London Borough of Brent Pension Fund

Q2 2023 Investment Monitoring Report

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HYMANS ROBERTSON

Executive Summary

Performance Summary
The assets combined to return 0.5% over the quarter to 30 June 2023.

Global equities rose 4.2% in sterling terms over the second quarter, buoyed by better-than-expected earnings and AI inspired optimism around the technology sector. UK equities ended marginally negative (-0.5%) as commodity price declines and global manufacturing weakness weighed on the energy and basic materials sectors.

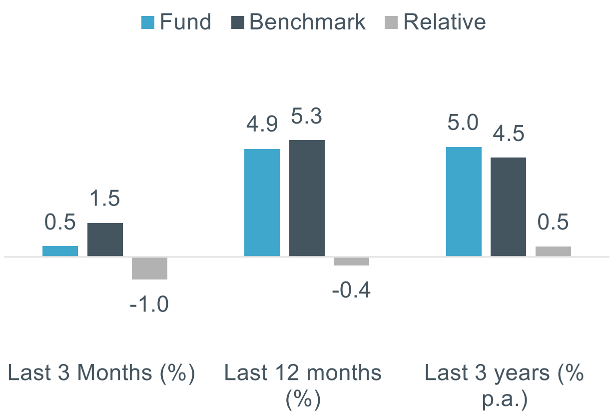
UK gilt yields surged as disappointing inflation data was compounded by heavy issuance and BoE gilt sales. UK investment grade credit, also recorded negative total returns as the rise in underlying gilt yields more than offset a fall in credit spreads.

In response to a run of higher-than-expected inflation, the Bank of England raised rates by 0.75% p.a. in Q2 to 5.0%, including a surprise 0.5% p.a. increase in June.

Key points to note

- The Fund has posted a positive return over the quarter, ending the period with a valuation of £1,125.7m up from £1,116.4m at the end of Q1 2023.
- The Fund's passive global equity exposure was the main driver of positive return on an absolute basis, while the income and protection assets, on aggregate, detracted from the total Fund return.
- On a relative basis the Fund trailed its benchmark by 1.0% with the income component proving to be the largest detractor as the LCIV multi-asset funds and private debt allocations trailed their respective benchmarks.
- The cash held by the Fund increased over the period to £29.4m.

Fund performance vs benchmark/target



High Level Asset Allocation

	Actual	Benchmark	Relative
Growth	59.6%	58.0%	1.6%
Income	29.6%	25.0%	4.6%
Protection	8.2%	15.0%	-6.8%
Cash	2.6%	2.0%	0.6%

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 DGF's.

Following the results of the 2023 investment strategy review, the following target allocations were agreed:

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 assets, overweight to income assets and similarly underweight to protection assets.

The LCIV infrastructure and private debt funds remain in their ramp up phase. We expect the Fund's commitments to continue to be drawn down over 2023.

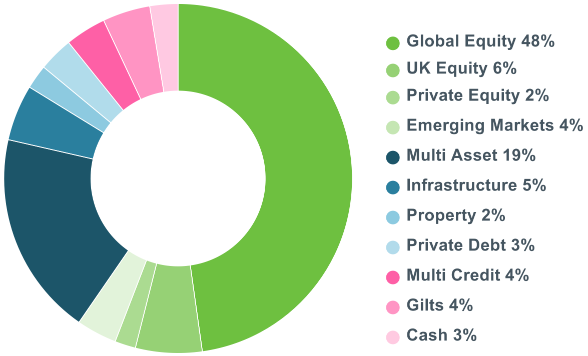
2023 investment strategy review
The 2023 investment strategy review supported the 50% long-term allocation to Growth assets. The Fund is overweight to this long-term target and the review recommended rebalancing into Protection assets (among other recommendations). Changes to the benchmark allocations will be reflected in future reports.

