LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Monday 21 February 2022 at 6.00 pm

PRESENT: Councillor , Councillor Aden (Vice-Chair) and Councillors Daly, Donnelly-Jackson and Kansagra

Also present: Councillors

Apologies for absence were received from: Councillors

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

Councillor Donnelly-Jackson declared a personal interest in item 6 (Net Zero Transition Roadmap Update) having been involved in discussion with Brent Divest previously regarding this issue.

2. **Minutes of the previous meeting**

RESOLVED: That the minutes of the previous meeting held on 05 October 2021 be approved as an accurate record of the meeting.

3. **Matters arising**

None.

4. **Deputations (if any)**

None.

5. **London Borough of Brent Pension Fund - Q3 2021 Investment Monitoring Report**

Kenneth Taylor (Hymans Robertson LLP Investment Consultant) introduced a report which outlined the performance of Brent Pension Fund during Q3 2021.

In presenting the report, the following were highlighted as key strategic points:

- In addition to the usual figures which were presented to the Committee in the report, the report also contained information for the first time as part of the Funds evolving Responsible Investment agenda on climate metrics within its investment strategy. Noting the Funds commitment to disclosing and monitoring these metrics, members were advised this aspect of the report would continue to be developed over time, in order to indicate how well the

Fund was performing in relation to Environmental, Social and Governance (ESG) issues.

- The Fund had added £80m to its portfolio over this period, representing a combined return against assets of 6% (ahead of the benchmark return of 5.1%).
- The main driver of returns were the Fund's growth holdings with LGIM's global equity mandate the primary contributor in monetary terms and the Global and Private Equity Funds also performing well. Within the Fund's Income holdings the Baillie Gifford multi-asset fund had also produced strong performance.
- The Fund had also now made its first investment in the BlackRock Low Carbon equity fund and the LCIV private debt fund. In addition, £15m had also been invested in the Fidelity UK Property fund consistent with the previous decision taken by the Committee with both investments to be gradually increased over the next few years.
- Emerging market equities were noted as delivering a lower rate of return, as well as the Capital Dynamics Infrastructure Fund and Alinda Infrastructure Fund, although it was noted these had not had a significant bearing on the Fund overall, totalling 0.5% of the Fund's assets.
- The Capital Dynamics Infrastructure Fund and Alinda Infrastructure Fund were identified as 'legacy' assets involving a longer term strategy to wind them down and eventually replace with other higher performing funds such as the London CIV and other renewable assets.
- Members were updated on the overall asset allocation with it noted that the Fund was broadly in line with its interim target allocations for growth and income assets, cash and underweight protection assets.

An overview was then provided in relation to manager performance of the various funds, with the following noted:

- Members were advised that total Fund return remained strong and positive on both an absolute and relative basis with longer term performance also ahead of performance.
- Emerging market equities had however delivered a negative return over the quarter, with both sector allocation and stock selection detracting from performance along with financial stocks driven by China and India's zero tolerance Covid-19 policies.

Members were then provided with a summary of the climate risk analysis and carbon intensity by Fund Managers. Key issues highlighted were as follows:

- As a starting point the Fund was reporting in line with information produced by its Pool, the London CIV. The Fund would, however, seek to evolve its climate risk monitoring process by monitoring against further metrics. Key metrics were currently focussed around weighted average carbon intensity and Fossil Fuel exposure with the information covered capturing approx. 88% of the Fund's assets, as at 31 December 21. Members were assured this provided an accurate and reliable level of data.
- Having noted the relative carbon intensity for each Fund as a % of assets members were advised that despite representing only 15% of Fund assets the Baillie Gifford Diversified Growth fund was responsible for 29% of the Fund's total carbon intensity. Whilst the LGIM Global Equity Fund represented the

highest % of carbon intensity (42%) it was also recognised that this represented 53% of the Fund's assets. Focussing on these areas, members were advised of the specific investment profile relating to the Diversified Growth Fund, which had impacted on their carbon intensity rating including investment in the German energy company RWE. It was noted that as part of the London CIV, progress would continue to be monitored in terms of the carbon intensity of that fund.

- In terms of fossil fuel exposure, it was updated that the Fund had a 6.2% exposure to fossil fuels, in comparison to the global average of 7.3%, meaning that the Brent Fund was lower than the global average, though the Fund was still looking to decrease this level further.

