London Borough of Brent Pension Fund

Q2 2024 Investment Monitoring Report

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Executive Summary

Performance Summary
The assets combined to return 1.4% over the second quarter of 2024 to 30 June.

Global equities continued to perform well, returning 2.9% over the period, as optimism around AI continued.

UK and emerging market equities also rose by 3.7% and 5.8% over the period. The UK and emerging markets outperformed the global market as valuations remained cheap, while global valuations are elevated and are likely to weigh on longer term performance.

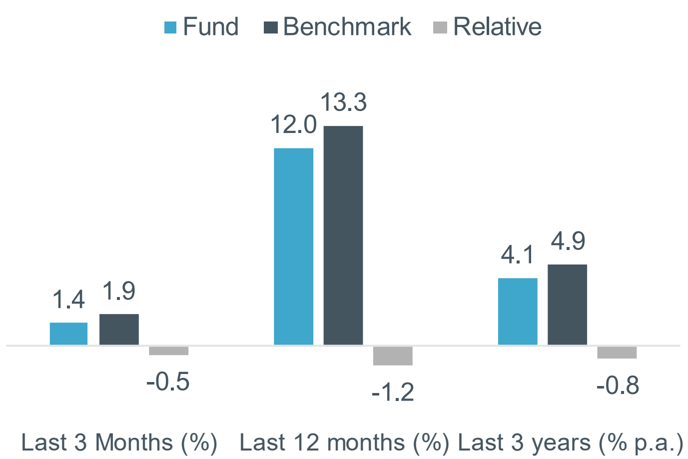
Over the quarter, the bond market fell as gilt yields ending the quarter higher than end Q1. However, we still see longer-term value in UK gilts as expectations of rate cuts should stabilise yields.

Since quarter end:
- Capital Dynamics explored liquidity options for the private equity mandate. This mandate is in run-off, hence we recommended that the Committee voted in favour of the transactions and opts for the cash election option.
- LCIV has placed its emerging markets equities fund under enhanced monitoring due to ongoing underperformance. A review is scheduled for the end of October.

Key points to note

- The Fund has posted a positive return over Q2, ending the period with a valuation of £1,279.2m, up from £1,259.7m at the end of Q1 2024.
- The Fund’s passive global equity exposure was the main driver of positive return on an absolute basis, along with its exposure to UK and emerging market equities. Within the income assets, the Fund’s private debt, property and multi-asset exposure contributed to performance on an absolute basis. The main detractor from performance was the Fund’s government bond exposure, which fell in value as gilt yields rose over the quarter.
- On a relative basis the Fund underperformed its benchmark by 0.5%. The Fund is also behind its composite benchmark over the past 12 months and over 3 years.
- The cash held by the Fund increased over the period to £59.0m.

Fund performance vs benchmark/target



High level asset allocation

	Actual	Benchmark	Relative
Growth	56.2%	58.0%	-1.8%
Income	25.4%	25.0%	0.4%
Protection	13.9%	15.0%	-1.1%
Cash	4.6%	2.0%	2.6%

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.

Asset Allocation

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%

Last quarter, the LCIV infrastructure fund ended its ramp up period and entered its distribution phase. Income from distributions has begun to return to the Fund quarterly.

In Q1, the Committee agreed to the partial sale of the LCIV Baillie Gifford Multi-asset fund and utilise the proceeds to meet the strategic objectives of the Fund. During Q2, the first tranche of £33m was disinvested, with £18m invested in the LCIV JP Morgan Emerging Markets Fund and £15m held in cash.

Other transaction activity included the first commitment to the London CIV UK Housing Fund.

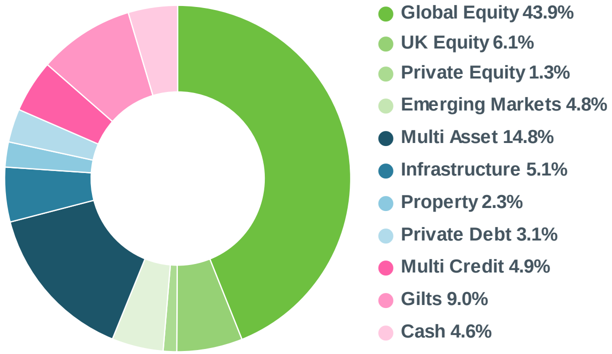
The LCIV private debt fund remains in the ramp up phase. We expect the Fund's commitments to continue to be drawn down over 2024.