Asset allocation

Manager	Valuation (£m) Q1 2023	Valuation (£m) Q2 2023	Actual Proportion	Benchmark	Relative
LGIM Global Equity	488.2	508.3	45.2%	40.0%	5.2%
LGIM UK Equity	69.8	69.5	6.2%	5.0%	1.2%
Capital Dynamics Private Equity	24.4	21.8	1.9%	5.0%	-3.1%
LCIV JP Morgan Emerging Markets	43.3	42.2	3.7%	5.0%	-1.3%
Blackrock Acs World Low Crbn	28.1	29.4	2.6%	3.0%	-0.4%
Total Growth	**653.9**	**671.2**	**59.6%**	**58.0%**	**1.6%**
LCIV Baillie Gifford Multi Asset	123.7	121.1	10.8%	6.0%	4.8%
LCIV Ruffer Multi Asset	98.6	92.1	8.2%	6.0%	2.2%
Alinda Infrastructure	17.2	16.9	1.5%	0.0%	1.5%
Capital Dynamics Infrastructure	2.6	2.3	0.2%	0.0%	0.2%
LCIV Infrastructure	36.8	39.1	3.5%	5.0%	-1.5%
Fidelity UK Real Estate	13.7	13.8	1.2%	1.5%	-0.3%
UBS Triton Property Fund	11.4	11.4	1.0%	1.5%	-0.5%
LCIV Private Debt Fund	34.8	36.0	3.2%	5.0%	-1.8%
Total Income	**338.8**	**332.7**	**29.6%**	**25.0%**	**4.6%**
LCIV CQS MAC	41.9	42.7	3.8%	5.0%	-1.2%
BlackRock UK Gilts Over 15 yrs	54.2	49.7	4.4%	10.0%	-5.6%
Total Protection	**96.1**	**92.4**	**8.2%**	**15.0%**	**-6.8%**
Cash	27.7	29.4	2.6%	2.0%	0.6%
Total Scheme	**1116.4**	**1125.7**	**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



Source: Investment Managers

Total Fund return was marginally positive during the period on an absolute basis but underperformed on a relative basis. Performance over the past 12 months remains slightly behind benchmark; however, performance over the past 3 years is ahead of target.

Global equities continued to provide positive returns, registering double digit performance over the last 12 months.

Capital Dynamics' private equity mandate ended the period in negative territory. However, it is worth noting that the allocation is in run down and represents a small allocation within the Fund.

Yield volatility over Q2, saw the UK gilts allocation end the period in negative territory. This also attributed to the performance of the LCIV Multi-Asset funds held as part of the income component as the fall in spreads was offset by rising UK gilt yields.

The property market saw some respite from the recent fall in valuations registering a small positive return as capital values stabilised. The Fidelity real estate fund outperformed its benchmark by +0.7%.

Manager performance

	Last 3 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	4.2	**-0.0**	13.7	13.8	**-0.1**	11.3	11.4	**-0.1**
LGIM UK Equity	-0.4	-0.5	**0.0**	8.0	7.9	**0.1**	10.1	10.0	**0.1**
Capital Dynamics Private Equity	-6.5	4.3	**-10.4**	-14.0	14.9	**-25.2**	3.5	12.7	**-8.1**
LCIV JP Morgan Emerging Markets	-2.6	-1.9	**-0.8**	3.7	-2.8	**6.7**	3.0	1.3	**1.6**
Blackrock Acs World Low Crbn	4.8	3.9	**0.9**	12.9	13.2	**-0.3**	-	-	**-**
Income									
LCIV Baillie Gifford Multi Asset	-2.1	1.6	**-3.7**	-1.8	5.3	**-6.7**	0.3	3.3	**-2.9**
LCIV Ruffer Multi Asset	-6.6	1.6	**-8.1**	-1.2	5.3	**-6.2**	4.8	3.3	**1.5**
Alinda Infrastructure	-	-	**-**	10.7	9.9	**0.7**	11.7	8.6	**2.8**
Capital Dynamics Infrastructure	-	-	**-**	-9.4	9.9	**-17.6**	-14.7	8.6	**-21.4**
LCIV Infrastructure	-	-	**-**	7.6	9.9	**-2.2**	4.7	8.6	**-3.6**
Fidelity UK Real Estate	1.0	0.4	**0.7**	-17.1	-17.4	**0.4**	-	-	**-**
UBS Triton Property Fund	0.2	0.4	**-0.2**	-	-	**-**	-	-	**-**
LCIV Private Debt Fund	-1.2	1.5	**-2.6**	11.6	6.0	**5.3**	-	-	**-**
Protection									
LCIV CQS MAC	1.9	1.6	**0.3**	5.7	5.2	**0.5**	2.3	3.2	**-0.9**
BlackRock UK Gilts Over 15 yrs	-8.3	-8.3	**0.0**	-24.9	-24.9	**0.0**	-19.7	-19.8	**0.1**
Total	0.5	1.5	**-1.0**	4.9	5.3	**-0.4**	5.0	4.5	**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.

