



LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE Tuesday 6 October 2020 at 6.00 pm

PRESENT: Councillor S Choudhary (Chair), Councillor Aden (Vice-Chair) and Councillors Daly, Donnelly-Jackson and Perrin

Apologies for absence were received from: Ms Bankole

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

None declared.

2. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 16th July 2020 be approved as an accurate record of the meeting.

3. **Matters arising**

None.

4. **Deputations**

None.

5. **Investment Monitoring report 2020, Q2**

Kameel Kapitan and Kenneth Taylor (Hymans Robertson) introduced this report which provided details on investment monitoring for quarter 2, 2020 and answered Members' questions. Members heard that asset classes recovered strongly during the quarter from the steep declines suffered in the first quarter with the key drivers being the amounts of stimulus package by global central banks and the re-opening of economies after the lockdown. The Fund's assets produced a return of 11.6% and outperformed against the aggregate benchmark over the second quarter of 2020 with the result that value of the Fund's assets increased over the quarter from £835.3m to £926.9m and recovered almost all of the ground lost during the first quarter.

He then spotlighted on the results of the Q1 2020 investment strategy review and the agreed target allocations adding that the Fund was currently overweight in growth assets and cash and underweight in diversifiers. Members heard that around £28m of cash (c3% of assets) will be invested in a low carbon passive

equity fund and the interim target allocations will be updated to reflect this increase in growth assets reflected in future reports. Over the quarter, £8m has been invested in emerging market equities, and £4m has been invested in the CQS multi-asset credit fund. Both investments had taken the respective allocations closer to their interim targets

On manager performance, Members noted that the total Fund return was positive during Q2 2020, on both an absolute and relative basis. Equity markets led the recovery, with global equities performing particularly strongly. This was evident in the performance of LGIM's mandates: global returned 20.4% and UK 10.2%. The Fund's DGF mandates produced strong positive returns over the quarter, with Baillie Gifford returning 8.4% and Ruffer 6.4%. The economic stimulus provided by governments also boosted credit markets with spreads narrowing. The CQS mandate produced a return of 12.7% over the quarter recovering some of the ground lost during Q1. Gilts again delivered positive returns over the quarter and are now the strongest performing of the Fund's assets over the last 12 months.

Members welcomed the report and with no further issues raised, the Chair confirmed that all members had followed the discussions and thanked members and officers for their contribution. It was RESOLVED:

That the report on investment monitoring Q2 be noted.

6. **Investment Strategy: Transition Roadmap**

This report detailed the investment strategy transition roadmap prepared by the Fund's investment advisors, Hymans Robertson. Mr Kenneth Taylor introduced the report and set out options that could be considered to address two particular areas of the investment strategy:

- The current split of the passive equity mandates between UK and Global (ex UK)
- The split between the two multi-asset funds within the London CIV (Baillie Gifford and Ruffer)

He referenced the Fund's investment beliefs and appendix 1 to the report which highlighted that the Fund was broadly in line with the interim strategic allocation but that structural imbalances prevailed. Members noted that global equities were 4.2% underweight, UK equities were 5.9% overweight and an imbalance between Baillie Gifford and Ruffer (13.3% and 5.7% respectively). To address these he recommended that the global equity allocation be increased by 3% once the initial investment in BlackRock's low carbon fund had been completed. This would reduce exposure to UK equities and adjust the allocations to Baillie Gifford and Ruffer.

He also recommended a reduction in the allocation to UK equities to the interim target allocation of 5% by selling down LGIM's UK equity holding in two steps, each of 3%, and reinvesting the proceeds as follows:

1. Reinvest 3% in Ruffer for the reasons set out in the next section
2. Reinvest 3% in LGIM global equity

Mr Taylor then gave detailed reasons that accounted for the underperformance of UK equities against the global equity index. These included economic growth, political factors, monetary policy and currency movements and the sector

composition of the UK equity market characterised by less diversification when compared with the global index. In addition, the most overweight UK sectors (Oil and Gas, basic Materials, Financials and Consumer Goods) were in the bottom 5 performing sectors relative to the Global index.

Members welcomed the report and with no further issues raised, the Chair confirmed that all members had followed the discussions and thanked members and officers for their contribution. It was RESOLVED:

- (i) To note the report;
- (ii) 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% as agreed during the investment strategy review in February 2020, in line with Brent's long term asset allocation strategy.
- (ii) To 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.

7. **Actuarial Update: COVID-19 and Regulatory Changes**

The purpose of this report was to assist the Members to understand the nature and impact of several recent changes to Regulations on the Fund as well as recent market movements. Mr Saagar Raithatha (Financial Analyst) introduced the report and provided an overview of recent market movements and recent changes to the Fund Regulations, referencing the appendix to the main report.

Members heard that COVID-19 had had a substantial impact on the global economy and the financial markets in 2020, resulting in the funding level of the Fund becoming increasingly volatile from February 2020 onwards with a sharp fall in March 2020. The Fund had since bounced back. There were variations by sector and by source of funding. The majority of the Fund's employers are public sector bodies, where the covenant is strong. The most significant impact on covenant was in respect of other employers including those who were close to exit, not publicly-funded and/or had a weak covenant at the 2019 valuation.

