London Borough of Brent Pension Fund

H2 2023 Investment Monitoring Report

Kenneth Taylor, Senior Investment Consultant

HYMANS ROBERTSON

Executive Summary

Performance Summary
The assets combined to return 6.0% over the second half of the year to 31 December 2023.

Global equities rose 7.3% over the period, largely driven by a shift in rate expectations. Markets anticipated a lower-than-expected inflation outlook, resulting in a positive impact on economic activity.

UK equities also rose 5.2% over the period. However, the UK lagged the global market due to its large exposure to the energy sector and sterling strength weighing on a high proportion of overseas earnings.

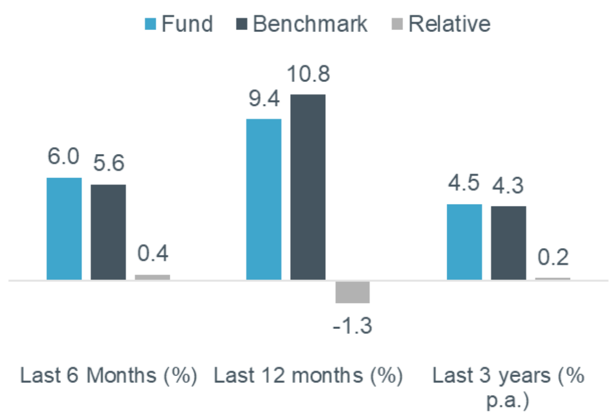
H2 also saw emerging market rise 4.7%, despite falls in Chinese equities due to mounting growth concerns.

Towards the end of Q3, the bond market fell due to expectations that interest rates may need to remain elevated for longer. However, during Q4, expectations of easing monetary policy led to strong bond performance.

Key points to note

- The Fund has posted a positive return over H2, ending the period with a valuation of £1,203.0m up from £1,125.7m at the end of Q2 2023.
- The Fund's passive global equity exposure was the main driver of positive return on an absolute basis, along with its exposure to UK equities and UK government bonds. Within the income assets, the Fund's private debt and multi-asset exposure contributed to performance on an absolute basis; however the property mandates detracted from the total Fund return.
- On a relative basis the Fund outperformed its benchmark by 0.4%. The Fund is behind its composite benchmark over the past 12 months. Over the long-term, the Fund remains slightly ahead of its benchmark.
- The cash held by the Fund increased over the period to £36.0m.

Fund performance vs benchmark/target



High Level Asset Allocation

	Actual	Benchmark	Relative
Growth	52.8%	58.0%	-5.2%
Income	29.0%	25.0%	4.0%
Protection	15.2%	15.0%	0.2%
Cash	3.0%	2.0%	1.0%

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.

The Fund's current target allocations are as follows:

Interim
Growth – 58%
Income/Diversifiers – 25%
Protection plus cash – 17%

Long-term
Growth – 50%
Income/Diversifiers – 35%
Protection – 15%

Once complete, we recommend the interim targets are reviewed and updated to reflect the changes recommended in our separate strategy paper, as well as the steady reduction in the private equity allocation.

Following the quarter end, the LCIV infrastructure fund's four-year ramp up period since the first investment was made has elapsed. The fund will now enter its distribution phase and capital will begin to return to the Fund.

The LCIV private debt fund remains in the ramp up phase. We expect the Fund's commitments to continue to be drawn down over 2024.

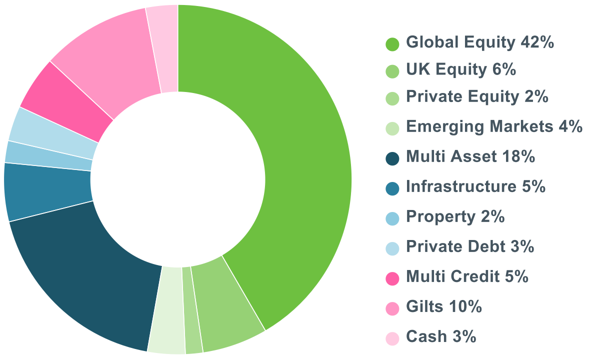
During H2, allocations to multi-asset credit and gilts were topped-up to their respective targets using £74m that was disinvested from the LGIM Global Equity Fund.

