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Brent

Supplementary - Pension Board

Wednesday 5 August 2020 at 6.00 pm
This will be held as an online virtual meeting
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Membership:

Members	**Representing**
Mr Ewart	Independent Chair
Councillor Members	
Councillor Crane	Brent Employer representative
Councillor Kabir	Brent Employer representative
Co-opted Members	
Bola George	Member representative (Unison)
Chris Bala	Pension Scheme Members Representative
Robert Wheeler	GMB Trade Union

For further information contact: Joe Kwateng, Governance Officer
joe.kwateng@brent.gov.uk; 020 8937 1354

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The press and public are welcome to attend part of this online virtual meeting from 6.00pm. The link to attend and view proceedings will be made available online via the following link: Democracy in Brent

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Notes for Members - Declarations of Interest:

If a Member is aware they have a Disclosable Pecuniary Interest* in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent and must leave the room without participating in discussion of the item.

If a Member is aware they have a Personal Interest** in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent.

If the Personal Interest is also significant enough to affect your judgement of a public interest and either it affects a financial position or relates to a regulatory matter then after disclosing the interest to the meeting the Member must leave the room without participating in discussion of the item, except that they may first make representations, answer questions or give evidence relating to the matter, provided that the public are allowed to attend the meeting for those purposes.

*Disclosable Pecuniary Interests:

(a) **Employment, etc. -** Any employment, office, trade, profession or vocation carried on for profit gain.
(b) **Sponsorship -** Any payment or other financial benefit in respect of expenses in carrying out duties as a member, or of election; including from a trade union.
(c) **Contracts -** Any current contract for goods, services or works, between the Councillors or their partner (or a body in which one has a beneficial interest) and the council.
(d) **Land -** Any beneficial interest in land which is within the council's area.
(e) **Licences-** Any licence to occupy land in the council's area for a month or longer.
(f) **Corporate tenancies -** Any tenancy between the council and a body in which the Councillor or their partner have a beneficial interest.
(g) **Securities -** Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

**Personal Interests:

The business relates to or affects:
(a) Anybody of which you are a member or in a position of general control or management, and:

- To which you are appointed by the council;
- which exercises functions of a public nature;
- which is directed is to charitable purposes;
- whose principal purposes include the influence of public opinion or policy (including a political party of trade union).

(b) The interests a of a person from whom you have received gifts or hospitality of at least £50 as a member in the municipal year;

or

A decision in relation to that business might reasonably be regarded as affecting the well-being or financial position of:

- You yourself;

a member of your family or your friend or any person with whom you have a close association or any person or body who is the subject of a registrable personal interest.

Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members.

24 Exclusion of Press and Public

The press and public will be excluded from the remainder of the meeting as the reports and appendices to be considered contain the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely:

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

25 Appendices - Low Carbon Equity Fund Investment 85 - 94

26 London CIV Update 95 - 144

The purpose of this report is to update the Committee on recent developments within the London CIV (LCIV).

I have attached 3 exempt appendices to the report.

Brent	**Pensions Fund Sub-Committee** 16 July 2020
	Report from the Director of Finance

Covid-19 Update

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	1. Covid-19: market update
Background Papers:	▪ N/A
Contact Officer(s): (Name, Title, Contact Details)	Minesh Patel, Director of Finance Ravinder Jassar, Head of Finance Sawan Shah, Senior Finance Analyst

1.0 Purpose of the Report

1.1 The purpose of this report is to outline the impact of coronavirus (COVID-19) on the Brent Pension Fund.

2.0 Recommendation(s)

2.1 The Committee is asked to note the overall report and to comment on the proposal to pause any potential investment into the property asset class.

3.0 Detail

3.1 This report provides an overview of the impact of coronavirus (COVID-19) on the Brent Pension Fund. The full detailed paper is attached to this report in Appendix 1.

3.2 Since the market value of the Fund's assets was last reported to the sub-committee, the spread of coronavirus had a dramatic effect on financial markets. In February and March some assets (particularly global equity markets) recorded some of the worst returns in recent history.

3.3 In response, global governments, policy makers and central banks have announced a number of fiscal and monetary measures. In the UK, the Bank of England lowered interest rates from 0.75% to 0.1% and several targeted fiscal interventions to support households and businesses were announced by the government. There has been a significant rebound in asset values since 31 March following the introduction of support packages.

3.4 It is clear that the spread of the virus means that it is inevitable that global economic growth will be impacted in 2020. Q1 GDP fell by 2.0% in the UK, 3.6% in the Eurozone and 5.0% in the United States. As Europe, the UK and the US went into lockdown only during March, falls in second-quarter GDP are likely to be even greater. April indicators for economic activity collapsed to unprecedented levels in Western economies. Whilst they rebounded in May, they remained below their worst levels of the financial crisis.

3.5 The second quarter has seen substantial and sustained decline in the rate of new infections in Europe since their peaks at the start of the quarter. This has led to steps to ease lockdown restrictions but it has become increasingly evident that the easing is likely to be a prolonged process.

4.0 Impact on the Fund

4.1 The table below shows how the market value of the Fund's assets has changed since the start of the year.

	ASSET CLASS	31/12/2019 Value (£m)	31/03/2020 Value (£m)	31/05/2020 Value (£m)
GROWTH	**Equities**			
	Global - LGIM	345.4	293.4	343.5
	UK - LGIM	125.6	94.1	102.1
	LCIV Emerging Markets (JP Morgan)	30.6	25.2	27.6
	Equities - Total	**501.6**	**412.8**	**473.2**
	Private Equity			
	Capital Dynamics	46.8	49.1	49.5
	Private Equity Total	**46.8**	**49.1**	**49.5**
DIVERSIFERS	**Diversified Growth Fund**			
	LCIV Diversified Growth Fund (Baillie Gifford)	128.9	110.8	117.2
	LCIV Absolute Return Fund (Ruffer)	51.3	50.1	53.2
	Total Diversified Growth	**180.2**	**160.9**	**170.4**
	Infrastructure			
	Alinda	23.0	24.6	20.3
	Capital Dynamics	10.6	10.1	10.6
	LCIV Infrastructure Fund (Stepstone)	0.0	0.5	3.4
	Infrastructure Total	**33.6**	**35.3**	**34.3**
	Property			
	Europe - Aviva	0.1	0.1	0.1

	Property - Total	**0.1**	**0.1**	**0.1**
PROTECTION	**Fixed Income**			
	UK Gilts Over 15 yrs - Blackrock	83.2	92.6	97.4
	LCIV MAC Fund (CQS)	36.8	30.6	33.4
	Fixed Income Total	**120.0**	**123.2**	**130.8**
	Cash Deposits			
	Cash	52.3	53.9	58.9
	Cash Deposits Total	**52.3**	**53.9**	**58.9**
	Grand Total	**934.8**	**835.3**	**917.1**

Growth

4.2 The growth allocation forms a large part of the pension funds assets. Equity Markets fell considerably during Q1, registering 25% falls in the UK and 20% globally. They have since rebounded and the Fund has made up some of losses sustained earlier in the year.

Diversifiers

4.3 The Fund's multi-asset funds (Baillie Gifford and Ruffer) had contrasting fortunes during Q1. The Baillie Gifford mandate showed poor performance due to allocations to equities, emerging market bonds and property, some of the losses have since been recovered. Ruffer fared significantly better in terms of preserving capital with it's more defensively positioned strategy.

4.4 The Fund also holds investments with Alinda (Infrastructure) and Capital Dynamics (Infrastructure and Private Equity). As these investments are not publicly listed there is a degree of estimation involved in their valuation.

4.5 Due to the uncertainties in the financial markets caused by pandemic, there is risk that the estimated valuation of these investments may be inaccurate. Information received from the Fund Managers indicates that some assets are not predicted to be impacted heavily by the pandemic. This would include companies that operate in the IT, telecoms, essential healthcare and essential services sectors. On the other hand, companies affected by government mandated shutdowns or already struggling businesses including those in the events, restaurants, air transportation and leisure sectors are at a high risk of significant write-down.

4.6 As the effects of COVID-19 only began to show through in the final two weeks of March 2020 in Europe, the Q2 2020 valuations will likely give a much clearer picture of asset values.

Protection

4.7 As one would expect during times of volatility, gilts have performed well. Overall gilts returned 6.3% in Q1 2020 and 1.6% in Q2 so far. The Fund's gilts holding have performed well accordingly, valued at £97.4m at the end of May compared to £83.2 at the start of the year and £77m when purchased in March 2019. The CQS mandate showed poor performance as the high yield market suffered more than the investment grade sector. The Fund's significant cash holdings also provided a buffer against the volatility seen in other financial assets and avoided need to be a forced seller during the downturn.

Property

4.8 The Fund has a 10% long-term strategic target allocation to property but has only c£0.1m invested at the present time. Hymans Robertson, the Fund's investment advisors, are supportive of the long term allocation but are cautious about investing in property at the present time due to the lack of transparency and transactions. It also remains to be seen how coronavirus has affected long term demand for property such as office space and retail stores. The committee is asked to comment on this proposal and pause any potential investment into this asset class until there is greater clarity in property markets.

5.0 Implementation of the Investment Strategy

5.1 At the previous Committee meeting on 25 February 2020, the results of the review of the Fund's investment strategy were presented. The investment strategy acknowledged that the Fund's actual investment arrangements will deviate from their target over time and therefore a degree of rebalancing should take place on a regular basis to try and prevent too much deviation from the desired strategic allocation.

5.2 The outbreak of coronavirus has posed particular challenges to the Fund including high levels of volatility in the financial markets and changes to working arrangements. The fund has prioritised key tasks including careful management of the Fund's Cashflow, the payment of benefits to members and the production of year-end accounts.

5.3 Nevertheless, officers have kept in regular contact with the Fund's investment advisors since the last meeting to monitor the position of the Fund's assets and to discuss the implementation of the agreed investment strategy.

5.4 As markets have stabilised, the Fund has proceeded to take a cautious view in the implementation of the investment strategy. The Fund was underweight, relative to interim target, in the London CIV MAC mandate and in emerging market equities. To help move towards the interim target of 5% in each mandate, the Fund rebalanced some of its existing cash holdings into these mandates. £8m was invested in LCIV's Emerging Markets fund to move from 3% to 4% of assets; and £4m was invested in LCIV's MAC fund to move from 3.5% to 4% of assets. These transactions were completed at the end of June 2020.

5.5 As is normal with trading in and out of existing funds, transaction fees were incurred as a result of these trades. Officers worked closely with the London CIV, fund managers and Northern Trust (the Fund's global custodian) to minimise these fees as much as possible. This was relatively successful where transaction fees where managed down to £8k in respect of the Emerging Markets investment and no transaction fees were incurred in respect of the MAC investment.

5.6 It is proposed to use some of the remaining cash holding towards investment in a new low carbon equity mandate. This is included for decision on another report on this agenda.

6.0 Financial Implications

7.1 These are set out throughout the report.

7.0 Legal Implications

7.1 Not applicable.

8.0 Equality Implications

8.1 Not applicable.

9.0 Consultation with Ward Members and Stakeholders

9.1 Not applicable.

10.0 Human Resources

10.1 Not applicable.

Report sign off:

Minesh Patel
Director of Finance

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Covid-19: market update

Addressee and purpose

This paper is addressed to the Officers and Pension Fund Sub Committee (the "Committee") of the London Borough of Brent ("Brent") as administering authority to the London Borough of Brent Pension Fund (the "Fund"). This paper should be read in conjunction with our Investment strategy transition road map.

In addition to the enormous human cost, the rapid spread of the coronavirus will inevitably have a material impact on the rate of global economic growth. It is important to note that, while growth is expected to take a severe hit in the near term, global growth and corporate profits will eventually enter a recovery. However, the timing and shape of any rebound is uncertain and depends on containment of the virus and the effectiveness of policy responses in preventing temporary disruption to businesses and consumers causing permanent damage.

The purpose of this paper is to aid understanding of the current market backdrop, through discussion of plausible economic recovery scenarios and associated market impacts and help identify the key risks and opportunities facing the Fund and hence aid decision-making.

Current market backdrop

Market performance

The table below shows the returns on major assets classes year to date (to 19 June). The figures for Q1 (e.g. the c25% fall in the value of UK equities) illustrate the scale of the fall in asset values during February and March, with only government gilts and gold delivering a positive return. There has been a significant rebound in asset values since 31 March due mainly to the economic stimulus provided by governments in the UK, US and Europe.

UK	Q2 20*	Q1 20	2020*	GLOBAL	Q2 20*	Q1 20	2020*
EQUITIES	12.6	-25.1	-15.7	**EQUITIES**	18.8	-20.0	-4.9
BONDS				North America	21.1	-19.6	-2.7
Conventional gilts	1.6	6.3	8.0	Europe ex UK	16.7	-20.9	-7.6
Index-linked gilts	8.8	1.6	10.6	Japan	13.3	-17.2	-6.2
Credit	6.3	-3.4	2.7	Dev. Asia ex Japan	15.6	-20.6	-8.3
PROPERTY*	-2.0	-1.4	-3.4	Emerging Markets	18.0	-20.2	-5.8
STERLING				**GOVERNMENT BONDS**	0.7	3.2	3.9
v US dollar	-0.3	-6.4	-6.7	High Yield	10.8	-14.9	-5.7
v Euro	-2.2	-4.2	-6.3	Gold	8.0	6.0	14.5
v Japanese yen	-1.2	-7.0	-8.1	Oil	87.2	-65.9	-36.2

Percentage returns in local currency ($ for Gold and Oil). *All returns to 19/06/2020, apart from property (31/05/2020).

Impact on the Fund

The table below shows how the market value of the Fund's assets has changed since the start of the year. It highlights the significant fall during Q1 and the rebound since 31 March 2020.

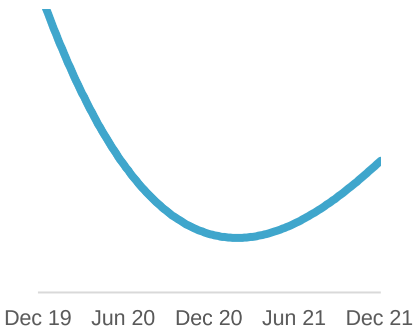
	31 December 2019	31 March 2020	31 May 2020
Asset value	£934.8m	£835.3m	£917.1m

Markets are, to an extent, looking through dismal expectations for Q2 data (GDP, corporate earnings, employment) and are now focussing on a potential economic recovery in the second half of the year. Enormous fiscal and monetary policy support has been deployed; it remains to be seen how effective this will be in supporting a strong recovery in economic activity as governments try to achieve a sustainable re-opening of their economies, and what the long-term cost of providing this support will be.

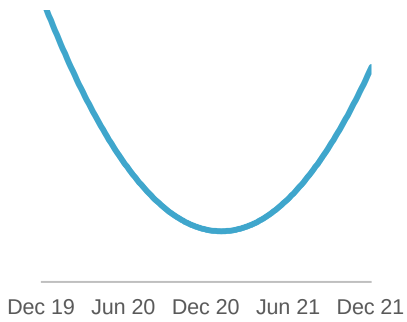
While government bond yields remain near record lows, global equity markets have rebounded strongly since their March nadir and are now touching levels seen as recently as last summer. The recent equity market rally, alongside falling earnings, has taken longer-term global equity valuation measures back towards longer-term averages. Shorter-term valuation measures, such as forward price-to-earnings ratios, are looking increasingly expensive versus history.