Asset allocation

Manager	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q1 2024	Q2 2024			
LGIM Global Equity	515.0	526.1	41.1%	40.0%	1.1%
LGIM UK Equity	75.8	78.6	6.1%	5.0%	1.1%
Capital Dynamics Private Equity	17.3	16.2	1.3%	5.0%	-3.7%
LCIV JP Morgan Emerging Markets	42.7	61.5	4.8%	5.0%	-0.2%
Blackrock Acs World Low Crbn	34.9	36.0	2.8%	3.0%	-0.2%
Total Growth	**685.8**	**718.3**	**56.2%**	**58.0%**	**-1.8%**
LCIV Baillie Gifford Multi Asset	127.7	96.4	7.5%	6.0%	1.5%
LCIV Ruffer Multi Asset	92.7	93.1	7.3%	6.0%	1.3%
Alinda Infrastructure	18.7	16.3	1.3%	0.0%	1.3%
Capital Dynamics Infrastructure	2.4	2.4	0.2%	0.0%	0.2%
LCIV Infrastructure	45.2	46.5	3.6%	5.0%	-1.4%
Fidelity UK Real Estate	13.3	13.3	1.0%	1.5%	-0.5%
UBS Triton Property Fund	10.9	11.0	0.9%	1.5%	-0.6%
LCIV Private Debt Fund	39.1	39.8	3.1%	5.0%	-1.9%
LCIV UK Housing Fund	0.0	5.7	0.4%	0.0%	0.4%
Total Income	**350.0**	**324.4**	**25.4%**	**25.0%**	**0.4%**
LCIV CQS MAC	61.8	62.9	4.9%	5.0%	-0.1%
BlackRock UK Gilts Over 15 yrs	117.8	114.6	9.0%	10.0%	-1.0%
Total Protection	**179.6**	**177.4**	**13.9%**	**15.0%**	**-1.1%**
Cash	44.3	59.0	4.6%	2.0%	2.6%
Total Scheme	**1259.7**	**1279.2**	**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



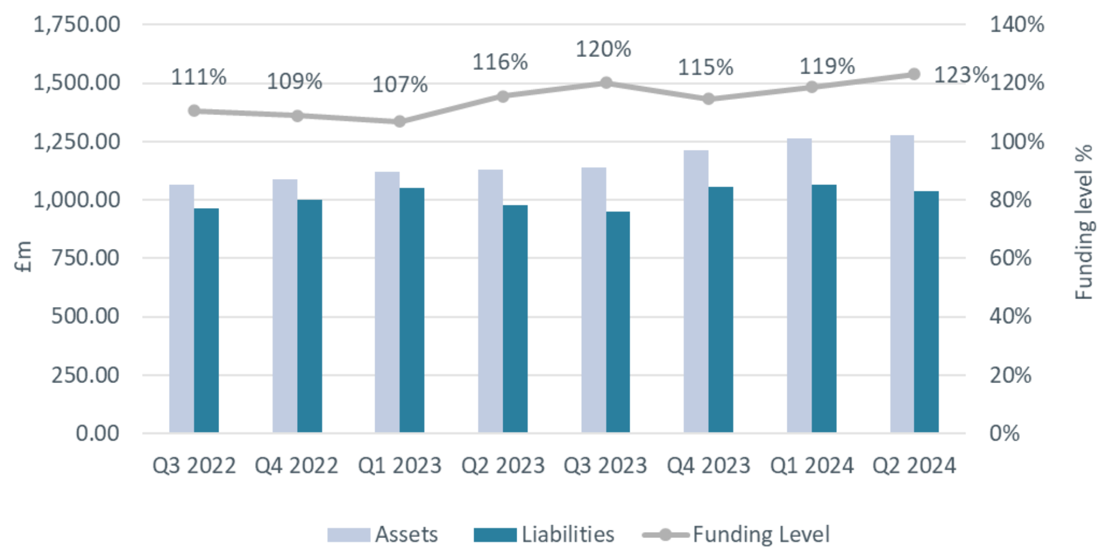
Source: Investment Managers
Note: The target allocations were agreed in in June 2023 as part of the last investment strategy review.

