LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Tuesday 21 July 2015 at 6.00 pm

PRESENT: Councillor Crane (Chair) and Councillors Harrison (alternate for Councillor Khan), Miller, Shahzad and co-opted member Hammond

Apologies for absence were received from: Councillor Khan

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

   Julian Pendock (Investments and Pensions Manager) declared an interest that he would shortly be taking up a Directorship at the London Collective Investment Vehicle (CIV). Members of the Committee thanked him for his service.

2. **Minutes of the previous meeting**

   RESOLVED:-

   that the minutes of the previous meeting held on 24 February 2015 be approved as an accurate record of the meeting.

3. **Matters arising**

   None.

4. **Deputations**

   None.

5. **Alinda Partners - Infrastructure**

   Representatives of Alinda Infrastructure Management Fund, Andrew Bishop (Partner and Head of Europe), Alex Black (Partner and Head of Portfolio Management) and Amy Gunning (Vice President) attended the meeting to present to members. Andrew Bishop gave an overview of Alinda's investment strategies. Members heard that Alinda was one of the world's largest and most experienced infrastructure investors with in excess of 133 investors including some of the world's public and private pension funds. In reference to their confidential report circulated at the meeting, the representatives gave several examples of how Alinda added value in portfolio management through 'add-on opportunities' such as car parks and also created value by reducing risk and selling to buyers with a lower cost of capital. In respect of Dukenet (a fibre optic network), Alinda realised 22.4% gross profit when it sold its stake.

In response to questions raised about Alinda investment record for Fund II and projected target for Fund III, members were informed that Fund II was projected to achieve 15% gross return (10.7% net) and annual cash yields of 7.4%. Investments primarily focussed in transport, energy and telecom infrastructure and with geographic focus in both North America and Europe. It was added that Fund III was projected to achieve similar values.

The representatives of Alinda Infrastructure were thanked for the presentation.

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

The Sub-Committee received a report that provided a summary of the Fund's activity during the quarter ended 31 March 2015 and examined the economic and market background together with investment performance for the quarter. Julian Pendock (Investments and Pensions Manager) introduced the report. He informed members that the Fund increased in value by 4.1% from £625.5m to £655.3m during the quarter ended 31 March 2015, underperforming its quarterly benchmark of 4.3%. He continued that the single-largest contributor to the positive return during the quarter was Global Equities (ie. excluding the UK) and that the best-performing asset in percentage terms was Alinda Partners, which increased by 9.5%. The main disappointment was the Private Equity Fund of Fund holding, where preliminary valuations indicated that there was no material increase in the value of the holdings. The 12-month return as at 31 March 2015 was 10.3%, marginally lower than the benchmark return of 10.8%. The Fund return for the 3 years ended 31 March 2015 was an annualised 9.9% p.a., which was ahead of the benchmark return of 9.6%.

Julian Pendock drew members' attention to the asset allocation table as at 31 December 2014 compared to the benchmark and highlighted the performance of each asset allocation. Members noted the consistent good performance of Alinda Infrastructure Fund, Baillie Gifford and Aviva Property.

Peter Davies (Independent Adviser to the Fund) gave an update on global economies and the markets. Members noted that the slowdown in the US economy continued in Q1 with an annualised rate of growth was only 0.2% and combined with slowing jobs data, appeared likely to delay the timing of the first rise in US interest rates. The UK reported just 0.3% growth in Q1, compared with +0.6% in the previous quarter. The Eurozone was showing signs of a slow recovery, while China's official growth rate of 7% p.a. appeared to be at odds with other measures of activity within the economy. The fall in the oil price had (temporarily) reduced inflation to zero in the UK and North America, thereby joining the Eurozone - where weak consumer demand has been the major factor.

He continued that equity market rose steadily through the quarter, although there were large regional differences. The UK continued to lag behind other markets, while Japan and Pacific Basin stocks were particularly strong. Continental European equities gained 10% in sterling terms, spurred on by the weaker Euro and the start of Quantitative Easing by the European Central Bank (ECB).

RESOLVED:

that the quarterly monitoring investment report on fund activity be noted.

7. **Minutes of Pension Board**

RESOLVED:

That the minutes of the Pension Board be noted.

8. **Any other urgent business**

None.

9. **Exclusion of press and public**

RELVED:

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 information as specified in 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)."

10. **Quarterly report on fund managers' performance**

The Sub-Committee considered a report that provided a summary of the Pension Fund's active fund managers in the first quarter of 2015 together with a commentary of their performance in comparison both to their benchmark and to reasonable expectations. Julian Pendock (Investment and Pensions Manager) introduced the report, highlighted the relative performances of the respective fund managers and set out proposals for addressing funds which consistently underperformed.

In welcoming the report, members endorsed the measures proposed by the Investment and Pensions Manager.

RESOLVED:-

that the quarterly report on fund managers' performance for the quarter, 2015 be noted.

