



London Borough of Brent Pension Fund

H2 2022 Investment Monitoring Report

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Executive Summary

The Fund's assets returned 1.7% over the 6 months to 31 December 2022, outperforming the aggregate target return by 1.3%. However, over a 3-year period, the assets continue to outperform on a relative basis.

The second half of 2022 proved another challenging period as market volatility weighed heavily on markets over the period as inflation and interest rate hikes continued throughout Q3. Fears of recession continued as the 'mini-budget' announcement led to increased inflationary pressures. In Q4 however, stability began to return to markets, especially interest rates and government bond yields.

Global equities as a whole rose over the period in Sterling terms. UK equities fell over Q3, however recovered in Q4, benefitting from the outperforming energy sector which constitutes a material part of the index. Similarly, emerging market equities fell over Q3, largely driven by underperformance of the technology sector, due to its increased sensitivity to rising rates; however as rates stabilised in Q4, performance improved.

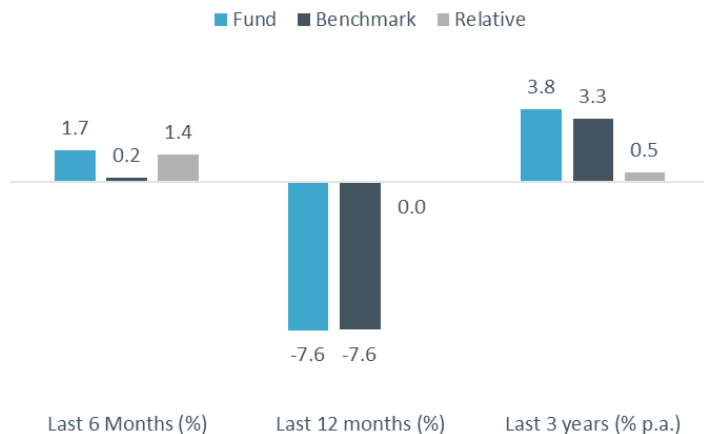
Within fixed income, rising interest rates provided upward pressure on yields and drove significant decrease in value.

Property fell over the period, as performance tends to lag that of other asset classes.

Key points to note

- The Fund posted positive returns over the last 6 months of 2022, ending the period with a valuation of £1,072.1m, which is a slight increase from £1,055.4m at the end of Q2 2022.
- The majority of assets classes struggled in Q3 amidst a challenging economic environment; however they recovered as stability slowly returned to the market in Q4. Index-tracking mandates with LGIM (UK and global equities), LCIV (JP Morgan emerging market equities) and BlackRock (low carbon equities) all contributed positively towards performance over the period. The Fund's multi-asset investment with LCIV through Ruffer was also a positive performer despite the challenging environment faced by income assets.
- BlackRock (gilts) and the two real estate funds (Fidelity and UBS) contributed significantly to the negative absolute return over the second half of 2022.
- The Fund completed the planned investment in the BlackRock Low Carbon equity fund in December 2022, taking its allocation closer to the target benchmark, and invested in the UBS property fund in July 2022.

Fund performance vs benchmark/target



High Level Asset Allocation

As part of the investment strategy review carried out in Q2 2020, the Fund's multi-asset mandates were re-categorised as 'Diversifiers' and included within the 'Income' bucket.

GrIP	Actual	Benchmark	Relative
Growth	58.7%	58.0%	0.7%
Income	31.4%	25.0%	6.4%
Protection	8.7%	15.0%	-6.3%
Cash	1.2%	2.0%	-0.8%

Whilst on the journey to its interim and long term targets for Property, Infrastructure and Private Debt, the current agreement is that the Fund will hold a higher allocation to multi-asset funds.

The Fund's current target allocations are as follows:

Interim

Growth – 58%
Income/Diversifiers – 25%
Protection plus cash – 17%

Long-term

Growth – 50%
Income/Diversifiers – 35%
Protection – 15%

The Fund is broadly in line with the interim target allocations for growth and cash, whilst it is over/underweight income and protection assets respectively.

The LCIV infrastructure and private debt funds remain in their ramp up phase. We therefore expect the Fund's commitments to continue to be drawn down over 2022/23.

The second tranche of the investment into the BlackRock Low Carbon fund was completed on 15 December 2022, taking the total proportion closer to its 3% benchmark allocation.

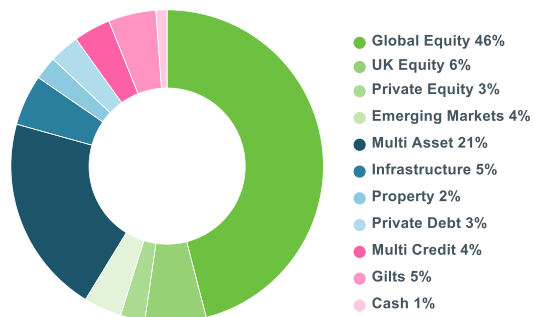
The fall in bond values during 2022 means the Protection assets are underweight to their target allocations.

