



## **LONDON BOROUGH OF BRENT**

### **MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE Wednesday 29 May 2019 at 7.00 pm**

PRESENT: Councillor S Choudhary (Chair), Councillor Aden (Vice-Chair) and Councillors Daly, Perrin and co-opted member Ms. Bankole

In Attendance: Mr David Ewart (Independent Chair, Pension Board), Mr Keith Bray (LAPFF), Mr William Marshall and Mr Kameel Kapitan (Hymans Robertson).

Apologies for absence were received from: Councillors Maurice and Stephens

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

None declared.

2. **Minutes of the previous meeting - 27 February 2019**

RESOLVED:

That the minutes of the previous meeting held on 27 February 2019 be approved as an accurate record of the meeting.

3. **Matters arising**

None.

4. **Deputations**

None.

5. **Membership of the Local Authority Pension Fund Forum**

The purpose of this report was to ask Members to express their views and consider if Brent Pension Fund should become a member of the Local Authority Pension Fund Forum (LAPFF). Ravinder Jassar (Head of Finance) introduced Mr Keith Bray (Forum Officer, LAPFF) who gave a slide presentation to the Sub-Committee. Members heard that the LAPFF was a voluntary association of local authority pension funds with membership open to all Local Government Pension Scheme (LGPS) funds.

Mr Bray informed the Sub-Committee that LAPFF sought to protect and enhance the value of members' shareholdings by optimising LA pension funds' influence as shareholders on environmental, social and governance (ESG) issues and thereby to promote Corporate Social Responsibility and high standards of corporate

governance. In addition, the Forum facilitated commissioning of research and policy analysis of issues more effectively than individual members, provided a forum for consultation on shareholder initiatives as well as facilitated information exchange and discussion about any investment issues. He continued that the Forum provided a platform for members to consider issues of common interest to all pension fund administrators and trustees.

Members were informed that the Forum had 4 business meetings a year plus an AGM and at its annual conference, each member fund had one vote at meetings. LAPFF contracts PIRC (Pensions Investment Research Consultants) to supply technical research, advice and assistance on all matters relating to best practice in corporate governance and corporate social responsibility. The LAPFF currently had a membership of 80 local authority members including 29 English counties; 28 London authorities and its members' funds now control assets of around £230 billion. The annual subscription for each year commencing on April is £9,500.

Mr Bray was thanked for his presentation.

In the ensuing discussion, members expressed a view for additional information on the level of impact exercised by the LAPFF, evidence of its achievements with comparative analysis, LAPFF accounts and staffing structure. For the above reasons, it was:

RESOLVED:

That Brent Pension Fund's membership in the LAPFF be deferred pending additional information.

## **6. Investment Monitoring Report Q1 2019 (January to March 2019)**

The Sub-Committee received the Investment Monitoring Report from Hymans Robertson (Independent Adviser to the Sub-Committee) that provided an overview of the Fund's investment holdings in the first quarter of 2019 (Q1). The Sub-Committee welcomed Mr William Marshall (Partner) and Mr Kameel Kapitan (Associate Consultant) of Hymans Robertson to the meeting.

Mr Marshall introduced the report and headlined the following key developments within the quarter; total Fund returns were ahead of the benchmark; the Fund grew from just under £839m to just over £856m; Equity markets returned around 10%; credit-spreads rebounded and oil prices stabilised higher. He continued that the key contributors that drove the overall relative outperformance experienced were the two multi-asset growth funds and the reasonably new holding in CQS's multi-asset credit fund. It was noted that the Funds' investments in Henderson Emerging Markets and the two infrastructure funds marginally detracted from relative performance.

Mr Marshall drew Members' attention to the asset allocation table and the individual fund manager's performance relative to the benchmark as set out in his report. Members noted the following: LGIM Global Equity markets performed strongly in the first quarter delivering an absolute return of 9.8% and consistent with expectations over 12 months and the last 3 years' performance. Capital Dynamics PE fund returned flat over the first quarter of 2019 against its target of 1.9%.

However, over a 3-year timeframe its annualised return of 16.4% remained strong and ahead of its target of 8% p.a. target. Capital Dynamics Infrastructure, a long term investment, returned 36.5% against a benchmark figure of 8% over a 12-month period. Baillie Gifford Multi Asset-growth fund returned 6.1% in Q1 2019. This strong quarter boosted its longer term performance which was now ahead of target. Over a 3-year period, annualised returns were 5.1% versus a current target of 4.0%, the fund having benefited from certain manager actions taken over the quarter. In the first quarter of 2019, the Ruffer Multi-asset fund generated an absolute return of 3.2%, comfortably ahead of its base rate + 3.5% p.a. of 1.1%. CQS, part of the London CIV's multi asset credit offering, over the period outperformed delivering an absolute return of 2.7% against a target of 2.5%.

