



## LONDON BOROUGH OF BRENT

### MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE Wednesday 2 October 2019 at 6.00 pm

PRESENT: Councillor Aden (Vice Chair in the Chair) and Councillors Choudry, (substitute for Councillor Choudhary), Perrin and Stephens

Apologies for absence were received from: Councillors S Choudhary, Daly, Maurice and Bankole

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

None.

#### 2. **Minutes of the previous meeting -**

RESOLVED:

that the minutes of the previous meeting held on 29 May 2019 be approved as an accurate record of the meeting.

#### 3. **Matters arising**

None.

#### 4. **Deputations**

The Sub-Committee welcomed Mr Simon Erskine who addressed the meeting on behalf of Brent Divest. In reference to the report by the Director of Finance on Brent Pension Fund's approach to Responsible Investment and Environmental, Social and Governance issues, Mr Erskine submitted the following comments. As the analysis in that report was likely to delay any action on protecting the Fund from the inherent risk of fossil fuel investment, any proposed action should be time limited with the shortest possible timescale and any engagement should be followed up with concrete action. In his view, the Council's policy of engaging with fossil fuel investment was not achieving the desired effect. He made reference to other London boroughs which had made a firm commitment to fully divest from fossil fuel investments and urged Brent to follow that example. Mr Erskine however acknowledged the Fund's fiduciary duty to safeguard the financial security of the Fund and thus its members.

In conclusion, Mr Erskine urged the Sub-Committee to urgently explore in partnership with other boroughs that had made the commitment to divest from fossil fuel investment and that whilst the Fund was awaiting the appropriate CIV funds to

which existing funds could be moved, it should carry out the analysis suggested in the report (Responsible Investment in ESG) at an early agreed deadline and with set goals.

Mr Erskine was thanked for his address.

#### **5. Brent Pension Fund's approach to Responsible Investment and Environmental, Social and Governance issues**

This report set out the Fund's proposed approach to further integrating Environmental, Social and Governance (ESG) considerations into its strategic decision making and set out a new package of measures which subject to committee approval, the Fund intends to take in the short and medium term to manage the risk of climate change. Mr Ravinder Jassar (Director of Finance) introduced the report and highlighted the Fund's Responsible Investment (RI) commitment, reflected in the Fund's Investment Strategy Statement. He clarified that the Fund's funding principles were as follows; to ensure that sufficient resources were available to meet all benefit as they fell due for payment; recover any shortfall in assets, relative to the value of accrued liabilities, over broadly the future working lifetime of current employees; enable employer contributions to be kept as stable as possible and at reasonable cost; and to maximise the returns from investments within reasonable risk parameters

He added that the ESG criteria of its existing investments were assessed on an ongoing basis, including regular interaction and challenge of the Fund's investment managers (including the Fund's asset pool, London CIV). In recent years this had involved working with the London CIV to develop an overarching Responsible Investment policy, which the Committee endorsed and agreed to adopt in November 2018. Mr Jassar referenced the successful strategy of encouraging the Fund's managers to improve their disclosures and quarterly reporting with detailed breakdown on ESG matters.

Mr Jassar proposed to undertake a carbon footprint exercise for the Fund in order to improve its understanding of the Fund's holdings. This project would be undertaken by Officers working with our investment advisors, Hymans, to scope out the project further and report back to the committee. The exercise would use the latest data on greenhouse gas emissions attributable to global companies. The data collated would be used by officers to direct research and engagement activity with a view to assessing the opportunities and risks related to the shares. Following this, recommendations on the measurement of and actions related to carbon emissions would be then presented to the committee for approval.

Mr Jassar continued that individual funds engaging with companies on their own were thought to be unlikely to have as much of an impact and recommended working collaboratively so as to maximise their influence on major companies on topics such as climate change, labour rights and other ESG issues. There were a number of collaboration groups, including the Local Authority Pension Fund Forum (LAPFF). He outlined the membership and the combined investment assets of the LAPFF and added that additional information requested had been provided directly to members and the decision to join the forum brought back to the Sub-Committee.

