Brent

LONDON BOROUGH OF BRENT

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

PRESENT: Councillor Johnson (Chair) and Councillors Choudry, Mahmood, Miller, Kennelly, Kansagra and Elizabeth Bankole.

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

1. **Apologies of Absence**

The Committee received apologies of absence from Councillors Mitchell (Vice-Chair) and Hack.

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 27 June 2023 be approved as an accurate record of the meeting.

4. **Matters Arising**

None.

5. **Deputations (if any)**

No deputations were received.

6. **Investment Monitoring Report – Quarter 2 2023**

Kenneth Taylor (Senior Investment Analyst, Hymans Robertson LLP) presented the report, which outlined the performance of the Brent Pension Fund over the second 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 £1,125.7m up from £1,116.4m at the end of Q1 2023. Comparing the

Fund's performance against the benchmark over the quarter, the Fund had underperformed by 1%, returning 0.5% vs the target of 1.5%. Nevertheless, when focussing on performance over the last three years, the Fund had overperformed the benchmark by 0.5% which was said to be encouraging. 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. In addition, the cash held by the Fund increased over the period to £29.4m.

Focussing on the Fund's underperforming assets, the Committee were informed that the managers of Multi-Asset Funds, which were Ruffer and Baillie Gifford in the case of the Brent Pension Fund, had discretion to invest in a wide range of assets. Recently, managers had moved to a defensive position, reducing allocations to equities and moving to bonds. At the time of the meeting, this approach had not resulted in performance gains, as bonds had fallen and equities had risen. Whilst the long-term performance of Ruffer was said to be more credible, the long-term performance of Baillie Gifford was considered disappointing. However, members were reassured that action had been taken to improve the performance of Baillie Gifford as London CIV had placed Baillie Gifford on 'enhanced monitoring' and confidence had been gained from recent conversations with Baillie Gifford.

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, the Fund was in the process of selling circa 6% of its equities holdings to purchase bonds assets in order to rebalance the Fund's risk vs return profile. Members were advised that, whilst bond values were currently in decline, the lower price made bonds a more attractive investment which was the rationale behind purchasing bonds. Regarding the Fund's income assets, the Committee noted that the Fund was looking to broaden its investments in property, infrastructure and private debt, with the majority of these types of investments currently concentrated in the aforementioned Multi-Asset Funds managed by Ruffer and Baillie Gifford.

Concerning manager performance, Kenneth Taylor detailed that the LGIM Global Equity fund continued to provide positive returns, registering double digit performance over the last 12 months. Given its positive performance and sizeable allocation of circa 45%, the LGIM Global Equity Fund was the largest contributor to performance over the quarter. However, the performance of global equities 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. Furthermore, despite negative returns posted by the Capital Dynamics Infrastructure and LCIV JP Morgan Emerging Market Equities Fund, these mandates had allocations of circa 2% and circa 4% respectively of the total Fund, and hence did not significantly detract materially from the Fund's overall performance.

Following the presentation of the report, the Chair invited members to raise any questions or concerns, with queries and responses summarised below:

- In response to a query as to why data was missing relating to the previous quarter for the Fund's three infrastructure holdings, the Committee were informed that these investments were long-term investments and thus it was better to assess their performance over a longer period of time. It was explained that assessing performance on a quarterly basis could illustrate high volatility which could be misleading.

- In questioning the intention to reduce the Fund's allocations to the LCIV Ruffer and Baillie Gifford Multi-Asset holdings and redirect assets to specific asset classes such as infrastructure and property, the Committee were advised that this was consistent with the Investment Strategy Review approved by the Committee in February 2023.

- Regarding the planned reallocation of circa 6% the Fund's global equities holding to bonds, members heard that the Fund would invest into a bond fund who specialised in individual bonds. Currently, the intention was to invest in gilts which was explained to be a mix of government bonds spanning different periods of time. In the medium term, bonds helped balance the Fund's exposure to risk, but members were advised that different bonds were available such as corporate bonds. However, whilst corporate bonds could deliver high returns, they came with higher risk. A workstream to identify the best long-term bonds investments was suggested as a possibility by Hymans Robertson.