As at 30 June 2024, we estimate the funding level to be 123%.

The graph shows the funding level has increased from 111% in Q3 2022 to 123% at the end of Q2 2024. Over the past 12 months, the funding level has remained relatively consistent.

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

	31 Dec 2023	31 March 2024	30 June 2024
Assets	1,212	1,262	1,276
Liabilities	1,057	1,064	1,036
Surplus/(deficit)	155	197	240
Funding Level	115%	119%	123%

Source: Hymans Robertson funding update report as at 30 June 2024.
Please see report for full details of approach used and reliances and limitations.

The total Fund return over the quarter was positive on an absolute basis, however lagged its benchmark by 0.6%. Performance over the past 12 month and 3-year periods is positive on an absolute basis but similarly remain behind benchmark.

Global equities continued to provide positive returns, returning 2.2% over Q2 and maintaining double-digit performance over the last 12 months and 3 years. UK equities outperformed global equities for the first time in recent months, returning 3.7% over the quarter.

Capital Dynamics' infrastructure mandate posted negative returns over the period; however, this allocation is in run down and represents a small allocation within the Fund.

Yield volatility remained during Q2. The BlackRock gilts mandate fell in value over the quarter as gilts yields rose compared to end Q1 levels.

Credit markets continued to perform well resulting in positive performance from the LCIV MAC fund.

The property market had a positive quarter on an absolute basis, however lagged benchmark over the past 12 months.

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	2.2	2.5	**-0.4**	20.9	21.4	**-0.4**	10.0	10.2	**-0.2**
LGIM UK Equity	3.7	3.7	**-0.1**	13.0	13.0	**0.0**	7.5	7.4	**0.1**
Capital Dynamics Private Equity	1.4	2.9	**-1.5**	-2.3	22.5	**-20.2**	2.5	11.6	**-8.2**
LCIV JP Morgan Emerging Markets	1.8	4.9	**-3.0**	3.2	13.2	**-8.8**	-4.8	-2.2	**-2.6**
Blackrock Acs World Low Crbn	3.0	2.6	**0.5**	22.3	20.9	**1.2**	-	-	**-**
Income									
LCIV Baillie Gifford Multi Asset	1.6	1.8	**-0.1**	7.2	7.3	**-0.1**	-1.8	5.0	**-6.5**
LCIV Ruffer Multi Asset	0.4	1.8	**-1.4**	1.0	7.3	**-5.8**	0.6	5.0	**-4.2**
Alinda Infrastructure	0.3	1.3	**-1.0**	13.3	4.0	**8.9**	18.8	8.4	**9.6**
Capital Dynamics Infrastructure	-3.9	1.3	**-5.2**	1.4	4.0	**-2.5**	-10.4	8.4	**-17.3**
LCIV Infrastructure	3.4	1.3	**2.0**	6.8	4.0	**2.7**	9.6	8.4	**1.1**
Fidelity UK Real Estate	0.3	1.2	**-0.9**	-3.5	0.1	**-3.6**	-	-	**-**
UBS Triton Property Fund	0.9	1.2	**-0.3**	-3.7	0.1	**-3.7**	-	-	**-**
LCIV Private Debt Fund	2.0	1.5	**0.5**	9.5	6.0	**3.3**	-	-	**-**
Protection									
LCIV CQS MAC	1.7	1.8	**-0.1**	11.1	7.4	**3.4**	1.6	5.0	**-3.2**
BlackRock UK Gilts Over 15 yrs	-2.7	-2.8	**0.0**	0.9	1.1	**-0.2**	-16.3	-16.3	**-0.1**
Total	1.4	1.9	**-0.5**	12.0	13.3	**-1.2**	4.1	4.9	**-0.8**

This table shows the new performance target measures, implemented from 2020. Please note the 3-year return is on the old benchmark basis. Performance for the LCIV UK Housing Fund will be included from the next report onwards.