Asset Allocation

Manager	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q2 2022	Q4 2022			
LGIM Global Equity	459.7	465.5	43.4%	40.0%	3.4%
LGIM UK Equity	64.4	67.7	6.3%	5.0%	1.3%
Capital Dynamics Private Equity	31.7	27.1	2.5%	5.0%	-2.5%
LCIV JP Morgan Emerging Markets	40.6	42.1	3.9%	5.0%	-1.1%
Blackrock Acs World Low Crbn	13.7	27.2	2.5%	3.0%	-0.5%
Total Growth	610.1	629.7	58.7%	58.0%	0.7%
LCIV Baillie Gifford Multi Asset	123.3	121.0	11.3%	6.0%	5.3%
LCIV Ruffer Multi Asset	93.3	99.7	9.3%	6.0%	3.3%
Alinda Infrastructure	26.5	17.4	1.6%	0.0%	1.6%
Capital Dynamics Infrastructure	6.9	2.1	0.2%	0.0%	0.2%
LCIV Infrastructure	25.6	36.8	3.4%	5.0%	-1.6%
Fidelity UK Real Estate	16.6	14.4	1.3%	1.5%	-0.2%
UBS Triton Property Fund	0.0	11.3	1.1%	1.5%	-0.4%
LCIV Private Debt Fund	23.3	33.4	3.1%	5.0%	-1.9%
Total Income	315.5	336.3	31.4%	25.0%	6.4%
LCIV MAC	40.4	41.0	3.8%	5.0%	-1.2%
BlackRock UK Gilts Over 15 yrs	66.2	52.8	4.9%	10.0%	-5.1%
Total Protection	106.5	93.8	8.7%	15.0%	-6.3%
Cash	22.2	12.4	1.2%	2.0%	-0.8%
Total Scheme	1054.3	1072.1	100.0%	100.0%	

Figures may not add up due to rounding. The benchmark currently shown as the interim-target allocation as the first step in the journey towards the long-term target. As the Fund's allocations and commitments to private markets increase over time, we will move towards comparison against the long-term target.

Asset class exposures



Total Fund return was positive during the period on both an absolute and relative basis. This resulted in performance over the 12 month period being in line with the benchmark albeit the total return was negative. 3 year relative performance remains positive.

UK equities fared better than global markets due to the UK's higher weighting to cyclical sectors such as financials, industrials, energy and basic materials, which performed relatively better over the period.

Capital Dynamics private equity mandate was the only negative performer of the growth assets, returning -3.3% over the period, 7.7% behind its FTSE benchmark. However, we note that private equity valuations tend to lag those of listed markets.

Ruffer's defensively positioned strategy and stock selection in the equity component of the portfolio meant it performed better than Baillie Giffords more "risk-on" approach. Ruffer maintains its strong positive return over the 1 year and 3 year periods. This demonstrates the value from adopting a diversified approach to multi-asset investing.

The property market suffered as capital values declined, leading to negative returns from the Fidelity UK Real Estate and UBS Triton Property funds.

Gilt yields continued to rise over the period, weighing on returns and leading to an decrease in the value of the BlackRock portfolio of c.£13m since the end of Q2.

Manager performance

	Last 6 Months (%)			Last 12 months (%)			Last 3 years (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Growth									
LGIM Global Equity	4.1	4.1	0.0	-8.0	-7.9	-0.1	8.9	9.0	-0.1
LGIM UK Equity	5.2	5.1	0.0	0.5	0.3	0.1	2.4	2.3	0.1
Capital Dynamics Private Equity	-3.3	4.7	-7.7	10.2	-6.4	17.7	11.8	9.9	1.8
LCIV JP Morgan Emerging Markets	3.6	-2.1	5.8	-9.8	-10.0	0.2	2.9	0.5	2.4
Blackrock Acs World Low Crbn	4.4	4.0	0.4	-9.4	-7.8	-1.7	-	-	-
Income									
LCIV Baillie Gifford Multi Asset	-1.8	1.4	-3.2	-15.9	2.7	-18.1	-2.1	2.4	-4.4
LCIV Ruffer Multi Asset	6.9	1.4	5.4	6.9	2.7	4.1	9.0	2.4	6.4
Alinda Infrastructure	7.1	5.3	1.6	30.2	12.5	15.7	12.2	7.4	4.4
Capital Dynamics Infrastructure	-16.4	5.3	-20.6	-3.4	12.5	-14.2	-17.5	7.4	-23.2
LCIV Infrastructure	7.3	5.3	1.9	15.9	12.5	3.0	4.6	7.4	-2.6
Fidelity UK Real Estate	-13.4	-17.5	5.1	-3.9	-9.1	5.7	-	-	-
UBS Triton Property Fund	-17.0	-16.0	-1.2	-	-	-	-	-	-
LCIV Private Debt Fund	15.6	3.0	12.3	-	-	-	-	-	-
Protection									
LCIV MAC	1.6	2.1	-0.4	-11.1	3.4	-14.0	-1.2	2.7	-3.8
BlackRock UK Gilts Over 15 yrs	-20.3	-20.3	0.0	-40.0	-40.0	0.1	-14.1	-14.1	0.1
Total	1.7	0.2	1.4	-7.6	-7.6	0.0	3.8	3.3	0.5

