



## LONDON BOROUGH OF BRENT

### MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE Tuesday 26 June 2018 at 7.00 pm

PRESENT: Councillor S Choudhary (Chair), Councillor Abdi (Vice-Chair) and Councillors Kabir, Lo, Maurice and Perrin.

Apologies for absence were received from: Councillors Gbajumo, Shahzad and Ms.Hammond.

#### 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 13<sup>th</sup> February 2018 be approved as an accurate record of the meeting subject to showing "Peter Davies as being present"..

#### 3. **Matters arising**

None.

#### 4. **Deputations**

None.

#### 5. **Monitoring report on fund activity for the quarter ended March 2018**

The Sub-Committee considered a report that provided a summary of the Fund's activity during the quarter ended 31 March 2018. It examines the economic and market background, and investment performance, as well as commenting on events in the quarter. Peter Davies (Independent Adviser) introduced his quarterly report.

Members heard that while all regions were expecting good growth in 2018, forecasts had moderated slightly since January, with falls in industrial production reported in the Eurozone, weaker than expected employment growth in the US and signs of softening in China. Mr Davies continued that the performance of the UK equity market continued to lag behind all overseas regions, while the 5% fall in the All-World Index made this the worst quarter for global equities since Q3 2015. UK shares started the year on a weak note, because of sterling's strength and Brexit uncertainties, and fell further during the period of heightened volatility in February

and March. The mid- and small-cap sections of the market again out-performed the large-caps.

In terms of economic outlook, Mr Davies informed the Sub-Committee that the yield on the 10-year US Treasury bond had edged up to 3% in April, partly on fears of rising inflation, and partly on consideration of the enlarged US fiscal deficit to be funded in the bond market without the assistance of the Federal Reserve. He added that the long-awaited return of volatility was expected to remain a feature of equity markets in the coming months, and the geo-political uncertainties were likely to weigh heavily on markets. In response to members' questions about performance, he advised for the need to manage expectations and cautioned against jumping from equities as pension fund investments involved long term decisions.

Ms Folake Olufeko (Senior Finance Analyst) in summarising the headlines of the fund activity for the quarter informed members that in the fiscal year of 2017/18 the value of the fund rose by 3.4% from £802.7m to £830.2m. During the quarter ending 31 March 2018, the Fund decreased in value by 2.9% (£24.8m) from £855m to £830.2m primarily due to falls in the value of UK and Global Equities. By contrast there was an appreciation in value in each of the previous three quarters. She drew members' attention to the tables within the report and clarified the reasons for performance/returns on the respective investments. Members noted that fixed income (Henderson Bond Fund) marginally appreciated in the quarter whereas equities saw a decrease in value of £20.8m and a significant depreciation in infrastructure representing the worst ever performance since 2016. On Diversified Growth Fund (DGF) she clarified the reporting times that showed a decrease in Baillie Gifford's performance and went on to add that Ruffer's poor performance was as a result of its link to higher investments in equities which did not perform as predicted.

RESOLVED:

That the Independent Financial Adviser's investment report and the Brent Pension Fund quarterly performance report be noted.

## **6. Annual Reports and Accounts 2017/18**

Members considered a report that presented the draft Pension Fund Annual Report and Annual Accounts for the year ended 31 March 2018. Mr Michael Almond (Graduate Trainee) informed the Sub-Committee that the accounts (which were unaudited) aimed to give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2018 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2018. He then highlighted the salient aspects of the accounts.

Members heard that, against a backdrop of continued uncertainty in the global economy and increased volatility in the financial markets, the value of the Fund's investments increased from £802.6m to £830.3m with corresponding increases in total contributions received from employers and employees. The total for the year was £49.8m, an increase on the previous year's total of £48.6m. Mr Almond advised that total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, totalled £38.9m, a decrease on the previous year's £40.2m. He

continued that as in 2016/17, the Fund was in a positive cash-flow position because its contributions exceed its outgoings to members. Mr Almond added that the net impact of College of North West London ceasing to be an employer within the Fund and the return of BHP into the Fund was nil, drawing members' attention to notes to the accounts.

RESOLVED:

That the annual report and accounts for 2017/18 be noted.

## **7. Update from the London Collective Investment Vehicle (London CIV)**

The purpose of this report was to update the Sub-Committee on recent developments within the London CIV and the timescales attached to making investment decisions. Mr Ravinder Jassar (Head of Finance) informed members that as at 31 March 2018 the LCIV's assets under oversight had grown to just under £15 billion, which represented around 40% of the 32 London Local Authorities total assets under management. He continued that Brent had 61% (£507m) of its assets under management overseen by the LCIV and that the Fund had achieved fee savings in the region of £0.1m per annum as a result of being part of the LCIV.

Mr Jassar drew members' attention to the fixed income strategy funds being launched by the London CIV as set out in the report and added that Brent officers would be meeting representatives of the LCIV over the summer to discuss the Fund's next steps in terms of the timing of future investment decisions. The outcome will be presented to the sub-committee meeting scheduled for 22 November 2018. He then updated members on the outcome of the governance review.

In welcoming the updated report, members expressed that they would like to receive a year on year comparative figures for the last 5 years.

RESOLVED:

That the recent developments with the London CIV, in particular the outcome of the governance review and the new investments available in late 2018 be noted.