Source: Fund performance provided by Northern Trust and is net of fees. Benchmark performance provided by Northern Trust, Investment Managers and DataStream. Private market returns are calculated using modified Dietz methodology and do not represent the IRR of the fund which will be provided as part of the annual review.

This chart highlights each mandate's contribution to the Fund's absolute performance over the second quarter of 2024, according to their allocation.

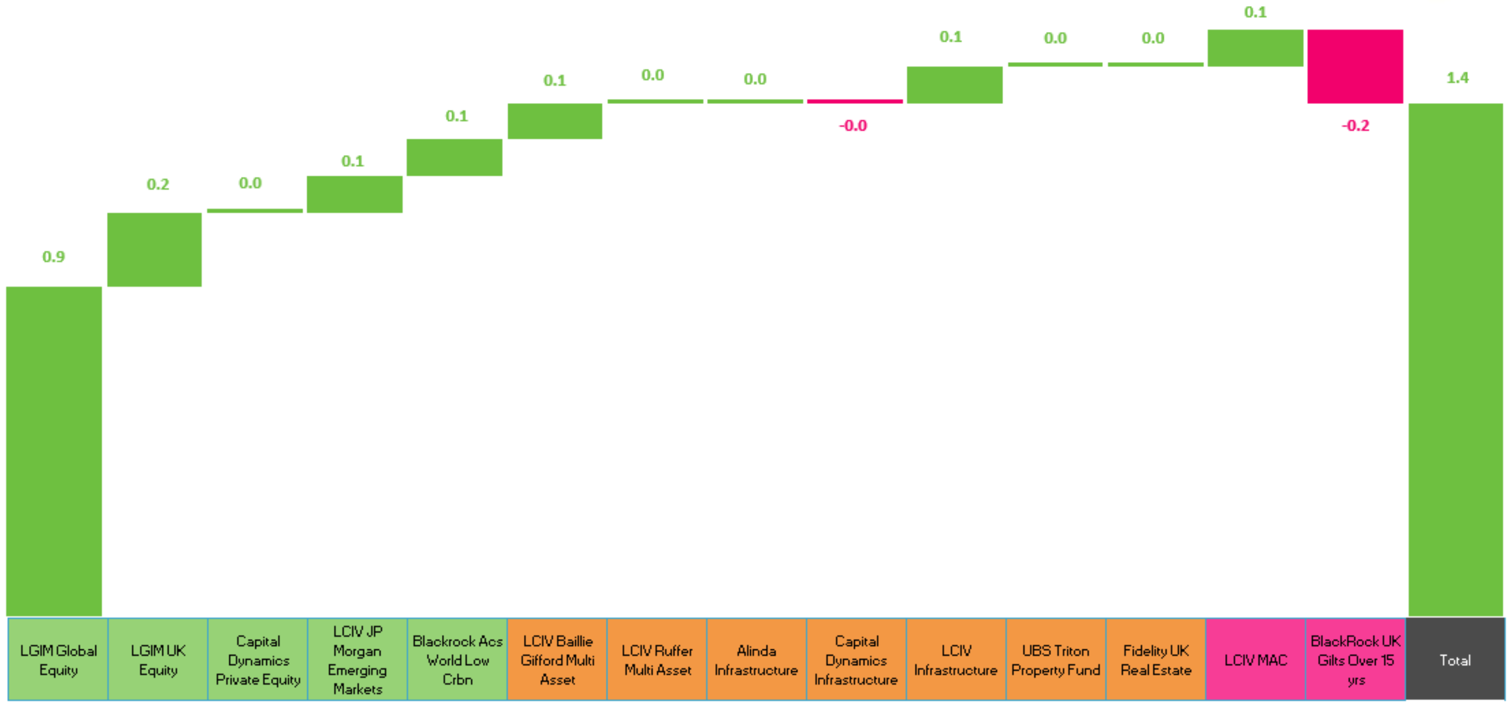
The largest contributor to performance over the period remains LGIM's Global Equity fund, given its positive performance and its allocation of c.40%.

The Fund also saw positive contributions to performance from the LGIM UK Equity Fund, LCIV JP Morgan Emerging Markets Fund, BlackRock World Low Carbon Fund, and LCIV Baillie Gifford Multi-Asset, Infrastructure and MAC Funds.

