

# Local Pension Board

13 April 2021

## General Investment Activity Update

### Recommendations

That the Local Pension Board notes and comments on this report.

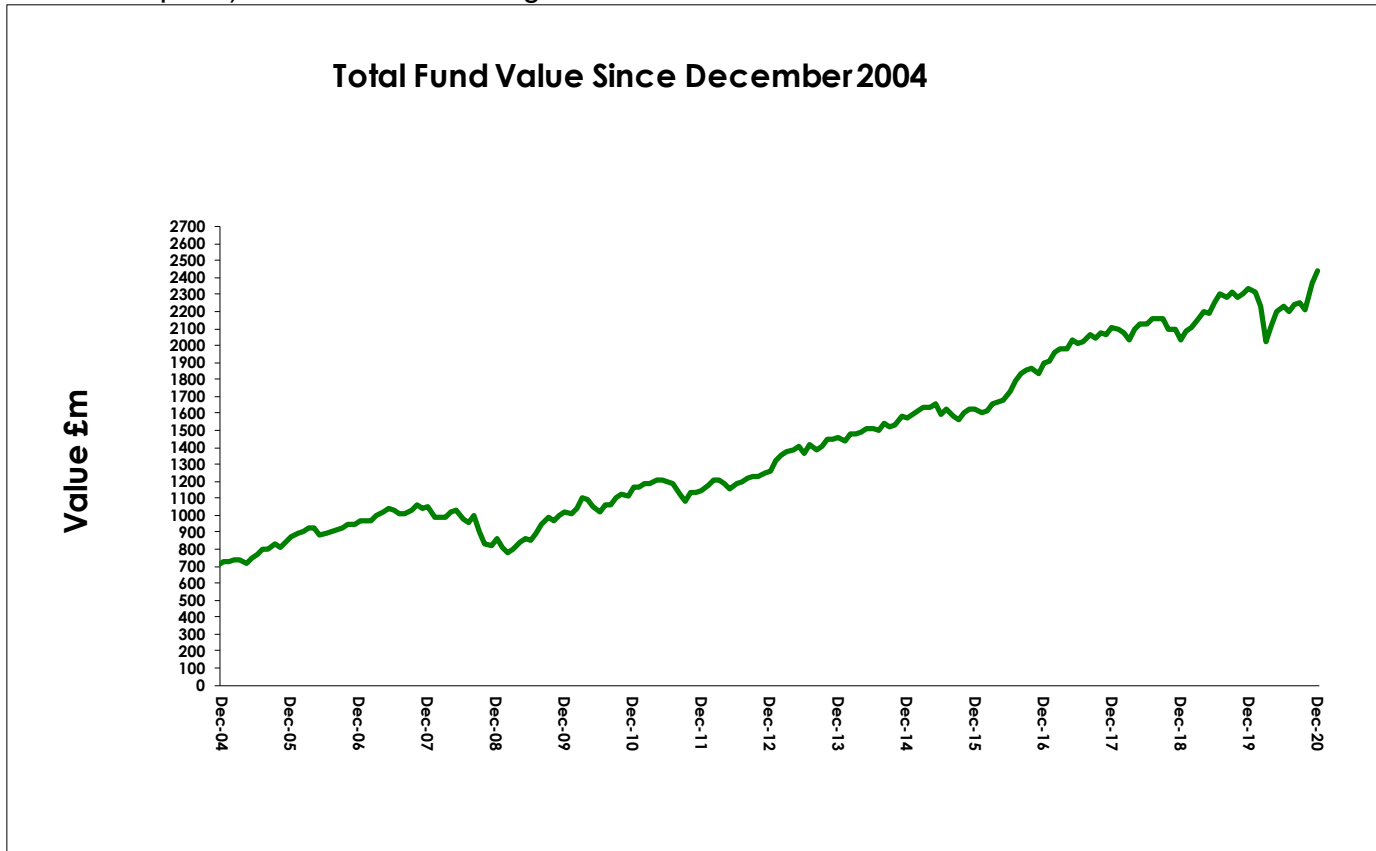
### 1 Executive Summary

1.1 This report provides a general update on investment related activity.

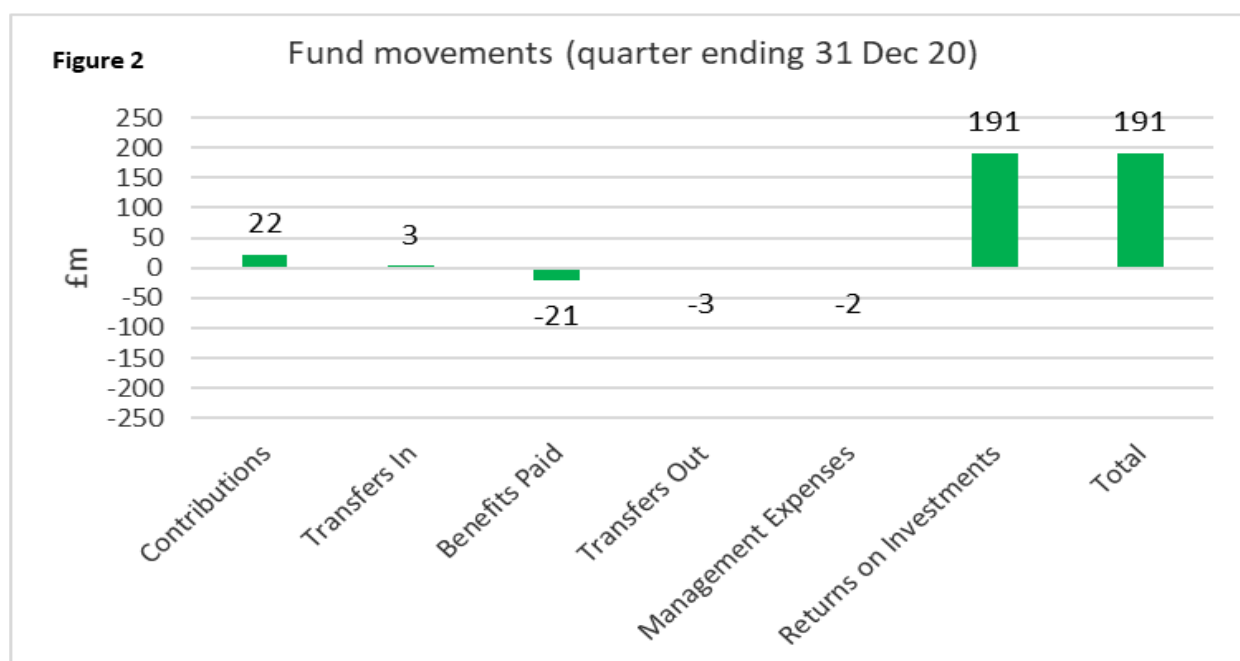
### 2. Fund Update

2.1 The funding level as at 31 December 2020 was 91.4%.

2.2 The value of the Fund now stands at £2.45bn (its highest absolute value since inception) as shown in the long term chart below.



2.3 The total value of the Fund's assets increased by 8.4% over the quarter ending 31st of December 2020. This was driven by equity gains over the quarter. The chart below summarises the main cash flow changes



2.4

### 3 Portfolio Commentary

#### Overall

3.1 The Fund's Strategic Asset allocation and current allocation as at 31 December 2020 are shown below:

Asset class	Current (%)	Current benchmark (%)	Long-term target (%)
UK Equities	16.1	16.0	13.0
Overseas Equities*	30.4	25.5	21.5
Overseas Fundamental Equities	9.8	10.0	10.0
Private Equity	5.5	4.0	4.0
<b>Total Growth</b>	<b>61.7</b>	<b>55.5</b>	<b>48.5</b>
Property	9.1	10.0	12.5
Infrastructure	2.8	7.0	7.0
Private Debt	3.6	5.0	7.0
Absolute Return Bonds*	4.7	7.5	10.0
