



LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE Tuesday 25 February 2020 at 6.00 pm

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

Also present: Councillors McLennan

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

None.

2. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 2nd October 2019 be approved as an accurate record of the meeting subject to the following amendments; Show "Councillor McLennan" as being in attendance.

Under clause 5(ii) add fossil fuel after carbon footprint analysis.

3. **Matters arising**

None.

4. **Deputations**

The Sub-Committee welcomed Mr Simon Erskine of Brent Divest to the meeting. He welcomed the reports from the Director of Finance on review of investment strategy and responsible investment as they represented an important step towards making the Fund carbon neutral, as required in the Council resolution last July for the declaration of a Climate and Ecological Emergency. He however made the following recommendations:

That the investment beliefs be updated to say that "Climate change and the expected transition to a low carbon economy is a short- to medium-term financial risk to Fund outcomes" rather than a long-term financial risk.

The proposed additional belief about engagement should be qualified to say something like "**For many purposes** engagement is preferable to divestment" and continuing "The Committee believe that, in relation to ESG risks, ongoing engagement with investee companies can be a valuable way of addressing those risks."

That given the urgency of the Climate Emergency, he suggested that “Where the engagement concerns an urgent issue such as climate change, the length of the considered period should have regard to the extent of the emergency and will normally not exceed 2 years.

That the proposed carbon footprint analysis should be applied to new low carbon investments as well as the current Fund investments.

When considering the costs of investing in ESG-focused passive funds account must be taken of the reduction in risk from excluding the investments – and particularly in the case of fossil-free funds the likelihood that over the short- to medium-term investment valuations of a non-constrained fund is likely to under-perform a corresponding fund excluding fossil fuel investments.

In conclusion, Mr Erskine urged the Sub-committee to start evolving an ambitious strategy to make all its investments – in all the different asset classes being invested in – either carbon-free or low-carbon. In the latter case there should be a commitment for carbon neutrality by 2030 in accordance with the Council’s resolution to declare a Climate and Ecological Emergency last July.

Mr Erskine was thanked for his address.

5. LAPPF Presentation

The Sub-Committee welcome Mr Keith Bray (LAPPF Officer) to the meeting. Mr Bray addressed the Sub-Committee on the work done by LAPPF for the Fund and LGPS and its work on ESG issues with particular focus on climate change and answered Members’ questions. Members heard that LAPPF had 82 LGPS fund members and 6 pooled companies with combined assets in excess of £300billion. The Forum provided an unparalleled resource for funds to develop their approach to stewardship and responsible investment and maximise influence as shareholders.

He continued that the Forum engaged over a wide range of topics, including environmental and carbon risk, social and governance risk and reliable accounts. Through its engagement activities and outcomes, investors were increasingly gaining an understanding of the value of community perspectives, both to protect the interests of those affected most by corporate activities and to gain an understanding of how corporate actions were affecting the potential for shareholder value creation. He gave examples of LAPPF’s achievements as set out within the slides. Mr Bray informed the Sub-Committee about the Forum’s forthcoming meeting in the Church House near Westminster Abbey on 15th April 2020 and invited 2 delegates to attend.

In thanking Mr Bray the Sub-Committee RESOLVED
That the presentation on the work of LAPPF be noted.

6. Abatement of Local Government Pension on re-employment

This report, which explained the background to the “Abatement” rules and the current statutory provisions for doing so, provided the Sub-Committee with

information regarding the reduction or suspension of a Local Government Pension on account of further employment within Local Government after an individual has retired (Abatement).

Ms Anna McCormack (Senior Pensions Officer) explained that abatement was a technical term for the reduction or suspension of a Local Government Pension Scheme (LGPS) pension where a pensioner has entered into further local government employment. If the annual salary in the second local government employment plus the pension in payment exceeded the annual salary at the initial retirement, then the pension was reduced or potentially suspended for the duration of the subsequent local government employment. She referenced the factors that the administering Authority was required to consider when formulating an abatement policy, adding that currently there were 7 Brent Council pension recipients whose pensions were being abated due to re-employment. This required those pensioners to be contacted on a regular basis to enquire if they had commenced further local government employment, which placed an administrative burden on collecting, collating and implementing abatement. Currently, there are also 17 pension recipients being assessed regularly in respect of earnings in further local government employment.