The main detractor from performance was the BlackRock UK Gilts Fund, making up 9% of the Fund's total assets.

Despite negative returns posted by the Capital Dynamics Infrastructure Fund, this mandate has a relatively small allocation of c4%, 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.

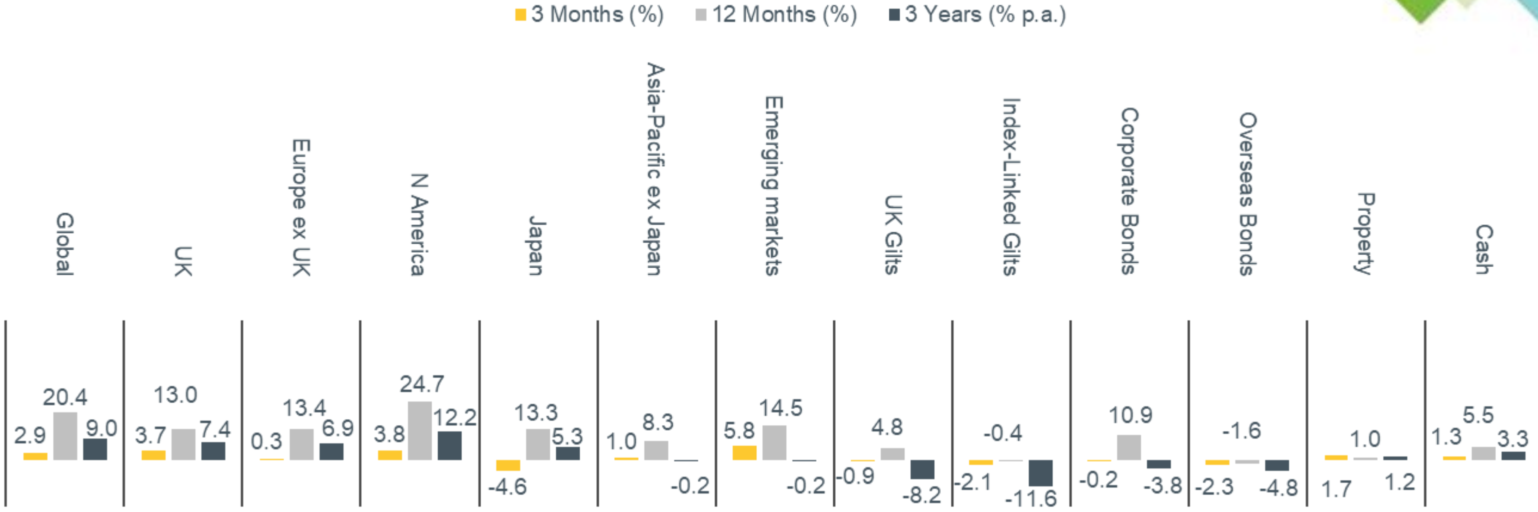
The US economy slowed more than expected in Q1 to an annualised quarterly pace of 1.4%. While this marks a sharp pullback from the blistering 3.4%, the economy still exhibits decent, if slowing, domestic demand. Quarter-on-quarter eurozone and UK GDP rose more than expected in Q1, by 0.3% and 0.7% respectively, with both regions officially exiting technical recession.

UK year-on-year headline CPI slowed meaningfully, returning to the Bank of England's (BoE) 2% target for the first time in almost three years in May and remained unchanged in June. Core CPI slowed but, at 3.5% year-on-year, highlights stubborn underlying inflation pressures. In the eurozone, headline and core CPI measures rose to 2.5% and 2.9%, respectively, in June. US headline CPI fell to 3.0% in June, while core CPI eased to 3.3%.