Performance from Alinda, Capital Dynamics and the LCIV Infrastructure funds is based on information provided by Northern Trust. For such investments, we focus on longer term performance. There are also alternative measures to assess performance detailed in the individual manager pages. This is also the case for Private Equity and Private Debt (see below) as asset classes.

Source: Fund performance provided by Investment Managers and is net of fees.
Benchmark performance provided by Investment Managers and DataStream

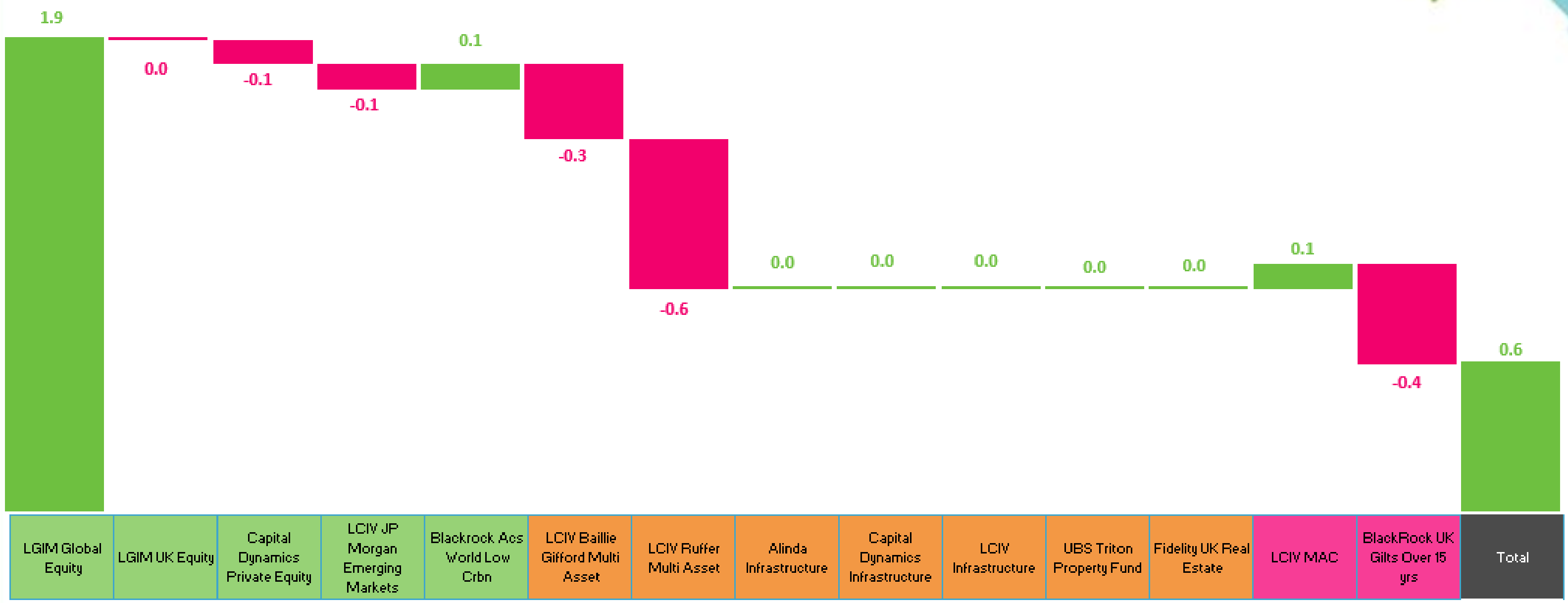
This chart highlights each mandate's contribution to the Fund's absolute performance over the quarter according to their allocation.

The largest contributor to performance over the period was LGIM's Global Equity fund, given its positive performance and its sizeable allocation of c.45%.

This positive performance was offset by the underperformance of both the LCIV Ruffer multi-asset fund and the LCIV Ballie Gifford multi-asset fund, despite their contrasting investment approaches.

Despite negative returns posted by the Capital Dynamics Infrastructure and LCIV JP Morgan Emerging Market Equities fund, these mandates have allocations of c2% and c4% respectively, of the total Fund, hence did not detract materially from the Fund's overall performance.

Fund performance by manager



Please note that due to rounding, the total performance shown above may not add to the total quarterly performance shown on page 3 of this report.

Source: Fund performance provided by Investment Managers and is net of fees.