Members then discussed investment in fossil fuel, how to engage and sought an idea as to the timescale for producing the joint report by officers and Hymans (investment advisor). Mr Jassar confirmed that the report would be available for the meeting in February 2020. In respect of the financial implications for joining the LAPFF, Councillor Perrin expressed his dissatisfaction. With the above in mind the Sub-Committee RESOLVED:

- i) To note the overall report with regards to position on responsible investment and climate change;
- ii) to note the further work proposed with regards to scenario analysis, carbon footprint analysis and consideration of alternative index-tracking funds.
- iii) to agree the Fund's membership of the Local Authority Pension Fund Forum (LAPFF)
- iv) that the investment plans be reviewed by February 2020.

## **6. Investment Monitoring report on fund activity for the 2nd quarter**

This report updated members on the Fund's activity for quarter 2, 2019. The report was presented by William Marshall and Kameel Kapitan (Hymans). Mr Marshall introduced the report by cautioning Members that there could be a potential impact on the Fund depending on the outcome of the Brexit negotiations. Mr Kapitan informed Members that the Fund returned ahead of benchmark in the Q2 2019, continuing the strong start to 2019 and over the quarter the fund grew from just over £856m to almost £896m. In general, the Q2 2019 was another positive quarter with both risk seeking and defensive assets delivering positive returns. Members heard that the 3 key contributors to overall relative outperformance were; Janus Henderson's EM fund, Ruffer's multi-asset investment and Capital Dynamics' Private Equity.

Members heard that with the numerous changes to the strategic allocations in recent months there were no expected divestments or new investments in the next quarter. However, it was anticipated that the Fund would seek to increase its allocation to infrastructure via the London CIV's offering in Q4 2019, subject to the fund receiving the necessary FCA approval. Mr Kapitan explained that the delays in the LCIV's property offering may lead Officers and the Committee to consider alternative solutions in the interim period. Currently the funds were held within Baillie Gifford's diversified growth allocation but discussions are scheduled for Q4 2019 as to whether there were other more appropriate alternatives. He then provided updates on individual fund managers performance against benchmark and their ratings highlighting certain aspects of Ruffer and Baillie Gifford businesses as set out in the report.

In welcoming the updates, Members RESOLVED:

That the investment monitoring report on Fund activity for Q2, 2019 be noted.

## 7. **Brent Pension Fund: Annual Report and Accounts 2018/19**

This report presented the draft Pension Fund Annual Report and audited Annual Accounts for the year ended 31 March 2019. Mr Sawan Shah (Senior Finance Analyst) informed Members that there had been no major changes to the audited Annual Accounts since the submission of the Draft Annual Accounts to the Sub-Committee. He continued that only minor amendments and additional clarifications were made to the draft accounts by Grant Thornton (Council's auditors). He highlighted the following main items:

The value of the Fund's investments increased from £831.1m to £856.4m and total contributions received from employers and employees totalled £52.1m for the year, an increase on the previous year's £49.9m. Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, totalled £45.9m, an increase on the previous year's £38.9m. He added that as in 2017/18, the Fund was in a positive cash-flow position because its contributions exceed its outgoings to members.

In response to a member's question on the increase in pensions and other benefits paid to members, Mr Shah clarified that it had resulted from the programme of voluntary redundancies for members over 55 years of age.

In welcoming the report, it was **RESOLVED**:

That the Brent Pension Fund Annual Report and Accounts 2018/19 be noted.

## 8. **LGPS Update**

This report updated the Sub-Committee on recent developments within the LGPS regulatory environment and recent consultations issued by the Ministry of Housing, Communities and Local Government. Mr Ravinder Jassar (Head of Finance) introduced the report and informed Members that the HM Treasury (HMT) launched a consultation on draft regulations, guidance and directions to implement the exit payment cap which was set at £95,000. He drew Members' attention to the Local Government Association (LGA) response paper, appended to the report, which raised concerns on the feasibility and consequences of implementing the Policy in the manner set out in HM Treasury's Consultation Document.

