LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Held in the Conference Hall, Brent Civic Centre on Monday 20 February 2023 at 6.00 pm

PRESENT: Councillor Johnson (Chair) and Councillors Choudry, Hack, Miller, and Kansagra.

Also present: David Ewart (Independent Chair – Pension Board).

1. **Apologies of Absence**

The Committee received apologies of absence from Councillors Mitchell (Vice-Chair) and Dar, and Elizabeth Bankole (Independent Co-Opted Member).

2. **Declarations of Personal and Prejudicial Interests**

The following interests were declared at the meeting:

- Councillor Johnson declared that he was an ex Council officer, and as such was a member of the Pension Scheme. In addition to this, Councillor Johnson was currently the Vice-Chair of Governors at Chalkhill Primary School, in which the school were members of the Pension Scheme.

3. **Minutes of the Previous Meeting**

RESOLVED: That the minutes of the previous meeting held on 05 October 2022 be approved as an accurate record of the meeting.

4. **Matters Arising**

None.

5. **Deputations (if any)**

No deputations were received.

6. **Investment Strategy Review**

Sawan Shah (Head of Pensions, Brent Council) introduced the report, which detailed the review undertaken by the Fund's investment advisor, Hymans Robertson, of the current investment strategy, following on from the Fund's 2022 valuation. The purpose of the review was to evaluate the current investment strategy and analyse the ability of alternative strategies to meet the Fund's strategic objectives. The Committee noted that the previous investment strategy review was agreed in February 2020, with it being regarded as best practice to regularly review the investment strategy to ensure that the strategy was still fit for purpose and was meeting objectives.

On a high level, the Committee heard that the fund was broadly in line with the interim target allocation. Nevertheless, it was important for the Fund to continually develop their strategy moving towards goals such as investing further in property. Regarding returns on investment, Sawan Shah highlighted that the mix of assets owned by the Fund, rather than the underlying fund manager, was the main factor in the Fund's performance.

Following the introduction, Sawan Shah handed over to Kenneth Taylor (Senior Investment Analyst, Hymans Robertson LLP) to present the report in further detail. The following key points were highlighted:

- Overall, the funding position had improved since the 2019 actuarial valuation. This confirmed that the 2019 investment strategy was still appropriate.

- Hymans Robertson continued to support the Fund's long-term target allocations to Growth, Income and Protection assets, which were agreed following the 2019 actuarial valuation. It was recommended that the Fund continued to build out its private market investments in infrastructure, private debt and property to help move the Fund towards the long-term target allocations previously agreed both from a position of diversification and accessing alternative sources of excess return.

- Regarding cashflow, the 10% pension increase in April 2023, coupled with a reduction in future contributions, was expected to impact the cashflow position of the Fund. Whilst cashflow had not been analysed in the investment strategy review, Hymans Robertson stated that they would be happy to prepare this for the Committee. The cashflow analysis would assess whether current levels of investment income were sufficient to cover any shortfall between contribution income and benefits paid, better informing future investment decisions.

- The Committee noted that growth investments represented the highest potential returns but also the highest risk. With regard to growth portfolio recommendations, Hymans Robertson stated that the Fund was currently circa 9% overweight in equities relative to the long-term target allocation (actual circa 59% vs target 50%). Around one-third of this overweight position would naturally be corrected as the private equity mandate reduced over the next few years. It was recommended that the remaining circa 6% should be sold (from the LGIM global equity mandate) and re-invested into multi-asset credit and gilts to increase these towards their target allocations.

- As the Fund continued to develop its net zero roadmap, a priority action was to review the Fund's global equities to determine whether the Fund could continue to access global equity markets whilst simultaneously achieving a reduction in its carbon emissions. At circa 40% of total assets, global equities were the largest contributor to the Fund's carbon emissions.

Hymans Robertson recommended that the Committee undertook a market review during Q2 2023 and selected one or possibly two low carbon global equity funds to replace the current LGIM global equity mandate.

