

Local Pension Board

20 July 2021

General Investment Activity Update

Recommendation

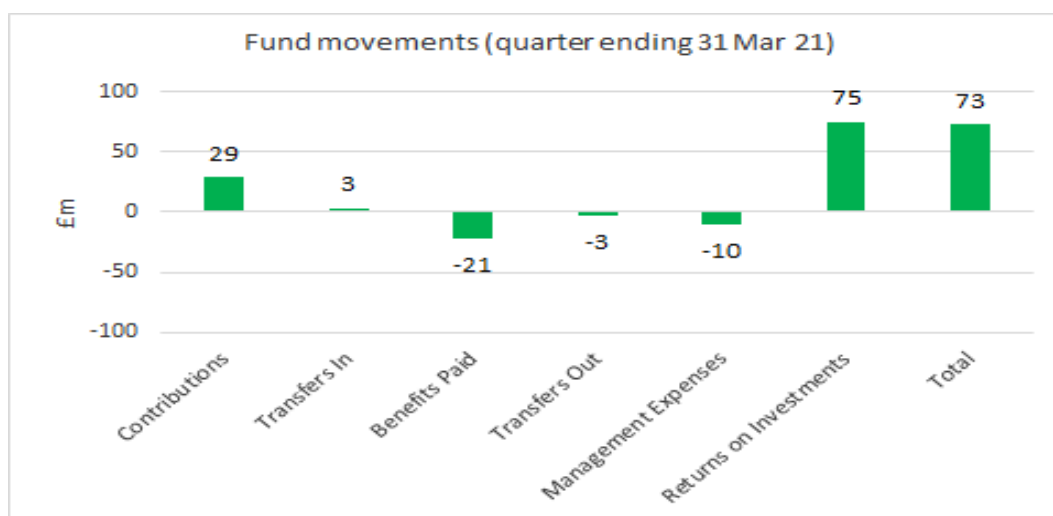
That the Local Pension Board (LPB) notes and comments on this report.

1 Executive Summary

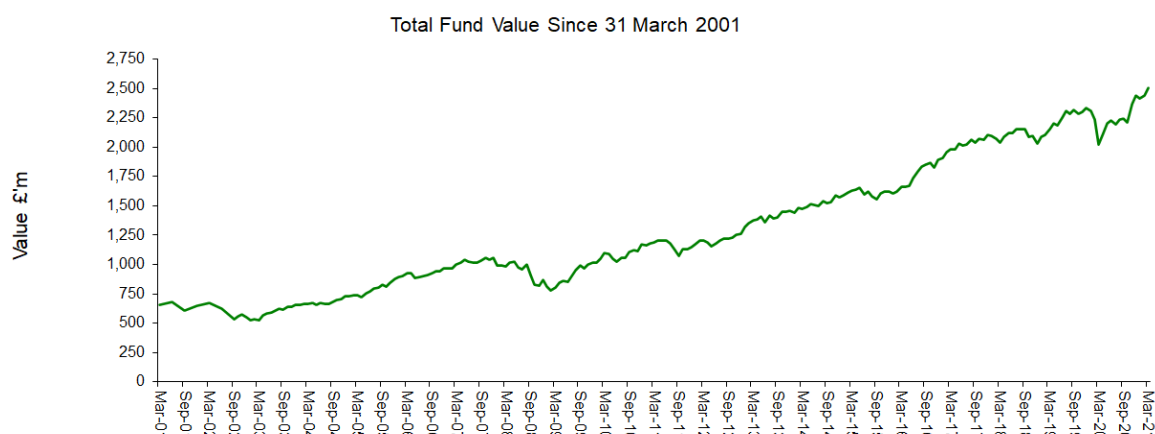
- 1.1 This report provides a general update on investment related activity.
- 1.2 The funding level improved over the quarter ending 31 March 2021. The main drivers of underlying asset and liability movements are described.
- 1.3 The report also summarises activities that have taken place over this quarter to ensure that the Fund is well-governed.

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 below summarises the main cashflow 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.



- 2.4 More detailed analysis of investment performance and a summary of the overall funding level were provided to the Investment Sub-Committee in the private session.

3 Portfolio Commentary

Alternatives

- 3.1 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 1 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

- 3.2 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.

Rebalancing

- 3.3 In February, the Fund was overweight to equities and chose to rebalance the portfolio towards the Strategic Asset Allocation. It did this by transferring £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.
- 3.4 At the June Pension Fund Investment Sub-Committee a decision was made to de-risk further by also moving the overweight allocation relating to overseas equities into the PIMCO Diversified Income Fund.
- 3.5 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 Voting

- 4.1 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.
- 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	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%

- 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	
	UK	Global	UK	Global
For	97	241	66%	33%
Against/ Withhold/ Abstain	50	491	34%	67%

Total	147	732	100%	100%
-------	-----	-----	------	------

- 4.5 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>

5 Independent Financial Advisers

- 5.1 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 towards the end of this calendar year.

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.
- 6.2 The first draft of each principle is ready, and it is now with officers to tailor this to their own Fund's requirements.
- 6.3 The plan remains to have a draft report ready by September 2021.

7 Climate Change

- 7.1 Signing up to the 2020 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).

8 Training

- 8.1 Due to Council elections, there has been no formal training since January's Climate change scenario testing by Hymans.
- 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 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.

9 Employer Engagement

- 9.1 The Pension Fund asked employers at the 29 April Employer Engagement Day for their views on contribution rates, fund risk and some aspects of Responsible Investment and Climate Risk.

10 Financial Implications

- 10.1 No decision-making requests

11 Environmental Implications

- 11.1 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.

12 Supporting Information

- 12.1 None.

13 Timescales Associated with Next Steps

- 13.1 None.

Appendices

- Appendix 1 – Alternatives Funds Commitments

Background Papers

None

	Name	Contact Information
Report Author	Chris Norton, Victoria Moffett	chrisnorton@warwickshire.gov.uk, Victoriamoffett@warwickshire.gov.uk
Assistant Director	Andy Felton	andrewfelton@warwickshire.gov.uk
Lead Director	Rob Powell	robpowell@warwickshire.gov.uk
Lead Member	Peter Butlin	cllrbutlin@warwickshire.gov.uk

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

Local Member(s): None

Other members: None



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.