

	<p align="center"><b>Pensions Fund Sub-Committee</b> 27 February 2019</p>
	<p align="center"><b>Report from the Chief Finance Officer</b></p>
<p><b>Implementation of the Investment Strategy</b></p>	

<b>Wards Affected:</b>	ALL
<b>Key or Non-Key Decision:</b>	Non-Key
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	OPEN
<b>No. of Appendices:</b>	
<b>Background Papers:</b>	Report from the Chief Finance Officer to the Pension Fund Sub-Committee dated 6 November 2018 entitled 'Proposed adoption of the new Investment Strategy'
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	Conrad Hall, Chief Finance Officer Ravinder Jassar, Head of Finance

## 1.0 Purpose of the Report

1.1 This report updates the committee on progress on the implementation of the investment strategy.

## 2.0 Recommendation(s)

2.1 It is recommended the Sub-Committee notes the progress of implementing the investment strategy approved on the 6 November 2018 meeting, including in particular the appointment by the Council (as Administering Authority on behalf of the Brent Pension Fund) of BlackRock Investment Management (UK) Limited pursuant to an investment management agreement in order to facilitate the Pension Fund's investment into the following BlackRock pooled funds:

- (a) Aquila Life Over 15 Years UK Gilt Index Fund; and
- (b) Aquila Life Over 15 Years UK Gilt Index (Term Lending) Fund.

2.2 It is recommended the Sub-Committee agrees the proposed investment in the London CIV's infrastructure offering in April 2019.

### 3.0 **Background**

- 3.1 The primary role of the Pensions Sub Committee is the strategic management of the assets of the Fund to ensure it is in a position to meet benefit payments as they fall due and to reach a position of full funding. In particular, pursuant to Part 4 ('Terms of Reference for Council Committees and Sub-Committees') of the Brent Constitution, the Pension Fund Sub-Committee is responsible for (among other things):
- (a) determining policy for the investment, funding and administration of the Pension Fund;
  - (b) appointing and monitoring external service providers, including investment managers and advisers;
  - (c) making decisions to secure efficient and effective performance and service delivery;
  - (d) monitoring performance across all aspects of the service; and
  - (e) undertaking statutory functions on behalf of the Pension Fund and ensuring compliance with legislation and best practice.
- 3.2 As at the last valuation in 2016, the funding position of the Fund was low, at 55%, with assets of £676m and liabilities of £1,238m. In order to ensure that the deficit does not increase, the assets of the Fund need to increase faster than the increase in liabilities. The objective to reach a position of full funding therefore has a significant effect on the investment strategy, where a large proportion of the asset allocation is weighted towards relatively higher risk and higher growth assets, in order to generate superior returns and growth in the long term, above other protection and liability matching assets, such as government bonds.
- 3.3 At the previous Committee meeting on 6 November 2018, authority was delegated to the Chief Finance Officer to sell and acquire new holdings in line with the agreed investment strategy. For these purposes, it is noted that, pursuant to section 9.6 of Part 3 ('Responsibility for Functions') of the Brent Constitution, the Chief Finance Officer is responsible for the administration of the Council's financial affairs, including responsibility for advising on the investment strategy for the Council's pension assets, and to manage these accordingly.
- 3.4 The input of the Fund's investment advisors, Hymans Robertson LLP, has been sought on a number of occasions when implementing the investment strategy and regular meetings have taken place. Given the high level of volatility affecting both the UK and global markets during these times, all investments (whether divestments or new investments) were split into two or three tranches in order to reduce the timing risk associated with trading in such times. Also, no trading took place between 15 December 2018 and 15 January 2019 in order to avoid the market volatility associated with the run up to and post-Christmas periods.