This table shows the new performance target measures, implemented from 2020. Please note the 3-year return is on the old benchmark basis.

6 month performance for UBS Triton Property fund is from inception date of July 2022.

Performance from Alinda, Capital Dynamics and the LCIV Infrastructure funds is based on information provided by Northern Trust. For such investments, there are alternative measures to assess performance. This is also the case for Private Equity and Private Debt (see below) as asset classes.

This chart highlights each mandate's contribution to the Fund's absolute performance over the quarter according to their allocation.

The largest contributor to performance over the period was LGIM's Global Equity fund, given its positive performance and its sizeable allocation of c.43%.

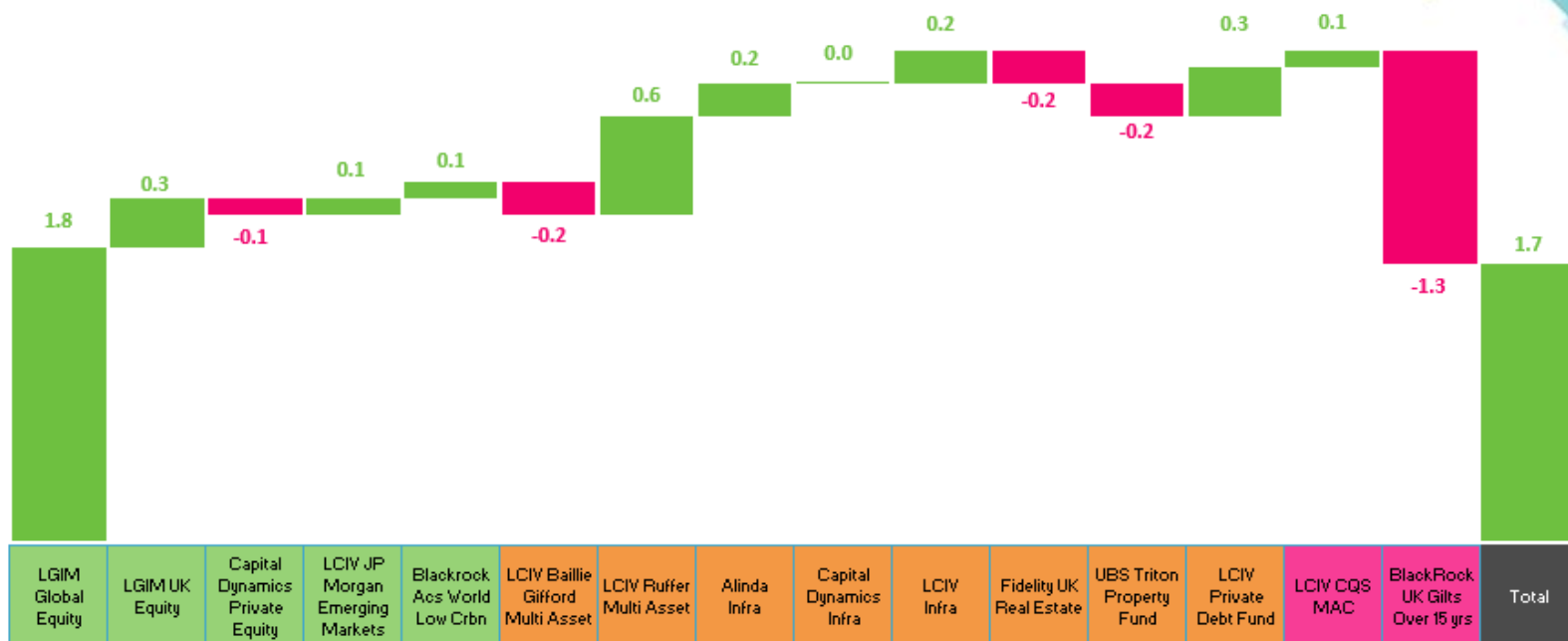
The diversifying nature of the LCIV and Alinda infrastructure funds mean that these sub-funds also contributed positively over the quarter.

The biggest detractor from performance over the second half of 2022 was BlackRock's UK Gilts Over 15 yrs, given its unfavourable return and despite its relatively small allocation.

