

Local Pension Board

20 October 2021

Investment Update

Recommendations

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

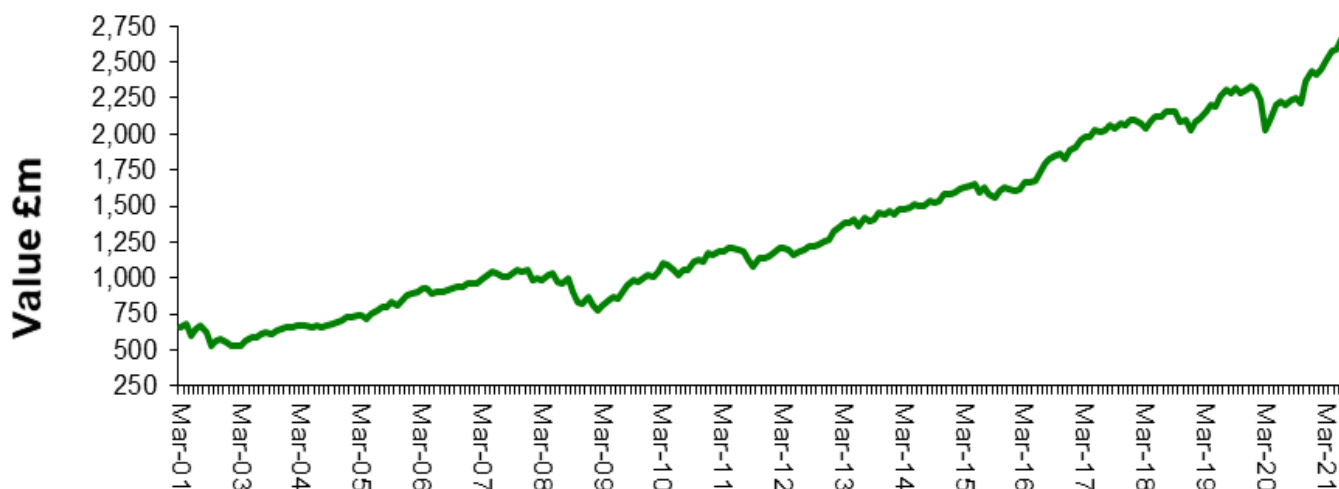
1 Executive Summary

- 1.1 This report provides a general update on investment related activity.
- 1.2 The funding level improved over the quarter ending 30 June 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.