Outlook for recovery

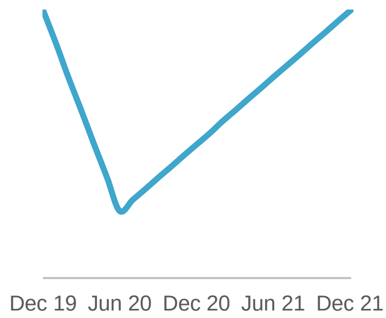
As the initial phase of lockdowns ease across the globe and the dust attempts to settle, attention now turns to the complexity associated with lifting restrictions whilst trying to minimise the threat of a second wave of infections. There are a number of plausible scenarios that a recovery could take, each having different economic and market impacts over the short, medium and long terms. As the below graphs show, these range from a period of further decline and sluggish recovery (Bear case) through to a sharp recovery supported by medical breakthroughs (Bull case). Somewhere in between lies a slow and steady recovery following an initial recession (Base case).



Bear



Base



Bull

Further details of these plausible scenarios and the accompanying impacts over the period to 2021 are set out in appendix 1. Please note these are not intended as forecasts but rather a plausible set of scenarios and the potential accompanying economic and market impacts.

Earlier this year an investment strategy review was undertaken with revised interim and long-term benchmarks agreed by the Committee. In these unprecedented times, it is worth reflecting on these agreed actions in light of the current market outlook.

Our view

Against this backdrop, we remain broadly comfortable with the Fund's strategy. Although volatility is likely to continue in the short term – due to uncertainty over the pace and scale of return in economic activity – the Fund is a long-term investor and can therefore take a long-term view. This is helped by the Fund's positive cashflow position (contribution income currently exceeds benefit outgo), which means the Fund is not a forced seller of assets. The cashflow position should continue to be monitored and capture the impact of any requests from employers to defer contributions.

Furthermore, the Fund's diversified approach to investing means it is well placed to navigate through challenging market environments with each asset class having its role to play.

Growth

The Fund's growth allocation forms around half of the strategic allocation and is the return seeking element of the portfolio.

The Fund's growth assets have pleasingly made up some of the losses incurred during Q1 supported by the rebound in equity markets. While some volatility can be expected in the short term, we remain supportive of the Fund's exposure to equities as the main source of return for the Fund over the longer term, helping to deliver on the Fund's long-term objectives - close the funding gap and keep contribution rates low. Reshaping the equity portfolio to increase exposure to low carbon and reduce the exposure to the UK over time will provide a further benefit in terms of risk diversification.

Diversifiers

The Diversifiers allocation is, as the name would suggest, there to provide meaningful and necessary diversification to the Fund's assets. They aim to provide a degree of predictability and stability to the Fund's return and income profile over the longer-term.

The Fund's multi-asset funds (Baillie Gifford and Ruffer) had contrasting fortunes during Q1, with Ruffer faring significantly better in terms of preserving capital. We remain supportive of the Fund's having a strategic allocation to multi-asset funds because of the diversification of risks they provide – they provide some ballast to equity market volatility. However, the Committee may wish to reconsider the balance between the two managers e.g. move to equal splits between the two, acknowledging their different styles which should complement each other.

We remain cautious on the outlook of private markets (private debt, infrastructure) but do believe based on a 'selective' investment approach these asset classes may offer investment opportunities for the Fund as companies and markets react to the impact of the COVID-19 pandemic. With the LCIV in the development stage of its private debt sub-fund and the infrastructure mandate in its infancy, this presents an opportune time for all parties (the Fund, us and other London Boroughs) to work together to aid in shaping future portfolio structures. There is also the advantage that, when investing in these private markets, capital is "drawn" in stages which therefore reduces the timing risk of investing in them in the short term. We propose that we work with the Officers regarding agreeing any future commitments, as part of the Fund working towards its strategic allocations to these asset classes.

The final asset class making up the diversifier allocation is property. The Fund has a 10% long-term strategic target allocation to property but has only c£0.1m invested at the present time (this investment is legacy investment in wind up). Post Covid sell-off, some property funds can be bought at material discounts to Net Asset Value ("NAV") currently, while hindsight might show this an ideal opportunity for the Fund to increase its exposure, we are cautious about investing in property at the present time. Our view is that the Fund should wait before investing in property, until market values provide greater transparency (a lack of transactions means current pricing may be unreliable e.g. the price may suggest a discount to NAV, there is limited data to test how reliable the NAV number is) and there is greater clarity on the future prospects for property investment (e.g. office space may be less attractive now because many employees are better able to work from home).

Protection

Through the initial market downturn, the Fund's bond holdings performed well (as we would expect) helping to somewhat mitigate the growth allocation's fall. This is what protection assets like bonds are there to do and why we continue to be comfortable with the current arrangements – the gilts offer low cost exposure to downside protection assets.

The other component of the protection allocation is the CQS multi-asset credit mandate with the London CIV. Although categorised as a 'protection' style mandate it is very much at the "punchier" end of the protection scale given its allocation to high yield debt. Nonetheless, we continue to have conviction in the role this asset class has to play within the portfolio – offering diversification and low duration exposure to credit markets.

Conclusions

We remain broadly supportive of the Fund's current strategy. The Fund's positive cashflow position means it is not expected to be a forced seller of assets during any period of market downturn although this will need to be monitored.

In the shorter term, the Fund is exposed to the potential (downside) impact of disappointment in the scale and speed of the economic recovery. In particular, the key risks to the Fund's funding level are from its exposure to equities. While a bear scenario presents the prospect of a fall in assets in the short term (assessed to end 2021), over the longer term we would expect equity markets to recover as the pace of economic activity picks up post 2021. Furthermore, the Fund's protection assets will continue to offer good downside protection whilst the diversifiers should provide a stabilising force for both volatility and return. For these reasons we are broadly comfortable the current strategy remains appropriate to deliver on the Fund's long-term objectives.

The one area where we have most caution is property, although we support the asset class's long-term strategic benefits, we have caution on a short-term view. Given this, we recommend pausing any potential investment into this asset class. As outline in the transition road map, we propose the long-term strategic allocation of 10% into property remains, but the interim allocation is set at 0% (previously 5%), with the assets, previously earmarked for property, now split 3% equities and 2% cash. This can be revisited once there is greater clarity on the outlook for property markets.

At a structural level, there will be opportunities for the Fund, particularly within the private market space as the recovery takes shape.

Prepared by:-

William Marshall, Partner

Kenneth Taylor, Associate Investment Consultant

Kameel Kapitan, Associate Investment Consultant

For and on behalf of Hymans Robertson LLP

June 2020

Appendix 1 – Scenarios considered

Possible scenarios

After the initial phase of infections and full lockdown, with the associated sharp recession, attention now turns to the complexity associated with lifting restrictions whilst trying to minimise the threat of a second wave of infections. A plausible set of scenarios and the potential accompanying economic and market impacts are discussed below. These are not intended as forecasts but rather a plausible set of scenarios and the potential accompanying economic and market impacts.

Base case

In our **Base case** the gradual lifting of lockdowns, in the absence of meaningful medical progress, means consumer spending remains subdued and there are large increases in unemployment, company failures (or simply an inability to return to the same level of capacity) and a collapse in business investment, weigh on the prospects for a rapid recovery. The subsequent recovery in output follows a **"U- shaped"** path with the severe downturn followed by a gradual recovery as restrictions are loosened. The cost of accommodative monetary policy acts as a longer-term drag to growth, either through lower central spending or higher taxes. A growth and earnings recession are priced into markets to a degree but given the strong bounce in markets since their March lows, risk assets may drift lower, or sideways for a prolonged period, in this scenario.

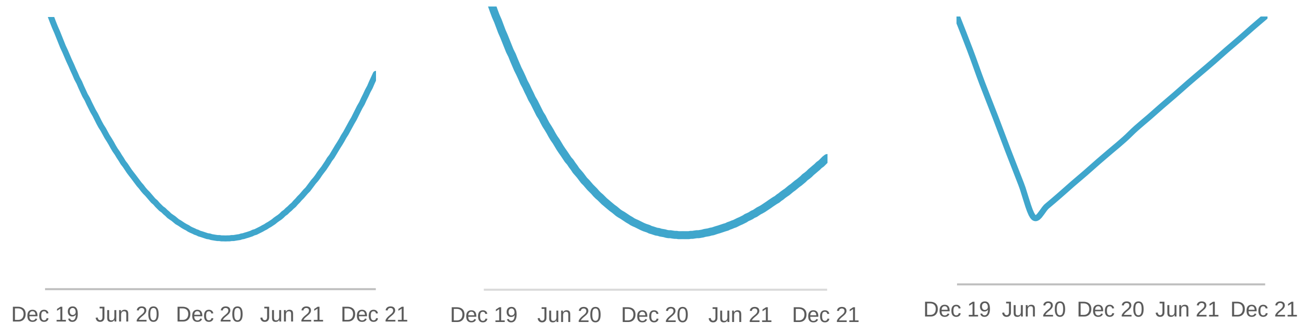
Bear case (downside scenario)

In our **Bear case** infection rates, having initially fallen on containment measures, start to rise again, as the relaxation of containment measures leads to a second round of infections. Alternatively, the lifting of lockdown is slower than anticipated, as governments try to minimise infections at any cost. Significant and prolonged economic shutdown across major economies leads to significant structural and liquidity difficulties causing an extended recession, greater impairments and further significant falls in risk assets. The subsequent path of the recovery in output is **"a tilted L-Shaped"**. Risk assets re-test their March lows and yields and base rates test a zero-lower bound.

Bull case (upside scenario)

In our **Bull case** – a sustainable and progressive reopening of economies potentially facilitated by the rapid emergence of a vaccine and/or significant advancement of test and trace technologies. Deferred consumption, production and business investment combine with unprecedented levels of fiscal and monetary support to ensure high levels of unemployment are temporary and bankruptcies limited, leading to a sharp recovery in activity and period of above-trend growth. The subsequent path of recovery in output is **"V-Shaped"**. Equity markets rebound to end-2019 levels and credit spreads return to long-term averages, while base rates and government bond yields rise a little, contained by necessarily accommodative monetary policy given substantial debt accumulation.

Illustrative output level in base, bear and bull scenarios, respectively



	May 2020 consensus	Base	Bear	Bull
UK GDP 2020	-7.9	-7.9	-10.0	-6.0
UK GDP 2021	6.1	6.1	5.5	6.5
2-year change in output level	-2.3	-2.3	-5.0	0.0
CPI Inflation 2020	1.0	1.0	0.5	1.5
CPI Inflation 2021	1.4	1.4	1.0	2.5
		Level (change since 30 April 2020)		
Base rates	0.1	0.1	0.0 (-0.1)	0.5 (+0.4)
10-year gilt yields	0.2	0.2	0.0 (-0.2)	0.7 (+0.5)
10-year index-linked yields	-2.6	-2.6	-2.2 (+0.4)	-2.8 (-0.2)
10-year implied inflation	2.8	2.8	2.2 (-0.6)	3.5 (+0.7)
Global equities		-10%	-20%	`+10%
IG credit spreads	2.1	2.1	3.1 (+1.0)	1.4 (-0.75)
Sub-IG credit spreads	7.6	7.6	10.6 (+3.0)	5.1 (-2.5)
UK Commercial property		-10%	-25%	0%

Brent	**Pensions Fund Sub-Committee** 16 July 2020
	Report from the Director of Finance

Low Carbon Equity Fund Investment

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	PART EXEMPT - as it contains the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Act 1972, namely: "Information relating to the financial or business affairs of any particular person (including the authority holding that information)"
No. of Appendices:	Two 1. Brent Low Carbon Equity Fund – Hymans Paper June 2020 (Exempt) 2. Fees Table - June 2020 (Exempt)
Background Papers:	▪ N/A
Contact Officer(s): (Name, Title, Contact Details)	Minesh Patel, Director of Finance Ravinder Jassar, Head of Finance Sawan Shah, Senior Finance Analyst Saagar Raithatha, Finance Analyst

1.0 Purpose of the Report

1.1 As part of the investment strategy review carried out in Q1 2020, the Committee agreed to make an initial investment in a low-carbon equity fund, which will be funded by investing a proportion of the Fund's excess cash holdings. This report presents analysis and results of investment options for the Committee to consider and agree which fund to invest in.

2.0 Recommendation(s)

2.1 The Committee to note the analysis set out in Appendix 1 undertaken by the Fund's investment advisors, Hymans Robertson in relation to an initial investment in a low-carbon equity fund.

2.2 The Committee to approve an initial investment of c£28m in the BlackRock ACS World ESG Tracker Fund.

3.0 London CIV update on Responsible Investment

3.1 Responsible Investment (RI) and environmental, social and governance (ESG) considerations with regards to strategic investment decision making is at the forefront of pension fund investing at present. This has been driven by an increased focus in this area from lobby groups, regulators and from greater public scrutiny.

3.2 ESG is a term that is used to describe a set of factors within responsible investing (RI) that can be a source of financial risk within different assets. The below table shows some examples of ESG factors.

Environmental factors	Social factors	Governance Factors
Climate change	Diversity	Board Structure
Resource Scarcity	Human rights	Executive Remuneration
Water Stress	Health & Safety	Transparency
Pollution	Data Protection	Shareholders Rights
Waste Management	Community Relations	Auditing and Accounts

3.3 Existing ongoing work on ESG can be notably seen through the London CIV, where the majority of the Fund’s current investments are held. An update on this was provided by LCIV in a RI and ESG Progress report taken to the LCIV Shareholder Committee meeting on 2 April 2020. It had previously been recommended that in light of the increased focus on ESG and RI, that at least two Responsible Investment positions be appointed within LCIV, starting with the Head of Responsible Investment. In addition to this, five further recommendations were approved in December 2020 as priorities to be taken forward as part of ongoing work on ESG. The below table provides a status update on these recommendations. Although progress to date is welcome, officers will continue to engage with the LCIV team and insist that the recommendations are implemented and embedded.

Priority Areas	Description	Status
1	Specific resource focused on Responsible Investment and ESG matters	Interviews held in March. Head of RI has been appointed.
2	Product offerings	Renewable Infrastructure fund first meet held in April. Sustainable Equities exclusion fund launched on 11 March.
3	Improvements in reporting and communication	New website being mapped out in development.
4	Engagement Services	Presentation by providers received.
5	Investment foot-printing including at least carbon and fossil fuel exposure	Workshop date to be agreed.

6	Culture, leadership and investment beliefs	Appointment of Chris Bilsland as NED Champion

4.0 Low Carbon equity fund

4.1 Low-carbon equity funds offer reduced exposure to carbon-intense companies, sectors and geographical locations. Investing in such funds is one of a number of ways in implementing a more RI focussed investment strategy.

4.2 In February 2020, initial high-level discussions of low-carbon equity funds took place as part of the review of the Fund's investment strategy. As part of this exercise, it was agreed to expand the Fund's investment beliefs to have a more explicit Responsible Investment focus, including incorporating management of "climate change" risk into the strategy via an initial investment into a low-carbon equity fund. The following paragraphs, together with the details set out in Appendix 1, set out the main considerations in understanding the low-carbon options available, such that an informed investment decision can be made.

4.3 With increasing industry focus on climate risk within investments, fund options are evolving rapidly over time. Current options available to the Fund are from the existing array of managers, namely Legal and General Investment Management (LGIM) (the Fund's existing passive equity manager), BlackRock (the Fund's existing passive fixed income manager) and the London CIV (the Fund's pooling vehicle with various existing investments). It is important to note that LGIM and BlackRock are under the umbrella of the LCIV, despite not being direct LCIV funds on their platform, and meet the Government's definition of asset pooling. Being managers already appointed to the London CIV with respect to other mandates, LGIM and BlackRock both offer viable options with each fund having slightly different approaches. Investing with either of these funds would be closely aligned to the intentions of pooling given their status within the London CIV. In addition, the Fund benefits from significantly reduced fees negotiated by LCIV. The below table provides an overview of the options available for investment.

