Brent	**Pensions Fund Sub-Committee** 7 November 2017 **Report from the Chief Finance Officer**
For Information Purposes	Wards affected: ALL

Update on the London CIV and the Fund's Investment Options

1. **Introduction**

1.1 This is an update on the London CIV and the timescales attached to making investments within it. In light of the investment options available, scrutiny of the Fund's current investment strategy and asset allocation is also provided.

2. **Recommendations**

2.1 The Committee is asked to note the recent developments with the London CIV.

2.2 The Committee is asked to approve a one off asset liability modelling exercise to review the Fund's investment strategy and asset allocation. The committee is asked to delegate authority to the Chief Finance Officer to select a suitable provider, with a view to reporting back to the committee with the results of the exercise.

3. **Detail**

3.1 At its recent Investment Advisory Committee (IAC) on 19th October 2017 the London CIV updated officers on existing and upcoming investments over the next 12 months.

3.2 **Equities**

The LCIV currently has two active global equity products available to invest; Newton (3 LLA's invested) and Baillie Gifford (9 LLA's invested). There is also one UK equity product through Majedie where 3 LLA's are invested. Between October and December 2017 (Phase 1) three more active global equity products will become available (Henderson's Emerging Markets, EPOCH Equity Income and RBC Sustainable Equity). All three of these products have at least one seed investor committed. Phase 2 (between December 2017 and March 2018) will see two more products become available (Low Carbon Tracker and RWC Core Equity). Demand for these strategies is currently being determined. Allianz has been withdrawn from the LCIV platform and Longview is currently closed to new investors. LCIV are comfortable Longview's management and are working with them to see what capacity can be secured on behalf of LLA's.

3.3 This report considers only the equity portfolio, in light of the new offerings now available through the LCIV. Broadly, of the Fund's 45% allocation to equities 30% is allocated to global and 15% to UK equities. At present, apart from the 5% allocation to UK Small-Cap Equities, all of this is managed passively by Legal and General, on a fee basis negotiated by the LCIV. As a participating member of the LCIV, the Fund has expressed its intention to invest its assets through the London CIV as and when suitable investment solutions become available. (The Fund currently invests in two Diversified Growth Funds, Baillie Gifford and Ruffer, through the LCIV).

3.4 When considering the Fund's equity portfolio we have considered the following:

- *The proportion of equity assets held in active and passive management*

  The Fund currently does not allocate to any active global equity managers as this part of the portfolio is all managed passively. The Committee could consider the appropriateness of this mix in light of the new offering through the LCIV.

- *The choice and balance of managers in the Fund's combined active global equity portfolio*

  When considering an active equity manager allocation it is important to have the right balance between the managers. The managers vary by investment process and philosophy and therefore will have investment portfolios with different characteristics. Diversification brings lower volatility of returns and reduces the risk of prolonged underperformance should certain investment styles be favoured in the prevailing market conditions.

- *The allocation to emerging markets and the approach for accessing this investment*

  The Fund currently does not allocate specifically to Emerging Markets, having terminated Dimensional's mandate in autumn 2015. Instead, it accesses the asset class through its global equity passive offering. Given the new investment available through the LCIV, the committee should consider if this allocation is still appropriate. While short term performance can be more volatile, emerging market equities may outperform developed equities over the long term, especially if managed on an active basis.

4. **Next Steps**

4.1 Now that the LCIV has showcased all of the equity products available, each needs to be reviewed in more detail to understand which product or mix of products is right for the Brent Pension Fund. Each product has different portfolio constructions, investment processes and philosophies. In order to achieve a balanced portfolio, it is proposed to provide the Fund with a diversified set of managers who, when put together, can outperform the broader index.

4.2 Considering the complexities involved in selecting the right manager (s) for Brent and the timescales involved in launching the new products, it has created an opportunity to pause and reflect on our current investment strategy and asset allocation.

4.3 The Fund last undertook an investment strategy review in 2015. The main changes recommended in that review were:

Disinvest from active EM Equities (-8%)
Reduce passive equities by 19%, and add 20% to active global equities
Add 13% to Multi-Asset (DGF)
Disinvest from Property (-8%)
Add 2% to Infrastructure target allocation.
A change of fixed income strategy (see para 5.3)

Since then, the Fund has been implementing those decisions, apart from the allocation to active global equities. The asset allocation was developed in a significantly different economic environment to which the Pension Fund now finds itself. Furthermore, the actuarial results of the Triennial Review needs to be digested to better understand our liabilities. Inevitably, the liability profile will have changed alongside a change in the economic environment.