## 4.0 Trading

- 4.1 As agreed at the November 2018 Sub-Committee meeting, a decision was made to sell the Janus Henderson UK Small Caps equity mandate due to it not aligning with the fund's Investment Beliefs. Furthermore, it was decided to allocate these funds to the London CIV Emerging Markets Fund managed by Janus Henderson, in order to meet the Fund's objective of holding a more regionally diversified portfolio of equities.
- 4.2 Trading took place in three tranches between mid-November and mid-December 2018 and resulted in total sales proceeds of £28.86m, net of any fees. By conducting the trades in this way, the Fund avoided significant transition costs that were planned as a result of a change in the manager of the small caps fund.
- 4.3 The investment in the LCIV Emerging Markets fund (£30m) was split into two tranches, with £15m being invested in November 2018 and a further £15m planned in February 2019.
- 4.4 A further £40m was invested into Growth Assets via the existing LCIV DGF manager, Baillie Gifford. This is intended as a temporary investment while the London CIV's investments in Infrastructure and Property become available (with these latter allocations to be built up over time). All trading was completed in December 2018, with the investment being split into two equal tranches. This has increased the total value of the mandate to £114.4m as at 31 December 2018.
- 4.5 The investment strategy recommended a 15% allocation to fixed income (protection assets) with 10% managed passively in government bonds via BlackRock and the remaining 5% allocation managed actively by the London CIV Multi Asset Credit (MAC) fund.
- 4.6 The Fund's exposure to the LCIV MAC fund was opened with an investment of £35m. As the fund only deals on a monthly basis, £18m were transferred in November 2018 and the remaining balance of £17m in January 2019.
- 4.7 The Janus Henderson Total Return Bond Fund is due to be sold in February 2019, with the proceeds being invested in BlackRock longer-dated gilts and for topping up the existing investment of Janus Henderson Emerging Markets fund. The fund had a closing valuation of £91.6m at the end of January 2019, and it is planned to use the proceeds to invest £77m with BlackRock and a further £15m in the LCIV Emerging markets fund (this was to help achieve efficient transition to the Fund's strategy). All the above trades form part of the Investment strategy and will bring the fund closer to meeting its Interim Allocation Target.
- 4.8 The impact of the implementation of the above trades are reflected in the table below showing market values as at the end of December 2018, the fund's interim asset allocation and variance from the target. Further detail is provided in the quarterly monitoring report on the same agenda.

	ASSET CLASS	30/09/2018 Value (£m)	Net Investment Value (£m)	Appreciation (£m)	31/12/2018 Value (£m)	% of Fund	Interim Allocati on Target (%)	Deviation (%)
GROWTH	<b>Equities</b>							
	UK - L&G	117.4		-12.0	105.4	12.6		
	UK Smaller Cos - Henderson	32.8	-28.8	-4.0	0.0	0.0		
	LCIV Henderson - Emerging Markets World Overseas	0.0	15.0	-0.5	14.5	1.7		
	Developed - L&G	315.7		-35.6	280.1	33.4		
	<b>Equities - Total</b>	<b>465.9</b>	<b>-13.8</b>	<b>-52.1</b>	<b>400.0</b>	<b>47.7</b>	<b>45.0</b>	<b>2.7</b>
	<b>Private Equity</b>							
Capital Dynamics	62.7		-2.2	60.5	7.2			
Yorkshire	0.0		0.0	0.0	0.0			
<b>Private Equity Total</b>	<b>62.7</b>	<b>0.0</b>	<b>-2.2</b>	<b>60.5</b>	<b>7.2</b>	<b>5.0</b>	<b>2.2</b>	
<b>Diversified Growth Fund</b>								
LCIV Baillie Gifford	78.7	40.0	-4.2	114.4	13.6			
LCIV Ruffer	49.8		-2.7	47.1	5.6			
<b>Total Diversified Growth</b>	<b>128.5</b>	<b>40.0</b>	<b>-6.9</b>	<b>161.5</b>	<b>19.3</b>	<b>18.0</b>	<b>1.3</b>	
INCOME	<b>Infrastructure</b>							
	Alinda	28.1		-0.3	27.8	3.3		
	Capital Dynamics	10.9		0.8	11.7	1.4		
	<b>Infrastructure Total</b>	<b>39.0</b>	<b>0.0</b>	<b>0.5</b>	<b>39.5</b>	<b>4.7</b>	<b>12.0</b>	<b>-7.3</b>
	<b>Property</b>							
UK - AVIVA	0.0		0.0	0.0	0.0			
Europe - AVIVA	0.7		-0.5	0.3	0.0			
<b>Property - Total</b>	<b>0.7</b>	<b>0.0</b>	<b>-0.5</b>	<b>0.3</b>	<b>0.0</b>	<b>5.0</b>	<b>-5.0</b>	
PROTECTION	<b>Fixed Income</b>							
	Henderson-Total Return Bond Fund	92.2		-0.6	91.6	10.9		
	LCIV CQS MAC	0.0	18.0	-0.2	17.8	2.1		
	<b>Fixed Income Total</b>	<b>92.2</b>	<b>18.0</b>	<b>-0.8</b>	<b>109.4</b>	<b>13.0</b>	<b>15.0</b>	<b>-2.0</b>
	<b>Cash Deposits</b>							
Other/Northern Trust - Aviva	106.0	-38.5	0.0	67.5	8.1	0.0	8.1	
<b>Cash Deposits Total</b>	<b>106.0</b>	<b>-38.5</b>	<b>0.0</b>	<b>67.5</b>	<b>8.1</b>	<b>0.0</b>	<b>8.1</b>	
<b>Grand Total</b>	<b>895.0</b>	<b>5.7</b>	<b>-62.0</b>	<b>838.7</b>	<b>100</b>	<b>100</b>	<b>0</b>	