The Chair thanked Hymans Robertson LLP for their presentation and members were then invited to ask questions, with the responses summarised below:

- Further clarification was sought on the Fund's position in relation to property investment, with members advised this had been undertaken in line with the decision made at the previous Sub Committee meeting to approve a strategic investment approach towards property.
- In response to further details being requested on the approach in terms of investment in the BlackRock UK Gilts fund, members were advised that gilt investment generally provided lower risk assets with BlackRock appointed to oversee the Fund's bond allocation. The Fund was a passively managed mandate. Over the latest monitoring period the Fund had returned 2.6% which had offset negative returns experienced in Q3.
- In response to a query regarding performance of the BlackRock World Low Carbon fund it was confirmed that the fund had returned a positive performance of 5.1% since inception in September 21, outperforming its benchmark for the period by 0.1%. It was noted that this investment would continue to be built up over time.
- In relation to the Net-Zero target commitments of companies which the Fund had invested in, members were advised of the measures available to engage with those companies in order to drive transition and ensure they were aligned with Brent's own targets moving forward linked with development and delivery of the Fund's own Net Zero Transition Roadmap.

Members welcomed the update provided and with no further issues raised thanked Hymans Robertson LLP for their presentation. It was **RESOLVED** to note the report.

6. Net Zero Transition Roadmap Update

Kameel Kapitan (Investment Consultant, Hymans Robertson LLP) introduced the report providing the Sub-Committee with an update on progress against the Fund's net zero transition roadmap, as detailed within the progress update included as Appendix 1 to the report.

In recognising the focus on Responsible Investment, in particular related to climate risk, the Fund had agreed to evolve its investment strategy in order to take account of the associated opportunities and risks with progress identified in relation to:

- Dedicated training sessions on Responsible Investment (RI) for officers and member;
- Introduction of RI focussed investment beliefs;
- Investment in a new low carbon mandate and a new infrastructure fund with a significant allocation to renewables; and
- An updated Investment Strategy Statement to reference carbon goals.

Reference was also made to the agreement made at the previous Sub Committee meeting in October 21 to develop a practical "roadmap" to net zero for the Fund based on the following key principles:

- A background to RI and key themes/principles that would require due consideration by the Fund as part of the net-zero journey;
- Developing a Net Zero Framework in the form of 5 key areas to drive forward the Fund's strategy;
- A short and medium term roadmap for each key area within the framework;
- Potential targets (both long term and interim) for further consideration and an initial list of equity funds.

The key issues noted within the progress update provided for the Sub Committee were therefore as follows:

- The progress achieved against the short term roadmap (12 -18 months) agreed at the previous Sub Committee.
- The key challenges facing the Fund as a result of the approach towards decarbonisation. These included the need to recognise the difficulties in decarbonising a portfolio invested globally across diverse sectors whilst also continuing to focus on the primary obligation to support the payment of benefits to members. In addition there would be a need to ensure a balanced approach in order to ensure the transition was fair and achieved in a timely manner, without damage to prosperity or standards of living across the world. The switch to a low carbon portfolio over the short term would also not necessarily support a global transition to net zero.
- The challenging nature involved in measuring climate risk effectively, particularly in private markets with a need identified to capture opportunities as well as risks and also recognise the constructive impact of engagement as opposed to just divestment as an approach given the more robust investment solutions now available.
- The strategic context in relation to the Fund's current carbon emissions and levers available in the form of capital allocation supported by ongoing engagement. In this strategic context members were advised that equities were currently the largest contributor to the Fund's carbon emissions with low carbon alternatives already identified as part of the growth assets review and the winding down of carbon intensive legacy investments and their replacement by more impact focussed funds offered through LCIV as a net zero partner of the Council. As a result work was ongoing to review the Fund's existing mandates within the context of the net zero strategy alongside the development of a series of short, medium and longer term targets for carbon emissions and programme of engagement with Fund Managers.

- The development of a three dimensional framework to support the Fund's climate ambitions, which alongside seeking to take advantage of relevant investment and engagement opportunities also included the establishment of a range of carbon metrics for monitoring and planning purposes. The Sub Committee were therefore being asked to consider adopting a proposed range of metrics based on those published by LCIV and linked to the requirements established by the Climate Task Force for Public Disclosure. Whilst recognising that the quality of underlying data to support these type of metrics was still evolving the Sub Committee was advised that the current asset coverage for the Fund was good with it possible to report on the metrics identified for 88% of assets. This would continue to be reviewed and refined as the range and quality of data developed with the need also highlighted to ensure the incorporation of a range of forward looking metrics as the roadmap and strategy was developed.
- Having noted the initial climate risk analysis provided for the Fund as part of the Investment Update report and challenges in terms of the current lack of widespread reporting of scope 3 emissions the report then moved on to present a range of options (for future consideration) in terms of the setting of an appropriate net zero target date for the Fund.