The McCloud judgement would result in a small increase in liabilities at Fund level of c£1M or 0.1% but at whole fund level, it was not expected the McCloud remedy would have a sizable impact on the funding position and hence on employer costs. It was noted however, that increases in liabilities for some employers may be significantly higher. From an administration perspective, the effort required to implement the remedy would be significant and officers estimated that the project would take about 2 years or more to complete

Cost Management Valuations 2016 and 2020 were an ongoing national process which was resulting in current uncertainty around the benefit structure of the LGPS. On the Public Sector Exit Payments Cap, the HMT have announced that an exit payment cap of £95,000 applying to all exits from public sector employers would be in place by the end of the year. Exit payments would include redundancy payments, severance payments and pension strain costs. In a nutshell, if the total value of such payments including strain costs exceeds

the £95,000 cap then an employee's pension will be reduced. The MHCLG have also proposed further changes to redundancy pay for public sector employees, notably that people over 55 will no longer be able to receive both redundancy pay and immediate pension in full. The funding costs arising from the Goodwin ruling were minimal, however, this will be a further administration and communication burden to address

Members welcomed the report and with no further issues raised, the Chair confirmed that all members had followed the discussions and thanked members and officers for their contribution. It was RESOLVED:

To note the report on actuarial update on Covid-19 and regulatory changes.

8. Competitive Markets Authority (CMA) Objectives

The report outlined the proposed approach to be taken by the Fund in relation to the assessment of Hymans Robertson against objectives set in 2019. Mr Sawan Shah (Senior Financial Analyst) introduced the report. Members heard that since 10 December 2019 pension scheme trustees had been required to set strategic objectives for their investment consultants before they entered into a contract or continue to receive services from them. They are also required to submit 'compliance statements' stating that they have complied with the above requirement. Currently the CMA order only requires trustees to confirm that they have complied with the requirements over the period they had had the objectives in place.

Mr Shah informed the Sub-Committee that the 'compliance statements' needed to be submitted within 12 months and 4 weeks from the 10 December 2019 and annually thereafter. Therefore, the Compliance Statement must be submitted to the CMA by 07 January 2021. It was expected that the Department for Work and Pensions (DWP) would amend current legislation so that the CMA requirements would become part of pension law and be overseen by The Pensions Regulator. He continued that under the CMA requirements, the Fund is only required to complete a compliance statement, essentially acknowledging they have and will continue to have objectives in place for their investment consultants. He drew Members' attention to the appendix 1 that set out the objectives adding that officers would regularly monitor and assess the performance as part of a robust governance regime.

Members welcomed the report and with no further issues raised, the Chair confirmed that all members had followed the discussions and thanked members and officers for their contribution. It was RESOLVED:

That the report on Competitive Markets Authority and the objectives as set out in appendix 1 to the report be noted.

9. Brent Pension Fund: Annual Report and Accounts 2019-2020

This report presents the draft Pension Fund Annual Report and audited Annual Accounts for the year ended 31 March 2020. Mr Sawan Shah (Senior Finance Analyst) introduced the report adding that only minor amendments and clarifications

were made to the draft accounts. To date the auditors had not raised any major queries. The regulations require the annual report to be published on or before 1 December and it was anticipated to complete this before the deadline. Members noted the following highlights:

- There had been no major changes to the Audited Annual Accounts since the submission of the Draft Annual Accounts. Only minor changes and additional clarifications have been made.
- During 2019/20, the value of the Pension Fund's investments decreased to £835m (2018/19 £856m). This was due to the poor performance of equity markets in the final quarter of the year related to COVID-19. At the end of December 2019, investments were valued at £935m.
- Total contributions received from employers and employees totalled £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, totalled £48m, an increase on the previous year's £46m.
- As in 2018/19, the Fund is in a positive cash-flow position 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.

Members welcomed the report and with no further issues raised, the Chair confirmed that all members had followed the discussions and thanked members and officers for their contribution. It was RESOLVED:

That the Brent Pension Fund annual report and accounts 2019-2020 be noted.

10. **Minutes of Pension Board - 5th August 2020**

Members welcomed Mr David Ewart (Independent Chair of Pension Board) to the meeting. Mr Ewart provided highlights of the minutes of the last Board meeting.

RESOLVED:

That the minutes of Pension Board of 5th August 2020 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 which provides an investment summary, a London CIV and market update and key portfolio data for the Fund’s holdings with London CIV.
- ii) Multi asset credit fund.
- iii) Private debt. Since the last committee meeting, officers had provided London CIV on what the Fund would be looking for from private debt mandate.
- iv) Fund launches; details as set out in appendix 3 to the report.

Members welcomed the report and with no further issues raised, the Chair confirmed that all members had followed the discussions and thanked members and officers for their contribution. It was RESOLVED:

That the recent developments within the London CIV be noted.

The meeting closed at 7.38 pm

S CHOUDHARY
Chair