Fund	**Style**	**Exclusions**	**Active Engagement**	**Scope to Divest ***
LGIM Future World	Passive Factor Based	Partial	Yes	Yes
LGIM MSCI ACWI Adaptive Capped ESG	Passive Market Cap	Partial	Yes	No
LGIM Future World Dev ex UK Equity	Passive Market Cap	Partial	Yes	Yes
LGIM Future World Global Equity	Passive Market Cap	Partial	Yes	Yes
LGIM MSCI World Low Carbon Target	Passive Market Cap	Partial	No	No

BlackRock ACS World ESG Equity Tracker (to become Reduced Fossil Fuels)	Passive Market Cap	Full	Yes	Yes
LCIV Sustainability Equity Exclusion Fund	Active	Full	Yes	N/A

*Ability to divest applicable to passive non-exclusionary funds only. Active and exclusionary funds by definition avoid or divest from certain companies versus the index.

4.4 The table shows that LGIM and BlackRock both offer "passive" options, consistent with the Fund's RI beliefs. The recently launched (March 2020) LCIV Sustainable Equity Exclusion Fund is an actively managed fund. Taking the decision to invest in this fund will be a departure from existing beliefs and require a broader discussion of entering into active equity management funds. The options offered by LCIV will be brought back to the Committee at a future meeting once further details of the fund have been developed.

4.5 The Fund should note that BlackRock's Reduced Fossil Fuels Fund is an evolution of their existing offering. This transition is planned to take place in November 2020 at which point the Reduced Fossil Fuels Fund will replace the current fund.

4.6 Funds have different levels of exclusions. Some will refrain from investment from any companies within a particular sector whilst others will only seek to exclude those with the highest carbon exposure within a sector, focussing investment on companies who are performing better relative to peers. Of the options available, full exclusion can be found through BlackRock ACS World ESG Equity Tracker (to become Reduced Fossil Fuels) and the LCIV Sustainability Equity Exclusion Fund.

4.7 All investment managers offer a minimum level of engagement with companies. However, some employ an additional layer. For instance, some LGIM funds adhere to their 'Climate Impact Pledge' which involves a targeted engagement process with companies they have identified as critical to meeting the aims of the Paris Agreement to limit climate change. Some managers may also permit divestment from companies on top of engagement. The manager may divest from companies that do not meet minimum standards after a period of engagement.

4.8 The above highlights various factors that can be taken into account when constructing a low-carbon portfolio. The level of carbon reduction within the fund will depend on the approach taken across these areas and the below table provides information on the carbon intensity of each fund.

Fund	Carbon Intensity - Metric Tonnes CO2/$1m Sales
LGIM Future World	Index = 214 Fund = 185
LGIM MSCI ACWI Adapative Capped ESG	Index = 209 Fund = 161
LGIM Future World Dev ex UK Equity	Index = 188 Fund = 108
LGIM Future World Global Equity	TBC
LGIM MSCI World Low Carbon Target	TBC
BlackRock ACS World ESG Equity Tracker (to become Reduced Fossil Fuels)	Index = 171 Fund = 64 (will be 37)**
LCIV Sustainability Equity Exclusion Fund	Index = 168 Fund = 55.8

** Once the fund evolves into Reduced Fossil Fuels, carbon emissions intensity will drop from 64 to 37.
.

4.9 Funds that fully exclude high carbon sectors e.g. fossil fuels, have the most significant reduction in their carbon footprint. These are BlackRock's soon to be reduced fossil fuels fund and the offering from London CIV. Across the LGIM funds, the varying approaches taken, lead to a carbon footprint reduction of between 15% and 40% based on the information received to date.

4.10 In assessing the options available from a carbon footprint standpoint, the LGIM funds do not fare as well as the BlackRock fund. Through their optimisation approach to stock selection and index construction, the BlackRock ACS World ESG Equity Tracker fund, as it stands, delivers a c63% reduction in carbon emissions versus the index. Once the fund evolves to be 'exclusionary', this will fall a further 15-20% relative to the index. Being exclusionary avoids a need to be able to divest from companies such as in the LGIM fund range. There have been previous concerns raised in relation to the success rate of engaging with fossil fuel companies with a belief that divestment from such areas was preferred to avoid a stranded asset risk. The evolution of the BlackRock fund is consistent with this belief and significantly reduces the risk in regards to stranded assets.

4.11 There are various costs associated in moving towards investment in low carbon products. Appendix 2 provides details on the fee structure of each fund based on an initial investment of c£28m and a comparison of these costs against current holdings within the Fund. Passive funds in general have a lower cost compared to actively managed funds. Therefore, given the nature of the LCIV Fund being active, its associated costs are higher when compared to those passive products such as in the LGIM and BlackRock fund range.

4.12 Conclusions drawn from the exercise undertaken by the Fund's investment advisors, Hymans Robertson indicate that an investment through BlackRock's ACS World ESG Equity Tracker fund (to become Reduced Fossil Fuels) would fulfil Fund's belief and objectives. It is a passively managed equity fund, adopts an exclusionary approach to fossil fuels, delivers a significant carbon footprint reduction relative to its index and offers good value for money.

5.0 Financial Implications

5.1 The Fund currently has surplus cash within its allocation. This is to be used for an investment into low-carbon equity fund as approved by the Committee in February 2020. As at 10 June 2020, cash held by the Fund amounted to £58.8m. This includes c£12m set aside for ongoing rebalancing, therefore an available cash balance of c£47m exists for investment.

5.2 In determining the amount to invest, there are a number of factors to note. This includes the Fund's liquidity requirements to meet future private market commitments, any strategic objectives and the current market environment. In addition to this, the Fund's investment advisors have recommend holding a slightly higher cash allocation than normal due to the increased volatility within markets. It is therefore proposed that the Fund maintains an allocation of 2% over the short-medium term in cash to meet these needs with the remaining balance c£28m being used to make this initial low-carbon investment.

5.3 Restricted Appendix 2 provides details on the fee structure of the Fund's current global equity holding and the low-carbon equity funds discussed in this report. There are costs associated with holding more ESG focussed funds because these funds have additional management expenses; the exact cost depends on the mandate entered into. Passively managed funds including those offered by LGIM and Blackrock have a lower cost compared to actively managed funds such as the LCIV Sustainability Equity Exclusion Fund.

6.0 Legal Implications

6.1 The Pension Fund Sub-Committee holds a key fiduciary responsibility to manage the Fund's investments in accordance with its investment strategy and in the best interests of the beneficiary members and the council tax payers, where the primary focus must be on generating an optimum risk adjusted return. It is vital that any investment decision must not negatively impact on this primary responsibility.

6.2 The administering authority has fiduciary duties both to scheme employers and scheme members and the investment strategy must be exercised for investment purposes, and not for any wider purposes. Thus, investment decisions must be spread across a wide variety of investments classes and achieve a balanced risk and return objective.

6.3 The choice of investments can be influenced by RI and ESG considerations, so long as that does not risk material financial detriment to the Fund.

7.0 Equality Implications

7.1 Not applicable.

8.0 Consultation with Ward Members and Stakeholders

8.1 Not applicable.

9.0 Human Resources

9.1 Not applicable.

<u>Report sign off:</u>
Minesh Patel
Director of Finance
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London Borough of Brent Pension Fund

Q1 2020 Investment Monitoring Report

William Marshall, Partner
Kameel Kapitan, Associate Consultant
Kenneth Taylor, Associate Consultant

HYMANS ROBERTSON

The Fund's assets underperformed against the aggregate benchmark over the first quarter of 2020. The Fund returned -10.7% over the quarter, underperforming its benchmark by 3.2%. This was partly as a result of manager underperformance and partly as a consequence of measuring against absolute return style benchmarks in volatile markets. The Fund should note that performance since quarter end has been positive.

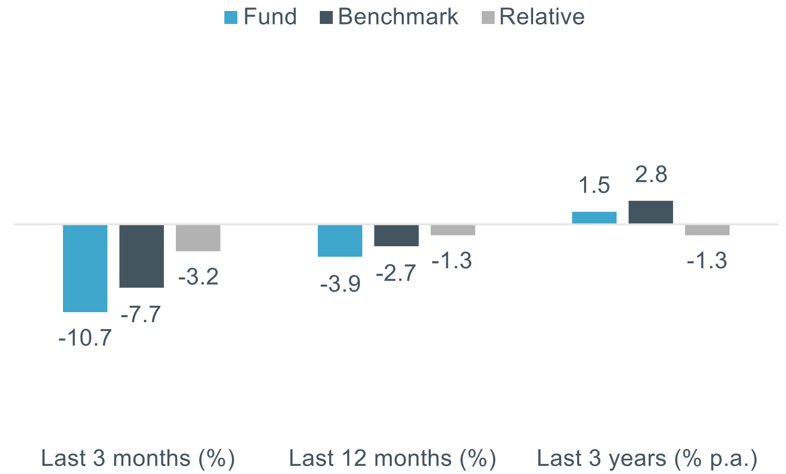
The value of the Fund's assets fell by £99.5m over the quarter, from £934.8m to £835.3m.

The global spread of the coronavirus had a dramatic effect on financial markets. Risk assets, particularly global equities fell significantly from late February with volatility persisting through to the quarter end.

Credit markets also suffered which will have impacted the Fund's multi-asset mandates. Within credit, investment grade outperformed high-yield markets although both experienced negative quarters.

Over the quarter the Fund received its first capital call for the LCIV Infrastructure fund.

Fund performance vs benchmark/target



High Level Asset Allocation

As part of the investment strategy review carried out in Q1 2020, the Fund's DGF mandates were recategorised as 'Diversifiers' and included within the 'Income' bucket.

GrIP	Actual	Benchmark	Relative
Growth (Listed Equity, Private Equity)	55.3%	55.0%	0.3%
Income (DGF, Property, Infrastructure)	23.5%*	30.0%	-6.5%
Protection (Bonds, Multi-asset Credit)	21.2%**	15.0%	6.2%

*Whilst on the journey to its interim and long term targets for Property, Infrastructure and Private Debt, the current agreement is that the Fund will hold the excess assets within the DGF's, most notably the Baillie Gifford diversified growth allocation.
**Includes 6.5% currently held in cash.

The value of the Fund's assets fell by £99.5m over the quarter, from £934.8m to £835.3m.

The fall in value was spread across the majority of asset classes as markets reacted to the global spread of COVID-19.

Following the results of the Q1 2020 investment strategy review, the following revised target allocations were agreed:

Interim
Growth – 55%
Income/Diversifiers – 30%
Protection – 15%

Long-term
Growth – 50%
Income/Diversifiers – 35%
Protection – 15%

The Fund's DGF mandates were also recategorised as 'Diversifiers' and included within the 'Income' bucket. As a result, the Fund is broadly in line with its target growth and protection (notwithstanding cash) allocations at a strategy level but underweight income.

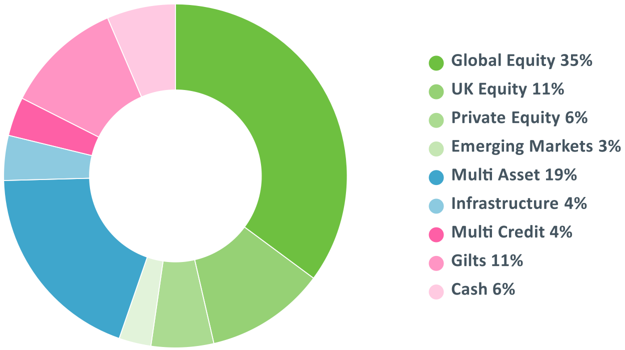
Over the quarter the Fund received its first capital call for the LCIV Infrastructure fund. As its commitments to this mandate increase over time, its underweight allocation to income will recede.

Asset Allocation

Manager	Valuation (£m) Q4 2019	Valuation (£m) Q1 2020	Actual Proportion	Benchmark	Relative
LGIM Global Equity	345.4	293.4	35.1%	40.0%	-4.9%
LGIM UK Equity	125.6	94.1	11.3%	5.0%	6.3%
Capital Dynamics Private Equity	46.8	49.1	5.9%	5.0%	0.9%
JP Morgan Emerging Markets	30.6	25.2	3.0%	5.0%	-2.0%
Total Growth	**548.5**	**461.9**	**55.3%**	**55.0%**	**0.3%**
Baillie Gifford Multi Asset	128.9	110.8	13.3%	10.0%	3.3%
Ruffer Multi Asset	51.3	50.1	6.0%	10.0%	-4.0%
Alinda Infrastructure	23.0	24.6	2.9%	0.0%	2.9%
Capital Dynamics Infrastructure	10.6	10.1	1.2%	0.0%	1.2%
Aviva Property	0.1	0.1	0.0%	0.0%	0.0%
London LGPS CIV Infrastructure	0.0	0.5	0.1%	10.0%	-9.9%
Total Income	**213.9**	**196.3**	**23.5%**	**30.0%**	**-6.5%**
CQS Multi Credit	36.8	30.6	3.7%	5.0%	-1.3%
BlackRock UK Gilts Over 15 yrs	83.2	92.6	11.1%	10.0%	1.1%
Total Protection	**120.1**	**123.2**	**14.7%**	**15.0%**	**-0.3%**
Cash	52.3	53.9	6.5%	0.0%	6.5%
Total Scheme	**934.8**	**835.3**	**100.0%**	**100.0%**	

Benchmark currently shown as the interim-target allocation as the first step in the journey towards the long-term target. As the Fund's allocations and commitments to private markets increase over time, we will move towards comparison against the long-term target.

Asset class exposures



Source: Investment Managers

HYMANS ROBERTSON

Total Fund return was negative during Q1 2020, on both an absolute and relative basis as a result of the impact of COVID-19 on markets. Consequently, 12-month performance has moved into negative territory as a result.

Equity markets bore the brunt of the downturn. Global equities faired better than UK due to currency movements favouring global returns and the lower weighting to oil & gas and materials companies. This can be seen in the performance of LGIM's mandates; global returned -15.1% and UK -25.1%.

The Fund's DGF mandates had contrasting fortunes over the first quarter. Whilst Baillie Gifford returned -14.0%, Ruffer better navigated the market turmoil to minimise losses, a -2.3% return.

The CQS mandate has also suffered as credit spreads widened, particularly in the high yield space.

On the flip side, gilts rallied as investors searched for shelter from the equity crosswinds. They were also supported by the decisive action taken by governments, namely the package of monetary and fiscal measures to support economies. BlackRock's mandate has delivered strong return since its inception in 2019.

Manager performance

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Growth									
LGIM Global Equity	-15.1	-15.0	**-0.0**	-4.6	-4.6	**-0.0**	3.1	3.1	**0.0**
LGIM UK Equity	-25.1	-25.1	**0.0**	-18.4	-18.5	**0.0**	-4.2	-4.2	**0.1**
Capital Dynamics Private Equity	7.0	-15.3	**26.4**	8.2	-10.4	**20.8**	13.1	1.5	**11.5**
Baillie Gifford Multi Asset	-14.0	0.6	**-14.6**	-8.8	3.3	**-11.8**	-1.4	3.8	**-5.0**
Ruffer Multi Asset	-2.3	0.6	**-2.9**	3.2	3.3	**-0.1**	0.5	3.8	**-3.2**
JP Morgan Emerging Markets	-17.5	-18.4	**1.0**	-16.6	-13.5	**-3.6**			
Income									
Alinda Infrastructure				13.0	4.7	**7.8**	-4.9	6.9	**-11.0**
Capital Dynamics Infrastructure				-11.3	4.7	**-15.3**	-3.3	6.9	**-9.5**
Protection									
CQS Multi Credit	-17.0	0.8	**-17.6**	-13.9	4.0	**-17.2**			
BlackRock UK Gilts Over 15 yrs	11.2	11.2	**0.0**	17.7	17.6	**0.1**			
Total	-10.7	-7.7	**-3.2**	-3.9	-2.7	**-1.3**	1.5	2.8	**-1.3**

Performance from Alinda and Capital Dynamics Infrastructure is based on information provided by Northern Trust. In Q4 2019 the benchmark for these funds was updated to be CPI+ 2% p.a. rather than absolute 8% p.a. As such the 12 month and 3 year benchmark figures represent a blended rate.

