Brent

LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Held in Boardrooms 4, 5 & 6, Brent Civic Centre on Tuesday 27 February 2023 at 6.00 pm

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

Elizabeth Bankole (Independent Co-Opted Member).

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

1. **Apologies of Absence**

The Committee received apologies for absence from Councillors Mitchell (Vice-Chair) and Hack. It was noted that Councillor Dixon was attending as a substitute member in place of Councillor Mitchell.

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

The following interests were declared at the meeting:

- Councillor Johnson declared a personal interest as a member of the Brent Pension Scheme given his status as an ex-council employee. and in his current capacity as Vice-Chair of Governors at Chalkhill Primary School, with the school also members of the Pension Scheme.

3. **Minutes of the Previous Meeting**

RESOLVED: That the minutes of the previous meeting held on 20 February 2023 be approved as an accurate record of the meeting.

4. **Matters Arising**

In referencing the Investment Strategy Review - page two, bullet point three of the minutes of the previous meeting, the Committee queried whether cash flow analysis had been undertaken by Hymans Robertson. In response, the Committee were advised that cash flow analysis was regularly completed by Council officers and recent analysis showed that the Fund would continue to be cashflow positive despite a reduction in contributions. However, it was reiterated that additional cash flow analysis could be arranged if the Committee deemed it necessary.

5. **Deputations (if any)**

No deputations were received.

6. **Investment Monitoring Report – Quarter 1 2023**

James Glasgow (Senior Investment Analyst, Hymans Robertson LLP) presented the report, which outlined the performance of the Brent Pension Fund over the first quarter of 2023.

Regarding the overall performance of the Fund, the Committee heard that the Fund had posted positive returns over the quarter, ending the period with a valuation of £1,116.4m, up from £1,072.1m at the end of Q4 2022. Comparing the Fund's performance against the benchmark, the Fund had underperformed by 0.6%, returning 2.7% vs the target of 3.3%. Nevertheless, when focussing on performance over the last three years, the Fund had overperformed the benchmark by 1.4% which was said to be encouraging. The Fund's strongest asset was global equities, which returned 3.1% over the quarter, and a fall in yields over the quarter saw positive returns from the UK government bond market.

In discussing the Fund's asset allocations, the Committee noted that, following the agreement of the investment strategy review at the 20 February 2023 meeting, allocation rebalancing was underway to move closer to the long-term allocation target of 50% Growth, 35% Income/Diversifiers, and 15% Protection. Currently, the Fund was broadly in line with the interim target allocations for growth assets, overweight to income assets and underweight to protection assets.

Concerning manager performance, the majority of assets performed well, with the standout performer being the LGIM Global Equity fund, returning 4.9% over the quarter and matching the benchmark. Global equities fared better than UK equities due to the UK's higher weighting to cyclical sectors such as financials, industrials, energy and basic materials, which underperformed over the period. Capital Dynamics' private equity mandate was the most significant underperformer over the quarter, returning -4.8% against a benchmark of 5.2%. However, the Committee were informed that private equity valuations tended to lag those of listed markets. Similarly, although mostly concerned with their longer-term performance, infrastructure funds had underperformed relative to their benchmarks, but once again these valuations also tended to lag the market. Despite the economic volatility of the last 12 months, due to the diversification of the Fund's assets the total return for the Fund was only down 2.6%.

In focussing on 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 circa 44%. In spite of the large negative returns posted by the Capital Dynamics Infrastructure and Fidelity UK Real Estate funds, these mandates had allocations of circa 2% and circa 1% respectively of the total Fund, hence did not detract materially from the Fund's overall performance. Furthermore, the LCIV Ruffer Multi-Asset fund's underperformance was offset by the LCIV Ballie Gifford Multi-Asset fund, due to their contrasting investment approaches.

Regarding the individual fund manager ratings, the Committee were advised that there were no concerns with the majority of managers. Nevertheless, the LCIV Baillie Gifford Multi Asset fund was downgraded from ‘preferred’ to ‘positive’. It was noted that the key reasons for the decision revolved around assessments relating to macro resources, risk management, and concerns of style drift. However, James Glasgow expressed confidence in their ability to meet long-term performance objectives and reassured the Committee that members would be kept updated. Furthermore, despite their underperformance, the manager ratings for the Capital Dynamics Infrastructure and LCIV Infrastructure funds remained ‘green’.