11. **Investment in Fixed Income**

Members considered a report on investment in fixed income which informed them that due to unprecedented price volatility, investment in bonds was neither safe nor produced positive income yields. Julian Pendock (Investments and Pensions Manager) informed members that the fixed income market (particularly for sovereign bonds), had changed from risk-free rate of return into the return-free rate of risk mainly as a result of Central banks' policies and actions. He attributed the main reasons for the resulting volatility to quantitative easing, banking and insurance regulations, the collapse of inflation expectations and banking "bail in" risk. He advised that that a more flexible approach must be applied to the fixed income allocation, as the traditional "buy and hold" model had been rendered inoperative by the mix of regulatory, market and macroeconomic forces. He continued that a search was required to find funds which either had tactical freedom at the heart of their philosophy and mandate or, which avoided market volatility and low yields by bypassing the secondary market, with the aim of generating sustainable returns equal to or greater than the Brent Pension Fund's 4.6% hurdle rate, without taking on undue risk.

Julian Pendock sought members' endorsement to explore the following three main areas of fixed income investment: Regulatory arbitrage; Alternative Credit and Absolute Return. He added that those main areas could be used in tandem however, with Regulatory arbitrage contained more economic risk, whilst alternative credit contains trading risk, and therefore a holding combining these approaches would diversify risk.

RESOLVED:-

that the report be noted and that the Head of Investments and Pensions' further exploration of the fixed income sector, with a view to submitting an investment proposal to the Pension Fund Sub-Committee be supported.

12. **Strategic Asset Allocation**

Members considered a report on strategic asset allocation from the Chief Finance Officer. Julian Pendock (Investment and Pensions Manager) updated members that due to a combination of extreme financial and business cycles, structural changes in capital markets and product innovation, the old framework and certainties of Modern Portfolio Theory and a rigid Strategic Asset Allocation had been rendered obsolete. He continued that currently, markets were characterised by rising volatility, structurally lower returns with fragile global economy vulnerable to shocks. In those circumstances, being locked in to large and inflexible directional bets carried with it elevated levels of risk.

Members heard that the challenge was to continue to structure the investment portfolio so that it met the 4.6% per annum return target as determined by the Hymans Robertson recovery plan, against a backdrop of uncertain markets as traditional market exposure to the fixed income and equity markets was unlikely to deliver these returns. Julian Pendock advised that Brent Pension Fund should invest in "smart" products, where risk and return were more tightly measured and controlled, rather than continued reliance on "dumb" investments such as index tracker funds. He drew members' attention to the current and proposed Asset Allocation and benchmark Strategic Asset Allocation as set out in the report and added that changes to the portfolio would be undertaken in several steps. The first steps would be the increased allocation to the Diversified Growth strategy, to complement the existing holding in Baillie Gifford's Diversified Growth Fund, and to the Alinda III Fund (the Brent Pension Fund has an investment in the Alinda II fund, which has performed well.

Peter Davies (Independent Adviser to the Sub-Committee) expressed broad agreement with the direction advised by the Investment and Pensions Manager except for property which he felt produced a steady stream of income and subject to identifying the right fund managers.

RESOLVED:

(i) that the proposed Strategic Asset Allocation be approved;

(ii) that the investment in "smart" products such as the use of active equity managers and alternative credit funds, and a reduction in tracker funds and inflexible directional bets be noted;

(iii) that the search for fixed income managers as amplified in the corresponding report be approved;

(iv) that the investment in the Alinda Partners III Infrastructure Fund be approved subject to members' approval following the presentation by Alinda Partners;

(v) that the Chief Finance Office Officer submit an updated report on property asset portfolio to a future meeting of the Sub-Committee.

12.1 **Investment in Infrastructure**

The Sub-Committee considered a report that highlighted the need for infrastructure investments if Brent Pension Fund was to deliver a sustainable long-term return equal to or greater than the required 4.6%based on the Pension Fund's 22-year recovery plan as calculated by Hymans Robertson. Julian Pendock (Investments and Pensions Manager) informed members that the need for infrastructure funding resulting from the need to upgrade existing infrastructure as a government policy to spur economic growth was growing just as traditional sources of funding were constrained by new regulations.

Members were reminded about the Pension Fund's existing investments with Alinda Partners' Infrastructure II Fund and that they (Alinda Partners) were raising funds for its Infrastructure III Fund. The Investments and Pensions Manager therefore asked members to give permission to enable officers to engage with Alinda Partners with a view to subscribing to the Alinda Partners Infrastructure III Fund, subject to the details of the proposed fund and Members' approval at the next Pension Fund Sub-Committee meeting.

RESOLVED:

that the Investment and Pensions Manager's further exploration of the infrastructure sector be endorsed, subject to submitting an investment proposal to the Pension Fund Sub-Committee.

13. **Diversified Growth Funds**

The Sub-Committee considered a report that provided an update on Diversified Growth (DG) funds. Julian Pendock (Investments and Pensions Manager) in introducing the report set out the merits of DG funds and referenced the report on strategic asset allocation (presented to the Sub-Committee on 30 September 2014) which set out the three main areas that required the most attention and recommended additional investment in Baillie Gifford's DG fund.

Members were advised that DG funds which primarily combined bonds and equities in a multi-asset fund provided the ability to switch between asset classes, on a global scale, giving far greater tactical freedom to fund managers. He continued that DG was an asset class that was growing rapidly and would be in the first wave of investments to go into the London Collective Investment Vehicle (CIV).

RESOLVED

(i) that the benefits to the Fund of increased investment in Diversified Growth funds be noted;

(ii) that the commencement of the selection process for Diversified Growth managers be approved.

The meeting closed at 7.07 pm

G CRANE
Chair