



Brent Pension Fund Sub-Committee

Monday 20 February 2023 at 6.00 pm

Conference Hall – Brent Civic Centre, Engineers Way,
Wembley, HA9 0FJ

Please note this will be held as a physical meeting which all Committee members will be required to attend in person.

The meeting will be open for the press and public to attend or alternatively can be followed via the live webcast. The link to follow proceedings via the live webcast is available [here](#)

Membership:

Members

Councillors:

Johnson (Chair)
Mitchell (Vice-Chair)
Choudry
Dar
Hack
Kansagra
Miller

Substitute Members

Councillors

Dixon, Ethapemi, Mahmood and
Shah

Councillors

Maurice and J Patel

Non Voting Co-opted Members

Elizabeth Bankole

Brent Unison representative

For further information contact: Adam Woods, Governance Officer
Tel: 0208 8937 4737; Email: Adam.Woods@brent.gov.uk

For electronic copies of minutes, reports and agendas, and to be alerted when the minutes of this meeting have been published visit: **democracy.brent.gov.uk**

Notes for Members - Declarations of Interest:

If a Member is aware they have a Disclosable Pecuniary Interest* in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent and must leave the room without participating in discussion of the item.

If a Member is aware they have a Personal Interest** in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent.

If the Personal Interest is also significant enough to affect your judgement of a public interest and either it affects a financial position or relates to a regulatory matter then after disclosing the interest to the meeting the Member must leave the room without participating in discussion of the item, except that they may first make representations, answer questions or give evidence relating to the matter, provided that the public are allowed to attend the meeting for those purposes.

***Disclosable Pecuniary Interests:**

- (a) **Employment, etc.** - Any employment, office, trade, profession or vocation carried on for profit gain.
- (b) **Sponsorship** - Any payment or other financial benefit in respect of expenses in carrying out duties as a member, or of election; including from a trade union.
- (c) **Contracts** - Any current contract for goods, services or works, between the Councillors or their partner (or a body in which one has a beneficial interest) and the council.
- (d) **Land** - Any beneficial interest in land which is within the council's area.
- (e) **Licences** - Any licence to occupy land in the council's area for a month or longer.
- (f) **Corporate tenancies** - Any tenancy between the council and a body in which the Councillor or their partner have a beneficial interest.
- (g) **Securities** - Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

****Personal Interests:**

The business relates to or affects:

- (a) Anybody of which you are a member or in a position of general control or management, and:

- To which you are appointed by the council;
- which exercises functions of a public nature;
- which is directed is to charitable purposes;
- whose principal purposes include the influence of public opinion or policy (including a political party or trade union).

- (b) The interests of a person from whom you have received gifts or hospitality of at least £50 as a member in the municipal year;

or

A decision in relation to that business might reasonably be regarded as affecting the well-being or financial position of:

- You yourself;

a member of your family or your friend or any person with whom you have a close association or any person or body who is the subject of a registrable personal interest.

Agenda

Item	Page
1 Apologies for Absence	
2 Declarations of personal and prejudicial interests	
Members are invited to declare at this stage of the meeting, the nature and existence of any relevant disclosable pecuniary or personal interests in the items on this agenda and to specify the item(s) to which they relate.	
3 Minutes of the Previous Meeting	1 - 12
To approve the minutes of the previous meeting held on 05 October 2022 as a correct record.	
4 Matters arising	
To consider any matters arising from the minutes of the previous meeting.	
5 Deputations (if any)	
6 Investment Strategy Review	
This report presents the analysis and results of the investment review carried out by Hymans Robertson. The review follows on from the 2020 strategic investment review and the Fund's 2022 Actuarial Valuation.	13 - 46
7 Investment Monitoring Report - H2 2022	47 - 60
To receive the Brent Pension Fund H2 2022 Investment Monitoring Report.	
8 Housing Allocation Report	61 - 78
This report updates the committee on the London CIV UK Housing Fund and the Product Assurance Review conducted by the Fund's investment advisors.	

9	2022 Triennial Valuation Results and Funding Strategy Statement	79 - 168
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This report sets out the results of 2022 triennial actuarial valuation and the Funding Strategy Statement (FSS) to the Committee for consideration and approval.

10	Procurement of Investment Management Services	169 - 172
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This report summarises the outcome of the Investment Management Services tender.

11 Minutes of Pension Board	173 - 182
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To note the minutes of the Pension Board meeting held on 09 November 2022.

12 Exclusion of the Press and Public

The following items are not for publication as they relate to the category of exempt information set out below, as specified under Part 1, Schedule 12A of the Local Government Act 1972:

Agenda Item 6: Investment Strategy Review – Appendix 2
(Investment Strategy Review 2023 (Appendix 7) –
Low Carbon Equities)

This appendix has been classified as exempt under Paragraph 3 of Part 1 Schedule 12A of the Local Government Act 1972, namely: "Information relating to the financial or business affairs of and particular person (including the authority holding that information)."

Agenda Item 8: Housing Allocation Review – Appendix 1 (Product Assurance Review – LCIV UK Housing Fund).

This appendix has been classified as exempt under Paragraph 3 of Part 1 Schedule 12A of the Local Government Act 1972, namely: "Information relating to the financial or business affairs of and particular person (including the authority holding that information)."

Agenda Item 9: 2022 Triennial Valuation Results & Funding Strategy Statement – Appendix 5 (Rates & Adjustment Certificate).

This appendix has been classified as exempt under

Paragraph 3 of Part 1 Schedule 12A of the Local Government Act 1972, namely: "Information relating to the financial or business affairs of and particular person (including the authority holding that information)."

The press and public will be excluded from the remainder of the meeting as the report(s) to be considered 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)"

13 Employer Exit from the Pension Fund

183 - 192

This report outlines the funding position and the process for an employer's exit from the Fund.

14 Any other urgent business

Notice of items to be raised under this heading must be given in writing to the Head of Executive and Member Services or their representative before the meeting in accordance with Standing Order 60.

Date of the next meeting: **To be advised**



Please remember to set your mobile phone to silent during the meeting.

- The meeting room is accessible by lift and seats will be provided for members of the public. Alternatively it will be possible to follow proceedings via the live webcast [HERE](#)

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LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE Held in the Conference Hall, Brent Civic Centre on Wednesday 05 October 2022 at 6.00 pm

PRESENT: Councillor Johnson (Chair) and Councillors Choudry, Hack, Miller, Mitchell, Kansagra and Dar.

Also present: David Ewart (Independent Chair – Pension Board) and Elizabeth Bankole (Independent Co-Opted Member).

1. Declarations of personal and prejudicial interests

The following interests were declared at the meeting:

- Councillor Johnson (Chair) declared a personal interest as an ex local government employee and a member of the Local Government Pension Scheme.

2. Deputations

Councillor Johnson (as Chair) advised that he had agreed to receive a deputation at the meeting requested by Simon Erskine on behalf of Divest Brent. The Chair welcomed Mr Erskine to the meeting who advised that the deputation was seeking to support the move away from fossil fuel investments as part of a diversification strategy and Responsible Investment Policy by Brent's Pension Fund.

The Committee were informed that the International Energy Agency had also supported this approach and the move towards ceasing investment in fossil fuels and exploration in favour of investment in renewable energy, which it was highlighted continued to look positive.

In addition to the environmental risk that investments in fossil fuels posed, attention was also drawn to the associated financial risks identified, with specific reference to recent coal based investments by other Pension Funds. The Committee were also made aware of the action being taken by a number of other boroughs to divest their Pension Funds, including the disposal of fossil fuel investments and wider support being made available in this process.

Having concluded the deputation, the Chair thanked Simon Erskine for his contribution and drew attention to the progress update also included on the agenda in relation to the work being undertaken by Brent's Pension Fund to progress its net zero transition road map & Responsible Investment (RI) Policy on which the issues raised as part of the deputation could be considered in more detail.

3. Minutes of the previous meeting

RESOLVED: That the minutes of the previous meeting held on 27 June 2022 be approved as an accurate record of the meeting.

4. Matters Arising

None.

5. Investment Monitoring Report – Q2 2022

Kenneth Taylor (Hymans Robertson LLP) introduced the report, which outlined the performance of the Brent Pension Fund during Q2 2022.

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

- In view of recent market volatility, the Committee were reassured that public sector pension schemes had not been as adversely impacted compared to private sector schemes. Members were advised that this was as a result of the longer-term scope of public sector investments meaning the Fund was better protected from short-term economic conditions.
- A high-level summary of the performance of the Fund was then presented to the Committee, with the key points highlighted below:
 - The Fund had posted negative returns over the quarter, ending the period with a valuation of £1,054.3m, down from £1,127.6m at the end of Q1 2022. This was due to several ongoing global factors and market volatility as a result of the challenging economic position, rising inflation and interest rates.
 - The majority of asset classes had struggled in Q2 2022 amidst such a challenging environment. Index-tracking mandates with LGIM (global equities) and BlackRock (gilts) contributed heavily to the negative absolute return whilst the LCIV Baillie Gifford multi-asset fund, the LCIV emerging markets fund and the LCIV Multi Asset credit (MAC) fund all drove relative underperformance versus the benchmark.
 - A positive performer was the Fund's property investment with Fidelity although at c1.5% of assets this had little offsetting effect on the overall performance.
- In Q3 2022 the Fund would seek to complete planned investment in the BlackRock Low Carbon equity fund whilst continuing to explore attractive secondary market opportunities within the property space consistent with the decision taken at the October 2021 Committee meeting.
- Regarding the Fund's asset allocations, it was confirmed the Fund remained broadly in line with the interim and long-term target allocations for growth and cash.

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 was negative during the current monitoring period on both an absolute and relative basis. This had resulted in performance over the 12 month period falling slightly behind benchmark although the Sub-Committee was advised that relative performance over a 3 year period remained positive.
- The main issue highlighted in relation to performance over the second quarter of 2022 was LGIM's Global Equity Fund, given its sizeable allocation of Fund assets and unfavourable return in both absolute and relative terms.
- It was noted that UK equity markets (despite a negative return) had continued to outperform global markets with Capital Dynamics Private Equity mandate as the only positive performer in terms of growth assets. Whilst returns achieved by Ruffer remained strong those being achieved by Ballie Gifford had fallen behind in relative terms. It was noted, however, that the Ruffer Multi Asset Fund had adopted a more defensive position to deal with market volatility, which was important for the Fund, to ensure diversification of assets.
- The diversifying nature of the LCIV and Alinda Infrastructure funds had meant that these sub-funds contributed positively over the quarter.
- A new traffic light system has been introduced to review the performance of fund managers, which reflected the long-term performance of each mandate. The only manager rated as 'red' (significant underperformance) had been the Capital Dynamics Infrastructure Fund, although it was noted that the fund only comprised 0.7% of Brent's Pension Fund, so the impact was minimal.

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

- Clarification was requested regarding the absence of Responsible Investment (RI) ratings for some fund managers. The Committee were advised that, for resource reasons, a rating was not given to managers whose assets only comprised a small percentage of the overall Fund. It was also noted that LCIV were responsible for rating their own funds.
- The Committee were keen to progress discussions around the use of bond investments, in order to reach the required investment target.
- Concerns were raised relating to the performance rating and carbon output of the LCIV Baillie Gifford Multi Asset Fund. The Committee were advised that the performance of Baillie Gifford's investments had been adversely impacted by the rise in interest rates and a more "risk based" approach, resulting in more cyclical returns being achieved. Expected timescales for more positive returns could not be given at this stage. On carbon output, members were advised that Baillie Gifford valued engagement, opting to influence high carbon companies to change their practices. The possibility of influencing LCIV to switch to Baillie Gifford's lower carbon alternative fund was put forward as a potential action.
- The Committee noted that BlackRock gilts were also currently underperforming due to rising interest rates.
- Regarding property investments, the Committee were advised that an LCIV investment recommendation was due to be finalised in early 2023. It was also noted that the monitoring report covered the period to the end of June 2022 and as a result, did not reflect the property holding actioned in July 2022. This would

be included as part of the next Investment Monitoring update for the next Sub-Committee.

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 Roadmap Update and Responsible Investment Policy**

Sawan Shah (Senior Finance Analyst, Brent Council) introduced the report, which updated the Committee on the Fund's net zero transition road map, Responsible Investment (RI) policy and the LGPS Consultation on Governance and reporting of climate change risks.

In considering the report the Committee were advised of the increasing pressure from various stakeholders to ensure that Environmental, Social and Governance (ESG) issues were considered in the course of managing the fund and in its investment decision making. As a result, the Fund's investment advisors Hymans Robertson had updated the Fund's Responsible Investment Policy (set out in Appendix 1 of the report) which formalised the Fund's RI beliefs, principles, and approach. The key updates proposed for Brent's RI policy were as follows:

- A further development of the Fund's environmental, social and governance (ESG) related beliefs, setting out the actions being taken to understand and manage ESG issues for the benefit of Fund members and other stakeholders.
- Considering the use of active management over index-tracking approaches where an active manager could be expected to provide materially improved ESG characteristics.
- Considering opportunities to make investments with a positive social or environmental impact subject to the risk and return characteristics being acceptable.

The Committee were also informed of the steps being taken by the Fund in relation to RI, which were summarised as follows:

- Integrating the consideration of ESG issues throughout the investment decision-making process.
- Reviewing an investment manager's RI policy when appointing a new investment manager or allocating money to a new fund.
- Monitoring the Fund's managers on an ongoing basis from an ESG perspective.
- Asking the Fund's investment advisers to highlight opportunities to invest in responsible investment strategies.
- Ensuring that where an investment manager did not meet the expectations within the policy, officers could engage with the respective stakeholders to encourage improvements.
- Continuing to review London CIV's RI policy to ensure that its strategies and beliefs were still aligned with the Fund's.
- An ongoing commitment to actively exercising ownership rights attached to the Fund's investments. Voting rights had been delegated to the investment

managers with the objective of preserving and enhancing long-term shareholder value.

Regarding the net-zero transition roadmap, Kenneth Taylor (Hymans Robertson LLP) provided a more detailed overview on the progress to date, with the key points as follows:

- A commitment of £50m in an infrastructure fund through London's asset pool, the London CIV, with a significant renewable component agreed in 2019. This investment was currently being built up with £23.7m invested by 30th June 2022.
- The Fund had also agreed investment in a new low carbon passive equity tracker (BlackRock ACS World Low Carbon Equity Tracker). An initial allocation of £15m had been deployed with further allocations also agreed and due to be made shortly.
- The Fund had entered into the London CIV Private Debt fund with a £50m commitment in 2021. The underlying managers (Churchill/Pemberton) were required to show a clear commitment to integrating ESG at the fund level and the investment process as part of the evaluation criteria. As the fund was currently being built up, it was noted it would be a number of years before it was fully invested.
- The Fund was a member of the Local Authority Pension Fund Forum (LAPFF), a collaboration group between LGPS Funds. Membership of LAPFF allowed the Fund, along with other local government funds, to engage with large global firms, with climate change and the transition to a low carbon economy one of the individual engagement streams that LAPFF dealt with.
- The Fund has introduced carbon metrics reporting into quarterly performance reports providing the Weighted Average Carbon Intensity (WACI), fossil fuel exposure and carbon intensity for the majority of the Fund's assets. The Fund would continue to review and refine metrics as the range and quality of data evolved.
- The Fund would continue to review its growth holdings to identify options to move towards net zero with a view to presenting further recommendations to the Committee in February 2023. As an example, it was noted that the table in section 3.17 of the agenda identified potential targets for further consideration from the London CIV and the Fund's existing low carbon equity holding through BlackRock. Alternative options through Legal and General, with whom the Fund's main equity mandates were held, would also be considered.

The Committee were then notified of the LGPS Consultation on Governance and reporting of climate change risks, with members advised that:

- The consultation was seeking views on government proposals to require administering authorities of the Local Government Pension Scheme (LGPS) to have effective governance, strategy, risk management and accompanying metrics and targets for the assessment and management of climate risks and opportunities.
- It was proposed that LGPS administering authorities would calculate the carbon footprint of their assets and assess how the value of each fund's assets or liabilities would be affected by different temperature rise scenarios, including the

ambition to limit the global average temperature rise to below 2 degrees set out in the Paris Agreement.

- Administering authorities would be required to publish a Climate Risk Report annually by 1 December. The first Climate Risk Report would be due in December 2024.

Members were advised that the consultation was due to last for 12 weeks from 1 September 2022 to 24 November 2022 with officers, in consultation with the Fund's advisors, intending to respond on behalf of the Fund.

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

- The Committee sought clarification on the statement "ongoing engagement is preferable to divestment". Hymans Robertson advised the Committee that, in their view, engagement should come before divestment. It was stressed that engagement was a useful tool in moving towards net zero through influencing organisational change. If companies did not deliver on climate targets, divestment could then be used as a sanction. It was agreed that examples of successful engagement would be useful for future meetings with further clarification to be included as part of future reports regarding the statement, in response to the concerns expressed.
- The Committee were informed that the models underpinning climate scenario analysis on actuarial evaluations were available and could be provided on request.
- The Committee agreed that a future meeting with LCIV and fund managers would be useful to discuss net zero targets and low carbon investments, which officers advised they would look to progress.
- Regarding the possibility of meeting the 2030 net zero target, the Committee were advised that whilst challenging, the Fund had the capital to invest in renewable energy and similar investments, which provided a lever despite unfavourable economic conditions.

As no further issues were raised, the Sub Committee again welcomed the update provided and **RESOLVED** to note and endorse the update on the net zero transition roadmap, updated Responsible Investment Policy and LGPS Consultation on Governance and reporting of climate change risks.

7. **Brent Pension Fund: Annual Report and Accounts 2021/22**

Naomi Hayes (Finance Graduate - Brent Council) introduced the report, which provided an update on the Pension Fund Annual Accounts for the year ended 31 March 2022. The Committee were advised that the latest Statement of Accounts and Annual Report (attached as Appendix 1 to the report) contained minor presentational and disclosure changes from those presented at the previous meeting in July 2022 with the main audit fieldwork now substantially completed.

Naomi Hayes then presented a more detailed overview, with Members noting:

- The Brent Pension Fund Audit Findings Report 2021/22 (attached as Appendix 2 to the report) set out the anticipated results of the final audit being undertaken by Grant Thornton as the Council's External Auditors. Based on the work undertaken to date, Members were advised that Grant Thornton were intending to give an unqualified opinion on the Pension Fund accounts which had been reported to the Audit and Standards Advisory Committee on 29 September 2022.
- The high-level overview of the annual report, as summarised below:
 - During 2021/22, the value of the Pension Fund's investments had increased to £1,128m (2020/21 £1,032m). This was due to the strong performance in particular from the Fund's global and UK holdings as the recovery from the pandemic continued.
 - Total contributions received from employers and employees were £64m for the year, an increase on the previous year's £61m.
 - Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, were £47m, an increase on the previous year's £42m.
 - As in 2020/21, the Council was in a positive cash-flow position as its contributions exceeded its outgoings to members.

Members were advised that the next step in the process involved sending the draft Pension Fund Annual Report to Grant Thornton for review. This included the Fund's Investment Strategy, Pensions Administration Strategy, Funding Strategy Statement and Communications Policy Statement. The Annual Report would then need to be published on or before the 1 December, following completion of the audit process.

The Chair thanked Naomi Hayes for the report and members were then invited to ask questions, with the responses summarised below:

- The Committee were pleased to note that the use of the internal dispute resolution procedure was low and whilst not a cause for concern felt it would also be useful to know the categories of complaints being raised.

As no further issues were raised it was **RESOLVED** that the Pension Fund Sub-Committee formally note and endorse:

- (1) The Draft Pension Fund Statement of Accounts included within the Annual Report.
- (2) The Brent Pension Fund Audit Findings Report 2021-22 produced by the External Auditors, Grant Thornton.
- (3) The draft Brent Pension Fund Annual Report 2021-22, for publication once finalised following completion of the audit process.

8. **2022 Valuation – Funding Strategy Statement Update**

Sawan Shah (Senior Finance Analyst, Brent Council) introduced the report, which provided an update from the Fund Actuary highlighting the key changes being considered for the 2022 Funding Strategy Statement (FSS) review being undertaken in compliance with the requirement for a formal valuation of the whole Fund to be undertaken every three years, under Regulation 62 (1) of LGPS Regulations.

In presenting the report, the Committee were advised that the key objectives of the valuation were to:

- Compare actual experience against assumptions made at the last valuation.
- Value the assets and liabilities of each individual employer and the pension fund using data from the Fund's administration system and financial records.
- Set employer contribution rates, including for the Council, for the next 3 years (1 April 2023 to 31 March 2026).
- Review the Funding Strategy Statement (FSS) as the key governance document in terms of setting out the underlying assumptions and principles that were adopted when valuing the Fund's liabilities and setting contribution rates, and also in terms of addressing the objectives of different employers within the Fund and deficit recovery plans.
- Perform a health check on the Fund's solvency.

Douglas Green (Hymans Robertson LLP) was then invited to detail the key changes being considered for the 2022 FSS review, which included:

- A review of the structure of the document with the existing single document being replaced with a 'core' document and 'satellite' policies.
- A review of funding assumptions for the 2022 valuation.
- A summary of work undertaken relating to climate risk.
- To update the FSS in relation to new regulations relating to employer flexibilities and exit credits.

The Committee noted that, in line with LGPS regulations, the FSS would need to be subject to formal consultation with employers. This was currently scheduled for Autumn 2022 with the final version (incorporating any amendments from comments received during the consultation period) of the FSS due to be presented to the Sub-Committee at the February 2023 meeting for approval.

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

- In response to a query on the consultation period, Members were advised that the consultation period would last at least a month and was likely to commence in November 2022.

As no further issues were raised, it was **RESOLVED** to note the key changes for the 2022 Funding Strategy Statement (FSS) and that the draft FSS would be subject to consultation with employers, as required by LGPS Regulations in advance of it being presented to the Sub-Committee for formal ratification at its next meeting in February 2023.

9. Minutes of the Pension Board

The Sub-Committee welcomed Mr David Ewart (Independent Chair - Pension Board) to the meeting to give an overview of the Board's last meeting. Members were updated

that the Pension Board's role was to assist the Sub Committee in efficient management of the Fund and in monitoring service quality for scheme members. The Board's membership comprised of representation from both Scheme Members and Employers as well as Brent Council.

Regarding the July meeting, the Sub Committee were informed that the Board had reviewed their Terms of Reference along with the Risk Register for the Fund's administration service. The Board had also welcomed John Crowhurst (Operations Director, LPPA) to provide key business and performance updates in relation to administration of the service and migration to the new Universal Pension Management (UPM) IT system, which it was anticipated would be fully functional by May-June 2023.

The Chair thanked David Ewart for the update provided and with no further issues raised it was **RESOLVED** to note the minutes from the Pension Board held on 25 July 2022.

10. **Any other urgent business**

None.

11. **Exclusion of 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.

12. **2022 Valuation – Whole Fund Results**

Rubia Jalil (Finance Analyst, Brent Council) introduced the report which updated the Committee on the initial 2022 valuation results as at 31 March 2022.

In considering the report the Committee noted the initial valuation results (as set out in the exempt appendix to the report provided by Hymans Robertson LLP). The whole fund results were focussed on the overall funding level, recognising that various employers would have different funding levels based on past contribution rates and also different levels of risks, with the report presenting the funding position of the London Borough of Brent Pension Fund on the valuation date of 31 March 2022 and outlining the changes in funding position since the last valuation in 2019.

The committee noted the high level funding results, as detailed in section 3.4 of the report, which showed how (compared to the formal valuation in 2019) the funding

position had improved based on liabilities having increased by £193m and asset values by £278m, meaning a reduction in deficit by £85m. Members were also advised that the overall funding level had improved to 87% compared to 78% at the previous valuation and 55% at the 2016 valuation, with the increase reflecting the progress made in the overall financial health of the pension fund, higher than expected investment returns and improved data quality.

Having considered the detailed analysis provided by Hymans Robertson in relation to the initial actuarial valuation and progress in terms of the high-level valuation timetable, which remained on track, members were advised the next stage would involve Hymans Robertson (as Fund Actuary) analysing and issuing draft employer results along with the updated Funding Strategy Statement (FSS) for formal consultation, prior to the final valuation report and FSS being submitted to the Sub Committee in February 2023 for formal approval and sign off.

Having considered the issues raised in response to the update provided the Chair thanked officers and Hymans Robertson for the update and it was **RESOLVED**:

- (1) To formally note and welcome the progress made with the Fund valuation.
- (2) To note the Whole Fund results and improved funding position since the 2019 valuation.

13. **2022 Valuation – Employer Contribution Strategy**

Sawan Shah (Senior Finance Analyst, Brent Council) introduced the report, which presented an analysis from the Fund Actuary regarding the contribution rate strategy for the Council for the three years from 1 April 2023.

In considering the report, which it was noted was fully exempt from publication, members noted that review of the Contribution Rate Strategy had been based on a modelling exercise for the stabilised employers within the Fund which included Brent Council, local authority schools and most academy schools in Brent. Members were advised of the factors needing to be considered when setting contribution rates along with the need to take a balanced approach between the Fund's need to maintain prudent funding levels and the employers' need to maintain reasonably stable employer contribution rates as a means of managing any downside risk and avoid any permanent fall in asset values.

Having considered the detailed analysis of the review process undertaken by Hymans Robertson (as detailed within Appendix 1 of the report) members noted the outcome of the different contribution rate scenarios that were modelled and reviewed (which had included reference to climate change risk) and the recommendations being made as a result in relation to the employer contribution rates over each of the next three years from 2023-24 to 2025-26, as detailed within section 3.15 of the report.

Having considered the issues raised in response to the update provided the Chair thanked officers and Hymans Robertson for the report and on the basis of the outcome of the review it was **RESOLVED** to approve the employer contribution rate for the next

three financial years for Brent Council, as detailed within section 3.15 and Appendix 1 of the report.

14. **London CIV Update**

Rubia Jalil (Finance Analyst) introduced the report, updating the committee on recent developments regarding Brent Pension Fund investments held within the London CIV (LCIV). The update included (as detailed in Appendix 1) the quarterly investment performance review of the following investments held by Brent, namely within London CIV Emerging Market Fund; London CIV Diversified Growth Fund, London CIV Absolute Return Fund and LCIV MAC Fund along with a summary of London CIV environmental, social and governance (ESG) activity. Also included (as detailed in Appendix 2 of the report) was the LCIV quarterly investment review for private markets which included Brent's investments in the following funds: LCIV Infrastructure Fund and LCIV Private Debt Fund along with valuation and performance data for the underlying portfolio investments and an update on pipeline investments.


As a final update members attention was drawn to the general updates provided by the London CIV (as set out in section 3 of the report) in relation to investments, fund launches and fund monitoring and operational controls.

Having considered the update provided, the Sub Committee **RESOLVED** to note the reports and updates provided by London CIV.

The meeting closed at 7.30pm

COUNCILLOR R JOHNSON
Chair

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	Pensions Fund Sub-Committee 20 February 2023
	Report from the Corporate Director, Finance and Resources
Investment Strategy Review	

Wards Affected:	All
Key or Non-Key Decision:	N/A
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	PART EXEMPT - Appendix 7 to the Investment Strategy Review (Low carbon equities) contains 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)"
No. of Appendices:	Two Appendix 1: Investment Strategy Review Appendix 2 Investment Strategy Review – Appendix 7 – Low carbon equities (Exempt from publication)
Background Papers:	■ N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Minesh Patel Corporate Director Finance & Resources 020 8937 4043 minesh.patel@brent.gov.uk Ravinder Jassar, Deputy Director of Finance 020 8937 1487 ravinder.jassar@brent.gov.uk Sawan Shah, Head of Pensions 020 8937 1955 sawan.shah@brent.gov.uk

1.0 Purpose of the Report

- 1.1 This report details the review undertaken by the Fund's investment advisor, Hymans Robertson, of the current investment strategy, following on from the Fund's 2022 valuation. The purpose of the review was to evaluate the current

investment strategy and analyse the ability of alternative strategies to meet the Fund's strategic objectives.

2.0 Recommendation(s)

That the Pensions Fund Sub-Committee:

2.1 Consider and agree the investment strategy review undertaken by the Fund's investment advisors, Hymans Robertson, available in Appendix 1. The following proposals should be taken into consideration:

- Rebalance the equities portfolio by reducing the allocation to global equities by 6% and re-invest in multi-asset credit and gilts;
- Undertakes a market review of low carbon global equity funds to replace the current LGIM global equity mandate;
- The Fund to continue to build its investments in infrastructure (15% target), private debt (5% target) and property (10% target), to move towards the long-term strategic allocation;
- That new investments will be needed to build the infrastructure allocation to the target allocation;
- The broad split between UK commercial, UK housing and Global property for the Fund's property allocation;
- Investigate options to maintain the target allocation to Private Debt;
- Review of the Protection portfolio to identify whether this can be refined to increase expected returns with only a marginal increase in risk.

