LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Tuesday, 27 September 2011 at 6.30 pm

PRESENT: Councillor S Choudhary (Chair) and Councillors Mrs Bacchus, Mitchell Murray, Brown, Hashmi and BM Patel

Apologies were received from: Councillor Crane.

Also present – Valentine Furniss (Independent Adviser)

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

   None declared.

2. **Minutes of the previous meeting held on 28 June 2011**

   RESOLVED:-

   that the minutes of the previous meeting held on 28 June 2011 be approved as an accurate record of the meeting.

3. **Matters arising**

   None.

4. **Deputations (if any)**

   None.

5. **Report from the performance measurement company, WM - Lynn Coventry (LC)**

   LC attended the meeting for this item. In presenting her report, she outlined the overall market environment and pointed out that Local Authorities had seen positive returns on equities in the year 2010/11 although the market remained volatile. Property remained the best performing asset class over a longer term of 20 years.

   In drawing attention to performance relative to the benchmark, LC informed the Sub-Committee that the Fund had achieved a positive return of 6.7% during the latest year. This compared with the benchmark return of 6.9% and the Local Authority average of 8.2%. She added however that Brent's ranking was in the 84th percentile. Over the medium and longer term, the Fund was well below the benchmark and the Local Authority average.

Members noted that over the 20 year period, the Fund achieved a return of 6.9% p.a. which compared with the UK Retail Price Index (RPI) of 2.9% p.a., representing a real rate of return of 3.9% p.a. She highlighted the attribution of the respective asset classes to the total fund performance both in the medium and longer term together with each manager's performance.

RESOLVED:-

that the report by WM measurement company be noted.

6. **Report from Fauchier Partners**

Alex Dolbey and Christopher Fawcett, representatives from Fauchier Partners, hedge fund portfolio managers, attended the meeting for this item. Alex Dolbey informed the Sub-Committee that the results for the year ending 31 August 2011 had been disappointing with negative returns of 3%. He outlined the following main actions that had been taken to address the situation:

- Removed overly conservative managers who took insufficient risk.
- Appointed additional specialist credit managers to increase exposure.
- Increased exposure to process driven managers.
- Positioned the portfolio to benefit if macro issues should re-assert themselves.

The results of the changes were initially encouraging with the Fund returning 3.9% in the second half of 2010. However, the first half of 2011 had again been very disappointing for the fund and global markets in general.

Christopher Fawcett provided further clarifications on the results and the market outlook. He informed members that the opportunity for value creation would be enhanced in the light of increases in distressed debt, bank disposals and debt re-structuring. He was confident that corporate activity would present attractive opportunities in view of market volatility and high corporate cash balances.

RESOLVED:-

that the report by Fauchier Partners be noted.

7. **2010/11 Pension Fund Accounts**

The Sub-Committee received a report which introduced the final Pension Fund accounts for 2010/11. Gary McLeod (GM), a representative of the District Auditor, attended the meeting for this item.

In providing a summary of the findings he stated that subject to the completion of the final review and audit closure, the audit of the accounts was substantially complete. GM informed the Sub-Committee that the District Auditor proposed to give an unqualified audit opinion on the financial statements but would not issue her opinion until the audit of the Council's main financial statements had been completed. He continued that the draft financial statements which were substantially complete and supported by good working papers, were submitted by the due date, and that the migration of balances to the new Oracle system was well controlled. Members noted that the financial statements submitted for audit were free from material error, missing and incomplete disclosures had been adjusted by officers and that overall, no significant weaknesses had been identified in the pension fund internal controls. There were no material differences to the pension fund financial statements on the transition to International Financial Reporting System and the pension fund financial statements had been properly compiled.

RESOLVED:-

that the report on 2010/11 Pension Accounts be noted.

8. **Monitoring report on fund activity for the quarter ended 30 June 2011**

The Sub-Committee considered a report that provided a summary of fund activity during the quarter ended 30 June 2011 and examined the actions taken, the economic and market background together with the investment performance in the quarter.