- In discussing the strong performance of Japanese equities, it was explained that the main driver of the performance was the change in the value of yen comparative to other currencies.

- In response to concerns regarding the poor performance of the Capital Dynamics Infrastructure holding, the Committee were informed that the poor performance was due to a number of clean energy investments in the US and the intention was to allow this holding to 'run off' as the assets were not particularly sellable. Whilst recognising that it may take some time for the holding to completely expire, income would be redistributed to other assets upon the expiry of the holding. Despite the poor performance of the holding in percentage terms, it only constituted 0.2% of the overall Fund and therefore the monetary impact on the Fund was deemed negligible.

- In highlighting that the technology sector was seeing large growth, members queried whether it was better to invest further in the technology sector rather than investing in property. In response, members heard that companies such as Nvidia and AI related holdings had performed well during Quarter 2. However, the decision of where to invest related to the diversification of the Fund, in which it was explained that it was preferable to invest in a range of asset classes and sectors in order to ensure the Fund's protection. Whilst the Committee noted that the Fund held technology stocks, as many of the top holdings in global equities were companies such as Google and Amazon, and the Fund would continue to invest in the technology sector, the importance of diversification was reiterated to mitigate against poor stock market performance, and it was outlined that the Fund would look to invest in property as it was agreed in the Investment Strategy in February 2023.

- In discussing the role of London CIV and the recruitment of managers, the Committee were advised that London CIV were an umbrella organisation that identified managers and asset classes for local authorities in London. It was explained that London CIV had monitoring responsibilities for the performance of their funds and intervened, when necessary, which was illustrated in the steps taken by London CIV in relation to the Baillie Gifford Multi-Asset fund in which the fund was placed on enhanced monitoring and engagement was undertaken to improve performance.

- As the Committee met every four months, and in highlighting the impact of inflation on members' pensions, the Committee requested for further attention to be placed on shorter term issues and for performance information to be presented with a narrative that put the data into context. In response, members were informed the sector as a whole had outperformed inflation in the long-term, with the LGPS being a success story over the last 20-30 years. However, in the previous 12 months to 2 years it was detailed that the majority of asset classes had trailed inflation. The Committee noted that officers would explore providing this data for future meetings.

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. **Brent Pension Fund: Annual Report and Accounts 2022/23**

George Patsalides (Finance Analyst, Brent Council) introduced a report that provided the Committee with an update on the Pension Fund Annual Report and Accounts for the year ended 31 March 2023 and the draft Investment Strategy Statement (ISS). At the time of the meeting, it was detailed that the audit fieldwork was substantially complete, with the auditors now working on completing their closing procedures and final reviews.

In addition to the standard audit, the Pension Fund had been subjected to a hot file review in 2022/23, which featured a detailed review of the accounts and audit working papers by a specialist team. The purpose of such a review was to identify any key issues which needed to be addressed before final completion. The review was positive for the Fund and did not result in any substantial changes, with only minor presentational changes to the accounts.

Members were also informed that the updated draft ISS was attached as Appendix 3 of the report, with the Council required to update the Statement every three years as per Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016. Members noted that the updated ISS reflected the revised Investment Strategy agreed at the February 2023 meeting.

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

- Regarding the overall decrease of the value of the Fund by £12 million compared to the end of 2021/22, members were informed that this was discussed at the previous Committee meeting in June in which it was explained that the majority of asset classes had struggled in 2022/23, with the exception of alternatives such as infrastructure assets. The Committee were reassured that the decrease in the overall value of the Fund was not a major worry, with the Fund significantly increasing in value over the past few years.

- In response to a query on the recent poor performance of the Fund following the coronavirus pandemic, the Committee were advised that the economy had not been stable since 2019, with economic shocks caused by the pandemic, war in Ukraine and the 'mini boom' following lockdown which resulted in interest rates rising.