2.2 Note that the investment strategy review supports the Fund's net zero road map with a market review of the global equities allocation planned for 2023.

3.0 Detail

Current Investment Strategy

3.1 The Fund's current strategic asset allocation was agreed in February 2020 following the 2019 valuation. In summary, a long term target of 50% to equities, 35% to income (including diversified growth funds) and 15% to protection assets was agreed.

3.2 The Fund employs a phased approach to working towards the long-term target allocation, therefore an interim allocation was also agreed. Table 1 below shows the current interim and long term allocation.

Asset Class	Interim Target (%)	Long-term Target (%)	Actual Fund asset allocation (Dec 2022) (%)
Equities	55	50	59
Global ex UK	40	40	46
UK	5	5	6
Emerging Markets	5	5	4
Private Equity	5	0	3
Income	30	35	31
Diversified Growth	20	5	21
Infrastructure	10	15	5
Property	0	10	3
Private Debt	0	5	2
Protection	15	15	10
Multi Credit	5	5	4
Gilts	10	10	5
Cash	0	0	1
TOTAL	100	100	100

- 3.3 At the time of the last review, the Fund's current strategic asset allocation was expected to generate a return of 5.52% p.a., with a volatility of 9.88% p.a. Over the last 3 years, up to December 2022, the Fund has generated a return of 3.8% which is lower than the long term expected rate but 0.5% higher than its benchmark return of 3.3%.
- 3.4 The aim of the Fund's investment strategy is to maximise returns over the long term within specified risk tolerances in order to meet the wider strategic goals of the Fund and to close the gap between assets and liabilities. At the 2019 valuation, the Fund was estimated by the actuary to be 78% funded. At the 2022 valuation, the overall funding level has improved by 9% to 87% reflecting higher than expected investment returns and improved data quality.

Strategy Proposals

- 3.5 The Fund's investment advisors, Hymans Robertson, have completed their Investment Strategy review. The review focuses on the high-level investment strategy with the aim of determining the high-level allocation to Growth, Income and Protection assets, and considers the detailed implementation of these allocations. This review has included carrying out asset liability modelling to test the probability (and associated risks) of the Fund's current investment strategy achieving its long-term objectives. We also tested how the current strategy compares with other investment strategies.
- 3.6 The remainder of this report provides a short summary of the Investment Strategy Review, the full report is attached in Appendix 1.

3.7 The investment advisor has modelled the existing strategic allocation, the current long term allocation and two alternative de-risked strategies:

- De-risked strategy 1: Reduce the equity allocation by 10%, with an additional 2.5% to income (private debt) and 7.5% to protection (2.5% to multi asset credit and 5% to corporate bonds)
- De-risked strategy 2: Reduce the equity allocation by 10%, with an additional 2.5% to income (private debt) and 7.5% to protection (7.5% to multi asset credit, 10% to corporate bonds less 10% to gilts)

3.8 The table below shows the 20 year expected return and 1 year risk measure (volatility) for these strategies:

	Current strategy (at 31 Dec 2022)	Current long-term strategy	De-risked strategy 1	De-risked strategy 2
20 year expected return	4.56% p.a.	4.61% p.a.	4.56% p.a.	4.75% p.a.
1 year risk measure	12.7%	12.1%	11.4%	11.7%

3.9 The key points to note are:

- This analysis provides support for continuing to move towards the long-term target allocations agreed at the last strategy review, the long-term strategy is expected to provide a marginal increase in expected return with lower risk compared to the current strategy.
- The results for the de-risked strategies give some support to reducing the Fund's exposure to equities.
- the current long-term target allocation can be enhanced by replacing fixed-interest gilts with corporate bonds. The risk and return profile of this strategy is an expected return of 4.81% p.a. with a risk measure of 12.3%.

3.10 It should be noted that the move from the current strategy to the long-term strategy or alternative strategies should take place over time, taking into account the availability of suitable investment opportunities, the scope to access private markets and the current market environment.

Growth

3.11 The current allocation to growth assets is 9% overweight relative to the long-term targets. Around 3% of this position is expected to wind down in the coming years therefore the review recommends to decrease the equity allocation by 6% and re-invested in multi-asset credit and gilts.

3.12 The investment strategy review also recommends undertaking a market review during Q2 2023 to make significant progress towards achieving the Fund's net

zero ambitions and selecting one or two low carbon global equity funds to replace the current LGIM global equity mandate.

Income

- 3.13 The Fund has long held overweight allocation to diversified growth funds as the Fund seeks to build up its infrastructure, private debt and property exposure. The review recommends to continue to move towards the long-term strategic allocation for these asset classes and that new investments to these asset classes are by selling diversified growth funds.
- 3.14 In terms of infrastructure, new investments will need to be identified to build the allocation to infrastructure towards its 15% target. A review of suitable infrastructure funds including funds targeting renewable energy and Forestry/Timberland could be considered as part of a diversified infrastructure portfolio. Such investments would align well with the Fund's net zero ambitions as significant investment is required as part of the transition. Appendix 4 of the full report sets out more information about the Forestry/Timberland asset class including the characteristics and risks.
- 3.15 The review recommends to maintain the 5% allocation over the long term to Private Debt, which is currently in the build up phase. It is recommended to investigate options in this area in terms of follow up commitments to maintain the target allocation.
- 3.16 It is also recommended to maintain the target allocation to Property and that the Fund continues to build its property allocation, creating a diversified portfolio comprising UK commercial property (c. 3.6%), UK housing (c. 2.8%) and global property (c. 3.6%). UK housing can provide additional diversification to the portfolio and tends to have a lower risk/return profile than commercial property, a detailed assessment of the LCIV UK Housing Fund which invests in social, affordable and specialist housing is included as a separate item on this agenda.

Protection

- 3.17 The review considers that current allocations to Protection assets are underweight relative to the long-term targets driven mainly by the sharp decline in the market value of bond assets during 2022 due to the impact of rising interest rates.
- 3.18 As noted in paragraph 3.12 above, it is recommended to decrease the equity allocation by 6% and re-invest the proceeds in multi-asset credit and gilts to increase these towards their target allocations.
- 3.19 The rise in interest rates means that the yields available on bonds (UK government gilts and corporate debt) are more attractive than they have been for some time therefore the committee should consider whether this can be refined to increase expected returns while maintaining risk at or around current levels.

4.0 Financial Implications

4.1 These are discussed throughout the report and included in Appendix 1.

5.0 Legal Implications

5.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the “Investment Regulations”) govern the management of the pension fund and the investment of fund money. According to Regulation 7 of the Investment Regulations an administering authority must formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State. It must publish a statement of its investment strategy and must review, and if necessary revise, its investment strategy at least every three years.

6.0 Equality Implications

6.1 Not applicable.

7.0 Consultation with Ward Members and Stakeholders

7.1 Not applicable.

8.0 Human Resources

8.1 Not applicable.

Report sign off:

Minesh Patel

Corporate Director, Finance and
Resources

London Borough of Brent Pension Fund

Investment Strategy Review – 2023

February 2023

Kenneth Taylor – Senior Investment Consultant

For and on behalf of Hymans Robertson LLP

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Investment Strategy Review – 2023

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Appendix 1 – Asset-liability modelling results

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Appendix 6 – Inflation hedging characteristics and considerations

Appendix 7 – Low carbon equities [confidential]

1 Introduction

Addressee and purpose

This report is addressed to the Officers and Pension Fund Sub Committee (the “Committee”) of the London Borough of Brent as administering authority to the London Borough of Brent Pension Fund (the “Fund”). This report sets out the conclusions of the review of the Fund’s investment strategy, makes initial recommendations on the asset allocation for the Fund and provides recommendations for the Fund’s Growth, Income and Protection portfolios.

This report should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. We accept no liability to any other party unless we have accepted such liability in writing. We provide comment from an investment but not a legal or tax perspective. This report complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work.

Background and objectives

The work we have undertaken has been influenced by our understanding of the Fund’s background, objectives, and beliefs, which are set out below.

The Fund was 87% funded at the 2022 actuarial valuation which represents a 9% improvement on the previous valuation which took place in 2019.

The Fund’s investment objectives are:

- Ensure that sufficient resources are available to meet all benefit as they fall 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,
- Maximise the returns from investments within reasonable risk parameters.

For this investment strategy review, we have interpreted these objectives as meaning that the Fund aims to achieve and maintain 100% funding with a Probability of Success of at least 70% in 20 years’ time. The report both focuses on the high-level investment strategy with the aim to determine the high-level allocation to Growth, Income and Protection assets which best meets the Fund’s investment objectives, i.e. what the Fund should invest in. In addition, it will look to highlight some areas for further consideration by the Committee on the underlying asset classes used to achieve this investment structure.

To assess whether an investment strategy is suitable, asset-liability modelling was undertaken as at 31 March 2021 in conjunction with the actuarial valuation. The results of this modelling have been included in the appendix for your information. Recognising that some time has passed since this modelling was run, we have used our in house proprietary ‘Structure Lite’ model to stress test these initial results to make sure they remain valid.

Our advice also reflects the need to align the Fund’s investment strategy with its investment beliefs.

Conclusions and recommendations

A summary of our conclusions and recommendations is set out below:

- The funding position has improved since the 2019 actuarial valuation, which is welcome news.

- We continue to support the Fund's long-term target allocations to Growth, Income and Protection assets, which were agreed following the 2019 actuarial valuation. In particular, we recommend the Fund continues to build out its private markets investments in infrastructure, private debt and property to help move the Fund towards the long-term target allocations previously agreed both from a position of diversification and accessing alternative sources of excess return.
- Cashflow analysis: the 10% pension increase in April 2023 coupled with a reduction in future contributions is expected to impact the cashflow position of the Fund. We have not analysed the cashflow position in this report but we would be happy to prepare this for the Committee, working with our colleagues in the actuarial team. This analysis will assess whether current levels of investment income are sufficient to cover any shortfall between contribution income and benefits paid.

Growth portfolio recommendations

- **Rebalancing:** the Fund is currently c9% overweight equities relative to the long-term target allocation (actual c59% vs target 50%) – please see the table on the next page. Around one-third of this overweight position will naturally be corrected as the private equity mandate winds down over the next few years. We recommend that the remaining c6% is sold (from the LGIM global equity mandate) and re-invested in multi-asset credit and gilts to increase these towards their target allocations.
- **Low carbon equities:** as the Fund continues to develop its net zero roadmap, a priority action is to review the Fund's global equities to determine whether the Fund can continue to access global equity markets and also achieve a reduction in its carbon emissions. At c40% of total assets, the global equities are the largest contributor to the Fund's carbon emissions. We recommend the Committee undertakes a market review during Q2 2023 and selects one or possibly two low carbon global equity funds to replace the current LGIM global equity mandate.

Income portfolio recommendations

- **Infrastructure:** new investments will need to be identified to build the allocation to infrastructure towards its 15% target. We recommend that the Committee carries out a review of suitable infrastructure funds, including the London CIV renewables infrastructure fund as well as funds offered by external managers. We would also highlight that Timberland is attracting interest within the LGPS at the moment and an allocation to Timberland could be considered as part of a diversified infrastructure portfolio.
- **Private debt:** the Fund has committed £50m to the London CIV private debt fund and this investment is currently in its build up phase. The expected profile of the private debt fund is such that it increases in value as capital is invested and then reduces in value as income and redemptions are returned to the Fund. To maintain the 5% target allocation, it is common for pension schemes to invest in a series of private debt funds, with commitments being made to new funds every 2-3 years. We recommend the Committee investigates options in this area and, in the first instance, asks the London CIV to confirm its future plans.
- **Property:** the target allocation to property is 10%, with 2.5% of this already invested across two UK commercial property mandates with UBS and Fidelity. We recommend that the Fund continues to build its property allocation and creates a diversified portfolio comprising UK commercial property, UK housing and global property. A 10% allocation is broadly equivalent to £110m currently and we recommend that this is built up as indicated in the table below.

Allocation	Allocation	Percentage split
UK commercial (UBS & Fidelity)	£40m	36%
LCIV UK Housing Fund	£30m	28%
Global property	£40m	36%
Total	£110m	100%

- In terms of timing, we would recommend waiting until the second half of 2023 before adding to the Fund's UK commercial property allocation and investing in a new global property fund. We recommend the Committee lays the groundwork for a future investment by carrying out a review of global property managers ahead of making an investment in Q3 or Q4 of 2023.
- We are content for the Fund to proceed with a £30m commitment to the LCIV UK Housing Fund, subject to appropriate due diligence, which will be drawn down beginning from April 2023.
- We recommend these investments are met by selling a proportion of the diversified growth funds.

Protection portfolio recommendations

- **Rebalancing:** as noted above, we recommend that c6% is sold from the LGIM global equity mandate and re-invested in multi-asset credit and gilts to increase these towards their target allocations. This will rebalance risk levels within the Fund in the short term with a review of the long-term role of gilts to follow later (see recommendation below). We are comfortable investing more into gilts now even if this ultimately proves to be a temporary measure, given that trading costs in and out of gilts are relatively low.
- **Review Protection portfolio:** bond yields increased significantly during 2022. While this has led to a fall in bond asset values, the higher yield means investing in bonds is more attractive now than it has been for some time. The Protection portfolio consists of multi-asset credit and fixed interest gilts currently. As noted above, replacing the fixed-interest gilts with corporate bonds would boost expected returns with only a marginal increase in risk levels.

Recommendations - summary

	Allocation at 31 Dec 2022 (%)	Long-term target allocation (%)	Recommendations
Listed global equities ¹	46.0	40.0	Reduce overweight; select low carbon funds
Listed UK equities	6.3	5.0	No action at this time
Emerging markets	3.9	5.0	No action at this time
Private equity	2.5	0.0	Use income to meet capital calls
Total Growth	58.7	50.0	
Diversified growth funds	20.7	5.0	Sell portion to fund investments below
Infrastructure	5.2	15.0	Identify new investments
Private debt	3.1	5.0	Identify new investments
Property	2.4	10.0	Build to 10% in 3 components during 2023
Total Income	31.4	35.0	
Multi-asset credit	3.8	5.0	Top-up from equities; review in 2023
Gilts	4.9	10.0	Top up from equities; review in 2023
Total Protection	8.7	15.0	
Cash	1.2	0.0	Continue to use to fund capital calls
Total	100.0	100.0	

¹ This is split 43.4% in a global equity mandate with LGIM and 2.5% in the BlackRock World Low Carbon fund

2 Investment strategy review

Investment strategy review process

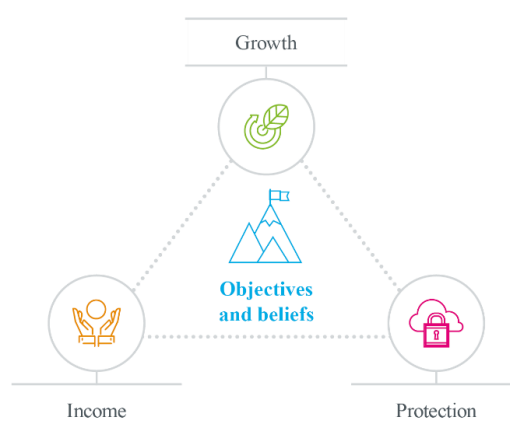
As mentioned in the background and objectives, the review process has two main parts:

- 1 **Reviewing the investment strategy:** the review of the investment strategy focuses on the high-level allocation to Growth, Income and Protection assets, as well as the high-level asset class allocation within these categories, i.e. **what** the Fund should invest in.
- 2 **Reviewing the investment structure:** the investment structure review then looks at the detailed implementation of these asset class allocations, i.e. **how** the Fund should invest.

Further detail on the investment structure review will be presented to the Committee at a future meeting.

Framework for the review

The objectives of the review are to determine the mix of assets which best meets the risk and return requirements of the Fund. Our approach is to evaluate the Fund's current strategy against a range of plausible alternatives, each designed to test potential enhancements the Fund could make. To help frame the analysis, we have used our Growth/Income/Protection framework, as per the diagram below.



Growth	Assets which deliver positive real returns over the long-term enabling the Fund to meet its obligations whilst maintaining the affordability of the target level of contributions (assets such as global and private equity).
Income	Assets which deliver a relatively high and stable level of income which helps the Fund to diversify risk and to fund benefits payments (assets such as property, infrastructure, private debt).
Protection	Assets which reduce or hedge the Fund's investment risk and thereby seek to protect the funding position (assets such as traditional gilts and index-linked gilts).

The Fund's current investment strategy

The starting point for the investment strategy review is of course the Fund's current investment strategy. Any potential alternatives should be compared to the current strategy to ensure potential improvements are significant enough to justify the costs of implementing them. The Fund's current actual and long-term target asset allocations are set in the table below.

This shows that the Fund's investment strategy is currently in a transition phase, with allocations to infrastructure, private debt and property in a "build up" phase. The overweight positions to diversified growth

funds and cash will be reduced over time to fund these new investments. We recommend that the multi-asset credit and gilts allocations are topped up from equity sales.

	Allocation at 31 Dec 2022 (%)	Long-term target allocation (%)	Relative position (%)
Listed global equities	46.0	40.0	6.0
Listed UK equities	6.3	5.0	1.3
Emerging markets	3.9	5.0	(1.1)
Private equity	2.5	0.0	2.5
Total Growth	58.7	50.0	8.7
Diversified growth funds	20.6	5.0	15.6
Infrastructure	5.2	15.0	(9.8)
Private debt	3.1	5.0	(1.9)
Property	2.5	10.0	(7.5)
Total Income	31.4	35.0	(3.6)
Multi-asset credit	3.8	5.0	(1.2)
Gilts	4.9	10.0	(5.1)
Total Protection	8.7	15.0	(6.3)
Cash	1.2	0.0	1.2
Total	100.0	100.0	-

Alternative investment strategies considered

To test whether the current long-term target remains appropriate, we have modelled alternative investment strategies to determine whether there is a more optimal mix of assets for the Fund. Five key themes drove the potential alternatives considered:

- **Improving funding position** – the Fund has seen an improvement in the funding position since the last strategy review, albeit it is still in deficit. What impact does this have on the Fund's investment strategy?
- **High inflation** – economic conditions have rapidly evolved over that last few of months, meaning high inflation and interest rates. How can the asset allocation be adjusted to provide more inflation linkage?
- **Increasing protection assets** – due to the increase in gilt yields and corporate bond spreads, is there an opportunity to refine the Protection portfolio to improve returns while assisting to lower overall risk levels?
- **Climate change** – can the asset allocation be altered to help achieve the Fund achieves its net zero ambitions without harming funding outcomes?
- **LGPS Pooling** – is there an opportunity to pool funds with other London Boroughs through the London CIV to allow for better investment opportunities?

Additional considerations

There are some important considerations that are not captured by the above modelling but need to form part of the investment strategy review. These are listed below:

- **Impact of recent market movements** – the modelling was carried out as at 31 March 2021 as part of the actuarial valuation. What is the impact of market movements since 31 March 2021?
- **Liquidity risk** – the risk of not having sufficient cash immediately available to meet the Fund's liabilities and being forced to sell assets; this risk increases as the Fund increases the allocation to illiquid assets.
- **Strategic risks** – the resilience of the portfolio to macroeconomic risks that are hard to model, such as geopolitical risk, technological change, demographics, and political/social instability.
- **Ability to deploy capital** – private markets can be difficult to invest large sums of money into within short-to-medium timescales.
- **Alignment with beliefs** – the chosen investment strategy should reflect the Fund's investment beliefs.
- **Acceptability to stakeholders** – such as employers, the Committee, etc.
- **Views relating to Responsible Investment ('RI')** – these are not necessarily direct risk/return decisions but may be impacted by wider ethical considerations.

3 Strategic considerations

Asset-liability modelling

The results of the asset-liability modelling undertaken by the actuarial team as at 31 March 2021 are summarised in appendix 1, based on the following strategies.

	Strategy when modelling was undertaken (%)	Long-term target allocation (%)	De-risked strategy 1 (%)	De-risked strategy 2 (%)
Global equities	45.8	40.0	35.0	35.0
UK equities	5.6	5.0	2.5	2.5
EM equities	4.1	5.0	2.5	2.5
Private equity	2.9	-	-	-
Total Growth	58.4	50.0	40.0	40.0
Diversified growth funds	20.5	5.0	5.0	5.0
Infrastructure	4.3	15.0	15.0	15.0
Private debt	1.3	5.0	7.5	7.5
Property	1.5	10.0	10.0	10.0
Total Income	27.6	35.0	37.5	37.5
Multi-asset credit	3.9	5.0	7.5	12.5
Gilts	8.1	10.0	10.0	-
UK corporate bonds	-	-	5.0	10.0
Total Protection	12.0	15.0	22.5	22.5
Cash	2.0	-	-	-
Total	100.0	100.0	100.0	100.0

Updated risk and return figures

Recognising that the asset-modelling was undertaken as at 31 March 2021, we have used our proprietary 'Structure Lite' model to recalculate the long-term expected returns and associated risk measures² for each of the strategies modelled. This analysis captures market conditions as at 31 December 2022 and reflects the significant increase during 2022 in the risk-free yield available on UK government gilts. The assumptions used to produce these figures are described in appendix 3.

² The expected returns are assessed over a 20-year period and are quoted relative to the liabilities. The risk or volatility measure captures the risk in the form of the potential variance in expected return over a 1-year period. For example, a risk measure of 12% p.a. implies that over 1 year period the expected return could vary by +/- 12% in any two years out of three. Equity risk is the largest contributor to both return and risk when measured on an absolute basis.

	Current strategy (at 31 Dec 2022)	Current long-term strategy	De-risked strategy 1	De-risked strategy 2
20 year expected return	4.56% p.a.	4.61% p.a.	4.56% p.a.	4.75% p.a.
1 year risk measure	12.7%	12.1%	11.4%	11.7%

Conclusions

Overall points to note are as follows:

- This analysis provides support for continuing to move towards the long-term target allocations agreed following the 2019 actuarial valuation – the long-term strategy is expected to provide a marginal increase in expected return with lower risk compared to the current strategy.
- We have also modelled the current long-term strategy with the 10% allocation to fixed-interest gilts replaced by 10% in corporate bonds. The risk and return profile of this strategy is an expected return of 4.81% p.a. with a risk measure of 12.3%. This would offer a 0.2% p.a. increase in expected return, which is equivalent to a £40m-45m increase in the Fund's assets.
- The results for the de-risked strategies give some support to reducing the Fund's exposure to equities. This looks attractive and could be a target to work towards but we are mindful that this would increase the Fund's exposure to nominal assets at a time when inflation is high. We recommend this position is monitored with a view to reducing the Fund's equity exposure should suitable opportunities emerge, with a full reassessment being carried out in conjunction with the next actuarial valuation in 2025.

Conclusion: Refining the current long-term strategy by replacing the allocation to fixed-interest gilts with corporate bonds provides the simplest route to increasing the expected return with only a marginal increase in risk.

Climate change

The results of the modelling described in appendix 1 included climate scenario analysis. This shows that the investment strategy is relatively robust to different climate scenarios with little difference in the projected funding outcomes. In part, this is because climate change is only one of many risks the Fund faces (e.g. equity risk, market risks, inflation risk) – though a very significant risk – and the modelling developed to date does not capture the more severe impacts of climate change. Climate scenario modelling is an evolving area and subsequent modelling exercises may show greater differences between the strategies modelled.

4 Review of the Growth portfolio

Current position

The table below compares the current allocations to Growth assets relative to the long-term targets. This shows that the Fund is c9% overweight equities. Around one-third of this overweight position will naturally be corrected as the private equity mandate winds down over the next few years. Distributions received from the private equity market mandate can be used to help meet capital calls for the Fund's private markets investments.

	Allocation at 31 Dec 2022 (%)	Long-term target allocation (%)	Relative position (%)
LGIM Global equities	43.4		
BlackRock World Low Carbon	2.5	40.0	6.0
LGIM UK equities	6.3	5.0	1.3
LCIV EM equities	3.9	5.0	(1.1)
Cap Dyn private equity	2.5	0.0	2.5
Total Growth	58.7	50.0	8.7

Rebalancing

We recommend that the remaining c6% overweight is rebalanced from the LGIM global equity mandate and re-invested in multi-asset credit and gilts to increase these towards their target allocations.

Low carbon equities

After rebalancing, listed equities will represent 50% of the Fund's total assets. By reducing emissions of these funds, we aim to make significant progress towards achieving the Fund's net zero ambitions, whilst maintaining the expected investment returns. The LGIM global equity mandate alone represents c40% of total assets and as the Fund continues to develop its net zero roadmap, a priority action is to review whether there are low carbon alternatives for this mandate.

We recommend the Committee undertakes a market review during Q2 2023 and selects one or possibly two low carbon global equity funds to replace the current LGIM global equity mandate. This review would be supported by our recommendation and the Committee may also wish to meet the managers as part of this exercise. We have shortlisted three funds in this report for discussion and further details are set out in appendix 7 [confidential].

5 Review of the Income portfolio

Current position

The table below compares the current allocations to Income assets relative to the long-term targets. The overweight allocation to diversified growth funds will be reduced over time with these funds being deployed to build out the Fund's infrastructure, private debt and property investments. At an aggregate level, the Income portfolio is 3.6% underweight and we expect that this will rebalance naturally as distributions from the private equity mandate are used to meet private markets capital calls.

	Allocation at 31 Dec 2022 (%)	Long-term target allocation (%)	Relative position (%)
Diversified growth funds	20.6	5.0	15.6
Infrastructure	5.2	15.0	(9.8)
Private debt	3.1	5.0	(1.9)
Property	2.5	10.0	(7.5)
Total Income	31.4	35.0	(3.6)

Infrastructure

New investments will need to be identified to build the allocation to infrastructure towards its 15% target. We recommend that the Committee carries out a review of suitable infrastructure funds, including the LCIV renewables infrastructure fund as well as funds offered by external managers. We would also highlight that Forestry/Timberland is attracting interest within the LGPS at the moment and an allocation to Timberland could be considered as part of a diversified infrastructure portfolio. Briefing notes are provided below.

LCIV renewables infrastructure

The aim of the fund is to create a portfolio of direct and indirect (using primary or secondary funds) investments in renewable infrastructure, diversified across regions, technologies, stages (e.g. greenfield and brownfield) and revenue streams.

The fund is targeting exposure in North America, Europe (including the UK) and Asia, although there is an allowance of up to 20% in emerging markets. The long-term investment objective of the fund is to seek to deliver an internal rate of return (net of fees) of 7%-10%, with a target yield 3%-5% p.a.

Forestry/Timberland

Forestry, or Timberland, investments involve the purchase of plantations and naturally occurring forests to grow and harvest wood. Investors generally own the forest, including the land it is on, entitling them to the financial returns generated from the forest, whether this is capital appreciation or income from selling forestry products, such as timber. Forest owners can also take credit for the carbon taken out of the air by the forest, given they now own that stored carbon. Further details are set out in appendix 4.

Private debt

The Fund has committed £50m to the London CIV private debt fund and this investment is currently in its build up phase. The expected profile of the private debt fund is such that it will increase in value as capital is invested and then reduce in value as income is returned to the Fund. To maintain the 5% target allocation over the longer term, it is common for pension schemes to invest in a series of private debt funds, with commitments being made to new funds every 2-3 years. We recommend the Committee investigates options in this area and in the first instance asks the London CIV to confirm its future plans.

Property

The Fund has a 10% long-term target allocation to property. The Fund has invested 3% of assets across two UK commercial property funds, the UBS Triton Fund and Fidelity UK Real Estate. In our paper dated September 2021, we set out our thoughts on how the overall property allocation could be constructed, with an initial 3% allocation to UK commercial property to be topped up in future years as new opportunities became available across a number of property sectors, notably residential property and global property.

Given changes in the property market over the last couple of years, we recommend that the 10% allocation (broadly equivalent to £110m) is built up as follows.

Component	Allocation	Percentage split
UK commercial property	£40m	36%
LCIV UK Housing Fund	£30m	28%
Global property	£40m	36%
Total	£110m	100%

Rationale

UK commercial property is facing headwinds, which make us more cautious about building a large allocation to UK commercial property at the current time. Many private sector defined benefit pension schemes are looking to reduce their property allocations and this means demand for UK commercial property balanced funds may be lower in future. This creates liquidity risks, and while liquidity is unlikely to be a primary concern for a long-term investor like the Fund, on balance we would favour building the allocation to global property.

