Brent	**Pension Fund Sub-Committee** 27 June 2023
	Report from the Corporate Director Finance and Resources

Investment Strategy 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)	Open
No. of Appendices:	One: Appendix 1 - Asset allocation as at 30 April 2023
Background Papers:	Investment Strategy Review, Pension Fund Sub-Committee, 20 February 2023
Contact Officer(s): (Name, Title, Contact Details)	Minesh Patel, Corporate Director, Finance and Resources minesh.patel@brent.gov.uk 020 8937 4043 Ravinder Jassar, Deputy Director of Finance ravinder.jassar@brent.gov.uk 020 8937 1487 Sawan Shah, Head of Pensions sawan.shah@brent.gov.uk 020 8937 1955

1.0 Purpose of the Report

1.1 The purpose of this report is to provide an update on the steps taken to transition to the investment strategy agreed at the February 2023 meeting.

2.0 Recommendation(s)

That the Pensions Fund Sub-Committee:

2.1 Notes the contents of the report generally.

2.2 Agrees to rebalance the equities portfolio by reducing the allocation to global equities and re-invest the proceeds into Multi-asset credit and Gilts moving towards the target allocation of 5% and 10% respectively as agreed during the investment strategy review in February 2023, in line with Brent's long term asset allocation strategy.

3.0 Detail

3.1 In February 2023, the Pension Fund Sub-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 the following:

- Rebalance the equities portfolio by reducing the allocation to global equities by 6% and re-invest in multi-asset credit and gilts;
- Undertake a market review of low carbon global equity funds to replace the current LGIM global equity mandate;
- The Fund to continue to build its investments in infrastructure (15% target), private debt (5% target) and property (10% target), to move towards the long-term strategic allocation;
- That new investments will be needed to build the infrastructure allocation to the target allocation;
- The broad split between UK commercial, UK housing and Global property for the Fund's property allocation;
- Investigate options to maintain the target allocation to Private Debt;
- Review of the Protection portfolio to identify whether this can be refined to increase expected returns with only a marginal increase in risk.

3.3 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, availability of suitable investment options and the attractiveness of investment opportunities in the relevant asset classes.

3.4 The table in Appendix 1 highlights that the Fund is currently c.9% overweight equities relative to the long-term target allocation (actual c.59% vs target 50%) Around 2% of this overweight position will naturally be corrected as the private equity mandate winds down over the next few years. The February 2023 investment strategy review recommended that the remaining c.6.5% is sold from the LGIM global equity mandate and re-invested in the existing multi-asset credit and gilts to increase these towards their target allocations.

3.5 These actions will rebalance risk levels within the Fund in the short term with a review of the long-term role of gilts to follow at a later date. The increasing interest rate environment during 2022 and the first half of 2023 has meant that bond yields increased significantly. This means investing in bonds is more attractive now than it has been for many years.

3.6 The investment strategy review recommended that the Committee reviews the current protection portfolio to assess how other opportunities such as corporate bonds could enhance returns while maintaining risk at or around current levels. In the short term, the priority action is to undertake the recommended rebalancing to restore the allocations to multi-asset credit and fixed-interest gilts towards their target allocations.

3.7 In transitioning to the agreed strategic target allocations, the 50% target allocation to equities is to be reached by selling down LGIM's Global equity and:

- Reinvest approximately 1.2% in Multi asset credit (though the existing LCIV MAC Fund).
- Reinvest approximately 5.3% in gilts (through the existing BlackRock passive mandate).

Officers will determine the exact amounts to be rebalanced near the investment date with reference to the latest available data and will carry out the rebalancing in multiple tranches.

3.8 The Fund's long term target allocation is to invest 10% in Gilts and 5% in Multi asset credit. At end of April 2023, the actual allocations were 4.7% and 3.8% respectively. The proposed rebalancing noted in this report would take the allocations to 10% for Gilts and 5% for Multi asset credit. Therefore, the Fund would be closely aligned to its long term targets.

3.9 In addition to this, as part of the Fund's net zero road map, the investment strategy review considered undertaking a market review of global equities to determine whether the Fund can continue to access global equity markets and also achieve a reduction in its carbon emissions. Officers will be holding a workshop with committee members to develop a framework with a view of selecting one or two funds to replace the current LGIM global equity mandate.

4.0 Financial Implications

4.1 These are discussed throughout the report.

5.0 Legal Implications

5.1 The Pension Fund Sub-Committee holds a key fiduciary responsibility to manage the Fund's investments in accordance with its investment strategy and in the best interests of the beneficiary members and the council tax payers, where the primary focus must be on generating an optimum risk adjusted return. It is vital that any investment decision must not negatively impact on this primary responsibility.

5.2 The administering authority has fiduciary duties both to scheme employers and scheme members and the investment strategy must be exercised for investment purposes, and not for any wider purposes. Thus, investment decisions must be spread across a wide variety of investments classes and achieve a balanced risk and return objective.

5.3 Subject to the above responsibilities and duties, the choice of investments and the sums invested are at the discretion of the Pension Fund Sub-Committee so long as that does not risk material financial detriment to the Fund.

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
Corporate Director, Finance and Resources