Note, for infrastructure investments, there are more appropriate measures to assess performance. Performance in respect of Alinda is skewed by the Alinda III fund which is in the relatively early stages. It is therefore difficult to judge performance from this mandate at this stage on a purely percentage basis. However, as the Fund's commitments continue to be drawn, and the size of investments increase, it will become more appropriate to consider return measures in percentage terms. More detail on relevant measures of assessment for infrastructure funds are provided in the individual manager pages. This is also the case for Private Equity as an asset class.

The table above also excludes the opening quarters performance of the Fund's investment in the London CIV's infrastructure sub-fund. Given initial draw downs only occurred during Q1 2020, it remains too early to report appropriate performance at this stage. Like the Alinda above, as the Fund's commitments continue to be drawn under this mandate, and the size of investments increase, it will become more appropriate to report and consider return measures in percentage terms. At this stage, we have also not included a separate manager page.

Source: Fund performance provided by Investment Managers and is net/gross of fees. Benchmark performance provided by Investment Managers and DataStream

There were no manager rating changes to existing managers over the quarter.

Baillie Gifford remains 'Preferred – On-watch' due to recent personnel changes, namely the retirement of Patrick Edwardson (Head of Multi-Asset) in April 2020. We continue to monitor Baillie Gifford as a result although at present still rate them highly as a multi-asset manager.

Manager ratings

Mandate	Mandate	Hymans Rating
LGIM	Global Equity	Preferred
LGIM	UK Equity	Preferred
Henderson	Emerging Markets (LCIV)	Suitable
Capital Dynamics	Private Equity	Suitable
Baillie Gifford	Multi Asset (LCIV)	Preferred - On-watch
Ruffer	Multi Asset (LCIV)	Positive
Alinda	Infrastructure	Not Rated
Capital Dynamics	Infrastructure	Not Rated
London LGPS CIV	Infrastructure	Not Rated
CQS	Multi Credit (LCIV)	Suitable
BlackRock	UK Gilts Over 15Yrs	Preferred

LGIM business update

Legal & General announced that Margaret Ammon has assumed her responsibilities as Chief Risk Officer over the quarter. She is supported by Camille Blackburn, Chief Compliance Officer who also joined the business over the quarter after the retirement of Teresa Poy. There were no other significant changes to update over the quarter.

Source: Investment Managers

LGIM Global Equity

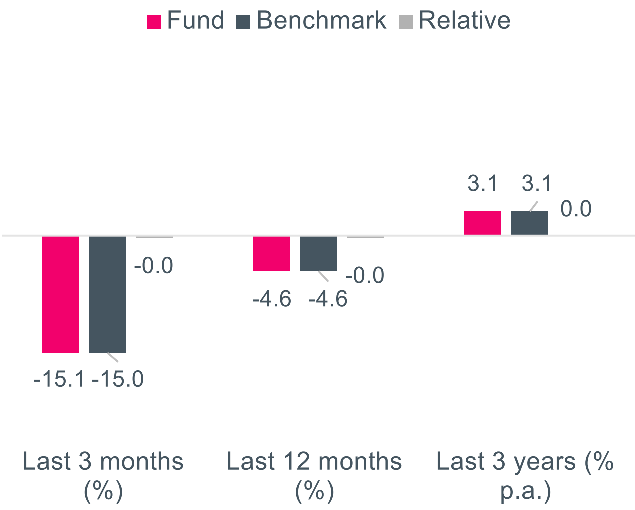
The LGIM global equity mandate returned -15.1% over the quarter. As a passively managed fund, it has matched its benchmark over all periods.

Despite global markets falling, they faired better compared to the UK due to:

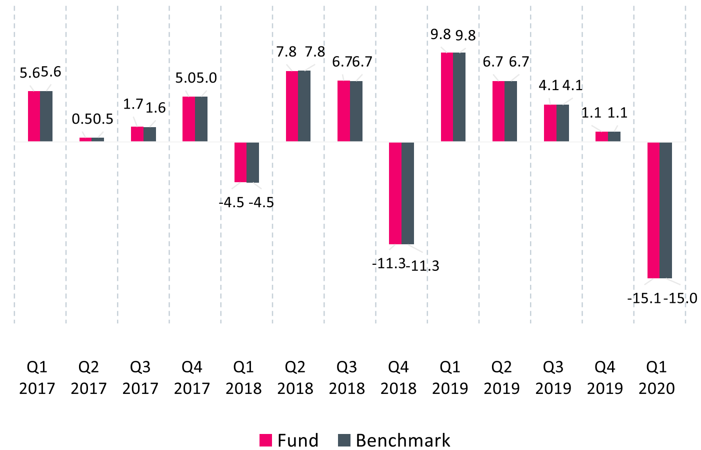
- Lower weighting to oil & gas and industrials
- A weakening of the Pound, serving to soften the impact in domestic currency terms

We continue to rate LGIM's passive equity capabilities as 'Preferred'.

Fund Performance vs benchmark/target



Historical Performance/Benchmark



Source: Investment Manager

LGIM UK Equity

The LGIM UK equity mandate returned -25.1% in Q1 2020. This was in line with its benchmark as we would expect for a passively managed portfolio.

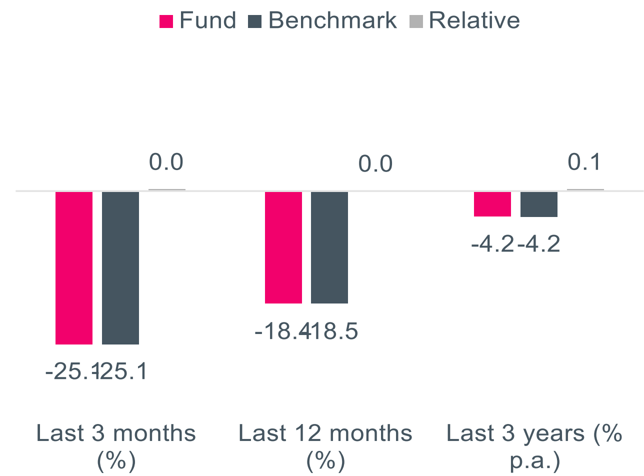
As a result of the scale of the downturn in UK markets in Q1, 12 month and 3 year performance have strayed into negative territory.

The quarter's performance came despite the UK Government unveiling an unprecedented package of monetary and fiscal measures to stabilise the economy.

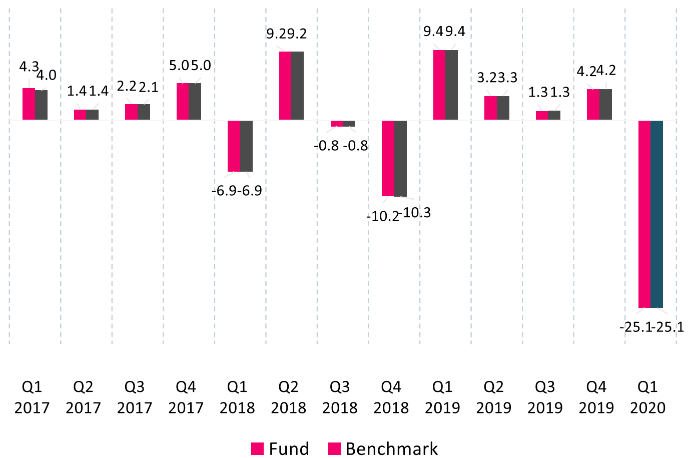
Unsurprisingly the retail and leisure sectors were hard hit with reduced demand and shop closures following the lockdown measures implemented. These sectors were key drivers of the late quarter market fall observed.

We continue to rate LGIM's passive equity capabilities as 'Preferred'.

Fund Performance vs benchmark/target



Historical Performance/Benchmark



Source: Investment Manager

JP Morgan Emerging Markets

In Q4 2019 the LCIV emerging markets fund transitioned from Janus Henderson to JP Morgan.

In its first full quarter under JP Morgan, the fund retuned -17.5%. Despite this negative absolute return, JP Morgan outperformed its MSCI Emerging Market benchmark over the period.

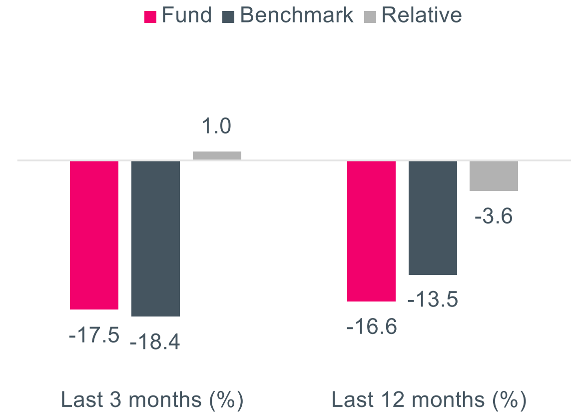
Longer term underperformance is dominated by the pervious LCIV manager for emerging markets Janus Henderson.

One of the poorest performing sectors within the portfolio in Q1 was financials. A significant proportion of financials stocks held by the fund are in countries highly sensitive to oil prices (e.g. Brazil) and so were impacted by the oil price war between Russia and Saudi Arabia.

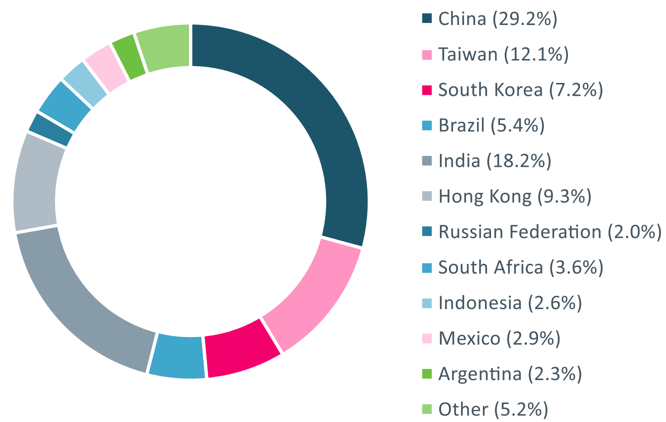
That said, outperformance against benchmark came from its underweight allocation to China, the epicentre of the COVID-19 outbreak, and the fund's stock selection with technology and quality bias.

We rate JP Morgan's Emerging Market equity fund as 'Suitable'.

Fund performance vs benchmark/target



Fund Asset Allocation



Source: Investment Manager

Capital Dynamics Private Equity

The Capital Dynamics Private Equity fund is invested across a range of sub-funds offering good diversification.

Based on information from Northern Trust, the mandate has outperformed over all considered time periods.

However, in practice there are two key metrics to assess performance for private equity investments; Internal Rate of Return (IRR) and the Total Value to Paid-in (TVPI) ratio.

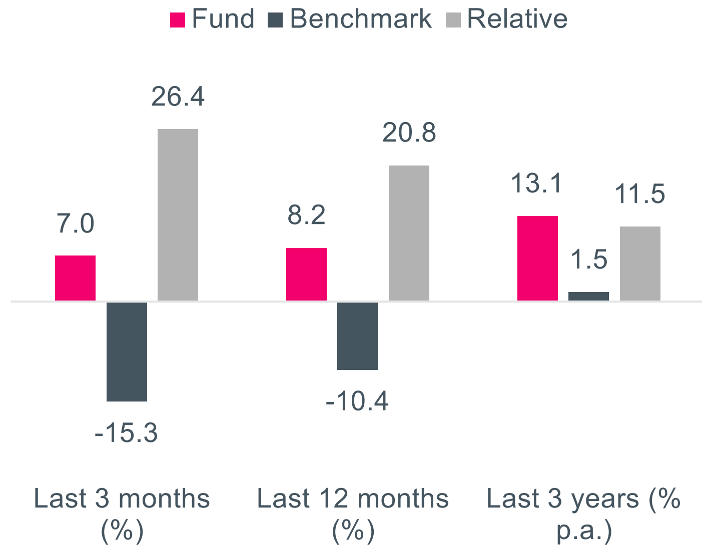
The investment with Capital Dynamics is at a mature stage meaning assessing the IRR (a percentage value) alongside the TVPI carries greater weight. As at 31 December 2019 the IRR was approximately 11.0% with a TVPI of 1.57. This represents a healthy return to date for the Fund.

The following distributions occurred over the quarter:

23 March 2020 - $472,000
24 March 2020 - $320,000
26 March 2020 - $741,950

There was one capital call on 24 March 2020 in the amount of $280,000.

Fund Performance



Summary as at 31 December 2019

Capital committed	£124.5m
Total contributed	c91.0%
IRR (approx.)	11.0%
TVPI	1.57x

Source: Investment Manager

Baillie Gifford Multi-asset

The Baillie Gifford multi-asset fund has a performance target of UK Base Rate + 3.5% p.a. over the longer term.

In Q1 2020 the mandate had a reversal of performance in Q1 2020 returning -14.0%.

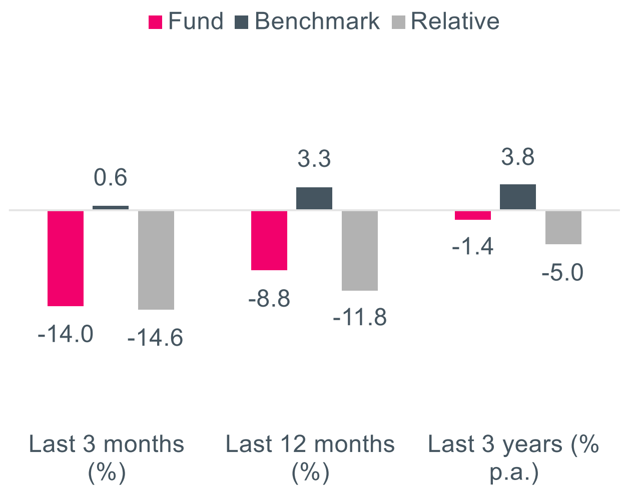
Longer-term performance is now negative on an absolute and relative basis.

The main detractors to performance over the quarter were the allocations to equities, emerging market bonds and property. These asset classes constitute almost 40% of the current asset allocation.

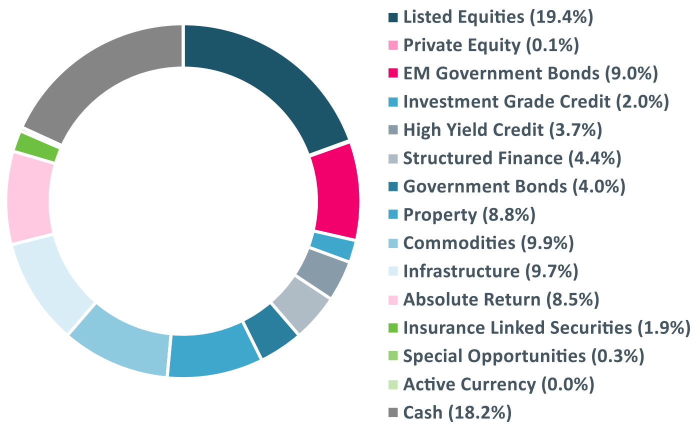
Over the quarter Baillie Gifford de-risked the portfolio in response to the uncertainty caused by the pandemic. Equities and emerging market bonds were sold in favour of holding increased levels of cash. Gold and volatility strategies were also added to as a buffer against expected volatility.

The manager believes that markets are likely to get worse before recovering hence its high allocation in cash which they believe will give them flexibility to capture opportunities are markets evolve in future.

