



LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE

Tuesday 6 November 2018 at 6.00 pm

PRESENT: Councillor S Choudhary (Chair) and Councillors Daly, Perrin and Stephens

Also present: Councillor McLennan (Deputy Leader and Lead Member for Resources), William Marshall & Nick Jellema (Hymans Robertson), Kevin Cullen, Will McBean and Larissa Benbow (London CIV), Peter Davies (Sub Committee Independent Financial Adviser) & David Ewart (Pension Board Chair).

Apologies for absence were received from: Councillors Maurice and Liz Hammond (UNISON co-opted member)

1. Declarations of personal and prejudicial interests

None declared.

2. Minutes of the previous meeting

RESOLVED that the minutes of the previous meeting held on Tuesday 26 June 2018 be approved as an accurate record of the meeting.

3. Matters arising

There were no matters arising from the previous meeting.

4. Deputations (if any)

Councillor Choudhary (as Chair) advised that he had agreed, in advance of the meeting, to accept a request for a deputation received from Simon Erskine (representing Divest Brent & Friends of the Earth) in relation to Agenda Item 6 "Responsible Investment Policy".

Whilst Mr Erskine had subsequently advised he would not be able to attend the meeting, due to illness, and had therefore withdrawn his request he had asked for the Sub Committee to be made aware of the issue he wished to address them on, which it was confirmed had been circulated to members and was as follows:

The recommendation in para. 2.1 of the Chief Finance Officer's report is "to note and support the Responsible Investment Policy". However, the policy includes the following "1.1.1 (f) We believe pre-determined divestment on a rules-based approach is contrary to Government guidance and does not form part of this RI policy". We do not agree with this statement, which seems to go against Government guidance to have regard to climate change risks to investments and, more seriously, would appear to conflict with the Council's stated commitment to

divest the Brent Pension Fund from fossil fuel investments. We would therefore suggest that the wording of the proposed resolution should be amended to the following: “to note and support the Responsible Investment Policy without in any way limiting the Council’s ability to adopt a policy for the Brent Pension Fund of divestment from fossil fuel investment if considered appropriate”.

5. Proposed adoption of the new Investment Strategy

Ravinder Jassar (Head of Finance) introduced the report updating the Sub-Committee on progress with the Investment Strategy review and decisions being recommended in relation to its implementation over the medium to short term.

The progress update followed on from presentation of the initial outcomes of the review at the Sub Committee meeting in June 2018, with the updated list of proposed Investment Beliefs and objectives to accompany the Strategy, detailed in Appendix A of the report. As the detailed review of the Strategy had been led by Hymans Robertson LLP, Ravinder Jassar introduced William Marshall (Partner) and Nick Jellema (Investment Consultant) from Hymans Roberston LLP who then gave a presentation, outlining the key outcomes of the review for consideration by the Sub Committee.

Key areas highlighted during the presentation were as follows:

- The three main elements to the review which had involved a focus on:
 - Developing a final set of Investment Beliefs and objectives upon which the Strategy would be based;
 - Developing an understanding of the risk/return dynamics of the Funds Investment Strategy involving a recommended move towards a more diversified investment strategy also taking account of the availability of suitable investment opportunities through the London CIV pooling arrangements;
 - The underlying components of the growth, income and protection elements of the strategy with the aim being to reduce volatility and generate target returns;
- The core recommendations made as a result of the review in relation to Growth (Listed Equities). This involved a more diversified approach including the switch of a proportion of the Funds UK small caps in order to increase the extent of regional diversification and equity allocation to emerging markets. This would be linked to consideration, during 2019, of further diversification in terms of the Funds regional equities, including the potential move towards environmental, social and governance (ESG) benchmarked funds. In terms of the move towards emerging markets the Sub Committee noted the consideration needing to be given towards a more active or passive management of the funds along with the factors to be considered which included fees/costs, governance and access. In terms of Listed Equities the Sub Committee was minded to support the recommended continuation of passive management. Given the more unpredictable nature of the emerging markets, however, the Sub Committee felt a more active approach be taken towards the management of these equities, which was also supported by Peter Davies (as the Sub Committee’s Independent Financial Adviser).
- The Sub-Committee noted the update provided on performance in relation to the regional focus on Listed Equity funds and that whilst diversification into emerging markets would provide greater potential opportunity for more active

management this would need to be balanced against consideration of associated fees and governance requirements alongside patience in terms of performance.

