



## **LONDON BOROUGH OF BRENT**

### **MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE Wednesday 27 February 2019 at 6.00 pm**

PRESENT: Councillor S Choudhary (Chair), Councillor Aden (Vice-Chair) and Councillors Daly, Maurice, Perrin and Stephens and co-opted member Ms Bankole.

1. **Declarations of personal and prejudicial interests**

None declared.

2. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 6<sup>th</sup> November 2018 be approved as an accurate record of the meeting.

3. **Matters arising**

None.

4. **Deputations**

None received.

5. **Implementation of the Investment Strategy**

Members considered a report that provided updates on progress on the implementation of the investment strategy which was agreed at the previous meeting. Mr Ravinder Jassar (Head of Finance) provided the following headline activities since the last meeting:

- The Janus Henderson small cap fund was sold in three tranches between mid-November and mid-December 2018 and resulted in total sales proceeds of £28.9m, net of any fees. By conducting the trades in this way, the Fund avoided significant transition costs that were planned as a result of a change in the manager of the small caps fund.
- The investment in the LCIV Emerging Markets fund (£30m) was split into two tranches, with £15m being invested in November 2018 and a further £15m planned in February 2019.
- A further £40m was invested into Growth Assets via the existing LCIV DGF manager, Baillie Gifford as a temporary investment while the London CIV's investments in Infrastructure and Property became available (with these

latter allocations to be built up over time). All trading was completed in December 2018, with the investment being split into two equal tranches.

- The Fund's exposure to the LCIV MAC fund was opened with an investment of £35m. As the fund only deals on a monthly basis, £18m were transferred in November 2018 and the remaining balance of £17m in January 2019.
- Of the £67.5m cash deposits balance, £30.7m paid out as part of the College of North West London transfer on 14 February 2019.

Mr Jassar referenced the Fund's strategic review when it was agreed to increase the Fund's exposure to income assets and, as part of this strategic change, increase the Fund's infrastructure target allocation from 8% to 15%. The strategic rationale for doing this was to increase the Fund's exposure to assets that seek to generate long-term real returns with a notable element of this return from income. With that in view and the ability to review commitments on an annual basis, he recommended that the Fund committed, subject to due diligence, £50m to LCIV's infrastructure fund at this time, with the commitment level revised on an annual basis. £50m represents c6% of Fund assets. The commitment would be drawn down over time and would represent a significant step in the Fund's strategic journey with an increased allocation to income assets. He then introduced Mr Robert Hall (Head of Equities, London CIV) who then gave a presentation on processes for Infrastructure Fund Design and selection of an Infrastructure Manager.

Mr Hall outlined the consultation process highlighting the following criteria for Infrastructure Fund Manager;

- Manager Diversification which covered a broad range of general partners and not overly reliant on a single company.
- Vintage Diversification with underlying investments staggered to give exposure to investments across different years.
- Asset Type Diversification with the ability to invest across primary, secondary partnerships, co-investment and direct investment to build a diversified portfolio of assets.
- All direct and underlying investments to adhere to the Responsible Investment policy with respect to environmental, social and governance considerations (ESG).
- Full Reporting of asset holdings and underlying funds.

In highlighting the infrastructure objectives Mr Hall added that the London CIV would expect a target net return of 8% to 10% and cash yield of 4% to 6% per annum with at least 80% on brownfield investments and 20% on greenfield investments and a strong focus to the UK and Europe (50-70%) and the remainder on rest of the world (30%-50%). There will also be a minimum of 25% invested in renewable projects. He then drew Members' attention to the fund design with respect to governance, veto rights and restrictions.

In the ensuing discussion, Members questioned LCIV about a range of issues including fee levels, the impact of "Brexit" and associated disinvestments including the decision by Nissan to divert the production of petrol engines from Sunderland to Japan, on-going issues about HS2 and the general approach to investments which

could have political undertones. Questions were also asked about the number of London boroughs that had expressed client interest and the type of assets that would be purchased.

Mr Hall informed Members that due to the size of assets under management there would be significant fee savings for boroughs. He added that whilst there may be an impact from Brexit, it was noteworthy that several positive investment opportunities were in the pipeline both in the UK and US including construction of motorways, the National Grid for electric vehicles and battery storage. Mr Hall continued that LCIV would back out of politically sensitive investments if boroughs wanted and in reference to the slides added that there would be full visibility of the type of assets that would be purchased.