Members' attention were drawn to appendices 1 and 2 that provided information about the abatement practices of other Local Authorities and an explanation of the current and proposed changes. Ms McCormack advised that cessation of abatement would reduce costs through less time and resource being spent on checking and monitoring pensioners. She recommended that the London Borough of Brent consults with employees as per the regulations and if there were no major objections, cease to abate pensions for staff who ceased employment after 1 April 1998 to be reinstated to the current values from 1 April 2020.

RESOLVED

That the report on abatement policy be approved for consultation with employers for agreement and that any material changes arising from consultation be reported back to the Sub-Committee.

7. Review of Investment Strategy

This report presented the analysis and results of the investment review carried out by Hymans Robertson. The purpose of the review was to review the current investment strategy and analyse the ability of alternative strategies to meet the Fund's strategic objectives. The review followed on from the 2018 strategic investment review and the Fund's 2019 Actuarial Valuation. Mr Robert Marshall (Independent Advisor to the Fund) introduced the report, highlighting the strategic goals, objectives and beliefs and answered Members' questions. Mr Marshall set out the following summary of the review and arising from that he recommended the following to the Sub-Committee:

- (a) That the Sub-Committee's current investment beliefs were fit for purpose however, it should expand on its Responsible Investment beliefs in light of the increased focus on, and importance of, this area.
- (b) The current long term strategy was fit for purpose from a returns perspective as it is expected to return in excess of the required return.

- (c) The Sub-Committee to introduce a global low carbon mandate as part of the Fund's equity allocation and to delegate authority to the Director of Finance to agree the size and fund in question and to put into effect this investment following discussions at the committee meeting.
- (e) 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 prevent too much deviation from the desired strategic allocation.
- (f) After assessing alternative investment strategies, a 5% increase in the allocation to equities, and a 5% allocation to private debt, both funded from "diversifiers".
- (g) Based on the conclusions of the review he recommended the Fund to seek to reduce risk and diversify the strategy in two stages as amplified in the appendix to the report.

Members then discussed the review after which it was RESOLVED

That the recommendations by the Independent Adviser as set out above be agreed.

8. **Update on Responsible Investment, Climate Change Risk and Environmental, Social and Governance (ESG) issues**

Mr Sawan Shah (Senior Finance Analyst) introduced this report that provided an update on Environmental, Social and Governance (ESG) considerations with regards to strategic investment decisions, in particular how the fund was continuing to manage the risks of climate change. He drew Members' attention to the on-going review of investment beliefs and asset allocation, a review of carbon exposure of existing investments, engagement programmes with fund managers and improved reporting and disclosures on ESG using industry best practice guidance.

In welcoming the report, Members RESOLVED:

- (i) That the overall report with regards to the position on Responsible Investment and Environmental, Social and Governance matters (ESG) be noted;
- (ii) that the work carried out in relation to scenario analysis of the impact of climate change and agree the actions arising be noted;
- (iii) that the research carried out on low carbon (or ESG orientated) index tracking funds be noted and delegate authority to the Director of Finance to put into effect this investment as part of the wider investment strategy review.
- (iv) that a carbon footprint of the Fund be conducted at an estimated cost of between £10k and £20k and to delegate authority to the Director of Finance to finalise the terms of the exercise as set out in section 5.9 of this report.
- (v) that the collaborative work being undertaken by London Boroughs and the London CIV to bring forward new ESG orientated investments be noted.

9. **Monitoring report on fund activity for the 4th quarter 2019**

The report presented information on the performance of the Fund for the 4th quarter 2020. The report presented information on the performance of the Fund for the 4th quarter 2019. Mr William Marshall and Mr Kameel Kapitan (Hymans Robertson) presented the report. In reference to the report, Mr Kameel Kapitan drew members' attention to the respective fund manager's performance within the quarter and highlighted the following main points:

- (i) The value of the Fund's assets rose by £7.3m over the quarter, from £927.5m to £934.8m. The Fund returned 0.3% over the quarter, underperforming its benchmark by 0.3%. Performance over 2019 has been strong, with the Fund returning 13.8% outperforming its benchmark by 2.7%.
- (ii) Over the 4th quarter the Fund received its first capital call for the LCIV Infrastructure fund, and the LCIV Emerging Markets fund was transferred from Janus Henderson to JP Morgan.
- (iii) The value of the Fund's assets rose by £7.3m over the quarter, from £927.5m to £934.8m.
- (iv) Over the 4th quarter, the LCIV Janus Henderson Emerging Markets fund transitioned to JP Morgan.