The Chair thanked Kameel Kapitan and Kenneth Taylor (Hymans Robertson LLP) for their presentation and members were then invited to ask questions, with the responses summarised below:

- Support was expressed for the recommended focus on not only the challenges and risks but also opportunities within the development of the roadmap and RI strategy.
- In seeking to clarify the risks in being able to meet the obligations of the Fund in terms of returns for members as part of any move towards net zero and decarbonisation of the Fund's investment portfolio, members advised they were keen to ensure these considerations were included as part of future quarterly performance updates alongside the carbon metrics reporting. Members were advised that this was being built into the actuarial assumptions with the Net Zero transition strategy planned to meet the Fund's obligations albeit in a more environmentally friendly way.
- Whilst recognising the challenges involved, members were keen to ensure as much focus as possible in engaging with Fund Managers and companies in order to obtain and push for the provision of data relating to scope 3 emissions. Although the scope and reliability of this type of data was currently limited the Sub Committee were advised it would not prevent further engagement to encourage its development and availability on a more widespread basis in view of the increased focussed around Responsible Investment related to climate risk.
- The suggested inclusion of planned obsolescence for products as an additional potential metric for consideration given the focus on how this policy was being operated by many large scale global companies, particularly across the tech sector.
- The need, as part of the overall approach and challenges identified in relation to the roadmap to recognise and consider the potential impact of the worldwide increase in price of fossil fuels. It was noted that the increase in prices around the world, as well as the ongoing impact of the conflict in

Ukraine, showed the importance of greener and renewable energy in mitigating against the reliance on individual countries and companies for energy.

- Members preference, whilst recognising the challenges identified, to secure as early a net zero transition date as possible. In terms of the options identified members were, at this stage keen to disregard 2050 as an option and to quantify the practical risks associated with 2030. Whilst advised that 2040 would present less significant challenges than other options identified it was noted that no final decision was being sought at this stage on the target date given the need for further work to review and quantify the impact on the Fund.

As no further issues were raised the Sub Committee again welcomed the update provided and **RESOLVED**

(1) To note the update on progress on the net zero road map as outlined in Appendix 1 of the report.

(2) To agree to the climate metrics set out in Appendix 1 of the report and to recommended expansion of further climate metrics to include forward looking metrics as part of the continued and ongoing development of the roadmap.

7. **Actuarial Assumptions (Summary)**

Sawan Shah (Senior Finance Analyst) introduced the report, which provided an update on the 2022 valuation process, in particular on the key financial and demographic assumptions that had driven the overall funding level and employer contribution rates.

In presenting the report the Sub Committee noted the inclusion of a more detail paper included for consideration as an exempt item. In providing an initial summary members noted:

- The planned formal valuation of the Fund to be carried out in 2022 as part of the required three year programme under the LGPS Regulations 2013.
- Prior to each valuation review, it was recommended best practice to review the actuarial assumptions to ensure they were relevant to the financial, demographic and regulatory environment.
- The key assumptions which it was proposed to use for the 2022 valuation, as summarised within Appendix 1 of the report which included – discount rate, future investment returns, CPI inflation, salary expectations, future improvement in longevity and other demographic assumptions.

Members were advised that further detail on the assumptions had been provided within the restricted Appendix 2 of the report, which would need to be considered within the closed part of the meeting. On this basis, as no further issues were raised at this stage of the meeting, it was **RESOLVED** to note and agree the key assumptions for the forthcoming 2022 valuation as summarised in Appendix 1 of the report.

8. **Pension Fund Annual Report 2020-21**

Rubia Jalil (Finance Analyst) introduced the report which set out the final version of the Pension Fund Annual Report for the year ended 31 March 2021, following the conclusion of the external audit.

In presenting the report the Sub Committee noted:

- That Grant Thornton had given an unqualified opinion on the Pension Fund accounts and annual report with Brent Pension Fund having been the first local authority pension fund audited by Grant Thornton to have their annual report review completed.

Members commended officers for their work in completing the accounts and annual report and as no further issues were raised, it was **RESOLVED** to note and approve the contents of the Brent Pension Fund Annual Report 2020/21.

9. **Procurement of Actuarial, Custodian and Investment Management Consultancy Services**

Sawan Shah (Senior Finance Analyst) introduced the report which summarised the outcome of the Actuarial Services tender and sought authority to procure a contract for Custodian Services and Investment Management Services.

