

Pension Fund Investment Sub-Committee

14 June 2021

General Investment Activity Update

Recommendations

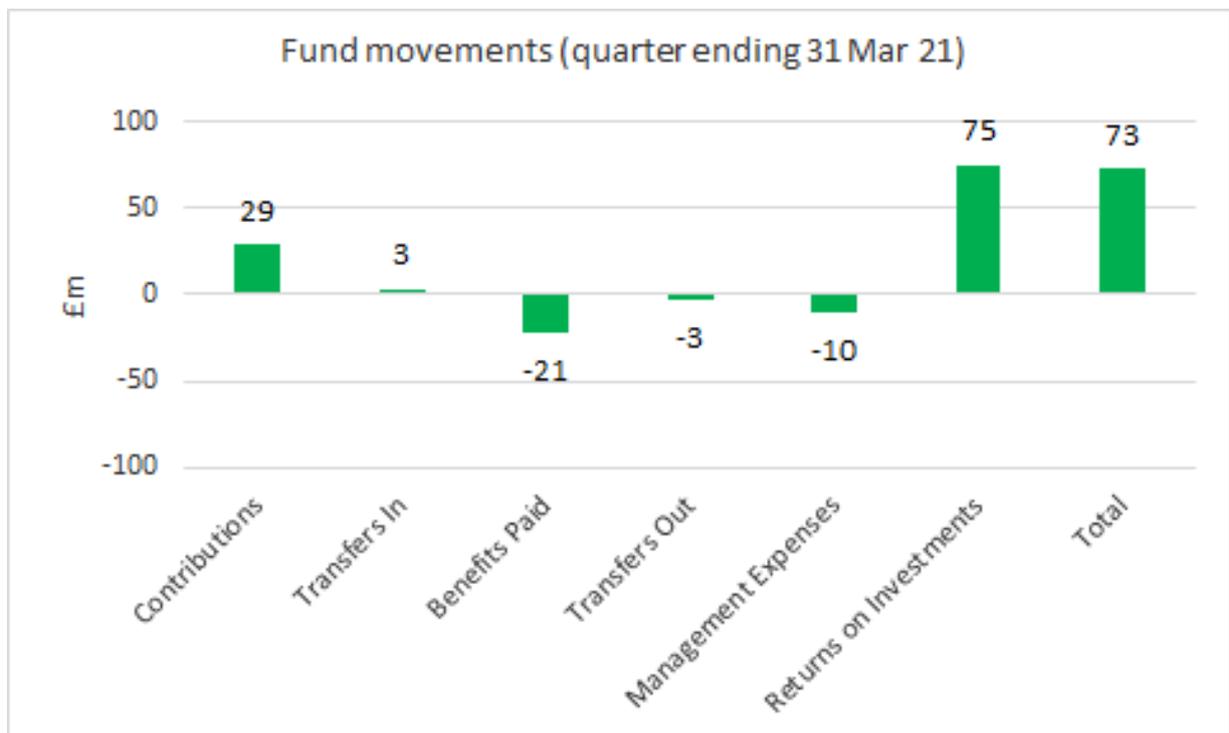
That the Pension Fund Investment Sub-Committee (PFISC) notes and comments on this report.

1 Executive Summary

- 1.1 This report provides a general update on investment related activity, and is complimentary to the investment and funding performance report elsewhere on the agenda which is focused particularly on asset allocation compared to target, and the performance of fund managers. The standalone funding report also provides additional detail on how the Fund is performing with respect to its liabilities.