Fund Performance



Fund Asset Allocation



Source: *Investment Manager*

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Ruffer Multi-asset

The Ruffer Multi-Asset fund returned -2.3% in absolute terms over the quarter, behind its Base Rate + 3.5% p.a. benchmark.

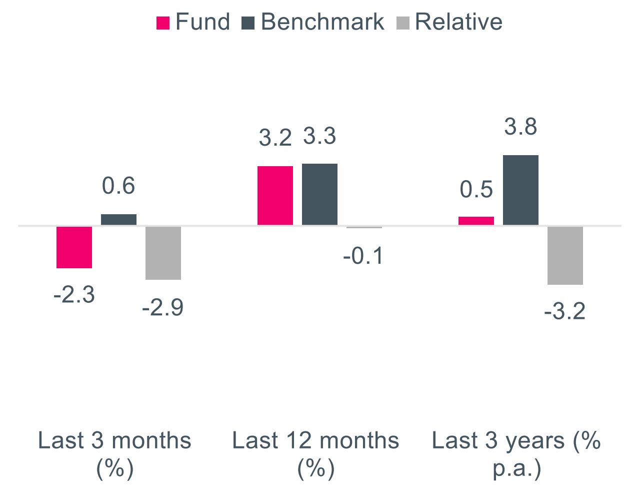
In a tumultuous quarter that negatively impacted most asset classes, Ruffer navigated the multi-asset field better than most.

It is the more defensively positioned of the two multi-asset mandates held by the Fund within the LCIV. Ruffer further increased this position over the quarter adding to government bonds and gold at the expense of equities.

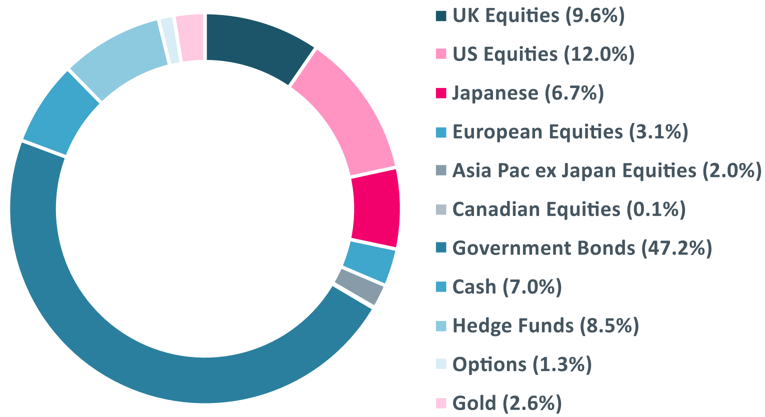
Ruffer's higher weighting to longer duration government bonds (c47%) served it well at the end of Q1, as did the volatility and derivate strategies. They helped to mitigate the negative performance of the portfolio's equities.

The manager continues to hold conviction in its more defensive strategy. Whilst it has trimmed equity protection given the level of volatility, it has maintained its credit market protection strategies to protect against further economic downside.

Fund Performance



Fund Asset Allocation



Source: Investment Manager

Alinda Infrastructure

Target: Absolute return of 8.0% p.a.

The two key metrics to assess performance for infrastructure investments are the Internal Rate of Return (IRR) and the Total Value to Paid-In (TVPI) ratio.

At the beginning it is too early to assess performance on a purely percentage basis. TVPI is more informative. This essentially seeks to outline what the Fund has achieved (its return) so far as a multiple of the deployed capital to date.

The Alinda III Infrastructure fund is in the ramp-up stage, drawing down and deploying capital which is skewing and adding volatility to the combined percentage return.

Details as at 31 March 2020

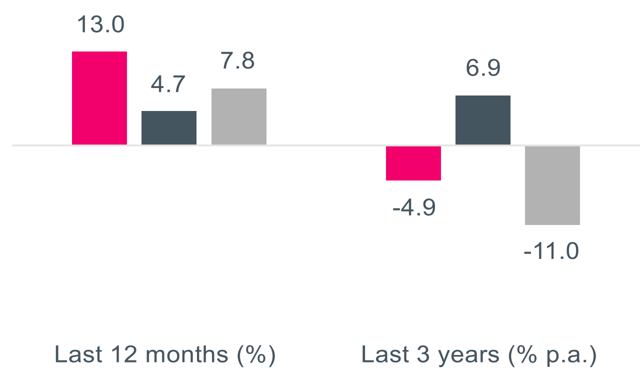
The remaining capital commitments are as follows:

Alinda II: $3,646,739
Alinda III: $12,095,151

The following net distributions were made over the quarter:

Alinda II: $185,431
Alinda III: $529,962

Fund performance vs benchmark/target*



Summary as at 31 March 2020

Alinda Fund II	
IRR (Gross)	5.9%
IRR (Net)	3.2%
Cash yield	7.0%
DPI	1.1x
TVPI (Net)	1.2x

Alinda Fund III	
IRR (Gross)	19.9%
IRR (Net)	11.4%
Cash yield	9.2%
DPI	0.3x
TVPI (Net)	1.3x

*In Q4 2019 the benchmark for this fund was updated to CPI+ 2% p.a. from absolute 8% p.a. As such the 12 month and 3 year benchmark figures represent a blended value.

Source: Investment Manager

Capital Dynamics Infrastructure

Target: Absolute return of 8.0% p.a.

The Fund's holdings are currently solely held within the Capital Dynamics Clean Energy and Infrastructure fund.

The two key metrics to assess performance for infrastructure investments are the Internal Rate of Return (IRR) and the Total Value to Paid-In (TVPI) ratio.

With the fund having deployed most of the capital commitment it is appropriate to assess performance on both measures.

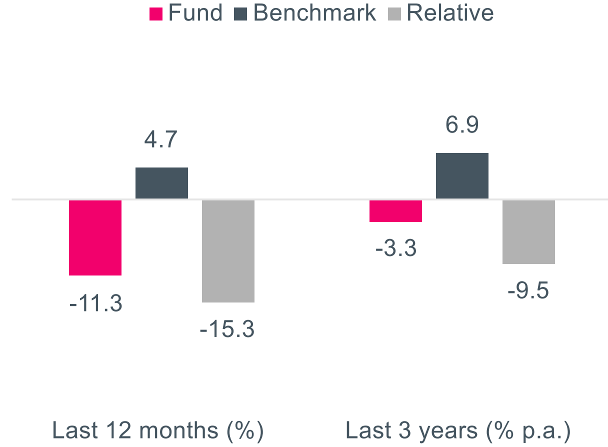
Reporting on underlying commitments is as at 31 December 2019 due to the lag in reporting from the manager, which is typical for funds of this nature.

As can be seen by both the IRR and TVPI, performance has been lower than expected to date.

In terms of activity over Q1 2020:

Distributions = $0m
Capital calls = $0m

Fund performance vs benchmark/target*



Summary as at 31 December 2019 (figures in $m where applicable)

Capital committed	$15.0
Total contributed	$14.7
Distributions	$0.8
Value created	($0.8)
Net asset value	$13.1

Net IRR since inception	(0.9%)
Total value-to-paid-in-ratio (TVPI)	0.95x

*In Q4 2019 the benchmark for this mandate was updated to CPI+ 2% p.a. from absolute 8% p.a. As such the 12 month and 3 year benchmark figures represent a blended value.

Source: Investment Manager

CQS Multi Credit

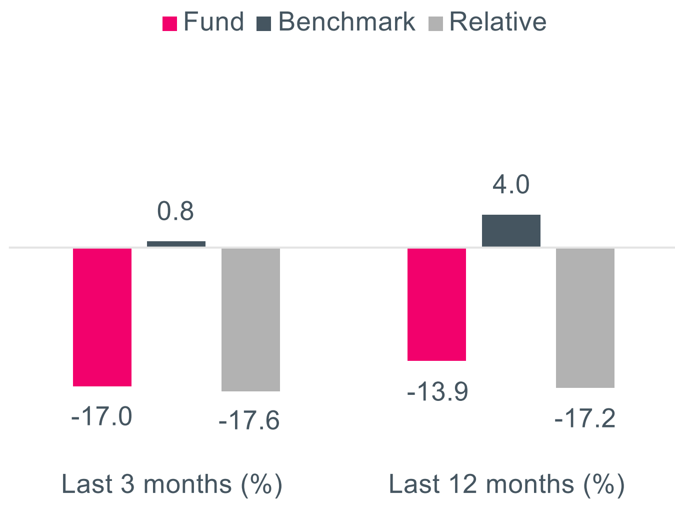
Over the first quarter of 2020 CQS's multi-asset credit strategy returned -17.0%. As a result, against its longer-term target of LIBOR + 4-5% p.a. it is now behind.

Credit markets suffered late in the quarter as uncertainty hit markets. The high-yield market faired worse than the investment grade sector as investors showed a preference for security. Credit spreads widened as concerns grew over potential dwindling corporate profits and how companies were going to manage their balance sheets and navigate through the crisis.

Both European and US high-yield and loan indices dropped by double figure values. In fact the US loan market experienced its second worst quarter on record.

Over the period, CQS adjusted the portfolio in response to the changing landscape. Leisure and travel related exposure was sold down in favour of more defensive industries like utilities and consumer non-discretionary goods. CQS also took the opportunity to invest in higher quality companies to offer better protection should the crisis be more prolonged and hard felt.

Fund performance vs benchmark/target



Source: Investment Manager

BlackRock UK gilts

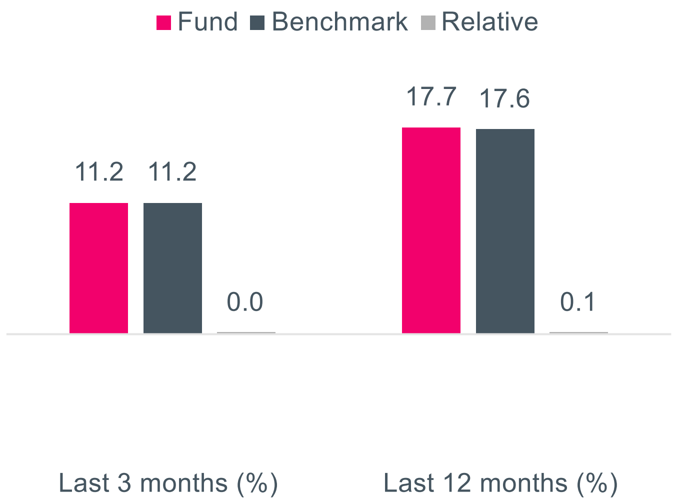
BlackRock were appointed in March 2019 to oversee the Fund's bond allocation.

It is a passively managed mandate aimed at matching the FTSE UK Gilts Over 15 Yrs index.

Over the first quarter of 2020 the fund returned 11.2%.

In a period of volatility and uncertainty, safe haven assets rallied. Government bond yields fell to historic lows, in part buoyed by emergency government actions. This resulted in increased valuations and positive returns.

Fund performance vs benchmark/target



Source: Investment Manager

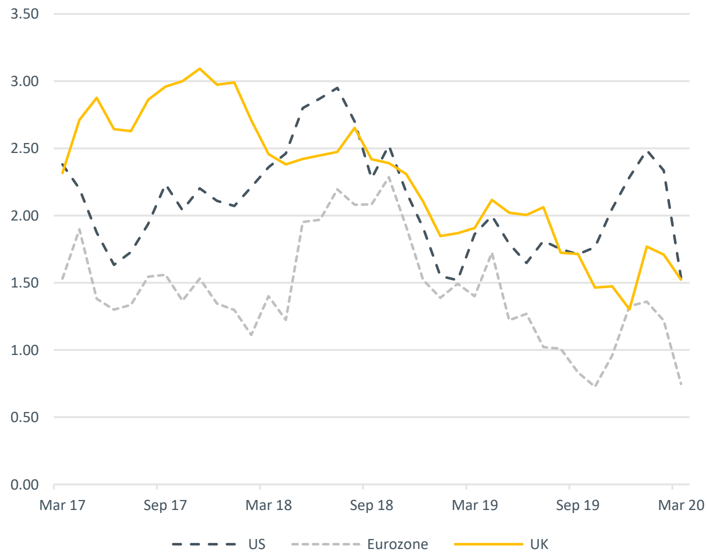
Q4 GDP numbers were broadly in-line with recent trends - a modest slowdown year-on-year. The global spread of Coronavirus, and the impact on supply and demand from necessary containment measures, will inevitably impact the rate of global economic growth in 2020 and possibly beyond.

Falling domestic demand globally and steep oil price declines are disinflationary. The slump in global demand for oil has been compounded by a price war between OPEC (led by Saudi Arabia) and Russia, Brent crude falling to its lowest level since 2002. Inflation, which was already below target in the major advanced economies, is forecast to slow in 2020, with some Eurozone countries and Japan expected to enter deflation.

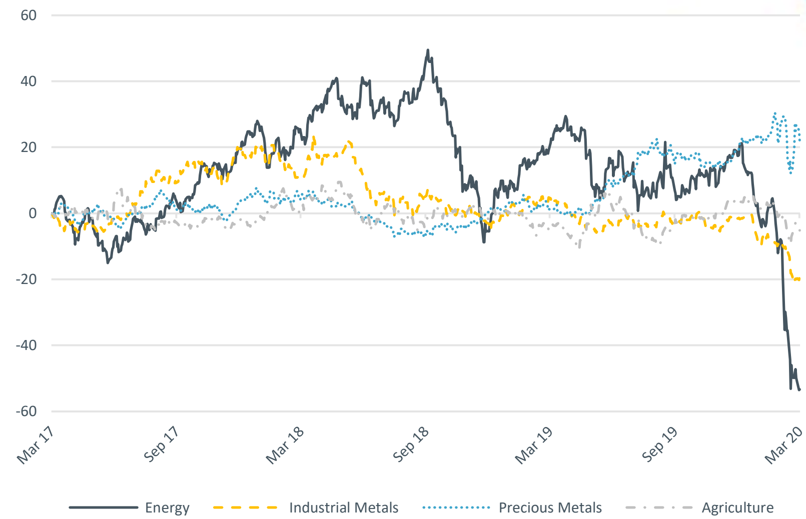
The US Federal Reserve (Fed) and the Bank of England (BoE) have cut rates to record lows and the Bank of Japan and the European Central Bank have joined the Fed and BoE in restarting and expanding their quantitative easing programs. The Fed's now unlimited purchase program will, for the first time, include corporate debt.

Currency markets were typical of a period of increased risk. The haven appeal of the dollar and yen was apparent and, in line with their less defensive reputation, sterling and emerging market currencies fell.

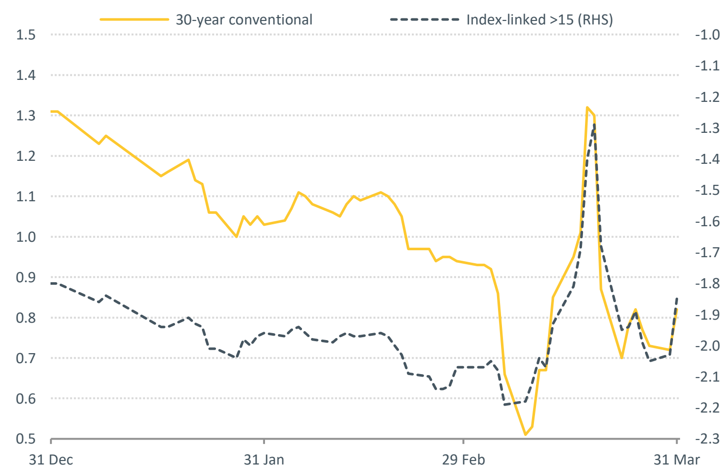
Annual CPI Inflation (% p.a.)