In turning their attention to the performance of individual fund managers, the Committee noted the following:

- The LGIM Global Equity mandate returned 4.9% over the quarter. Performance in global equity markets also remained strong over a longer period, returning 16.9% over the last 3 years. It was explained that lower energy prices, the reopening of China and improved business sentiment outweighed concerns of sustained elevated core inflation and interest rates.

- The LGIM UK Equity mandate returned 3.1% over the quarter. Performance over 12 months and 3 years was also strong, albeit the UK market continued to lag its global counterparts as a result of the higher weightings within the UK market to financials, industrials and materials.

- The JP Morgan Emerging Markets fund returned 2.8% over Q1, against its benchmark of 1.1%. Over 12 months the fund had returned -1.2%, outperforming the benchmark by 3.9%, and over 3 years the fund had outperformed its benchmark by 2.7%, returning 10.8%. The Committee noted that emerging market equities lagged developed markets over the period.

- Over the quarter, the BlackRock World Low Carbon fund returned 3.2%, underperforming its global equity market benchmark by 1.6%. Over the past 12 months, the fund’s performance also lagged the benchmark by 3.2%.

- The Capital Dynamics Private Equity fund, based on information provided by Northern Trust, returned -4.8% over the quarter, underperforming its benchmark by 9.5%. Similarly, performance over 3 years was 9% below the benchmark. Considering the fund’s underperformance, the Committee were advised that the average lifespan of private equity was 7-10 years, meaning that these investments were into their extensions. Over their lifespan the investments had performed well, and data focussing on performance since inception would be brought to the Committee to display this. However, the Committee noted that, at the current valuation, it was not worth selling. Thus, the Fund would retain this investment for the foreseeable future which would negatively impact performance. Nevertheless, the weighting of the Capital Dynamics Private Equity fund was small, meaning that the impact on the fund was minimal, accounting for an absolute return of -0.1% over the last quarter.

- The LCIV Baillie Gifford Multi Asset fund outperformed its target of 1.5%, returning 2.2% net of fees over the quarter. However, Performance over the past 12 months lagged its benchmark by 12.3%. The Committee were informed that both Hymans Robertson and London CIV were proactively monitoring this holding. The London CIV had placed the fund on 'enhanced monitoring', which constituted the middle monitoring level at London CIV. In addition, a review of Baillie Gifford was currently underway with the conclusions expected shortly.

- The Ruffer Multi-Asset fund returned -1.1% over the quarter, underperforming the benchmark by 2.5%. The negative performance was due to the underperformance of strategies in the fund used to protect against downside risk. However, longer term performance remained strong, largely driven by positive performance of equities despite its relatively small allocation.

- The Alinda Infrastructure and London CIV Infrastructure funds both performed positively, posting double digit returns over the last 12 months and outperforming benchmarks. The Capital Dynamics Infrastructure fund differed, with performance lower than expected. The Committee heard that performance was primarily driven by challenges experienced by one project in particular which represented a material proportion of the fund, which had been previously acknowledged by the fund manager. Despite the underperformance, the fund was mature with a marginal weighting in relation to the overall fund resulting in minimal impact.

- The London CIV Private Debt Fund was in the 'ramp-up' phase, as demonstrated in the capital committed vs the total contributed. Thus, it was felt too early to assess performance on a purely percentage basis.

- Over the quarter, the London CIV Multi Asset Credit (MAC) fund returned 2.1%, outperforming its benchmark by 0.6%. At the start of the quarter, the fund performed well as gilt yields fell and prices subsequently rose. Over the past 12 months the fund remained behind benchmark; however, over 3 years the fund was 2.8% ahead of its benchmark return. The underperformance over the previous year was largely attributed to the 'mini budget' but it was hoped that over time the asset would become less volatile as would be normally expected.

- The BlackRock UK Gilts mandate was passively managed and aimed to match the FTSE UK Gilts Over 15 Years index. The manager sought to track market returns from fixed interest gilts and the manager had delivered against this objective. As such, the returns achieved were driven by market movements rather than the manager. With the relevant contextual information explained, the performance of the fund was detailed, returning 2.8% as gilt yields fell over the quarter, resulting in a slight increase in the value of the portfolio.

