



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

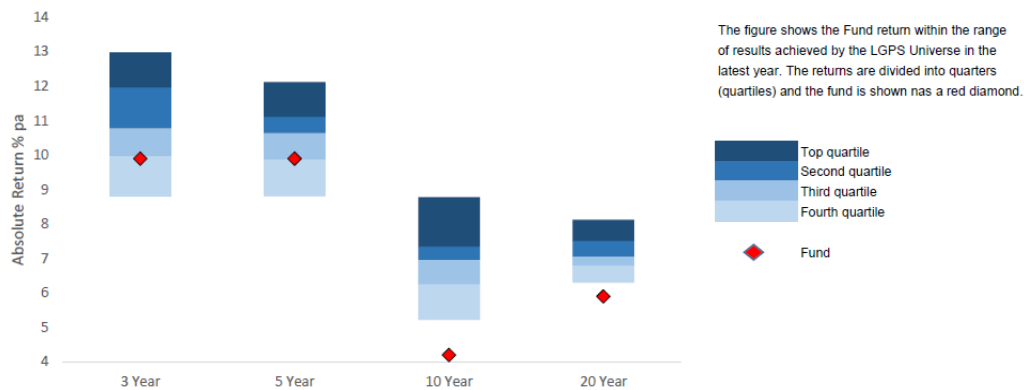
- 3.1 The benchmarking undertaken by PIRC for 2016/17 compared the historic performance and asset allocation of the Fund against a universe of 60 local authority pension funds (approximately two thirds of all local authority pension funds).
- 3.2 PIRC's analysis of the results for the whole universe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

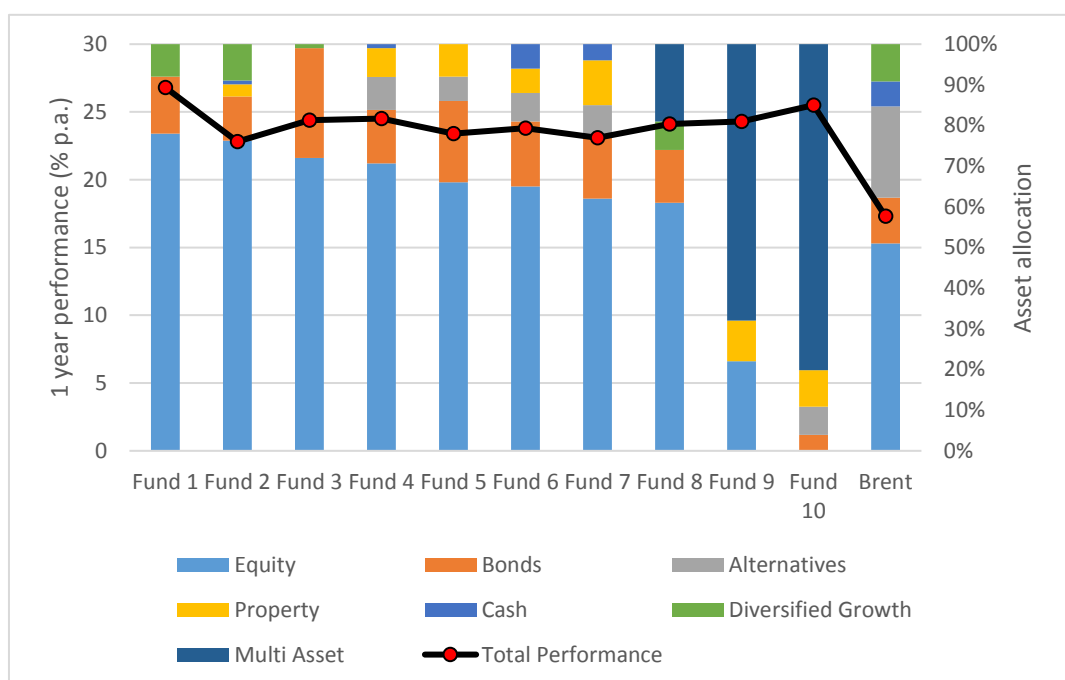
Table 1: Medium to long term LGPS fund absolute returns



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)

