# LONDON BOROUGH OF BRENT

**MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE**
**Held as an online virtual meeting on Thursday 16 July 2020 at 7.00 pm**

PRESENT: Councillor S Choudhary (Chair), Councillor  and Councillors Daly, Maurice, Perrin, Stephens and Bankole

Also present: Councillor McLennan and Mr Ewart, Mr Taylor and Mr Kapitan

Apologies for absence were received from: Councillor Aden

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

   None declared.

2. **Minutes of the previous meeting - 25 February 2020**

   RESOLVED:-

   that the minutes of the previous meeting held on 25th February 2020 be approved as an accurate record of the meeting.

3. **Matters arising**

   None.

4. **Deputations**

   The Sub-Committee welcomed Ms Tamara O'Niell (in remote attendance) who addressed the Sub-Committee on behalf of Brent Friends of the Earth (FoE). She stated that whilst in support of the Council's divestment from fossil fuel, although this represented only 3% of the pension fund assets, Brent FoE would like the Council take a step further and put this at the forefront of its agenda. In respect of the report on Investment Strategy Transition Roadmap which Brent FoE also welcomed, she questioned how this would be quantified in the light of the Council's commitment to divest from fossil fuels. Ms O'Niell also sought an update the Committee's decision to review carbon footprint.

   The Sub-Committee thanked Ms Tamara O'Niell and also noted that Mr Ravinder Jassar (Head of Finance) had responded to the issues she had raised.

5. **Covid-19 Update**

The Sub-Committee received a report that presented an outline of the impact of coronavirus (COVID-19) on the Brent Pension Fund. Mr Kenneth Taylor (Hymans Robertson) introduced the report and answered Members' questions. He informed Members that while growth was expected to take a severe hit in the near term, global growth and corporate profits would eventually enter a recovery. However, the timing and shape of any rebound was uncertain and would depend on how the impact of the pandemic could be contained and the effectiveness of policy responses in preventing temporary disruption to businesses and consumers. He drew attention to a table within the appendix to the report that showed the returns on major asset classes to date (to 19 June). The figures for Q1 (e.g. the c25% fall in the value of UK equities) illustrated the scale of the fall in asset values during February and March, with only government gilts and gold delivering a positive return. The significant rebound in asset values since 31 March was due mainly to the economic stimulus provided by governments in the UK, US and Europe.

Against this backdrop, Hymans Robertson remained broadly comfortable with the Fund's strategy. Although volatility was likely to continue in the short term – due to uncertainty over the pace and scale of return in economic activity – the Fund is a long-term investor and can therefore take a long-term view. This would be helped by the Fund's positive cashflow position which meant the Fund would not be a forced seller of assets. He advised Members that the Fund's diversified approach to investing had placed it appropriately to navigate through challenging market environments with each asset class having its role to play. He advised that the Fund should wait before investing in property, until market values provide greater transparency and reliable price levels.

RESOLVED

That the report on Covid-19 update and the proposal to pause any potential investment into the property asset class be noted.

6. **Investment Management Report Q1 2020**

Mr Kamel Kapitan (Hymans Robertson) gave an overview of the Fund's performance for the quarter. Members heard that the assets underperformed against the aggregate benchmark over the first quarter of 2020. The Fund returned -10.7% over the quarter, underperforming its benchmark by 3.2%. This was partly due to manager underperformance and partly as a consequence of measuring against absolute return style benchmarks in volatile markets. The value of the Fund's assets fell by £99.5m over the quarter, from £934.8m to £835.3m but to date had recovered to £917m. The fall in value was spread across the majority of asset classes as markets reacted to the global spread of COVID-19.

The global spread of the coronavirus had a dramatic effect on financial markets. In particular, global equities fell significantly from late February with volatility persisting through to the quarter end. Credit markets also suffered which impacted the Fund's multi-asset mandates. Within credit, investment grade outperformed high-yield markets although both experienced negative quarters. Over the quarter the Fund received its first capital call for the LCIV Infrastructure fund. As its commitments to this mandate increase over time, its underweight allocation to income was expected to recede.

Total Fund return was negative during Q1 2020, on both an absolute and relative basis due to the impact of COVID-19 on markets. Consequently, 12-month performance moved into negative territory with equity markets bearing the brunt of the downturn. Global equities faired better than UK due to currency movements favouring global returns and the lower weighting to oil & gas and materials companies. Mr Kapitan then gave an analysis of each manager's performance in the quarter as set out in the report and added that over the quarter, there were no changes to manager rating changes to existing managers.

Members welcomed the report on investment management quarter1 and RESOLVED:

That the investment management report on quarter 1 be noted.

7. **Low Carbon Equity Fund Investment**

The Sub-Committee considered a report that presented an analysis and results of investment options agreed as part of the investment strategy review carried out in Q1 2020 to make an initial investment in a low-carbon equity fund. Mr Ravinder Jassar (Head of Finance) introduced the report and explained that investing in such funds was one of a number of ways in implementing a more Responsible Investment (RI) and environmental, social and governance (ESG) focussed investment strategy. He added that the investment would be funded with a proportion of the Fund's excess cash holdings.