In light of the Fund's evolving Responsible Investment agenda, the Committee discussed the carbon intensity of the Fund, in which it was demonstrated that overall carbon output was lower than the target and below benchmark by 0.9%. The largest carbon emitter, responsible for 43% of the Fund's carbon output, was the LGIM Global Equity fund however, the fund made up 55% of the Fund's overall assets and thus produced less carbon comparative to its size. Conversely, the London CIV Ruffer Multi Asset fund had the largest discrepancy when comparing carbon output to asset size, contributing 25% of the Fund's carbon emissions despite making up only 11% of the Fund's assets.

In concluding the monitoring performance update, the Committee were advised of the market background, with particular attention placed on the impact of inflation on the markets. The Committee noted that year-on-year headline CPI inflation in the US and Eurozone fell to 6.0%, and 8.5%, respectively, as the UK measure rose to 10.4%. The equivalent core measures fell to 5.5% in the US as the UK and Eurozone measures rose to 6.2% and 5.6% respectively. Furthermore, UK 10-year implied inflation was 3.8% p.a., 0.2% above end-December levels.

Following the presentation of the report, the Chair invited members to raise any questions or comments, with queries and responses 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. The relative underperformance of the fund was due to the volatility of the market and yields increasing, subsequently decreasing prices. However, the Committee were advised that the holding acted as a good diversifier as it was as a hedge against inflation exposure.

- In response to a concern in relation to the viability of real estate due to government legislation on green energy and increased voids, the approach taken towards managing the property portfolio by the active fund managers was outlined. Concerning green energy's impact on real estate, the Committee heard that this fell under Responsible Investment, which was continually monitored by Hymans to future proof investments and maintain Responsible Investment objectives.

- In requesting further information on the underperformance of the Capital Dynamics Private Equity fund, the Committee noted that it was a mature fund, and it was possible that it was in the 'run off' phase.

- Concerning the impact that the Russian invasion of Ukraine had on the UK's supply of energy and economy, it was illustrated that UK-Russia relations did have an impact on inflation, however, the supply chain was experiencing difficulties prior to the conflict which culminated in a 'domino effect' originating from covid until present day.

- In responding to a query on whether the UK economy would improve if the Government announced further investment into green energy to mitigate against the energy crisis, the Committee were advised that the economy largely relied on market sentiment and confidence. It was noted that US performance was largely driven by the tech industry, which the Committee acknowledged presented different environmental, social and governance (ESG) challenges. The Committee were informed that training on a passive ESG fund was in train, and it was explained that the market would likely lean more towards ESG investments as 2050 neared, due to the need to meet climate goals set out in multiple international agreements.

Members welcomed the report and, with no further issues raised, thanked Hymans Robertson LLP for their presentation. Consequently, the Committee **RESOLVED** to note the report.

7. **Investment Strategy Update**

Sawan Shah (Head of Pensions, Brent Council) introduced a report that updated the Committee on the steps taken to transition to the investment strategy agreed at the 20 February 2023 meeting. The Committee were informed that the long-term target allocation was expected to provide increased returns at a lower risk level compared to the current strategy. However, it was explained that transitioning to the targets agreed in February would be fluid in practice and depended on numerous factors including market conditions, availability of suitable investment options and the attractiveness of investment opportunities in the relevant asset classes.

The Committee noted that the Fund was currently circa 9% overweight in equities relative to the long-term target allocation (actual circa 59% vs target 50%), although 2% of this overweight position would naturally be corrected as the private equity mandate wound down over the next few years. Moreover, the February 2023 investment strategy review recommended that the remaining circa 6.5% was sold from the LGIM global equity mandate and re-invested in the existing multi-asset credit and gilts holdings to increase these towards their target allocations. Approximately 1.2% of this would be reinvested in the existing London CIV MAC Fund, and approximately 5.3% would be reinvested in gilts through the existing BlackRock passive mandate. The Committee noted that investing in bonds was more attractive now than it had been for many years, due to increased bond yields arising from increased interest rates.

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

- In questioning the 0% long term target for cash allocation, the Committee were informed that cash was often a detriment to performance, particularly in the current climate as it was depreciating in value due to inflation. However, whilst the Fund wanted to hold as little cash as possible to maximise returns, cash would always be held as payments would need to be made to members.