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.

Manager ratings

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

Fidelity business update

William Stoll, the Co-Portfolio Manager for the Fidelity UK Real Estate Fund, has taken enhanced parental leave from May 2023 to November 2023 (6 months). Alison Puhar, who is the lead PM for the UK fund will continue to manage the portfolio in William's absence.

Sam Denning, Real Estate Manager based in Canon Street will cover William's asset management and investment work during his leave. Sam has over 17 years of experience, having worked at ING Real Estate Investment Management and then CBRE Investment Management, where he served a Director with responsibility for several discretionary pension fund property portfolios.

Based on Q2 meeting with the Fidelity UK Real Estate team, the volume of reduction is small, and the team is continuing its sale process and will be able to pay-out redemption requests on a pro-rata basis.

UBS business update

At the company level, UBS announced the proposed acquisition of Credit Suisse on 19 March 2023. All investors and their consultants were sent a signed letter from UBS with additional details. We note Nasreen Kasenally, became Asset Management Chief Operating Officer (COO) and Country Head AM UK in May 2023, replacing Michelle Bureaux. Also, in Q2, Daniele Brupbacher has been appointed as Chief Strategy Officer for the Group's divisional strategy team..

BlackRock business update

Lance Braunstein appointed to the GEC as Head of Aladdin Engineering. No other changes reported in Q2 2023.

Source: Investment Managers

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

- LCIV Baillie Gifford
- LCIV Ruffer

Manager commentary

- The LCIV Baillie Gifford and LCIV Ruffer funds are multi-asset funds, meaning the managers invest in multiple asset classes, including equities and bonds, and diversifying assets such as property and infrastructure.
- As shown on page 4 of this report, performance from both funds is behind benchmark over the quarter and also over 12 months. Baillie Gifford's performance is also behind benchmark over 3 years. Ruffer's performance is ahead of benchmark when assessed over a 3 year period.
- We would note that the benchmark return for each fund (the return on cash+3% p.a.) has increased recently due to the increase in the Bank of England Base Rate.
- The table below shows how the performance of these funds compares with the median return from around 50 multi-asset funds over periods ending on 30 June 2023 (source: eVestment).

	3 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)
LCIV Baillie Gifford	-2.1	-1.8	0.3	0.2
LCIV Ruffer	-6.6	-1.3	4.8	4.3
Median return	-0.5	2.0	3.6	2.8

- Both funds have reduced their exposure to equities and increased their exposure to bonds. This reflects a relatively cautious view of future economic growth (leading to reductions in equity exposure) and the relatively more attractive yields available on bonds currently. This re-positioning of the portfolios has not been rewarded in terms of performance to date.
- From a strategic perspective, we expect that the Funds allocations within these funds to reduce over time, with assets being redirected into other specialist funds focussing on specific asset classes such as infrastructure and private debt.

Source: Investment Managers

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 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 the c80% of the Fund's assets as at 30 June 2023. It excludes investments in property, private equity, infrastructure and private debt on account of the current lack of data in these areas. Please note that fossil fuel metrics for the LGIM funds are as at 31 March 2023.

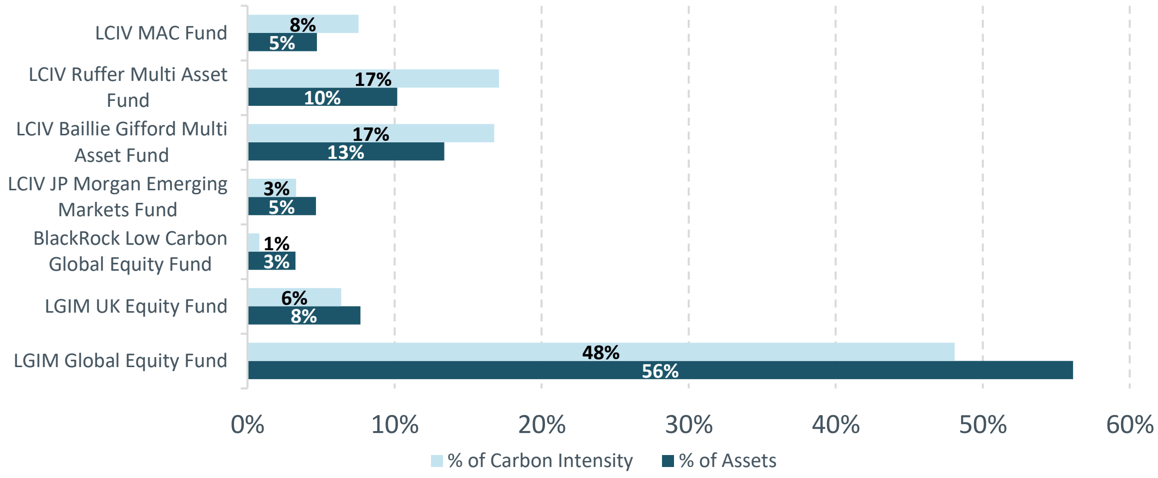
Despite only representing c.10% of assets shown here, the LCIV Ruffer multi-asset fund is responsible for c.17% of the total carbon intensity. However, this is an improvement from previous quarters.