Despite large negative returns posted by the Capital Dynamics Infrastructure Fund, this mandate has an allocation of <2% of the total Fund, hence did not detract materially from the Fund's overall performance.

Similarly, despite large underperformance from the property funds managed by Fidelity and UBS, their small allocations of 1.3% and 1.1% respectively mean they did not detract significantly from the Fund's total performance.

Fund performance by manager



Please note that due to rounding of the individual fund returns over both Q3 and Q4, the total performance shown above may not add to the total quarterly performance shown on page 3 of this report.

Manager ratings

Manager/Mandate	Asset Class	Hymans Rating	RI Rating	Performance	Manager Developments
LGIM	Global Equity	Preferred	Strong	●	●
LGIM	UK Equity	Preferred	Strong	●	●
Capital Dynamics	Private Equity	Suitable	Not Rated	●	●
LCIV JP Morgan	Emerging Markets	Suitable	Adequate	●	●
BlackRock	Acs World Low Crbn	Preferred	Adequate	N/A	●
LCIV Baillie Gifford	Multi Asset	Preferred	Good	●	●
LCIV Ruffer	Multi Asset	Positive	Adequate	●	●
Alinda	Infrastructure	Not Rated	Not Rated	●	●
Capital Dynamics	Infrastructure	Not Rated	Not Rated	●	●
LCIV	Infrastructure	Not Rated	Not Rated	●	●
LCIV	Private Debt	Not Rated	Not Rated	N/A	●
Fidelity	UK Real Estate	Preferred	Good	N/A	●
UBS	Property	Preferred	Good	N/A	●
LCIV	Multi Credit	Suitable	Not Rated	●	●
BlackRock	UK Gilts Over 15Yrs	Preferred	Not Rated	●	●

UBS business update

In Q4 2022, the Triton fund has completed the sale of industrial assets worth £54 million. The assets includes Gatwick Distribution Centre in Crawley, Wardley Industrial Estate in Salford, and Torc in Milton Keynes. Despite market volatility, to date, the fund has received low levels of redemption requests. However, the UBS team has structured a liquidity strategy in place to address redemptions.. We have recently met UBS and are actively monitoring the situation.

There were no manager rating changes to existing managers over the period.

There have been no changes to RI ratings over the period.

Information on the rating categories can be found in the appendix.

RAG status reflects the long term performance of each mandate. Manager developments reflect any key changes over the quarter and how this may affect the mandate.

RAG Status Key (assessment of longer term relative performance):

- Red: Significant underperformance
- Amber: Moderate underperformance
- Green: Performance in line / above benchmark

The pages that follow cover in further detail managers who have an amber/red performance rating.

We have included further detail on the following mandates this quarter:

- LCIV Baillie Gifford Multi-Asset
- LCIV MAC
- BlackRock UK Gilts Over 15 Yrs
- Capital Dynamics Infrastructure

LCIV Ballie Gifford Multi Asset

The fund returned -1.8% over the second half of 2022, underperforming its benchmark by 3.2%. However, when assessing performance against an absolute return style benchmark, it is more meaningful to look over a longer period. The fund has fallen further behind its longer term targets on a relative basis and absolute basis.

The primary detractor from performance over the period was the fund's significant allocation to equities (c.24%), which suffered in continued market volatility, despite stabilising towards the end of 2022. Additionally, the absolute return segment (c.9% allocation) did not perform as expected during this period of economic stress and contributed to the fund's negative performance.

The fund's allocations to high yield credit, investment grade bonds and emerging market bonds were positive contributors; however allocations to these sectors were not as significant.

Over the period, Ballie Gifford made several changes to the portfolio, which mainly saw an increase in allocation to bonds. This was in line with the manager's view that sections of the fixed income market offered better value than equities when accounting for risk. Additionally, commodities exposure was increased as Ballie Gifford opened a position in aluminium, due to expectations that metal demand will increase due to its uses in green energy projects.

Given the poor performance over the period, Ballie Gifford took some strategic actions to address issues within underperforming asset classes. Baillie Gifford remains focused on their longer-term trends and stresses the importance of not losing sight of long-term goals amidst the current volatile market.

LCIV Multi Asset Credit

Over the second half of 2022, the LCIV's multi-asset credit strategy returned 1.6% against a benchmark of 2.1%. Again, when assessing performance against an absolute return style benchmark, it is more meaningful to look over a longer period as volatility can be expected in the short term. Performance was also negative over the past 12 months. Over 3 years, the fund is behind benchmark by 3.8%.

The second half of 2022 saw credit spreads continue to tighten. Risks of recession over the second half of 2022 resulting from increasing inflation and interest rates eased and high yield bonds were a beneficiary. This was a large contributor to performance as high yield bonds make up c.35% of the portfolio.