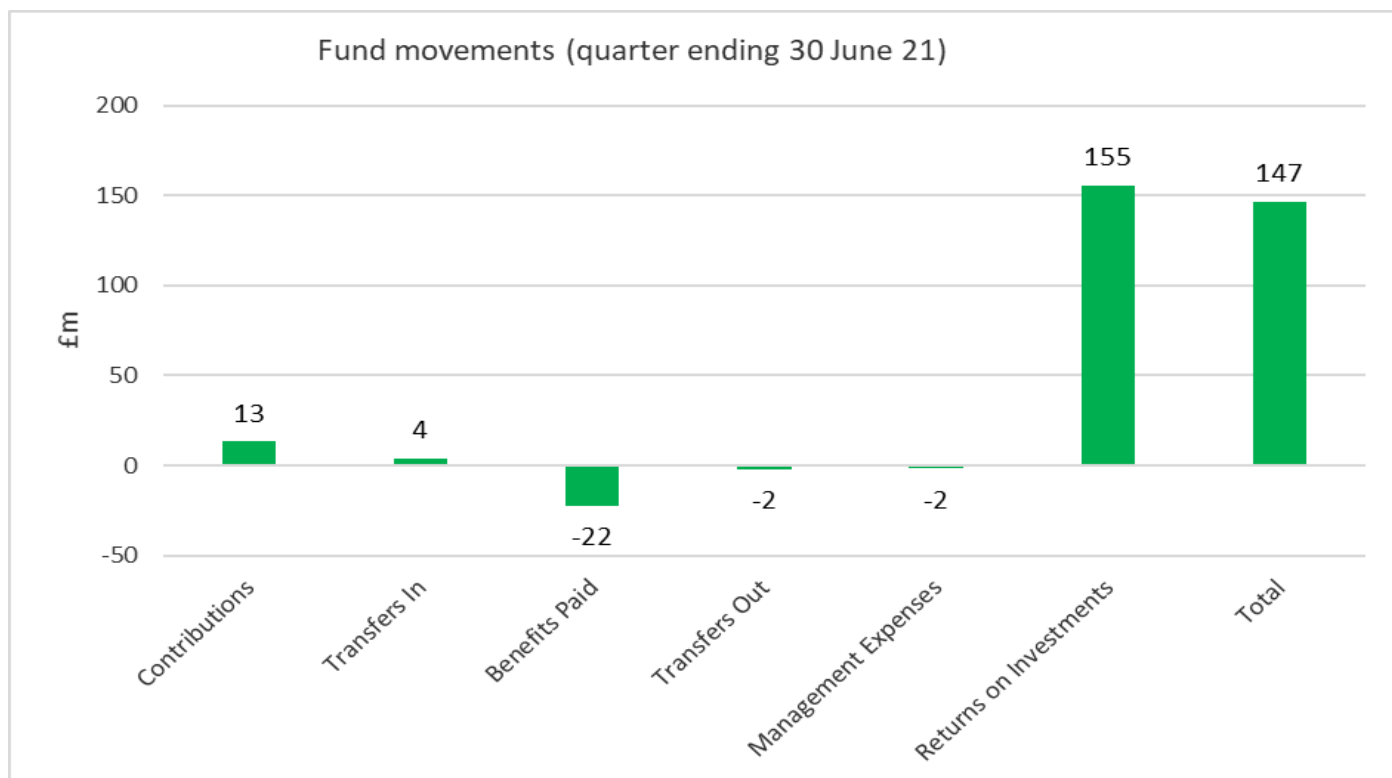
2. Fund Update

- 2.1 As at 30 June 2021, the funding level was c.101%.
- 2.2 The value of the Fund's assets increased by 6.1% over the quarter and stood at £2.7bn (its highest absolute value since inception) at quarter end.

Total Fund Value Since 31 March 2001



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



2.4 Over the quarter under review the value of benefits paid out exceeded the value of contributions paid in (by £9m).

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 46% of the total amount committed has been called by investment managers to date. Appendix 2 illustrates the breakdown of this between the different funds.

Alternative s	Amount invested by fund managers (£m)	Amount still to be called (£m)	Total
£'m	300	352	652

% of Total	46%	54%	100%
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Cash

- 4.2 Cash balances as at the end of June were £72.4m. £56.8m is held in the custodian investment account (Blackrock – this account is used to meet capital calls and take investment distributions), and £15.6m 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 (2.7% 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 the June PFISC, the PFISC decided to remove the overweight to overseas equities. The PFISC decided to invest the holdings released from this to PIMCO’s Diversified Income Fund (DIF).
- 4.4 In July 2021, the Fund transferred £20,500k from Border to Coast’s Global Equity Alpha Fund and £24,126k from LGIM’s regional overseas equity funds (in proportion to their current holdings). The proceeds from these transfers (£44,626k) were invested in PIMCO’s DIF.
- 4.5 The PIMCO DIF is very similar to the core sleeve that will be run by PIMCO in the Border to Coast Multi Asset Credit Fund (MAC). As the core sub-fund in the MAC, PIMCO’s fund will make up c.40% of the total MAC.
- 4.6 In the December 2019 PFISC the decision was made to allocate 10% of the Pension Fund to MAC once it became available, subject to the MAC sub-fund meeting certain “necessary” and additional conditions. These conditions have since been met, and so the Fund is progressing with the transfer of assets to MAC
- 4.7 The intention is to transfer as follows (figures as at 31 July 2021):

Fund	£m	% of Fund
PIMCO Diversified Income Fund	£106.3	4.0
JP Morgan Unconstrained Bond Fund	£115.3	4.3
Additional (source to be confirmed)	£45.2	1.7
Total MAC transfer	£266.8	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	UK Alpha	Global Alpha	UK Alpha	Global Alpha
	Vote Count		% of Total	
For	1776	1636	92%	89%
Against	153	177	8%	10%
Other	3	16	0%	1%
Total	1932	1829	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:

LGIM equity funds

Voting Direction	UK	Rest of World	UK	Rest of World
	Vote Count	Vote Count	% of Total	% of Total
For	5,114	30,975	93%	78%
Against	413	7,150	7%	18%
Other	0	1,473	0%	4%
Total	5,527	39,598	100%	100%

- 5.5 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/esg/q2-2021_esg-impact-report-uk_europe-final.pdf

6 Independent Advisers

- 6.1 Officers are reviewing the specification of the Lot 2 (liabilities focused) contract for a second Independent Adviser. The tendering process is starting soon with a view to having the Adviser in place before the next PFISC (December).

7 UK Stewardship Code

- 7.1 Fund officers continue to work on drafting this report. The intention is for this to pass through the upcoming 31 October 2021 – 30 April 2022 application window.

8 Climate Change

- 8.1 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).