2. Fund Update

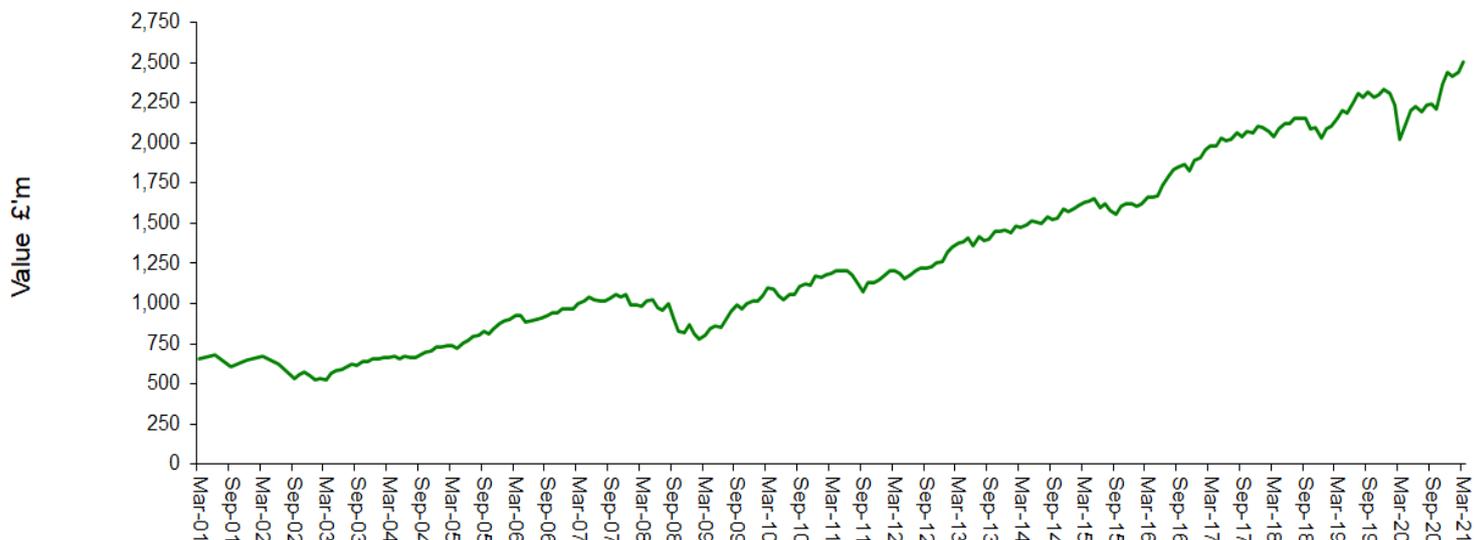
- 2.1 The total value of the Fund's assets increased by 2.8% over the quarter ending 31 March 2021.



2.2 This increase was driven by equity gains. The chart above summarises the main cash flow changes.

2.3 The value of the Fund stood at £2.50bn (its highest absolute value since inception) as shown in the long-term chart below.

Total Fund Value Since 31 March 2001



2.4 More detailed analysis of investment performance and a summary of the overall funding level are set out in a separate report in the meeting agenda.

3 Long Term Performance

3.1 Appendix 1 shows performance since inception vs target for all funds currently invested in. This helps to provide a long-term view.

4 Portfolio Commentary

Alternatives

4.1 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 44.5% of the total amount committed has been called by investment managers to date. Appendix 2 illustrates the breakdown of this between the different funds.

Alternatives	Amount invested by fund managers (£m)	Amount still to be called (£m)	Total
£'m	292	364	656
% of Total	44.5%	55.5%	100%

Cash

- 4.2 Cash balances as at the end of March were £59.8m. £42.4m is held in the custodian investment account (Blackrock – this account is used to meet capital calls and take investment distributions), and £17.4m 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 in anticipation of the move to the Border to Coast Multi-Asset Credit Fund.

Multi Asset Credit Fund Transfer

- 4.3 In February, the Fund transferred £61m (2.5% at the time) from the Border to Coast Global Equity Alpha Fund (fully crossed with the Lincolnshire Pension Fund to minimise transaction costs) to the PIMCO Diversified Income Fund.
- 4.4 The PIMCO Diversified Income Fund is very similar to the core sleeve that will be run by PIMCO in the Border to Coast Multi Asset Credit Fund.
- 4.5 Once the Border to Coast Multi Asset Credit Fund is ready to launch the intention is to transfer as follows:

Fund	£m	% of Fund
PIMCO Diversified Income Fund	£60.4	2.4%
JP Morgan Unconstrained Bond Fund	£114.6	4.6%
Additional (source to be confirmed)	£75.5	3.0%
Total MAC transfer	£250.4	10.0%

5 Voting

- 5.1 The Fund holds actively managed equities through funds within the Border to Coast Pensions Partnership, and passive equities managed through funds held with LGIM. These equities carry voting rights.
- 5.2 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	Vote count		% of Total	
	UK Alpha	Global Alpha	UK Alpha	Global Alpha
For	379	307	90%	94%
Against	41	19	10%	6%
Other	1	2	0%	1%
Total	421	328	100%	100%