The key detractor from performance over the period was loans as fears over the economy increased and due to them being perceived as more risky than bonds. More specifically, European loans lagged the wider market due to the weakened Sterling and the floating rate assets held within the portfolio.

Over the period, the fund completed its transition into a multi-manager fund, with an equal allocation to both underlying fund managers: CQS and PIMCO. The final transition was completed in July. This transition has resulted in increased diversification, specifically to the fund's exposure to key credit asset classes. This should provide more stability to performance going forward.

BlackRock UK Gilts Over 15 Yrs

This fund invests in fixed-interest UK government bonds or “gilts”.

The fund delivered a -20% return over the period, taking the full year loss to 40%. The fall in value is due to the significant rise in gilt yields during 2022 - yields have an inverse relationship to valuations, which means an increase in yields has a negative impact on valuations.

Gilt yields were c1% p.a. at the beginning of the year but rose significantly as Central Banks raised interest rates to combat high inflation. This was exacerbated around the time of the 'mini-budget' in September when yields approached 5% p.a. Some stability returned to the gilts market towards the end of the year and we saw yields fall back. However, they remain well above the levels at the beginning of the year.

The manager seeks to track market returns from fixed interest gilts and the manager has delivered against this objective. The returns achieved are driven by market movements rather than the manager.

Further detail on specific manager performance is provided for funds that have performed below their relative benchmark over the longer term.

Capital Dynamics Infrastructure

Target: Absolute return of 8.0% p.a.

The Fund's holdings are currently solely held within the Capital Dynamics Clean Energy and Infrastructure fund.

The two key metrics to assess performance for infrastructure investments are the Internal Rate of Return (IRR) and the Total Value to Paid-In (TVPI) ratio. With the fund having deployed most of the capital commitment it is appropriate to assess performance on both measures. As can be seen by both the IRR and TVPI, performance has been lower than expected to date, although running performance continues to marginally improve.

Note, reporting on underlying commitments is as at 30 September 2022 due to the lag in reporting from the manager, which is typical for funds of this nature.

This level of performance is primarily driven by challenges experienced by one project in particular which represents a material proportion of the fund. This is a Texas wind power project, which the manager has previously acknowledged.

Summary as at 30 September (figures in \$m where applicable)

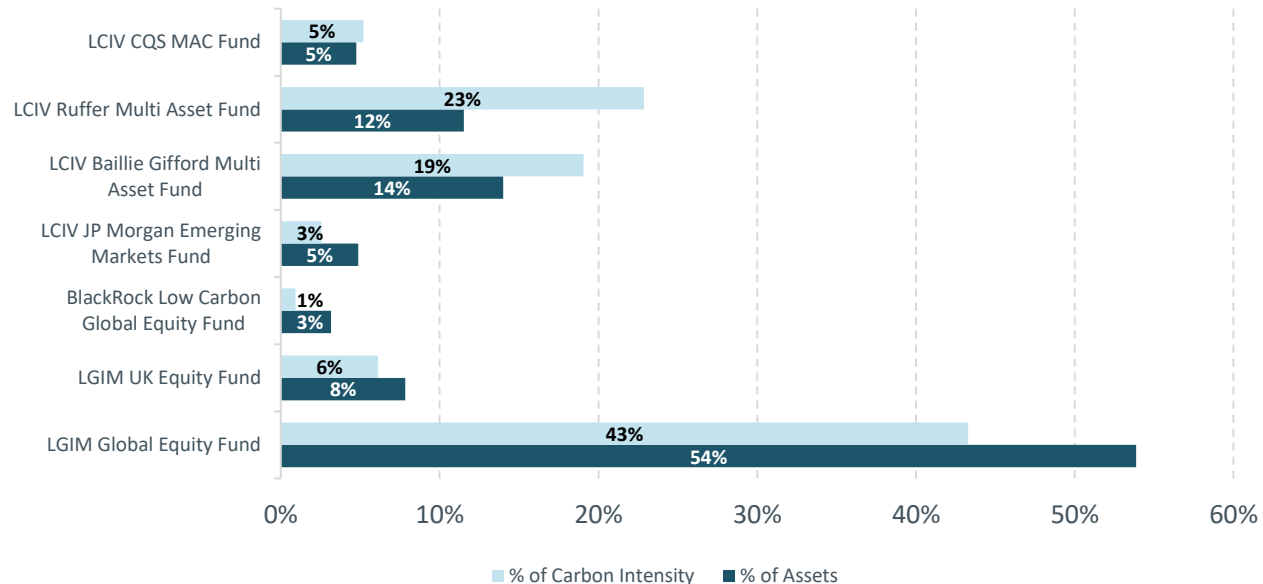
Capital committed	\$15.0	Net IRR since inception	(5.4%)
Total contributed	\$14.7	Total value-to-paid-in-ratio (TVPI)	0.63x
Distributions	\$6.0		
Value created	(\$5.6)		
Net asset value	\$3.1		

Climate Risk Overview

	Weighted Average Carbon Intensity (tCO2/£m Sales)	Fossil Fuel exposure (any activity) (%)
Fund	241.6	8.1%
<i>Composite benchmark*</i>	294.8	8.1%
<i>Relative to benchmark</i>	-53.2	0.0%

*Composite benchmark reflects individual mandate benchmarks weighted by proportion invested

Carbon Intensity by Manager



As part of the Fund’s evolving Responsible Investment agenda and in recognition of climate risk, the Fund is committed to disclosing and monitoring climate metrics within its investment strategy where possible.

