



LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE Held in Board Rooms 4,5 & 6 Brent Civic Centre on Thursday 1 August 2024 at 6.00 pm

PRESENT: Councillor Johnson (Chair), Councillor Kennelly (Vice-Chair) and Councillors Ahmadi Moghaddam, Choudry, Crabb and Molloy.

Also present: Kenneth Taylor (Hymans Robertson), James Glasgow (Hymans Robertson) and David Ewart (Independent Chair – Brent Pension Board)

1. **Apologies for Absence and Clarification of Alternate Members**

The Committee received apologies for the absence from Co-opted Member Elizabeth Bankole.

2. **Declarations of Interests**

None declared.

3. **Minutes of the previous meeting**

RESOLVED That the minutes of the previous meeting held on 21 February 2024 be approved as an accurate record of the meeting.

4. **Matters arising**

None.

5. **Deputations (if any)**

No deputations were received.

6. **Quarterly Monitoring Report - Q1 2024**

Kenneth Taylor (Senior Investment Analyst, Hymans Robertson LLP) introduced the report, which outlined the performance of the Brent Pension Fund over the first quarter of 2024. In introducing the report, he stated that performance was in a positive position overall, with the Fund ending the period with a valuation of £ 1.26 billion, up from £1.2 the previous quarter, representing a 4% return. The Committee heard that the Fund's equities were again observed as the main drivers of returns, with Legal and General Investment Markets (LGIM's) global equity mandate as the primary contributor in monetary terms. The Fund's exposure to UK equities was also reported to have contributed to performance but on a smaller scale. Global equity markets delivered around 20% returns, and the council saw positive net contributions from its UK equity returns this quarter, although this was outperformed

by global equities due to the UK's underweight to the technology sector, which continued to outperform in Q1 2024.

Continuing to present the performance of the Fund for Q1, Kenneth Taylor highlighted that, in relation to Manager Performance, LCIV Baillie Gifford Multi-Asset and LCIV Ruffer Multi-Asset had underperformed against their targets, with performance over the past 12 months and 3 years lagging behind their respective benchmarks. As a result of the Fund's downgraded rating over the last 12 months, the Committee had agreed to reduce the allocation to the LCIV Baillie Gifford Multi-Asset Fund and consider further recommendations to sell and utilise the proceeds to meet the strategic objectives of the Fund.

In presenting the performance, Kenneth Taylor highlighted that growth assets currently comprised over 50% of the pension fund, but this was planned to decrease over time. Income assets were also noted to be built to mature over time and increase later returns. The Fund was stated to be looking to move its portfolio to consist of a greater number of protection funds, primarily in bond investments. These were often used to provide portfolios with lower-risk investments that balanced the potential risk from other, more volatile investments. An evaluation of the fund's investments was noted to be coming in 2025 to assess liabilities and how they are compared to assets. Investment strategies would also be revisited. Funding levels were discussed next; the Committee discussed current liabilities, and officers' calculations showed a healthy improvement from 2022 to 2024. The performance of tech stocks and stocks from the 'magnificent seven' tech companies were stated to be leading the way as a result of the recent artificial intelligence boom. The Committee was advised that 7%-8% of fund investments were held in these companies. Whilst these were extremely profitable, officers noted that more diversity was desired going forward.

Regarding the UK equities held by the Council, officers noted they made a healthy contribution to the fund, but Capital Dynamics was not performing as expected. Property Fidelity and UBS Triton were also key investments reported to be underperforming, the reasons for which were outlined in the agenda document. Within income assets, officers highlighted that both property mandates and multi-asset funds detracted from performance on a relative basis; however, allocations to these assets were much smaller relative to the growth assets. The Committee heard that the Fund's UK government bond holdings experienced negative performance over the quarter due to rising yields, hence seeing their value fall in monetary terms. The fund's cash held increased over the period to £44.3m. The cash allocation would be used to fund future capital calls and private market investments, such as infrastructure projects and property investment. Overall, the fund's value had increased quite significantly, and officers were now looking to its future.

Following the presentation of the report, the Chair invited members to raise any questions or concerns, with queries and responses summarised below:

- In relation to the trajectory of LCIV Baillie Gifford Multi-Asset, the Committee agreed that reducing the exposure to risk by reducing allocations was prudent but asked what was being done to change their investment direction and how it compared to other local authority pension funds. Kenneth Taylor responded that it was the at the discretion of the Manager to invest in a range of different

asset classes and, because of the economic context that Managers were working within, many had moved their funds to a defensive position through decreasing their assets and increasing their bond exposure. This would be considered sensible, but assets and bonds had not performed in the way expected which had resulted in less returns than hoped for. Multi-asset funds were disproportionately affecting the view of the fund's performance, and officers would monitor these developments and adjust accordingly, but it was highlighted that Managers could recalibrate their positions to restore their exposure to those markets if they saw recovery in the economy.