5.3 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/>

5.4 The table below summarises voting activity in the previous quarter in respect of funds held with LGIM:

5.5

LGIM equity funds

Voting direction	Vote count		% of Total	
	UK	Global	UK	Global
For	97	241	66%	33%
Against/ Withhold/ Abstain	50	491	34%	67%
Total	147	732	100%	100%

5.6 LGIM's Investment Stewardship team direct the assets managed on our behalf. Their ESG Impact Report sets out voting (and engagement) activity, and the link is included here: <https://www.lgim.com/landg-assets/lgim/document-library/capabilities/esg-impact-report-q1-2021.pdf>

6 Independent Financial Advisers

6.1 Officers are reviewing the specification of the Lot 2 (liabilities focus) contract for a second Independent Financial Adviser with a view to running a new tendering process later this year.

7 UK Stewardship Code

7.1 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 fund may tailor aspects of it as appropriate.

7.2 The first draft of each principle is ready, and it is now with officers to tailor this to their own Fund's requirements.

7.3 The plan remains to have a draft report ready by September 2021.

8 Climate Change

8.1 Signing up to the UK stewardship code will 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).

9 Training

- 9.1 Due to Council elections, there has been no formal training since January's Climate change scenario testing by Hymans.
- 9.2 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. The Fund has created 'logs' which can be used by each member (either PFISC or Local Pension Board) to maintain their records.

10 Employer Engagement

- 10.1 The Pension Fund asked employers at the 29th April Employer Engagement Day for their views on some aspects of Responsible Investment and Climate Risk. The results of these polls are attached as Appendix 3.
- 10.2 11 out of 56 attendees at the Employer Engagement Day responded to polling questions. This reflects relatively low engagement from employers including with respect to climate risk and responsible investment. However, this was the first instance of gathering views, and we hope to identify further methods of engagement over time.
- 10.3 Those that did respond prioritised high funding levels with relatively low downside worst case scenarios. Respondents were broadly comfortable with changes (increases) to in contribution values that this approach would entail.
- 10.4 There was also some importance placed on climate change and social impact, alongside the 5-year investment return.

11 Financial Implications

- 11.1 Further detailed information about the financial implications of the last quarter's investment performance is detailed in a report elsewhere on the agenda entitled "Investment and Fund Performance".

12 Environmental Implications

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

13 Supporting Information

13.1 None.

14 Timescales Associated with Next Steps

14.1 None.

Appendices

- Appendix 1 – Performance since inception
- Appendix 2 – Alternatives Funds Commitments
- Appendix 3 – Poll results