As a starting point, the Fund is reporting in line with information produced by its LGPS Pool, the London CIV. In time, the Fund will seek to evolve its climate risk monitoring process by monitoring against further metrics.

The information covered here captures c80% of the Fund’s assets as at 31 December 2022. It excludes investments in property, private equity, infrastructure and private debt on account of the current lack of data in these areas.

Despite only representing 14% of assets shown here, the LCIV Baillie Gifford multi-asset fund is responsible for 19% of the total carbon intensity. Similarly, the LCIV Ruffer Multi Asset Fund contributes 23% to the Fund’s total carbon intensity but represents only 12% of assets.

All other funds contribute to the Fund’s overall carbon intensity in line with or below their relative proportion of assets.

Amid soaring interest rates and inflation, global growth slowed in the second half of 2022 and forecasts for growth in 2023 saw sharp downwards revisions. While recent outturns have shown an unexpected resilience in the major economies, economic data points to a relatively weak outlook in 2023.

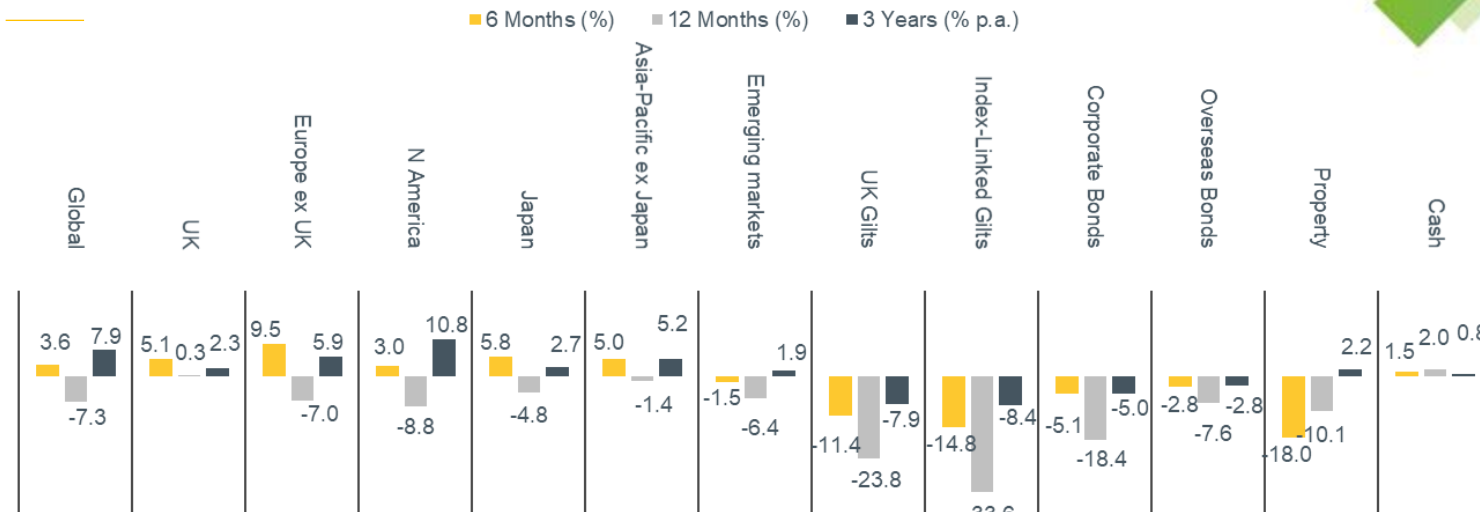
US headline CPI inflation fell from 9.1% to 6.5% year-on-year, peaking in June. UK and eurozone CPI inflation rose from 9.4% and 8.6% to 10.5% and 9.2%, respectively, but ended the period below October's peak levels. Year-on-year core inflation remains elevated across the US, UK, and eurozone at 5.7%, 6.3%, and 5.2%, respectively.

In response, major central banks continued to raise interest rates sharply. The US Federal Reserve, Bank of England, and European Central Bank delivered cumulative rate rises of 2.75% p.a., 2.25% p.a., and 2.0% p.a., respectively, taking policy rates to 4.5% p.a., 3.5% p.a., and 2.0% p.a. in the respective regions.