4.9 Of the £67.5m Cash Deposits balance, £30.7m were unavailable for future investments as the amount has been earmarked to be paid out as part of the College of North West London Transfer, which took place on 14 February 2019.

## 5.0 Fees

5.1 The following table outlines the fees (transaction, management and dilution), incurred from the trades above.

		Investment/(Sale) £	Transaction Fee £	Total Payment/(Income) £
LCIV Emerging Market Equity Fund - J Henderson	Tranche 1	14,947,683.11	52,316.89	15,000,000.00
	Tranche 2	14,947,683.11	52,316.89	15,000,000.00
	<b>Total</b>			<b>30,000,000.00</b>
LCIV Diversified Growth Fund - Baillie Gifford	Tranche 1	19,956,096.59	43,903.41	20,000,000.00
	Tranche 2	20,000,000.00	0.00	20,000,000.00
	<b>Total</b>			<b>40,000,000.00</b>
LCIV MAC Fund	Tranche 1	18,000,000.00	0.00	18,000,000.00
	Tranche 2	17,000,000.00	0.00	17,000,000.00
	<b>Total</b>			<b>35,000,000.00</b>
Janus Henderson Small Cap Sale	Tranche 1	(15,000,000.00)	0.00	(15,000,000.00)
	Tranche 2	(7,540,500.00)	40,500.00	(7,500,000.00)
	Tranche 3	(6,397,101.69)	34,358.81	(6,362,742.88)
	<b>Total</b>			<b>(28,862,742.88)</b>

5.2 It is worth noting that with regards to the second tranche of the LCIV Baillie Gifford investment of £20m, an arrangement was made with the LCIV in order to synchronise the transaction with another local authority that was selling at the same time. As a result, no dilution fees were incurred on the transaction, resulting in a saving of approx. £44,000. Under normal circumstances, dilution fees are deducted from the amount transferred by LBB to the investment manager, however, in this particular case, the full £20m was invested in the fund. The transaction was managed by the London CIV and council officers have expressed interest in implementing similar arrangements in the future, should the timing of future transactions be as favourable.

5.3 With regards to the LCIV MAC fund, transaction fees, calculated at 0.1%, are only incurred for any withdrawals within the first 12 months. Therefore, there were no fees incurred when making the investment.

## 6.0 Due Diligence

6.1 Brent officers have reviewed a number of documents that detail the extensive procurement process and due diligence undertaken by the London CIV in the appointment of CQS (LCIV MAC) and Janus Henderson (LCIV Emerging Markets).

6.2 The next investment that will be available on the LCIV's pipeline, and in line with the Fund's investment strategy, is infrastructure. Brent officers attended the LCIV offices on 14 February to review a series of documents related to the procurement of the manager responsible for managing this investments.