Asset allocation

Manager	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q2 2023	Q4 2023			
LGIM Global Equity	508.3	468.4	38.9%	40.0%	-1.1%
LGIM UK Equity	69.5	73.1	6.1%	5.0%	1.1%
Capital Dynamics Private Equity	21.8	19.6	1.6%	5.0%	-3.4%
LCIV JP Morgan Emerging Markets	42.2	42.3	3.5%	5.0%	-1.5%
Blackrock Acs World Low Crbn	29.4	32.0	2.7%	3.0%	-0.3%
Total Growth	**671.2**	**635.4**	**52.8%**	**58.0%**	**-5.2%**
LCIV Baillie Gifford Multi Asset	121.1	126.7	10.5%	6.0%	4.5%
LCIV Ruffer Multi Asset	92.1	93.4	7.8%	6.0%	1.8%
Alinda Infrastructure	16.9	17.9	1.5%	0.0%	1.5%
Capital Dynamics Infrastructure	2.3	2.3	0.2%	0.0%	0.2%
LCIV Infrastructure	39.1	45.2	3.8%	5.0%	-1.2%
Fidelity UK Real Estate	13.8	13.4	1.1%	1.5%	-0.4%
UBS Triton Property Fund	11.4	11.0	0.9%	1.5%	-0.6%
LCIV Private Debt Fund	36.0	39.1	3.2%	5.0%	-1.8%
Total Income	**332.7**	**349.0**	**29.0%**	**25.0%**	**4.0%**
LCIV CQS MAC	42.7	60.4	5.0%	5.0%	0.0%
BlackRock UK Gilts Over 15 yrs	49.7	122.1	10.2%	10.0%	0.2%
Total Protection	**92.4**	**182.5**	**15.2%**	**15.0%**	**0.2%**
Cash	29.4	36.0	3.0%	2.0%	1.0%
Total Scheme	**1125.7**	**1203.0**	**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

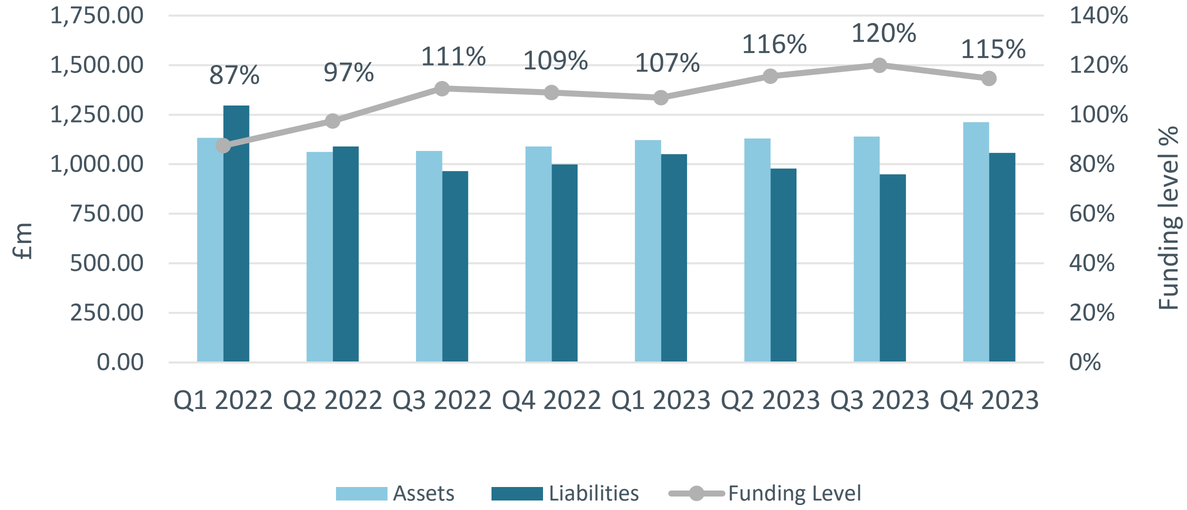
Funding position

As at 31 December 2023, we estimate the funding level to be 115%.

