was the long term objective. With regard to currencies used for investments, Anthony Dodridge confirmed that these were mainly US dollar denominated for private equity and infrastructure. He explained that the private equity and infrastructure holdings were unhedged since currency hedging came at a cost and its impact on investment returns was expected to be negligible over the longer term in respect of the US dollar and Euro denominated investments. Members noted that there was an element of expectation in the market that the US dollar would make a recovery in due course. With regard to the Fund's performance compared to other LGPS funds, Anthony Dodridge advised that the Fund had performed relatively well in publicly quoted equities over the last twelve months. He added that the Fund's more diverse investments compared to some other LPGS positioned it more robustly in the longer term for consistent returns.

Peter Davies added that he felt an 8% return in private equity was a realistic target in the longer term. He did not think that the UK Government would undertake any quantitative easing in the foreseeable future due the strength of the UK's economic recovery and it was more likely that it would be considering raising interest rates. In respect of the Bank of England's forecast growth in GDP for 2014, Peter Davies informed members that this was at the high end of forecasts that had been made. He also advised that around 20% of the Fund's investments were unquoted and so it was more difficult to make direct comparisons with other LGPS.

RESOLVED:-

that the quarterly monitoring report on fund activity be noted.

6. **Funding Strategy Statement - triennial update**

Peter Davies introduced the item and confirmed that every pension scheme was required to have a funding strategy statement. The funding strategy statement had been prepared by the Fund's actuary, Hymans Robertson, and had been reviewed by Anthony Dodridge and Peter Davies prior to a consultation exercise with the Fund's employers via e-mail and would take effect on 1 April 2014. Peter Davies drew members' attention to the various approaches used by different employers and the stabilised details of the council pool and he confirmed that in the opinion of the Fund actuary, the current funding policy was consistent with the investment strategy of the Fund. In respect of the triennial funding evaluation on 31 March 2013 and setting contribution rates effective from 1 April 2014, members noted that the Fund's actuary had assumed that future investment returns earned by the Fund over the long term would be 1.6% per annum greater than Gilt yields at the time of the valuation.

Anthony Dodridge added that all participating employers in the Fund had been consulted on the funding strategy statement and none had raised any concerns.

During members' discussion, it was queried why representatives of the Fund's actuary were not present at the meeting to introduce the report and respond to the committee's questions.

In reply, Anthony Dodridge advised that the costs of inviting actuary representatives was high. Mick Bowden added that it was the committee that had ownership of the report.

RESOLVED:-

that the updated Funding Strategy Statement be approved.

7. **Update on joining a collective investment vehicle for London pension funds and commitments for capital**

Anthony Dodridge introduced the report and began by referring to the committee's support to collaborating with other London pension funds through a collective investment vehicle (CIV) at its meeting on 19 November 2013. The purpose was to make use of the London borough partners' combined strength and size to appoint the higher achieving fund managers, whilst also driving down their fees. Members noted that a total of £625K had been contributed by 25 of the London boroughs involved, with each contributing £25K.

During members' discussion, clarification was sought as to whether the £25K contribution was a one-off cost and what other advantages did a CIV offer in view that the committee was satisfied with its asset allocation. In respect of paragraph 1.9 c) in the report, a member sought clarification as to whether it was appropriate that the Chair of the Brent Pension Fund Sub-Committee be delegated the authority to act for the council in exercising its rights as a shareholder of the Authorised Contractual Scheme through a Pensions Joint CIV Committee or whether this should be officer delegated. It was also queried whether there would be an officer led group that supported the Pensions Joint CIV Committee and what would be the staff implications for participating in the CIV.

In response to the queries raised, Anthony Dodridge confirmed that the £25K contribution was a one-off cost that would be used to help set the CIV up, although there would also be ongoing costs for participation in the CIV. The Pensions Joint CIV Committee would receive officer support and guidance and there was the possibility of secondments being put in place to help the delivery of the CIV. Anthony Dodridge advised that the purpose of the CIV would be to access assets in the most efficient way possible and to help identify and appoint the best performing managers.

Mick Bowden added that staff implications would be dependent on what level of participation in the CIV the committee decided and how the CIV progressed. In respect of membership of the Pensions Joint CIV Committee, he advised that this was a councillor body and he agreed to provide members with clarification concerning its role in exercising its rights as a shareholder of the Authorised Contractual Scheme.

RESOLVED:-

that the recommendations as outlined in paragraph 1.9 of the report be endorsed for approval at the Full Council meeting on 3 March 2014, subject to clarification being provided in respect of 1.9 c) in the report concerning the Pensions Joint CIV Committee and its role in exercising its rights as a shareholder of the Authorised Contractual Scheme.

8. **Date of next meeting**

It was noted that the next meeting of the Brent Pension Fund Sub-Committee would be confirmed at the Annual Council meeting on 4 June 2014.

9. **Any other urgent business**

Record of thanks

On behalf of the committee, the Chair placed on record his thanks to Councillor Bacchus, Councillor Hashmi and Anthony Dodridge for the service they had provided to the Brent Pension Fund Sub-Committee as this was their last meeting of this committee.

10. **Exclusion of press and public**

RESOLVED:

That the press and public be excluded from the remainder of the meeting as the reports to be considered contained the following category of exempt as specified in Schedule 12A of the Local Government Access to Information Act 1972, namely:

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

11. **Review of Asset Allocation**

Members had before them a report on the review of the Fund's asset allocation. During members' discussion, the information contained in the report was welcomed and it was commented that it would be useful to include such details, including providing a historical context, in future reports assessing asset allocation. It was suggested that it was not just the type of assets that the Fund had that determined performance, but how Fund managers used these. A member suggested that the report did not necessarily provide evidence that there was any correlation between the performance of local authorities funds and the number of external fund managers they employed.

In reply, Peter Davies concurred that the choice of fund manager was a contributing factor, along with a number of others, as to how funds performed and sometimes the fund manager's role could impact significantly.

Anthony Dodridge added that the negative impact the fund managers had on Brent's relatively poor performance had been consistently reduced from what it had been in prior years. He acknowledged the point raised by the committee in relation to correlation between fund managers and performance, and assured members that the Brent Pension Fund's total number of fund managers was comparable to most of the higher performing local authorities.

RESOLVED:-

that the Brent Pension Fund's past investment performance relative to some of the top performing LGPS funds and recent action which aims to improve the Fund's future performance be noted.

12. **Actuarial Contract - Annual Review**

The committee had before them the actuarial contract annual review report. A member queried whether reports that were for noting needed to be put before the committee. Another member commented that such reports were useful in informing the committee and members also had the opportunity to raise any issues or questions with officers about the report prior to the meeting.

Anthony Dodridge advised that reports that addressed important issues pertaining to the Fund should be presented to the committee, even when no decision was required.

RESOLVED:-

that the actuarial contract- annual review report be noted.

The meeting closed at 8.53 pm

S CHOUDHARY
Chair