Global property provides a larger opportunity set giving diversification across geographies, sectors and economic factors and can often also offer a boost to returns through greater use of leverage. It is also less exposed to the supply and demand factors driven by UK pension schemes. It should be noted that the asset also has additional risks (currency, legal framework, leverage etc) but exposures to these are reasonable in a well-diversified portfolio.

In terms of timing, we would recommend waiting until the second half of 2023 before adding to the Fund's UK commercial property allocation and investing in a new global property fund. This is because the property market (UK and global) is going through a "re-pricing" at the moment with investors re-evaluating the prices they are willing to pay for property assets when risk-free returns on government bonds increased so significantly during 2022. This is evidenced by the negative returns produced by property managers during Q4 2022.

To date, this re-pricing has been based on sentiment but this trend is expected to continue during the first half of 2023 as transactions are completed and prices become more visible. While this plays out, we recommend the Committee lays the groundwork for a future investment by carrying out a review of global property managers with a view to selecting a manager ahead of making an investment in Q3 or Q4 of 2023.

The lower risk/lower return nature of the UK Housing Fund means that it is expected to be less sensitive to these market conditions. Therefore, we are content for the Fund to proceed with a £30m commitment to this fund, which we understand will be drawn down over a c2 year period beginning from April 2023.

We recommend that these new investments are met by selling a proportion of the diversified growth funds, noting these investments were designed to provide access to a diversified range of asset classes until the new private markets investments became available.

Further details on the LCIV UK Housing Fund and global property are set out below.

LCIV UK Housing Fund

The LCIV UK Housing Fund invests in UK residential property (housing) only. The fund will invest in a range of distinct types of social and affordable housing funds. The Fund will focus on underlying funds investing in strategies that increase the supply of good quality, affordable housing in the UK while also generating competitive risk-adjusted returns.

The three overarching categories are:

1. General needs social and affordable housing (minimum 50%);
2. Specialist housing (0 to 25%); and
3. Transitional supported housing (0 to 25%).

The long-term investment objective of the fund is to seek to deliver an internal rate of return (net of fees) of 5%-7%, with a target yield 3%-4% p.a.

A more detailed assessment is set out in our separate product assurance note.

Global property

The strategic rationale for global property is similar to that for UK property, i.e.:

- Diversification of equity returns;
- Income; and
- Capital growth.

The major difference being there is likely to be more emphasis on capital growth, especially as global funds tend to be leveraged (i.e. funds will tend to utilise both property equity and debt approaches to enhance returns).

As part of a diversified portfolio, an allocation to global property could be attractive from a return enhancement and diversification perspective. Expected returns might be in the region of 1-2% p.a. above UK property, but this does come with additional risks around leverage, legal regime and currency.

6 Review of the Protection portfolio

Current position

The table below compares the current allocations to Protection assets relative to the long-term targets. This shows that the allocation is underweight at present, driven mainly by the sharp decline in the market value of bond assets during 2022 due to the impact of rising interest rates.

	Allocation at 31 Dec 2022 (%)	Long-term target allocation (%)	Relative position (%)
Multi-asset credit	3.8	5.0	(1.2)
Gilts	4.9	10.0	(5.1)
Total Protection	8.7	15.0	(6.3)

Rebalancing

We recommend that c6% is sold from the LGIM global equity mandate and re-invested in multi-asset credit and gilts to increase these towards their target allocations.

Opportunities from recent market movements

During 2022, a deterioration in the economic outlook and sharply rising inflation led to interest rates increases. This led to significant falls in bond asset valuations as illustrated by the figures in the table above (although we would highlight that the Fund's allocation to bonds was already relatively low meaning the impact of falling bond values has been more muted than for some funds).

The rise in interest rates means that the yields available on bonds (UK government gilts and corporate debt) are more attractive than they have been for some time. As a result, we believe this would be an opportune moment to review any potential case for reviewing the Protection portfolio, the object being to increase the expected return while maintaining risk at or around current levels.

Protection assets include fixed-interest gilts, index-linked gilts, investment grade corporate bonds, multi-asset credit and cash. The aim of the Protection allocation is to reduce investment risk and provide an element of capital preservation (although it does need to be acknowledged that the Fund's Protection assets provided little protection during 2022 when unusually most of the major asset classes fell in value at the same time).

The Fund already invests in fixed-interest gilts and multi-asset credit. We recommend the Committee reviews the Protection assets to determine whether investing in other bond assets, notably investment grade credit, would enhance returns while maintaining risk at or around current levels.

The priority action, however, is to undertake the recommended rebalancing to restore the allocations to multi-asset credit and fixed-interest gilts towards their target allocations.

7 Recommendations and next steps

Recommendations

Our recommendations are set out below:

- Long-term strategic allocation – the current long-term target allocation can be enhanced by replacing fixed-interest gilts with corporate bonds.
- Cashflow requirements – we would be happy to prepare cashflow projections, working in conjunction with our colleagues in the actuarial team, to test whether current levels of investment income are sufficient to cover any shortfall between contributions income and benefits paid.
- Rebalancing – we recommend 6% of total assets is sold from the LGIM global equity mandate and re-invested in multi-asset credit and fixed-interest gilts.
- Low carbon equities – we recommend the Committee selects one or possibly two low carbon equity funds to replace the LGIM global equity mandate.
- Income portfolio – we recommend that the Fund continues to build out its investments in infrastructure, private debt and property, to move towards the long-term strategic allocation.
- Infrastructure – new investments will be needed to build infrastructure towards its 15% target allocation.
- Property – we recommend the Fund commits £30m to the LCIV Housing Fund and considers appointing a global property manager with a view to investing in the second half of 2023.
- Private debt – we will contact LCIV to establish whether they plan to launch a second private debt fund to allow the Fund to maintain its 5% allocation over the long term.
- Protection portfolio – as above, we recommend the Committee carries out a review of the Protection portfolio to identify whether this can be refined to increase expected returns.

We look forward to discussing this paper with the Committee and Officers.

Prepared by:

Kenneth Taylor, Senior Investment Consultant

For and on behalf of Hymans Robertson LLP

February 2023

Hymans Robertson LLP is authorised and regulated by the Financial Conduct Authority and Licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

General risk warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Appendix 1 – Asset-liability modelling results

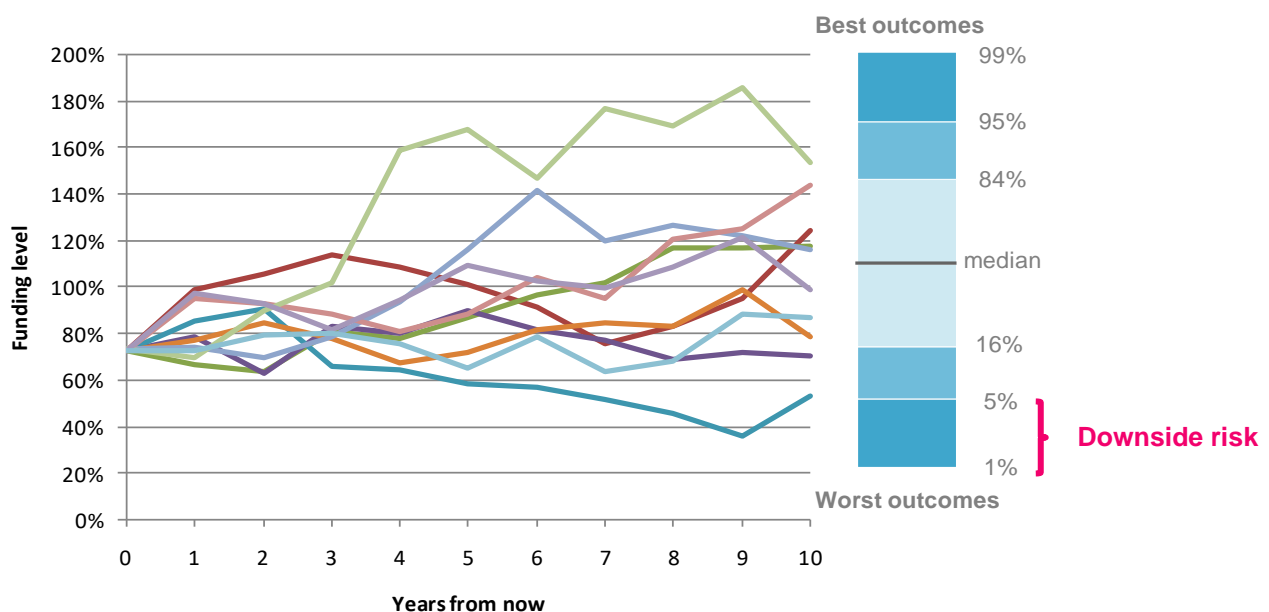
Introduction

This is a summary of the asset-liability modelling results prepared by the actuarial team and presented in their report, “Review of LB Brent Contribution Strategy” dated 21 April 2022.

Evaluating strategies

To evaluate the current investment strategy against potential alternatives, asset-liability modelling is undertaken to project funding outcomes. In summary, this modelling involves:

- Generating 5,000 “economic scenarios” based on various combinations of asset class returns, inflation rates, interest rates and salary increases.
- Projecting forward the Fund’s funding position over time for each investment strategy in each of the 5,000 scenarios, which establishes the distribution of possible funding outcomes (as shown in the diagram below)
- For each investment strategy, calculating various metrics which reflect both the expected funding outcome and the funding outcomes in upside and downside scenarios.



Illustrative chart only

Probability of Success: from the distribution of outcomes, we can estimate the probability of being fully funded, i.e., the proportion of scenarios in which the funding level would exceed 100%, at a particular point in time (the “Probability of Success”). The Probability of Success over 20 years is the main success measure used by the Fund.

Downside Risk: we can also predict the average deterioration in funding level in adverse scenarios (the “Downside Risk”). The Fund uses the average of the worst 5% funding outcomes in 2028 years (to coincide with the actuarial valuation after next) as its primary measure of Downside Risk. We use these metrics to compare the performance of different investment and funding strategies.

Projected Returns – the distribution of projected returns from the portfolio of assets over a period of 20 years which informs the discount rate used to value the Fund’s liabilities.

Strategies modelled and summary results

The strategies modelled as at 31 March 2021 and summary results are set out below.

	Strategy when modelling was undertaken (%)	Long-term target allocation (%)	De-risked strategy 1 (%)	De-risked strategy 2 (%)
Global equities	45.8	40.0	35.0	35.0
UK equities	5.6	5.0	2.5	2.5
EM equities	4.1	5.0	2.5	2.5
Private equity	2.9	-	-	-
Total Growth	58.4	50.0	40.0	40.0
Diversified growth funds	20.5	5.0	5.0	5.0
Infrastructure	4.3	15.0	15.0	15.0
Private debt	1.3	5.0	7.5	7.5
Property	1.5	10.0	10.0	10.0
Total Income	27.6	35.0	37.5	37.5
Multi-asset credit	3.9	5.0	7.5	12.5
Gilts	8.1	10.0	10.0	-
UK corporate bonds	-	-	5.0	10.0
Total Protection	12.0	15.0	22.5	22.5
Cash	2.0	-	-	-
Total	100.0	100.0	100.0	100.0

	Strategy when modelling was undertaken	Current long-term strategy	De-risked strategy 1	De-risked strategy 2
Probability of Success	76%	79%	79%	81%
Downside Risk	34%	36%	38%	38%

These metrics give support to continuing to move towards the long-term target allocations that were agreed following the 2019 actuarial valuation. Both de-risking strategies give improved metrics indicating there may be scope to reduce exposure to equities. However, the improvement in the metrics is marginal and we recommend that de-risking is reconsidered as part of the 2025 actuarial valuation, taking into account the funding position at that time, so that the impact on future contribution levels can also be considered.

Appendix 2 – ESS model and assumptions

Economic Scenario Service

The distributions of outcomes depend significantly on the Economic Scenario Service (ESS), our (proprietary) stochastic asset model. This type of model is known as an economic scenario generator and uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. Some of the parameters of the model are dependent on the current state of financial markets and are updated each month (for example, the current level of equity market volatility) while other more subjective parameters do not change with different calibrations of the model.

Key subjective assumptions are the average excess equity return over the risk-free asset, the volatility of equity returns and the level and volatility of yields, credit spreads, inflation and expected (breakeven) inflation, which affect the projected liability and bond returns. The output of the model is also affected by other more subtle effects, such as the correlations between economic and financial variables.

Our expectation (i.e. the average outcome) is that long term real interest rates will gradually rise from their current low levels. Higher long-term yields in the future will mean a lower value placed on liabilities and therefore our median projection will show, all other things being equal, an improvement in the current funding position (because of the mismatch between assets and liabilities). The mean reversion in yields also affects expected bond returns. The impact of the yield reversion assumption is illustrated in the standard results charts that we produce using the model output.

While the model allows for the possibility of scenarios that would be extreme by historical standards, including very significant downturns in equity markets, large systemic and structural dislocations are not captured by the model. Such events are unknowable in effect, magnitude and nature, meaning that the most extreme possibilities are not necessarily captured within the distributions of results.

Given the context of this modelling, we have not undertaken any sensitivity analysis to assess how different the results might be with alternative calibrations of the economic scenario generator.

The returns presented here are time weighted returns over the specified period and are unaffected by the timing of any contributions received or pensions paid over that period. Such returns are, in general, a poor estimator of money weighted returns, which are sensitive to the timing of cashflows.

The probability that a specific asset return will be exceeded will not usually equate to the probability that some funding plan based on this return will be sufficient to meet all the pension payments. Complex interactions between the assets, yields and cashflow timings can mean that the two probabilities are materially different, especially for more mature schemes.

We would be happy to provide fuller information about the scenario generator and the assumptions used, and the sensitivities of the results to some of the parameters, on request.

Modelling liabilities

We model scheme liabilities approximately by assuming that real and fixed liabilities can be represented by long dated inflation linked and fixed interest gilts respectively. It is possible that the proxy liabilities mis-state the true sensitivity of the scheme liabilities to changes in interest rates and inflation.

This report complies with the Technical Actuarial Standards (TASs): TAS100.

Appendix 3 – Indicative timetable

An indicative timetable covering the recommendations set out in this paper is provided below. The final timetable will be agreed in discussion with Officers and the Committee.

Recommendation	Timing
Rebalance from gilts to multi-asset credit and gilts	Immediate
Ask LCIV to confirm plans for private debt	Immediate
Confirm commitment to UK Housing Fund (subject to appropriate due diligence)	Q1 2023
Select low carbon global equity funds	Q2 2023
Select global property manager	Q3 2023
Invest in UK and global property funds	Q3-Q4 2023
Review Protection portfolio	Q4 2023
Review options for building infrastructure portfolio	Q4 2023 – Q1 2024

Appendix 4 – Forestry/Timberland

Forestry, or Timberland, investments involve the purchase of plantations and naturally occurring forests to grow and harvest wood. Investors generally own the forest, including the land it is on, entitling them to the financial returns generated from the forest, whether this is capital appreciation or income from selling forestry products, such as timber. Forest owners can also take credit for the carbon taken out of the air by the forest, given they now own that stored carbon.

What are the returns and what drives them?

Returns from forestry are largely driven by:

- 1 Capital appreciation from tree growth – as trees grow, all else being equal, they become more valuable as the quality and volume of what can be produced from them increases.
- 2 Income from the sale of forestry products – as trees are felled and sold, this generates income for investors.
- 3 Change in market value of the land – the appreciation of the value of land has been a historic driver of returns for this asset class.

Forestry investments have historically provided strong diversification from traditional asset classes since trees grow regardless of financial market conditions. That said, a portion of the return on forestry is linked to the overall economy, as an expanding economy typically leads to increased demand (and prices) for timber. There is also potential for some inflation linkage, since timber prices tend to have some correlation with prices of end products featured in the calculation of the major inflation metrics. This diversification and potential inflation protection provide two attractive characteristics for investors.

What are the risks?

As with any investment, there are a range of financial risks. An obvious risk is in relation to the price of timber, as your investment will be worth less if timber prices are lower. However, one of the benefits of the asset class is the flexibility it can offer – when prices are low, felling can be reduced, and trees left to grow until prices rebound.

Forestry investments also face the risk of natural disasters, and there are some increased risks as a result of climate change. Most notably, some areas are seeing reduced rainfall, and other areas are experiencing too much rain. Whilst there has been an upsurge in wildfires in recent years, which could increase the risk of damage to investment value, most wildfires occur in unmanaged forests. Historically, the impact on the asset class from fire has been relatively low: institutionally managed forests have fire breaks and other measures in place to prevent the spread, have tinder regularly removed and limit use by the public; and value may be salvaged from some of the damaged wood. Insurance may also help to protect investors but comes at a cost.

Finally, there is the risk for an investor with a net zero ambition that the forest is not being managed in a way to sustainably capture carbon in an approved manner for the purpose of generating carbon credits, e.g. growing new trees and/or a net increase in tree biomass.

Will it help you achieve net zero?

A significant benefit of an investment in forestry from an emissions perspective is that it is a very low carbon-emitting asset class from a scope 1 and 2 perspective. This can form a key part of a plan to achieve a net zero ambition, particularly when moving assets from high emitting investments, without considering areas such as the removal of carbon from the atmosphere, or “sequestration”, and carbon credits.

Having said that, the act of growing a tree sequesters and stores carbon from the atmosphere within the mass of the tree. Therefore, it makes sense that this activity should earn carbon credits for the owner of the tree. The more trees on the Earth, and the longer they live, the more carbon is stored within the biomass of trees, and out of the atmosphere, helping to reduce the severity of climate change.

Appendix 5 – LGPS consultations

Levelling-up

The latest of these is the Government's 'Levelling up' white paper issued in early 2022, which states:

"There is huge potential for institutional investment to support levelling up, across infrastructure, housing, regeneration and SME finance. Institutional investors currently hold UK pension assets of over £3.5tn. Within that, the Local Government Pension Scheme (LGPS) has total investments of over £330bn, making it the largest pension scheme in the UK. Only a tiny fraction of these funds are currently allocated to local projects. If all LGPS funds were to allocate 5% to local investing, this would unlock £16bn in new investment.

The UK Government has committed itself to removing obstacles and costs to making long-term, illiquid investments in the UK. LGPS funds are investing in a wide range of existing UK and global infrastructure, largely through the eight LGPS asset pools. A dedicated infrastructure platform (GLIL) has been established jointly by the Northern and Local Pensions Partnership Investments and LGPS asset pools, and has around £2.5bn committed, with investments including Anglian Water, Forth Ports (including Tilbury) and Clyde Windfarm.

Infrastructure investment by the LGPS has grown from under £1bn in 2016 to £21bn in 2021. To build on this established capacity and expertise and ensure that all LGPS funds play their full part, the UK Government is asking LGPS funds, working with the LGPS asset pools, to publish plans for increasing local investment, including setting an ambition of up to 5% of assets invested in projects which support local areas.

The new UK Infrastructure Bank, based in Leeds, has a mandate to catalyse investment to support regional and local economic growth, and will help increase the capacity and capability of local authorities to deliver infrastructure in their areas. It will also co-invest, offer guarantees through the existing UK Guarantees Scheme, and provide a range of debt, equity and hybrid products.

It is committed to expanding institutional investment in UK infrastructure, including exploring opportunities with the LGPS."

Details are still to be fleshed out. However, our current understanding of the above is that:

- 'Local' means UK wide (not local area)
- Funds will be mandated to have a plan to reach a 5% allocation to infrastructure
- 5% is not a maximum
- The government is looking for 'new' investment - so existing allocations may not count.

Update

The Chancellor of the Exchequer provided a [Statement](#) on 9 December 2022 in which he announced that the government will be consulting on:

- New guidance on LGPS asset pooling (early 2023);
- Requiring LGPS funds to ensure they are considering investment opportunities in illiquid assets such as venture and growth capital, as part of a diversified strategy.

TCFD

We also await final regulations setting out how LGPS funds will be expected to comply with the Taskforce for Climate Related Financial Disclosures ("TCFD") following the consultation exercise carried out late last year.

Appendix 6 – Inflation hedging characteristics and considerations

The table below provides a summary of the inflation hedging characteristics of the main asset classes.

	Short-term inflation hedge	Long-term inflation hedge	Rationale
Equities	Weak	Strong	<ul style="list-style-type: none"> Equities are expected to implicitly provide an inflation hedge as companies are assumed to pass on cost increases to consumers. In the short-term, however, an increase in the rate at which investors discount equity cashflows, due to expectations of higher risk-free rates in response to inflation, can offset the positive impact of higher earnings, whilst it also takes time for companies to pass on cost increases. Sectors and stocks with a proven track record of maintaining profit margins, due to pricing power and productivity growth, may outperform, as might sectors explicitly linked to the inflation-generation process, such as basic materials and energy. Financials may also derive an indirect benefit from rising rates. Over the longer-term, and in most instances, equities have tended to provide positive real returns.
Property	Moderate	Strong	<ul style="list-style-type: none"> The extent to which property performs as an inflation hedge depends on the level of inflation linkage in rents and rent negotiations. We would expect long-lease property to provide a better inflation hedge than core property as long-lease properties often have explicit inflation linkage which is less common core property markets. Though rents are positively correlated inflation, there are reasons why the hedge may be less effective over the short-to-medium term: as with equities, an increase in the rate at which investors discount the earnings stream from a property may offset the impact of rising rents; Furthermore, while some properties may have annual rent reviews, many are reviewed every 3, or even 5, years; and, rents explicitly linked to inflation are usually subject to caps (and floors). Over the longer term, property has tended to provide positive real returns.
Infrastructure	Moderate	Strong	<ul style="list-style-type: none"> The degree of inflation-linkage infrastructure provides depends on the mix of assets. Utilities tend to hold monopoly positions in the provision of essential services, and so provide implicit linkage to general price rises, but are subject to regulatory review and intervention with regards the level of profits allowed. Renewable energy infrastructure offers relatively reliable cash flows which are exposed to general energy prices and so should provide a degree of inflation hedging. Public-private partnerships (PPP) comprise long-dated government-backed leases against social infrastructure, which tend to provide a large degree of explicit inflation-linkage.

Multi-asset credit	Moderate	Moderate	<ul style="list-style-type: none"> Multi-asset credit, which can access a broad spectrum of credit assets (i.e. floating-rate loans, ABS and CLOs), is likely to have materially lower interest-rate duration than investment-grade approaches. This, and higher credit spreads due to investing in speculative-grade credit assets, should provide a degree of insulation against inflation, and subsequent rises in yields, and also provide higher long-term returns.
Investment-grade asset-backed securities	Moderate	Moderate	<ul style="list-style-type: none"> Being floating-rate, i.e. coupons regularly reset in-line with prevailing cash rates, asset-backed securities should have similar inflation-hedging characteristics to cash.
Index-linked gilts	Strong	Moderate	<ul style="list-style-type: none"> As the coupons on index-linked gilts are revalued in-line with inflation (RPI until 2030, CPIH thereafter), they provide an explicit hedge against future rises in inflation. However, this explicit protection comes at a price and negative real yields across the index-linked gilt curve (until very recently) guaranteed a negative real return from holding index-linked gilts. We also think UK index-linked gilts are vulnerable to a price correction due to RPI reform in 2030, when index-linked gilts will be re-referenced from RPI to CPIH, which has typically been 1% p.a. lower.
Conventional gilts	Weak	Weak	<ul style="list-style-type: none"> Not only does inflation erode the real value of nominal bond coupons, yields should rise to take account of higher inflation and interest rate expectations, increasing the rate at which cashflows are discounted, reducing the price of a bond. Longer duration bonds are more sensitive to an equivalent shift in yields than short-duration bonds, though specific impact depends on yield movements across the curve.
Investment-grade corporate bonds	Weak	Weak	<ul style="list-style-type: none"> Investment-grade corporate bonds are subject to similar impacts as conventional gilts and capital values are also impacted by changes in credit spreads. Inflation could potentially have a negative impact on credit spreads (i.e. cause them to widen). Companies that are able to pass on cost rises would see little impact on their credit risk profile, but severe inflation would be likely to cause credit spreads to widen due to broader economic impacts.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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London Borough of Brent Pension Fund

H2 2022 Investment Monitoring Report

Kenneth Taylor, Senior Investment Consultant

Agenda Item 7

Executive Summary

The Fund's assets returned 1.7% over the 6 months to 31 December 2022, outperforming the aggregate target return by 1.3%. However, over a 3-year period, the assets continue to outperform on a relative basis.

The second half of 2022 proved another challenging period as market volatility weighed heavily on markets over the period as inflation and interest rate hikes continued throughout Q3. Fears of recession continued as the 'mini-budget' announcement led to increased inflationary pressures. In Q4 however stability began to return to markets, especially interest rates and government bond yields.

Global equities as a whole rose over the period in Sterling terms. UK equities fell over Q3, however recovered in Q4, benefitting from the outperforming energy sector which constitutes a material part of the index. Similarly, emerging market equities fell over Q3, largely driven by underperformance of the technology sector, due to its increased sensitivity to rising rates; however as rates stabilised in Q4, performance improved.

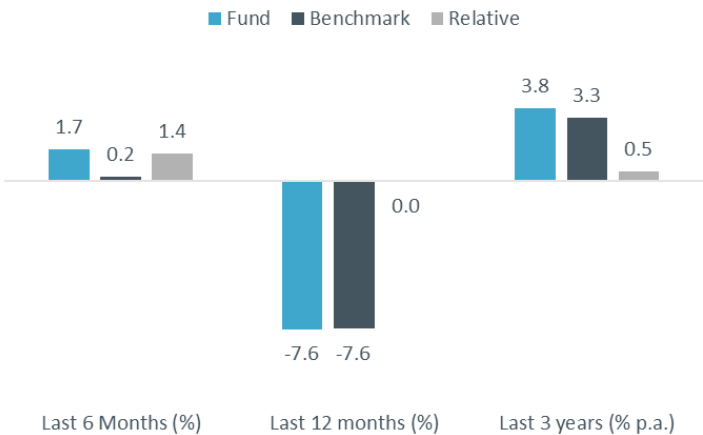
Within fixed income, rising interest rates provided upward pressure on yields and drove significant decrease in value.

Property fell over the period, as performance tends to lag that of other asset classes.

Key points to note

- The Fund posted positive returns over the last 6 months of 2022, ending the period with a valuation of £1,072.1m, which is a slight increase from £1,055.4m at the end of Q2 2022.
- The majority of assets classes struggled in Q3 amidst a challenging economic environment; however they recovered as stability slowly returned to the market in Q4. Index-tracking mandates with LGIM (UK and global equities), LCIV (JP Morgan emerging market equities) and BlackRock (low carbon equities) all contributed positively towards performance over the period. The Fund's multi-asset investment with LCIV through Ruffer was also a positive performer despite the challenging environment faced by income assets.
- BlackRock (gilts) and the two real estate funds (Fidelity and UBS) contributed significantly to the negative absolute return over the second half of 2022.
- The Fund completed the planned investment in the BlackRock Low Carbon equity fund in December 2022, taking its allocation closer to the target benchmark, and invested in the UBS property fund in July 2022.

Fund performance vs benchmark/target



High Level Asset Allocation

As part of the investment strategy review carried out in Q2 2020, the Fund's multi-asset mandates were re-categorised as 'Diversifiers' and included within the 'Income' bucket.

GrIP	Actual	Benchmark	Relative
Growth	58.7%	58.0%	0.7%
Income	31.4%	25.0%	6.4%
Protection	8.7%	15.0%	-6.3%
Cash	1.2%	2.0%	-0.8%

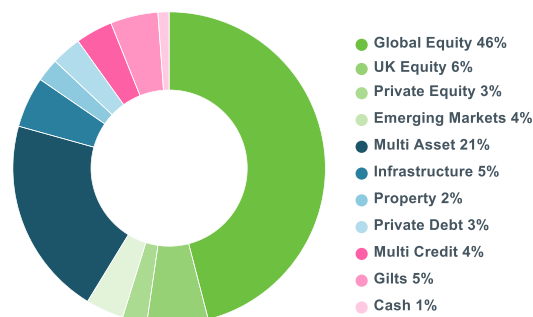
Whilst on the journey to its interim and long term targets for Property, Infrastructure and Private Debt, the current agreement is that the Fund will hold a higher allocation to multi-asset funds.