In presenting the report the Sub Committee noted:

- The requirement on all Local Government Pension Funds to appoint service providers in order for the Fund to carry out the following technical services as an Administering Authority under the Local Government Pension Service (LGPS) regulations – Actuarial Services, Custodian Service & Investment Management Services.
- Following a procurement exercise undertaken using the National LGPS Framework for Actuarial Benefits & Governance Consultancy Services (as detailed in section 3 of the report) the Fund had appointed Hymans Robertson to continue as their Fund Actuary for a 3 year period commencing October 21.
- The procurement process outlined in respect of the contracts for Pension Fund Custodian & Investment Management Services, with the existing contracts due to expire in June and October 22 respectively and consultation underway in order to identify the most advantageous procurement approach.

Having considered the update provided it was **RESOLVED** that the Sub Committee

(1) Note the re-appointment of Hymans Robertson LLP as actuary for the Brent Pension Fund.

(2) Approves the procurement of contracts for Custodian Services to the Brent Pension Fund and for Investment Management Services to the Brent Pension Fund.

(3) Delegates authority to the Director of Finance to approve the pre-tender considerations set out in Standing Order 89, to evaluate bids and thereafter to award contracts to the preferred bidders in respect of the two services detailed in (2) above.

10. **LAPFF engagement report**

Ravinder Jassar (Deputy Director of Finance) introduced the report providing an update on engagement activity undertaken by LAPFF (the Local Authority Pension Fund Forum) on behalf of the Fund.

In presenting the report, the Sub Committee were advised how the Fund's commitment with LAPFF and its work further demonstrated the commitment to Responsible Investment and engagement as a way to achieve its objective with the range of engagement activity having been detailed in the report.

Members welcomed the update provided and with no additional issues, raised it was **RESOLVED** to note the contents of the report.

11. **Minutes of Pension Board**

The Sub-Committee welcomed Mr David Ewart (Independent Chair - Pension Board) to the meeting (as an online participant) to give an overview of the Board's last meeting. The progress being made in relation to service provision was highlighted as part of the Pension Administration update with the Sub Committee also noting the appointment of a new employer (non-Brent) representative on the Board. Members were also advised of the support expressed by the Board in relation to the approach identified by the Sub Committee in relation to property investment options and the net zero transition roadmap, which had both been welcomed when presented to the Board. In concluding the Chair thanked all officers for their support and it was **RESOLVED** to note the minutes from the Pension Board and update provided at the meeting.

12. **Any other urgent business**

None.

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

At this stage in the meeting the Chair advised that the Sub Committee would need to move into closed session to consider the final items on the agenda and it was therefore **RESOLVED** to exclude the press and public from the remainder of the meeting as the reports and appendices to be considered contained the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Access to Information Act 1972, namely:

"Information relating to the financial or business affairs of any particular person (including the Authority holding that information)."

Having passed the above resolution the live webcast was ended at this stage of the meeting.

14. **Actuarial Assumptions (Full Report)**

Sawan Shah (Senior Finance Analyst) introduced the report, which (following on from the consideration of the summary provided under Agenda Item 7 in the public session of the meeting) provided full detail (within Appendix 2 of the report) on the key financial and demographic assumptions identified as driving the overall funding level and employer contribution rates as part of the 2022 valuation process.

Having already noted the summary provided members were invited to identify any comments, with the following issues and responses highlighted:

- Clarification was provided on the way that the commitment towards the Fund's transition to net zero would be included as part of the overall investment strategy.
- Further details were also provided in relation to the assumption included on discount rates with members assured that the assumptions identified had been subject to detailed review by officers and Hymans Robertson LLP.

Having considered the detailed supporting advice in relation to the actuarial assumptions identified the Sub Committee **RESOLVED** to confirm its earlier decision to note and agree the key assumptions for the forthcoming 2022 valuation as summarised in Appendix 1 and detailed in full in Appendix 2 of the report.

15. **London CIV Update**

Ravinder Jassar introduced the report, which provided the latest update on recent developments regarding the Brent Pension Fund Investments held within the London CIV (LCIV). The update included the LCIV Investment review for the period ending 31 December 21 (as detailed in Appendix 1 of the report) which provided an investment summary with valuation and performance data for Brent's ACS holdings along with a market and LCIV activities update. Also included (as detailed in Appendix 2 of the report) was the LCIV quarterly investment review which included Brent's investments in the LCIV Infrastructure fund along with valuation and performance data for the underlying portfolio investments and an update on pipeline investments

With no issues raised in relation to the update provided, the Sub Committee **RESOLVED** to note the report.

The meeting closed at Time Not Specified

COUNCILLOR ADEN
Vice-Chair in the Chair

The meeting closed at Time Not Specified

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Chair