Mr Jassar then gave an update on the McCloud case; transitional protections that protected older judges and firefighters from the public sector pension scheme changes in 2015. Members heard that on 14 May 2019, the scheme advisory board (SAB) published an advice note covering the implications of McCloud/Cost Cap in relation to the 2019 fund valuations. He then outlined the key points from the Advice Note and added that the Fund Actuary had produced a summary regarding the various approaches in which the McCloud risk can be managed. Given that no remedy had been agreed by 31<sup>st</sup> August 2019, it would leave Funds to consider locally, how best to manage the uncertainty and risk. Approaches to this was expected to vary across LGPS Funds depending on Officers' and Committees' views on the risk. The Fund was currently analysing and working together with both the Fund Actuary and Investment Advisor to manage the potential ongoing risks for the Fund. As part of the external audit of the Pension Fund accounts, the auditors

requested an estimate of the potential impact of McCloud, and if material, reflect the changes in the accounts. This was estimated at £3m at whole fund level. Depending on the liability profiles on different employers, the impact would vary across different employers.

In respect of Governance, Mr Jassar informed Members that the Scheme Advisory Board (SAB) commissioned Hymans Robertson to examine the effectiveness of current LGPS Governance Models and to consider alternatives and enhancements to existing models which can strengthen LGPS Governance going forwards. Hymans Robertson undertook a process of engaging extensively with stakeholder groups and fund types to consider four governance models, each of which would be assessed against set criteria. The results found that there was a majority preference in adopting a governance model which combined improved practice with greater ring fencing of the LGPS within existing structures. In addition to this, the results found that there was a preference for clearer ring-fencing of Pension Fund management from the host authority, including budgets, resourcing and pay policies.

Following the analysis of these results, Hymans Robertson proposed that an outcome based approach to LGPS governance, with minimum standards, should be adopted rather than a prescribed governance model. In addition to this, Hymans Robertson proposed updating of relevant guidance and training requirements. Following the approval of the good governance report, the Scheme Advisory Board (SAB) has asked Hymans Robertson to assist with the next stage of this project which will involve the defining of good governance outcomes and options for assessment of these outcomes. Further details of the results and analysis undertaken by Hymans Robertson were set out in Appendix 3 to the report. Overall the Fund supported these recommendations, in particular, clearly clarifying the standards expected in areas of governance and administration.

Members welcomed the report and RESOLVED:

That the report on the recent developments in the LGPS be noted.

## 9. **Review of Fund benchmarks and performance targets**

The purpose of this report was to review the Fund's investment benchmarks and performance targets at an individual asset class level. On behalf of Hyman Roberts (Fund Investment Advisor), Mr Robert Marshall explained that The Fund required benchmarks so that 'gaps' or problems with performance can be identified and performance improvements can be achieved through investigating causes and identifying the best solutions. He drew Members' attention to the recommendations to the Fund's benchmarks and performance targets (attached at appendix 1). Mr Marshall added that at an individual asset class level, it was proposed to adopt new benchmarks and performance targets set against Capital Dynamics Private Equity, Baillie Gifford Multi Asset, Ruffer Multi Asset, Alinda Infrastructure, Capital Dynamics Infrastructure and LCIV CQS Multi Credit.

In noting that the changes would be incorporated in the next quarterly reporting of Fund activity, Members RESOLVED:

That the proposed changes to the Funds investment benchmarks and performance targets be noted.

#### 10. **Equitable Life Proposal**

The report outlined proposed changes to the Equitable, a legacy Additional Voluntary Contributions (AVC) provider for the Brent Pension Fund. Mr Sawan Shah (Senior Finance Analyst) informed Members that AVCs were potentially a tax efficient way to save money for retirement in addition to the main Local Government Pension Scheme, allowing members to retire early or with a higher pension. He clarified that the scheme which affected about 25 members only and provided by Equitable Life, was not part of the assets of Brent Pension Fund.