<b>Total Income</b>	<b>20.2</b>	<b>29.5</b>	<b>36.5</b>
UK Corporate Bonds	10.4	10.0	10
UK Index-Linked Bonds	5.4	5.0	5
Cash	2.3	n/a	n/a
<b>Total Bonds/Cash</b>	<b>18.1</b>	<b>15.0</b>	<b>15.0</b>

\*2.5% was removed from Overseas Equities and placed in Absolute Return Bonds in early March.

### Alternatives

- 3.2 A key issue for the Fund remains building up investments in alternatives, this continues to occur and the current overall picture for alternatives allocations is that 52.4% of the total amount committed has been called by investment managers to date.

Alternatives	£ invested with fund manager	£ still to be called	Total
£m	283.8	258.0	541.8
% of Total	52.4%	47.6%	100.0%

### Cash

- 3.3 Cash balances as at the end of December were £57.5m. £40m is held in the custodian investment account (Blackrock – this account is used to meet capital calls and take investment distributions), and £17.5m is held in the fund’s operating account (Lloyds - to manage transactions such as receiving employer contributions and paying member benefits). The total balance remains high (2.4% of the Fund) due to the intention to protect the fund from the risk of having to sell assets under distress to service cash flow, and also in anticipation of the move to the Border to Coast Multi Asset Credit fund.