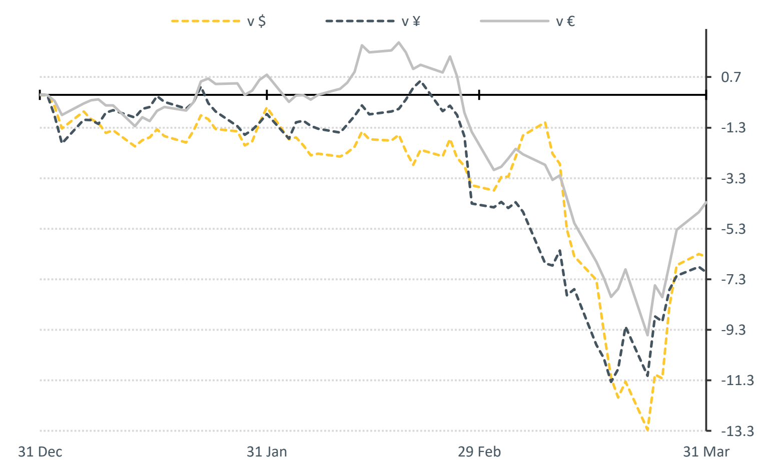
Commodity Prices (% change)



Gilt yields chart (% p.a.)



Sterling trend chart (% change)



Source: Reuters

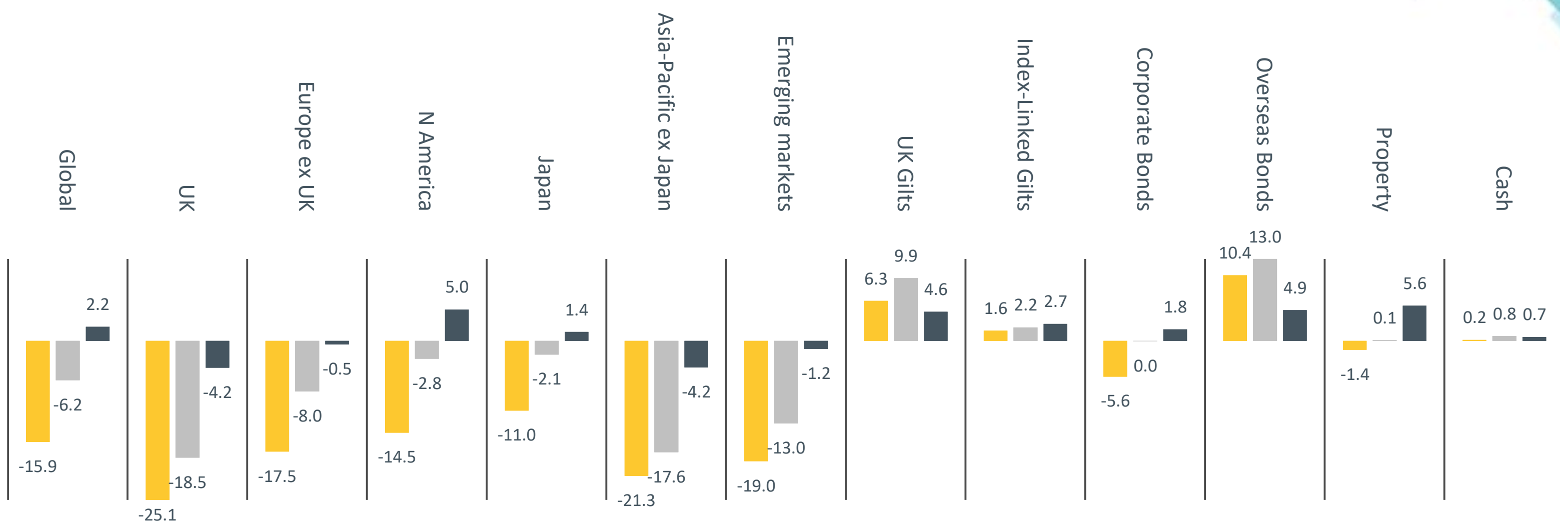
Developed market sovereign bond yields have been pushed near record lows, though have not been immune to volatility as investors liquidated bonds in a dash for cash in March. Sterling investment grade spreads rose 1.34% p.a., more than offsetting any benefit from falling underlying government bond yields.

Unsurprisingly, speculative grade credit spreads underperformed their investment grade counterparts with high yield energy bonds particularly hard hit. Leveraged loans underperformed within speculative-grade markets as a collapse in interest rate expectations weighed on floating-rate loans.

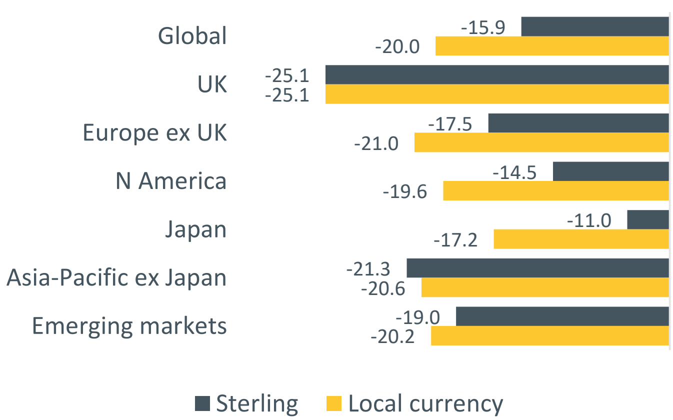
Global equity markets fell 20% in local currency terms and 15.9% in sterling terms, as weakening sterling benefited unhedged investors. The UK equity market was the worst performer with the FTSE 100 posting its biggest fall since 1987 as its sectoral composition and exposure to oil & gas hurt performance. Global equities did recover some losses towards the end of the quarter, as market sentiment improved on the back of fiscal and monetary support measures. Volatility levels, as measured by the VIX Index, hit levels not seen since the global financial crisis.

A number of UK property funds have suspended dealing as property valuers have been unable to accurately value the underlying assets with any certainty, inserting material uncertainty clauses into their valuations.

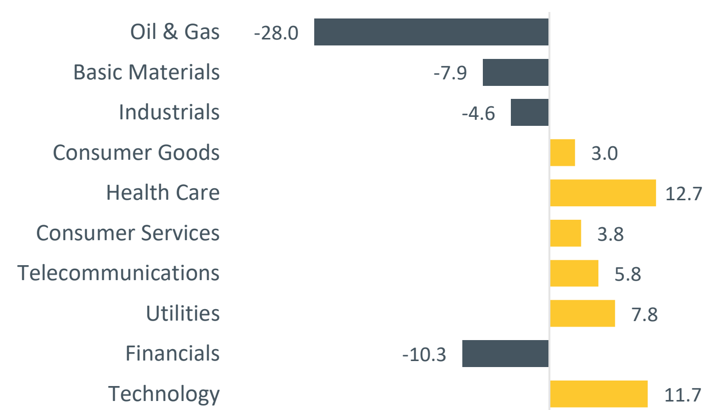
Historic returns for world markets [1]



Regional equity returns [2]



Global equity sector returns (%) [3]



[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property Index; UK Interbank 7 Day. [2] FTSE All World Indices [3] Relative to FTSE All World Indices.

Hymans Rating

Preferred	Our highest rated managers in each asset class. These should be the strategies we are willing to put forward for new searches.
Positive	We believe there is a strong chance that the strategy will achieve its objectives, but there is some element that holds us back from providing the product with the highest rating.
Suitable	We believe the strategy is suitable for pension scheme investors. We have done sufficient due diligence to assess its compliance with the requirements of pension scheme investors but do not have a strong view on the investment capability. The strategy would not be put forward for new searches based on investment merits alone.
Negative	The strategy is not suitable for continued or future investment and alternatives should be explored.
Not Rated	Insufficient knowledge or due diligence to be able to form an opinion.

Responsible Investment

Strong	Strong evidence of good RI practices across all criteria and practices are consistently applied.
Good	Reasonable evidence of good RI practices across all criteria and practices are consistently applied.
Adequate	Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently.
Weak	Little to no evidence of good RI practices.
Not Rated	Insufficient knowledge to be able to form an opinion on.

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

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Geometric v Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + Fund\ Performance)}{(1 + Benchmark\ Performance)} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance - Benchmark\ Performance$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.

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Brent	**Pensions Fund Sub-Committee** 16 July 2020
	Report from the Director of Finance

Investment strategy: transition roadmap

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	One 1. Investment strategy: transition roadmap (June 2020)
Background Papers:	▪ Review of Investment Strategy - 25 February 2020
Contact Officer(s): (Name, Title, Contact Details)	Minesh Patel, Director of Finance Ravinder Jassar, Head of Finance Sawan Shah, Senior Finance Analyst

1.0 Purpose of the Report

1.1 The purpose of this report is to detail the investment strategy transition roadmap prepared by the Fund's investment advisors, Hymans Robertson.

2.0 Recommendation(s)

2.1 The Committee is asked to:
- Note the overall report;
- Comment on the proposal to re-address the balance between the Diversified Growth Funds;

3.0 Detail

3.1 In February 2020, the Committee agreed to the investment strategy review undertaken by the Fund's investment advisors, Hymans Robertson.

3.2 In summary the investment strategy review considered:

- An expansion of the committee's Responsible Investment beliefs in light of the increased focus on, and importance of, this area;
- The current long term strategy is fit for purpose from a returns perspective as it is expected to return in excess of the required return;
- A 5% increase in the long term allocation to equities, and a 5% allocation to private debt, both funded from "diversifiers";
- To introduce a global low carbon mandate as part of the Fund's equity allocation;
- A degree of rebalancing takes place on a regular basis to try and prevent too much deviation from the desired strategic allocation.

3.3 The following paragraphs, together with the details set out in Appendix 1, summarise the actions being taken to move the investment strategy towards the strategic target allocations agreed in February 2020.

3.4 It is acknowledged that transitioning to the targets agreed in February will be fluid in practice and will depend on numerous factors including market conditions and the attractiveness of investment opportunities in the relevant asset classes.

3.5 Subject to approval by the Committee at this meeting, the Fund will introduce a low carbon equity mandate, investing £25m to £30m of existing cash holdings (c3% of Fund assets) in a passive low carbon equity fund.

3.6 The agreed infrastructure allocation will be built up over time. The Fund has undrawn commitments of c£50m to the London CIV infrastructure fund and c£12m to Alinda. While the Fund builds its investment in infrastructure, interim allocations to equity and cash will be increased as a proxy for future infrastructure investments. A 5% allocation to equities/cash (split 3%/2%) is expected to deliver a similar long-term risk/return profile to 5% in diversifiers.

3.7 The Fund's multi-asset funds (Baillie Gifford and Ruffer) had contrasting fortunes during Q1, with the more defensively positioned Ruffer fund performing better during the initial market downturn. At 31 March 2020, the Fund held £111m with Baillie Gifford and £50m with Ruffer. The Committee is asked to consider the balance between Baillie Gifford and Ruffer, acknowledging the different investment styles.

3.8 As outlined in the Covid-19 report on this agenda, the Fund has a 10% long-term strategic target allocation to property but has only c£0.1m invested at the present time. Due to uncertainty, it is proposed to pause any potential investment into this asset class until there is greater clarity in property markets. In the longer ter options to access this market will need to be considered, both, through and outside, London CIV.

4.0 Financial Implications

4.1 These are no direct financial implications arising from this report. Financial implications will be considered when changes to the Fund's investments are presented to the committee for decision.

5.0 Legal Implications

5.1 Not applicable.

6.0 Equality Implications

6.1 Not applicable.

7.0 Consultation with Ward Members and Stakeholders

7.1 Not applicable.

8.0 Human Resources

8.1 Not applicable.

Report sign off: ***Minesh Patel***   Director of Finance   .

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Investment strategy: transition roadmap (June 2020)

Introduction

This paper is addressed to the Pension Fund Sub-Committee (the "Committee") of the London Borough of Brent Pension Fund (the "Fund"). Its purpose is to summarise the actions being taken to move the investment strategy towards the strategic target allocations agreed in February 2020. Transitioning to the interim and long-term targets in practice will be fluid and will depend on numerous factors including market conditions and the attractiveness of investment opportunities in the relevant asset classes. However, as a guide, we would expect the Fund to move towards the interim target over the next 12-24 months (so by mid-2022) and towards the long-term target over the next 3-5 years (so by 2025). We understand the Fund remains in a positive cashflow position following the conclusion of the 2019 valuation and new contribution rates coming into force on 1 April 2020. The cashflow position will be monitored at regular intervals. To date we are not aware of any requests for contribution deferrals.

Key points/actions are as follows:

- **Low carbon equities:** subject to approval by the Committee, invest £25m to £30m (c3% of Fund assets) in a passive low carbon equity fund. Build further exposure to low carbon/sustainable oriented equities over time, partially using proceeds from reducing exposure to UK equities.
- **Increase interim allocations to equity and cash as a proxy for future infrastructure investments, until the agreed infrastructure allocation is built up:** investing £25m to £30m will take listed equity allocation c3% above the previously outlined interim target. We recommend this 3% overweight position is maintained alongside a 2% holding in cash while the Fund builds its investment in infrastructure. This is on the basis that a 5% allocation to equities/cash is expected to deliver a similar long-term risk/return profile to 5% in diversifiers.
- **Build infrastructure investment over time:** the Fund has undrawn commitments of c£50m to the LCIV infrastructure fund and c£12m to Alinda (total 7% of Fund assets) so exposure to infrastructure will increase naturally. Balancing this, Alinda (II), Alinda (III) and Capital Dynamics will run off over time (2, 6 and 2 years respectively). Proceeds from Alinda/Capital Dynamics and equity/cash holding can be invested in LCIV's Infrastructure Fund or other suitable alternatives e.g. LCIV's new Renewables Fund which has ESG benefits (subject to due diligence on the funds to ensure they meet the Committee's beliefs/objectives).
- **Baillie Gifford and Ruffer:** Consider appropriate balance between these managers, acknowledging different styles.
- **Cash holding:** the Fund held c£54m of cash at 31 March 2020. £12m being used to increase the Fund's emerging markets equities (£8m) and multi-asset credit (£4m) holdings plus there is a proposal to invest £25m to £30m in a passive low carbon equity fund. As explained above, we recommend a cash balance of £15m to £20m is maintained while the Fund builds its investment in infrastructure.

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Summary – current and target allocations

Asset class	31 March 2020 value (£m)	31 March 2020 allocation (%)	Interim target allocation (%)	Long-term target allocation (%)	Comments
Total growth	**461.8**	**55.3**	**58**	**50**	Focus is to introduce low carbon equity fund, seeded by c£25-30m of cash (approx. 3% of assets). Will take allocation 3% above the previously outlined interim target.
Total diversifiers	**196.2**	**23.5**	**25**	**35**	Will take time to for initial commitment to infrastructure to be drawn. Meantime increased interim positions in equities (+3%) and cash (+2%) expected to deliver similar risk/return to 5% invested in diversifiers. Unwind equity/cash position as infrastructure investment increases.
Total protection	**123.2**	**14.8**	**15**	**15**	In line with interim target allocation.
Cash	**53.9**	**6.5**	**2**	**-**	£12m being used to increase emerging markets equities (£8m) and multi-asset credit (£4m) holdings Proposal to invest c£25-30m (c3% of assets) in low carbon equity fund Retain remainder in cash, partly as part of the infrastructure proxy and partly to reflect current market uncertainty
Total	**835.1**	**100.0**	**100**	**100**	

Growth assets

<table>
<tr><th>Asset class</th><th>Style</th><th>Manager</th><th>31 March 2020 value (£m)</th><th>31 March 2020 allocation (%)</th><th>Interim target allocation (%)</th><th>Long-term target allocation (%)</th><th>Comments</th></tr>
<tr><td rowspan="4">Equities</td><td>Global passive</td><td>LGIM</td><td>293.4</td><td>35.1</td><td rowspan="2">43</td><td rowspan="2">40</td><td rowspan="3">Proposal to establish low carbon equity holding, seeded by c£25-30m of cash (c3% of assets).