The graph shows the funding level has increased from 87% in Q1 2022 to 115% at the end of Q4 2023.

Please note the asset value shown (for the funding level calculation) may differ from the actual asset value as it is an estimate based on estimated cashflows. However, the estimate is consistent with liabilities, therefore gives more reliable estimate of the funding position.

Funding level progression



Latest funding level summary

	30 Jun 2023	30 Sep 2023	31 Dec 2023
Assets	1,130	1,139	1,212
Liabilities	978	949	1,057
Surplus/(deficit)	152	190	155
Funding Level	116%	120%	115%

Source: Hymans Robertson funding update report as at 31 December 2023.
Please see report for full details of approach used and reliances and limitations.

The total Fund return over the past 6 months was positive on an absolute and relative basis. Performance over the past 12 months remains slightly behind benchmark. 3-year performance remains positive, however has fallen behind the composite benchmark.

Global equities continued to provide positive returns, returning 7.6% over H2 and maintaining double-digit performance over the last 12 months.

Capital Dynamics' private equity mandate posted positive returns over H2, however fell short of its benchmark. However, it is worth noting that the allocation is in run down and represents a small allocation within the Fund.

Yield volatility remained high during Q3 and into Q4, due to higher-for-longer interest rate expectations. However, during Q4, expectations of easing monetary policy led to a decline in interest rate expectations This resulted in strong bond performance over the end of Q4. This also contributed to the performance of the LCIV Multi-Asset funds.

The property market fell over the period as income was offset by capital value declines in the retail office and industrial sectors.

Manager performance

	Last 6 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	7.6	7.6	**0.0**	17.5	17.6	**-0.1**	9.9	9.9	**-0.1**
LGIM UK Equity	5.2	5.2	**0.0**	8.0	7.9	**0.1**	8.7	8.6	**0.0**
Capital Dynamics Private Equity	0.4	7.9	**-7.0**	-10.7	18.4	**-24.6**	7.3	11.3	**-3.6**
LCIV JP Morgan Emerging Markets	0.3	4.4	**-3.9**	0.4	3.6	**-3.1**	-4.7	-2.8	**-2.0**
Blackrock Acs World Low Crbn	8.5	7.3	**1.2**	17.3	16.8	**0.4**	-	-	**-**
Income									
LCIV Baillie Gifford Multi Asset	4.6	3.6	**1.0**	4.7	6.8	**-2.0**	-1.3	4.1	**-5.2**
LCIV Ruffer Multi Asset	1.4	3.6	**-2.1**	-6.3	6.8	**-12.2**	3.4	4.1	**-0.7**
Alinda Infrastructure	-	-	**-**	11.8	5.9	**5.6**	17.1	8.6	**7.9**
Capital Dynamics Infrastructure	-	-	**-**	9.2	5.9	**3.0**	-10.7	8.6	**-17.7**
LCIV Infrastructure	-	-	**-**	3.1	5.9	**-2.7**	7.0	8.6	**-1.4**
Fidelity UK Real Estate	-2.7	-2.7	**0.0**	-6.9	-6.9	**0.0**	-	-	**-**
UBS Triton Property Fund	-3.1	-3.1	**0.0**	-	-	**-**	-	-	**-**
LCIV Private Debt Fund	7.4	3.0	**4.3**	3.7	6.0	**-2.2**	-	-	**-**
Protection									
LCIV CQS MAC	6.7	3.6	**3.0**	11.0	6.8	**4.0**	1.6	4.1	**-2.3**
BlackRock UK Gilts Over 15 yrs	7.6	7.9	**-0.3**	1.4	1.6	**-0.2**	-17.4	-17.3	**-0.1**
Total	6.0	5.6	**0.4**	9.4	10.8	**-1.3**	4.5	4.3	**0.2**

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
The property benchmarks return are set equal to the actual return for Q3 and Q4.