He then outlined the current options available to the Fund from the existing array of managers, namely Legal and General Investment Management (LGIM) (the Fund's existing passive equity manager), BlackRock (the Fund's existing passive fixed income manager) and the London CIV (the Fund's pooling vehicle with various existing investments). He highlighted that both that LGIM and BlackRock were under the umbrella of the LCIV, and thus met the Government's definition of asset pooling. Members heard that both funds offer viable options whilst allowing the Fund to benefit from distinct advantage of significantly reduced fees negotiated by LCIV. He continued that in assessing the options available from a carbon footprint standpoint, the LGIM funds did not fare as well as the BlackRock fund for reasons set out within the report and the appendices. The Fund's investment advisors, Hymans Robertson, shared this view.

The Fund currently had surplus cash within its allocation that amounted to £58.8m. This includes c£12m set aside for ongoing re-balancing, therefore an available cash balance of c£47m existed for investment. In line with the recommendation by Fund's investment advisors to hold a slightly higher cash allocation than normal due to the increased volatility within markets, it was proposed that the Fund maintained an allocation of 2% over the short-medium term in cash to meet these needs with the remaining balance c£28m being used to make this initial low-carbon investment.

In response to Members' questions, Kameel clarified the differences between passive and active funds and added that discussions with LCIV about fund development were on-going. He added that Blackrock and LGIM were rated as reliable as they were better suited to the investment beliefs of the Fund, however the assessment concluded that Blackrock was a more suitable option as it delivers on fossil fuel exclusion, carbon reduction, active engagement and value for money.

RESOLVED:

(i) That the analysis set out in Appendix 1 undertaken by the Fund's investment advisors, Hymans Robertson in relation to an initial investment in a low-carbon equity fund be noted.

(ii) That an initial investment of c£28m in the BlackRock ACS World ESG Tracker Fund be approved.

8. **Investment strategy: transition roadmap**

The report detailed the investment strategy transition roadmap prepared by the Fund's investment advisors, Hymans Robertson. Mr Kenneth Taylor (Hymans Robertson) summarised the key action points of the strategy as follows:

- Low carbon equities: subject to approval by the Committee, to invest £25m to £30m (c3% of Fund assets) in a passive low carbon equity fund and build further exposure to low carbon/sustainable oriented equities over time, partially using proceeds from reducing exposure to UK equities
- Increase interim allocations to equity and cash as a proxy for future infrastructure investments, until the agreed infrastructure allocation is built up. He recommended that the 3% overweight position be maintained alongside a 2% holding in cash while the Fund builds its investment in infrastructure.
- Build infrastructure investment over time: the Fund has undrawn commitments of c£50m to the LCIV infrastructure fund and c£12m to Alinda (total 7% of Fund assets) so exposure to infrastructure will increase naturally.
- Baillie Gifford and Ruffer: Consider appropriate balance between these managers, acknowledging different styles.
- Cash holding: the Fund held c£54m of cash at 31 March 2020. £12m being used to increase the Fund's emerging markets equities (£8m) and multi-asset credit (£4m) holdings plus a proposal to invest £25m to £30m in a passive low carbon equity fund.

Members welcomed the report and RESOLVED:

(i) That the report be noted;
(ii) That the proposal to balance the Diversified Growth Funds be noted.

9. **Brent Pension Fund: Draft Annual Accounts 2019/20**

This report presented the draft Pension Fund Annual Accounts for the year ended 31 March 2020. In presenting the report, Mr Sawan Shah (Senior Finance Analyst) set out the key points as follows:

- During 2019/20, the value of the Pension Fund's investments decreased from £856m to £835m (2018/19 £856m) due to the poor performance of equity markets in the final quarter of the year related to COVID-19.

- Total contributions received from employers and employees were £60m for the year, an increase on the previous year's £52.1m.

- Total benefits paid to scheme beneficiaries, in the form of pensions or other benefits, were £48m, an increase on the previous year's £46m.

- As in 2018/19, the cash-flow position was positive because its contributions exceed its outgoings to members.

- The Fund completed its 2019 valuation in the 2019/20 financial year when it was agreed that the employer contribution rate would remain stable at 35% for the next 3 years. This was consistent with the Fund's deficit recovery plan to clear its deficit within 19 years of the balance sheet date.

This Triennial Valuation revealed that the Fund's assets, at 31 March 2019, were sufficient to meet 78% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. This was a significant increase on the 55% funding level as at the March 2016 valuation. Members noted with pleasure that the external auditors had not raised any major queries with the annual accounts.

Members welcomed the report and officers' updates and RESOLVED:

That the Pension Fund Draft Annual Accounts 2019/20 be noted.

10. **Minutes of Pension Board - 22 October 2019**

The Sub-Committee welcomed Mr David Ewart (independent Chair of Pension Board) to the meeting. Mr Ewart gave an overview of the meeting held on 22nd October 2019 and highlighted the salient points of the meeting including the improved performance of LPP (pension administrators).

RESOLVED:

That the minutes of the Pension Board be noted.

11. **Any other urgent business**

None.

12. **Exclusion of Press and Public**

RESOLVED:

That the press and public will 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)."

13. **London CIV Update**

The purpose of this report was to update the Sub-Committee on recent developments within the London CIV (LCIV). Mr Ravinder Jassar (Head of Finance) provided updates on the following key aspects within the report:

i) ESG reporting.
ii) Multi asset credit fund.
iii) Private debt.
iv) Fund launches.

RESOLVED:

That the recent developments within the London CIV be noted.

The meeting closed at 8.35 pm

S CHOUDHARY
Chair