4.4 It is therefore proposed to conduct an asset liability modelling exercise to consider the Fund's investment strategy in the context of the 31 March 2016 Actuarial Valuation and experience up to 31 March 2017. The purpose of this exercise is to re-assess the Fund's investment strategy in the context of the Fund's updated liabilities and to ensure appropriateness with the Committee's investment beliefs, views and objectives. This will not delay actions already in train to exit asset classes or investments or future investment opportunities. However, it will make decisions about fixed income more challenging in the short term. Therefore relative weightings between DGFs can also be reviewed during this period.

4.5 The primary objectives of the exercise are:

- To focus on the Fund's objectives and test the investment strategy relative to these objectives (and determine if another strategy maybe more appropriate). It would give a quantitative assessment of the Fund's progress, likelihood of achieving its objectives and the risk associated. This would involve use member specific data and cashflows from the Fund actuary.

- To use quantitative analysis (asset liability modelling) of a range of funding strategies to test the current and alternative investment strategies against agreed metrics e.g. long-term success criteria and downside risk metrics.

- To provide a market based assessment to determine if there are strong market drivers to move away from the modelled strategic allocation on a short to medium term basis.

- To provide a high level sense check of the Fund's existing investment structure i.e. looking at specific asset classes and mandate, rather than just high level strategy. The review will provide some comments on the existing arrangements and suggest potential areas for further consideration.

4.6 It is also proposed that the scope of the review is tightly focused towards the LCIV's pipeline of investments (in particular equity and fixed income) with a view to developing a 12-18 month business plan which sets out the specific investments the Fund should invest in.

4.7 In order to give a flavour of the scope, range and complexities of investing in equity, fixed income, real assets and multi assets, Appendix A provides a helpful schematic and product map. It is an expectation of what is going to be offered in the future, as well as perceived priorities, and as such is subject to change.

4.8 The strategy review exercise will have a view on each type of investment shown in the schematic and the subsequent business plan will mean the Fund will be able to make quicker and more robust investment decisions when new products become available. It will also allow us to direct the LCIV to create the specific products that the Fund needs in order to execute the investment strategy. Completing the strategic re-allocation of the Fund is necessary to meet its long-term return targets and match its liabilities.

5. **Fixed Income and cashflow strategies**

5.0 This has been the prime focus for the LCIV over the last quarter, with regular meetings of the fixed income working group taking place to review a range of approaches. LLA's have expressed strong demand for products in this area including private debt, multi-asset credit and global bonds. The Fixed Income Working Group is currently undertaking an investment due diligence exercise with a view to having products available between March and October 2018. This time period fits with the Fund's proposal to undertake a strategic review so that it can better inform the exact type of fixed income product that will be appropriate for the Fund.

5.1 Fixed Income is under allocated at present. The Bond Fund from Henderson only contains 11.4% of the 15% allocation but under the original investment strategy, multi-assets and other fixed income products were considered more appropriate investments, particularly in light of the risks of a bond market that many view as significantly over-priced. It is therefore proposed to work with the LCIV to create other fixed income type investments in order to meet this allocation.

6. **Infrastructure**

6.1 An infrastructure working group has been created and had its first meeting. Consensus was reached around the fund characteristics and the LLAs desire a Global strategy, with an income focus. A manager selection process and fund launch is expected in mid to end 2018. The LCIV see this fund as the first of a series of funds. Funds are likely to be launched on an annual or bi-annual basis, and will offer different opportunities across various sectors, geographies and strategy styles to satisfy various LLA demands, whilst simultaneously offering further diversification across infrastructure assets.

6.2 The Fund currently has an 8% allocation to infrastructure, managed by Alinda and Capital Dynamics. There are no plans to add to this allocation in the short term as there are some £28m of undrawn infrastructure commitments still to be met.

7. **Financial Implications**

7.1 A brief internal procurement process will be undertaken to find a supplier that can deliver the asset liability exercise to the Fund’s specific requirements. The cost of this exercise is currently unknown but is not expected to exceed £20k.

8. **Legal Implications**

8.1 Not Applicable

8. **Diversity Implications**

8.1 Not Applicable

9. **Contact Officers**

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