- In discussing the small decrease in administration costs compared to 2021/22, members noted that this decrease was due to the completion of data cleanse projects. During 2020/21 and 2021/22, the data cleanse project was in phase 2 which was completed by 2022/23.

In thanking the Finance team for their work regarding the signing off of the Fund's accounts and recognising that, although the Fund had performed better in recent years, the Fund was in a healthy position, the Committee **RESOLVED** to:

(1) Note the draft accounts included as part of the annual report.

(2) Note the draft Brent Pension Fund Annual Report 2022/23 which would be published as set out in paragraph 4.4 of the report.

8. **DLUHC Consultation on LGPS Investments**

Sawan Shah (Head of Finance, Brent Council) presented the report, which outlined the Department for Levelling Up, Housing and Communities (DLUHC) consultation on proposals relating to the investments of the Local Government Pension Scheme (LGPS), covering the areas of asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments. The Committee noted that the consultation closed prior to the meeting, on Monday 2 October, with officers submitting a formal response on behalf of the Council which had been circulated to all Sub-Committee members.

Regarding asset pooling, members were informed that the government had proposed to accelerate and expand pooling, with March 2025 being considered as the deadline for asset transition. Furthermore, it was also proposed to transition towards fewer pools to maximise benefits of scale, with pools operating as a single entity which acted on behalf of and in the sole interests of the partner funds. In addition to asset pooling, it was proposed to strengthen existing guidance on delegation of manager selection and strategy implementation, that administering authorities set a training policy for committee members and to report regularly on the training undertaken by committee members, to amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK and to require funds to invest 10% of their assets in private equity.

Overall, the Committee were advised that officers were generally supportive of increased pooling and recognised the benefits such as fee savings and greater access to certain asset classes that increased pooling offered. However, members noted that a number of concerns had been raised regarding the proposals, which were widely shared across local government and are summarised below:

- The proposed deadline for the pooling of listed assets of March 2025 was considered challenging.

- As it would be difficult to transfer passive or index-tracking assets by the proposed deadline without incurring significant transaction costs and higher ongoing charges, concerns were raised that these assets would not be classified as ‘pooled’.

- It was believed that funds should retain responsibility for setting asset allocations and therefore any ambitions regarding asset allocations should be guidance rather than a requirement.

- The resource burden surrounding the requirements for publishing plans/reporting was highlighted.

- The ambition or requirement to invest 10% of asset allocation into private equity was not supported as many funds were fully funded and thus there was less need to take risk and the requirement contradicted other parts of the proposals which stated that funds would retain control of their investment strategies.

With the Chair opening the floor for contributions from the Committee, the following discussion took place:

- The Chair outlined that at the London CIV Annual Conference held on 4 and 5 September 2023, the aforementioned concerns were widely shared, particularly concerning the requirement to invest in private equity and the implementation of pooling by March 2025.

- Regarding next steps, the Committee were advised that funds were awaiting a response from DLUHC, and it was expected that an additional consultation would be held concerning the draft legislation. However, it was explained that if the regulations were not in place for April 2024, it would be difficult to meet the proposed deadline of March 2025.

- In highlighting the focus on the reporting related to the Task Force on Nature Related Financial Disclosures (TNFD) and the Task Force on Climate Related Financial Disclosures (TCFD) at the LCIV Annual

Conference, members heard that the requirement to report these disclosures was still a number of years away.

With no further contributions, the Chair thanked officers for the report and the Committee **RESOLVED** to note the consultation on proposals relating to the investments of the LGPS and the summary included in section 3.2 of the report.

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

Sawan Shah (Head of Finance, 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. It was explained that the partnership with LAPFF demonstrated the Fund's commitment to Responsible Investment (RI) and utilising engagement as a way to achieve its objectives.

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

- LAPFF attended six AGMs and drafted over 50 climate related shareholders resolutions. LAPFF also issued 55 voting recommendations for environmental, social and governance (ESG) resolutions at mining companies and technology companies.