## 7.0 Infrastructure

- 7.1 Following the Fund's strategic review, it was agreed to increase the Fund's exposure to income assets and, as part of this strategic change, increase the Fund's infrastructure target allocation from 8% to 15%. The strategic rationale for doing this was to increase the Fund's exposure to assets that seek to generate long-term real returns with a notable element of this return from income. It was agreed that this increase in income allocation would be built up over time, thereby helping provide diversification and potential providing flexibility in the Fund's strategy should other complementary income assets become available.
- 7.2 At 31 December, the Fund had £39m invested in infrastructure (4.7% of Fund assets). These investments are held with Alinda II and III infrastructure funds (£27.8m in aggregate) and Capital Dynamics (£11.7m invested in the manager's Clean Energy fund).
- 7.3 The Fund's current approach to accessing infrastructure is to commit a certain amount of money to the investment managers' funds, with the manager then calling these monies over time, as investments become available. The Fund currently has c.\$14m in uncalled capital commitments to its current funds (almost all with Alinda). If this capital was called, it would increase the Fund's infrastructure exposure to c6%, however, this figure ignores any market moves between now and the capital calls and the impact of income being distributed from the existing funds i.e. by the time we expect the capital to be called we expect the actual allocation to be less than 6% of Fund assets.
- 7.4 As part of pooling it is anticipated that, subject to appropriate due diligence, the Fund's future infrastructure investments will be made via the London CIV. Based on discussions with the London CIV, Funds will have the ability to commit additional amounts of money on an annual basis.
- 7.5 Given the above points, most notably on diversification and the ability to review commitments on an annual basis, it is recommended that the Fund commits, subject to due diligence, £50m to LCIV's infrastructure fund at this time. With this commitment level revised on an annual basis. £50m represents c6% of Fund assets. It will be drawn down over time and will represent a significant step in the Fund's strategic journey with an increased allocation to income assets.
- 7.6 As agreed previously, these capital calls will form part of the Fund's strategic change, and therefore are anticipated to be funded from a combination of Fund cashflow and partial divestments from the DGF holdings. It would also be possible to release cash from rebalancing of the Fund's assets relative to target, e.g. as a result of significant market movements.

## 8.0 Financial Implications

- 8.1 These are set out throughout the report.

## 9.0 Legal Implications

- 9.1 Pursuant to a shareholders' agreement dated 9 Oct 2015, the Council is a shareholder in the LCIV, a voluntary collaborative venture between the London local authorities incorporated on 17 July 2014 to invest the assets of the London Local Government Pension Scheme. As a member of the LCIV, the Council (as the Administering Authority of the Brent Pension Fund) has discretion to opt in to investment options made available through the LCIV, and thus to invest the Pension Fund assets into LCIV sub-funds and passive funds managed outside the LCIV platform by passive providers but in respect of which reduced management fees exclusive to LCIV members apply. The Council's Pension Fund Sub-Committee, in exercising delegated functions of the Pension Fund within the scope given under Part 4 ('Terms of Reference for Council Committees and Sub-Committees) of the Brent Constitution, is empowered to recommend that the Pension Fund invests into such LCIV sub-funds and passive funds, including those noted in Recommendation 2.1 of this report, and to authorise the appointment of investment managers in respect of the Pension Fund's investments.
- 9.2 Pursuant to Regulation 9(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Council (as the Administering Authority of the Brent Pension Fund) is permitted to appoint one or more investment managers to manage and invest Pension Fund money, or any part of such money, on its behalf, and subject to compliance with the conditions on appointments set out therein.
- 9.3 Pursuant to Regulation 10(1)(e) of The Public Contracts Regulations 2015, contracts entered into by contracting authorities including the Council for *"financial services in connection with the issue, sale, purchase or transfer of securities or other financial instruments..."* are exempt from public contracts tendering requirements and in this respect it is noted that the investment management agreement (and the transactions contemplated by it) referred to in Recommendation 2.1 of this report falls within this category and the exception in Regulation 10(1)(e) therefore applies.

## 10.0 Equality Implications

- 10.1 Not applicable.

## 11.0 Consultation with Ward Members and Stakeholders

- 11.1 Not applicable.

## 12.0 Human Resources

- 12.1 Not applicable.

**Report sign off:**

**Conrad Hall**  
Chief Finance Officer