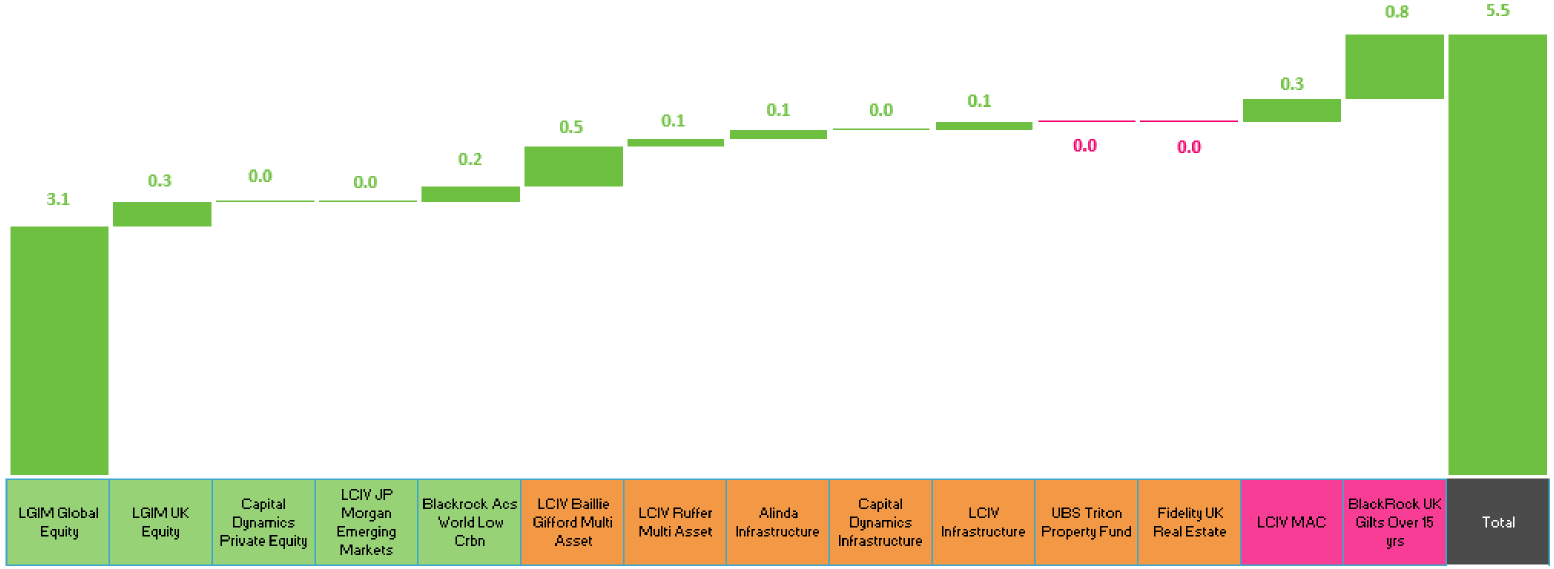
This chart highlights each mandate's contribution to the Fund's absolute performance over the second half of 2023, according to their allocation.

The largest contributor to performance over the period remains LGIM's Global Equity fund, given its positive performance and its sizeable allocation of c.40%.

The Fund also saw positive contributions to performance from the LGIM UK Equity Fund, LCIV Baillie Gifford Multi-Asset Fund and BlackRock UK Gilts Fund.

Despite negative returns posted by the UBS Triton and Fidelity UK Real Estate Funds, these mandates have relatively small allocations of c1% each, 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.