Climate risk overview

	Weighted Average Carbon Intensity (tCO_2/\$m Sales)	Fossil Fuel exposure (any activity) (%)
Fund	190.5	5.2%
*Composite benchmark**	250.2	8.2%
Relative to benchmark	-59.7	-3.0%

*Composite benchmark reflects individual mandate benchmarks weighted by proportion invested

Carbon Intensity by Manager



Source: Investment Managers, London CIV, Benchmark for equity and multi-asset funds is MSCI ACWI
Please note: WACI figure used for the BlackRock ACS World Low Carbon Fund are as at 31 August 2023.

Consensus forecasts for 2023 global GDP growth saw further upwards revisions in Q2, given unexpected resilience in labour markets and consumer spending. Nonetheless, with higher interest rates likely to weigh on consumer and business activity in the second half of 2023 and into 2024, growth forecasts remain relatively weak.

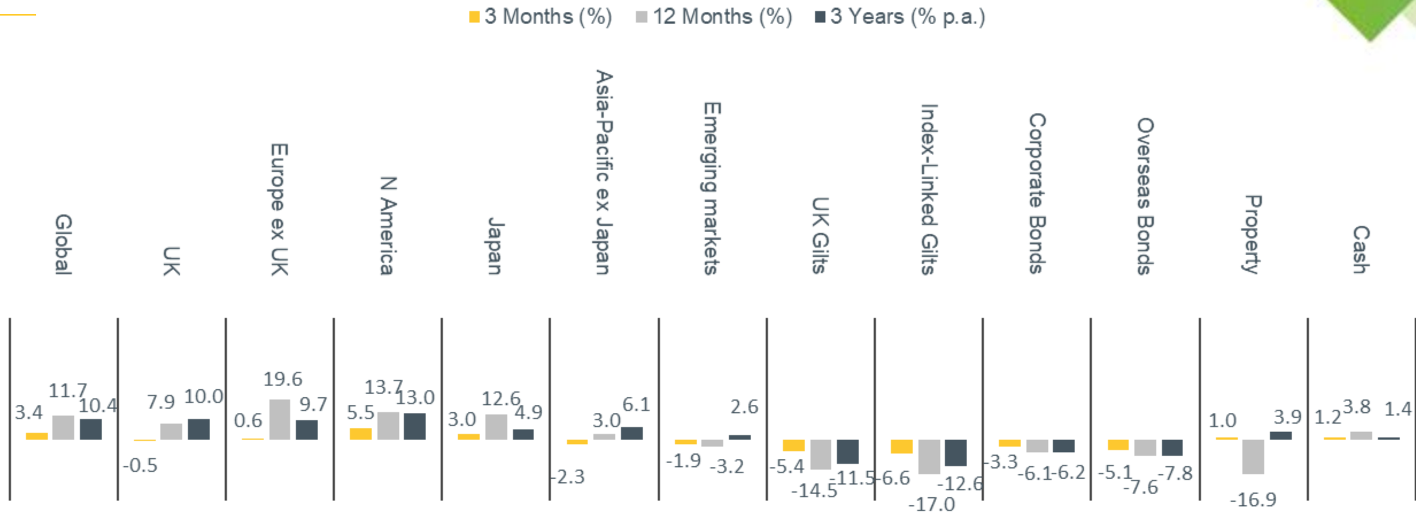
UK inflation data released during Q2 came in higher than forecasters expected. However, June's UK headline CPI inflation figure, released in July, fell more than expected, to 7.9% year-on-year and core inflation slipped back to 6.9% from 7.1%. Equivalent CPI inflation in the US and Eurozone fell to 3.0% and 5.5%, respectively, in June, and core inflation eased to 4.8% in the US, but rose to 5.5% in the Eurozone.

