LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Tuesday 17 November 2015 at 6.30 pm

PRESENT: Councillor Crane (Chair) and Councillors Khan and Miller

Also present: Peter Davies (Independent Adviser to the Fund)

Apologies for absence were received from: Councillors Daly and Shahzad

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

   None declared.

2. **Minutes of the previous meeting**

   RESOLVED:-

   that the minutes of the previous meeting held on 21 July 2015 be approved as an accurate record of the meeting.

3. **Matters arising**

   None.

4. **Deputations**

   None.

5. **Presentation by State Street Corporation**

   Lynn Coventry from State Street presented to the Sub-Committee on Brent Pension Fund's (the fund's) performance including benchmark against other local authority funds. In giving an overview, Members heard that for the financial year ending 31 March 2015, the average performance of the fund's assets was 13.2% with overseas assets performing better than the UK portfolios. She added that the fund's strategy of approximately 24% investment in Alternatives, was different to the local authority average.

   Members heard that over the last decade the fund had performed above benchmark in only 2 years (2007 and 2013). The disappointing performance was largely caused by Active Management (Alliance Bernstein) and investments in some Alternatives which had been closed but not before they had had a detrimental impact on the Fund. The Fund's asset allocation and stock selection had been unfavourable notably the below benchmark commitment to property. The Fund's return was well below the local authority average return over the latest year and the longer term with the key factor here being the stock selection in equities and bonds.

The fund had achieved an absolute return of 10.7% over the latest year in line with the benchmark but this was still well below the local authority average of 13.2%. Relative performance from Alinda, Baillie Gifford and Capital Dynamics was most beneficial to the Fund, however, below average performance from Henderson Gartmore, Henderson Global Investors and Dimensional reduced the relative return. Over the longer term the fund had sacrificed a higher level of return compared to other funds due to its lower than average risk strategy.

During the ensuing discussion, members expressed preference for the actual cost of fund managers' fees to be stated in future monitoring reports. The Chief Finance Officer explained that fund manager fees were periodically reviewed depending on performance and reported to the Sub-Committee for its decision.

Lynn Coventry was thanked for the presentation.

RESOLVED:

that the presentation by State Street Corporation on the Brent Pension Fund's performance be noted.

6. **Quarterly Monitoring report on fund activity to June 2015**

The Sub-Committee received a report that provided a summary of the Fund's activity during the quarter ended 30 June 2015, examined the economic and market background, and investment performance. Chris O'Brien (Interim Pensions and Investments Manager) headlined the main points for the quarter. Members heard that within the context of a very difficult economic environment, the Fund had reduced in value by 2.3% from £657.6m to £642.4m during the quarter and underperformed its quarterly benchmark return by 1.5%. The Private Equity Fund of Fund holding reduced in value by 8.9% and returned the distribution of £4.9m.

He continued that UK equities small cap and UK property produced the best absolute returns in the quarter (5.3% and 2.7% respectively), however both underperformed relative to their benchmarks (-0.1% and -0.6% respectively). Global equities ex UK and emerging market equities produced the lowest absolute returns (contributing -5.4% and -4.7% respectively). However relative to benchmark, global equities ex UK matched its benchmark and emerging market equities outperformed its benchmark by 0.3%. He then drew members' attention to the table within the report that set out the investment performance of the Brent Pension Fund in comparison to its benchmark for the period ended 30 June 2015.

Peter Davies (Independent Adviser) presented his report to the Sub-Committee. It was noted amongst others that the UK market remained the weakest over the year with Continental Europe slightly ahead of it and that Government Bonds had reversed their previous sharp appreciation. He also drew members' attention to the performance tables for each individual portfolios.

RESOLVED

That the quarterly monitoring report be noted.

7. **Minutes of Pension Board - 7 July 2015**

Members were informed that a joint training was being set up.

RESOLVED:-

that the minutes of the Pension Board meeting of 7 July 2015 be noted.