Members were cautioned that the performance for the next quarter may not be as strong as the 4th quarter due to the potential impact of coronavirus on world economy principally, equities and gilt edged securities.

In welcoming the update, it was RESOLVED:

That the monitoring report for the 4th quarter 2019 be noted.

10. **2019 Triennial Valuation Results**

This report sets out the results of 2019 triennial actuarial valuation and the Funding Strategy Statement (FSS) to the Committee for consideration and approval. Mr Sawan Shah (Senior Financial Analyst) informed Members that the Fund was required by law to undertake an actuarial valuation of the Fund every three years. The purpose of the valuation was to value the assets and liabilities of each individual employer and the pension fund as a whole, with a view to setting employer contribution rates which will result in each employer's liabilities becoming as close to fully funded as possible over the agreed recovery period outlined in the Funding Strategy Statement (FSS).

He continued that based on the results of the modelling work and discussions with the fund actuary, officers propose to freeze contribution rate at 35% of pay for next 3 years and stabilised thereafter at +/- 1% per annum. The Fund actuary had agreed this proposal. The full contribution rate modelling report was attached in the restricted part of the agenda pack at appendix 2. This report therefore recommends Members to approve the contribution rate for the next three financial years for Brent Council, as 35.0% for 2020/21, 2021/22 and 2022/23. Members heard that as part of the valuation, the council was considering paying a large part of its employer contributions upfront as a lump sum. He referenced a report, commissioned by the

Fund actuary which concluded that there was an economic benefit to the Council in considering this and without any negative impact on the pension fund.

Members welcomed the report and RESOLVED:

- (i) That the draft valuation report be agreed and that delegate authority be granted to the Director of Finance to finalise the report before 31 March 2020.
- (ii) That the contribution rate for the next three financial years for Brent be agreed as 35.0% for 2020/21, 2021/22 and 2022/23 as set out in the report and in the appendices.
- (iii) That delegated authority be granted to the Director of Finance to finalise details of the advance payment of Brent Council's employer contributions and the subsequent impact on the rates and adjustment certificate, as set out in the report and the appendix 3.
- (iv) That the Funding Strategy Statement (FSS) as set out within appendix 4 of the report be approved.

11. LGPS Update

The purpose of this report was to update the Sub-Committee on recent developments within the LGPS regulatory environment and any recent consultations issued by the Ministry of Housing, Communities and Local Government (MHCLG) which would have a significant impact on the Fund. Mr Sawan Shah (Senior Finance Analyst) introduced the report and provided updates on the McCloud case, good governance and UK Stewardship Code. The Officer drew Members' attention to the details of the updates as set out within the report and the accompanying appendices.

RESOLVED:

That the LGPS update be noted.

12. Minutes of Pension Board 22 October 2019

Members welcomed Mr David Ewart, Chair of Pension Board to the meeting. Mr Ewart provided a summary of the Board's last meeting and highlighted the remarkable improvement in pension administration that Members of the Board had observed since LPP took over Brent's pension administration.

RESOLVED:

That the minutes of the Pension Board of 22nd October 2019 be noted.

13. Any other urgent business

None.

14. Exclusion from the Press and Public

That the press and public be excluded from the consideration of the following reports as they 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)"

15. CIV Update

The purpose of this report was to update the Sub-Committee on recent developments within the London CIV (LCIV). Mr Ravinder Jassar (Head of Finance) provided updates on ESG report, emerging markets fund and multi asset credit fund.

RESOLVED:

That the recent developments within the London CIV as outlined within the report the report.

The meeting closed at 8.46 pm

S CHOUDHARY
Chair