- Regarding the impact of interest rates and inflation on the Fund, the Committee were advised that higher inflation increased the liability of future cash flows as payments increased. However, this was offset by protection assets. When interest and inflation were lower, lower risk assets yielded less, meaning that the Fund would be required to seek returns elsewhere.

As no further issues were raised, the Committee welcomed the update provided and **RESOLVED** to:

(1) Note the report.

(2) Agree to rebalance the equities portfolio by reducing the allocation to global equities and re-investing 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.

8. Draft Pension Fund Year End Accounts 2022/23

Sawan Shah (Head of Pensions, Brent Council) presented the report, which summarised all transactions made by the Fund and the value of assets during 2022/23. The Committee were informed that during 2022/23, the value of the Pension Fund's investments decreased to £1,116m from £1,128m. This was largely due to the poor performance of pooled funds holdings (unit trusts, diversified growth funds) over the 12 month period. Despite the poor performance over the previous 12 months, over the last 3 years the Fund had posted positive returns.

In discussing contributions, benefits and cash flow, it was detailed that total contributions received from employers and employees was £68m, an increase on the previous year in which £64m was contributed. Total benefits paid had also increased compared to the previous year, with £48m paid in comparison to £47m in 2021/22. Overall, the Fund was in a positive cash-flow position because its contributions exceeded its outgoings to members.

The Committee noted that, as the Brent Pension Fund was administered by Brent Council and the Fund's accounts formed part of the Council's financial statements, formal approval of the Pension Fund accounts rested with the Council's Audit and Standards Committee. The accounts presented to the Committee would be formally published with the Council's accounts, which was expected to be by 30 June 2023. Furthermore, the Committee were informed that the Council had not received a final external audit plan for the 2022/23 accounts, which was expected to be received in July. Although a final audit plan had not been received, the Council had been advised that the Pension Fund accounts would be subject to a hot review, with the purpose of identifying any key issues which needed to be addressed before final completion.

In considering the report and update provided, the following discussion took place:

- In response to a query regarding the hot review, the Committee were advised that hot reviews were a cyclical process for the Council's external auditors, Grant Thornton, and thus the area of the Council's finances being reviewed changed every year. The hot review involved a detailed review of the accounts and audit working papers by a specialist team, with the results reported to the Audit and Standards Committee which would also be shared with the Pension Fund Sub-Committee.

- In providing further context on the reporting methods for the Fund's accounts, the Committee were informed that profits were displayed in brackets and in red, which was the opposite to the usual method of displaying values. Thus, the value (89.2) for the net return on investments for 2021/22 meant the Fund made a profit of £89.2m during that year. However, the value of £27.6m for the year 2022/23 showcased a loss of £27.6m.

- Regarding the delay in receiving the external audit plan, the Committee heard that the Council had requested a meeting with Grant Thornton to rectify this, with a meeting with the Lead Audit Planner scheduled. Once the plan had been received, it was stated that it would be shared with the Pension Fund Sub-Committee.

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

9. **Local Authority Pension Fund Forum Engagement Update**

George Patsalides (Finance Analyst, Brent Council) presented a report that updated the Committee on engagement activity undertaken by the Local Authority Pension Fund Forum (LAPFF) on behalf of the Fund during Q1 2023. It was explained that the commitment with LAPFF demonstrated the Fund's commitment to Responsible Investment (RI) and recognition that engagement was a way to achieve RI objectives.

In summarising LAPFF's engagement activity, the Committee noted the following:

- LAPFF sent a joint letter to the FTSE All-Share ahead of the 2022 AGM season, requesting that boards provided the opportunity for shareholders to support their greenhouse emission reduction strategies with an appropriate resolution on AGM agendas. This included a 'Say on Climate' vote, an initiative for firms to establish robust net zero transition plans with shareholder feedback. In response to the letter, most firms expressed their intention to not hold a Say on Climate vote, outlining their existing climate plans and shareholder engagement, however, other firms stated their intention to hold a vote every three years to approve their triennial climate plan.

- LAPFF met with McDonald's as part of a coalition of investors to discuss the company's approach to managing environmental risks across its agricultural supply chain. The Valuing Water Finance Initiative (VWFI) had identified McDonald's as a company with significant exposure to water-related risks, prompting a water risk assessment which the company had undertaken in 2020. To date, McDonald's had failed to disclose the results of their investigation. LAPFF had since pushed McDonald's to disclose their findings, with the aim of providing key stakeholders with a better understanding of material risks facing the company.