Asset Allocation

Manager	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q2 2022	Q4 2022			
LGIM Global Equity	459.7	465.5	43.4%	40.0%	3.4%
LGIM UK Equity	64.4	67.7	6.3%	5.0%	1.3%
Capital Dynamics Private Equity	31.7	27.1	2.5%	5.0%	-2.5%
LCIV JP Morgan Emerging Markets	40.6	42.1	3.9%	5.0%	-1.1%
Blackrock Acs World Low Crbn	13.7	27.2	2.5%	3.0%	-0.5%
Total Growth	610.1	629.7	58.7%	58.0%	0.7%
LCIV Baillie Gifford Multi Asset	123.3	121.0	11.3%	6.0%	5.3%
LCIV Ruffer Multi Asset	93.3	99.7	9.3%	6.0%	3.3%
Alinda Infrastructure	26.5	17.4	1.6%	0.0%	1.6%
Capital Dynamics Infrastructure	6.9	2.1	0.2%	0.0%	0.2%
LCIV Infrastructure	25.6	36.8	3.4%	5.0%	-1.6%
Fidelity UK Real Estate	16.6	14.4	1.3%	1.5%	-0.2%
UBS Triton Property Fund	0.0	11.3	1.1%	1.5%	-0.4%
LCIV Private Debt Fund	23.3	33.4	3.1%	5.0%	-1.9%
Total Income	315.5	336.3	31.4%	25.0%	6.4%
LCIV MAC	40.4	41.0	3.8%	5.0%	-1.2%
BlackRock UK Gilts Over 15 yrs	66.2	52.8	4.9%	10.0%	-5.1%
Total Protection	106.5	93.8	8.7%	15.0%	-6.3%
Cash	22.2	12.4	1.2%	2.0%	-0.8%
Total Scheme	1054.3	1072.1	100.0%	100.0%	

Figures may not add up due to rounding. The benchmark currently shown as the interim-target allocation as the first step in the journey towards the long-term target. As the Fund's allocations and commitments to private markets increase over time, we will move towards comparison against the long-term target.

Asset class exposures



Total Fund return was positive during the period on both an absolute and relative basis. This resulted in performance over the 12 month period being in line with the benchmark albeit the total return was negative. 3 year relative performance remains positive.

UK equities fared better than global markets due to the UK's higher weighting to cyclical sectors such as financials, industrials, energy and basic materials, which performed relatively better over the period.

Capital Dynamics private equity mandate was the only negative performer of the growth assets, returning -3.3% over the period, 7.7% behind its FTSE benchmark. However, we note that private equity valuations tend to lag those of listed markets.

Ruffer's defensively positioned strategy and stock selection in the equity component of the portfolio meant it performed better than Baillie Giffords more "risk-on" approach. Ruffer maintains its strong positive return over the 1 year and 3 year periods. This demonstrates the value from adopting a diversified approach to multi-asset investing.

The property market suffered as capital values declined, leading to negative returns from the Fidelity UK Real Estate and UBS Triton Property funds.

Gilt yields continued to rise over the period, weighing on returns and leading to an decrease in the value of the BlackRock portfolio of c.£13m since the end of Q2.

Manager performance

	Last 6 Months (%)			Last 12 months (%)			Last 3 years (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Growth									
LGIM Global Equity	4.1	4.1	0.0	-8.0	-7.9	-0.1	8.9	9.0	-0.1
LGIM UK Equity	5.2	5.1	0.0	0.5	0.3	0.1	2.4	2.3	0.1
Capital Dynamics Private Equity	-3.3	4.7	-7.7	10.2	-6.4	17.7	11.8	9.9	1.8
LCIV JP Morgan Emerging Markets	3.6	-2.1	5.8	-9.8	-10.0	0.2	2.9	0.5	2.4
Blackrock Acs World Low Crbn	4.4	4.0	0.4	-9.4	-7.8	-1.7	-	-	-
Income									
LCIV Baillie Gifford Multi Asset	-1.8	1.4	-3.2	-15.9	2.7	-18.1	-2.1	2.4	-4.4
LCIV Ruffer Multi Asset	6.9	1.4	5.4	6.9	2.7	4.1	9.0	2.4	6.4
Alinda Infrastructure	7.1	5.3	1.6	30.2	12.5	15.7	12.2	7.4	4.4
Capital Dynamics Infrastructure	-16.4	5.3	-20.6	-3.4	12.5	-14.2	-17.5	7.4	-23.2
LCIV Infrastructure	7.3	5.3	1.9	15.9	12.5	3.0	4.6	7.4	-2.6
Fidelity UK Real Estate	-13.4	-17.5	5.1	-3.9	-9.1	5.7	-	-	-
UBS Triton Property Fund	-17.0	-16.0	-1.2	-	-	-	-	-	-
LCIV Private Debt Fund	15.6	3.0	12.3	-	-	-	-	-	-
Protection									
LCIV MAC	1.6	2.1	-0.4	-11.1	3.4	-14.0	-1.2	2.7	-3.8
BlackRock UK Gilts Over 15 yrs	-20.3	-20.3	0.0	-40.0	-40.0	0.1	-14.1	-14.1	0.1
Total	1.7	0.2	1.4	-7.6	-7.6	0.0	3.8	3.3	0.5

This table shows the new performance target measures, implemented from 2020. Please note the 3-year return is on the old benchmark basis.

6 month performance for UBS Triton Property fund is from inception date of July 2022.

Performance from Alinda, Capital Dynamics and the LCIV Infrastructure funds is based on information provided by Northern Trust. For such investments, there are alternative measures to assess performance. This is also the case for Private Equity and Private Debt (see below) as asset classes.

This chart highlights each mandate's contribution to the Fund's absolute performance over the quarter according to their allocation.

The largest contributor to performance over the period was LGIM's Global Equity fund, given its positive performance and its sizeable allocation of c.43%.

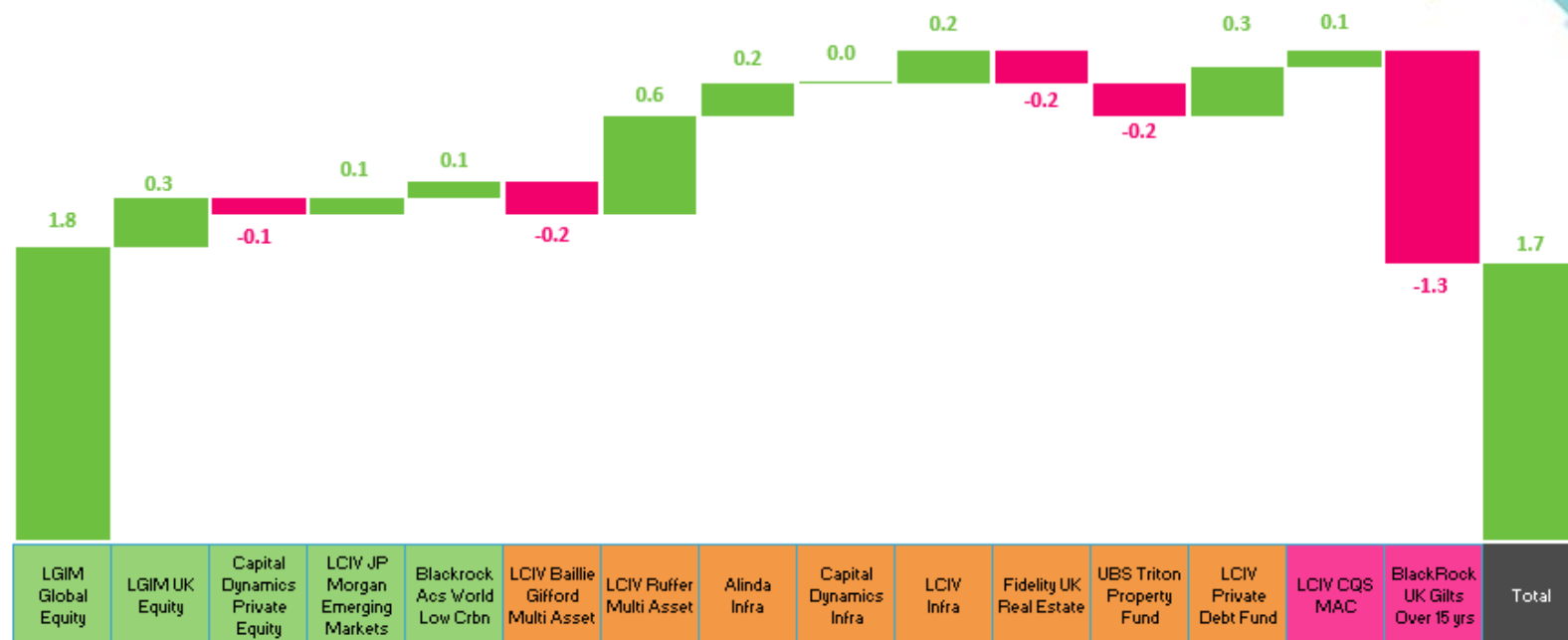
The diversifying nature of the LCIV and Alinda infrastructure funds mean that these sub-funds also contributed positively over the quarter.

The biggest detractor from performance over the second half of 2022 was BlackRock's UK Gilts Over 15 yrs, given its unfavourable return and despite its relatively small allocation.

Despite large negative returns posted by the Capital Dynamics Infrastructure Fund, this mandate has an allocation of <2% of the total Fund, hence did not detract materially from the Fund's overall performance.

Similarly, despite large underperformance from the property funds managed by Fidelity and UBS, their small allocations of 1.3% and 1.1% respectively mean they did not detract significantly from the Fund's total performance.

Fund performance by manager



Please note that due to rounding of the individual fund returns over both Q3 and Q4, the total performance shown above may not add to the total quarterly performance shown on page 3 of this report.

Manager ratings

Manager/Mandate	Asset Class	Hymans Rating	RI Rating	Performance	Manager Developments
LGIM	Global Equity	Preferred	Strong	●	●
LGIM	UK Equity	Preferred	Strong	●	●
Capital Dynamics	Private Equity	Suitable	Not Rated	●	●
LCIV JP Morgan	Emerging Markets	Suitable	Adequate	●	●
BlackRock	Acs World Low Crbn	Preferred	Adequate	N/A	●
LCIV Baillie Gifford	Multi Asset	Preferred	Good	●	●
LCIV Ruffer	Multi Asset	Positive	Adequate	●	●
Alinda	Infrastructure	Not Rated	Not Rated	●	●
Capital Dynamics	Infrastructure	Not Rated	Not Rated	●	●
LCIV	Infrastructure	Not Rated	Not Rated	●	●
LCIV	Private Debt	Not Rated	Not Rated	N/A	●
Fidelity	UK Real Estate	Preferred	Good	N/A	●
UBS	Property	Preferred	Good	N/A	●
LCIV	Multi Credit	Suitable	Not Rated	●	●
BlackRock	UK Gilts Over 15Yrs	Preferred	Not Rated	●	●

UBS business update

In Q4 2022, the Triton fund has completed the sale of industrial assets worth £54 million. The assets includes Gatwick Distribution Centre in Crawley, Wardley Industrial Estate in Salford, and Torc in Milton Keynes. Despite market volatility, to date, the fund has received low levels of redemption requests. However, the UBS team has structured a liquidity strategy in place to address redemptions.. We have recently met UBS and are actively monitoring the situation.

We have included further detail on the following mandates this quarter:

- LCIV Baillie Gifford Multi-Asset
- LCIV MAC
- BlackRock UK Gilts Over 15 Yrs
- Capital Dynamics Infrastructure

LCIV Ballie Gifford Multi Asset

The fund returned -1.8% over the second half of 2022, underperforming its benchmark by 3.2%. However, when assessing performance against an absolute return style benchmark, it is more meaningful to look over a longer period. The fund has fallen further behind its longer term targets on a relative basis and absolute basis.

The primary detractor from performance over the period was the fund's significant allocation to equities (c.24%), which suffered in continued market volatility, despite stabilising towards the end of 2022. Additionally, the absolute return segment (c.9% allocation) did not perform as expected during this period of economic stress and contributed to the fund's negative performance.

The fund's allocations to high yield credit, investment grade bonds and emerging market bonds were positive contributors; however allocations to these sectors were not as significant.

Over the period, Ballie Gifford made several changes to the portfolio, which mainly saw an increase in allocation to bonds. This was in line with the manager's view that sections of the fixed income market offered better value than equities when accounting for risk. Additionally, commodities exposure was increased as Ballie Gifford opened a position in aluminium, due to expectations that metal demand will increase due to its uses in green energy projects.

Given the poor performance over the period, Ballie Gifford took some strategic actions to address issues within underperforming asset classes. Baillie Gifford remains focused on their longer-term trends and stresses the importance of not losing sight of long-term goals amidst the current volatile market.

LCIV Multi Asset Credit

Over the second half of 2022, the LCIV's multi-asset credit strategy returned 1.6% against a benchmark of 2.1%. Again, when assessing performance against an absolute return style benchmark, it is more meaningful to look over a longer period as volatility can be expected in the short term. Performance was also negative over the past 12 months. Over 3 years, the fund is behind benchmark by 3.8%.

The second half of 2022 saw credit spreads continue to tighten. Risks of recession over the second half of 2022 resulting from increasing inflation and interest rates eased and high yield bonds were a beneficiary. This was a large contributor to performance as high yield bonds make up c.35% of the portfolio.

The key detractor from performance over the period was loans as fears over the economy increased and due to them being perceived as more risky than bonds. More specifically, European loans lagged the wider market due to the weakened Sterling and the floating rate assets held within the portfolio.

Over the period, the fund completed its transition into a multi-manager fund, with an equal allocation to both underlying fund managers: CQS and PIMCO. The final transition was completed in July. This transition has resulted in increased diversification, specifically to the fund's exposure to key credit asset classes. This should provide more stability to performance going forward.

BlackRock UK Gilts Over 15 Yrs

This fund invests in fixed-interest UK government bonds or “gilts”.

The fund delivered a -20% return over the period, taking the full year loss to 40%. The fall in value is due to the significant rise in gilt yields during 2022 - yields have an inverse relationship to valuations, which means an increase in yields has a negative impact on valuations.

Gilt yields were c1% p.a. at the beginning of the year but rose significantly as Central Banks raised interest rates to combat high inflation. This was exacerbated around the time of the 'mini-budget' in September when yields approached 5% p.a. Some stability returned to the gilts market towards the end of the year and we saw yields fall back. However, they remain well above the levels at the beginning of the year.

The manager seeks to track market returns from fixed interest gilts and the manager has delivered against this objective. The returns achieved are driven by market movements rather than the manager.

Further detail on specific manager performance is provided for funds that have performed below their relative benchmark over the longer term.

Capital Dynamics Infrastructure

Target: Absolute return of 8.0% p.a.

The Fund’s holdings are currently solely held within the Capital Dynamics Clean Energy and Infrastructure fund.

The two key metrics to assess performance for infrastructure investments are the Internal Rate of Return (IRR) and the Total Value to Paid-In (TVPI) ratio. With the fund having deployed most of the capital commitment it is appropriate to assess performance on both measures. As can be seen by both the IRR and TVPI, performance has been lower than expected to date, although running performance continues to marginally improve.

Note, reporting on underlying commitments is as at 30 September 2022 due to the lag in reporting from the manager, which is typical for funds of this nature.

This level of performance is primarily driven by challenges experienced by one project in particular which represents a material proportion of the fund. This is a Texas wind power project, which the manager has previously acknowledged.

Summary as at 30 September (figures in \$m where applicable)

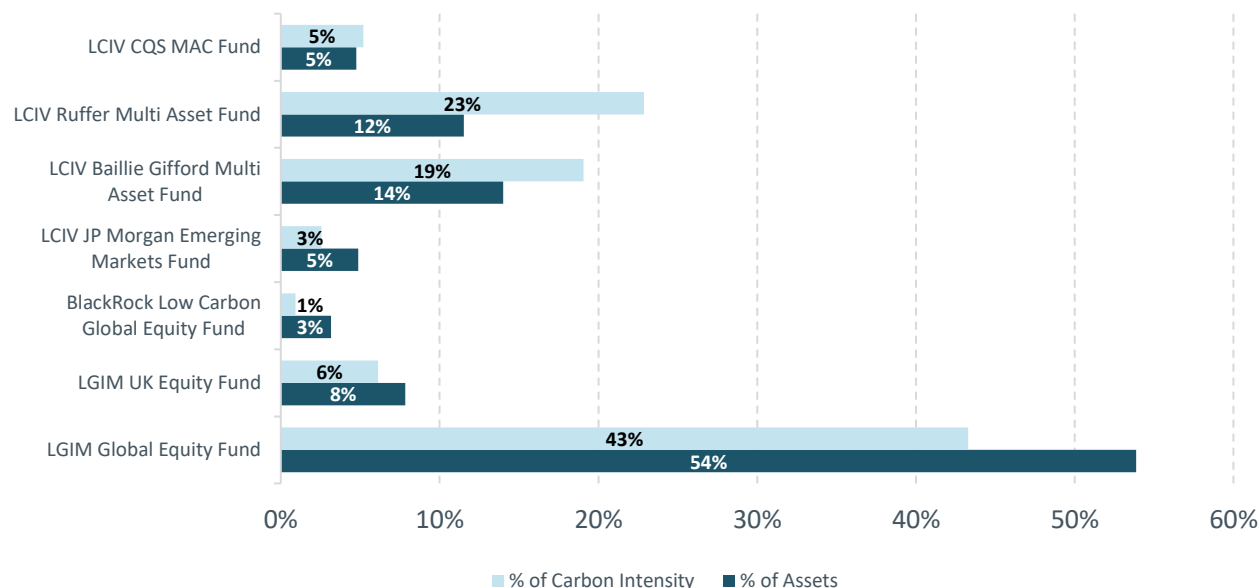
Capital committed	\$15.0	Net IRR since inception	(5.4%)
Total contributed	\$14.7	Total value-to-paid-in-ratio (TVPI)	0.63x
Distributions	\$6.0		
Value created	(\$5.6)		
Net asset value	\$3.1		

Climate Risk Overview

	Weighted Average Carbon Intensity (tCO2/£m Sales)	Fossil Fuel exposure (any activity) (%)
Fund	241.6	8.1%
<i>Composite benchmark*</i>	294.8	8.1%
<i>Relative to benchmark</i>	-53.2	0.0%

*Composite benchmark reflects individual mandate benchmarks weighted by proportion invested

Carbon Intensity by Manager



As part of the Fund's evolving Responsible Investment agenda and in recognition of climate risk, the Fund is committed to disclosing and monitoring climate metrics within its investment strategy where possible.

As a starting point, the Fund is reporting in line with information produced by its LGPS Pool, the London CIV. In time, the Fund will seek to evolve its climate risk monitoring process by monitoring against further metrics.

The information covered here captures c80% of the Fund's assets as at 31 December 2022. It excludes investments in property, private equity, infrastructure and private debt on account of the current lack of data in these areas.

Despite only representing 14% of assets shown here, the LCIV Baillie Gifford multi-asset fund is responsible for 19% of the total carbon intensity. Similarly, the LCIV Ruffer Multi Asset Fund contributes 23% to the Fund's total carbon intensity but represents only 12% of assets.

All other funds contribute to the Fund's overall carbon intensity in line with or below their relative proportion of assets.

Amid soaring interest rates and inflation, global growth slowed in the second half of 2022 and forecasts for growth in 2023 saw sharp downwards revisions. While recent outturns have shown an unexpected resilience in the major economies, economic data points to a relatively weak outlook in 2023.

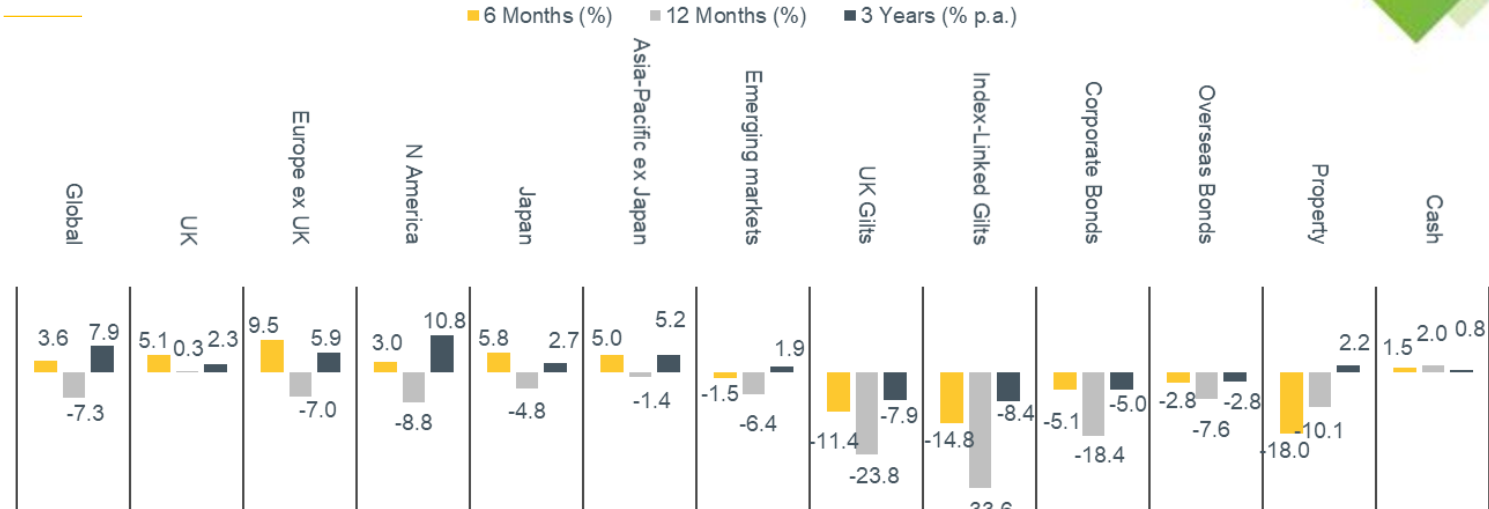
US headline CPI inflation fell from 9.1% to 6.5% year-on-year, peaking in June. UK and eurozone CPI inflation rose from 9.4% and 8.6% to 10.5% and 9.2%, respectively, but ended the period below October's peak levels. Year-on-year core inflation remains elevated across the US, UK, and eurozone at 5.7%, 6.3%, and 5.2%, respectively.

In response, major central banks continued to raise interest rates sharply. The US Federal Reserve, Bank of England, and European Central Bank delivered cumulative rate rises of 2.75% p.a., 2.25% p.a., and 2.0% p.a., respectively, taking policy rates to 4.5% p.a., 3.5% p.a., and 2.0% p.a. in the respective regions.

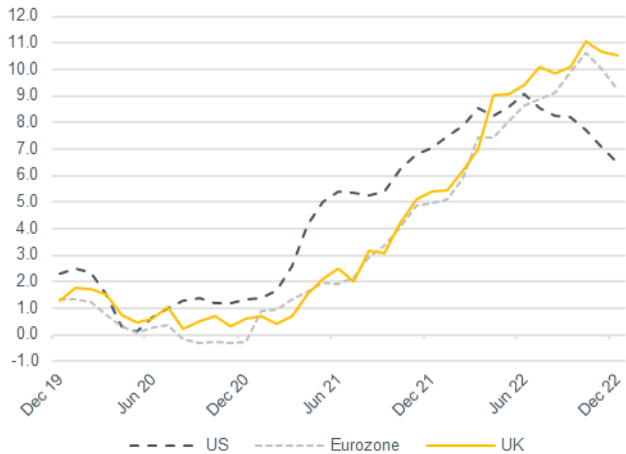
Ongoing re-evaluation of inflation and interest rates saw global sovereign bond yields rise. The UK 10-year yield rose 1.4% p.a., to 3.7% p.a., while equivalent US and German yields rose 0.9% p.a. and 1.2% p.a., to 3.9% p.a. and 2.6% p.a., respectively.

Despite the rise in realised inflation, UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, fell 0.3% p.a. to 3.6% p.a.

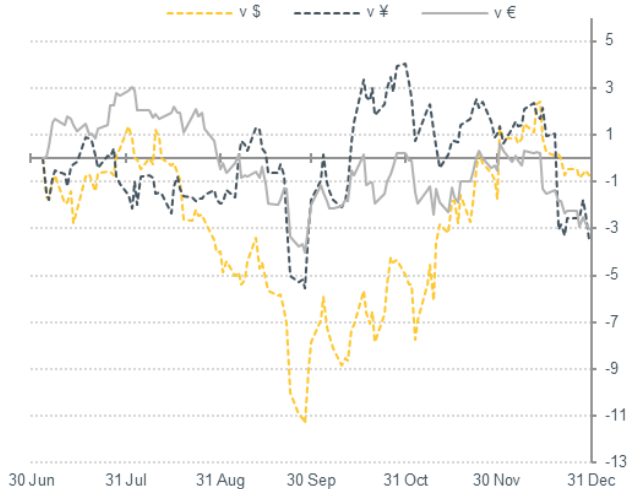
Historic returns for world markets ^[1]



Annual CPI inflation (% p.a.)



Sterling trend chart (% change)



Source: DataStream. ^[1]Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, ICE BofA Global Government Index, MSCI UK Monthly Property; UK Interbank 7 Day

Market Background

Economic resilience and an easing of downside concerns saw credit spreads tighten significantly in the final quarter of 2022: global investment grade credit spreads fell 0.3% p.a., to 1.5% p.a., while speculative-grade spreads fell 1.3% p.a., to 5.1% p.a.

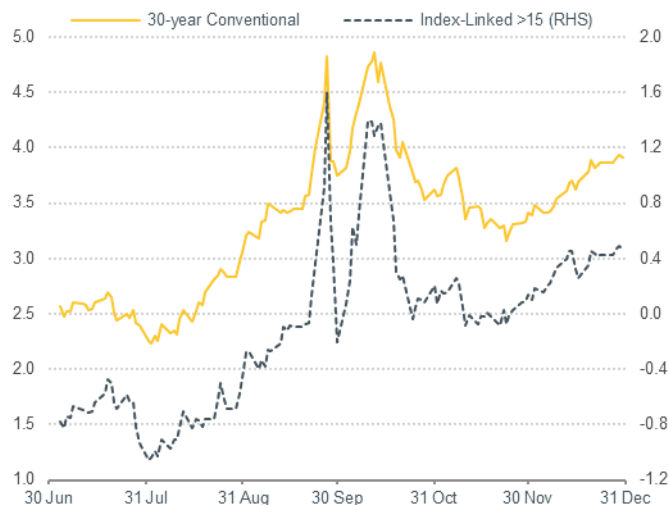
Equities were volatile in response to economic data releases as the FTSE All World Total Return Index ultimately rose 2.4% after rallying from its low in October. The energy sector outperformed amid record earnings reports. Industrials and basic materials also outperformed, on the back of lower gas prices, as did financials, as rising rates lifted net interest margins. Consumer discretionary, technology and telecommunications stocks underperformed as the cost-of-living squeeze intensified.

Europe and UK notably outperformed as the worst fears around European energy rationing receded, and the UK outperformed, given above average exposure to outperforming energy sector. Despite rallying towards the end of 2022, upon news of China's rapid re-opening, emerging and Asian markets underperformed.

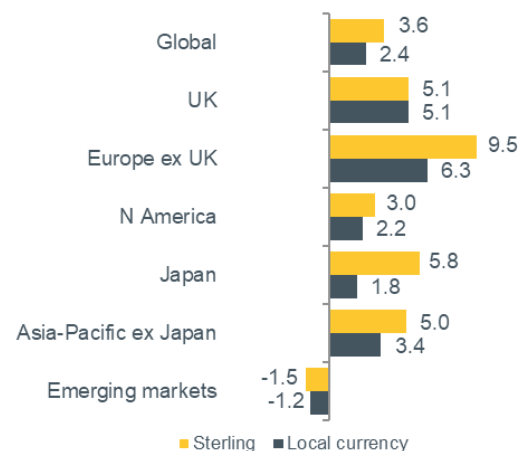
The US dollar was up 0.4% over the period in trade-weighted terms with equivalent, euro, and yen measures rising 3.8%, 4.2% respectively and sterling falling 1.5%.

The MSCI UK Monthly Property Total Return Index declined 10.1% over the past twelve months primarily due to a 14.2% fall in capital values. Falls were most pronounced in the industrial sector, where a 26.7% decline in capital values from their June peak leaves them 18% below end-2021 levels.

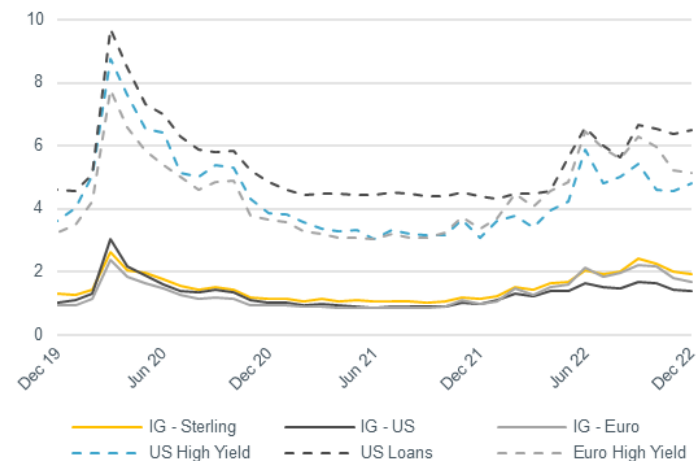
Gilt yields chart (% p.a.)