- The Committee asked what the desirable benchmark for the fund was and what determined this benchmark. Officers responded, noting that it was based on various factors. Benchmarks were largely set by global equity market targets and how other investment funds performed, differentiating depending on the asset class in question. The benchmark was a measure of London performance looking at the overall performance and how managers performed against that, and future trends could be predicted through that.
- The Committee highlighted that London CIV had not been performing well across the board. Sawan Shah (Head of Finance – Pensions and Companies, Brent Council) confirmed that this had been raised by several London local authorities and came up regularly in monitoring calls Brent had with LCIV. He explained that many of the equity funds on the London zip platform were biased towards growth, but growth for active equity managers had not performed well in recent years. Officers further noted that concentration risk was a consistent factor in their evaluations. Brent had been largely unaffected by London CIV's underperformance as the Fund had not invested in active equity funds due to their investment in UK and Global Equity. In discussing divestment, officers noted that divestment decisions required investment decisions to counter any loss in the Fund's total value. As a result, it was very rarely an option to divest unwanted funds quickly.
- Noting the profitability of tech investments, Councillor Mili Patel asked if any further AI-related investments were on the horizon. Kenneth Taylor responded that the Fund was looking to reduce its carbon emissions and a big step on that journey would be to look at global equity mandate, which would be reviewed over the next 3-6 months. Officers wished for a diversified strategy and suggested that the topic be part of the upcoming carbon review.
- The Committee asked why Fidelity was in review but not UBS Triton, who also had poor performance over the same period. Officers stated that the approach UBS Triton were taking was highly rated and, whilst their performance had lagged, the way the portfolio was positioned provided a good base for the future. In addition, UBS Triton were known to have a strong management team and a more diverse base of clients. As such, there was confidence UBS Triton performance would improve. In relation to Fidelity, their approach had looked to realise property investments where funding levels were higher than expected. In order to have assets available to purchase, there was a need to sell some liquid assets such as property. Fidelity had received several sell notices resulting in the value of their Fund reducing from around £450m to £200m. As such, a fund reduction of that size presented a concern around

liability, which was why Brent's Pension Fund had recommended downgrading Fidelity.

- The Committee asked for further information regarding the underperformance of Capital Dynamics, highlighting that the Fund was looking to sell assets for Baillie Gifford but not Capital Dynamics. Kenneth Taylor responded that Capital Dynamics had liquid assets which were difficult to sell. The funds were coming to the end of their life and in wind down stage with no further allocations to private equity. Sawan Shah highlighted that the long-term figures for Capital Dynamics returns had been positive since the Fund invested in 2005 and had performed well over a very long term period. In the last 2-3 years, they had not been returning at the same level because it was a very mature fund compared to the returns of those in the middle of their investment stage.
- The performance of BlackRock UK Gilts was discussed next. Kenneth Taylor explained that the protection allocation was designed to balance the risk and return profile and provide stability, but the steep rise in interest rates over the past 2 years and negative market trends had led to the damaged performance.

Members welcomed the report and, with no further issues raised, thanked Hymans Robertson LLP for their presentation. Consequently, the Committee **RESOLVED** to note the report.

7. **Draft Pension Fund Year End Accounts 2023-24**

George Patsalides (Finance Analyst, Brent Council) introduced the report, presenting the draft Pension Fund Annual Accounts for the year ending 31st March 2024.

In presenting the report, George Patsalides highlighted that, during 2023/24, the value of the Pension Fund's investments had increased to £1,259m (2022/23 £1,116m). This was largely driven by a rise in global equities following a shift in rate expectations, coupled with lower-than-expected inflation figures. In relation to cashflow, this had increased over the last year and was in a positive position. He established that, overall, the Pension Fund retained a very strong financial position with healthy funding levels. He drew the Committee's attention to the regular investment monitoring reports for further details on investment performance for 2023-24.

In terms of the next steps for the year-end accounts, the Committee heard that the Audit and Standards Advisory Committee had been presented with an indicative draft audit plan in March 2024, which had now been finalised. There were timelines included for when each stage of the audit would be completed, the details of which were contained in Appendix 2 of the report. Providing an update on the progress against the timeline, officers confirmed that the audit had started in June and was underway, with the aim to be completed by September 2024. The findings would be presented to the Audit and Standards Advisory Committee.

Following the conclusion of the update, the Chair welcomed questions from the Committee. Questions and responses are summarised below:

- On the subject of the audit, Independent Chair of the Pension Board, David Ewart, announced that the Pensions team would be provided with specialist auditors and audit managers separate from the rest of the council. This was decided to provide the pension fund team with external Auditors possessing a greater market focus as it was felt a different skillset was required for pension fund accounts. The hope of this being that this would provide new perspectives and insights into options available to the fund.