In summarising the main points Martin Spriggs (MS), Head of Exchequer and Investment, informed Members that the Fund had risen in value from £486m to £494m and had outperformed its benchmark over the quarter (+0.8%). This was mainly as a result of stock selection (outperformance in bonds, UK equities, Global tactical Asset Allocation (GTAA) and private equity) offset by underperformance in hedge funds. Over one year, the Fund had outperformed its benchmark (+3.3%) but had underperformed the average fund (-1.1%) as a result of lower exposure to equities / higher exposure to alternative assets and poor performance in global equities, and hedge funds.

MS outlined the main investment changes to the Brent Fund that had occurred as a result of market movements. He added that there had been a large number of retirements / early retirements during the quarter, resulting in lump sum payments from the Fund. MS referred to the problems experienced by Fauchier and measures they had taken to address them, and advised that the manager should be given time to improve (to the end of 2011 at least), but subject to close monitoring of their performance. However, the strategic question of how much should be allocated to hedge funds would be reconsidered as part of the asset allocation review.

Valentine Furniss (VF), Independent Adviser explained that the marked deterioration in investor confidence triggered by the problems in the US and the Eurozone couple with fear of below forecast world trade and inflation had affected the concluding opinion on equity markets in the investment report for the quarter ended 30 June 2011. In reference to the addendum attached to his report, VF informed members that the principal causes of the recent falls in the global markets were a lack of essential decisions to rectify fiscal deficits, weakening economic growth coupled with increasing inflation. In the light of the state of the markets, he advised a more cautious investment stance as equity markets were likely to remain flat for 2011 as a whole.

RESOLVED:-

that the monitoring report on fund activity for the quarter ended 30 June 2011 be noted.

9. **Asset Allocation Review 2011**

Members received a report that reviewed the asset allocation for the Fund, examined consultancy advice and set out a process for considering the revision of the asset allocation.

Clive Heaphy, Director of Finance and Corporate Services in his introduction emphasised the importance of the review of the asset allocation in the light of poor investment performance relative to other local authorities and the recent Actuarial Valuation. He added that the 2010 valuation of the fund indicated that liabilities were only 61% funded, which was the second worst local authority outcome out of 89 funds nationally. As a result, employer contributions for Brent were being increased from 22.9% in 2010 to 27.4% by 2013, with further increases predicted.

Staff numbers in Brent had been reduced by almost a quarter to around 2,800 as a result of severe reductions in government funding resulting in far less employee contributions into the fund in future. It was anticipated across local government that changes in pension contributions and benefits resulting from the Hutton review and other initiatives could lead to an increase in ‘opt-outs’ further depressing the number of future paying members. A further consideration was that the Head of Exchequer and Investment will retire in 2012. The Director advised that careful management would therefore be required to bring the fund back to a more stable position, underpinned by a long term investment strategy that would be sustainable, manageable and realistic.

MS outlined the previous changes to the asset allocation, the main reasons for under-performance of the fund against the average local authority fund and the key issues for members to consider. He continued that in order to support the asset allocation review process, the consultancy firm Mercer Ltd had been appointed to provide advice on asset allocation and to lead a training session for members. The session would also examine the main issues surrounding asset classes, risks, the deficit and the maturity of the Fund. Following the training session, officers would submit a further report recommending options for any changes to the asset allocation. He urged members to attend the meeting arranged for Monday 31 October 2011 at 2:00pm.

RESOLVED:-

that the report from the Head of Exchequer and Investment on asset allocation be noted.

10. **Investment in the clean energy and infrastructure fund**

Members gave consideration to a report that proposed a £10 million investment in the Clean Energy and Infrastructure Fund managed by Capital Dynamics.

MS set out the main aspects of the Clean Energy and Infrastructure Fund and advised members that clean energy was a very specialist area for which Capital Dynamics appeared to have relevant skills and experience. He continued that investing in the Clean Energy and Infrastructure Fund would accelerate exposure both in infrastructure and the 'green' energy theme. The investment would increase the benchmark allocation to infrastructure from 5% to 6%.

RESOLVED:-

that £10millions be invested in the Clean Energy and Infrastructure Fund managed by Capital Dynamics.

11. **Any other urgent business**

None.

12. **Date of next meeting**

The next meeting will take place on Tuesday 29 November 2011.

The meeting closed at 8.45 pm

S CHOUDHARY
Chair