Monitor and unwind interim versus long-term target as infrastructure investment increases.

Increase exposure to low carbon equities over time. Options are to build investment in BlackRock low carbon fund and/or diversify by manager/style via London CIV offerings or suitable alternative.

Prepare plan to reduce UK exposure over time. Rebalancing towards global equities could be time-based and/or based on relative market movements.</td></tr>
<tr><td>Global low carbon</td><td>Discussed in a separate paper</td><td>-</td><td>-</td></tr>
<tr><td>UK passive</td><td>LGIM</td><td>94.1</td><td>11.3</td><td>5</td><td>5</td></tr>
<tr><td>EM active</td><td>JP Morgan (LCIV)</td><td>25.2</td><td>3.0</td><td>5</td><td>5</td><td>Investing c£8m of cash to increase allocation to c4%.</td></tr>
<tr><td>Private Equity</td><td>Fund of funds</td><td>Capital Dynamics</td><td>49.1</td><td>5.9</td><td>5</td><td>0</td><td>Long-term target allocation is 0%. Prepare plan to reduce exposure over the longer term and reallocate to diversifiers.</td></tr>
<tr><td>Total growth</td><td></td><td></td><td>461.8</td><td>55.3</td><td>58</td><td>50</td><td></td></tr>
</table>

Diversifiers

Asset class	Style	Manager	31 March 2020 value (£m)	31 March 2020 allocation (%)	Interim target allocation (%)	Long-term target allocation (%)	Comments
Div Growth	Multi-asset	Baillie Gifford (LCIV)	110.8	13.3	20	5	Consider balance between BG and Ruffer, acknowledging different styles. Longer term plan to reduce exposure to 5%.
Abs Return	Multi-asset	Ruffer (LCIV)	50.1	6.0			
Infrastructure	Direct	Alinda	24.6	2.9	5	15	Undrawn commitments of c£50m to the LCIV infrastructure fund, c£12m to Alinda (total 7% of assets) so exposure will increase. Balancing this, Alinda and Capital Dynamics to run off over time (6 and 2 years respectively). Proceeds could be reinvested in LCIV funds, including new renewables fund which has ESG benefits. Carry out due diligence on LCIV renewables fund to ensure meets Brent beliefs/objectives. Initially work to interim target then increase this as additional commitments are made to the asset class.
	Funds+ Direct	Capital Dynamics	10.1	1.2			
		LCIV	0.5	0.1			
Property	UK and potentially some global	Aviva (current holding a Europe fund of funds)	0.1	-	-	10	Consider options to access property market, including LCIV, as part of a longer term plan. Outside of LCIV options are one or more core balanced funds and supplement this with allocations to other parts of the market such as secure income (long lease), UK residential and/or global property. Would involve reassessing current strategic 10% allocation to 'UK Core'.
Private debt	-	-	-	-	-	5	No immediate action.
Total diversifiers			**196.2**	**23.5**	**25**	**35**	

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Protection assets

Asset class	Style	Manager	31 March 2020 value (£m)	31 March 2020 allocation (%)	Interim target allocation (%)	Long-term target allocation (%)	Comments
Multi-asset credit	Active credit focused	CQS	30.6	3.7	5	5	Investing c£4m of cash to increase holding to c4.2% Worth noting the CQS mandate, through its credit exposure provides diversification benefits, rather than any protection of capital.
Gilts	Passive duration	BlackRock	92.6	11.1	10	10	Fixed interest gilts. No immediate action.
Cash		Fund	53.9	6.5	2	0	As part of the infrastructure proxy.
Total protection			**177.1**	**21.3**	**17**	**15**	

Prepared by:-
William Marshall, Partner
Kenneth Taylor, Associate Investment Consultant
Kameel Kapitan, Associate Investment Consultant
For and on behalf of Hymans Robertson LLP

June 2020

General Risk Warning

Brent	**Pensions Fund Sub-Committee** 16 July 2020
	Report from the Director of Finance

Brent Pension Fund: Draft Annual Accounts 2019/20

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	1 – Brent Pension Fund Draft Accounts 2019/20
Background Papers:	▪ N/A
Contact Officer(s): (Name, Title, Contact Details)	Minesh Patel, Director of Finance Ravinder Jassar, Head of Finance

1.0 Purpose of the Report

1.1 This report presents the draft Pension Fund Annual Accounts for the year ended 31 March 2020.

2.0 Recommendation(s)

2.1 The Committee is recommended to note this report.

3.0 Detail

3.1 Attached as appendix 1 are the draft Pension Fund Annual Accounts for the year ended 31 March 2020.

3.2 The accounts have been prepared to meet the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) governing the preparation of the 2019/20 financial statements for Local Government Pension Scheme funds. The accounts (which are unaudited) aim to give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2020 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2020.

3.3 The main items to note are as follows:

- During 2019/20, the value of the Pension Fund's investments has decreased to £835m (2018/19 £856m). This is due to the poor performance of equity markets in the final quarter of the year related to COVID-19. At the end of December 2019, investments were valued at £935m.

- Total contributions received from employers and employees were £60m for the year, an increase on the previous year's £52.1m.

- Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, were £48m, an increase on the previous year's £46m.

- As in 2018/19, the Council is in a positive cash-flow position because its contributions exceed its outgoings to members.

- The Fund completed its 2019 valuation in the 2019/20 financial year. It was agreed in the valuation that the employer contribution rate would remain stable at 35% for the next 3 years. This is consistent with the Fund's deficit recovery plan to clear its deficit within 19 years of the balance sheet date.

- This Triennial Valuation revealed that the Fund's assets, at 31 March 2019, were sufficient to meet 78% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. This is a significant increase on the 55% funding level as at the March 2016 valuation.

4.0 Financial Implications

4.1 Not applicable.

5.0 Legal Implications

5.1 Not applicable.

6.0 Equality Implications

6.1 Not applicable.

7.0 Consultation with Ward Members and Stakeholders

7.1 Not applicable.

8.0 Human Resources

8.1 Not applicable.

Report sign off:

Minesh Patel
Director of Finance

-

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Brent Pension Fund Accounts

Pension Fund Accounts as at 31 March 2020

2018/19 £m		Notes	2019/20 £m
	Dealings with members, employers and others directly involved in the fund		
(52.1)	Contributions	7	(60.0)
(2.8)	Transfers in from other pension funds	8	(5.2)
(54.9)			**(65.2)**
45.9	Benefits	9	47.9
1.8	Payments to and on account of leavers	10	6.2
47.7			**54.2**
(7.2)	**Net (additions)/withdrawals from dealings with members**		**(11.1)**
6.8	Management expenses	11	3.8
(0.4)	**Net (additions)/withdrawals including management expenses**		**(7.3)**
	Returns on investments		
(1.4)	Investment income	12	(1.2)
0.0	Taxes on income	13	0.0
(61.7)	(Profits) and losses on disposal of investments and changes in the market value of investments	14	34.1
(63.1)	**Net return on investments**		**32.9**
(63.5)	**Net (increase)/decrease in the net assets available for benefits during the year**		25.6
(801.1)	**Opening net assets of the scheme**		**(864.6)**
(864.6)	**Closing net assets of the scheme**		**(839.0)**

Net Assets Statement

31 March 2019 £m		Notes	31 March 2020 £m
856.4	Investment assets	**14**	835.3
856.4			**835.3**
9.1	Current assets	**20**	4.0
0.0	Non-current assets		0.0
(0.9)	Current liabilities	**21**	(0.4)
864.6	**Net assets of the fund available to fund benefits at the period end**		**839.0**

The net asset statement includes all assets and liabilities of the Fund as at 31 March 2020 but excludes long-term liabilities to pay pensions and benefits in future years. The actuarial present value of promised retirement benefits is disclosed in Note 19.

Notes to the Brent Pension Fund accounts

1. Description of Fund

The Brent Pension Fund (the 'Fund') is part of the Local Government Pension Scheme, and is administered by Brent Council.
The following description of the Fund is a summary only.

a) General

The Fund is a contributory defined benefit pension scheme administered by Brent Council to provide pensions and other benefits for pensionable employees of Brent Council and a range of other scheduled and admitted bodies.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.
Organisations participating in the Brent Pension Fund include:
Scheduled bodies whose staff are automatically entitled to be members of the Fund. Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There were 40 employer organisations with active members within the Brent Pension Fund at 31 March 2020, listed below:

Scheduled bodies
London Borough of Brent
Alperton Community School
ARK Academy
ARK Elvin Academy
ARK Franklin Academy
Braintcroft Primary School
Capital City Academy
Claremont High School Academy
Compass Learning Partnership
Convent of Jesus & Mary Language College
Crest Academy
Furness Primary School
Gladstone Park Primary School
Kingsbury High School
Manor School
Michaela Community School
North West London Jewish Day School

Oakington Manor Primary School
Our Lady of Grace RC Infants School
Our Lady of Grace RC Juniors School
Preston Manor High School
Queens Park Community School
St Andrews and St Francis School
St Gregory's RC High School
St Margaret Clitherow
Sudbury Primary School
The Village School
Wembley High Technology College
Woodfield School Academy

Admitted bodies
Apleona HSG Ltd (previously Bilfinger originally Europa Facility (Services Limited)
Barnardos
Caterlink
Conway Aecom
Local Employment Access Project (LEAP)
National Autistic Society (NAS)
Ricoh UK
Sudbury Neighbourhood Centre
Taylor Shaw
Veolia
Veolia (Ground Maintenance)

31 March 2019	Brent Pension Fund	31 March 2020
36	Number of employers with active members	40
	Number of employees in scheme	
5,209	Brent Council	5,239
1,547	Other employers	1,834
6,756	Total	7,073
	Number of pensioners	
6,193	Brent Council	6,320
537	Other employers	666
6,730	Total	6,986
	Deferred pensioners	
7,053	Brent Council	7,928
815	Other employers	1,151
7,868	Total	9,079

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2019. During 2019/20, the most commonly applied employer contribution rate within the Brent Pension Fund was 35.0% of pensionable pay.

d) Benefits

Since April 2014, the scheme is a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate 1/49th. Accrued pension is updated annually in line with the Consumer Price index.
For a summary of the scheme before April 2014 and details of a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits, please refer to the LGPS website: www.lgpsmember.org

2. *Basis of preparation*

The Statement of Accounts summarises the Fund's transactions for the 2019/20 financial year and its position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these accounts.

3. *Summary of significant accounting policies*

Fund Account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see section n below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income
Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.
ii) Dividend income
Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.
iii) Distributions from pooled funds
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.
iv) Movement in the net market value of investments
Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

f) Administration expenses

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions' administration team are charged direct to the Fund. Management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

g) Investment management expenses

All investment management expenses are accounted for on an accruals basis. Fees of the external investment managers are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

The cost of obtaining investment advice from external consultants is included in investment management charges.

Net Assets Statement

h) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.
- Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.
- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or

responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in private equity/infrastructure funds and unquoted listed partnerships are valued based on the Fund's share of the net assets in the private equity/infrastructure fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.

iv) Limited partnerships

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

i) Contingent Assets

Admitted body employers in the Brent Pension Fund hold bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default. Contingent Assets are disclosed in Note 25.

j) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

k) Derivatives

The Fund does not use derivative financial instruments to manage its exposure to specific risks arising from its investment activities in its own name. Neither does it hold derivatives for speculative purposes.

l) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

m) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

n) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 19).

o) Additional voluntary contributions

Brent Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (SI 2016/946) but are disclosed as a note only (Note 22).

4. Critical judgements in applying accounting policies

Unquoted private equity/infrastructure investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities and infrastructure investments are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities and infrastructure investments at 31 March 2020 was £84m (£95m at 31 March 2019).

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 19)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £136m. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £8m, and a one-year increase in assumed life expectancy would increase the liability by approximately 3 to 5%. .

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity/infrastructure	Private equity/infrastructure investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such, there is a degree of estimation involved in the valuation.	The total private equity/infrastructure investments in the financial statements are £84m. There is a risk that this investment may be under- or overstated in the accounts.

6. Events after the Reporting Date

There have been no events since 31 March 2020, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7. Contributions receivable

By category

	2018/19	2019/20
	£m	£m
Employees' contributions	9.2	8.5
Employers' contributions:		
Normal contributions	39.7	45.6
Deficit recovery contributions	1.7	1.7
Augmentation contributions	1.5	4.3
Total employers' contributions	42.9	51.5
Total	**52.1**	**60.0**

By authority

	2018/19	2019/20
	£m	£m
Administering Authority	42.0	47.8
Scheduled bodies	8.5	10.3
Admitted bodies	1.6	1.8
Total	**52.1**	**60.0**

8. Transfers in from other pension funds

	2018/19	2019/20
	£m	£m
Individual transfers	2.8	5.2
Total	**2.8**	**5.2**

9. Benefits payable

By category

	2018/19	2019/20
	£m	£m
Pensions	37.7	38.6
Commutation and lump sum retirement benefits	7.1	8.5
Lump sum death benefits	1.1	0.8
Total	**45.9**	**47.9**

By authority

	2018/19	2019/20
	£m	£m
Administering Authority and Scheduled bodies	44.1	47.4
Admitted bodies	1.8	0.5
Total	**45.9**	**47.9**

10. Payments to and on account of leavers

	2018/19	2019/20
	£m	£m
Individual transfers	1.8	0.3
Refunds to members leaving service	0.1	0.0
Group transfers	(0.1)	5.9
Total	**1.8**	**6.2**

11. Management Expenses

	2018/19	2019/20
	£m	£m
Administration costs	1.2	1.1
Investment management expenses	3.2	2.4
Oversight and Governance costs	0.2	0.3
Other expenses	2.2	0.0
Total	**6.8**	**3.8**

The management fees disclosed above include all investment management fees directly incurred by the Fund including those charged on pooled fund investments. Audit fees were £16.1k (21k 2018/19).

a) Investment management expenses

	2018/19	2019/20
	£m	£m
Management fees	2.7	2.3
Custody fees	0.1	0.0
One-off transaction costs	0.4	0.0
Total	**3.2**	**2.3**

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial liability {see Appendix A, paragraph AG13 of IAS 39}. An incremental cost is one that would not have been incurred if the authority had not acquired, issued or disposed of the financial instrument.