Mr Marshall then reported on manager ratings from the suitability study he had undertaken, with the resulting ratings as set out in the report. He added however that over the quarter, all other manager ratings remained consistent with the last quarter (Suitable or Preferred) rating except for the manager rating for Janus Henderson's Emerging Market fund which was downgraded from 'Positive' to 'Negative' rating.

In welcoming the investment quarterly report for Q1, Members;

RESOLVED

That the investment quarterly report for Q1, 2019 be noted.

## **7. Review of Additional Voluntary Contributions**

The purpose of this report was to review and recommend changes to current arrangements for Additional Voluntary Contributions (AVCs) which were being provided in addition to the main Local Government Pension Scheme.

Mr Sawan Shah (Senior Finance Analyst) explained that AVCs were potentially a tax efficient way to save money for members' retirement in addition to the main Local Government Pension Scheme, allowing those members within the scheme to retire early or with a higher pension. He added that AVCs were separate from the Brent Pension Fund and the investments which were provided by Prudential were not assets of the Fund. It was noted that as of March 2019, there were 35 members with AVC investments with Prudential, of which 6 members had paid contributions in the period since 1 January 2019.

Mr Shah informed members that as Prudential had announced the closure of the lifestyle option in 2019, the Fund must decide on a new lifestyle strategy for those members currently invested in it and to be available for new members in future. In light of this announcement, the Fund commissioned its investment advisors, Hymans Robertson, to review the lifestyle option in place of the changes to lifestyle options being proposed by Prudential. The report by Hymans Robertson, attached in Appendix 1, was restricted for legal reasons.

In welcoming the report and the changes recommended by the Fund's investment advisors, it was;

RESOLVED:

- (i) That the LGPS specific AVC lifestyle strategy be approved following the closure of the current lifestyle option and changes to the self-select fund range outlined in paragraphs 3.6 – 3.8 of the report;
- (ii) That the new lifestyle option outlined in Appendix 1 - Section 3, be adopted as the new option available to members.

## **8. Draft Annual Report and Accounts 2018/19**

This report presented the draft Pension Fund Annual Report and Annual Accounts for the year ended 31 March 2019. Mr Ravinder Jassar (Head of Finance) drew members' attention to the draft annual report and accounts appended to the report and which had been prepared to meet the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) governing the preparation of the 2018/19 financial statements for Local Government Pension Scheme funds. 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 2019 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2019. He highlighted the following:

During 2018/19, the value of the Pension Fund's investments increased to £865m (2017/18 £801) due to the strong performance of the equity markets in comparison to the previous year. Total contributions received from employers and employees were £52.1m for the year, an increase on the previous year's £49.9m and total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, were £46m, an increase on the previous year's £39m. He added that as in 2017/18, the Council was in a positive cash-flow position because its contributions exceed its outgoings to members.

RESOLVED:

That the draft Pension Fund Annual Report and Annual Accounts for the year ended 31 March 2019 be noted.

## **9. Update on the 2019 Triennial Valuation**

The report updated the committee on the 2019 Pension Fund Valuation. Mr Sawan Shah (Senior Financial Analyst) informed Members that the purpose of the process was to value the assets and liabilities of each individual employer and the pension fund as a whole, with a view to setting employer contribution rates which will result in each employer's liabilities becoming as close to fully funded as possible over the agreed recovery period outlined in the Funding Strategy Statement (FSS).

He outlined some of the key assumptions in the valuation process as set out within the report, adding that these would be reviewed as part of the valuation process. The assumptions included the discount rate, the probability and circumstances that pensions will be paid and for how long and other demographic factors including the marriage status of members.

Mr Shah drew Members' attention to the indicative timeline for the valuation process which will commence in July 2019, following the completion of the data cleanse project by LPP to the Fund actuary. The provision of initial whole fund results, compASS results and employer contribution strategy proposal (draft FSS) was anticipated by 2 October 2019. The provision of valuation results for employers and proposed contribution and finalisation of FSS following employer consultation was expected by November 2019 and the implementation of new FSS and contribution rates from 1<sup>st</sup> April 2020.

Mr Shah highlighted the reducing trend of the deficit period and added that whilst not pre-empting the results of the valuation, modest increases in the contribution rate may be required however the Fund would have to wait until the results of the valuation for this to become clearer.