Mr Conrad Hall (Chief Finance Officer) emphasised the need for LCIV to inform members about potential politically sensitive investments.

In thanking Mr Robert Hall for an in-depth presentation on the Infrastructure investment proposal, Mr Conrad Hall and Mr Ravinder Jassar for their contribution in moving the strategy forward, the Sub-Committee **RESOLVED**:

- (i) To note the progress of implementing the investment strategy approved on the 6 November 2018 meeting, including in particular the appointment by the Council (as Administering Authority on behalf of the Brent Pension Fund) of BlackRock Investment Management (UK) Limited pursuant to an investment management agreement in order to facilitate the Pension Fund's investment into the following BlackRock pooled funds:

Aquila Life Over 15 Years UK Gilt Index Fund; and  
Aquila Life Over 15 Years UK Gilt Index (Term Lending) Fund.

- (ii) To agree to commit £50m in the London CIV's infrastructure offering in April 2019.

## **6. Monitoring report on fund activity for the quarter ended December 2018**

The Sub-Committee received the performance monitoring report from Hymans Robertson (Independent Adviser to the Sub-Committee) that provided an overview of the Fund's investment holdings, delivered meaningful analysis to assess whether managers had delivered on their objectives within the quarter as well as provided an insight to as to the extent to which the returns achieved were consistent with each manager's philosophy, investment approach and market conditions.

Mr William Marshall (Partner, Hymans Robertson) introduced the report. He reminded Members about a number of strategic changes implemented in Q4 as the Fund journeyed towards the agreed interim target which included full divestment from Henderson's UK Small Cap, initial allocation to Henderson's EM equity fund and initial allocation to the LCIV MAC Fund (CQS). With reference to the slides, Mr Marshall explained that equity markets fell heavily as US interest rates rose again and investors became more pessimistic about the outlook for global growth. Global equity markets also took a sharp turn lower at the start of Q4 as US government bond yields climbed to 3.2%. Declines resumed in December as tighter monetary policy and concerns over the sustainability of the pace of global growth came to the

fore. Geographically, Japan was the worst performing region as the yen strengthened and the slowing growth in Europe and China weighed heavily on exporters. North America also marginally underperformed global indices while Emerging markets were the best performing region. However, returns to UK investors were less negative given renewed sterling weakness.

Drawing attention to performance by sector, Mr Marshall highlighted the strong performance within utilities and telecommunications and marginally so within healthcare and consumer goods. He continued that oil and gas was the worst performing sector as a result of declining oil prices.

In terms of manager performance, Mr Marshall explained that in the face of the poor performance of global equity markets, LGIM Global Equity delivered a negative return matching the benchmark in the last quarter and over a 12 month period but a healthy 3 year annualised index of +12.8%. With the economic outlook within UK dominated in recent times by recent political uncertainty about Brexit and the increasing prospect of a 'no deal' scenario which had dampened investor sentiment and dragged UK stocks lower in Q4 2018, LGIM UK Equity delivered a negative absolute return of 10.2%. He noted that since 31 December 2018 a slight rebound in markets had been observed. Capital Dynamics, with diversified portfolio by geography and style, delivered an annualised return of 17.8% (8% target return) over a 3 year timeframe. Members heard that Baillie Gifford, Ruffer Multi Assets and CQS Multi Credit underperformed the benchmark whereas Alinda Infrastructure and Capital Dynamics Infrastructure had outperformed their targets.

Over the next quarter, the Fund expected to fully divest from the Janus Henderson Total Return Bond, complete a new investment in BlackRock's over 15yr gilts passive fund and complete the allocation to Janus Henderson's EM and LCIV MAC funds.

In welcoming the update, The Sub-Committee **RESOLVED** to note the monitoring report on fund activity for the quarter ended December 2018.

## 7. London CIV Update

The purpose of this report is to update the committee on recent developments within the London CIV and the timescales attached to making investment decisions. Mr Sawan Shah (Senior Finance Analyst) briefly introduced the report and Mr Will McBean (Client Relations Manager) who provided further updates. Members heard that London CIV had £16.5bn assets under oversight including LGIM and Blackrock passive funds and that about 25% of London's assets were now pooled. He added that as at 31 December 2018, the value of London's assets invested directly through CIV stood at £7.5 billion of which Brent had 69% (£579m) of its assets under management overseen by the LCIV. Mr McBean appraised the Sub-Committee about LCIV new governance arrangements, the appointment of its CEO and that a search for Chief Investment Officer was underway.