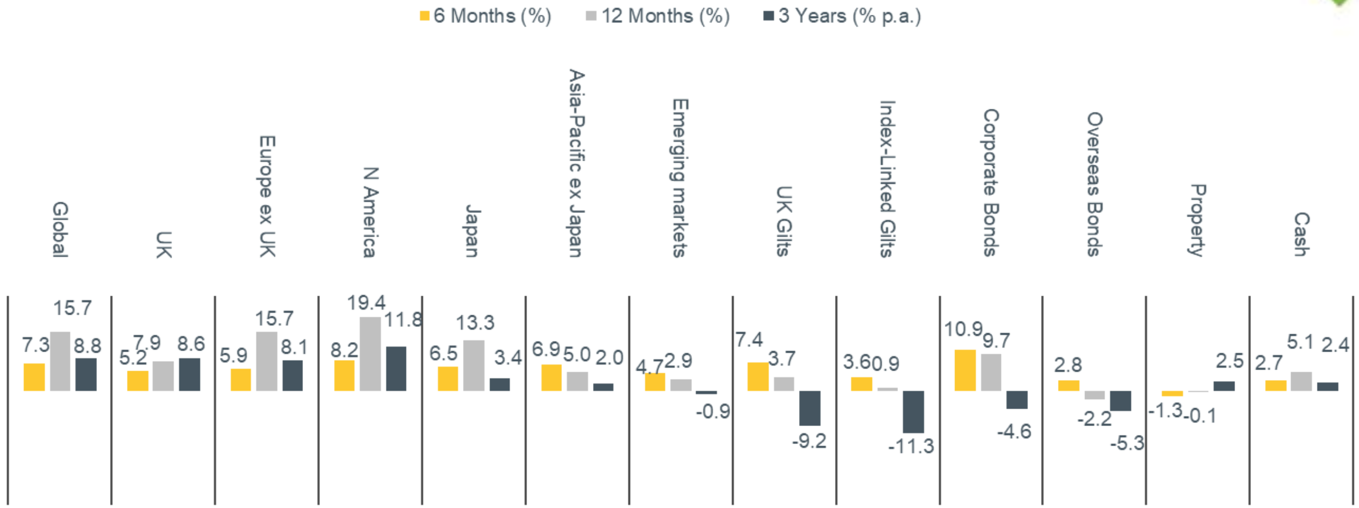
Global growth was more resilient than expected in H2 2023, as strong labour markets and fiscal support buoyed consumer spending, particularly in the US. Business surveys highlighted that activity was stronger in the labour-intensive service sector than in the capital and energy-reliant manufacturing sector. Europe has been a particularly weak spot, given the region's greater exposure to the latter.

Year-on-year headline CPI in the UK and eurozone fell to 3.9% and 2.4% in November, from 7.9% and 5.5% in June, respectively. US headline rose from 3.0% in June to 3.1% in November but was still lower than expected. Core inflation, which excludes volatile energy and food prices, fell to 5.1%, 4.0%, and 3.6% in the UK, US and eurozone.

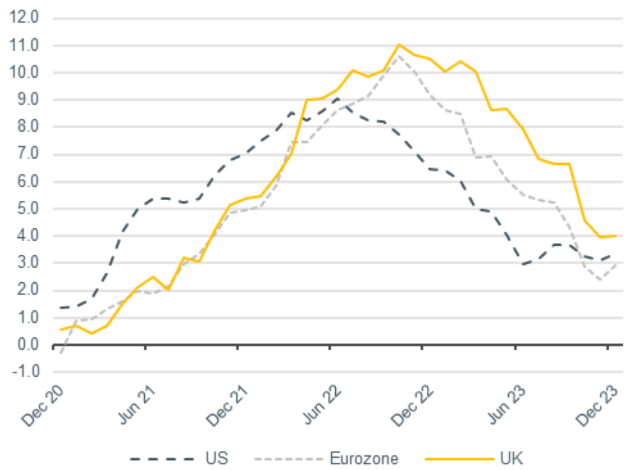
The Federal Reserve and Bank of England both raised rates 0.25% pa in Q3, to 5.5% pa and 5.25% pa, respectively, while the European Central Bank raised its deposit rate by 0.5% pa, to 4.0% pa. Given larger-than-expected falls in inflation, the major central banks left rates unchanged in Q4, and the extent of interest-rate cuts expected by the markets in 2024 rose dramatically towards the end of the year.

