Brent	**Pensions Fund Sub-Committee** 24 February 2021
	Report from the Director of Finance

Investment update

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)	PART 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:	Two 1. Private Debt (Exempt) 2. Investment strategy: Transition Roadmap
Background Papers:	▪ Review of Investment Strategy - 25 February 2020
Contact Officer(s): (Name, Title, Contact Details)	Minesh Patel, Director of Finance Ravinder Jassar, Deputy Director of Finance Sawan Shah, Senior Finance Analyst

1.0 Purpose of the Report

1.1 The purpose of this report is to update the committee on the Fund's investments.

2.0 Recommendation(s)

2.1 The Committee is asked to:

- Note the overall report including the investment update and Capital Dynamics proposal.
- Note that officers will be proceeding with the allocation to Private Debt through the London CIV offering, subject to further due diligence, which is in line with the previously agreed strategic allocation to the asset class.

3.0 Detail

Private Debt

3.1 Following the Fund’s investment strategy review in February 2020, it was agreed to continue significant allocations to diversifiers and, as part of this review, to introduce an allocation to Private Debt. Private debt is an income focussed asset with a shorter-term focus than infrastructure. The strategic rationale for doing this was to deliver an absolute return, meaningfully higher than might currently be achieved investing in cash or short-term high-quality bonds.

3.2 As part of pooling, it is expected that any new investments will only be made through London CIV. This is in line with the Fund’s investment strategy statement which states that the Fund’s intention is for all assets (subject to due diligence) to be transitioned into the London CIV. At the time of the investment strategy review, it was mentioned that the London CIV planned to offer a Private Debt vehicle although the development of this product was at an early stage.

3.3 Since the investment strategy review and as previously reported to the committee, London CIV have progressed development of the product with the proposed structure in place and a planned launch date of March 2021.

3.4 Appendix 1 (exempt) provides a proposed term sheet and further analysis of the London CIV Private Debt offering.

3.5 Private Debt assets operate in a similar manner to the Fund’s current infrastructure holdings where the Fund commits a certain amount of money to the investment managers’ funds, with the manager then calling these monies over time, as investments become available. Therefore once the commitment is made, the allocation will take some time to be built up.

3.6 In light of this, the Fund’s long-term objective is to invest 5% of its strategic allocation to Private Debt. Based on the Fund’s most recent asset valuation of approximately £1bn, this would represent an investment of £50m. It is expected that, initially, capital calls will be funded using the Fund’s existing cash holdings. This commitment will be monitored as part of the Fund’s regular cash flow analysis and rebalancing will have to be considered when cash holdings have been used up.

3.7 The committee is asked to note that officers will be proceeding with this allocation to Private Debt through the London CIV offering, subject to further due diligence, which is in line with the previously agreed strategic allocation to the asset class.

Investment Update

3.8 In February 2020, the Committee agreed to the investment strategy review undertaken by the Fund’s investment advisors and in July 2020 the committee was presented with a transition roadmap which presented a plan to move to the agreed asset allocations. The transition roadmap has been attached to this report in Appendix 2.

3.9 At the previous Committee meeting on 6 October 2020, the committee noted the actions being taken to move the investment allocation towards the strategic target allocations agreed.

3.10 This included the intention to reduce the allocation of UK equities to the interim target allocation of 5% by selling down LGIM's UK equity holding and to reinvest the proceeds from LGIM's UK equity holding, each of 3%, into Ruffer and LGIM global equity.

3.11 The fund continues to be in regular contact with its investment advisors, Hymans Robertson LLP and regular meetings to discuss the implementation of the investment strategy. The fund took into account the high level of volatility affecting both the UK and global markets during these times and the trades split into two tranches in order to reduce the timing and volatility risk associated with trading in such times. Additionally, no trading took place between mid-December 2020 and mid-January 2021 to avoid any market volatility or reduced liquidity related to the Christmas period.

3.12 Trading took place between November 2020 and February 2021. A total of £26m was sold in tranche 1 which was completed on 09 December 2020. The proceeds were invested equally between LGIM global equity and Ruffer.

3.13 The Fund revised the trading amount for tranche 2 to reflect updated asset valuations. A total of £30m from LGIM UK equity was sold and the sales proceeds were invested equally between LGIM global equity and Ruffer. Tranche 2 which was completed on 01 February 2021.

3.14 The impact of the implementation of tranche 1 is reflected in the investment monitoring report on the agenda. The impact of tranche 2 will be reflected in the investment monitoring report that will be presented to the committee at its first meeting in the 2021-22 financial year.

3.15 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. Deployment of this investment has been delayed in the account opening process, where the Fund has needed to request specialist tax advice from the Council's tax advisors, Ernst & Young. Officers will be making this investment as soon as practically possible.

3.16 The London Borough of Brent Pension Fund committed £50 million to London CIV's infrastructure fund, in October 2019. The total commitments to the fund stand at £399 million therefore London Borough of Brent's investment represents 12.5% of the Fund.

3.17 There were no capital calls for the LCIV Infrastructure Fund in Q3 (Jul – Sep 2020). A total of £4.7m was drawn down in Q4 2020 (Oct – Dec 2020) taking the overall total drawn down to £8.1m.

3.18 The LCIV Infrastructure Fund has made commitments across several sectors and geographies. These sectors include utilities, transportation, datacentres, renewables and telecoms. Overall, the Fund has now committed to 6 primary funds. The fund is within it's investment guidelines. Renewables exposure takes up the largest proportion of the portfolio with a 37% weighting. London CIV estimates that deployment of committed capital is expected to increase in 2021.

Capital Dynamics

3.19 The Brent Pension Fund currently have a number of private equity holdings with Capital Dynamics that were entered into between 2004 and 2006 and are at the end of their expected life. However, these investments have not been fully wound down and Capital Dynamics have proposed that unrealised holdings in 4 of our investments are sold as a block to a single investor ("Project Phoenix").

3.20 Capital Dynamics asked the Fund, together with other investors, to vote on the sale proposal, which requires 50.01% of investors to consent in order to pass.

3.21 If the sale does go through, each investor then has two options – either to take the sale proceeds as cash (at a discount) or to reinvest the proceeds and become an investor in the follow-on fund with the new manager.

3.22 If the sale does not go through, the only viable options would be to either keep extending the fund life until the holdings are fully realised or to explore another sale at a later stage.

3.23 The Fund took advice from it's investment advisors, Hymans Robertson, on this transaction. They have advised that none of the options available to the Fund were perfect and each has its drawbacks but they advised that the Fund should vote in favour of the transaction and elect for the cash redemption.

3.24 This is in line with the Fund's long term strategic aims. As per the 2020 Investment Strategy review, private equity does not factor in the long term investment strategy. Whilst taking cash requires the Fund to accept a discount to net asset value, it is considered a more efficient use of capital to accept cash and re-invest the proceeds in other opportunities rather than wait for 100% of the potential gains to be realised over an unknown period.

3.25 Officers requested approval of this decision from the Chair of the Committee and the Director of Finance prior to the deadline of 04 February 2021 and the committee is required to note this decision. At the time of writing, officers are awaiting the outcome of the vote.

4.0 Financial Implications

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

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.

<u>Report sign off:</u>

Minesh Patel
Director of Finance