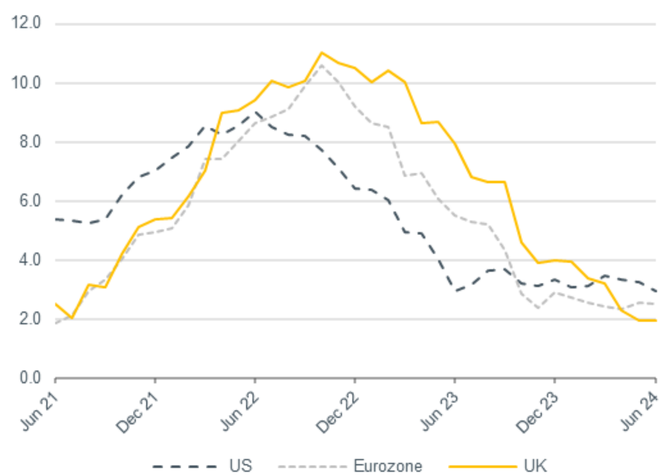
The European Central Bank (ECB) delivered a widely expected 0.25% pa reduction in its deposit facility interest rate, to 3.75% pa. However, the ECB raised its inflation outlook for 2024 and 2025. The Federal Reserve (Fed) and BoE held rates steady, at 5.5% pa and 5.25% pa respectively, and markets continue to expect fewer rate cuts in 2024 than they did at the start of the year.

The US trade-weighted dollar rose 2.4% as market further reduced their rate cut expectations for 2024. The equivalent sterling measure rose 0.7% while the euro measure weakened a little as the ECB lowered rates. The Japanese trade-weighted yen fell a further 5.1% as markets continued to bet on wide interest rate differentials between Japan and its major developed-market peers.

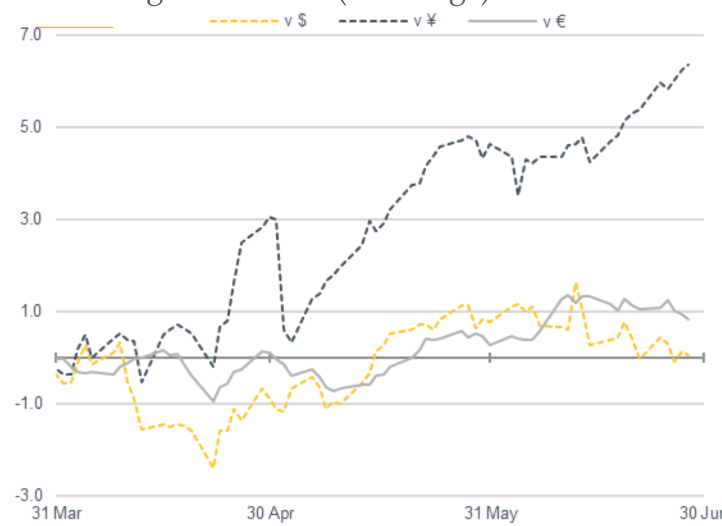
Historic returns for world markets [1]



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

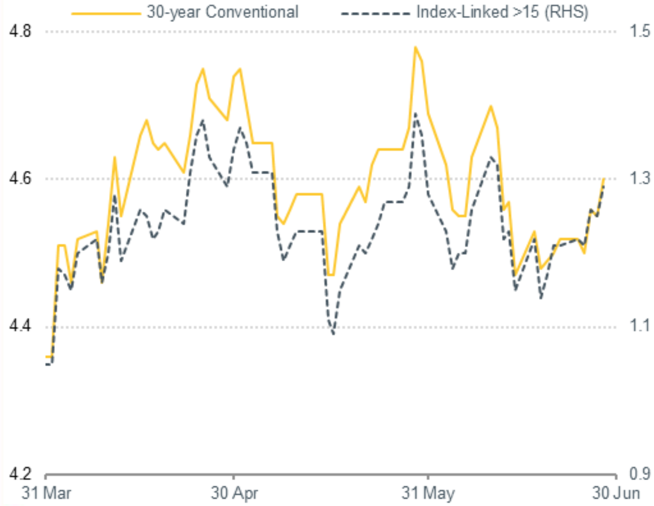
Sovereign bond yields rose on decent growth and sticky inflation data. US and UK 10-year bond yields both rose 0.2% pa to 4.4% pa and 4.2% pa, respectively. Despite the ECB's rate cut, German sovereign bond yields also rose 0.2% pa to 2.5% pa. French 10-year yields rose sharply, by 0.5% pa, due to uncertainties around the parliamentary elections.