Given shifts in expected interest rates, the trade-weighted US dollar and sterling fell by 1.1% and 0.8%, respectively, while the equivalent euro measure rose by 0.8%. Trade-weighted Japanese yen rose 0.9% as bond yields rose in Japan while they fell or stayed the same elsewhere.

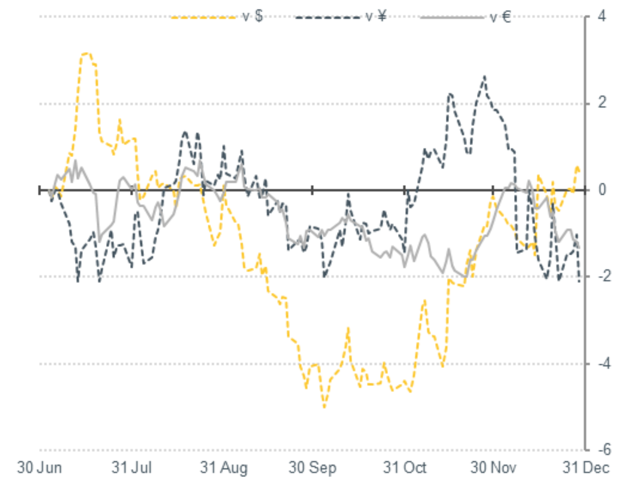
Historic returns for world markets [1]



Annual CPI inflation (% year on year)



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

UK 10-year yields fell 0.9% pa, to 3.5% pa, while equivalent German yields fell around 0.4% pa, to 2.0% pa. After reaching post-Global Financial Crisis highs in October, US 10-year yields fell dramatically. Yields ended the period where they started, at 3.9% pa. Japanese 10-year yields rose 0.2% pa, to 0.6% pa, as the Bank of Japan loosened its yield curve control policy.

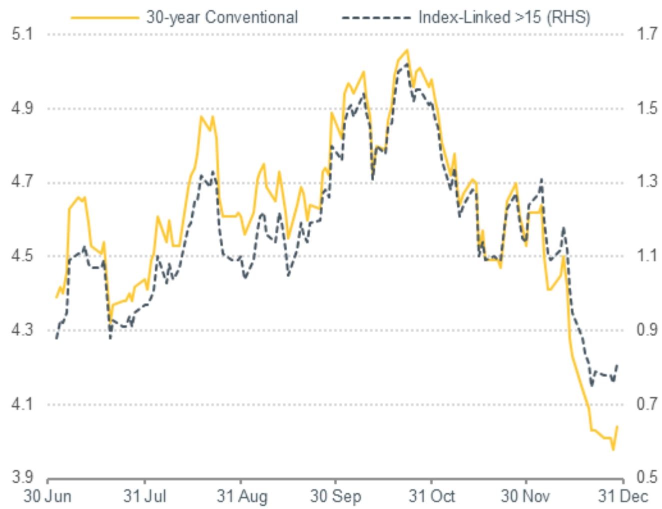
Credit spreads fell as global recession and debt affordability concerns eased. Sterling investment-grade yields fell 1.4% pa, as a 0.4% pa fall in credit spreads supplemented the fall in underlying gilt yields. Global speculative-grade credit spreads declined by 0.7% pa, to 3.8% pa.

The FTSE All World Total Return Index rose 6.9% in local-currency terms. North American equities notably outperformed, given their exposure to the technology sector. All other regions underperformed but still produced positive returns. Europe ex-UK faced the worst underperformance, given the relatively weaker economic backdrop and exposure to goods and manufacturing. Alongside technology, financials also outperformed. The more defensive sectors were the largest underperformers.