## **8. Investment Advice Procurement**

Mr Ravinder Jassar (Head of Finance) introduced the report which set out the proposed procurement process to be adopted in relation to the contract for investment advice, when the current contract with MJ Hudson Investment Advisers Ltd expires on 30 September 2018. Members were informed about the merits of National Framework for Investment Consultancy Services set up by Norfolk County Council including its transparency in fees and comparability between firms. Officers therefore recommended the use of that framework agreement in conducting procurement exercises. He drew members' attention to the list of firms that had signed up to the framework and outlined the stages of the procurement exercise as set out within the report.

Mr Jassar recommended the grant of delegated authority to the Chief Finance Officer to appoint a provider for investment advice services to the Fund, following a procurement process that will be carried out by officers. He also recommended a representative of the Sub-Committee to sit on the interview panel.

RESOLVED:

- (i) That the Sub-Committee grant delegated authority to the Chief Finance Officer to appoint a provider for investment advice services to the Fund, following a procurement process that will be carried out by officers.
- (ii) That Councillor Choudhary (Chair) be nominated to attend the interview and presentation stage of the procurement process.

## 9. **Regulatory Oversight of Local Government Pension Schemes (LGPS)**

The purpose of this report was draw attention to the regulatory framework within which the LGPS operates, as part of the Public Services Pension Act 2013, and the work that has been undertaken to date by Central Government. In setting the background, Mr. Ravinder Jassar (Head of Finance) informed the Sub-Committee that the Government Actuary Department (GAD) appointed by Central Government to oversee the activity of LGPS had reported on whether the LGPS funding valuations complied with four criteria: Compliance, Consistency, Solvency & Long-Term Cost Efficiency.

He continued that a number of schemes were flagged by GAD as a cause for concern with regards to solvency and long term cost efficiency. Apart from the known funding level matter, Brent was not flagged a significant cause for concern, principally due to having set appropriate contribution levels, demonstrating a reducing deficit recovery period between valuations and adopting reasonable actuarial assumptions. Members were advised that the schemes that were flagged as a cause for concern were those with relatively low contribution rates combined with low funding levels and deficit recovery periods that were not reducing between valuations. He undertook to report the GAD findings to a future meeting of the Sub-Committee. The Fund's actuary added that no major issues of concern were identified in Brent's valuation.

RESOLVED:

- (i) To note that the Pension Fund would need to comply with the section 13 process, responding to all queries and requirements of the Government Actuary Department (GAD);
- (ii) to note that the outcome of the review by GAD would be presented to this Committee when the work has been completed.

## 10. **Minutes of Pension Board - 12 March 2018**

RESOLVED:

That the minutes of Pension Board of 12 March 2018 be noted.

11. **Any other urgent business**

None.

12. **Exclusion of Press and Public**

RESOLVED:

That the press and public be excluded from the remainder of the meeting as the report 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 and business affairs of any particular person (including the authority holding that information)”.

13. **Investment Strategy Review**

Members considered the report which presented the analysis and results of the investment review carried out by Hymans Robertson. Mr. Ravinder Jassar (Head of Finance) advised members that the review followed on from the Fund's 2016 Actuarial Valuation, the purpose of which was to assess the ability of the current funding/investment strategy to close the deficit gap as well fund future benefits in an affordable and stable way.

Mr. William Marshall (Partner) and Ms. Caoimhe Bain (Associate Investment Consultant), representatives of Hymans Robertson gave a detailed slide presentation to the Sub-Committee and responded to questions raised by members. The presentation broadly set out to establish a set of Investment Beliefs that would support the long term strategic approach of the Pension Fund's Sub-Committee, enabling members to gain a broader understanding of the risk/return dynamics of the Fund's investment strategy, so as to ensure that the strategy remained fit for purpose in supporting the Fund's long term objectives. Mr Marshall also highlighted the medium term agenda and timetable on how the Fund might comply with the requirement to pool its assets, and to consider a process for mapping the existing portfolio across to the London CIV pool.

RESOLVED:

- (i) that the outcome of the investment review contained within Appendix 1 to the report be noted;
- (ii) that the following changes to the investment strategy and amendment to the Investment Strategy Statement be agreed;
  - Agree to introduce an investment beliefs statement.
  - Switch a proportion of the Fund's growth assets to income assets, such that the former has a target allocation of 60% over the medium-term and the latter a target allocation of 25%. This switch should take place gradually (e.g. 1-3 years).
  - Within growth assets, consider removing the allocation to small cap equities and private equity and recommended that a more regionally diversified approach is taken to global equities, by reducing the

Fund's UK equity exposure and introducing an allocation to emerging markets. It is also recommended that further training take place on alternative forms of indexation.

- Within income oriented assets, seek to add to the allocation to infrastructure and consider other income oriented asset classes and as an interim measure, recommended that the diversified growth allocation be used as a route for diversifying the Fund's assets.
- Within protection oriented assets, it is recommended that the target allocation be reduced to 15% of Fund assets (by removing the 1% allocation to cash). It is also recommended that a proportion of this mandate be managed passively, with the remainder managed in a multi-asset credit fund.

The meeting closed at 9.25 pm

S CHOUDHARY  
Chair