Responding to a run of higher-than-expected inflation, the Bank of England (BoE) raised rates by 0.75% p.a. in Q2, to 5.0% p.a., including a surprise 0.5% p.a. increase in June. The US Federal Reserve raised rates by 0.25% p.a., to 5.25% p.a., in May; pausing in June to evaluate the impact of prior tightening. The European Central Bank increased their deposit rate 3.5% p.a.

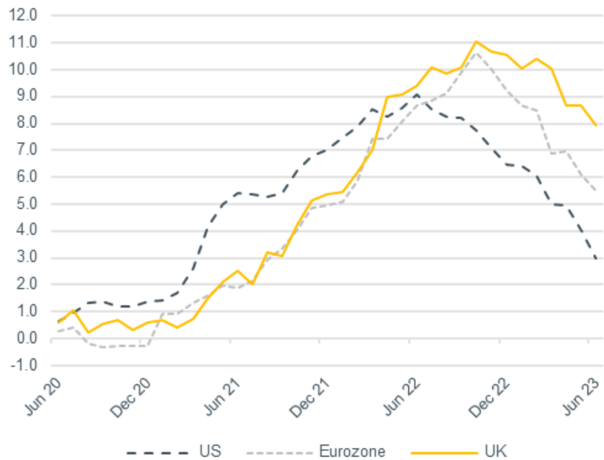
UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, was unchanged at 3.6% p.a., as real and nominal yields rose by similar amounts.

UK gilt yields surged as disappointing inflation data was compounded by heavy issuance and BoE gilt sales. UK 10-year gilt yields rose sharply by 0.8% p.a. to 4.4% p.a., while US yields rose 0.2% p.a. to 3.8% p.a., and equivalent German yields rose 0.1% p.a., to 2.4% p.a.

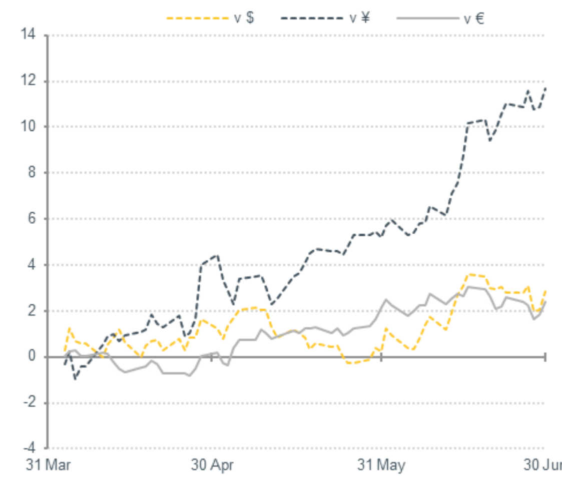
Historic returns for world markets [1]



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

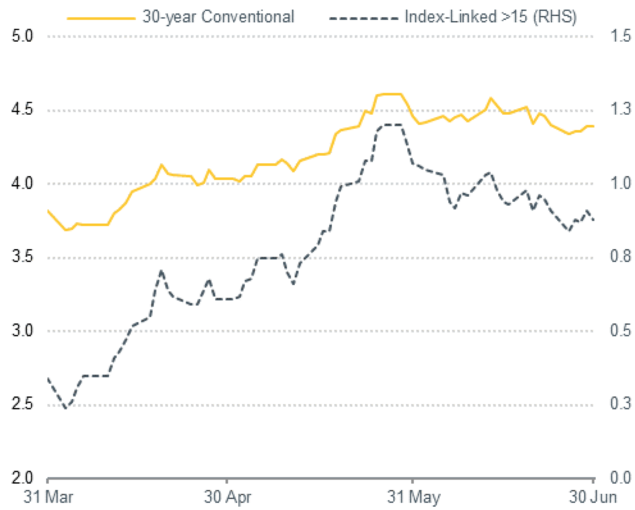
The UK investment-grade credit market recorded negative total returns as the rise in underlying gilt yields more than offset a fall in credit spreads. Global investment-grade credit spreads decreased by 0.1% p.a. to 1.4% p.a., and global speculative-grade credit spreads decreased by 0.5% p.a. to 4.5% p.a.