- The current target allocation of property was 10%, however, only 2.5% of the Fund was invested across two UK commercial property mandates. This differed from most London Boroughs, who were closer to their target allocations. Nevertheless, this provided the opportunity to create a diversified portfolio comprising of UK commercial property, UK housing, and global property. A 10% allocation was broadly equivalent to £110m, which was recommended to be allocated in the following way:

  - UK commercial (UBS and Fidelity) - £40m (36%)
  - LCIV UK Housing Fund - £30m (28%)
  - Global property - £40m (36%)

- It was explained that the property market was currently undergoing repricing with valuations falling. This had implications regarding the timing of investing in property. It was recommended to wait until the second half of 2023 before adding to the Fund's UK commercial property allocation and investing in a new global property fund. In addition, the Committee were advised to carry out a review of global property managers ahead of making any investment in Q3 or Q4 of 2023.

- New investments needed to be identified to build the Fund's allocation to infrastructure towards its 15% target. The Committee were recommended to carry out a review of suitable infrastructure funds, including the London CIV renewables infrastructure fund, in addition to funds offered by external managers. Timberland was also highlighted as a fund that was attracting interest within the LGPS. An allocation to Timberland could be considered as part of a diversified infrastructure portfolio.

- In explaining private debt asset class, the Committee noted that this comprised of privately negotiated loans, in which the Fund would provide capital to companies for a return with added interest. The Fund had committed £50m to the London CIV private debt fund and this investment was currently in its build up phase. The expected profile of the private debt fund was such that it increased in value as capital was invested, and then reduced in value as income and redemptions were returned to the Fund. To maintain the 5% target allocation, it was common for pension schemes to invest in a series of private debt funds, with commitments being made to new funds every 2-3 years. The Committee were recommended to investigate options in this area and, in the first instance, ask London CIV to confirm its future plans.

- Regarding the Fund's protection portfolio, bond yields increased significantly during 2022. While this had led to a fall in bond asset values, the higher yield meant investing in bonds was more attractive now than it had been for some time. Currently the Fund's protection portfolio consisted of multi-asset credit and fixed interest gilts. Replacing the fixed-interest gilts with corporate bonds would boost expected returns with only a marginal increase in risk levels.

- In speaking on the priority of recommendations, rebalancing the overweight holding in equities and finalising the decision on the LCIV UK Housing Fund were deemed to be high. It was considered that other recommendations could await implementation, as correctly sequencing actions was imperative.

The Chair then welcomed questions from the Committee, with questions and responses summarised below:

- Regarding any alternative asset classes that the Fund could invest in or had previously counted out, the Committee noted that long term speculative investment in private equity was not included in the long term strategy. Hymans Robertson were happy with the current investment to come to an end, although this could change if the Committee wished. A discussion concerning the necessity of having a minimum allocation to UK equities was also raised. It was explained that the UK market had not performed as well as the global market in the long term. In concluding the response, James Glasgow (Senior Investment Analyst, Hymans Robertson LLP) explained that consistent returns through simplistic investments was preferable. Overdiversifying the portfolio could introduce unnecessary risk.

- The Committee questioned whether the Fund sould invest in private rented properties. In response, the Committee heard that these investments could expose the Fund to risks such as short term tenancies and demand risks. Investing in private rented properties would take advantage of short term opportunities. However, the Fund was largely a long-term investor and the London CIV UK Housing Fund could offer the property diversification that the Fund required.

- The underlying assumptions of the investment strategy were queried, in which Kenneth Taylor detailed that asset liability modelling analysed a large range of economic scenarios to see how the funding position of the Fund may change. The modelling was based on views on the future of the economy and past asset returns, creating a robust model for assumptions. It was also explained that the state of the economy was not always the main factor to account for depending on asset class. For example, when moving from an equity fund to a low carbon equity fund, the economy was largely unimportant. However, surveying the market was much more necessary when investing in property. Sawan Shah added that, as a long term investor, market timing was not the prime factor underlying investment decisions. Furthermore, investments tended to be staggered to mitigate against volatility.