In welcoming the update, Members;

RESOLVED:

That the update on the 2019 Pension Fund Valuation be noted.

#### 10. **LGPS update**

The purpose of this report was to update the Sub-Committee on recent developments within the LGPS regulatory environment and recent consultations issued by the Ministry of Housing, Communities and Local Government (MHCLG) which was expected to have a significant impact on the Fund. Mr Ravinder Jassar (Head of Finance) provided updates on the following; exit cap payments; changes to valuation cycle; McCloud case.

Members were informed that on 10 April 2019 HM Treasury (HMT) launched a consultation on draft regulations, guidance and Directions to implement the exit cap, currently set at £95,000. This figure included payments for redundancy, severance and pension strain which arise when a Local Government Pension Scheme (LGPS) pension is paid unreduced before a member's normal pension age. Mr Jassar pointed out that payments related to death in service or ill health retirement, pay in lieu of holiday and payments made in compliance with an order made by a court or tribunal were not counted in the definition of exit payments.

Members were also updated about MHCLG consultation about changes to the valuation cycle and the management of employer risk for LGPS funds in England and Wales which would close on 31 July 2019. Mr Jassar outlined the five key proposals covered by the consultation:

- (i) Transitioning local fund valuations from 3 to 4 yearly, so that the national LGPS cost management valuation and local LGPS valuations were aligned from 31 March 2024 onwards.
- (ii) Giving funds the power to carry out 'interim' valuations between formal valuation dates, and adjust employer contribution rates upwards or downwards to reflect changing circumstances (with the 'trigger points' for the interim valuations subject to statutory guidance).

- (iii) Allowing funds more flexibility around the way in which they manage employers that exit the LGPS, by spreading cessation debt repayments or setting up private sector style 'deferred debt' arrangements to ease employer concerns over affordability.
- (iv) Amending LGPS Regulations to allow exit credits to be reduced to nil where a pass-through arrangement was in place.
- (v) Removing the requirement for further education, higher education and sixth form college corporations in England to offer new employees access to the LGPS.

Members heard that the fund was awaiting further analysis from LGA's Local Government Pension Committee and the Scheme Advisory Board (SAB) in relation to this consultation. Members noted that in addition, Brent officers, in consultation with the Fund's advisors, would prepare a response to the consultation on behalf of the Brent Pension Fund before the consultation closed.

Mr Jassar also provided an update on the McCloud case, the Court of Appeal case about transitional protections that protected older judges and firefighters from the public sector pension scheme changes in 2015. This was originally reported to the last meeting of the Sub-Committee. Members noted the appendix to the report which set out the advice note by the SAB, which covered the implications of McCloud/Cost Cap in relation to the 2019 fund valuations. He continued that the fund was currently analysing the implications of the advice note and would work with the Fund actuary and investment advisor to manage the potential ongoing risks for the fund.

RESOLVED:

That the recent developments in the LGPS be noted.

#### **11. Minutes of Pension Board - 13 March 2019**

The Sub-Committee welcomed Mr David Ewart (Independent Chair, Pension Board) and invited him to provide a summary of the Board's last meeting. Mr Ewart informed the Sub-Committee about the presentation by The Pension Regulator (TPR) which gave a positive feedback on the performance of the Fund. He added that TPR had closed its inquiry into the Fund. He continued with a summary of updates on pensions administration issues including performance and noted that positive improvements had been made since LPP took over the administration. In addition, LPP had put in place robust plans to address historical issues relating to Annual Benefit Statement (ABS).

RESOLVED:

That the minutes of the Pension Board be noted.

#### **12. Any other urgent business**

None.

**13. Exclusion of Press and Public**

The following report to be considered was not for publication as it contained the following category of exempt information as specified under paragraph 3, Part 1 of Schedule 12A of the Local Government Access to Information Act 1972, namely:

“Information relating to the financial or business affairs of any particular person (including the authority holding that information)”.

**14. London CIV Update on investment matters**

This report updated the Sub-Committee on recent developments within the London CIV. Mr Ravinder Jassar (Head of Finance) provided updates on Emerging Market Fund, Property, Infrastructure and Private debt and MiFID II. He outlined the options for the on-going management of the Emerging Market Fund and added that due to the rapidly changing situation, delegated authority had been recommended in case The Fund needed to act quickly in order to protect its investment.

Members welcomed the London CIV updates and;

RESOLVED:

- (i) That the recent developments with the London CIV be noted;
- (ii) That delegated authority be granted to the Chief Finance Officer to take the decision with regards to the future of the London CIV Emerging Markets fund.

The meeting closed at 8.45 pm

S CHOUDHARY  
Chair