Brent	**Pensions Fund Sub-Committee** 6 October 2020
	Report from the Director of Finance

Investment strategy: Transition Roadmap

Wards Affected:	ALL
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	Two 1. Investment strategy: Transition Roadmap 2. Rebalancing Options
Background Papers:	▪ Review of Investment Strategy - 25 February 2020
Contact Officer(s): (Name, Title, Contact Details)	Minesh Patel, Director of Finance Ravinder Jassar, Head of Finance Sawan Shah, Senior Finance Analyst Saagar Raithatha, Finance Analyst

1.0 Purpose of the Report

1.1 The purpose of this report is to detail the investment strategy transition roadmap prepared by the Fund's investment advisors, Hymans Robertson.

2.0 Recommendation(s)

2.1 The Committee is asked to:

- As agreed during the investment strategy review in February 2020, in line with Brent's long term asset allocation strategy, to note the position to reduce the allocation of UK equities to the interim target allocation of 5% by selling down LGIM's UK equity holding in two steps, each of 3%.
- Note the two steps to reinvest the proceeds from LGIM's UK equity holding, each of 3%, into Ruffer and LGIM global equity moving towards the interim target allocation of 10% and 43% respectively.
- Note the overall report.

3.0 Detail

3.1 In February 2020, the Committee agreed to the investment strategy review undertaken by the Fund's investment advisors, Hymans Robertson.

3.2 In summary, the investment strategy review considered:

- An expansion of the committee's Responsible Investment beliefs in light of the increased focus on, and importance of, this area;
- The current long term strategy is fit for purpose from a returns perspective as it is expected to return in excess of the required return;
- A 5% increase in the long term allocation to equities, and a 5% allocation to private debt, both funded from "diversifiers";
- To introduce a global low carbon mandate as part of the Fund's equity allocation;
- A degree of rebalancing takes place on a regular basis to try and prevent too much deviation from the desired strategic allocation.

3.3 The following paragraphs, together with the details set out in Appendix 1, summarise the actions being taken to move the investment strategy towards the strategic target allocations agreed in February 2020.

3.4 It is acknowledged that transitioning to the targets agreed in February will be fluid in practice and will depend on numerous factors including market conditions and the attractiveness of investment opportunities in the relevant asset classes.

3.5 As at 31 August 2020, the following allocations are currently held.

- Global equities are 4.2% underweight.
- UK equities are 5.9% overweight.
- Imbalance between Baillie Gifford and Ruffer – current allocations are 13.3% and 5.7% respectively.

3.6 Appendix 2 sets out how the Fund will rebalance its positions to achieve the agreed strategic target allocations.

3.7 As summarised in the appendix, UK equities have underperformed their global counterparts in recent times. Although there is a chance the UK may experience a recovery in relative performance, transitioning to its weighting as currently targeted (to 5%) will further diversify the Fund's equity exposure based the current expected benefits. Furthermore, the remaining UK equity allocation of 5% would still benefit should there be a domestic market recovery.

3.8 Once the Fund has reached its interim target allocation of 5%, UK equities will still represent c10% of the Fund's total listed equities. A future consideration for Officers and Sub-Committee members therefore can be whether the long-term allocation to UK equities should be revisited, possibly looking to bring the Fund's exposure to UK equities more into line with the UK's share of the global equity market.

3.9 However, initially the focus is on the current imbalance within the Fund's asset allocation. In transitioning to the agreed strategic target allocations, the 5% interim target allocation of UK equities is to be reached by selling down LGIM's UK equity holding in two steps, each of 3%.

- Reinvest 3% in LGIM global equity.
- Reinvest 3% in Ruffer.

3.10 Investment of 3% into LGIM global equity will bring the Fund closer to its interim target allocation of 43% for global equities.

3.11 The Fund's multi-asset funds (Baillie Gifford and Ruffer) had contrasting fortunes during Q1, with the more defensively positioned Ruffer fund performing better during the initial market downturn. At 31 August 2020, the Fund held £125m with Baillie Gifford and £54m with Ruffer. Page 7 of Appendix 2 also considers the balance between Baillie Gifford and Ruffer, acknowledging the different investment styles.

3.12 The Fund's interim target allocation is to invest 10% each in Baillie Gifford and Ruffer. At end of August 2020, the actual allocations were 13.3% and 5.7% respectively. However, in addressing the split between these two mandates through some form of rebalancing, the most cost-effective transition is to disinvest 3% from UK equities for the reasons set out in the appendix and invest the proceeds with Ruffer. This would take the allocations to 13.3% for Baillie Gifford and 8.7% for Ruffer. Therefore the Fund would be more closely aligned to the interim target split of 10% each. As the Fund's allocation to private markets and property build up over time, it will be necessary to monitor these multi-asset allocations and act accordingly in order to not only maintain an appropriate split but manage the gradual reduction in allocation to a combined 5%, the agreed current long-term target.

3.13 In addition to this, the Committee also approved an initial investment of c£28m into the BlackRock passive low carbon equity fund on 16 July 2020. This investment is set to be made in 2 stages. Brent officers are in the process of liaising with Blackrock and the Fund's custodian, completing the necessary paperwork and investment will now be made as soon as possible.

4.0 Financial Implications

4.1 These are discussed throughout the report and further set out in Appendix 2.

5.0 Legal Implications

5.1 Not applicable.

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
Director of Finance