- Regarding the rebalancing of the Fund's portfolio, the Committee heard that if they were to choose not to rebalance, the Fund would be exposed to greater risk. Choosing not to move 6% of equities into bonds would leave the Fund vulnerable to market downturns. The recommendation of a phased rebalance aimed to minimise the Fund's exposure to risk.

- The Committee questioned how the recommendations in the investment strategy review impacted the Fund's net zero strategy. Kenneth Taylor explained that the recommendation to review, and eventually move, to a low carbon equity fund could reduce the Fund's carbon emissions by 50% whilst maintaining returns and this move was currently the priority. However, the Committee noted that moving other assets to low carbon alternatives could take decades. In the meantime, actions such as challenging London CIV on management selection could reduce the Fund's carbon output.

Members welcomed the update provided and with no further issues raised thanked Hymans Robertson LLP for their presentation. The Committee **RESOLVED** to:

(1) Agree the investment strategy review undertaken by the Fund's investment advisors, Hymans Robertson, detailed in Appendix 1 of the report.

(2) Note that the investment strategy review supported the Fund's net zero road map, with a market review of the global equities allocation planned for 2023.

7. **Investment Monitoring Report – H2 2022**

James Glasgow (Senior Investment Analyst, Hymans Robertson LLP) introduced the report, which outlined the performance of the Brent Pension Fund during the second half of 2022.

In presenting the report, the committee noted the following:

- The Fund's assets returned 1.7% over the 6 months to 31 December 2022, outperforming the aggregate target return by 1.3%. Over the previous 12 months, the Fund's assets returned -7.6%, however, this was in line with the benchmark. On a 3 year basis the Fund outperformed the benchmark by 0.5%, returning 3.8% compared to the 3.3% benchmark. Overall, the Fund posted positive returns over the last 6 months of 2022, ending the period with a valuation of £1,072.1m, which was a slight increase from £1,055.4m at the end of Q2 2022.

- All listed equities ended 2022 performing positively, although private equities returned negatively due to lagged valuations. The volatility of the gilt market resulted in the asset underperforming by 40% with Property also highlighted as underperforming.

- Amid rising 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 had shown an unexpected resilience in the major economies, economic data pointed to a relatively weak outlook in 2023.

- 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.

- Regarding asset allocation, the Fund was broadly in line with the interim target allocations for growth and cash, whist it was over/underweight in terms of income and protection assets respectively. The LCIV infrastructure and private debt funds remained in their early phases. It was therefore expected that the Fund's commitments continued 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.

- Considering manager performance, the largest contributor to performance over the period was LGIM's Global Equity fund, given its positive performance and its sizeable allocation of circa 43%. The biggest detractor from performance over the second half of 2022 was BlackRock's UK Over 15 years Gilts, given its unfavourable return despite its relatively small allocation.

- Despite large negative returns posted by the Capital Dynamics Infrastructure Fund, this mandate had an allocation of <2% of the total Fund, hence did not detract materially from the Fund's overall performance. Similarly, despite underperformance from the property funds managed by Fidelity and UBS, their small allocations of 1.3% and 1.1% respectively meant they did not detract significantly from the Fund's total performance.

- Focussing on the LCIV Baillie Gifford Multi-Asset fund, the fund returned -1.8% over the second half of 2022, underperforming its benchmark by 3.2%. The fund had fallen further behind its longer term targets on a relative basis and absolute basis. Given the poor performance over the period, Ballie Gifford had taken some strategic actions to address issues within underperforming asset classes. Baillie Gifford remained focused on their longer-term trends and stressed the importance of not losing sight of long-term goals amidst the current volatile market.

Following the conclusion of the presentation, the Chair welcomed questions from the Committee. Questions and responses are summarised below:

- Regarding the investment in BlackRock's UK Over 15 years Gilts, the Committee noted that the holding was passive, tracking market conditions exactly. The returns, albeit negative, were in line with the market, with BlackRock not stylistically contributing to the negative performance.