- A voting alert was issued by LAPFF for Starbucks this year in support of a shareholder resolution calling for the company to uphold better practices on freedom of association and collective bargaining. This resolution was supported by 52 percent of the shareholder vote.

- Oil and gas companies and banks were a further area of focus for LAPFF this AGM season. LAPFF supported the 'Follow This' resolutions at BP and Shell. The resolution received nearly 15 percent support and over 20 percent support respectively.

- LAPFF raised concerns about HSBC's approach to human rights and engaged extensively with Barclays.

- LAPFF Vice Chair, Cllr Rob Chapman, attended the Drax AGM on the back of a LAPFF voting alert that raised significant concerns about the company's climate practices and reporting in this area.

- LAPFF had issued voting alerts largely supporting ESG shareholder resolutions filed at technology companies. In LAPFF's experience, US companies did not have a culture of engaging with investors in the way that UK and Australian companies did. Therefore, while voting alerts were part of an engagement escalation strategy in most markets, LAPFF often issued voting alerts as an initial point of engagement. LAPFF continued to have concerns about corporate governance and social practices at large US technology companies.

- This quarter LAPFF signed onto a letter to Toyota which called on the company to align its strategy and lobbying activity within 1.5 degrees of global warming scenario. LAPFF also met with the company as part of the collaborative engagement. The meeting covered proposed US regulations and the company's likely position towards them.

- LAPFF undertook engagement with National Grid to ensure that the company remained at the forefront of the energy transition. Detailed analysis revealed substantial issues – gaps in disclosure and transition plans, particularly on climate lobbying and a just transition. LAPFF's leadership held meetings with the company, giving National Grid the chance to explain its concerns and suggest best practice. National Grid had acknowledged some of LAPFF's comments and shortly before its AGM, the company announced that it would publish a comprehensive review of its climate lobbying activities, a key demand of LAPFF and other CA100+ members. National Grid had also publicised a policy proposal for addressing the delays in grid connection which was a welcomed development.

- Overall, LAPFF engaged 84 companies during quarter 2.

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

10. **Presentation from PIRC Investment Benchmarking – Performance to March 2023**

As Karen Thrumble from PIRC had provided their apologies for the meeting, Sawan Shah (Head of Finance, Brent Council) introduced the report, which outlined the findings of Pension and Investment Research Consultants regarding the Fund's performance as of March 2023. The Committee noted that PIRC were a benchmarking company who compared the performance of the Brent Pension Fund to the performance of other local authority pension funds in the country, with approximately 60 out of 85 local authority funds included in the benchmarking.

In reviewing performance by asset class over the last year, members were advised that alternative investments, such as private equity, infrastructure and private debt, were the only assets to deliver positive returns. Furthermore, equity performance was flat, with most active managers failing to add value, bond performance was deeply negative, and property saw a strong decline in value.

Comparing the performance of funds across the country against their individual set benchmarks and their relative performance against over funds, it was detailed that three quarters of funds had underperformed relative to their strategic benchmark, which included Brent. However, only one London Fund had outperformed their benchmark and Brent performed second-best out of London funds across the previous year. Funds that had large investments in alternative assets, such as funds within LPPI and the Northern Pool, outperformed their benchmark due to the strong performance of alternative assets.

Members heard that the LGPS, as a whole, returned 8.4% per year over the last 20 years, with the sector outperforming inflation over the long-term. The positive performance was largely driven by equities, which contrasted the negative performance of bonds which had delivered a return below inflation over the last 10 years. In highlighting the recent poor performance of property, the Committee were informed that funds had largely invested in commercial property rather than residential property, which had performed poorly. Whilst the Brent Pension Fund had been historically undervalued in property, the Fund was awaiting an allocation in property as per the revised Investment Strategy.

