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|  | Pensions Fund Sub-Committee 16 July 2020 |
| | Report from the Director of Finance |
| Covid-19 Update | |

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| Wards Affected: | ALL |
| Key or Non-Key Decision: | Non-Key |
| Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small> | Open |
| No. of Appendices: | 1. Covid-19: market update |
| Background Papers: | ▪ N/A |
| Contact Officer(s): <small>(Name, Title, Contact Details)</small> | 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 |
| DIVERSIFIERS | 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 were 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