As no further issues were raised, the Sub Committee again welcomed the update provided and **RESOLVED** to note the report.

8. **2022 Triennial Valuation Results and Funding Strategy Statement**

Ravinder Jassar (Deputy Director of Finance, Brent Council) introduced the report, which set out the results of the 2022 triennial actuarial valuation and the Funding Strategy Statement (FSS) to the Committee for consideration and approval.

In presenting the report, the Committee were advised that the Fund was required by law to undertake an actuarial valuation every three years. The purpose of the valuation was to value the assets and liabilities of each individual employer and the Pension Fund as a whole; with a view to setting employer contribution rates which would result in each employer's liabilities becoming as close to fully funded as possible over the agreed recovery period outlined in the FSS.

Since the last Sub-Committee meeting in October, draft valuation results schedules, which set the contribution rate for each employer for the next three financial years, had been produced for the Council and for most employers within the Fund. These had been communicated to employers. The Fund also held an employers' forum in November 2022 to present the valuation results to the employers.

With no further questions, the Chair thanked officers for the report and the Committee **RESOLVED** to:

(1) Note and agree the draft valuation report as set out in Appendix 1 of the report.

(2) Delegate authority to the Corporate Director, Finance and Resources to finalise the valuation report before 31 March 2023.

(3) Approve the Funding Strategy Statement (FSS) as set out in section 3.9 and Appendix 2 of the report.

(4) Note the contribution reviews policy as set out in Appendix 3 of the report and cessations policy as set out in Appendix 4 of the report.

(5) Subject to section 2.4 of the report, delegate authority to the Corporate Director, Finance and Resources to finalise the contribution reviews policy as set out in Appendix 3 of the report and cessations policy as set out in Appendix 4 of the report following consultation with employers.

9. **Procurement of Investment Management Services**

Carlito Rendora (Finance Analyst, Brent Council) introduced the report, which summarised the outcome of the investment management services tender. The Committee noted that officers had undertaken the procurement exercise using the National LGPS Framework between August and October 2022.

Following the tender process, the Corporate Director, Finance & Resources, using delegated powers, had appointed Hymans Robertson as the service provider for this contract for a period of 3 years with the potential to extend for a further two years. The new contract had commenced on 24th October 2022.

It was stated that all costs of the contract would be met fully by the Pension Fund and there would be no direct cost implications for the Council. The Pension Fund maintained a separate bank account for the payment of Pension Fund related costs, such as the investment management contract.

As there were no questions, the Committee **RESOLVED** to note the re-appointment of Hymans Robertson LLP to provide investment management services for the Brent Pension Fund.

10. **Minutes of the Pension Board**

The Sub-Committee welcomed Mr David Ewart (Independent Chair - Pension Board) to the meeting to give an overview of the Pension Board's last meeting. Members were updated that the Pension Board's role was to assist the Sub Committee in efficient management of the Fund and in monitoring service quality for scheme members. The Board's membership comprised of representation from both Scheme Members and Employers as well as Brent Council.

Regarding the November meeting, the Sub Committee were informed that the Board largely discussed the pension administration service, which was undergoing improvements. In addition, the Board agreed that issues experienced with the Annual Benefit Statement rollout did not constitute a material breach, as it did not seem to be a systematic and continuing occurrence. Furthermore, it was agreed that the matter fell within the remit of a minor and trivial matter and therefore should not be raised to the regulator.

The Chair thanked David Ewart for the update provided and with no further issues raised, it was **RESOLVED** to note the minutes from the Pension Board held on 09 November 2022.

11. **Exclusion of Press and Public**

At this stage in the meeting the Chair advised that the Sub Committee needed to move into closed session to consider the final items on the agenda and it was therefore **RESOLVED** to exclude the press and public 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)."

Having passed the above resolution, the live webcast was ended at this stage of the meeting.