Background Papers

None

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

Local Member(s): None

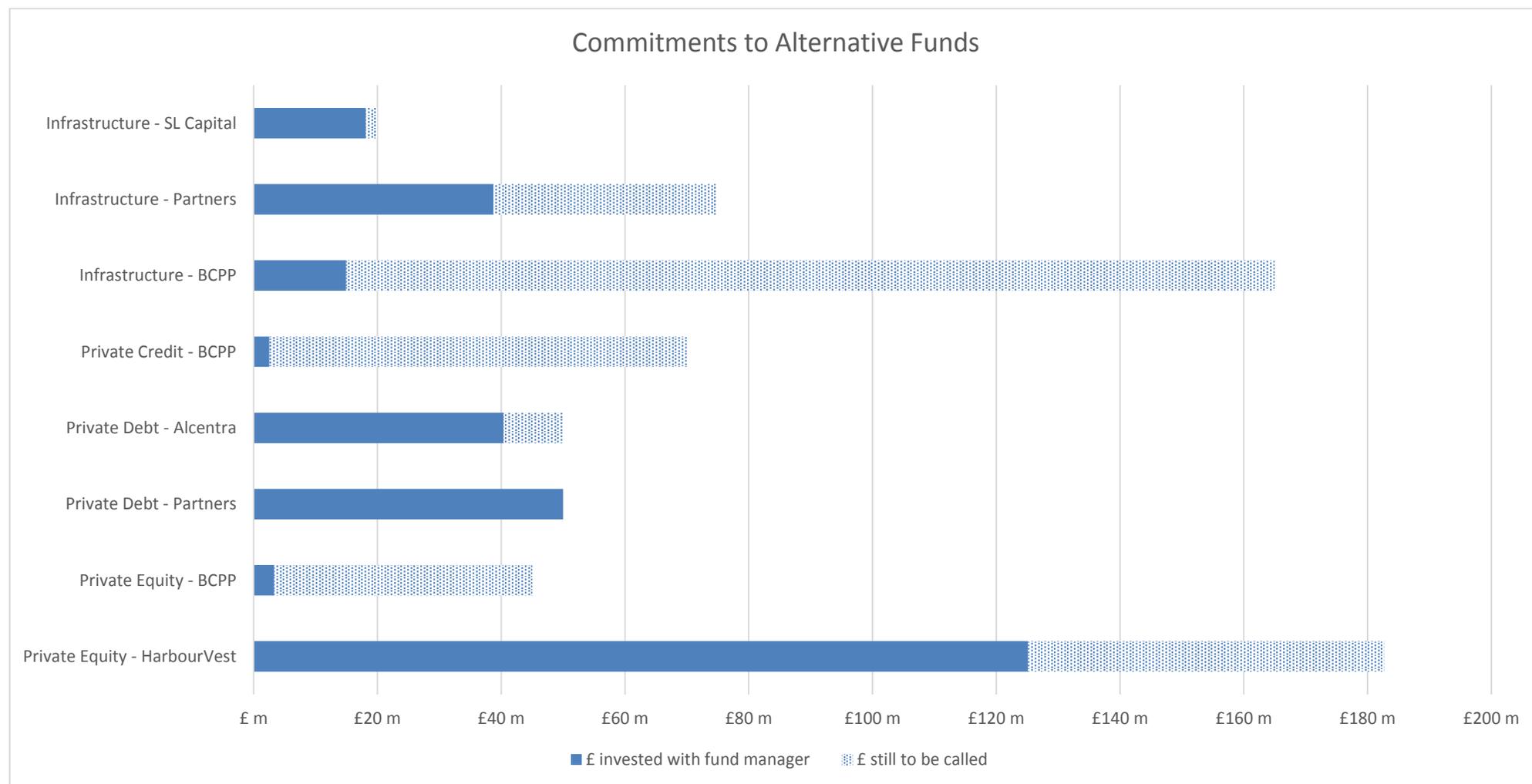
Other members: Horner and Gifford

Appendix 1

Structure	Inception to 31/3/21	Inception Date
Alcentra	9.52	01-Nov-18
Alcentra BM	5	01-Nov-18
BCPP UK EQ RK	6.92	01-Dec-18
BCPP UK EQUITY BENCHMARK	3.69	01-Dec-18
BCPP UK EQUITY + 2%	5.77	01-Dec-18
Harbour Vest	11.03	01-Apr-11
Harbour Vest Benchmark	12.16	01-Apr-11
JP Morgan	2.85	01-Feb-13
JP Morgan Benchmark	0.46	01-Feb-13
JP Morgan Benchmark + 3%		01-Feb-13
LGIM Bond	6.41	01-Nov-08
LGIM Bonds	6	01-Nov-08
LGIM Equity	10.79	01-Nov-08
LGIM Equity BM	10.82	01-Nov-08
Partners Group	7.31	01-Jan-16
Partners Group BM	7	01-Jan-16
Partners Group II	4.35	01-Apr-18
Partners Group II BM	5	01-Apr-18
Schroders Property	2.75	01-Apr-07
Schroders Property BM	2.72	01-Apr-07
SL Capital	7.21	01-Jun-15
SL Capital	7.01	01-Jun-15
Threadneedle Property	3.99	01-Apr-07
Threadneedle Property BM	3.45	01-Apr-07
WARKS - PIMCO DIF	-1.01	01-Mar-21
WARKS-BCPP GE	12.45	01-Oct-19
BCPP GE Benchmark	11.86	01-Oct-19
BCPP GE + 2%	13.8	01-Oct-19
WARKS-BCPP IG CR	2.27	01-Feb-20
BCPP IG CR Benchmark	0.54	01-Feb-20
WARKS-BCPP INFRA	-16.38	01-Oct-19
BCPP INFRA Benchmark	7	01-Oct-19
WARKS-BCPP PE	2.94	01-Jul-19
BCPP PE Benchmark	12.81	01-Jul-19
WARKS-BCPP PR CR	-2.82	01-May-20
BCPP PR CR Benchmark	4.57	01-May-20

Alternatives Funds Commitments

Appendix 2



Note that this chart only shows the extent to which capital has been invested, it does not show the planned investment profile and therefore is not an indicator of the performance of fund managers in getting capital invested.