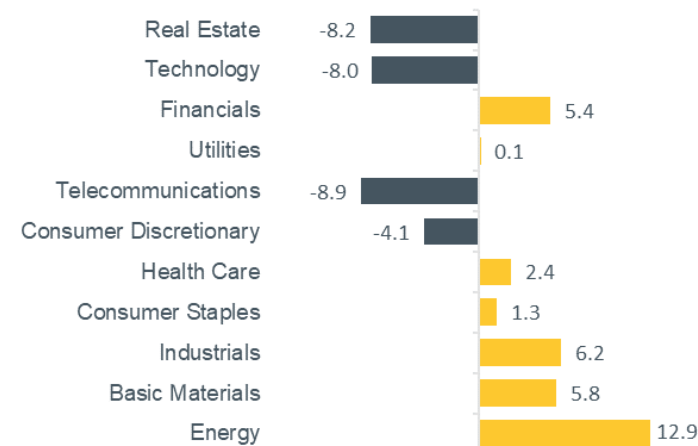
Regional equity returns ^[1]



Investment and speculative grade credit spreads (% p.a.)



Global equity sector returns (%) ^[2]



Source: DataStream, Barings, ICE ^[1] FTSE All World Indices. Commentary compares regional equity returns in local currency. ^[2] Returns shown in Sterling terms and relative to FTSE All World.

Hymans Rating

Preferred	Our highest rated managers in each asset class. These should be the strategies we are willing to put forward for new searches.
Positive	We believe there is a strong chance that the strategy will achieve its objectives, but there is some element that holds us back from providing the product with the highest rating.
Suitable	We believe the strategy is suitable for pension scheme investors. We have done sufficient due diligence to assess its compliance with the requirements of pension scheme investors but do not have a strong view on the investment capability. The strategy would not be put forward for new searches based on investment merits alone.
Negative	The strategy is not suitable for continued or future investment and alternatives should be explored.
Not Rated	Insufficient knowledge or due diligence to be able to form an opinion.

Responsible Investment

Strong	Strong evidence of good RI practices across all criteria and practices are consistently applied.
Good	Reasonable evidence of good RI practices across all criteria and practices are consistently applied.
Adequate	Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently.
Weak	Little to no evidence of good RI practices.
Not Rated	Insufficient knowledge to be able to form an opinion on.

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

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Geometric v Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:


$$\frac{(1 + \text{Fund Performance})}{(1 + \text{Benchmark Performance})} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.

	Pensions Fund Sub-Committee 20 February 2023
	Report from the Corporate Director, Finance and Resources
Housing Allocation Recommendation	

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>	PART EXEMPT –Appendix 1 is exempt as it contains 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)"
No. of Appendices:	One Appendix 1: Product Assurance Review – London CIV UK Housing Fund (Exempt from publication)
Background Papers:	▪ N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Minesh Patel Corporate Director Finance & Resources 020 8937 4043 minesh.patel@brent.gov.uk Ravinder Jassar, Deputy Director of Finance 020 8937 1487 ravinder.jassar@brent.gov.uk Sawan Shah, Head of Pensions 020 8937 1955 sawan.shah@brent.gov.uk

1.0 Purpose of the Report

- 1.1 This report details the analysis and review undertaken by the Fund's investment advisor, Hymans Robertson, of the London CIV UK Housing Fund and recommendations for investment and implementation.

2.0 Recommendation(s)

That the Pension Fund Sub-Committee:

- 2.1 Note the analysis set out in Appendix 1 undertaken by the Fund's investment advisors, Hymans Robertson in relation to an initial investment in the LCIV UK Housing Fund.
- 2.2 Approve an investment commitment of 2.8% of total Fund assets (c. £30m) to the LCIV UK Housing Fund subject to the Corporate Director, Finance and Resources, in consultation with the Chair of the Pension Fund Sub-Committee, being satisfied with the conditions as set out in section 3.16 of this report.
- 2.3 Note that subject to approval in relation to 2.2 above, Officers will rebalance the appropriate mandates to move towards the Fund's strategic asset allocation to fund this investment as set out in section 3.17 of this report.

3.0 Detail

Background

- 3.1 The Fund currently has a long-term target allocation to property of 10%. This has been in the Fund's strategic asset allocation since 2018.
- 3.2 According to our current investment beliefs, London CIV is the Fund's preferred approach to implementation and the original intention for the property allocation was to invest in property funds made available by London CIV. Unfortunately, as there were no plans to offer such a fund, officers have explored options outside London CIV.
- 3.3 In 2021, the Committee agreed an initial allocation of 3% in two UK commercial property funds: the Fidelity UK Real Estate Fund and UBS Triton Property Fund. The Fund has made investments in both of these Funds with a total of £29m invested to date.
- 3.4 In the 2021 report to the Sub-Committee, it was discussed that the Fund would assess the performance of the portfolio and for the initial 3% allocation to be topped up in future years as new opportunities became available across a number of property sectors, notably residential property and global property.
- 3.5 The investment strategy review, included as a separate item on this agenda, has recommended that the 10% allocation is built up as follows:

Component	Allocation (£m)	Percentage Split (%)
UK commercial property	40	36
UK Housing	30	28
Global Property	40	36
Total	110	100

- 3.6 Except for the initial allocation to property outlined above, the remainder of the allocation is currently unfunded, with the assets being held with two Diversified Growth Funds (DGF) mandates¹ until suitable investment opportunities are identified. An allocation to property funded from DGFs would have a positive impact on the Fund's net zero ambitions because the DGFs are relatively carbon intense holdings for the Fund.

London CIV UK Housing Fund

- 3.7 As previously reported to the Sub-Committee, the London CIV have been developing a dedicated UK residential property fund over the last 12 months. Officers have been taking part in the Seed Investor Group (SIG) meetings to develop this opportunity.
- 3.8 The UK housing sector can be generally split into four segments: Private Residential sector, General needs social and affordable housing, transitional supported housing and specialist housing. Each of these segments has its own characteristics such as the target residents, the level of rent compared to market rent, the income source such as housing benefit or private income and the level of rent indexation.
- 3.9 The London CIV UK Housing Fund aims to invest indirectly through third party funds with the purpose of increasing the supply of good quality, affordable housing in the UK while also generating a competitive risk-adjusted return. It focuses on three strategies within the residential housing sector: general needs affordable and social housing, traditional supported housing and, specialist housing. These can broadly be defined as:
- 3.10 **General needs affordable and social housing:** Social and affordable properties are typically leased to councils or housing associations who sub-lease the properties to eligible tenants to meet their social housing obligations. Eligibility criteria depends on income, requirements due to disability, children, and state of existing accommodation.
- 3.11 **Transitional supported housing:** These are properties typically leased to council or housing association or charities who provide supportive but temporary accommodation to bridge the gap from homelessness to permanent housing.
- 3.12 **Specialist housing:** These are properties typically leased to councils, housing associations or charities who provide additional support including physical and mental health counselling. Councils typically contribute towards some or all of these care and support costs.
- 3.13 A broad characteristic of these segments is that they have a dependency on council, housing association or charities which are, in turn, reliant on stable government policies and funding – this is therefore a risk to the future returns generated by the Fund.

¹ London CIV Diversified Growth Fund (Baillie Gifford) and London CIV Absolute Return Fund (Ruffer)

- 3.14 London CIV have conducted their own internal manager research process and shortlisted potential investment managers for the UK housing fund to fit within the strategy defined above.
- 3.15 Attached in restricted Appendix 1, the Fund's investment advisors Hymans Robertson, have carried out a detailed appraisal of the LCIV UK Housing Fund. This covers the following areas:
- Structure, governance & senior leadership of the pool manager
 - Investment team
 - Philosophy & Process
 - Product design & investment strategy
 - Responsible Investment integration
 - Fund structure
 - Fees & additional costs
 - Performance & risk
- 3.16 Hymans Robertson are generally supportive of investment into the residential and housing sector however it should be noted that the strategy is still in its development phase therefore the Sub-Committee may wish to wait for further details to be provided by London CIV before confirming the commitment. In light of this, it is recommended that the Sub-Committee approve an investment commitment of £30m (c. 2.8% of total Fund assets) to the LCIV UK Housing Fund subject to the Corporate Director, Finance and Resources, in consultation with the Chair of the Pension Fund Sub-Committee, being satisfied with regard to completion of the manager appointments, further detail being provided and due diligence being completed in relation to the underlying investment managers, and the strategy remaining as specified in Appendix 1. A report at the next Pension Fund Sub-Committee meeting detailing the actions taken will be shared.
- 3.17 Similar to other private market funds, there will be a delay between funds being committed and investments being made by the underlying managers. Additionally, there may be queues to access certain funds. Therefore, any commitment to the UK housing fund is likely to take many months (potentially years) before it is fully invested. Officers will use any excess cash holdings in the first instance to meet capital calls. Thereafter officers will rebalance the appropriate mandates to move towards the Fund's strategic asset allocation whilst also minimising transaction costs.

4.0 Financial Implications

- 4.1 These are discussed throughout the report and included in Appendix 1.

5.0 Legal Implications

- 5.1 The Pension Fund Sub-Committee holds a key fiduciary responsibility to manage the Fund's investments in accordance with its investment strategy and in the best interests of the beneficiary members and the council tax payers,

where the primary focus must be on generating an optimum risk adjusted return. It is vital that any investment decision must not negatively impact on this primary responsibility.

- 5.2 The administering authority has fiduciary duties both to scheme employers and scheme members and the investment strategy must be exercised for investment purposes, and not for any wider purposes. Thus, investment decisions must be spread across a wide variety of investments classes and achieve a balanced risk and return objective.
- 5.3 Subject to the above responsibilities and duties, the choice of investments and the sums invested are at the discretion of the Pension Fund Sub-Committee so long as that does not risk material financial detriment to the Fund.

6.0 Equality Implications

- 6.1 Not applicable.

7.0 Consultation with Ward Members and Stakeholders

- 7.1 Not applicable.

8.0 Human Resources

- 8.1 Not applicable.

Report sign off:

Minesh Patel


Corporate Director, Finance and
Resources

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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	Pensions Fund Sub-Committee 20 February 2023
	Report from the Corporate Director, Finance and Resources
2022 Triennial Valuation Results and Funding Strategy Statement	

Wards Affected:	All
Key or Non-Key Decision:	N/A
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	PART EXEMPT – Appendix 5 contains 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)"
No. of Appendices:	Five 1. Draft valuation report 2. Funding Strategy Statement (FSS) 3. Contribution reviews policy 4. Cessations policy 5. Rates and Adjustments Certificate (Exempt)
Background Papers:	■ N/A
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Minesh Patel, Corporate Director, Finance and Resources 020 8937 4043 minesh.patel@brent.gov.uk Ravinder Jassar, Deputy Director of Finance 020 8937 1487 ravinder.jassar@brent.gov.uk Sawan Shah, Head of Pensions 020 8937 1955 sawan.shah@brent.gov.uk Carlito Rendora, Finance Analyst carlito.rendora@brent.gov.uk

1.0 Purpose of the Report

- 1.1 This report sets out the results of 2022 triennial actuarial valuation and the Funding Strategy Statement (FSS) to the Committee for consideration and approval.

2.0 Recommendation(s)

That the Pension Fund Sub-Committee:

- 2.1 Note, comment and agree the draft valuation report at Appendix 1.
- 2.2 Delegate authority to the Corporate Director, Finance and Resources to finalise the valuation report before 31 March 2023.
- 2.3 Approve the Funding Strategy Statement (FSS) as set out in section 3.9 of this report and Appendix 2.
- 2.4 Note and comment as appropriate on the contribution reviews policy at Appendix 3 and cessations policy at Appendix 4
- 2.5 Subject to 2.4 above, delegate authority to the Corporate Director, Finance and Resources to finalise the contribution reviews policy at Appendix 3 and cessations policy at Appendix 4 following consultation with employers.

3.0 Detail

- 3.1 Members of the Sub-Committee will be aware from previous reports presented to it and training sessions that the Fund is required by law to undertake an actuarial valuation every three years. All funds in England and Wales are required to carry out a valuation as at 31 March 2023.
- 3.2 The purpose of the valuation is to value the assets and liabilities of each individual employer and the pension fund as a whole; with a view to setting employer contribution rates which will result in each employer's liabilities becoming as close to fully funded as possible over the agreed recovery period outlined in the Funding Strategy Statement (FSS).
- 3.3 Hymans Robertson, the Fund actuary, attended the October 2022 meeting of the Sub-Committee outlining the valuation process, the assumptions used and the initial results.
- 3.4 In this previous meeting, the Fund actuary outlined why the assumptions were being used, delivered a presentation of the whole fund results including the funding level, assets, liabilities and the overall deficit level. It was also explained that different employers within the Fund will have different funding levels due to the profile of their members and contribution rates in the past.
- 3.5 Since that meeting, draft valuation results schedules, which set the contribution rate for each employer for the next three financial years, have been produced

for the Council and for most employers within the Fund. These have been communicated to employers. The Fund also held an employers' forum in November 2022 to present the valuation results to the employers.

- 3.6 The draft valuation report, attached in Appendix 1 and restricted Appendix 5, summarises the process that has taken place and presents the valuation results, funding position and employer contribution rates for 2023/24 to 2025/26. This report recommends the committee to note, comment and agree the draft valuation report and delegate authority to the Corporate Director, Finance and Resources to finalise the report.
- 3.7 The Funding Strategy Statement (FSS) is a document detailing how employer contributions to the Pension Fund are calculated. It is normally updated in line with the triennial valuation to ensure consistency.
- 3.8 The fund needs an FSS because:
- It is a legal requirement under the LGPS Regulations, and to revise this at each formal valuation.
 - It shows employers how their cash contributions are calculated, and how these might change if the employer's circumstances change.
 - It acts as a valuable policy/reference document for the Fund to help deal with employers who raise issues between valuations.
- 3.9 At the October 2022 Sub-Committee meeting, the Sub-Committee noted the key changes for the FSS and the draft FSS would be consulted with employers as required by relevant regulations. The consultation was conducted in December 2022 and January 2023 and the final FSS is provided in Appendix 2 for Sub-Committee approval.
- 3.10 As noted at the last meeting, the Fund agreed to streamline the FSS document into a "core" FSS and "satellite" policy documents. The satellite policies complement the core FSS set out the Fund's policies with regards to specific elements of strategy and include more details on process and practicalities.
- 3.11 The **contribution reviews policy** sets out the approach to reviewing contribution rates between triennial valuations and the **cessations policy** sets out the approach to dealing with circumstances where a scheme employer leaves the fund and becomes an exiting employer. These policies are attached in Appendices 3 and 4 respectively. These policies are currently with employers for consultation which is due to end at the end of February 2023. The Sub-Committee is asked to note and comment on these policies and delegate authority to the Corporate Director, Finance and Resources to finalise the policies once any comments received during the consultation period are evaluated and any amendments, if necessary, are made.
- 3.12 The below table outlines progress on the high-level valuation timetable.

Date	Event	Status
21 February 2022	Sub-committee meeting - Report to Pensions Sub-committee to review and agree key valuation assumptions	Complete
31 March 2022	Valuation date.	Complete
April 2022	Council contribution rate (comPASS) modelling.	Complete
April – May 2022	Employers submit their year-end returns.	Complete
June 2022	Resolve all queries arising from the year-end returns	Complete
July 2022	Provision of data to the Fund actuary by LPPA on behalf of the scheme manager.	Complete
August – September 2022	Whole fund results prepared and discussed with officers.	Complete
August - October 2022	Data validations, responding to data queries and Fund actuary sign off for data.	Complete
05 October 2022	Sub-committee meeting - Provision of initial whole fund results, Council contribution rate modelling results and employer contribution strategy proposal (draft FSS).	Complete
October 2022	Issue employer results together with draft Funding Strategy Statement for formal consultation.	Complete
December 2022 – January 2023	Finalise Funding Strategy Statement following consultation.	Complete
20 February 2023	Sub-committee meeting - Sign off 2022 valuation report and FSS.	On track
31 March 2023	Sign off rates and adjustments certificate with final employer contribution rates.	On track
01 April 2023	Implementation of new FSS and contribution rates.	On track

4.0 Financial Implications

4.1 These are discussed throughout the report.

5.0 Legal Implications

5.1 The triennial valuation is a statutory process conducted every three years that ensures the Pension Fund is both compliant with Regulation 62 of the Local Government Pension Scheme Regulations 2013 and has a viable long-term funding strategy. The latter is achieved by ensuring it has a robust Funding Strategy Statement (FSS) and Investment Strategy Statement.

6.0 Equality Implications

6.1 Not applicable.

7.0 Consultation with Ward Members and Stakeholders

7.1 Not applicable.

8.0 Human Resources

8.1 Not applicable.

Report sign off:

Minesh Patel

Corporate Director, Finance and
Resources

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DRAFT

HYMANS  ROBERTSON

London Borough of Brent Pension Fund

Report on the actuarial valuation at 31 March 2022

Page 85

Douglas Green FFA

Peter MacRae FFA

03 February 2023

For and on behalf of Hymans Robertson LLP

Hymans Robertson LLP is authorised and
regulated by the Financial Conduct Authority

Use the menu bar above to navigate to each section.

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Executive Summary

We have been commissioned by London Borough of Brent (the Administering Authority) to carry out a valuation of the London Borough of Brent Pension Fund (the Fund) as at 31 March 2022. This fulfils Regulation 62 of the Local Government Pension Scheme Regulations 2013. This report is a summary of the valuation.

Contribution rates

The contribution rates for individual employers set at this valuation can be found in the [Rates & Adjustments certificate](#). Table 1 shows the combined individual employer rates set at this valuation and the last valuation (31 March 2019).

Table 1: Whole fund contribution rates compared with the previous valuation

	This valuation 31 March 2022		Last valuation 31 March 2019	
Primary Rate		21.8% of pay		19.0% of pay
Secondary Rate	2023/2024	£18,538,000	2020/2021	£21,499,000
	2024/2025	£16,707,000	2021/2022	£21,987,000
	2025/2026	£14,749,000	2022/2023	£22,487,000

The primary rate includes an allowance of 1.3% of pensionable pay for the Fund's expenses.

Employees pay a contribution to the Fund in addition to these rates. These rates are set by the LGPS Regulations. The average employee contribution rate at 31 March 2022 is 6.7% of pay (6.7% at 31 March 2019).

Funding position

As at 31 March 2022, the funding position has improved from the last valuation. The required investment return to be 100% funded is now 5.1% pa (5.9% pa at 2019). The likelihood of the Fund's investment strategy achieving the required return is 62% (48% at 2019). Table 2 shows the single reported funding position at the current and previous valuation.

Table 2: Single reported funding position at 31 March 2022 compared with 31 March 2019

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	(£m)	(£m)
Employees	352	249
Deferred Pensioners	367	323
Pensioners	577	532
Total Liabilities	1,296	1,104
Assets	1,134	856
Surplus/(Deficit)	(162)	(248)
Funding Level	87%	78%

Approach to valuation

Valuation Purpose

The triennial actuarial valuation is an important part of the Fund's risk management framework. Its main purpose is to ensure the Fund continues to have a contribution plan and investment strategy that will achieve the objectives set out in the Funding Strategy Statement.

We have been commissioned by London Borough of Brent (the Administering Authority) to carry out a valuation of the London Borough of Brent Pension Fund (the Fund) as at 31 March 2022. This fulfils Regulation 62 of the Local Government Pension Scheme Regulations 2013. This report marks the culmination of the valuation process and contains its two key outcomes:

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1

2

Employer contribution rates for the period 1 April 2023 to 31 March 2026.

The funding level of the Fund at 31 March 2022.

Further information on the valuation process, methodology and strategy is set out in the publicly available Funding Strategy Statement, Investment Strategy Statement and published papers and minutes of the Fund's Pensions Committee. Additional material is also contained in [Hymans Robertson's LGPS 2022 valuation toolkit](https://www.hymans.co.uk/media/uploads/LGPS_2022_Valuation_Toolkit.pdf)¹.

Setting employer contribution rates

Employer contributions need to be set at a level which ensures the Fund has a reasonable likelihood of having enough money to pay members' benefits. Identifying the amount of benefits that may be paid is complex as those earned today might only start being paid in 50 years' time. Over that time period, there is significant uncertainty over factors which affect the cost of benefits, eg inflation, investment returns. These uncertainties are allowed for by taking a risk-based approach to setting employer contribution rates. This approach is built around three key funding decisions set by the Fund and asset-liability modelling.

Key funding decisions

For each employer, the Fund determines the most appropriate choice for the following three funding decisions. Further detail is set out in the Funding Strategy Statement.



What is the funding target for each employer?

Will the employer remain in the Fund for the long-term or exit at some point



What is the funding time horizon?

How long will the employer participate in the Fund



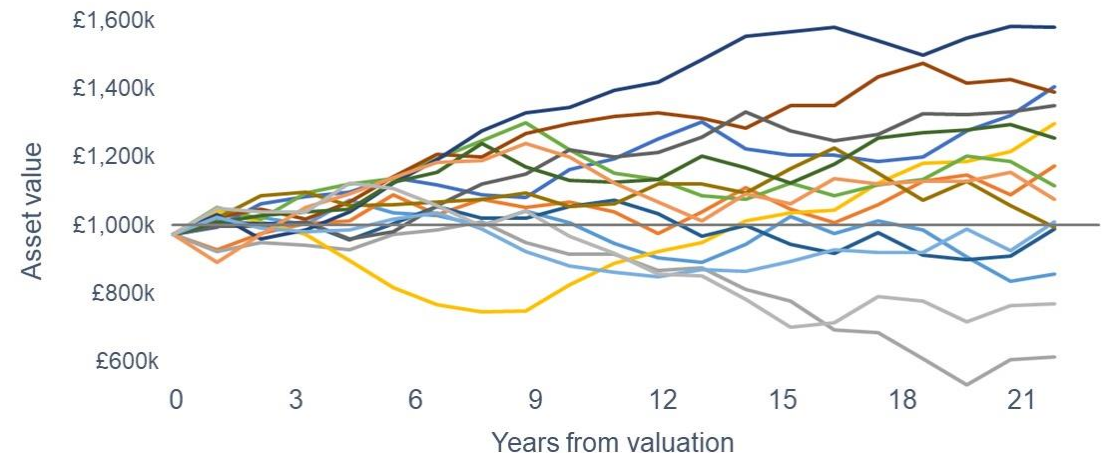
What is the required likelihood?

How much funding risk can the employer's covenant support

Asset-liability modelling

Asset-liability modelling is used to project each employer's assets and benefit payments into the future using 5,000 different economic scenarios. The economic scenarios are generated using Hymans Robertson's Economic Scenario Service (ESS) (further information in [Appendix 2](#)).

Picture 1: sample progression of employer asset values



Measuring the funding level

The past service funding level is measured at the valuation. Whilst it is limited in providing insight into a funding plan, it is a useful high-level summary statistic. To measure the funding level, a market-related approach is taken to calculating both the assets and the liabilities (so they are consistent with each other).

- The market value of the Fund's assets at the valuation date have been used.
- The liabilities have been valued using assumptions based on market indicators at the valuation date (these assumptions are detailed in [Appendix 2](#)).

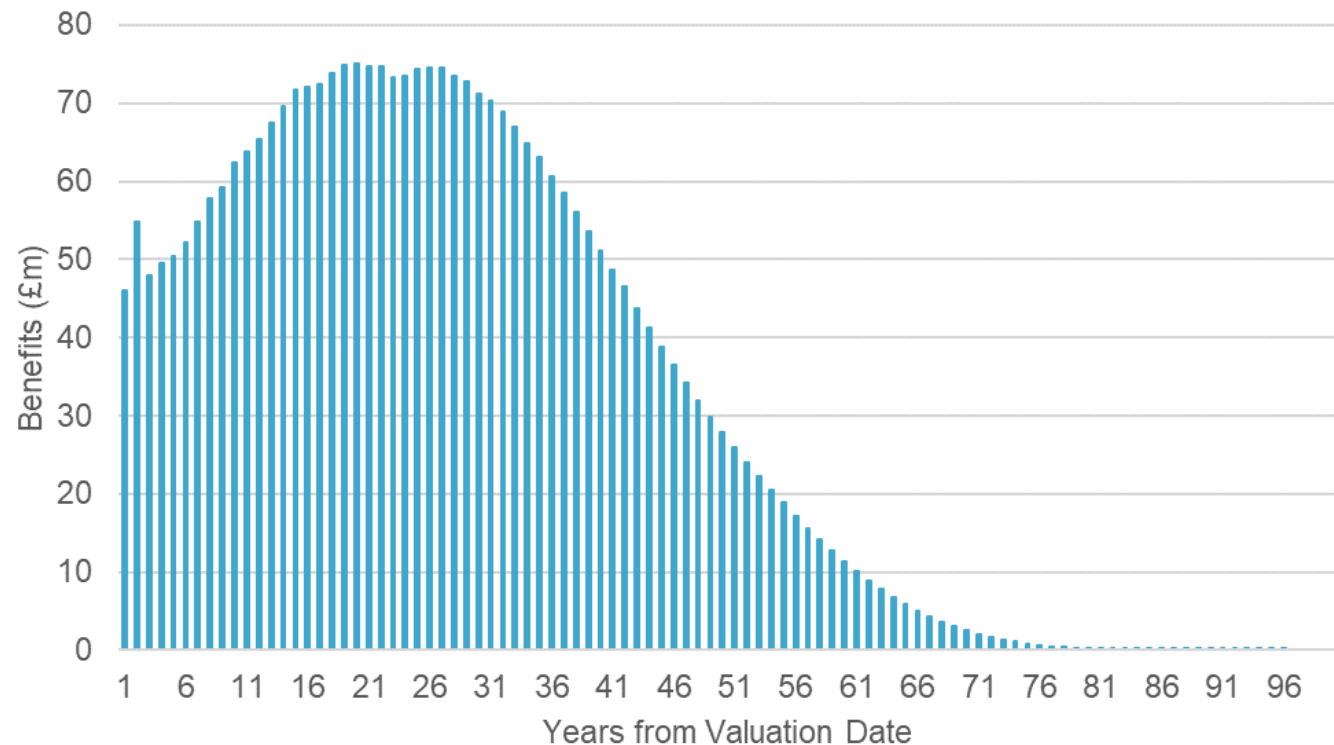
Further detail on the liabilities

The liabilities are the value of all future payments to members based on all benefits earned up to the valuation date, expressed in today's money.

Chart 1 shows the projected payments for all members in the Fund at the valuation date. The projections are based on the membership data provided for the valuation ([Appendix 1](#)), the assumptions ([Appendix 2](#)) and our understanding of the LGPS benefit structure as at 31 March 2022 (details at www.lgpsregs.org).

To express the future payments in today's money, the projections are discounted with an assumed future investment return on the Fund's assets (the discount rate).

Chart 1: projected benefit payments for all service earned up to 31 March 2022



Valuation results

Employer contribution rates

The primary objective of the Fund is to set employer contribution rates that will adequately cover the cost of benefits which will accrue in the future and any costs related to benefits already earned. A secondary objective is to ensure the rates are as stable as possible. The risk-based approach detailed earlier is used to meet both these objectives.

The employer contribution rate is made up of two components.

1. A primary rate: the level sufficient to cover all new benefits.
2. A secondary rate: the costs associated with sufficiently funding benefits accrued up to the valuation date.

Each employer has a contribution rate which is appropriate to their circumstances and these can be found in the [Rates & Adjustments Certificate](#). Broadly speaking:

- Primary rates have increased since the last valuation due to rising inflation.
- Secondary rates have decreased due to strong investment performance since the previous valuation.

However all employers will be different and the contribution rate will reflect the membership and experiences of each employer.

Table 3 shows the total of all employer contribution rates to be paid into the Fund over the period 1 April 2023 to 31 March 2026.

Table 3: Whole-fund contribution rate, compared with the previous valuation

	This valuation 31 March 2022		Last valuation 31 March 2019	
Primary Rate	21.8% of pay		19.0% of pay	
Secondary Rate	2023/2024	£18,538,000	2020/2021	£21,499,000
	2024/2025	£16,707,000	2021/2022	£21,987,000
	2025/2026	£14,749,000	2022/2023	£22,487,000

The primary rate includes an allowance of 1.3% of pensionable pay for the Fund's expenses.