- The review had also focussed on ways of increasing the protection of assets to market volatility in terms of variations in interest rates, inflation and exposure to other more extreme fluctuations in the market. At present the Sub-Committee noted that the only fixed term income mandate within the Fund was provided through the Janus Henderson's Total Return Bond (TRB). Details on its current performance had been provided in section 5.1 of the report to the Sub-Committee. On the basis of current performance not meeting the Fund's expectations and fact that the TRB would not be transitioning to the London CIV platform the Sub-Committee were being asked to consider selling the TRB, which Members were minded to support. As part of the investment review it had been proposed that the current target allocation of 15% to Fixed Income assets was retained with 10% managed passively in Government Bonds and the remaining 5% in a Multi Asset Credit (MAC) Fund. This approach had been designed to reflect the Fund's investment beliefs in relation to risk and return relative to liabilities. In terms of the passive bond fund mandate the recommendation was to invest 10% of the redeemed Henderson's TRB in a long dated gilts fund managed by Blackrock's, which the London CIV included within their oversight on a reduced fee basis and which would also provide some diversification from the fund assets managed through LGIM. In terms of the MAC, it was proposed to invest in the Fund launched by the London CIV, on the basis of the approach outlined in section 5.5 – 5.8 of the Sub-Committee report, which again Members were minded to support.
- In terms of growth in relation to Private Equity investment the Sub Committee noted the range of options available along with the advantages and disadvantages with these type of investments, as highlighted within the presentation from Hymans Robertson. In terms of the Funds current exposure it was noted that this was in the form of the existing commitment to Capital Dynamics. Given the potential issues identified, particularly in relation to governance aspects associated with investments in these type of assets, the strategic recommendation arising from the review had been not to commit further assets to private equity.
- In terms of income assets the investment review had recommended, as a strategic aim, increasing the allocation to income assets with the Fund seeking to build on its existing infrastructure exposure whilst also considering other yielding assets such as property. As part of their presentation to the Sub Committee, Hymans Robertson outlined how this may look in terms of the type of asset and investment options, potential advantages and exposure to risk depending on the returns being sought. Whilst recognising the potential to provide more predictable levels of return, the Sub Committee noted the need to consider the more long term nature of investments, particularly in relation to infrastructure, focussed around growth in order to achieve the higher rates of return which at the same time would involve exposure to a higher level of potential risk. The target allocation increase being recommended as a result of the review in relation to infrastructure had been from 8% - 15% with current exposure at 4% split between a 3% allocation to Alinda and 1% allocation to Capital Dynamics and remaining capital commitments of £17.4m and £1.4m respectively. The London CIV was expected to have an infrastructure fund available by April 2019 and it was

therefore proposed, supported by Members, that further decisions regarding investment in infrastructure should be considered at the Sub Committee's next meeting in February 2019.

In relation to property, the review had also recommended a 10% allocation to property, with the Fund currently only exposed to a small legacy investment totalling £0.7m. The Sub-Committee noted that the London CIV were planning to make two property funds (UK – residential and commercial and global) available for investment in early 2019 with further consideration to be given to the development of this option and any potential interim measures required during 2019 and as the nature of the products available evolved.

- The current position in relation to cash holdings within the Fund and summary of options available to utilise the funding identified as available, as detailed in section 7 of the Sub Committee report with the Sub Committee supportive of the approach recommended in the report based on Options 1 & 2. In response to a query from a member of the Sub Committee, regarding the potential impact of voluntary redundancy payments on the Fund, Conrad Hall confirmed that these had been taken into account as part of the review and were not expected to affect the overall cash position of the Fund.

The Chair thanked William Marshall and Nick Jellema (Hymans Robertson) for presenting the outcome of the Strategic Investment Review and then welcomed Kevin Cullen & Will McBean (Client Relations) and Larissa Benbow (Head of Fixed Income) from the London CIV to the meeting who had been invited to provide an update (given the various references within the Investment Review) on the London CIV.

Key issues highlighted for the Sub Committee during the update were as follows:

- The current pooling landscape nationally and within London in relation to Local Government Pension Funds;
- The update in relation to establishment and organisation of the London CIV with the Sub Committee noting that over 45% of assets across London were now being managed on a pooled basis;
- The revised Governance Structure for the London CIV, with significant changes involving the inclusion of two Local Authority members as non-executive Directors on the Board and the establishment of a Shareholder Committee along with the internal and external independent oversight arrangements;
- The current Fund offering by the London CIV which had included the launch of an Emerging Market Equity Fund, Global and UK Equities Funds, Multi Asset Credit and Global Bond Funds;
- The Funds currently targeted for launch, which included an Infrastructure Fund, Inflation Plus Fund, UK Property Fund and Global Equity Core Fund along with outline timetable;

A more detailed summary was then provided in relation to the objectives, design structure, operating model (including subscription process and fees) developed for the London CIV Infrastructure Fund, which included an outsourced Head of Fund following the appointment of Stepstone. The Sub Committee noted the detailed timeline provided for launch of the fund with the subscription process due to open in early 2019. In addition further details were also provided, linked to the Investment

Strategy review, on the design operation and early performance of the Multi Asset Credit Fund which had been launched by the CIV. Finally details were provided on the London CIV's Responsible Investment Policy, which had been formally ratified by the CIV Shareholder Committee in October 2018.