- Chair of Nestlé, Paul Bulcke, hosted a roundtable with investors in March, providing a high-level overview of the company's financial and ESG strategies. LAPFF would continue to monitor Nestlé's progress in these areas and would continue to support ShareAction's Healthy Markets engagement as it progressed.

- Amazon had faced criticism in the press for not upholding adequate standards on freedom of association, which holds the right of everyone to form and to join trade unions for the protection of their mutual interests. Consequently, LAPFF signed a joint investor letter initiated by Canadian shareholder organisation, SHARE, to request that Amazon took steps to meet the requests on freedom of association set out in SHARE's shareholder resolution to Amazon's 2022 AGM.

- As road transportation was a major contributor to global emissions and faced tightening regulations on emissions standards, investors sought to ensure that car companies were managing these risks effectively by setting targets and taking action to shift production to electric vehicles. Consequently, LAPFF participated in a CA100+ meeting with General Motors (GM) which addressed the impact of the US Inflation Reduction Act and how GM would reach its targets in line with public policy which included having capacity in excess of one million electric vehicle units in both North America and China by 2025.

Following the update, the Chair invited members to raise any questions or concerns, with contributions and replies summarised below:

- In highlighting concern at the lack of positive actions and responses from organisations, the Committee were reminded of the difficulties in seeking to engage with such large companies given the relatively small share of the overall value of the companies highlighted held by the Local Government Pension Scheme. Given these challenges the response and acknowledgement achieved through the LAPFF was felt to represent an achievement with the need to retain confidentiality in how the engagement with businesses was undertaken also needing to be respected.

- Whilst recognising the achievements accomplished to date, the Committee raised concerns regarding the effectiveness of LAPFF due to the omission of engagement with several large companies and the length of time that organisations took to reply. In response, the Committee were informed that, as shareholders, the Fund could only propose resolutions at LAPFF AGM's, with members suggesting the potential of attending AGM's in order to do so. It was also detailed that the Fund maintained regular contact with London CIV regarding any concerns with how LAPFF voted at AGM's. In addition, the Committee noted that members were welcome to attend LAPFF business updates throughout the year and, if deemed necessary, the Committee could also invite LAPFF to a future meeting to question them on their activity.

With no further comments and in welcoming the update, the Committee **RESOLVED** to note the report.

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 role of the Pension Board was to assist the Sub Committee in the efficient management of the Fund and in monitoring administration service quality for scheme members. The Board's membership comprised of representation from both Scheme Members and Employers in addition to Brent Council.

Regarding the March meeting, Mr Ewart explained that the majority of the meeting concerned the Pensions Administration Update, in which the Board considered the Pension Administration Performance Report. It was noted that the Local Pensions Partnership (LPP) had migrated to a new pensions administration system called Universal Pension Management (UPM), which had negatively impacted performance. However, mitigations were in place and performance was expected to improve in the future. Mr Ewart reassured the Committee that the matter would be revisited at the next Pension Board meeting. In addition to reviewing the performance of LPP, the Board received an update on recent developments in the Local Government Pension Scheme and reviewed the Risk Register.

The Chair thanked Mr Ewart for the update provided and with no further issues raised, it was **RESOLVED** to note the minutes from the Pension Board held on 22 March 2023.

11. **Dates of Future Meetings**

The Committee noted the dates of the Brent Pension Fund Sub-Committee meetings for the 2023/24 municipal year as follows:

- Wednesday 4 October 2023
- Wednesday 21 February 2024

12. **Exclusion of the 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 item on the agenda and it was therefore **RESOLVED** to exclude the press and public from the remainder of the meeting as the report 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.

13. **London CIV Update**

Sawan Shah (Head of Pensions, Brent Council) introduced the report, which updated the Committee on recent developments regarding Brent Pension Fund investments held within the London CIV. Two updates in particular were highlighted to the Committee. The first concerned fee savings and the second concerned the UK Housing Fund, which the Committee had considered at the February 2023 meeting.

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

14. **Any Other Urgent Business**

None.

The meeting closed at 7:19pm

COUNCILLOR R JOHNSON
Chair