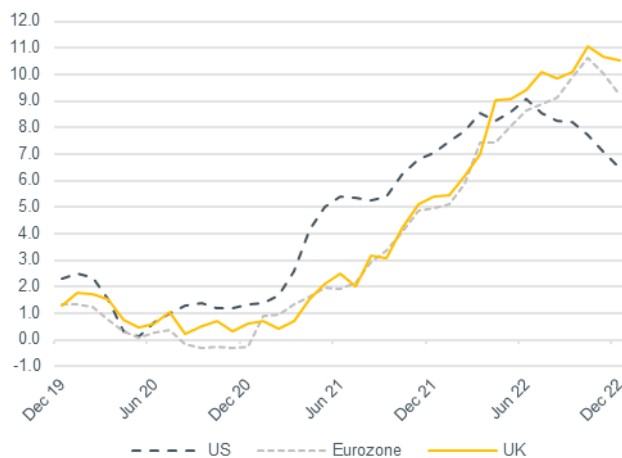
Ongoing re-evaluation of inflation and interest rates saw global sovereign bond yields rise. The UK 10-year yield rose 1.4% p.a., to 3.7% p.a., while equivalent US and German yields rose 0.9% p.a. and 1.2% p.a., to 3.9% p.a. and 2.6% p.a., respectively.

Despite the rise in realised inflation, UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, fell 0.3% p.a. to 3.6% p.a.

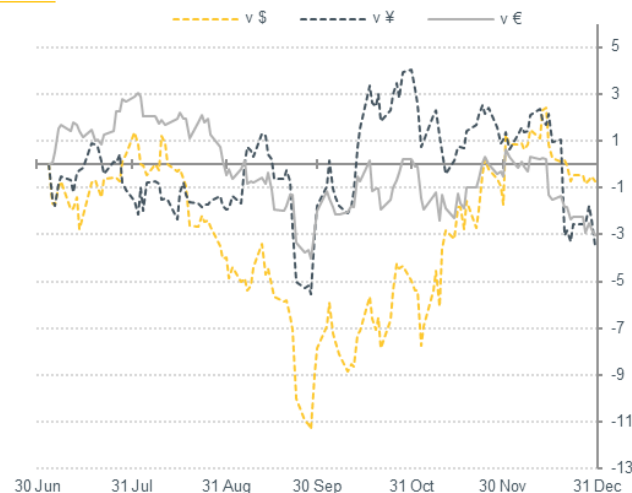
Historic returns for world markets [1]



Annual CPI inflation (% p.a.)



Sterling trend chart (% change)



Source: DataStream. [1]Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, ICE BofA Global Government Index, MSCI UK Monthly Property; UK Interbank 7 Day

Market Background

Economic resilience and an easing of downside concerns saw credit spreads tighten significantly in the final quarter of 2022: global investment grade credit spreads fell 0.3% p.a., to 1.5% p.a., while speculative-grade spreads fell 1.3% p.a., to 5.1% p.a.

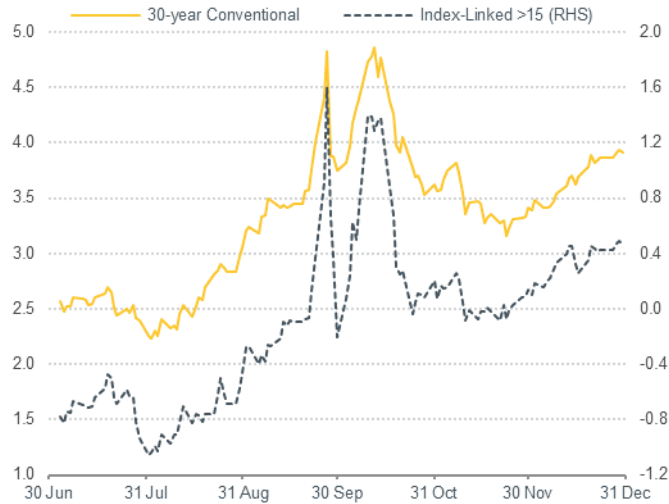
Equities were volatile in response to economic data releases as the FTSE All World Total Return Index ultimately rose 2.4% after rallying from its low in October. The energy sector outperformed amid record earnings reports. Industrials and basic materials also outperformed, on the back of lower gas prices, as did financials, as rising rates lifted net interest margins. Consumer discretionary, technology and telecommunications stocks underperformed as the cost-of-living squeeze intensified.

Europe ex-UK notably outperformed as the worst fears around European energy rationing receded, and the UK outperformed, given above average exposure to outperforming energy sector. Despite rallying towards the end of 2022, upon news of China's rapid re-opening, emerging and Asian markets underperformed.