Employees pay a contribution to the Fund in addition to these rates. These rates are set by the LGPS Regulations. The average employee contribution rate at 31 March 2022 is 6.7% of pay (6.7% at 31 March 2019).

Funding level

The funding level is the ratio of assets to liabilities. The market value of the assets at the valuation date are known. The value of the liabilities is uncertain given that the level of future investment returns are unknown.

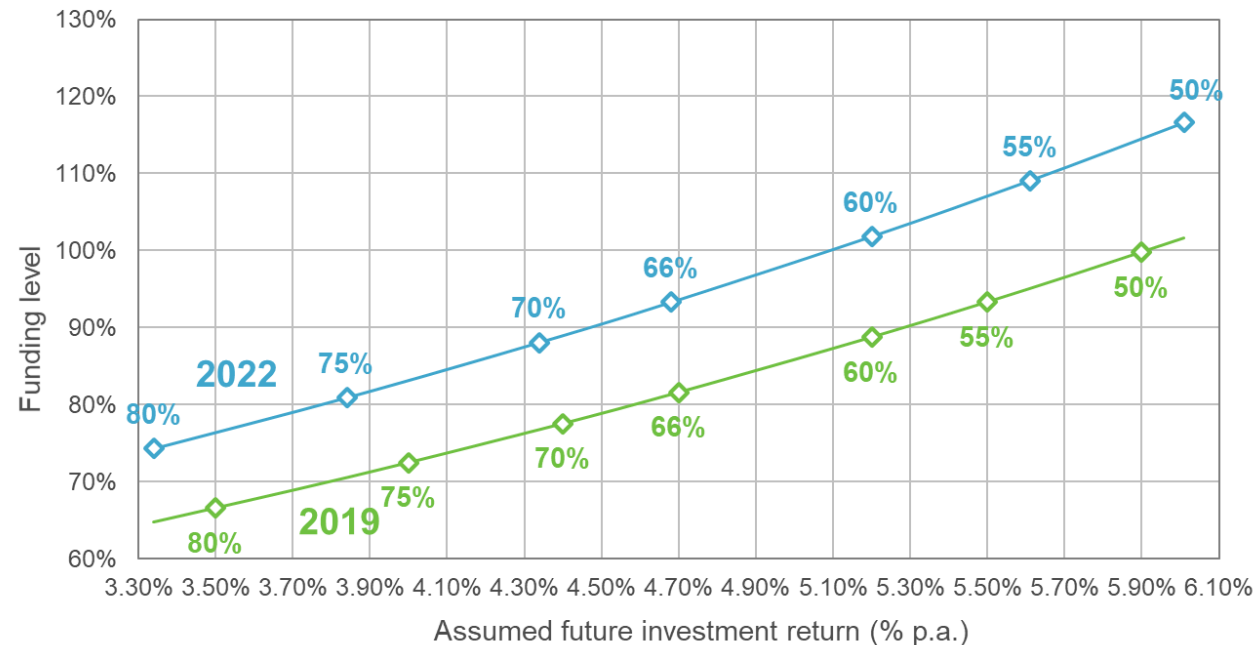
Therefore, the liabilities and funding level have been calculated across a range of different investment returns (the discount rate).

To help better understand funding risk, the likelihood of the Fund's investment strategy (detailed in [Appendix 1](#)) achieving certain levels of return has also been calculated.

Chart 2 shows how the funding level varies with future investment return assumptions at 31 March 2022 (blue line). The green line shows the same analysis at 31 March 2019.

- The funding level is 100% if future investment returns are c.5.1% pa.
- The likelihood of the Fund's assets yielding at least this return is around 62%.
- The comparator at 2019 was a return of 5.9% pa which had a likelihood of 48%.
- The funding position at 2022 is stronger than 2019.
- There is a 50% likelihood of an investment return of 6.0% pa. So the best-estimate funding level is 117% at 31 March 2022 (97% at 2019).

Chart 2: funding level across a range of future investment returns



Figures on each line show the likelihood of the Fund's assets exceeding that level of return over the next 20 years

Single funding level as at 31 March 2022

Whilst the chart on the previous page provides a better understanding of the past service funding position, there is still a requirement to report a single funding level at 31 March 2022.

To report a single funding level and funding surplus/deficit for the 2022 valuation, a discount rate of 4.3% pa has been used. There is a 70% likelihood associated with a future investment return of 4.3% pa.

Table 4 details the liabilities, split by member status and the market value of assets at the valuation date. The results at the 2019 formal valuation are shown for comparison.

The funding level and surplus/deficit figures provide a high-level snapshot of the funding position of the Fund as at 31 March 2022, however there are limitations:

- The liabilities are calculated using a single set of assumptions about the future and so are very sensitive to the choice of assumptions.
- The market value of assets held by the Fund will change on a daily basis.

The future progression of the funding position is uncertain. If the financial and demographic assumptions made at this valuation actually occur, employers pay contributions in line with the R&A certificate and there are no other changes in the financial or demographic environment, we project that the funding level at the next valuation (31 March 2025) will be approximately 91%.

Table 4: single reported funding level

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	(£m)	(£m)
Employees	352	249
Deferred Pensioners	367	323
Pensioners	577	532
Total Liabilities	1,296	1,104
Assets	1,134	856
Surplus/(Deficit)	(162)	(248)
Funding Level	87%	78%

Important: the reported funding level does not directly drive the contribution rates for employers. The contribution rates consider how assets and liabilities will evolve over time in different economic scenarios and also reflect each employer's funding profile and covenant.

Changes since the last valuation

Events between 2019 and 2022

The most significant external event to occur since the last valuation has been the Covid-19 pandemic. The experience analysis below shows that there has sadly been a higher than expected number of deaths over the period. However, the impact on the funding position has been small. This is likely due to the age profile of the excess deaths and the level of pension.

Other significant factors occurring which affect the funding strategy of the Fund have been the better than expected investment returns. This has had a material positive impact on the funding position and employers' secondary contribution rates.

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Financial

Table 5: analysis of financial experience between 2019 and 2022 valuations

	Expected	Actual	Difference	Impact on funding position
3 year period	13.8%	26.8%	13.0%	+£114m
Annual	4.4% pa	8.2% pa	3.8% pa	

Membership

Table 6: analysis of membership experience between 2019 and 2022 valuations

	Expected	Actual	Difference	Impact on funding position
Early leavers	1,581	1,916	335	+£0m
Ill-health retirements	29	17	-12	+£1m
Salary increases	3.2% pa	4.1% pa	0.9% pa	-£4m
Benefit increases	2.3% pa	1.8% pa	-0.6% pa	+£17m
Pension ceasing	£2.5m	£3.2m	£0.7m	+£7m

Changes since the last valuation

Future outlook

Expectations about the future, which inform the assumptions used to value the liabilities, have changed since the last valuation. The most significant changes are:

- Future inflation: this is expected to be on average higher than at 2019 due to the current level of high inflation.
- Investment returns: due to change in the Fund’s investment strategy and financial markets, future investment returns are now expected to be higher than at the last valuation.

Table 7: summary of change in future outlook

Factor	What does it affect?	What's changed?	Impact on liabilities
Future investment returns	The rate at which future benefit payments are discounted back, ie the discount rate assumption	Future investment returns slightly higher at 2022 than at 2019. The required return is now 4.3% pa vs. 4.4% pa at 2019.	Increase of £22m
Inflation	The rate at which pensions in payment and deferment and CARE pots increase	Significant increase in short-term future inflation expectations.	Increase of £79m
Salary increases	The rate at which future salaries increase. This affects benefits that are still linked to final salary, ie accrued before 1 April 2014	No material change since last valuation given competing factors e.g. tighter budgetary conditions vs. strong job market and pressure from National Living Wage increases.	None
Current life expectancy	How long we expect people to live for based on today’s current observed mortality rates.	Slight reduction in life expectancy based on current observed data (not allowing for Covid-related excess deaths)	None
Future improvements in life expectancy	How we expect life expectancies to change (increase) in the future.	Uncertainty about effectiveness of mitigations against life expectancy increases in the LGPS i.e. State Pension Age increases and Cost Cap. Need to better reflect wider pension and insurance industry long-term expectations.	Increase of £7m

Reconciling the overall change in funding position

The tables below provide insight into the funding position change between 31 March 2019 and 31 March 2022. Firstly, the changes we expect to happen (Table 8), which relate mostly to items on the asset side. Then the impact of actual experience (Table 9), which mainly affects the liabilities.

Expected development

Table 8: expected development of funding position between 2019 and 2022 valuations

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
Last valuation at 31 March 2019	856	1,104	(248)
Cashflows			
Employer contributions paid in	148	0	148
Employee contributions paid in	28	0	28
Benefits paid out	(138)	(138)	0
Net transfers into / out of the Fund			
Other cashflows (e.g. Fund expenses)	(4)	0	(4)
Expected changes			
Expected investment returns	121	0	121
Interest on benefits already accrued	0	150	(150)
Accrual of new benefits	0	105	(105)
Expected position at 31 March 2022	1,011	1,221	(210)

* We have insufficient data to value the impact on the liabilities as a result of transfers in/out

Impact of actual events

Table 9: impact of actual events on the funding position at 31 March 2022

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
Expected position at 31 March 2022	1,011	1,221	(210)
Events between 2019 and 2022			
Salary increases greater than expected	0	4	(4)
Benefit increases greater than expected	0	(17)	17
Early retirement strain (and contributions)	9	12	(3)
Ill health retirement strain	0	(1)	1
Early leavers less than expected	0	0	0
Commutation less than expected	0	1	(1)
McCloud remedy	0	1	(1)
Other membership experience	0	(36)	36
Higher than expected investment returns	114	0	114
Changes in future expectations			
Investment returns	0	22	(22)
Inflation	0	79	(79)
Salary increases	0	0	0
Longevity	0	6	(6)
Other demographic assumptions	0	5	(5)
Actual position at 31 March 2022	1,134	1,296	(162)

Numbers may not sum due to rounding

Sensitivity & risk analysis

Sensitivity and risk analysis: assumptions

There is risk and uncertainty inherent with funding benefit payments that will be paid out many years in the future. The Fund is aware of these and has in place a risk register which is regularly reviewed. Additionally, as part of the valuation, the Fund reviews sources of risk that may impact its funding position and the contribution rates payable by employers.

This section discusses some of the most significant sources of funding risk assumptions, regulatory, administration and governance and climate change). Further information of the Fund's approach to funding risk management, including monitoring, mitigation and management, is set out in the Funding Strategy Statement.

Assumptions

The valuation results depend on the actuarial assumptions made about the future. By their nature, these assumptions are uncertain which means its important to understand their sensitivity and risk levels.

Contribution rates

The risk-based approach to setting employer contribution rates mitigates the limitation of relying on one set of assumptions. Therefore, there is no need to carry out additional analysis of the sensitivity of contribution rates to changes in financial assumptions. The contribution rates are sensitive to changes in demographic assumptions. The results in this section in relation to the funding position can be broadly applied to the contribution rates.

Funding level

Financial assumptions

On page 10, we have already set out how the results vary with the assumed future investment return. The table below considers inflation.

Table 10: sensitivity of funding position to inflation assumption

CPI Assumption	Surplus/ (Deficit)	Funding Level
% pa	(£m)	%
2.5%	(122)	90%
2.7%	(162)	87%
2.9%	(204)	85%

Demographic assumptions

The main area of demographic risk is if people live longer than expected. The table below shows the impact of longer term longevity rates improving at a faster rate (1.75% pa vs 1.5% pa used in the results)

Table 11: sensitivity of funding position to longevity assumption

Long term rate of improvement	Surplus/ (Deficit)	Funding Level
% pa	(£m)	%
1.50%	(162)	87%
1.75%	(172)	87%

Sensitivity and risk analysis: other risks & climate change

Regulatory, Administration and Governance risks

Potential risks in this area include change in central government legislation which changes the future cost of the LGPS and failures in administration processes leading to incorrect data and inaccuracies in actuarial calculations. At this valuation, specific risks include:

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- **McCloud:** the remedy to resolve the McCloud case is yet to be formalised in regulations. However, an allowance has been included for this expected benefit change at the 2022 valuation as directed by the Department of Levelling Up, Housing and Communities [in their letter dated March 2022](#)¹.
- **Goodwin:** the remedy to this issue is still uncertain, it is difficult to identify who it would apply to and its impact is estimated to be very small for a LGPS fund (0.1-0.2% of liabilities). Therefore, no allowance has been made for this case at the 2022 valuation.
- **Cost Cap:** a legal challenge is ongoing in relation to the 2016 cost cap valuation and no information is known about the outcome of the 2020 cost cap valuation. At this valuation, no allowance has been made for any changes to the benefit structure that may occur as a result of a cost cap valuation.
- **GMP indexation:** it is assumed that all increases on GMPs for members reaching State Pension Age after 6 April 2016 will be paid for by LGPS employers. This is the same approach that was taken for the 2019 valuation.

Climate change

Background

Climate change is a major source of uncertainty which could affect future investment returns, inflation and life expectancies. Therefore, the Fund has explicitly explored the resilience of its funding and investment strategy to future potential climate change outcomes.

It is impossible to confidently quantify the effect of climate risk given the significant uncertainty over the impact of different possible climate outcomes. Instead, three different climate change scenarios have been considered as a stress-test (instead of trying to predict how climate change affects the funding level in the future).

All the scenarios assume that there will be a period of disruption linked either to the response to climate risk (transition risks) or the effect of it (physical risks). This disruption will lead to high volatility in financial markets, and the later the disruption, the more pronounced it will be.

Further detail on the scenarios is shown on the next page and in our guide 10 of [Hymans Robertson's LGPS 2022 valuation toolkit](#)²

Sensitivity and risk analysis: climate change & post valuation events

Climate change

Outcome of analysis

The Fund has set its funding and investment strategy using asset-liability modelling and considering two main risk metrics:

Likelihood of success – the chance of being fully funded in 20 years' time

Downside risk – the average worst 5% of funding levels in 20 years' time

When exploring the potential impact of climate change, the Fund has compared how these risk metrics change under each climate change scenario (against the 'Core' model used when setting the funding and investment strategy). The stress test results for the Fund are shown in Table 12 below.

Table 12: sensitivity of funding position to longevity assumption

Scenario	Likelihood of success	Downside risk
Core	79%	50%
Green Revolution	75%	46%
Delayed Transition	75%	49%
Head in the Sand	76%	50%

The results are worse in the climate scenarios. This is to be expected given that they are purposefully stress-tests and all the scenarios are bad outcomes. Whilst the risk metrics are weaker, they are not materially so and not enough to suggest that the funding and investment strategy are unduly exposed to climate change risk. The Fund will continue to monitor this risk as more information emerges and climate change modelling techniques evolve.

Post valuation events

Since 31 March 2022, there has been significant volatility in the financial markets, short-term inflation expectations and rises in interest rates by central banks. These events affect the value of the Fund's assets and liabilities. For example, the Fund's investment return since 31 March 2022 is estimated to be slightly negative.

As an open scheme, with a strong covenant, the Fund takes a long-term view when considering the funding impact of such events. For employers who have a very short time horizon, recent volatility may be more immediately impactful, and the Fund has engaged with these employers as appropriate.

No explicit allowance has been made for this volatility in the valuation results or contribution rates detailed in the Rates & Adjustments Certificate. The Fund will continue to monitor changes in the financial and demographic environment as part of its ongoing risk management approach.

Final comments

Final comments

The Fund's valuation operates within a broader framework, and this document should be considered alongside the following:

- The Funding Strategy Statement, which in particular highlights how different types of employer in different circumstances have their contributions calculated
- The Investment Strategy Statement, which sets out the investment strategy for the Fund
- The general governance of the Fund, such as meetings of the Pensions Committee and Local Pensions Board, decisions delegated to officers, the Fund's business plan, etc
- The Fund's risk register

Intervaluation employer events

New employers joining the Fund

Any new employers or admission bodies joining the Fund should be referred to the Fund Actuary to assess the required level of contribution. Depending on the number of transferring members the ceding employer's rate may also need to be reviewed.

Cessations and bulk transfers

Any employer who ceases to participate in the Fund should be referred to the Fund Actuary in accordance with Regulation 64 of the LGPS regulations.

Any bulk movement of scheme members:

- involving 10 or more scheme members being transferred from or to another LGPS fund
- involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement

should be referred to the Fund Actuary to consider the impact on the Fund.

Valuation frequency

Under the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2025 where contribution rates payable from 1 April 2026 will be set.

Appendices

APPENDIX 1

Data

Membership data

A summary of the membership data provided by the Fund for the 2022 valuation is set out in Table 13. The corresponding membership data from the previous valuation is also shown for reference.

The results of the valuation are dependent on the quality of the data used. We have carried out a series of validation checks on the data supplied to us by the Administering Authority to ensure that it is fit for purpose.

Asset data

To check the membership data and derive employer asset values, we have used asset and accounting data and employer level cashflow data provided by the Fund.

Table 13: Whole fund membership data as at 31 March 2022 and 31 March 2019

Whole Fund Membership Data	This Valuation 31 March 2022	Last Valuation 31 March 2019
Employee members		
Number	5,720	5,182
Total actual pay (£000)	148,740	117,858
Total accrued pension (£000)	22,170	17,367
Average age (liability weighted)	53.0	52.4
Future working lifetime (years)	5.6	8.6
Deferred pensioners (including undecideds)		
Number	10,377	11,019
Total accrued pension	20,303	19,624
Average age (liability weighted)	54.0	53.4
Pensioners and dependants		
Number	6,695	6,280
Total pensions in payment	36,780	36,363
Average age (liability weighted)	69.0	69.1

APPENDIX 1

Data

Investment strategy

A summary of the investment strategy allocation used for the calculation of employer contribution rates and to derive the future assumed investment return is set out in Table 14.

This information is as set out in the Fund’s Investment Strategy Statement.

Table 14: Investment strategy used for the 2022 valuation

Asset class	Allocation
Global equities	40%
UK equities	5%
Emerging market equities	5%
Diversified Growth Funds	5%
Infrastructure equity	15%
Property	10%
Multi asset credit	5%
Private debt	5%
Fixed interest gilts	10%
Total	100.0%

APPENDIX 2

Assumptions

To set and agree assumptions for the valuation, the Fund carried out in-depth analysis and review in January 2022 with the final set agreed by the Pensions Committee on 21 February 2022.

Financial assumptions

Setting employer contribution rates

An asset-liability model is used to set employer contributions at the 2022 valuation. This model relies on Hymans Robertson's proprietary economic model, the Economic Scenario Service (ESS). The ESS reflects the uncertainty associated with future levels of inflation and asset returns and the interactions and correlations between different asset classes and wider economic variables. In the short term (first few years), the models are fitted with current financial market expectations. Over the longer term, models are built around views of fundamental economic parameters, for example equity risk premium, credit spreads and long term inflation. The table below shows the calibration of the ESS at 31 March 2022. Further information on the assumptions used for contribution rate setting is included in the Funding Strategy Statement.

Table 15: ESS individual asset class return distributions at 31 March 2022

		Annualised total returns										Inflation (CPI)	17 year real yield (CPI)	17 year yield
		Fixed Interest Gilts (long)	UK Equity	Property	Emerging Markets Equity	Listed Infrastructure Equity	Diversified Growth Fund (high equity beta)	Diversified Growth Fund (medium equity beta)	Developed World Equity	Multi Asset Credit (sub inv grade)	Global High Yield Debt			
10 years	16th %ile	-1.5%	-0.4%	-0.6%	-2.5%	-1.1%	1.1%	1.4%	-0.6%	1.7%	0.6%	1.6%	-1.7%	1.1%
	50th %ile	0.7%	5.7%	4.4%	5.8%	4.9%	5.4%	4.3%	5.6%	3.5%	3.4%	3.3%	-0.5%	2.5%
	84th %ile	2.8%	11.6%	9.5%	14.4%	10.9%	9.5%	7.1%	11.6%	5.2%	5.8%	4.9%	0.7%	4.3%
20 years	16th %ile	-0.2%	1.7%	1.4%	0.1%	1.2%	2.8%	2.5%	1.6%	2.8%	2.1%	1.2%	-0.7%	1.3%
	50th %ile	0.9%	6.2%	5.0%	6.3%	5.6%	6.0%	4.9%	6.1%	4.4%	4.2%	2.7%	1.1%	3.2%
	84th %ile	2.0%	10.6%	8.9%	12.8%	10.1%	9.4%	7.4%	10.8%	6.0%	6.4%	4.3%	2.7%	5.7%
40 years	16th %ile	1.2%	3.2%	2.6%	2.1%	2.6%	4.0%	3.3%	3.2%	3.6%	3.1%	0.9%	-0.6%	1.1%
	50th %ile	1.9%	6.7%	5.5%	6.8%	6.1%	6.6%	5.5%	6.6%	5.3%	5.1%	2.2%	1.3%	3.3%
	84th %ile	2.8%	10.2%	8.8%	11.7%	9.8%	9.4%	7.9%	10.2%	7.1%	7.2%	3.7%	3.2%	6.1%
	Volatility (Disp) (5 yr)	8%	18%	15%	26%	18%	13%	8%	18%	6%	8%	3%		

APPENDIX 2

Assumptions

Financial assumptions

Calculating the funding level

The table below summarises the assumptions used to calculate the funding level at 31 March 2022, along with a comparison at the last valuation.

Table 16: Summary of assumptions used for measuring the funding level, compared to last valuation on 31 March 2019

Assumption	31 March 2022	Required for	31 March 2019
Discount rate	4.3% pa	To place a present value on all the benefits promised to scheme members at the valuation date. The Fund's assets are estimated to have a 70% likelihood of returning above the discount rate.	4.4% pa
Benefit increases/CARE revaluation	2.7% pa	To determine the size of future benefit payments.	2.3% pa
Salary increases	3.0% pa	To determine the size of future final-salary linked benefit payments.	2.6% pa

APPENDIX 2

Assumptions

Demographic assumptions

The same demographic assumptions are used in setting contribution rates and assessing the current funding level.

Longevity

Table 17: Summary of longevity assumptions

	This valuation 31 March 2022	Last valuation 31 March 2019
Baseline assumption	VitaCurves based on member-level lifestyle factors	VitaCurves based on member-level lifestyle factors
Future improvements	CMI 2021 model Initial addition = 0.25% (both Female and Male) Smoothing factor = 7.0 1.5% pa long-term rate of improvement	CMI 2018 model Initial addition = 0.25% (Female), 0.5% (Male) Smoothing factor = 7.0 1.25% pa long-term rate of improvement

Further information on these assumptions can be provided upon request. Sample rates are included on the next page.

Other demographic assumptions

Table 18: Summary of other demographic assumptions

Death in service	See sample rates in Appendix 2
Retirements in ill health	See sample rates in Appendix 2
Withdrawals	See sample rates in Appendix 2
Promotional salary increases	See sample rates in Appendix 2
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits
50:50 option	1.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option
Retirement age	The earliest age at which a member can retire with their benefits unreduced
Family details	A varying proportion of members are assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. The dependant of a male member is assumed to be 3 years younger than him and the dependent of a female member is assumed to be 3 years older than her.

APPENDIX 2

Assumptions

Sample rates for demographic assumptions

Males

Table 19: Sample rates of male demographic assumptions

Page 111	Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
			FT & PT	FT	PT	FT	PT	FT	PT
	20	105	0.17	404.31	813.01	0.00	0.00	0.00	0.00
	25	117	0.17	267.06	537.03	0.00	0.00	0.00	0.00
	30	131	0.20	189.49	380.97	0.00	0.00	0.00	0.00
	35	144	0.24	148.05	297.63	0.10	0.07	0.02	0.01
	40	150	0.41	119.2	239.55	0.16	0.12	0.03	0.02
	45	157	0.68	111.96	224.96	0.35	0.27	0.07	0.05
	50	162	1.09	92.29	185.23	0.90	0.68	0.23	0.17
	55	162	1.70	72.68	145.94	3.54	2.65	0.51	0.38
	60	162	3.06	64.78	130.02	6.23	4.67	0.44	0.33
	65	162	5.10	0.00	0.00	11.83	8.87	0.00	0.00

Females

Table 20: Sample rates of female demographic assumptions

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.10	352.42	467.37	0.00	0.00	0.00	0.00
25	117	0.10	237.14	314.44	0.1	0.07	0.02	0.01
30	131	0.14	198.78	263.54	0.13	0.1	0.03	0.02
35	144	0.24	171.57	227.38	0.26	0.19	0.05	0.04
40	150	0.38	142.79	189.18	0.39	0.29	0.08	0.06
45	157	0.62	133.25	176.51	0.52	0.39	0.1	0.08
50	162	0.90	112.34	148.65	0.97	0.73	0.24	0.18
55	162	1.19	83.83	111.03	3.59	2.69	0.52	0.39
60	162	1.52	67.55	89.37	5.71	4.28	0.54	0.4
65	162	1.95	0.00	0.00	10.26	7.69	0.00	0.00

Figures are incidence rates per 1,000 members except salary scale. FT and PT denoted full-time and part-time members respectively.

APPENDIX 3

Reliances and limitations

We have been commissioned by London Borough of Brent (“the Administering Authority”) to carry out a full actuarial valuation of the London Borough of Brent Pension Fund (“the Fund”) as at 31 March 2022 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (“the Regulations”).

This report is addressed to the Administering Authority. It has been prepared by us as actuaries to the Fund and is solely for the purpose of summarising the main outcomes of the 2022 actuarial valuation. It has not been prepared for any other third party or for any other purpose. We make no representation or warranties to any third party as to the accuracy or completeness of this report, no reliance should be placed on this report by any third party and we accept no responsibility or liability to any third party in respect of it.

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This summary report is the culmination of other communications in relation to the valuation, in particular:

- Our [2022 valuation toolkit](#) which sets out the methodology used when reviewing funding plans
- Our paper to the Fund’s Pension Committee dated September 2022 which discusses the funding strategy for the London Borough of Brent
- Our paper to the Fund’s Pension Committee dated January 2022 which discusses the valuation assumptions
- Our initial results report dated September 2022 which outlines the whole fund results and inter-valuation experience

- Our data report which summarises the data used for the valuation, the approach to ensuring it is fit for purpose and any adjustments made to it during the course of the valuation
- The Funding Strategy Statement which details the approach taken to adequately fund the current and future benefits due to members

The totality of our advice complies with the Regulations as they relate to actuarial valuations.

The following Technical Actuarial Standards apply to this advice, and have been complied with where material and to a proportionate degree. They are:

- TAS100 – Principles for technical actuarial work
- TAS300 – Pensions

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APPENDIX 4

Glossary

Term	Explanation
50:50 option	An option for LGPS members to pay half contributions and earn half the retirement benefit (pre-retirement protection benefits are unreduced).
Asset-liability modelling	An approach to modelling and understanding risk for a pension fund. The assets and liabilities are projected forward into the future under many different future scenarios of inflation, investment returns and interest rates. The future scenarios are then analysed to understand the risk associated with a particular combination of contribution rates and investment strategy. Different combinations of contribution rates and/or investment strategies may be tested.
Baseline longevity	The rates of death (by age and sex) in a given group of people based on current observed data.
Club Vita	A firm of longevity experts we partner with for longevity analysis. They combine data from thousands of pension schemes and use it to create detailed baseline longevity assumptions at member-level, as well as insight on general longevity trends and future improvements.
Commutation	The option for members to exchange part of their annual pension for a one-off lump sum at retirement. In the LGPS, every £1 of pension exchanged gives the member £12 of lump sum. The amounts that members commute is heavily influenced by tax rules which set an upper limit on how much lump sum can be taken tax-free.
CPI inflation	The annual rate of change of the Consumer Prices Index (CPI). The CPI is the UK government's preferred measure of inflation and is the measure used to increase LGPS (and all other public sector pension scheme) benefits each year.
Deferred pensioners	A former employee who has left employment (or opted out of the pension fund) but is not yet in receipt of their benefits from the fund.
Demographic assumptions	Assumptions concerned with member and employer choices rather than macroeconomic or financial factors. For example, retirement age or promotional salary scales. Demographic assumptions typically determine the timing of benefit payments.