Mr McBean informed Members about the LCIV programme of opening sub funds and recruiting fund managers to operate the sub funds, drawing attention to the appendix to the report that set out a summary of all sub funds currently available. He continued that in Q4 2018, the London CIV introduced the Global Bond Fund

managed by PIMCO as the second offering in the fixed income range. This followed the MAC fund as the other fund in the fixed income range which was launched in May 2018. In Q2 2019, LCIV expected to launch a Global Equity Core fund and an Inflation Plus fund, the latter being in the fixed income category.

In the ensuing discussion, Councillor Margaret McLennan enquired as to whether the LCIV was looking to appoint a Responsible Investment Officer in order to integrate environmental, social and governance (ESG) considerations in its strategic decision making. Mr Robert Hall confirmed that they would be looking in to this following feedback from other London Boroughs. Mr Conrad Hall (Chief Finance Officer) responded that a report on the LCIV's Responsible Investment policy was considered and endorsed by the committee at the last meeting in November 2018. This meeting also agreed the committee's Investment Beliefs which included references to integrating ESG into strategic decision making. He also clarified that, in the context of integrating ESG factors with regards to investment decisions, the Committee had a responsibility to ensure the Fund's investment strategy generates sufficient returns in order to pay members' benefits as they fall due and that the funding level of the Fund improves. In bringing the discussion to a close, the Sub-Committee:

**RESOLVED** to note the recent developments within the |London CIV.

8. **MHCLG Statutory guidance on asset pooling in the Local Government Pension Scheme (LGPS) Consultation**

The report informed Members that the Ministry of Housing, Communities and Local Government (MHCLG) had launched an informal consultation on draft new statutory guidance on asset pooling. The guidance (appended to the report), set out the requirements on administering authorities in relation to the pooling of LGPS assets and built on previous Ministerial communications and guidance on investment strategies.

Mr Sawan Shah (Senior Finance Analyst) in introducing the report stated that the new guidance aimed to support further progress in the reform of LGPS investment management which began in England and Wales in 2015. Mr Conrad Hall (Chief Finance Officer) summarised the key points of the guidance as set out in the report, highlighting the requirement for Pool members to appoint a pool company or companies to implement their investment strategies in order to maximise the benefits of scale. These included the selection, appointment, dismissal of investment managers; the management of internally managed investments and the provision and management of pool vehicles including pool funds. He added that the closing date for responses to and comments on the guidance is 28 March 2019

Members welcomed the draft statutory guidance as it was linked to the Fund's investment strategy and investment beliefs that were agreed in November 2018, with 69% of the Brent Pension Fund's investments pooled with the LCIV as at 31 December 2018. Having defined their response to this development the Sub-Committee **RESOLVED**

- (i) To note the fundamental change resulting from the draft new guidance is that the Brent Pension Fund will no longer be responsible for the selection and

dismissal of managers. Instead this responsibility will now be carried out by the pool.

- (ii) To note the report and the draft statutory guidance and that the Chief Finance Officer will prepare a formal response to the consultation on behalf of the Brent Pension Fund before the consultation closes, in consultation with the Chair of the Pension Fund Sub-Committee.

9. **Minutes of Pension Board - 13 December 2018**

The Sub-Committee welcomed Mr David Ewart (Chair of Pension Board) to the meeting and invited him to provide a summary of the meeting held on 13<sup>th</sup> December 2018. Mr Ewart informed the Sub-Committee that the Board noted the major improvements that had been achieved following the transfer of the pensions administration contract to LPP. That had helped the Fund to avoid the prospect of self-reporting to The Pensions Regulator (TPR). He noted that there was still some work to be done to resolve issues raised by TPR, including record keeping and other governance related matters. The Board re-affirmed its commitment to continuously monitor the situation. In conclusion, Mr Ewart added that TPR would be attending the next meeting of the Board on 13<sup>th</sup> March 2019.

With no further issues identified, the Sub-Committee **RESOLVED** that the minutes of the Pension Board held on 13<sup>th</sup> December 2018 be noted.

10. **Date of next meeting**

The date of next meeting would be confirmed at the Council's Annual General Meeting in May 2019.

11. **Any other urgent business**

None.

The meeting closed at 7.40 pm

S CHOUDHARY  
Chair