12. **Housing Allocation Report**

Whilst this item was originally listed on the agenda as Item 8, due to sensitive information contained in Appendix 1 of the report, the Committee agreed to move *it's consideration in to the closed session of the meeting and it was therefore considered as item 12.*

Sawan Shah introduced the report, which detailed the analysis and review undertaken by the Fund's investment advisor, Hymans Robertson, of the London CIV UK Housing Fund, including recommendations for investment and implementation. The Committee noted the Fund was currently overweight in diversified growth assets compared to the long term strategy. Thus, the decision to invest in the London CIV UK Housing Fund would contribute to rebalancing the Fund's portfolio and meeting the 10% long term target allocation in property.

The London CIV UK Housing Fund aimed to invest indirectly through third party funds with the purpose of increasing the supply of good quality, affordable housing in the UK while also generating a competitive risk-adjusted return. It focused on three strategies within the residential housing sector: general needs affordable and social housing, traditional supported housing, and specialist housing. These were broadly be defined as:

- General needs affordable and social housing - Social and affordable properties were typically leased to councils or housing associations who sublease the properties to eligible tenants to meet their social housing obligations. Eligibility criteria depends on income, requirements due to disability, children, and state of existing accommodation.

- Transitional supported housing - These were properties typically leased to council or housing association or charities who provide supportive but temporary accommodation to bridge the gap from homelessness to permanent housing.

- Specialist housing - These were properties typically leased to councils, housing associations or charities who provide additional support including physical and mental health counselling. Councils typically contribute towards some or all of these care and support costs.

Christopher Osbourne (Senior Portfolio Manager, Private Markets, London CIV) was subsequently invited by the Chair to present the London CIV UK Housing Fund in further detail. The Committee noted the following:

- The Fund had received FCA approval in Q4 2022.

- In providing an overview of the evolution of the UK Housing Fund, the shortlisting process for UK housing managers was detailed, with further due diligence carried out on selected managers.

- The target allocation of each type of housing was detailed, in addition to highlighting the strong focus on social impact.

- The case for investing was presented, which highlighted the resilient returns and opportunity to diversify the Fund's property allocations.

- The terms of the Fund were detailed, including the investment strategy, target yield, and management fees.

- The environmental, social and governance credentials of the shortlisted managers were outlined, which included responsible investment, adherence with United Nations Sustainable Development Goals, and compliance with the Global Real Estate Sustainability Benchmark.

- To achieve social and environmental goals, London CIV had adopted an impact framework in which housing managers were expected to adhere to. Included in the framework was aligned reporting and standardised measurement practices to target a single set of common metrics.

Following the conclusion of the presentation, the Chair welcomed questions from the Committee, with discussions outlined below:

- A discussion took place regarding returns on investment, in which the general resilience of the market was at the forefront.

- Investing in private vs social housing was examined, in addition to considering the affordability of rent.

- Non-financial measurements and net-zero goals were considered.

- The potential local impact and target build numbers were discussed.

Once the discussion had finished, London CIV attendees exited the meeting, and as a result of further consideration the Committee **RESOLVED** to:

(1) Note the analysis set out in Appendix 1 of the report undertaken by the Fund's investment advisors, Hymans Robertson, in relation to an initial investment in the LCIV UK Housing Fund.

(2) Approve an investment commitment of 2.8% of total Fund assets (c. £30m) to the LCIV UK Housing Fund subject to the Corporate Director, Finance and Resources, in consultation with the Chair of the Pension Fund Sub-Committee, being satisfied with the conditions as set out in section 3.16 of the report.

(3) Note that subject to approval in relation to section 2.2 of the report, officers would rebalance the appropriate mandates to move towards the Fund's strategic asset allocation to fund this investment as set out in section 3.17 of the report.

13. **Employer Exit from the Pension Fund**

Sawan Shah (Head of Pensions, Brent Council) introduced the report which outlined an employer's funding position and the process for the employer's exit. The Committee noted the process for the employer's exit from the Fund and that there had been regular communication between the Fund and the employer.

As no further concerns were raised, the Committee **RESOLVED** to note the report.

14. **Any Other Urgent Business**

None.

The meeting closed at 8:04pm

COUNCILLOR R JOHNSON
Chair