APPENDIX 4

Glossary

Page 114

Term	Explanation
Discount rate	A number used to place a single value on a stream of future payments, allowing for expected future investment returns.
Employee members	Members who are currently employed by employers who participate in the fund and paying contributions into the fund.
ESS	Economic Scenario Service - Hymans Robertson's proprietary economic scenario generator used to create thousands of simulations of future inflation, asset class returns and interest rates.
Funding position	The extent to which the assets held by the fund at 31 March 2022 cover the accrued benefits ie the liabilities. The two measures of the funding position are: <ul style="list-style-type: none">• the funding level - the ratio of assets to liabilities; and• the funding surplus/deficit - the difference between the asset and liabilities values.
Inflation	Prices tend to increase over time, which is called inflation. Inflation is measured in different ways, using a different 'basket' of goods and mathematical formulas.
Liabilities	An employer's liability value is the single value at a given point in time of all the benefit payments expected to be made in future to all members. Benefit payments are projected using demographic and financial assumptions and the liability is calculated using a discount rate.
Longevity improvements	An assumption about how rates of death will change in future. Typically we assume that death rates will fall and life expectancies will improve over time, continuing the long-running trend.
Pensioners	A former employee who is in receipt of their benefits from the fund. This category includes eligible dependants of the former employee.

APPENDIX 4

Glossary

Term	Explanation
Primary rate	The estimated cost of future benefits, expressed in percentage of pay terms. The primary rate will include an allowance to cover the fund’s expenses.
Prudence	To be prudent means to err on the side of caution in the overall set of assumptions. We build prudence into the choice of discount rate by choosing an assumption with a prudence Level of more than 50%. All other assumptions aim to be best estimate.
Prudence Level	A percentage indicating the likelihood that a discount rate assumption will be achieved in practice, based on the ESS model. The higher the prudence level, the more prudent the discount rate is.
Secondary rate	An adjustment to the primary rate, generally to reflect costs associated with benefits that have already been earned up to the valuation date. This may be expressed as a percentage of pay and/or monetary amount.
Withdrawal	Refers to members leaving the scheme before retirement. These members retain an entitlement to an LGPS pension when they retire, but are no longer earning new benefits.

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London Borough of Brent Pension Fund
Funding Strategy Statement
February 2023

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London Borough of Brent Pension Fund – Funding Strategy Statement

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- Appendix A – The regulatory framework
- Appendix B – Roles and responsibilities
- Appendix C – Risks and controls
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1 Welcome to the fund's funding strategy statement

This document sets out the funding strategy statement (FSS) for London Borough of Brent pension fund.

The pension fund is administered by Brent Council, known as the administering authority. Brent council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 20th February 2023.

There's a regulatory requirement for Brent Council to prepare an FSS. You can find out more about the regulatory framework in [Appendix A](#). If you have any queries about the FSS, contact sawan.shah@brent.gov.uk

1.1 What is the London Borough of Brent pension fund?

The Brent pension fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in [Appendix B](#).

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including the council and academies. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers

Employers such as town and parish councils can join the LGPS through a resolution. If a resolution is passed, the fund can't refuse entry. The employer then decides which employees can join the scheme. The Brent fund has no such employers currently.

Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers such as charities and housing associations, who have a "community of interest" with another scheme employer.

Others may be called **transferee admission bodies** (TABs), typically contractors which provide outsourced services like cleaning or catering to a scheduled body.

These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy at within the Fund's annual report at brent.gov.uk/pensions.

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see [Appendix A](#))

1.6 How is the funding strategy specific to the Brent pension fund?

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.

2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of two elements:

- **the primary contribution rate** – contributions payable towards future benefits (including an allowance for the fund's expenses)
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in [Appendix D](#).

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

The fund permits the prepayment of employer contributions in specific circumstances. The fund's policy is to only permit prepayment of Secondary contributions which would otherwise be expressed in monetary (not % of payroll) amounts; the administering authority must be consulted in advance regarding a proposal to prepay, and it may seek assurance that the employer has taken advice and understands the potential risks involved.

2.2 The contribution rate calculation

Table 2: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs		TABs*
Sub-type	Council	Academies converted from LEA	Free schools	Open to new entrants	Closed to new entrants	(all)
Funding target**	Ongoing	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis		Contractor exit basis, assuming fixed-term contract in the fund
Minimum likelihood of success	70%	70%	70%	75%	80%	70%
Maximum time horizon	20 years	20 years	20 years	15 years	Average future	Same as the letting employer

Type of employer	Scheduled bodies			CABs		TABs*
Sub-type	Council	Academies converted from LEA	Free schools	Open to new entrants	Closed to new entrants	(all)
					working lifetime	
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					
Secondary rate	% of payroll	% of payroll	% of payroll	Monetary amount	Monetary amount	% of payroll
Stabilised contribution rate?	Yes	Yes	No	No	No	No
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority			Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	3 years	3 years	None

* Employers participating in the fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority

** See [Appendix D](#) for further information on funding targets.

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. If this isn't appropriate, contribution increases or decreases may be phased.

After taking advice from the fund actuary, the administering authority believes a stabilised approach is a prudent longer-term strategy for certain employers as follows:

Table 1: current stabilisation approach

Type of employer	Council	Academy converted from LEA
Maximum contribution increase per year	+1.5% of pay	+1.5% of pay
Maximum contribution decrease per year	-1.5% of pay	-1.5% of pay

Stabilisation criteria and limits are reviewed during the valuation process. The administering authority may review them between valuations to respond to membership or employer changes.

2.4 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the administering authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

2.5 What is pooling?

The administering authority operates contribution rate pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In a contribution rate pool, contributions are set to target full funding for the pool as a whole, rather than for individual employers.

Employers in a pool maintain their individual funding positions, tracked by the fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate. Setting contributions in this way means that while the fund receives the contributions required, the risk that employers develop a surplus or deficit increases.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't disclosed to pooled employers, unless agreed by the administering authority.

CABs that are closed to new entrants aren't usually allowed to enter a pool.

If an employer leaves the fund, the required contributions are based on their own funding position rather than the pool average. Cessation terms also apply, which means higher contributions may be required at that point.

2.6 What are the current contribution pools?

- LEA schools generally pool with the Council, although there may be exceptions for specialist or independent schools.
- Academy schools may be pooled within their Multi Academy Trust (if this applies).
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

2.7 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

The fund permits the prepayment of employer contributions in specific circumstances. Further details are set out in paragraph 2.1 above.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers will be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread at administering authority discretion.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer must pay a funding strain, which may be a large sum.

The administering authority does not offer any arrangement to mitigate this. Individual employers should make their own arrangements if they are concerned about the risk of unmanageable ill-health strain costs.

Employers must tell the administering authority if the policy ends or if there are any changes to coverage or premium.

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

Each fund employer has a notional share of the fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

If an employee moves one from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring (see section 4).

4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in [Appendix D](#), the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body. New designated employers may also join the fund if they pass a designation to do so.

On joining, the fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

5.2 New academies

New academies (including free schools) join the fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities. Whilst academies are not pooled, their contributions may be set on a pooled basis as follows:

Academy type	Primary contribution rate	Secondary contribution rate
Converting from LEA	Calculated using the current funding strategy (set out in section 2) and the transferring membership	Balance so that total rate equals Council rate each year
Free school	Calculated using the current funding strategy (set out in section 2) and the initial membership.	

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body such as the council or an academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund

employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority or in the contract admission agreement.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, eg set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement were to end early, for example if the admission body became insolvent or went out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- the fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice; however this is considered on a case-by-case basis. If such a notice is issued, then the cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the fund leaves the scheme.

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in [Appendix D](#).

- (a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in [Appendix D](#).
- (b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is only a guarantor of last resort, this will have no effect on the cessation valuation basis applied. If the guarantee is more extensive, the cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.
- (c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's liability, and are deducted from the cessation surplus or added to the cessation deficit.

The cessation policy is available from the administering authority.

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount
- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

The exit credit policy is available from the administering authority.

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement (DSA)
- if an exiting employer enters into a deferred debt agreement (DDA), it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

The employer flexibility on exit policy is available from the administering authority.

7.5 What if an employer has no active members?

If an employer leaves the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the fund and either:

- a) their asset share runs out before all ex-employees' benefits have been paid. The other fund employers will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis at the formal valuation
- b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other fund employers on a pro-rata basis.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

- (a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level
- or
- (b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward
- support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**
- ensure the fund meets its **solvency and long-term cost efficiency** objectives
- take a **prudent longer-term view** of funding those liabilities.

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with “persons the authority considers appropriate”. This should include ‘meaningful dialogue... with council tax raising authorities and representatives of other participating employers’.

The consultation process included issuing a draft version to participating employers and attending an open employers’ forum.

A3 How is the FSS published?

The FSS is emailed to participating employers and employee and pensioner representatives. Summaries are issued to members and a full copy is included in the fund’s annual report and accounts. Copies are freely available on request and by:

- publishing on the administering authority’s website
- sending copies to each employer
- including the full statement or summary in the annual report
- adding the FSS to the agenda of pension fund employers’ forum
- sending copies to members of the local pension board
- sending copies to employee/pensioner representatives
- making copies freely available on request.

The FSS is published at www.brent.gov.uk/pensions.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pension Fund Sub-Committee and included in the Sub-Committee meeting minutes.

A5 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation at www.brent.gov.uk/pensions.

Appendix B – Roles and responsibilities

B1 The administering authority:

- 1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations
- 2 manages any conflicts of interest from its dual role as administering authority and a fund employer
- 3 collects employer and employee contributions, investment income and other amounts due
- 4 ensures cash is available to meet benefit payments when due
- 5 pays all benefits and entitlements
- 6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy
- 7 communicates with employers so they understand their obligations
- 8 safeguards the fund against employer default
- 9 works with the fund actuary to manage the valuation process
- 10 provides information to the Government Actuary's Department so they can carry out their statutory obligations
- 11 consults on, prepares and maintains the funding and investment strategy statements
- 12 tells the actuary about changes which could affect funding
- 13 monitors the fund's performance and funding, amending the strategy statements as necessary
- 14 enables the local pension board to review the valuation process.

B2 Individual employers:

- 1 deduct the correct contributions from employees' pay
- 2 pay all contributions by the due date
- 3 have appropriate policies in place to work within the regulatory framework
- 4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain
- 5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.
- 6 make any required exit payments when leaving the fund.

B3 The fund actuary:

- 1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency
- 2 provides information to the Government Actuary's Department so they can carry out their statutory obligations
- 3 advises on fund employers, including giving advice about and monitoring bonds or other security
- 4 prepares advice and calculations around bulk transfers and individual benefits

- 5 assists the administering authority to consider changes to employer contributions between formal valuations
- 6 advises on terminating employers' participation in the fund
- 7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

- 1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement
- 2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS
- 3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements
- 4 governance advisers may be asked to advise the administering authority on processes and working methods
- 5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures
- 6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is set out [here](#).

Details of the key fund-specific risks and controls are below.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities and contribution rates over the long-term.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>

Risk	Summary of Control Mechanisms
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the fund	<p>The fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the actuary calculates the added cost spread pro-rata among all employers.</p>
Effect of possible asset underperformance as a result of climate change	Covered in the fund's Investment Strategy Statement.

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The fund actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	<p>Employers are charged the extra cost of non-ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases.</p> <p>For other employers, review of contributions is permitted in general between valuations and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The administering authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Benefits are valued in line with the regulations in force at the time of the valuation, with an exception relating to the McCloud ruling. The benefits of members likely to be affected by the McCloud ruling have instead been valued as at 31 March 2022 in line with the expected regulations, reflecting an underpin as directed by DLUHC.</p> <p>The government's long term preferred solution to GMP indexation and equalisation - conversion of GMPs to scheme benefits - was built into the 2019 valuation.</p>
Time, cost and/or reputational risks associated with any DLUHC intervention triggered by the Section 13 analysis.	Take advice from fund actuary on position of fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	<p>The administering authority considers all consultation papers issued by the government and comments where appropriate.</p> <p>Take advice from fund actuary on impact of changes on the fund and amend strategy as appropriate.</p>

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The administering authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The actuary may revise the rates and adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	<p>The administering authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving elected members, and recorded appropriately.</p>

Risk	Summary of Control Mechanisms
	Actuarial advice is subject to professional requirements such as peer review.
Administering authority failing to commission the Fund Actuary to carry out a termination valuation for a departing admission body.	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>CABs' memberships are monitored and, if active membership decreases, steps will be taken.</p>
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The administering authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <ul style="list-style-type: none"> • Seeking a funding guarantee from another scheme employer, or external body, where-ever possible. • Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. • Vetting prospective employers before admission. • Where permitted under the regulations requiring a bond to protect the fund from various risks. • Requiring new admission bodies to have a guarantor. • Reviewing bond or guarantor arrangements at regular intervals. • Reviewing contributions well ahead of cessation if thought appropriate.
An employer ceasing to exist resulting in an exit credit being payable	<p>The administering authority regularly monitors admission bodies coming up to cessation</p> <p>The administering authority invests in liquid assets to ensure that exit credits can be paid when required.</p>

C6 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

Type of employer	Assessment	Monitoring
Council	Tax-raising or government-backed, no individual assessment required	n/a
Academies	Government-backed, covered by DfE guarantee in event of MAT failure	Check that DfE guarantee continues, after regular scheduled DfE review
Admission bodies (including TABs & CABs)	As part of requirement for a bond including its relevant coverage and amount	Periodically, for instance updating bond requirements

C7 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy. To consider the resilience of the strategy the fund included climate scenario stress testing in the contribution modelling exercise for the Council at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results (as expected) but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

The same stress tests were not applied to the funding strategy modelling for smaller employers. However, given that the same underlying model is used for all employers and that the Council makes up the vast majority of the fund's assets and liabilities, applying the stress tests to all employers was not deemed proportionate at this stage and would not be expected to result in any changes to the agreed contribution plans.

The fund's specific policies in this area are covered in its Investment Strategy Statement.

Appendix D – Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns										Inflation (CPI)	17 year real yield (CPI)	17 year yield
		Fixed Interest Gilts (long)	UK Equity	Property	Emerging Markets Equity	Listed Infrastructure Equity	Diversified Growth Fund (high equity beta)	Diversified Growth Fund (medium equity beta)	Developed World Equity	Multi Asset Credit (sub inv grade)	Global High Yield Debt			
10 years	16th %ile	-1.5%	-0.4%	-0.6%	-2.5%	-1.1%	1.1%	1.4%	-0.6%	1.7%	0.6%	1.6%	-1.7%	1.1%
	50th %ile	0.7%	5.7%	4.4%	5.8%	4.9%	5.4%	4.3%	5.6%	3.5%	3.4%	3.3%	-0.5%	2.5%
	84th %ile	2.8%	11.6%	9.5%	14.4%	10.9%	9.5%	7.1%	11.6%	5.2%	5.8%	4.9%	0.7%	4.3%
20 years	16th %ile	-0.2%	1.7%	1.4%	0.1%	1.2%	2.8%	2.5%	1.6%	2.8%	2.1%	1.2%	-0.7%	1.3%
	50th %ile	0.9%	6.2%	5.0%	6.3%	5.6%	6.0%	4.9%	6.1%	4.4%	4.2%	2.7%	1.1%	3.2%
	84th %ile	2.0%	10.6%	8.9%	12.8%	10.1%	9.4%	7.4%	10.8%	6.0%	6.4%	4.3%	2.7%	5.7%
40 years	16th %ile	1.2%	3.2%	2.6%	2.1%	2.6%	4.0%	3.3%	3.2%	3.6%	3.1%	0.9%	-0.6%	1.1%
	50th %ile	1.9%	6.7%	5.5%	6.8%	6.1%	6.6%	5.5%	6.6%	5.3%	5.1%	2.2%	1.3%	3.3%
	84th %ile	2.8%	10.2%	8.8%	11.7%	9.8%	9.4%	7.9%	10.2%	7.1%	7.2%	3.7%	3.2%	6.1%
Volatility (Disp) (5 yr)		8%	18%	15%	26%	18%	13%	8%	18%	6%	8%	3%		

D3 What financial assumptions were used?

Future investment returns and discount rate

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except transferee admission bodies and closed community admission bodies	1.8%
Low-risk exit basis	Community admission bodies closed to new entrants	0.0%
Contractor exit basis	Transferee admission bodies	Consistent with the margin used to allocate assets to the employer on joining the fund

Discount rate (for funding level calculation as at 31 March 2022 only)

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 4.3% applies. This is based on a prudent estimate of investment returns, specifically, that there is an 70% likelihood that the fund's assets will future investment returns of 4.3% p.a. over the 20 years following the 2022 valuation date.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to 0.3% above CPI pa plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.5% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	50% of maximum tax-free cash
50:50 option	1% of members will choose the 50:50 option.

Males

Age	Salary Scale	Death Before Retirement	Withdrawals		III Health Tier 1		III Health Tier 2	
			FT	PT	FT	PT	FT	PT
20	105	0.17	404.31	813.01	0.00	0.00	0.00	0.00
25	117	0.17	267.06	537.03	0.00	0.00	0.00	0.00
30	131	0.2	189.49	380.97	0.00	0.00	0.00	0.00
35	144	0.24	148.05	297.63	0.10	0.07	0.02	0.01
40	150	0.41	119.2	239.55	0.16	0.12	0.03	0.02
45	157	0.68	111.96	224.96	0.35	0.27	0.07	0.05
50	162	1.09	92.29	185.23	0.90	0.68	0.23	0.17
55	162	1.7	72.68	145.94	3.54	2.65	0.51	0.38
60	162	3.06	64.78	130.02	6.23	4.67	0.44	0.33
65	162	5.1	0	0.00	11.83	8.87	0.00	0.00

Females

Age	Salary Scale	Death Before Retirement	Withdrawals		III Health Tier 1		III Health Tier 2	
			FT	PT	FT	PT	FT	PT
20	105	0.10	352.42	467.37	0.00	0.00	0.00	0.00
25	117	0.10	237.14	314.44	0.10	0.07	0.02	0.01
30	131	0.14	198.78	263.54	0.13	0.10	0.03	0.02
35	144	0.24	171.57	227.38	0.26	0.19	0.05	0.04
40	150	0.38	142.79	189.18	0.39	0.29	0.08	0.06
45	157	0.62	133.25	176.51	0.52	0.39	0.10	0.08
50	162	0.90	112.34	148.65	0.97	0.73	0.24	0.18
55	162	1.19	83.8	111.0	3.59	2.69	0.52	0.39
60	162	1.52	67.55	89.37	5.71	4.28	0.54	0.40
65	162	1.95	0.00	0.00	10.26	7.69	0.00	0.00

D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?

Low-risk exit basis

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

1. The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin. This was 1.7% pa on 31 March 2022.
2. The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
3. Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

Contractor exit basis

Where there is a guarantor (eg in the case of contractors where the local authority guarantees the contractor's admission in the fund), the contractor exit basis will apply.

The financial and demographic assumptions underlying the contractor exit basis are equal to those set for calculating contributions rates. Specifically, the discount rate is set equal to the risk-free rate at the cessation date, plus a margin consistent with that set to allocate assets to the employer on joining the fund.

London Borough of Brent Pension Fund

Policy on contribution reviews

Effective date of policy	TBC
Date approved	TBC
Next review	TBC

1 Introduction

The purpose of this policy is to set out the administering authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

1.2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer; this change may be a reduction or an increase, and potentially change the format of contributions between % of pay and monetary amount. The actual change, if any, will depend on the particular circumstances.

1.3 Guidance and regulatory framework

[Regulation 64](#) of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 64 (4) – allows the administering authority to review the contribution rate if it becomes likely that an employer will cease participation in the fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the administering authority may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects [statutory guidance](#) from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying [guide](#) that has been produced by the Scheme Advisory Board.

2 Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The administering authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the administering authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

3 Policy

3.1 Circumstances for review

The fund would consider the following circumstances as a potential trigger for review:

- in the opinion of the administering authority there are circumstances which make it likely that an employer will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the fund within the next two years and before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer has changed significantly since the last valuation;
- it appears likely to the administering authority that there has been a significant change in the ability of an employer to meet their obligations (e.g. a material change in employer covenant or provision of additional security);
- it appears to the administering authority that the membership of an employer has changed materially (e.g. bulk transfer, significant reduction to payroll, large-scale restructuring); or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

3.2 Employer requests

The administering authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The administering authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The costs incurred by the administering authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

3.3 Other employers

When undertaking any review of contributions, the administering authority will also consider the impact of a change to contribution rates on other fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole fund.

The administering authority will consult with other fund employers as necessary.

3.4 Effect of market volatility

Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

3.5 Documentation

Where revisions to contribution rates are necessary, the fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the administering authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

4 Related Policies

The fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

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London Borough of Brent Pension Fund

Policy on cessations

Effective date of policy	TBC
Date approved	TBC
Next review	TBC

1 Introduction

The purpose of this policy is to set out the administering authority's approach to dealing with circumstances where a scheme employer leaves the fund and becomes an exiting employer (a cessation event).

It should be noted that this policy is not exhaustive. Each cessation will be treated on a case-by-case basis, however certain principles will apply as governed by the regulatory framework (see below) and the fund's discretionary policies (as described in Section 3 - Policies).

1.1 Aims and Objectives

The administering authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities for employers leaving the fund.
- To provide information about how the fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the administering authority, the actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

1.2 Background

As described in Section 7 of the Funding Strategy Statement (FSS), a scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the fund. On cessation from the fund, the administering authority will instruct the fund actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists. The fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

1.3 Guidance and regulatory framework

The Local Government Pension Scheme Regulations 2013 (as amended) contain relevant provisions regarding employers leaving the fund ([Regulation 64](#)) and include the following:

- Regulation 64 (1) – this regulation states that, where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the Rates & Adjustments Certificate to be amended to show the revised contributions due from the exiting employer
- Regulation 64 (2) – where an employing authority ceases to be a scheme employer, the administering authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the exit date. Further, it requires the Rates & Adjustments Certificate to be amended to show the exit payment due from the exiting employer or the excess of assets over the liabilities in the fund.

- Regulation 64 (2ZAB) – the administering authority must determine the amount of an exit credit, which may be zero, taking into account the factors specified in paragraph (2ZC) and must:
 - a) Notify its intention to make a determination to-
 - (i) The exiting employer and any other body that has provided a guarantee to the Exiting Employer
 - (ii) The scheme employer, where the exiting employer is a body that participated in the Scheme as a result of an admission agreement
 - b) Pay the amount determined to that exiting employer within six months of the exit date, or such longer time as the administering authority and the exiting employer agree.
- Regulation (2ZC) – In exercising its discretion to determine the amount of any exit credit, the administering authority must have regard to the following factors-
 - a) The extent to which there is an excess of assets in the fund relating to that employer in paragraph (2)(a)
 - b) The proportion of this excess of assets which has arisen because of the value of the employer's contributions
 - c) Any representations to the administering authority made by the exiting employer and, where that employer participates in the scheme by virtue of an admission agreement, any body listed in paragraphs (8)(a) to (d)(iii) of Part 3 to Schedule 2 of the Regulations: and
 - d) Any other relevant factors
- Regulation 64 (2A) & (2B)– the administering authority, at its discretion, may issue a suspension notice to suspend payment of an exit amount for up to three years, where it reasonably believes the exiting employer is to have one or more active members contributing to the fund within the period specified in the suspension notice.
- Regulation 64 (3) – in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate scheme employer or remaining fund employers may be amended.
- Regulation 64 (4) – where it is believed a scheme employer may cease at some point in the future, the administering authority may obtain a certificate from the fund actuary revising the contributions for that employer, with a view to ensuring that the assets are expected to be broadly equivalent to the exit payment that will be due.
- Regulation 64 (5) – following the payment of an exit payment to the Fund, no further payments are due to the fund from the exiting employer.
- Regulation 64 (7A-7G) – the administering authority may enter into a written deferred debt agreement, allowing the employer to have deferred employer status and to delay crystallisation of debt despite having no active members.
- Regulation 64B (1) – the administering authority may set out a policy on spreading exit payments.

In addition to the 2013 Regulations summarised above, [Regulation 25A](#) of the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the Transitional Regulations”) give the fund the ability to levy a cessation debt on employers who have ceased participation in the fund (under the previous regulations) but for whom a cessation valuation was not carried out at the time. This policy document describes how the fund expects to deal with any such cases.

This policy also reflects [statutory guidance](#) from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to employer exits. Interested parties may want to refer to an accompanying [guide](#) that has been produced by the Scheme Advisory Board.

These regulations relate to all employers in the fund.

2 Statement of Principles

This Statement of Principles covers the fund's approach to exiting employers. Each case will be treated on its own merits but in general:

- it is the fund's policy that the determination of any surplus or deficit on exit should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the fund.
- the fund's preferred approach is to request the full payment of any exit debt (an exit payment), which is calculated by the actuary on the appropriate basis (as per Section 7 of the FSS and Section 3.1 below). This would extinguish any liability to the fund by the exiting employer.
- the fund's key objective is to protect the interests of the fund, which is aligned to protecting the interests of the remaining employers. A secondary objective is to consider the circumstances of the exiting employer in determining arrangements for the recovery of the exit debt.

3 Policies

On cessation, the administering authority will instruct the fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus as defined in Section 4.3 of the FSS.

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The fund's normal policy is that this cessation debt is paid in full in a single lump sum within 28 days of the employer being notified.

However, the fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation (see [3.2 Repayment flexibility on exit payments](#) below).

In circumstances where there is a surplus, the administering authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see [3.3 Exit credits](#) below).

3.1 Approach to cessation calculations

Cessation valuations are carried out on a case-by-case basis at the sole discretion of the fund depending on the exiting employer's circumstances. However, in general the following broad principles and assumptions may apply, as described in Section 7.2 of the FSS and summarised below:

Type of employer	Cessation exit basis	Responsible parties for unpaid or future deficit emerging
Academies	Low risk basis ¹	DfE guarantee may apply, otherwise see below
Admission bodies (TABs)	Contractor exit basis ²	Letting authority (where applicable), otherwise shared between other fund employers
Admission bodies (CABs)	Low risk basis	Shared between other fund employers (if no guarantor exists)

¹Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. academy failing with no successor Trust), these cessation principles would apply.

²Where a TAB has taken, in the view of the administering authority, action that has been deliberately designed to bring about a cessation event (e.g. stopping future accrual of LGPS benefits), then the cessation valuation will be carried out on a low-risk basis.

Cessation of academies and multi-academy trusts (MATs)

A cessation event will occur if a current academy or MAT ceases to exist as an entity or an employer in the fund.

The cessation treatment will depend on the circumstances:

- If the cessation event occurs due to an academy or MAT merging with another academy or MAT within the fund, all assets and liabilities from each of the merging entities will be combined and will become the responsibility of the new merged entity.
- If the MAT is split into more than one new or existing employer within the fund, the actuary will calculate a split of the assets and liabilities to be transferred from the exiting employer to the new employers. The

actuary will use their professional judgement to determine an appropriate and fair methodology for this calculation in consultation with the administering authority.

- In all other circumstances, and following payment of any cessation debt, section 7.5 of the FSS would apply.

3.2 Repayment flexibility on exit payments

Deferred spreading arrangement (DSA)

The fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the fund's policy is:

- The agreed spread period is no more than three years, but the fund could use its discretion to extend this period in extreme circumstances.
- The fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.
- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The fund will only consider written requests within six months of the employer exiting the fund. The exiting employer would be required to provide the fund with detailed financial information to support its request.
- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.
- Where appropriate, cases may be referred to the Pension Fund Sub-Committee for consideration and considered on their individual merit. Decisions may be made by the Chair in consultation with officers if an urgent decision is required between Sub-Committee meetings.

Deferred debt agreement (DDA)

The fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment as a lump sum in full. However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the fund may exercise its discretion to set up a deferred debt agreement as described in [Regulation 64 \(7A\)](#).

The employer must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the Fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The Administering Authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the Fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements
- All costs of the arrangement are met by the employer, such as the cost of advice to the fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.
- Generally, cases will be referred to the Pension Fund Sub-Committee for consideration and considered on their individual merit. Decisions may be made by the Chair in consultation with officers if an urgent decision is required between Sub-Committee meetings.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrolls new active fund members.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The administering authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.
- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their low risk basis).
- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

3.3 Exit credits

The administering authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the [Local Government Pension Scheme \(Amendment\) Regulations 2020](#).

The administering authority may determine the amount of exit credit payable to be zero, however, in making a determination, and in accordance with regulation 64 paragraph 2ZC, the administering authority will take into account the following factors.