The Chair thanked Kevin Cullen, Will McBean and Larissa Benbow for the update and then invited Conrad Hall (as Chief Finance Officer) to provide a brief summary of the key recommendations in relation to the outcome of the Investment Strategy Review that the Sub Committee were being asked to consider.

In terms of the key recommendations, having considered the Investment Beliefs detailed in Appendix A of the report Conrad Hall then drew the Sub Committee's attention to the need to consider the proposed target and interim asset allocations as detailed within Appendix B of the report, which had been designed to reflect the strategic recommendations arising from the review and maximise use of the cash holdings available.

The Sub Committee thanked Conrad Hall and Ravinder Jassar for the update provided and following on from the presentations it was **RESOLVED** as a result of the Investment Strategy review:

- (1) To approve the Investment Beliefs, as set out in Appendix A of the report.
- (2) To approve the proposed target and interim asset allocation, as set out in Appendix B of the report
- (3) As a result of (1) and (2) above, to delegate authority to the Chief Finance Officer to sell holdings that are not consistent with the new strategy and to acquire new holdings including the following actions:
 - (a) To sell the Janus Henderson Total Return Bond and buy passive longer dated gilts with BlackRock and the London CIV Multi Asset Credit Fund utilising a proportion of the available cash held for investment, as detailed in section 5 of the report;
 - (b) To sell the Janus Henderson Small Caps UK equities mandate, as detailed in section 7 of the report;
 - (c) To hold a more regionally diversified approach to global equities, by reducing the Fund's UK equity exposure and introducing an allocation to emerging markets which would be managed on a more active basis, as detailed in section 4 of the report;
 - (d) To utilise part of the current cash balance available for investment in the interim whilst suitable investments became available to achieve the proposed Investment Strategy, as detailed in section 7 of the report with further detailed consideration of the investment proposed in relation to growth and protection assets including infrastructure to be undertaken at the next Sub Committee meeting in February 2019.

6. Responsible Investment Policy

Ravinder Jassar introduced the report which detailed the Responsible Investment Policy adopted by the London CIV and set out the approach that the London CIV aimed to follow in terms of integrating environmental, social and governance (ESG) issues in its investments.

Larissa Benbow (Head of Fixed Income – London CIV) was invited to introduce the framework agreed by the London CIV which she advised had been focussed around engagement and accountability. On this basis, she explained that the core of the policy involved the London CIV being an engaged investor, exercising the rights of ownership and holding to account those who managed their investments. The Sub Committee noted that the policy did not include blanket exclusion and divestment providing instead a framework for developing policies and seeking to engage and influence investment managers on specific issues.

The Sub Committee noted the key beliefs and guiding principles adopted by the London CIV in relation to their Responsible Investment Policy. Having recognised the preference amongst some members of the London CIV for certain exclusions to apply, this would however be an option the CIV were proposing to launch during 2019 although it remained a core belief that the aim to encourage responsible ownership would be most effective with the CIV holding relevant assets. This was a view supported by members of the Sub Committee, who recognised that whilst there would be occasions in which the Fund would be required to challenge practices there was also evidence to support the benefits of seeking to engage and influence investment bodies in relation to their social performance and policies.

As a result of the presentation the Sub Committee **RESOLVED** to note and support the Responsible Investment Policy adopted by the London CIV.

7. **Monitoring report on fund activity: Quarter ending 30 June 2018**

Folake Olufeko (Senior Finance Analyst) introduced the report, which provided a summary of the Fund's activity during the quarter ended June 2018. The report included an examination of the economic and market background and investment performance of the Fund as well as commenting on events during the monitoring period.

The Committee noted the following key updates in relation to Fund activity:

- During the quarter ended 30 June 18 the Fund had increased in value by 5.4% (£44.6m) from £831.1m to £875.8m. This represented an improved position from the reduction in value of £23.9m reported for the previous quarter;
- The increase in value of the Fund had mainly been attributable to the increase in value of UK and Global Equities, primarily Global Equities with an increase of £21.4m;
- The value of cash being held had also increased by £14m since the previous quarter. The balance of cash deposits totalled £108.5m which was currently being invested in Money Market Funds and short term loans to generate as much interest as possible. Cash was also being held for capital commitments in relation to Alinda and Capital Dynamics and to fund transfer values in relation to the College of North West London (as a result of their decision to merge with the City of Westminster College and transfer their element of the Pension Fund to the London Pension Fund Authority). The decisions taken in

- relation to the Revised Investment Strategy would also utilise a significant proportion of cash balances by the first quarter of 2019;
- The change in the Funds asset allocation as at 30 June 18 as detailed within Table 1 of the report.