The FTSE All World Total Return Index rose 6.7%, buoyed by better-than-expected earnings and AI-inspired optimism around the technology sector. Japanese and North American equities outperformed, with the exporter-heavy index of the former benefitting from Yen weakness and the latter benefitting from its disproportionately high exposure to the technology sector. Disappointing Chinese activity data dragged down emerging markets and Asia Pacific ex-Japan. The UK was the worst performing region, as the basic materials and energy sectors underperformed amid commodity price declines and global manufacturing weakness.

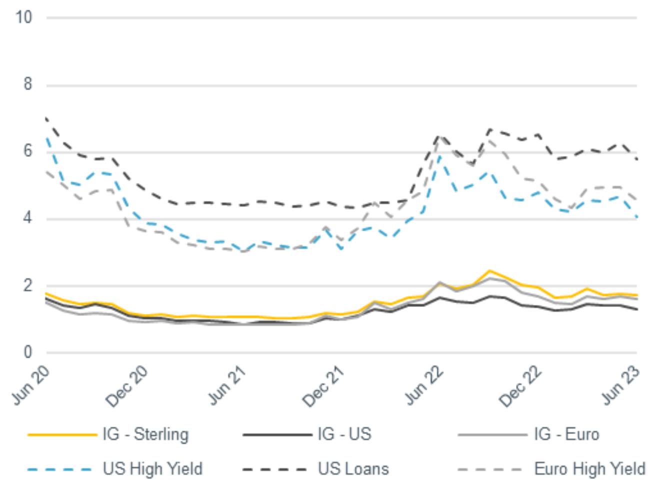
Sterling rose over 4.0% in trade-weighted terms as interest rate expectations soared. Meanwhile, equivalent US and euro measures rose 0.8% and 2.1%, respectively, while the yen measure fell more than 5%. The S&P GSCI Commodity Spot Price Index fell 5.8% in Q2, driven by declines in energy and industrial metal price.

UK commercial property values, as measured by the MSCI UK Property Index, had fallen by over 21% in the 12 months to end-June. Capital values have somewhat stabilised in recent months, though office values continued to decline in June. Alongside income, this led to a modest positive total return from the market over the quarter.

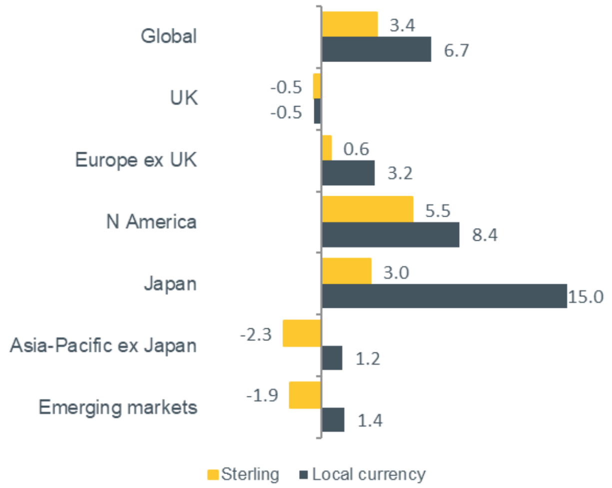
Gilt yields chart (% p.a.)



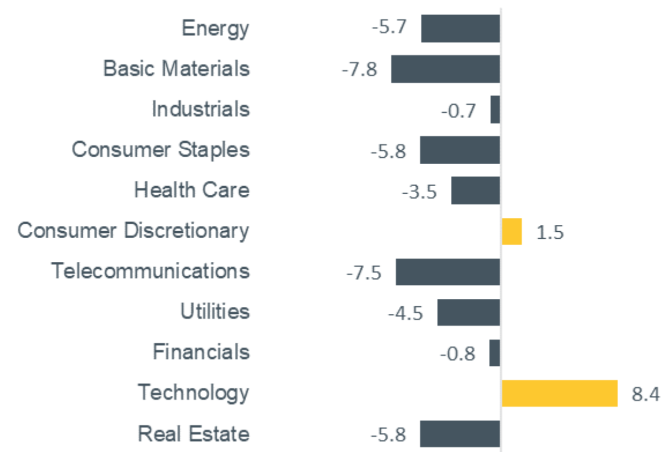
Investment and speculative grade credit spreads (% p.a.)



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.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

Geometric v Arithmetic Performance

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

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

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance\ - Benchmark\ Performance$$

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.