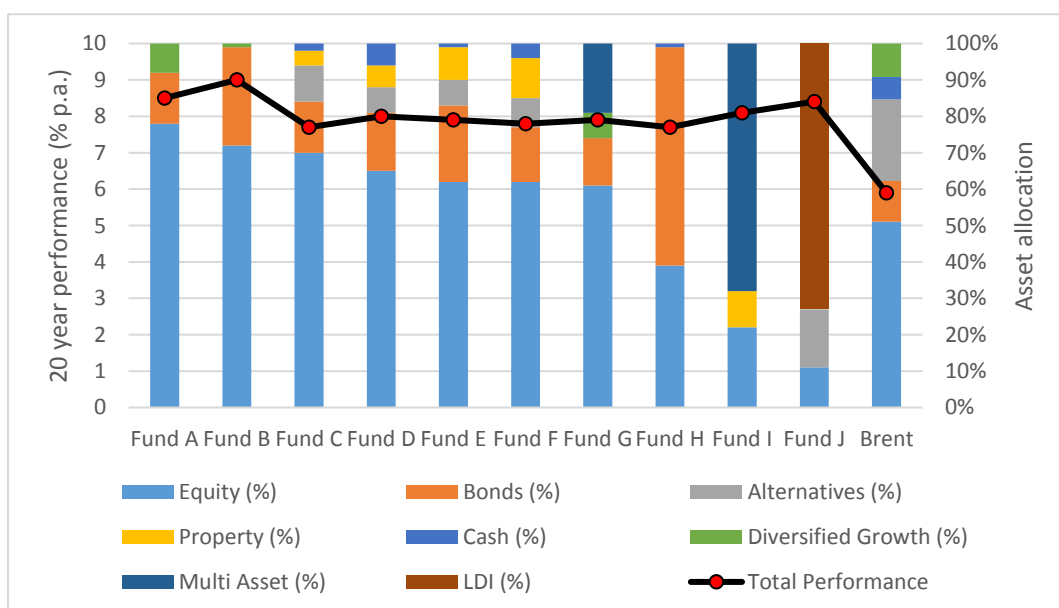


- 3.6 The best performing fund in the universe (Fund 1) made an overall return of 26.8% in 2016/17. This was achieved with an equity allocation of 78%, which made a return of 32.7%. Most of the top 10 had an equity allocation above 60%, compared to the Fund's allocation of 50%, on which a return of 28.5%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

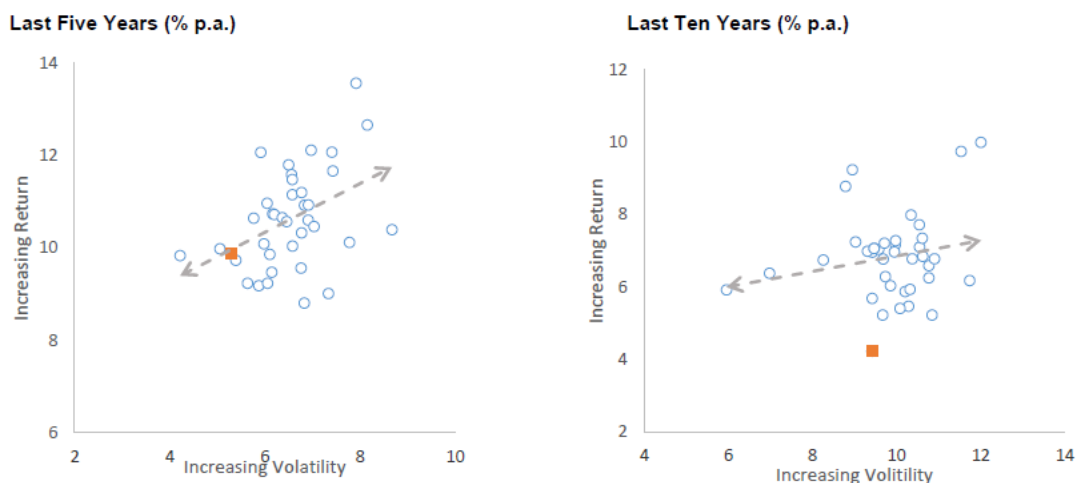


- 3.12 As with the short term comparison, equity allocations of above 60% feature prominently in Table 2. Most of the top 10 also have a higher allocation to bonds and a smaller allocation to alternative investments.

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.

Table 4: Relationship between risk and return



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)

Report sign off:

Conrad Hall, Chief Finance Officer