Members heard that in June 2018, Equitable Life announced that it had entered into an agreement to transfer its business to Utmost Life and Pensions. In August 2019, it wrote to all the LGPS administering authorities affected by the transfer to advise them that as both 'Scheme Policy Holders' and 'Eligible Members' they were able to vote on the scheme or the proposed changes as set out in the report. Mr Shah drew members' attention to leading Counsel's advice and in reiterating the recommendation to delegate authority to the Director of Finance added that regard would be had to leading Counsel's advice in determining how to vote.

In welcoming the report, Members **RESOLVED**:

That delegated authority be granted to the Director of Finance on the decision to vote as outlined in section 3.7 of the report.

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

The Sub-Committee welcomed Mr David Ewart (Independent Chair, Pension Board) and invited him to provide a summary of the Board's last meeting. Mr Ewart informed the Sub-Committee that in general, the Board observed an improved performance and a positive outlook by LPP, the pensions administration team. He highlighted the significance of the monthly meetings which were being held by the pensions administration team to monitor the performance of the contract, looking at both the individual month and trends across months. It was noted that the cases completed on time had significantly improved since February across all categories. He added that phase 1 of the Record Keeping Plan (RKP) project which addressed critical issues with common and scheme specific data, focusing on ensuring scheme data is accurate, was in time for the triennial valuation.

Mr Ewart was thanked and in welcoming the update, Members **RESOLVED**:

That the summary of the Board's last meeting be noted.

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

None.

#### 13. **Exclusion of Press and Public**

RESOLVED:

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)”

#### 14. **London 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 personnel at the LCIV and the confirmation of the appointment of J.P. Morgan as the new sub-fund manager of the LCIV Emerging Market Equity Fund, subject to the completion of the Investment Management Agreement (IMA). Members also received updates on multi asset credit fund and infrastructure fund and noted that the proposal submitted by the LCIV in August 2019 for the Infrastructure Fund had been granted permission.

RESOLVED:

- i) That the recent developments with the London CIV be noted;
- ii) That the transition arrangements relating to the LCIV Emerging markets fund be noted;
- iii) That the Fund’s strategic asset allocation be tactical.

#### 15. **2019 Triennial Valuation**

The purpose of this report was to update members on the progress of the 2019 Triennial Valuation and the next steps and also requested members to approve the draft FSS (Funding Strategy Statement) for consultation with employers and delegate authority to finalise the Council contribution rate. Mr Ravinder Jassar (Head of Finance) introduced Mr Douglas Green and Ms Laura McInroy from Hyman Robertson who presented the report on 2019 Triennial Valuation.

Mr Douglas Green explained that the Triennial Review ends with the setting of the contribution rates of the various employers for the period 2020/21 through 2022/23. Its key document was the Funding Strategy Statement (FSS) that set out the Pension Fund’s strategy to achieve an appropriate funding level and manage risk appropriately. He continued that The Whole Fund results look at the overall funding level, noting that various employers would have different funding levels based on contribution rates in the past.

Ms McInroy then gave a detailed presentation on the valuation, drawing members’ attention to the draft FSS attached to the report as appendix 1, which set out the key changes since the 2016 FSS was published following consultation with employers.

Mr Green and Ms McInroy were thanked for the in-depth presentation and in welcoming the report, RESOLVED:

- i) that the progress on the 2019 Triennial Valuation be noted.
- ii) that the Whole Fund results be noted;
- iii) that the current draft of the Funding Strategy Statement (FSS) be agreed;
- iv) to note that that the draft FSS will be consulted with employers, as required by LGPS Regulations, and reported to the Sub-Committee in February 2020 for formal ratification.

The meeting closed at 8.10 pm

S CHOUDHARY  
Chair