### Multi Asset Credit Fund Transfer

- 3.4 In early March, 2.5% (£61m) of the portfolio transferred from the Border to Coast Global Equity Alpha Fund to the PIMCO Diversified Income Fund. The transfer out of the Global Equity Alpha Fund involved crossing units with another Partner Fund allowing c.£50,000 of savings.
- 3.5 Later in the year the transfer to the fully developed Border to Coast Multi Asset Credit Fund is planned. At present, the outlook for the funding of this transfer is as follows:

Fund	£m	% of Fund
PIMCO DIF Fund	61.0	2.5%
JPMorgan Fund	115.0	4.7%
Additional funds required (source to be confirmed)	68.5	2.8%
Total MAC Transfer	244.5	10.0%

## 4 Voting

- 4.1 The Fund holds actively managed equities through funds within the Border to Coast Pension Partnership, and passive equities managed through funds held with Legal and General Investment Management ('LGIM').
- 4.2 The table below summarises voting activity in the previous quarter in respect of funds held with Border to Coast:

### Border to Coast Equity Funds

Voting Direction	UK Alpha	Global Alpha	UK Alpha	Global Alpha
	Vote Count		% of Total	
For	141	282	89.2%	90.4%
Against	15	30	9.5%	9.6%
Other	2	0	1.3%	0.0%
Total	158	312	100.0%	100.0%

- 4.3 Border to Coast provide published reports on their website in respect of voting (and engagement) activity, and the link is included here:  
<https://www.bordertocoast.org.uk/our-investments/>
- 4.4 The table below summarises voting activity in the previous quarter in respect of funds held with LGIM:

### LGIM Equity Funds

Voting Direction		
	Vote Count	% of Total
For	372	52%
Against / Withhold / Abstain	350	48%
Total	722	100%

## 5 Independent Financial Advisers

- 5.1 The tendering exercise for the two Independent Financial Adviser contracts has been completed. The results of the exercise are:
- Lot 1 (investment focus) –awarded to Camdor Global Advisors (Bob Swarup). This contract has begun and Bob has been working with fund officers since February.
  - Lot 2 (liabilities focus) - contract not let. Officers are reviewing the specification of this contract and the tender process. Only one bid was received indicating that the service specification and/or the process

bidders were required to adopt were not attractive to the market.

## **6 UK Stewardship Code**

- 6.1 Fund officers continue to work alongside colleagues from partner funds within the Border to Coast Pension Partnership to collaboratively progress the creation of a template for adoption by partner funds to be able to sign up to the Code. When the final template is ready, each partner fund may tailor aspects of it as appropriate.
- 6.2 The plan remains to have a report ready by September 2021.

## **7 Climate Change**

- 7.1 A training event was delivered for the PFISC in January focusing on climate change. A number of actions were highlighted at the end of the session, and fund officers will convert these into a schedule of priorities and activities.
- 7.2 Signing up to the UK Stewardship Code 2020 will in itself assist in promoting activity and transparency around climate change, and once that priority has been addressed, it is intended for the Fund to look at the requirements relating to the Task Force on Climate-Related Financial Disclosures (TCFD).

## **8 Training**

- 8.1 Further to the completion of the National Knowledge Assessment, the results of this are being used to inform a training plan. This has been covered within the “Forward Plan” item elsewhere on this agenda.
- 8.2 In addition to the identification of appropriate training, it is important to ensure that all training is logged and recorded. This assists with ensuring that training is not duplicated and is also necessary in order to provide evidence in submissions to fund managers when the Fund opts up to investor status.

## **9 Financial Implications**

- 9.1 Further detailed information about the financial implications of the last quarter’s investment performance were provided to the Pension Fund Investment Sub-Committee. Officers are working on displaying a cost benefit analysis of pooling on the Fund’s investment portfolio.

## 10 Environmental Implications

10.1 Climate risk is a key issue facing the fund in the longer term. This has been a feature of recent training and set of actions which are being converted into a plan for 2021/22.

## 11 Supporting Information

11.1 None.

## 12 Timescales Associated with Next Steps

12.1 None.

## Appendices

- None

## Background Papers

None

	<b>Name</b>	<b>Contact Information</b>
Report Author	Chris Norton,	chrisonorton@warwickshire.gov.uk,
Assistant Director	Andy Felton	andrewfelton@warwickshire.gov.uk
Lead Director	Rob Powell	<a href="mailto:robpowell@warwickshire.gov.uk">robpowell@warwickshire.gov.uk</a>
Lead Member	Peter Butlin	<a href="mailto:cllrbutlin@warwickshire.gov.uk">cllrbutlin@warwickshire.gov.uk</a>

The report was circulated to the following members prior to publication:

Local Member(s): None

Other members: None