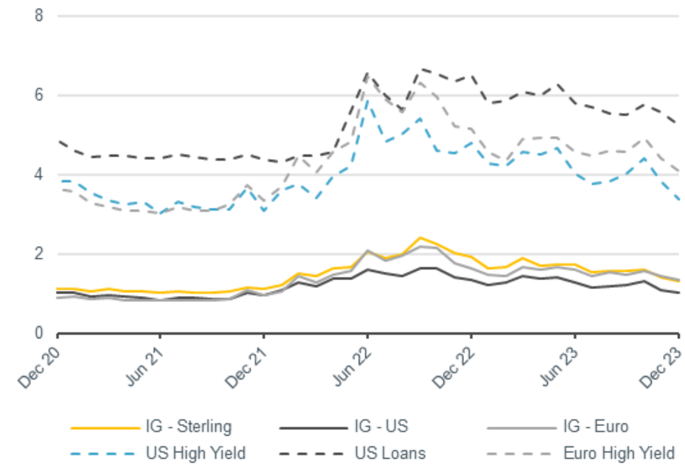
Oil prices rose 4.3%, to $77.69 per barrel, while gold rose 7.8%, perhaps deriving some support from rising geopolitical tensions in the Middle East.

The MSCI UK Monthly Property Index fell 1.3% over the last 6-month period as income was offset by capital value declines. Values fell most sharply in the retail and office sectors, which are down 5.6% and 16.6%, respectively, over the last 12-months. Industrial capital values also fell 0.2% in H2 2023, following seven consecutive months of growth, before stalling in October.

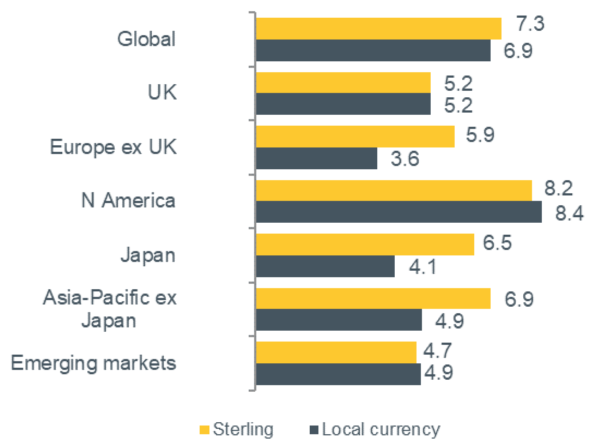
Gilt yields chart (% p.a.)



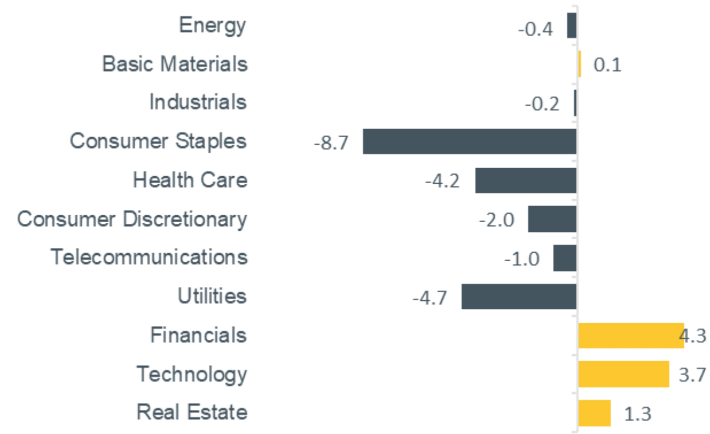
Investment and speculative grade credit spreads (% p.a.)



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.

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.

Hymans Robertson LLP has relied upon third party sources and all copyright and other rights are reserved by such third party sources as follows: DataStream data: © DataStream; Fund Manager data: Fund Manager; Morgan Stanley Capital International data: © and database right Morgan Stanley Capital International and its licensors 2023. All rights reserved. MSCI has no liability to any person for any losses, damages, costs or expenses suffered as a result of any use or reliance on any of the information which may be attributed to it; Hymans Robertson data: © Hymans Robertson. Whilst every effort has been made to ensure the accuracy of such estimates or data - including third party data - we cannot accept responsibility for any loss arising from their use. © Hymans Robertson LLP 2024.

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.