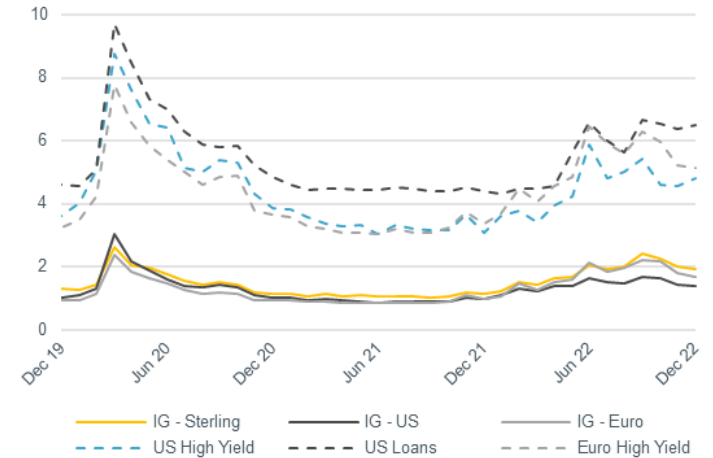
The US dollar was up 0.4% over the period in trade-weighted terms with equivalent, euro, and yen measures rising 3.8%, 4.2% respectively and sterling falling 1.5%.

The MSCI UK Monthly Property Total Return Index declined 10.1% over the past twelve months primarily due to a 14.2% fall in capital values. Falls were most pronounced in the industrial sector, where a 26.7% decline in capital values from their June peak leaves them 18% below end-2021 levels.

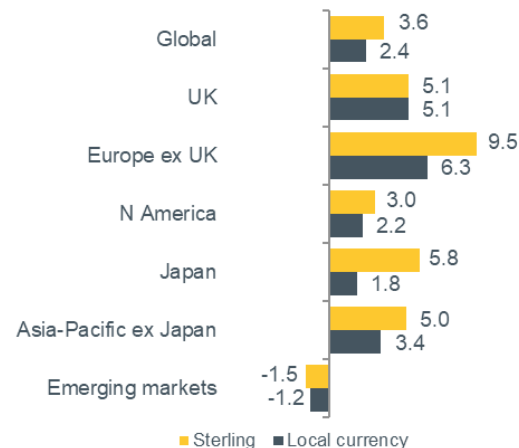
Gilt yields chart (% p.a.)



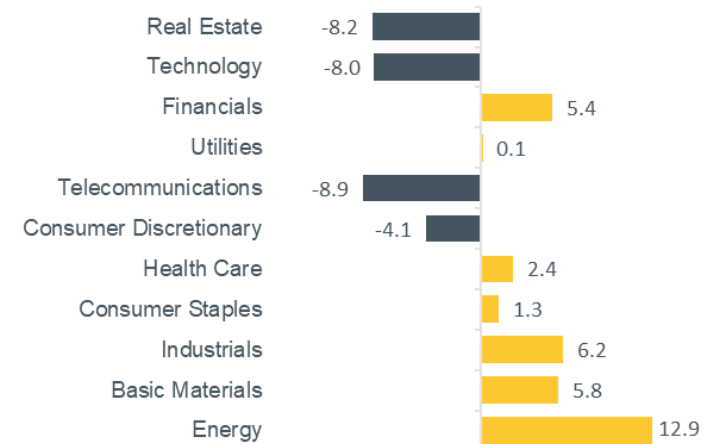
Investment and speculative grade credit spreads (% p.a.)



Regional equity returns [1]



Global equity sector returns (%) [2]



Source: DataStream, Barings, ICE [1] FTSE All World Indices. Commentary compares regional equity returns in local currency. [2] Returns shown in Sterling terms and relative to FTSE All World.

Hymans Rating

Preferred	Our highest rated managers in each asset class. These should be the strategies we are willing to put forward for new searches.
Positive	We believe there is a strong chance that the strategy will achieve its objectives, but there is some element that holds us back from providing the product with the highest rating.
Suitable	We believe the strategy is suitable for pension scheme investors. We have done sufficient due diligence to assess its compliance with the requirements of pension scheme investors but do not have a strong view on the investment capability. The strategy would not be put forward for new searches based on investment merits alone.
Negative	The strategy is not suitable for continued or future investment and alternatives should be explored.
Not Rated	Insufficient knowledge or due diligence to be able to form an opinion.

Responsible Investment

Strong	Strong evidence of good RI practices across all criteria and practices are consistently applied.
Good	Reasonable evidence of good RI practices across all criteria and practices are consistently applied.
Adequate	Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently.
Weak	Little to no evidence of good RI practices.
Not Rated	Insufficient knowledge to be able to form an opinion on.

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

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Geometric v Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + \text{Fund Performance})}{(1 + \text{Benchmark Performance})} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.