8. **Update on the Collective Investment Vehicle**

The Sub-Committee received a briefing report that updated members on recent progress in developing the collective investment vehicle (CIV) and implications for the pension fund. Chris O'Brien (Interim Pensions and Investment Manager) informed members that the Financial Conduct Authority (FCA) approval had been obtained and to date thirty one London Boroughs had agreed to participate in CIV. He then summarised the key achievements to date.

The establishment of the operating company (London LGPS CIV Ltd) and its governance arrangements; the appointment of an asset servicer, Northern Trust, for the CIV with the sole role of providing depositary, custodian, fund accountant, transfer agency and tax reclaims services as well as providing a forum for shareholders in the CIV and the establishment of a technical sub-group. He continued that interim directors appointed had met and considered or ratified decisions concerning procurement activity, including the recruitment of permanent executive and non-executive members of the board, legal and technical advisers and the recruitment process for senior executives and future board members.

Members were informed that the requirement for regulatory capital, needed to satisfy the FCA was now estimated to be in the region of £150,000 for each participating borough and that safeguards were in place. It was noted that Fund managers with multiple mandates across London had provided offers for fees for inclusion in the CIV.

Peter Davies (Independent Adviser) added that each borough would maintain its sovereignty within the scheme and that participation in the CIV would lead to cheaper transaction costs. Conrad Hall (chief Finance Officer advised that the establishment of CIV fitted in with the Fund's investment strategy and undertook to circulate further updates to members and to invite representatives of CIV to the next meeting of the Sub-Committee.

RESOLVED:

(i) that the progress report be noted;

(ii) that the Chief Finance Officer circulate details of the course on pensions training to all members;

(ii) that the Chief Finance Officer write to invite the Chief Executive of CIV to the next meeting of the Sub-Committee in February 2016.

9. **Update on the Strategic Asset Allocation**

The update was considered as part of the quarterly monitoring report.

10. **The Impact of Markets in Financial Instrument Directive II (MiFID II) on Local Government Pension Schemes**

Members received a report that provided an update on the impact of Markets in Financial Instruments Directive II (MiFID II) on the Local Government Pension Scheme (LGPS) especially in relation to the cost of fund management and advice and asset classes. Chris O'Brien (Interim Investment and Pensions Manager) clarified that MiFID was the European Union (EU) legislation governing investment intermediaries that provided services to clients in relation to 'financial instruments' and the stock markets. MiFID which had been applied in the UK from November 2007 was being comprehensively revised to improve the functioning of financial markets with the changes known as MiFID II expected to take effect in January 2017.

MiFID II required Public Local Authorities to be removed from the client category of eligible counterparties and professionals and to be treated in the first instance as retail clients unless they opt to be treated as professional clients. He explained that retail clients were entitled to greater protection under the regulations as fund managers and advisors would need to increase reporting and advice to ensure that the client understood the investment products resulting in higher fees. It was not clear at present which asset classes would be affected but early indications were that many alternative investments such as infrastructure, property pooled funds and private equity funds would not be allowed under the new categorisation and that life funds, such as those which LGPS funds invest in to access passive equity pooled funds, will not be affected.

Conrad Hall Chief Finance Officer added that there was uncertainty as to whether MiFID II would apply only to new business after the implementation in January 2017 or whether existing holdings would be affected. It was partly for that reason that local authorities were being advised to seek further information ahead of the implementation in 2017. He undertook to provide regular updates to members on MiFiD II.

RESOLVED:-

(i) that the impact of MiFID II on the LGPS especially in relation to the cost of fund management and advice and the impact on the asset classes that the LGPS would be able to access be noted;

(ii) that the need for administering authorities to obtain information and advice from fund managers and fund consultants ahead of implementation in January 2017 on the specific implications of the above for their funds be noted.

11. **Pension Fund Annual Report**

Members received the annual report and accounts of the Brent Pension Fund for the year 2014/15. In noting the report, the opening paragraph of the Chairman's foreword to the report was amended from "2015/16" to read "2014/15".

RESOLVED:-

that the annual report and accounts of the Brent Pension Fund for the year 2014/15 be noted.

12. **Any other urgent business**

None.

The meeting closed at 7.47 pm

G CRANE
Chair