In detailing the asset allocation across the whole sector, the Committee noted that funds had reallocated 12% of total assets from equities into alternatives over the last decade, with equities decreasing from 63% of assets in 2014 to 51% in 2023 and alternatives increasing from 8% of assets in 2014 to 19% of assets in 2023. In addition, 2016/17 was a pivotal year as funds moved from regional equities to global equities.

It was explained that over time funds had become more complex, with the average number of mandates per fund increasing from 7 in 2008 to 16 in 2023 and a general decline in passive management with an average of 16% of assets being managed passively in 2023, a decrease from 26% in 2018. It was stated that funds continued to believe in active management despite the evidence of poor returns, although Brent was an outlier with 57% of assets being managed passively which kept costs down and reduced risk.

In focussing on the performance of the Brent Pension Fund, the Fund returned -2.6%, which ranked in the 38th percentile. The top three funds were in the LPPI pool, with London funds generally performing poorly. Moreover, the largest funds performed the best, with 6 out of the top 7 performers having a value of over £5 billion, resulting in the median return over the year being -3.3%, lower than the average (mean) return of -1.6%, with the average (mean) return being skewed due to the overperformance of large funds. Members were advised that the Brent Pension Fund had a higher allocation to equities and diversified growth compared to the sector average, although the Fund had a lower exposure to bond, alternatives and property. However, the Fund's asset allocation did not have a major impact on performance, with a broadly neutral impact on relative performance.

In terms of returns, the fund had a below average return in most asset classes, with the poor return from bonds having the largest impact on the Fund (the Fund ranked in the bottom decile comparative to other funds bonds holdings), suffering from holding long-dated linked securities. Furthermore, the long-term performance of the Fund was detailed, with the Fund performing close to the average over the past 5 years, ranked in the 48th percentile. The Fund's performance over the past 5 years was a vast improvement over the performance of the Fund over the last 20 years, with the Fund sitting in the bottom percentile of funds over the previous two decades. The main driver of the strong recent performance had been equity selection and the positive performance of equities. Nevertheless, the high commitment to diversified growth had been a detriment to the Fund's overall performance.

Having thanked Sawan Shah for the overview, the Chair invited questions and comments from members, which are summarised below:

- Given the poor performance of bonds over the previous decade, members raised concerns regarding the Fund's intention to invest further into bonds and queried whether there was any evidence to suggest that bonds were now performing better. In response, the Committee were advised that bonds had been at an all-time low since the 2008 financial crash and the low interest rate landscape that the recession created. However, recently the performance of bonds had improved due to rising interest and yields were approximately 5% – 5.5% compared to 0.5% during the pandemic. Overall, the poor performance of bonds over the previous decade was attributed to historically low interest rates following the 2008 financial crash.

With no further questions or comments, the Chair thanked officers for their work in delivering the overview and the Committee **RESOLVED** to note the update.

11. **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 informed 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 July 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 explained that administration performance had recently improved, although the Pension Board deemed that there was room for further improvement. In addition to reviewing administration performance, the Board considered the updated Communications and Administration Strategy, with members approving both documents. Furthermore, the Board reviewed the Pensions Risk Register, with Mr Ewart recommending that the Sub-Committee received the Risk Register for their information. Lastly, the Board considered the reports from the June Pension Fund Sub-Committee meeting, in which it was stated that the Board were in agreement with the Sub-Committee regarding their decision-making.

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 24 July 2023.

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 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)."

13. **London CIV Update**

George Patsalides (Finance Analyst, Brent Council) introduced the report, which updated the Committee on recent developments regarding Brent Pension Fund investments held within the London CIV. In this iteration of the London CIV Update, the Committee received the quarterly investment review for the quarter ending 31 June 2023. In addition to the quarterly investment review, members considered subjects such as the London CIV annual conference, the UK Housing Fund and potential fee savings. Furthermore, questions were answered regarding the use of AI, the pooling of assets and the Fund's asset allocation targets.

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

14. **Any Other Urgent Business**

None.

The meeting closed at 7:27pm

COUNCILLOR R JOHNSON
Chair