The audit fees could be viewed on page 102 of the Audit and Standards Advisory Committee report dated 28 March 2024. Sawan Shah (Head of Finance – Pensions and Companies, Brent Council) explained that fees were set through the Public Sector Audit Appointments (PSAA) procurement framework, which all local authorities had opted into and were beholden to. Those fees had increased significantly since the previous year as the auditors had adopted a new set of practices and criteria that needed to be appropriately resourced.

- It was stated that Brent currently had no backlog issues and, therefore, was not affected by the backstop dates imposed by the government.

In thanking the Finance team for their work on being one of the first local authorities to have their audit completed last year, the Committee **RESOLVED** to note the Draft Pension Fund Year End Accounts 2023-24.

8. Update on Net Zero Road Map

Sawan Shah (Head of Finance – Pensions and Companies, Brent Council) introduced the report, presenting an update on the Fund’s net zero road map and London CIV’s Responsible Investment Policy. The Pension Fund Sub-Committee was asked to note the update.

Officers highlighted the risks and opportunities for pursuing net zero, explaining that a pension fund's primary responsibility was to ensure it could make payments to its members, and having a balanced and diversified investment strategy was key to that. However, it was highlighted that decarbonising a portfolio which invested in multiple funds globally across many different sectors was a considerable challenge. Whilst “net zero” portfolios did not often provide considerable returns at the present time, they did provide new opportunities. For example, a transition to Net zero provided the opportunity to invest in companies leading the way in the climate transition. The report detailed the achievements of Pension Funds so far in relation to the transition to net zero, with Brent’s Fund having developed and invested approx. £40m so far into the LCIV Infrastructure Investment Fund, of which 40% was allocated to the renewable sector.

The Pension Fund had also introduced an allocation into BlackRock’s Low Carbon equity fund in 2021, and this formed a core part of the Fund’s equity allocation, which was seen as the first step in the evolution of the fund's strategy to make more responsible investments and to actively reduce the overall carbon intensity of the Fund. ESG and Climate Risk considerations were also noted to play a significant part in LCIV’s manager's selection and monitoring process. LCIV had recently strengthened ESG elements of the Multi-Asset Credit Fund. These changes include corporate issuers with the weakest ESG credentials or omitting issuers that

generate 10% or more of their revenues from thermal coal mining, oil and gas extraction, or power generation from thermal coal or liquid fuels.

Officers stated that they were reviewing Global Equities, which made up one of the asset classes with the highest carbon intensity, meaning reducing carbon emissions for this holding would be significant. In the previous year, the Sub-Committee had considered desirable and undesirable characteristics and key areas and how it would want any potential new mandate to be shaped in the area and officers were now reviewing different fund options from 3 fund managers against those characteristics with the recommendations to be presented to the next meeting.

Before moving on to questions, the Chair wished to note a paper circulated to the previous Committee in relation to the review of global equities, and asked for this to be circulated to all councillors to give them an understanding of the net zero journey the Fund was going on.

Having thanked Sawan Shah for the overview, the Chair invited questions and comments from members, summarised below:

- Regarding responsible investment, the Committee highlighted that the LCIV report focused heavily on climate and felt there was a lack of clarity in relation to other ESG issues such as human rights. Officers noted that the London CIV was a collective vehicle of around 30 London boroughs, meaning resources needed to be targeted wisely as it would not be possible to target every ESG issue and risk spreading the focus too thin. It was stated that responsible investment strategies for most London local authorities had seen climate risk as their top priority in recent years, which had taken priority over other investment areas, with other areas not having received the same level of focus.
- Relating to ESG disclosures, the Chair asked officers to explain the meaning of ESG disclosures for the benefit of the committee's new members. Sawan Shah explained that they were initiatives taking place across industries. These initiatives created frequent reports, and these were provided to clients like Brent from London CIV which were in turn presented to the Sub-Committee.

With no further questions or comments, the Chair thanked officers for their work in delivering the road map and the Committee **RESOLVED** to note the update.

9. **Local Authority Pension Fund Forum Engagement Update**

George Patsalides (Finance Analyst, Brent Council) introduced the Local Authority Pension Fund Forum Engagement Update.

The report asked the Committee to note the update and express their view on Brent's continued membership of LAPFF (the Local Authority Pension Fund Forum). George Patsalides explained that the LAPFF was an organisation that worked on behalf of local authorities to promote the highest possible standards of corporate governance in the companies invested in, which the Brent Pension Fund joined alongside 86 other funds of the Local Government Pension Scheme (LGPS). The forum produced reports for its member funds every three months, highlighting the engagement activity for each quarter. The commitments pushed by LAPFF

were noted to demonstrate the organisation's commitment to responsible investment and the usefulness of engagement in achieving its and the council's objectives.