Despite little change in credit spreads, UK investment-grade credit markets recorded negative total returns as income was offset by a rise in underlying sovereign bond yields. Speculative-grade markets outperformed, supported by income return and their lower duration profile. Euro and US high-yield bonds delivered total returns of 1.5% pa and 1.1% pa, respectively.

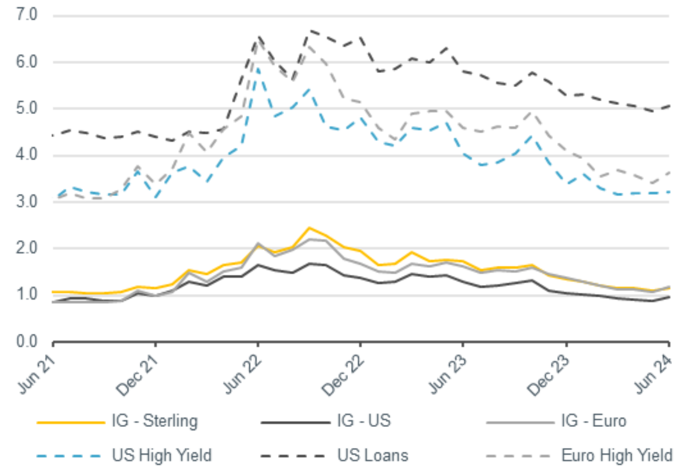
The FTSE All World Total Return Index rose 3.5%. US Q1 earnings comfortably beat expectations and stocks tied to AI continued to benefit. Technology was the clear outperforming sector. Utilities were the only other, albeit modest, outperformer. All other sectors underperformed, with value-orientated sectors seeing the worst underperformance.

The MSCI UK Property Total Return Index rose 1.7% between March and June, as aggregate capital values increased modestly for the fourth consecutive month. On a 12-month basis to June, aggregate property capital values are down 4.7%. Aggregate nominal rental year-on-year growth was 3.6% in June. Given falls in inflation real rental growth, in CPI terms, reached 1.6% year-on-year in June.

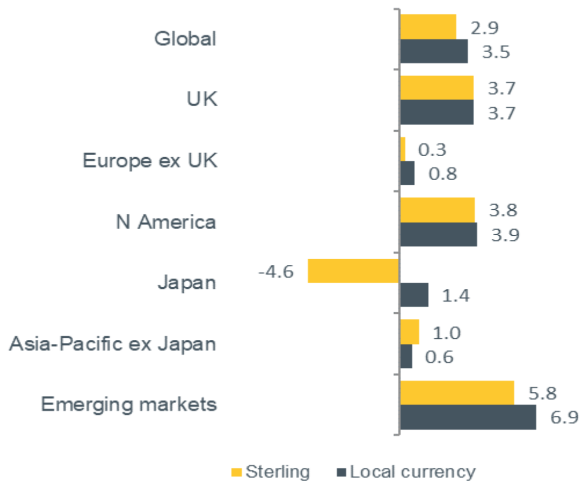
Gilt yields chart (% p.a.)



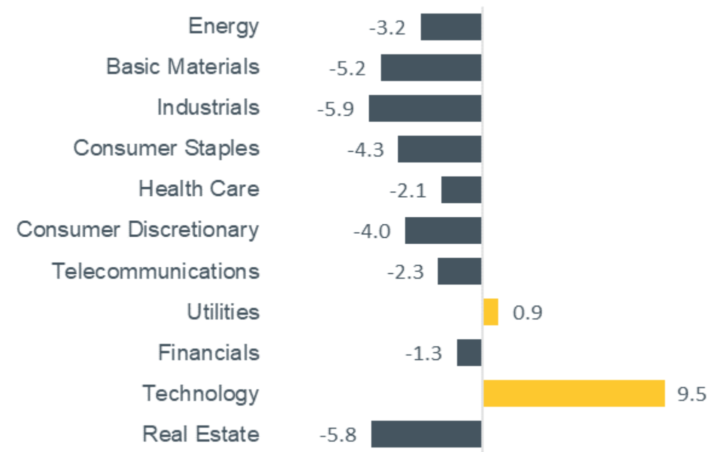
Investment and speculative grade credit spreads (% p.a.)



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.

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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.