- a) the extent to which there is an excess of assets in the fund relating to the employer over and above the liabilities specified.
- b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.
- c) any representations to the administering authority made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.
- d) any other relevant factors

Admitted bodies

- i. No exit credit will normally be payable in respect of admissions who joined the fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph iii) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the fund.
- ii. No exit credit will normally be payable to any admission body who participates in the fund via the mandated pass through approach. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the fund via the "Letting employer retains pre-contract risks" route is subject to its risk sharing arrangement, as per paragraph iii) below.
- iii. The fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the administering authority) of the admission body ceasing participation in the Fund.
- iv. In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in c), the fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the administering authority.
- v. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the admission body during its

participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

- vi. If the admission agreement ends early, the fund will consider the reason for the early termination, and whether that should have any relevance on the fund's determination of the value of any exit credit payment. In these cases, the fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.
- vii. If an admitted body leaves on a low risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.
- viii. The decision of the fund is final in interpreting how any arrangement described under iii), v), vi) and vii) applies to the value of an exit credit payment.

Scheduled bodies

- i. Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- ii. Where no formal guarantor or risk-sharing arrangement exists, the fund will consider how the approach to setting contribution rates payable by the employer during its participation in the fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- iii. The decision of the fund is final in interpreting how any arrangement described under i) and ii) applies to the value of an exit credit payment.
- iv. If a scheduled body or designating body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.
- v. If a scheduled body or resolution body leaves on a low-risk basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

- i. The fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.
- ii. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the fund and the respective investment returns earned on both.
- iii. The fund will also factor in if any contributions due or monies owed to the fund remain unpaid by the employer at the cessation date. If this is the case, the fund's default position will be to deduct these from any exit credit payment.
- iv. The final decision will be made by the pension manager, in conjunction with advice from the fund's actuary and/or legal advisors where necessary, in consideration of the points held within this policy.
- v. The fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the fund will discuss its approach to determining an exit credit with all affected parties. The decision of the fund in these instances is final.

- vi. The guidelines above at point v) in the 'Admitted bodies' section, and at points i) and ii) in the 'Scheduled bodies and designating bodies' section, make reference to the Fund 'considering the approach to setting contribution rates during the employer's participation'. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in Table 2 (section 2.2) in the FSS. Considering the approach taken when setting contribution rates of the exiting employer may help the fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.
- vii. None of the above should be considered as fettering the fund's discretionary decision, instead it is an indication of how decisions are likely to be made. However it is important to bear in mind that each and every potential exit credit case will be considered by the administering authority on its own merits, and the administering authority will make its discretionary decision on that basis.

Disputes

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 74-78 of the LGPS Regulations 2013 would apply.

4 Practicalities and process

4.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the fund is likely to come to an end must:

- advise the fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment).
- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency.
- provide all other information and data requirements as requested by the Administering Authority which are relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).

4.2 Responsibilities of administering authority

The administering authority will:

- gather information as required, including, but not limited to, the following:
 - details of the cessation - the reason the employer is leaving the fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation.
 - complete membership data for the outgoing employer and identify changes since the previous formal valuation.
 - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.).
- commission the fund actuary to carry out a cessation valuation under the appropriate regulation.
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus.
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership.
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

Payment of an exit credit

- If the actuary determines that there is an excess of assets over the liabilities at the cessation date, the administering authority will act in accordance with the exit credit policy above. If payment is required, the administering authority will advise the exiting employer of the amount due to be repaid and seek to make payment within six months of the exit date. However, in order to meet the six month timeframe, the administering authority requires prompt notification of an employers' exit and all data requested to be provided in a timely manner. The administering authority is unable to make any exit credit payment until it has received all data requested.
- At the time this policy was produced, the fund has been informed by HMRC that exit credits are not subject to tax, however all exiting employers must seek their own advice on the tax and accounting treatment of any exit credit.

4.3 Responsibilities of the actuary

Following commission of a cessation valuation by the administering authority, the fund actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy.
- provide actuarial advice to the administering authority on how any cessation deficit should be recovered, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation.
- where appropriate, advise on the implications of the employer leaving on the remaining fund employers, including any residual effects to be considered as part of triennial valuations.

5 Related Policies


The fund's approach to exiting employers is set out in the FSS, specifically "Section 7 – What happens when an employer leaves the fund?"

The approach taken to set the actuarial assumptions for cessation valuations is set out in Appendix D of the FSS.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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	Pensions Fund Sub-Committee 20 th February 2023
	Report from the Corporate Director, Finance and Resources
Procurement of Investment Management Services	

Wards Affected:	All
Key or Non-Key Decision:	N/A
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:	None
Background Papers:	None
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	<p>Minesh Patel, Corporate Director, Finance and Resources 020 8937 4043 (minesh.patel@brent.gov.uk)</p> <p>Ravinder Jassar, Deputy Director of Finance 020 8937 1487 (ravinder.jassar@brent.gov.uk)</p> <p>Sawan Shah, Head of Pensions 020 8937 1955 (sawan.shah@brent.gov.uk)</p> <p>Carlito Rendora, Finance Analyst (carlito.rendora@brent.gov.uk)</p>

1.0 Purpose of the Report

- 1.1 The purpose of this report is to summarise the outcome of the Investment Management Services tender.

2.0 Recommendation(s)

That the Pension Fund Sub-Committee:

- 2.1 Notes the re-appointment of Hymans Robertson LLP to provide investment management services for the Brent Pension Fund.

3.0 Detail

- 3.1 All Local Government Pension Funds are required to appoint a number of service providers in order for the Fund to carry out its functions as an Administering Authority under the Local Government Pension Scheme (LGPS) regulations.
- 3.2 All LGPS Funds are required to procure Investment Management Services in line with Regulation 7 of the Management & Investment Regulations 2016 which states:
- “An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State.”
- 3.3 Investment Management Services include, but are not limited to, the production of quarterly monitoring performance reports, attendance at Pensions Subcommittee, performance monitoring of the Funds investment managers, selection of new managers, reviewing the Fund’s investment strategy, advising on strategic asset allocation and preparation of key documents such as the Investment Strategy Statement.
- 3.4 Procurement exercises are the method that the Council uses to ensure that value for money is maintained when seeking supplies and services contracts from third parties. The exercise was conducted using the National LGPS Framework (the “Framework”) managed by Norfolk County Council. The Framework is available for use by LGPS funds for investment management services.
- 3.5 The benefits of using a framework agreement are that the Council can reduce procurement time and costs because the framework has already been through a competitive tender and Public Contracts Regulations 2015 compliant procurement process. The Council is then able to call off the available frameworks for services without having to undertake full procurements, by either running mini competitions for services or through direct awards of providers as appropriate.

Appointment of Investment Management Services Contract

- 3.6 Officers undertook a procurement exercise using the Framework between August and October 2022. There were 7 providers of Investment Management Services on this Framework: Aon Hewitt, Deloitte, Hymans Robertson LLP, Isio, Mercer Ltd, Pricewaterhouse Coopers LLP and Redington Ltd.
- 3.7 The procurement exercise took the form of a mini competition under the Framework. Each provider was required to submit their responses to the questions outlined in the invitation to further competition document. Each submission was assessed against the headline evaluation criteria set out below:

Criteria	Weighting
Quality	60%
Price	30%
Social Value	10%
Total	100%

- 3.8 A response was received from only one provider on the Framework. The response was evaluated independently by a panel of Pension Fund Officers. The panel, with support from a Procurement officer, then proceeded to moderate their scores. Each element of the scoring was then combined to determine an overall score for the provider. A clarification interview was also held with the provider on 3rd October 2022.
- 3.9 Following the tender process, the Corporate Director, Finance & Resources using delegated powers appointed Hymans Robertson as the service provider for this contact for a period of 3 years with the potential to extend for a further two years. The new contract commenced on 24th October 2022.
- 3.10 All costs of this contract will be met fully by the pension fund and there will be no direct cost implications for the Council. The pension fund maintains a separate bank account for the payment of pension fund related costs, such as the investment management contract.

4.0 Financial Implications

- 4.1 The estimated cost of the investment management services contract will be approximately £100k per annum. This estimate is based on the level of and volume of work likely to be requested by the Fund. The cost will be funded by the pension fund.

5.0 Legal Implications

- 5.1 The Pensions Fund Sub-Committee are responsible for the appointment of external service providers for the Brent Pension Fund in accordance with its Terms of Reference in Part 4 of the Constitution. The Pensions Fund Sub-Committee has delegated the procurement and award of contracts to the Corporate Director, Finance and Resources.
- 5.2 The investment management services contract was subject to the procurement requirements of the Public Contracts Regulations 2015 (the “PCR 2015”).
- 5.3 The PCR 2015 allows the use of framework agreements and prescribe rules and controls for their procurement. Contracts may then be called off under such framework agreements without the need for them to be separately advertised and procured through a full procurement process. Call offs under the framework need to be carried out in accordance with the framework rules, to include using evaluation criteria specified in the framework and utilising the terms and conditions set out in the framework.

- 5.4 Contract Standing Order 86(e)(ii) states that no formal tendering procedures apply where contracts are called off under a framework agreement established by another contracting authority, where call off under the framework agreement is approved by the relevant Chief Officer to include confirmation there is adequate budgetary provision and provided that the Corporate Director, Governance has advised that participation in the framework is legally permissible. The Corporate Director, Governance advised that participation in the Framework was legally permissible.

6.0 Equality Implications

- 6.1 Officers believe that there are no adverse equality implications arising from the procurement of the contract for investment management services for the Brent Pension Fund.

7.0 Consultation with Ward Members and Stakeholders

- 7.1 Not applicable.

8.0 Human Resources

- 8.1 This service is currently provided by an external contractor and there are no implications for Council staff arising from retendering the contract.

Related Documents:

Procurement of Actuarial, Custodian and Investment Management Services – 21 February 2022 (Brent Pension Fund Sub Committee)

Report sign off:

Minesh Patel

Corporate Director, Finance and
Resources



MINUTES OF THE PENSION BOARD

Held as an online meeting on Wednesday 9 November 2022 at 6.00 pm

PRESENT (in remote attendance): Mr David Ewart (Chair), Councillor Kabir, Councillor Akram, Chris Bala (Pension Scheme Member representative), Bola George (Member representative – Unison), Robert Wheeler (Member representative- GMB), Sunil Gandhi (Employer Member- Non Brent Council).

ALSO PRESENT (in remote attendance): Councillor Mili Patel (Deputy Leader and Cabinet Member for Finance, Resources & Reform)

1. Apologies for absence

None.

2. Declarations of interests

None.

3. Minutes of the previous meeting

The minutes of the previous meeting held on Monday 25 July 2022 were agreed as an accurate record.

4. Matters arising (if any)

None.

5. Pensions Administration Update

Sawan Shah (Head of Pensions, Brent Council) introduced the report, which updated the Pension Board on various pensions administration matters as part of its remit to oversee the administration of the Brent Pension Fund.

The first part of the update concerned Pensions Administration Performance, covering the period from April to June 2022. In considering the report the Board noted:

- The Pensions Administration performance update for the Q1 2022-23 monitoring period, as detailed within Appendix 1 of the report.
- The quarterly average percentage of cases processed on time was 94.7%, which whilst below the contractual Service Level Agreement (SLA) target of 95% was within revised targets agreed during the Universal Pensions Management (UPM) migration period.
- In terms of Helpdesk call performance there had been a significant reduction in average call wait times with performance in June at 5 minutes 21 seconds and the average calls answered having increased from 84.6% in April to 94.7% in June.

- Phase 1 of the migration to Universal Pensions Management (UPM) had been completed with 9 LPPA clients now live and Brent scheduled to go live in November as part of the Phase 2 migration.
- The number of complaint cases remained low with 8 new cases received since the previous update and action being taken to ensure these were resolved as swiftly as possible. Following the completion of each case, a process was undertaken to ensure any lessons learned were reviewed and consequently, if necessary, processes and procedures updated.
- The Pension Regulator scores achieved in relation to the accuracy of common and conditional data had improved further since the previous quarter.

Jo Darbyshire (Managing Director, LPPA as the Pension Administration Service for the Fund) then provided the Board with a more in-depth overview of pension administration performance as detailed within the LPPA Q1 Pension Fund Administration Report. Key issues highlighted were as follows:

- Referring firstly to progress with the introduction of the new pension administration system and migration to Universal Pensions Management (UPM) the Board was advised that Phase 1 of the process had been successfully completed with nine out of 18 LPPA clients having 'gone live'. Phase 2 migrations were now underway, which included Brent, who were due to go live in November 2022. The Board were advised of the checks and measures in place to ensure a smooth transition to UPM with regular updates and a detailed technical sign off procedure in place to support the transition to the new system.
- Whilst anticipated and short-term in nature, it was recognised that the operational impacts arising from the phased "go lives" of the UPM migration programme had adversely affected performance against SLA which had been reflected in the Q1 performance data. Whilst overall performance against SLAs was improving it remained below target with the key areas impacting on performance including – increased volumes and spikes of work post go-live, system downtime with a 2 day Altair outage at the end of June and ongoing work and reallocation of resources in support of the Phase 2 migration programme.
- Performance was expected to improve during Q3, with call wait times under the non-contractual target of 4 minutes since June and learning from Phase 1 of the migration coupled with the provision of additional resource, training and systems having benefitted performance in relation to the Helpdesk throughout Phase 2.

Members were then invited to ask questions on the update provided, with responses summarised below:

- An assurance was provided that the "go live" date for the completion of Brent's UPM migration remained on track for 11 November 2022, with the Board advised of the ongoing anticipated impact in terms of Q2 performance (covering July – Sept 22).
- In response to concerns relating to the performance in average call wait times the Board were advised that although non contractual the reasonable average wait time was recognised as 4 minutes which was being delivered prior to Project PACE. The Board were therefore keen to support the priority

- identified to continue improving performance in this respect and return to the previously consistent levels of performance once UPM migration had been completed alongside the reassurance provided regarding mitigations to maintain performance throughout Phase 2 of the migration programme.
- In terms of lessons learnt from the Altair outage, the Board were advised of the upgrade made by LPPA in terms of their system architecture and move towards a cloud based infrastructure, resulting in greater robustness.
 - The Board enquired about a communications strategy to support Brent's UPM migration. In response members were advised of the measures taken by LPPA to ensure delivery of a full communications programme and strategy involving both employers and members. This included training and self-help guides, direct communication via emails and through the LPPA website and annual benefit statements, with further communications to be rolled out as the functionality of the new portal became available, which were all welcomed by the Board.

Having considered the performance update, the Board then moved on to consider an update on an issue identified in relation to the schemes retirement procedures and data held on pension increase dates affecting deferred members. Having noted the summary of the case identified (as detailed within section 3.12 – 3.15 of the report) the Board was assured of the action taken to review the cause of the issues identified, which had resulted in additional cases and overpayments being identified, and of the action being taken in response to consider how any overpayments would be dealt with on a case by case basis taking account of the individual circumstances and impact on the members concerned.

Members were then invited to ask questions on the update provided, with responses summarised below:

- In response to concerns raised, it was confirmed that the storage data error identified had not constituted a data breach or GDPR issue.
- Having been assured of the actions being taken to address the issue, the Board noted the additional measures being implemented to mitigate against any similar incidents in future, which included additional training for members of the Retirement team; the introduction of an enhanced and more proactive monitoring process and as a longer term solution an upgrade in the way pension increase data was stored and applied based on operational workflows developed as part of the business process reengineering process undertaken as part of migration to the new UPM system.

As a final part of the performance update the Board were provided with details on progress with the Annual Benefit Statement (ABS), which the scheme manager was required to issue to all eligible active and deferred members by 31 August each year.

As part of the update Sawan Shah advised:

- For active members, an ABS was issued to all members identified on the year end returns from employers by the deadline of 31 August 2022. There were a small number of records where queries from year end returns had not been resolved in time or an annual return had not been completed and sent to the

- Fund by the relevant employer (one of which was now outstanding). Whilst only representing a minority of members, the Board was advised that the number of statements outstanding was higher than the previous year with the outstanding statements due to be provided as soon as the relevant queries had been cleared and relevant information received from the employer.
- Whilst the Pension Administration Strategy (PAS) enabled the scheme manager to take action against employer(s) who did not comply with their statutory and legal obligations to the Fund, it was not felt that no formal action was required, at this stage, in terms of treating the outstanding statements as a material breach that needed to be reported to the Regulator. This view had been reached taking account of the breaches policy operated by the Fund (as set out in Appendix 2 of the report) and as a result of the close work being undertaken with LPPA and the relevant employers to monitor and resolve the outstanding issues and queries as soon possible and as a high priority. It was noted that employers who had not submitted their returns in a timely manner had been contacted multiple times with any significantly overdue submissions having been escalated to senior management of those employers and the PAS providing the Fund with the powers to take action against employers who had not complied with the standards set out within the strategy.
 - In light of the issues experienced during the current year, officers planned to review the Breaches Policy and PAS to see if there were any further areas which could be strengthened, the results of which would be reported back to the Board for future review.

Whilst concerned at the delays identified, the Board recognised the work being undertaken between the Fund and LPPA to closely monitor the position and work with employers to ensure the prompt submission of their returns. Members agreed that the issues identified had not constituted a material breach (based on the reasons outlined) and on the basis that whilst technical in nature, the issues identified were not felt to represent a systemic or continuing breach. The Board were keen, however, to ensure the outstanding queries were resolved as soon as possible.

As a final update the Board noted that the Fund would be holding an Employers Forum on 23 November 2022, which Board members would be welcome to attend and all fund employers and their payroll providers had been invited to participate in. The event would include presentations from the Fund Actuary, Hymans Robertson and LPPA, and will provide updates on the 2022 valuation and other employer responsibilities. Given the importance and issues identified, the Board were keen to ensure that all Fund employers were encouraged to attend the Forum and requested that an update be provided for the next meeting on attendance at the event.

As there were no further questions from Members, the Chair thanked Jo Darbyshire and officers for the update, and it was **RESOLVED** that the report be noted with a further update to be provide for the next meeting on the Employers Forum and resolution of the outstanding issues in relation to the Annual Benefit Statements.

6. **Brent Risk Register**

Rubia Jalil (Finance Analyst, Brent Council) presented a report, updating the Board on the Risk Register for the Brent Pension Fund Pensions Administration Service.

In considering the report, the Board noted the following:

- No new risks have been added to the Risk Register since the previous update in July 2022.
- The changes made to the Risk Register, as detailed within section 3.6 and Appendix 1 of the report. The key changes identified included:
 - Item 5.3 (Employer Data – Failure to provide data accurately and on time) being updated to reflect the controls in place including Employer Engagement and Forum and training.
 - Item 5.7 (Data Migration) the likelihood of the risk materialising had been changed from 3 to 2 with the overall score for the risk having changed from 24 to 16 due to the experience gained from early data cuts.
 - Item 6.12 (Pension Plan Events Planning) being updated following completion of GMP reconciliation.
 - Item 9.12 (The Fund's Assets Insufficient to Meet Long Term Liabilities) being updated to reflect the 2022 Fund valuation.

The Board also received and noted the Risk Strategy for the Fund, attached at Appendix 2 of the report.

The Board welcomed the report and as no further issues were raised it was **RESOLVED** to note the report including the key changes set out in section 3.6 of the report.

7. LGPS Update

Rubia Jalil (Finance Analyst Brent Council) introduced the report providing an update on recent developments within the Local Government Pension Scheme (LGPS) regulatory environment and any recent consultations issued which would have a significant impact on the Fund.

In considering the report the Board noted the following updates:

- The publication of a factsheet by the Pensions Ombudsman (TPO) in July 2022 on the McCloud judgement setting out the Ombudsman's views on what affected members and schemes could do in response to the original judgement and their present approach to dealing with complaints relating to the impact of the judgement.
- The TPO had recognised the steps being taken by the Government to address the age discrimination issues in relation to public sector schemes as a result of the judgement, with retrospective effect and had therefore advised they would need to carefully look at the facts of any related case before deciding whether or not to investigate, with the factsheet providing examples of where they may decide to do so.
- The launch of a consultation by HM Treasury in August 2022 on public sector exit payments. The consultation covered the proposal and guidance to introduce an expanded approvals process for employee exits and special severance payments, along with additional reporting requirements which whilst not applying to local authorities would apply to academies.

- The publication of a press release by The Pensions Regulator (TPR) warning employers to ensure they were complying with their automatic enrolment duties. This followed a number of in-depth compliance inspections earlier in the year where the Regulator had found several common errors in respect of calculating pension contributions and communications to staff and encouraged employers to also check their systems and processes were up to date and running smoothly as part of the standard re-enrolment process.
- The inclusion of details on the Local Government Association website relating to the cost of living crisis, which included advice on support in relation to living costs, reducing or stopping pension contributions, pension scams and help for pensioners on lower incomes.

The Board welcomed the report and as no further issues were raised it was **RESOLVED** to note the recent developments in the LGPS, as detailed within the report.

8. **Quarterly Investment Monitoring Update Report - Q2 2022**

The Board received an update on the Brent Pension Fund Q2 2022 Investment Monitoring Report, which it was noted had been considered in detail by the Brent Pension Fund Sub Committee on 5 October 2022.

In considering the report, the Board noted the impact on the Fund's investment performance as a result of the ongoing challenging economic context and market volatility, with a majority of the Funds asset classes having struggled as a result. The Sub-Committee had been assured, however, that despite the current challenges the Fund remained broadly in line with the interim and longer-term target allocations for growth and cash with relative performance over the three-year period remaining positive.

The Chair thanked officers for the update with the following issues raised in response by the Board:

- In response to concerns regarding the impact that any recession would have on the Fund, the Board were advised that due to the risk profile, longer-term scope and global nature of investments, public sector schemes were not likely to be as adversely impacted by a recession or the recent market volatility than private sector schemes. Whilst recognising that investment performance would be negatively impacted over the short term as asset values were depressed the Board were advised that the Fund was still forecast to remain cash-flow positive with the ability to meet its obligations based on a robust Investment Strategy designed to minimise risk.
- Confirmation was also provided that initial modelling for future cash-flow remained positive.

Members welcomed the report and with no further issues raised, it was **RESOLVED** to note the Q2 Investment Monitoring Update.

9. **Net Zero Roadmap Update and Responsible Investment Policy**

The Board received a report providing an update on progress against the Fund's net zero transition roadmap, Responsible Investment Policy and the LGPS

Consultation on Governance and reporting of climate change risks, which it was noted had been considered in detail by the Brent Pension Fund Sub Committee on 5 October 2022.

Members welcomed the report and with no further issues raised, it was **RESOLVED** to note the update to the net zero roadmap, updated Responsible Investment Policy and LGPS Consultation on Governance and reporting of climate change risks, on which members were advised they would be welcome to submit comments for inclusion by officers as part of the final response to be provided on behalf of the Fund.

10. **Brent Pension Fund: Annual Report and Accounts 2021/22**

The Board received a report providing an update on the Pension Fund Annual Accounts for the year ended 31 March 2022, which it was noted had been considered in detail by the Brent Pension Fund Sub Committee on 5 October 2022.

In considering the report the Board were advised that the latest Statement of Accounts and Annual Report (attached as Appendix 1 to the report) contained minor presentational and disclosure changes from those previously presented in July 2022 with the main audit fieldwork now also substantially complete and the anticipated results of the final Pension Fund audit which Grant Thornton (as the Council's External Auditors) were undertaking being an unqualified opinion, as detailed within the draft Brent Pension Fund Audit Findings Report 2021/22 (attached as Appendix 2 to the report).

Whilst recognising that final sign-off of the Pension Fund accounts and audit findings had been delayed, the Chair felt it important to recognise this had not been linked to any issue with the Pension Fund accounts but a wider national accounting issue with officers thanked for the work undertaken to ensure the accounts had been completed and submitted within the necessary deadline.

Members welcomed the report and as no further issues were raised it was **RESOLVED** to note the report along with the Statement of Accounts included within the Annual Report and Brent Pension Fund Audit Findings Report 2021-22.

11. **2022 Valuation - Funding Strategy Statement Update**

The Board received a report providing an update from the Fund Actuary that highlighted the key changes being considered for the 2022 Funding Strategy Statement (FSS) review being undertaken in compliance with the requirement for a formal valuation of the whole Fund to be undertaken every three years, under Regulation 62 (1) of LGPS Regulations, which it was noted had been considered in detail by the Brent Pension Fund Sub Committee on 5 October 2022.

Members welcomed the update and as no further issues were raised it was **RESOLVED** to note the report and key changes for the 2022 Funding Strategy Statement (FSS) along with the fact that the draft FSS would be subject to consultation with employers, as required by LGPS Regulations in advance of it being presented to the Brent Pension Sub-Committee for formal ratification at its next meeting in February 2023.

12. **Any other urgent business**

Prior to moving into the closed session of the meeting, the Chair took the opportunity to thank Rubia Jahlil (Finance Analyst Brent Council) for her support to the Board given this would be her final meeting as she moved on to take up a new role. In addition, Andrew Phillips (Governance Team) was also thanked for his work to support the Board as he also moved on to take up a new role elsewhere within the Council.

The Board was also reminded of the requirement for all members to have completed their Pension Regulator Member Toolkit, if they have not done so during the past two years.

13. **Exclusion of Press and Public**

At this stage in proceedings the Board **RESOLVED** that the press and public should be excluded 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. **2022 Valuation - Whole Fund Results**

The Board received a report providing an update on the initial 2022 whole fund valuation results as at 31 March 2022, which it was noted had been considered in detail by the Brent Pension Fund Sub Committee on 5 October 2022.

In considering the report the Board were advised of the high level funding results, as detailed in section 3.4 of the report, which showed how (compared to the formal valuation in 2019) the funding position had improved based on liabilities having increased by £193m and asset values by £278m, meaning a reduction in deficit by £85m. Members were also advised that the overall funding level had improved to 87% compared to 78% at the previous valuation and 55% at the 2016 valuation, with the increase reflecting the progress made in the overall financial health of the pension fund, higher than expected investment returns and improved data quality.

In recognising the progress being made in terms of the Funds overall financial health, the Board commended officers for their efforts, particularly in relation to the data cleansing exercise that had been undertaken to improve data quality and prudent approach towards managing the Fund's long term Investment Strategy.

As no further issues were raised it was **RESOLVED** to formally note and welcome the progress made with the Fund valuation, Whole Fund results and improved funding position since the 2019 valuation.

15. **2022 Valuation - Employer Contribution Strategy**

The Board received a report presenting an analysis from the Funds Actuary (Hymans Robertson) regarding the contribution rate strategy for the Council for the three years from 1 April 2023, which it was noted had been considered in detail by the Brent Pension Fund Sub Committee on 5 October 2022.

In considering the report the Board were advised of approach taken in relation to the review of the Contribution Rate Strategy which had been based on a modelling exercise for the stabilised employers within the Fund, including Brent Council, local authority schools and most academy schools in Brent. Members were advised of the factors needing to be considered when setting contribution rates along with the need to take a balanced approach between the Fund's need to maintain prudent funding levels and the employers' need to maintain reasonably stable employer contribution rates as a means of managing any downside risk and avoiding any permanent fall in asset values.

The Board were advised that the process had led to a number of different contribution rate scenarios being modelled and reviewed with the recommendations made as a result in relation to the employer contribution rates over each of the next three years from 2023-24 to 2025-26, having been approved by the Pension Fund Sub Committee, as detailed within section 3.15 of the report.

In response to comments raised by the Board on the update, members were assured of the process undertaken to model the different contribution rate scenarios based around a range of future market and economic conditions and in terms of their impact on contributions and asset values, with the detailed results having been set out in the analysis provided by Hymans Robertson (within Appendix 1 of the report).

In recognising and welcoming the carefully designed nature of the approach recommended, the Board **RESOLVED** to note the report and to endorse the decision made by the Brent Pension Fund Sub Committee to approve the employer contribution rate for the next three financial years, as detailed within section 3.15 and Appendix 1 of the report.

16. **London CIV Update**

The Board received a report, which provided the latest update on recent developments regarding the Brent Pension Fund Investments held within the London CIV (LCIV). It was reported that the report had been considered in detail by the Brent Pension Fund Sub Committee on 5 October 2022. The update included (as detailed in Appendix 1) the quarterly investment performance review of the following investments held by Brent, namely within London CIV Emerging Market Fund; London CIV Diversified Growth Fund, London CIV Absolute Return Fund and LCIV MAC Fund along with a summary of London CIV environmental, social and governance (ESG) activity. Also included (as detailed in Appendix 2 of the report) was the LCIV quarterly investment review for private markets which included Brent's investments in the following funds: LCIV Infrastructure Fund and LCIV Private Debt Fund along with valuation and performance data for the underlying portfolio. As a final update members' attention was drawn to the general updates

provided by the London CIV (as set out in Appendix 3) in relation to investment, fund launches and fund monitoring and operational controls.

Having considered the update provided, the Sub Committee **RESOLVED** to note the reports and updates provided by London CIV.

The meeting closed at 7.21 pm

MR. DAVID EWART
Chair

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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