12. Investment income

	2018/19	2019/20
	£m	£m
Dividend income private equities/infrastructure	0.2	0.5
Income from Pooled property investments	0.5	0.1
Income from private equities/infrastructure	0.2	0.3
Interest on cash deposits	0.5	0.3
Total	**1.4**	**1.2**

13. Taxes on income

	2018/19	2019/20
	£m	£m
Withholding tax	0.0	0.0
Total	**0.0**	**0.0**

14. Investments

	Market value 31 March 2019 £m	Market value 31 March 2020 £m
Investment assets		
Pooled investments	737.7	697.0
Pooled property investments	0.2	0.1
Private equity/infrastructure	95.0	84.3
Total investments	**832.9**	**781.4**

14a) Investments 19/20

	Market value 1 April 2019	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2020
	£m	£m	£m	£m	£m
Pooled investments	737.7	0.0	(1.2)	(39.5)	697.0
Pooled property investments	0.2	0.0	(3.3)	3.2	0.1
Private equity/infrastructure	95.0	3.2	(16.1)	2.2	84.3
	832.9	**3.2**	**(20.6)**	**(34.1)**	**781.4**
Other investment balances:					
Cash Deposit	23.5				53.9
Investment income due	0.0				0.0
Net investment assets	**856.4**				**835.3**

Investments 18/19

	Market value 1 April 2018	Purchases during the year	Sales during the year	Change in market value during the year	Market value 31 March 2019
	£m	**£m**	**£m**	**£m**	**£m**
Pooled investments	636.9	181.9	(122.0)	40.9	737.7
Pooled property investments	2.1	0.0	(1.4)	(0.5)	0.2
Private equity/infrastructure	98.3	6.2	(30.8)	21.3	95.0
	737.3	**188.1**	**(154.2)**	**61.7**	**832.9**
Other investment balances:					
Cash Deposit	94.0				23.5
Investment income due	0.0				0.0
Net investment assets	**831.3**				**856.4**

14b) Analysis of investments by category

	31 March 2019	31 March 2020
	£m	**£m**
Pooled funds - additional analysis		
UK		
Fixed income unit trust	35.5	30.6
Unit trusts	224.6	212.1
Diversified growth funds	170.1	160.9
Overseas		
Unit trusts	307.5	293.4
Total Pooled funds	**737.7**	**697.0**
Pooled property investments	0.2	0.1
Private equity/infrastructure	95.0	84.3
Total investments	**832.9**	**781.4**

14c) Investments analysed by fund manager

Market value

31 March 2019			31 March 2020	
£m	**%**		**£m**	**%**
422.9	50.8%	Legal & General	387.5	49.6%
0.2	0.0%	London CIV	0.2	0.0%
30.3	3.6%	Janus Henderson	0.0	0.0%
0.0	0.0%	JP Morgan	25.2	3.2%
69.4	8.3%	Capital Dynamics	59.2	7.6%
0.0	0.0%	Yorkshire Fund Managers	0.0	0.0%
121.5	14.6%	LCIV - Baillie Gifford	110.8	14.2%
48.6	5.8%	LCIV - Ruffer	50.1	6.4%
35.5	4.3%	LCIV- MAC (CQS)	30.6	3.9%
0.0	0.0%	LCIV - Infrastructure	0.5	0.1%
0.2	0.0%	Aviva	0.1	0.0%
25.6	3.1%	Alinda	24.6	3.1%
78.7	9.4%	Blackrock	92.6	11.9%
832.9	**100.0**		**781.4**	**100.0**

All of the above companies are registered in the United Kingdom.

d) Stock lending

The London Borough of Brent Pension Fund does not operate a Stock Lending programme.

15a. Valuation of financial instruments carried at fair value

The basis of the valuation of each asset class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required

Pooled investments – overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cash flows, and by any differences between audit and unaudited accounts

Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with our independent investment advisor, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

	Assessed valuation range (+/-)	Value at 31 March 2020	Value on increase	Value of decrease
		£m	£m	£m
Private equity/ Infrastructure	24.3%	84.3	104.7	63.9

15b. Fair value hierarchy

The valuation of financial instruments had been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and fund of hedge funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Brent Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

Transfers between levels will be recognised when there has been a change to observable mark data (improvement or reduction) or other change in valuation technique.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2020	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	0.0	697.1	84.3	781.4
Loans and receivables	53.9	0.0	0.0	53.9
Total Financial assets	**53.9**	**697.1**	**84.3**	**835.3**
Financial liabilities				
Financial liabilities at amortised cost	(0.4)	0.0	0.0	(0.4)
Total Financial liabilities	**(0.4)**	**0.0**	**0.0**	**(0.4)**
Net Financial assets	**53.5**	**697.1**	**84.3**	**834.9**

Values at 31 March 2019	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Financial assets				
Financial assets at fair value through profit and loss	0.0	737.9	95.0	832.9
Loans and receivables	23.5	0.0	0.0	23.5
Total Financial assets	**23.5**	**737.9**	**95.0**	**856.4**
Financial liabilities				
Financial liabilities at amortised cost	(0.9)	0.0	0.0	(0.9)
Total Financial liabilities	**(0.9)**	**0.0**	**0.0**	**(0.9)**
Net Financial assets	**22.6**	**737.9**	**95.0**	**855.5**

15c. Transfers between Levels 1 and 2

There were no transfers between levels 1 and 2 during the year

15d. Reconciliation of Fair Value Measurements within Level 3

	£m
Value at 31 March 2019	95.0
Transfers into Level 3	0
Transfers out of Level 3	0
Purchases	3.2
Sales	(16.1)
Issues	0
Settlements	0
Unrealised gains/losses	0
Realised gains/losses	2.2
Value at 31 March 2020	84.3

16. *Classification of financial instruments*

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

	31 March 2019				31 March 2020	
Fair value through profit and loss	**Loans and receivables**	**Financial liabilities at amortised cost**		**Fair value through profit and loss**	**Loans and receivables**	**Financial liabilities at amortised cost**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
			Financial assets			
737.7			Pooled investments	697.0		
0.2			Pooled property investments	0.1		
95.0			Private equity/infrastructure	84.3		
	23.5		Cash		53.9	
	9.1		Debtors		4.0	
832.9	**32.6**	**0.0**	**Total Financial assets**	**781.4**	**57.9**	**0.0**
			Financial liabilities			
		(0.9)	Creditors			(0.4)
0	**0**	**(0.9)**	**Total Financial liabilities**	**0**	**0**	**(0.4)**
832.9	**32.6**	**(0.9)**	**Net Financial assets**	**781.4**	**57.9**	**(0.4)**

a) Net gains and losses on financial instruments

31 March 2019		**31 March 2020**
£m		**£m**
	Financial assets	
61.7	Fair value through profit and loss	(34.1)
61.7	**Total**	**(34.1)**

b) Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

31 March 2019 Carrying Value £'000	Fair Value £'000		31 March 2020 Carrying Value £'000	Fair Value £'000
		Financial assets		
832.9	832.9	Fair value through profit and loss	781.4	781.4
32.6	32.6	Loans and receivables	57.9	57.9
865.5	**865.5**	**Total financial assets**	**839.3**	**839.3**
		Financial liabilities		
(0.9)	(0.9)	Financial liabilities at amortised cost	(0.4)	(0.4)
(0.9)	**(0.9)**	**Total financial liabilities**	**(0.4)**	**(0.4)**

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

17. Nature and extent of risks arising from financial instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e., promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk, and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Pension Fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Sub-Committee. Risk management policies are established to identify and analyse the risks faced by the Pension Fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Pension Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Pension Fund to ensure it is within limits specified in the Fund investment strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the council has determined that the following movements in market price risk are reasonably possible for the 2019/20 reporting period. The potential price changes disclosed below are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Other price risk – sensitivity analysis

Asset Type	31/03/2020 Value (£m)	Potential market movements (+/-)
Bonds	123.2	7.6%
Equities	412.9	26.3%
Other Pooled investments	160.9	13.0%
Pooled Property investments	0.1	14.2%
Private Equity/Infrastructure	84.3	24.3%

Had the market price of the fund investments increased/decreased the change in the net assets available to pay benefits in the market price would have been as follows:

Asset Type	31/03/2020 Value	Potential value on increase	Potential value on decrease
Bonds	123.2	132.6	113.8
Equities	412.9	521.5	304.3
Other Pooled investments	160.9	181.8	140.0
Pooled Property investments	0.1	0.1	0.1
Private Equity/Infrastructure	84.3	104.7	63.9
Total	**781.4**	**940.7**	**622.1**

Interest rate risk exposure asset type

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2020 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

	31 March 2019	31 March 2020
	£m	£m
Cash balances	23.5	53.9
UK Fixed income unit trust	35.5	30.6
Total	**59.0**	**84.5**

Asset type	Carrying amount as at 31 March 2020	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash balances	53.9	0.5	(0.5)
UK Fixed income unit trust	30.6	0.3	(0.3)
Total change in assets available	**84.5**	**0.8**	**(0.8)**

Asset type	Carrying amount as at 31 March 2019	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash balances	23.5	0.2	(0.2)
UK Fixed income unit trust	35.5	0.4	(0.4)
Total change in assets available	**59.0**	**0.6**	**(0.6)**

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The Fund's currency rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2020 and as at the previous period end:

Currency risk exposure – asset type	Asset value at 31 March 2019	Asset value at 31 March 2020
	£m	£m
Overseas unit trusts	307.5	293.4
Overseas pooled property investments	0.2	0.1
Overseas private equity/infrastructure	95.0	84.3
Total overseas assets	**402.7**	**377.8**

A 1% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

	Asset value as at 31 March 2020	Change to net assets available to pay benefits	
		+1%	-1%
	£m	£m	£m
Overseas unit trusts	293.4	2.9	(2.9)
Overseas pooled property investments	0.1	0.0	(0.0)
Overseas private equity/infrastructure	84.3	0.8	(0.8)
Total change in assets available	**377.8**	**3.8**	**(3.8)**

	Asset value as at 31 March 2019	Change to net assets available to pay benefits	
		+1%	-1%
	£m	£m	£m
Overseas unit trusts	307.5	3.1	(3.1)
Overseas pooled property investments	0.2	0.0	(0.0)
Overseas private equity/infrastructure	95.0	1.0	(1.0)
Total change in assets available	**402.7**	**4.0**	**(4.0)**

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Pension Fund's cash balance is held in an interest bearing instant access deposit account with NatWest plc, which is rated independently and meets Brent Council's credit criteria.

The Pension Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2020 was £54.0m (31 March 2019: £23.5m). This was held with the following institutions:

	Rating	Balances as at 31 March 2019	Balances as at 31 March 2020
		£m	£m
Bank deposit accounts			
NatWest	BBB+	1.1	0.8
Northern Trust		3.3	0.1
Money Market deposits	A+	19.1	53.1
Other short-term lending			
Local authorities		0.0	0.0
Total		**23.5**	**54.0**

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its pensioner payroll costs and investment commitments.

The Pension Fund has immediate access to its cash holdings.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. At 31 March 2020 the value of illiquid assets was £84.4m, which represented 10% (31 March 2019: £95.2m, which represented 11%) of the total fund assets.

Periodic cash flow forecasts are prepared to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy.
All financial liabilities at 31 March 2020 are due within one year.

d) Refinancing risk

The key risk is that the Pension Fund will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. However, the Pension Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

18. Funding arrangements

In line with the LGPS (Administration) Regulations 2008, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019. The next valuation will take place as at March 2022.

The key elements of the funding policy are:

- to ensure the long-term solvency of the Fund, i.e., that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the Scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council taxpayer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 19 years from 1 April 2019 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable.

At the 2019 actuarial valuation, the Fund was assessed as 78% funded, which is a significant improvement to the 55% valuation at the 2016 valuation. This corresponded to a deficit of £248m

(2016 valuation: £562m) at that time. As a result, a deficit recovery plan is in place which aims to achieve 100% funding over a period of 19 years from April 2019.

Contribution increases or decreases may be phased in over the three-year period beginning 31 March 2020 for both Scheme employers and admitted bodies. The most commonly applied employer contribution rate within the Brent Pension Fund is:

Year	Employers' contribution rate
2018/19	33.8%
2019/20	35.0%
2020/21	35.0%

Individual employers' rates will vary from the common contribution rate depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2019 actuarial valuation report and the funding strategy statement on the Fund's website.

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

The main actuarial assumptions used for the March 2019 actuarial valuation were as follows:

Discount rate	4.4% p.a.
Pay increases	2.6% p.a.
Pension increases	2.3% p.a.

Mortality assumptions

Future life expectancy based on the Actuary's fund-specific mortality review was:

Mortality assumption at age 65	Male	Female
Current pensioners	22.1 years	24.3 years

Commutation assumption

It is assumed that 50% of future retirements will elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 and 75% for service from 1 April 2008.

19. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the Fund's Actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 18). The Actuary has also used valued ill health and death benefits in line with IAS 19.

Calculated on an IAS19 basis, the actuarial present value of promised retirement benefits at 31 March 2020 was £1,489m (31 March 2019: £1,826m). This figure includes both vested and non-vested benefits, although the latter is assumed to have a negligible value. The Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2019 triennial funding valuation because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

Financial assumptions

Inflation/pensions increase rate	1.9%
Salary increase rate	2.2%
Discount rate	2.3%

Longevity assumption

The average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.1 years	24.3 years
Future pensioners*	23.0 years	25.5 years

* Future pensioners are assumed to be currently aged 45

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

Sensitivity to the assumptions for the year ended 31 March 2019	**Approximate % increase to liabilities**	**Approximate monetary amount (£m)**
0.5% p.a. increase in the Pension Increase Rate (CPI)	9%	127
0.5% p.a. increase in the Salary Increase Rate	1%	8
0.5% p.a. decrease in the discount rate	9%	136

20. Assets

a) Current assets

	31 March 2019	31 March 2020
	£m	**£m**
Debtors:		
- Contributions due – employees	1.3	0.7
- Contributions due – employers	7.0	2.9
- Sundry debtors	0.8	0.5
Total	**9.1**	**4.0**

Analysis of debtors

	31 March 2019	31 March 2020
	£m	**£m**
Central government bodies	0.1	0.4
Other local authorities	6.8	3.5
Other entities and individuals	2.2	0.1
Total	**9.1**	**4.0**

Non- current assets comprises of contributions due from employers, repayable later than a year from the Balance Sheet date.

21. Current liabilities

	31 March 2019	31 March 2020
	£m	**£m**
Group transfers	(0.1)	0.0
Sundry creditors	1.0	0.4
	0.9	**0.4**

Analysis of creditors

	31 March 2019	31 March 2020
	£m	**£m**
College of North West London	(0.1)	0.0
Other entities and individuals	1.0	0.4
Total	**0.9**	**0.4**

22. Additional voluntary contributions

	Market value 31 March 2019	Market value 31 March 2020
	£m	**£m**
Clerical Medical	1.3	1.3
Equitable Life	0.2	0.2
Prudential	0.1	0.3
Total	**1.5**	**1.8**

The Pension Fund's former provider, Equitable Life, no longer accepts AVC contributions from Scheme members.

For information, Prudential has since replaced Clerical Medical as the Fund's AVC provider with effect from 1 April 2014.

In accordance with Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid and the assets of these investments are not included in the Fund's Accounts.

23. Related party transactions

Brent Council

The Brent Pension Fund is administered by Brent Council. Consequently, there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.997m (2018/19: £0.796m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund and contributed £33.7m to the Fund in 2019/20 (2018/19: £32.5m).

Governance

There are no members of the Pension Fund Sub-Committee who are either in receipt of pension benefits from or active members of the Brent Pension Fund. Each member of the Pension Fund Sub-Committee is required to declare their interests at each meeting.

Key management personnel

The key management personnel of the fund are the Chief Executive, the Assistant Chief Executive the Director of Legal & HR, the Chief Finance Officer (s.151 officer) and the Head of Finance (Pensions). The proportion of the total remuneration payable to key management personnel that is charged to the Pension Fund is set out below:

	31st March 2019	**31st March 2020**
	£m	**£m**
Short Term Benefits	0.036	0.039
Post Employment Benefits	0.008	0.011
Termination Benefits	0.000	0.000
Total Remunerations	**0.044**	**0.050**

24. Contingent liabilities

Outstanding capital commitments (investments) at 31 March 2020 totalled £76m (31 March 2019: £26.9m).

	31st March 2019	31st March 2020
	£m	**£m**
Capital Dynamics	14.1	13.9
Alinda Fund II	2.9	3.1
Alinda Fund III	9.9	9.5
London CIV Infrastructure Fund	n/a	49.5
Total	**26.9**	**75.9**

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

25. Contingent Assets

Other Contingent assets

Two non-associated admitted body employers in the Brent Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

	31st March 2019	31st March 2020
	£m	**£m**
Apleona HSG Limited (previously Bilfinger)	0.1	0.1
Conway Aecom	0.1	0.1
Total	**0.2**	**0.2**

26. Impairment Losses

The Fund had no contingent liabilities at 31 March 2020.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
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