Highlighting one of LAPFF's current efforts, officers noted that the LAPFF were urging large organisations in the banking industry (e.g. Barclays, HSBC) to develop their net-zero transition policies and push water and utility companies to address failures in supply infrastructure. Producers of luxury goods had also been lobbied to push for gold standards in worker pay and practice. Officers believed collaborating with other like-minded investors through the LAPFF could affect real-world change and influence companies in ESG terms. Brent Pension Fund alone would have minimal sway against these large companies, but it was felt that with sustained collective effort and pressure from the LAPFF, companies would take notice of their requests. As a result, officers recommended continued membership of the LAPFF.

- On the subject of the LAPFF's efficiency, the Committee wished for assurance that the lobbying that LAPFF were doing was working and resulting in meaningful outcomes. Sawan Shah (Head of Finance – Pensions and Companies) noted that the recent Q1 report was a good example of the LAPFF demonstrating its impact. For example, the case studies provided by Barclays and HSBC showed that LAPFF lobbying had successfully secured new commitments to reduce environmental impacts through reduced funding to projects relating to oil and gas investments. The LAPFF was now working on achieving similar changes in Canadian Banking practices. Whilst engagement with market leaders was difficult, officers noted that without the LAPFF, the current level of research, effort, and contacts would be greatly reduced.

- The Committee highlighted the opportunity to collaborate with partners across London on shared priorities outside of climate and environmental factors within ESG, such as divestment from arms sales companies, and asked whether enough engagement had taken place with the other members of LCIV to have those conversations about priorities. Officers replied that opportunities were always monitored but the Fund would not want to commit to a divestment strategy at this stage. The Fund would monitor what others were doing in relation to ESG issues outside of climate and environment, and where there was the opportunity to influence LCIV with other partners that would be considered.

- Returning to London CIVs performance, the Committee asked whether the poor performance was a pattern over the past few years. Sawan Shah noted that they had stayed above the benchmark in previous years and the figures presented showed the returns over 3 months, 12 months and 3 years. The figures were described as a snapshot in time. For example, in 2022, every asset class performed poorly, and all funds looked to have underperformed. However, due to different cycles, the funds all looked relatively good and performed well in 2021 across the board, outperforming the benchmark and peer group figures. As such, funds went through different cycles depending on the focus and market environment, and it had been a difficult environment over the last 2 years for active managers to perform well because the source

of returns had been the 'magnificent seven' and if the managers were not in those in line with global markets, then they performed worse. Despite this, the overall growth of the London CIV was reported to be acceptable to officers. Kenneth Taylor added that, going forward, the Fund would like to see managers allocating money to a particular part of the market or a particular strategy. Specifically, LGPS pools like the London CIV could create blended funds, which offered a greater level of sophistication to help spread the risk.

With no further questions or comments, the Committee thanked officers for their work in delivering the update and **RESOLVED** to:

- (1) note the update
- (2) agree that membership of the LAPFF should continue.

10. **Training Plan**

George Patsalides (Finance Analyst, Brent Council) introduced the report, which provided an update on the provision of the LGPS online learning facility and informed committee members of recent training developments. In introducing the update, he highlighted that existing members of the Committee would have been provided with a training plan, and the report outlined who had completed the modules within the agreed timeframe. Those members who were new to the Committee should now have received their log-in details for the training platform and should now be able to access training. Those new Committee and Committee members who had not completed their modules were asked to follow the timelines outlined in Appendix 3 and complete 1 module a month going forward. Officers re-emphasised the importance of members sharpening their knowledge and skills in relation to the Pension Fund.

With no further questions or comments, the Chair thanked George Patsalides for his work in delivering the training plan and the Committee **RESOLVED** to note the plan.

11. **Minutes of the Pension Board (25 March 2024)**

Independent Chair of the Pension Board, David Ewart, introduced the minutes from the most recent Pension Board meeting, dated 25 March 2024. He outlined the function and structure of the Pension Board to new members of the Committee, highlighting that the Pension Board was a statutory body that reviewed the performance of the Pension Fund and was made up of an equal number of employer and member representatives. In comparison, the Pension Fund Sub-Committee's role focused on the investment and management of the Fund. The two bodies worked together to oversee the governance of the Pension Fund and received minutes of each other's meetings.

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 March 2024.

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

To consider the exclusion of the press and public from the remainder of the meeting as the remaining report to be considered contains the following category of exempt information as specified in Paragraph 3, Part 1 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)".

At this stage in the meeting, the Chair advised that the Sub-Committee needed to move into closed session to consider the final item on the agenda. 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)".

13. **London CIV Update**

The Board received and **RESOLVED** to note a report that provided an update on recent developments regarding Brent Pension Fund investments held within the London CIV (LCIV).

14. **Any other urgent business**

None.

The meeting closed at 7.36 pm

COUNCILLOR R JOHNSON
Chair