The Chair then invited Peter Davies (Independent Advisor to the Sub Committee) to introduce his quarterly report covering the period April – June 18. In terms of the economy, Members were advised that growth forecasts for 2018 had been moderated since April with the consensus forecasts for 2019 also having been lowered slightly. In terms of interest rates the Federal Reserve had raised US rates in June by 0.25% and indicated that two further rises were likely during the year as a response to the strong US economy and tightening labour market. The European Central Bank had announced that its programme of bond purchases would cease by the end of 2018 and had indicated no rise in interest rates was planned before mid-2019. The Bank of England had also deferred a rate rise in May, due to the slowing of the UK economy but had subsequently increased the rate to 0.75%, the highest level since 2009. Other significant issues impacting on the economic outlook included the escalation in the trade war between the US and China and Brexit.

In terms of performance on the equities markets, Peter Davies outlined the rebound in the markets following the falls experienced during the first quarter of the year but advised that at the end of June North America was the only region showing a positive return for the year to date. The surge in the oil and gas sector had also continued along with strong performance in Technology. In relation to Bonds, Members noted that despite the rise in short term interest rates, longer term US bond yields had experienced little change over the quarter, although the 10 year yield had briefly exceeded 3%. Members noted the updates also provided in relation to currencies, commodities and property. In terms of the overall outlook Peter Davies concluded by advising the Sub Committee that whilst the equity markets appeared to have recovered their equilibrium following the volatility in January/February, on closer inspection it had only been the US equity market which had made gains during the year and these were felt to be largely attributable to cuts in Corporation Tax. Uncertainty also remained in relation to the ongoing impact of the trade war between the US and China and Brexit. It was also felt that the increase in US interest rates, when combined with actions by other central banks, had signalled that the era of artificially cheap money was ending which would limit the potential for further rises in equity or bond markets.

Members, whilst noting the update provided, also highlighted the fact that the information provided only reflected the position up to June 2018 and not as it currently stood. Whilst noting that the monitoring update was designed to provide a longer term focus and that indicators from the end of October had not (as highlighted by Peter Davies) identified any significant change in position, Ravinder Jassar advised that he had recognised the concern raised and would therefore seek to review future reporting deadlines and meeting dates in order to better align and reduce the time lag in data on which the monitoring updates were based.

As no further issues were raised the Chair thanked Peter Davies and Folake Olufeko for the update provided and the Sub Committee **RESOLVED** to note the Brent Pension Fund quarterly update and Independent Financial Advisors Investment Report.

8. **Brent Pension Fund Annual Accounts and Annual Report 2017/18**

Ravinder Jassar introduced the report, which he advised the Sub Committee now presented the audited Pension Fund Annual Report and Annual Accounts for the year ended 31 March 2018.

Members noted that the unaudited accounts and Annual Report had been subject to detailed consideration at the previous Sub Committee meeting in June 2018 with the main items to note set out in section 3.2 of the report.

On this basis, the Sub Committee **RESOLVED** to formally note the audited Pension Fund Annual Report and Accounts for the year ended 31 March 2018.

9. **Minutes of the Pension Board**

The Chair welcomed David Ewart (Chair of the Pension Board) to the meeting and invited him to provide a brief summary of the last Board meeting, which had been held on Tuesday 24 July 2018. David Ewart advised that the Board meeting had been positive with an update provided on progress with the transition of the Pension Administration contract to the Local Pension Partnership (LPP). Whilst noting the improvements being made in administration of the Fund the Board had recognised the work still required to ensure progress continued to be made.

As no further issues were identified the Sub Committee **RESOLVED** that the minutes for the Pension Board held on Tuesday 24 July 2018 be noted.

10. **Any other urgent business**

Although not identified as urgent business Ravinder Jassar took the opportunity to provide a brief update on the outcome of the procurement process for recruitment of an Investment Advisor to the Fund, which Members noted had resulted in the appointment of Hymans Roberston.

In addition, having noted this was Peter Davies final meeting as Independent Financial Adviser to the Sub Committee, Members took the opportunity to formally thank him for his hard work and support provided. Members also passed on their best wishes to Folake Olufeko who they were advised was shortly due to go on maternity leave.

As a final issue, Members were also asked to consider any items they would like included on the future training programme for the Sub Committee with the suggestion made that Members receive an update at a future meeting on plans in place to manage any deficit in relation to the Pension Fund. Conrad Hall (Chief Finance Officer) advised that this had been noted and he would welcome any further suggestions.

The meeting closed at 7:45pm

S CHOUDHARY
Chair