9 Training

- 9.1 The Training Policy was approved by the PFISC in September's meeting.
- 9.2 Since June, Committee members, Board members and officers have had access to several tailored workshops:
- Risk management (15 July)
 - Administration best practice, Governance and Section 13 (29 July)
 - Actuarial methods and liabilities, including longevity (5 August)
 - Strategy framework and responsible investments (17 August)
 - High-level strategic asset allocation (20 September)
- 9.3 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 as evidence 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 Financial Implications

- 10.1 None

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 – Performance since inception
- Appendix 2 – Alternatives Funds Commitments

Background Papers

None

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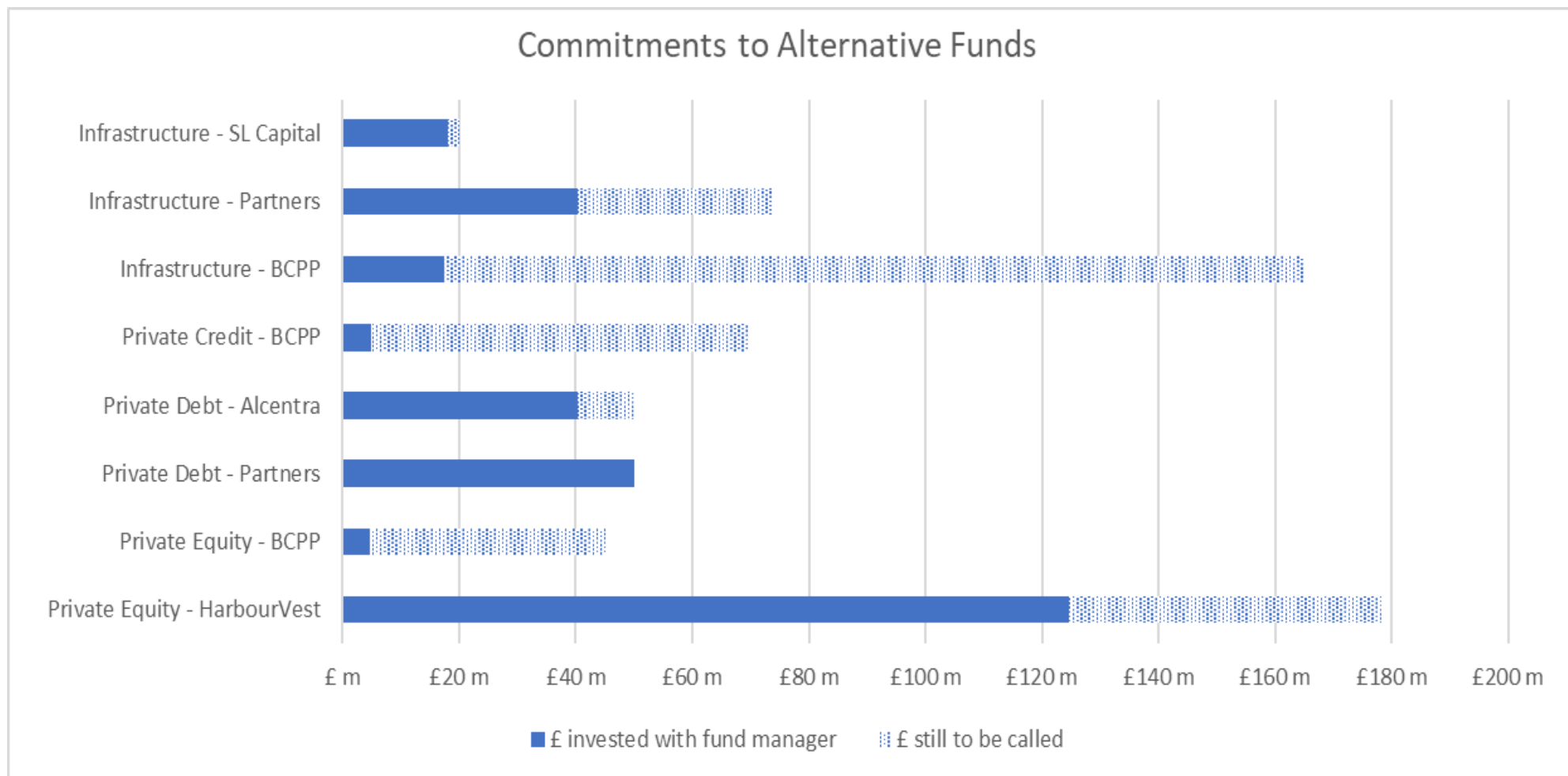
The report was circulated to the following members prior to publication:

Local Member(s): n/a

Other members: n/a

Appendix 1

Structure	Inception to 30/6/21	Inception Date
Total Consolidation	8.55	01/Jul/04
WWS - Reflex BM Total Fund		01/Jul/04
Alcentra	9.33	01/Nov/18
Alcentra BM	5.00	01/Nov/18
BCPP UK EQ RK	7.83	01/Dec/18
BCPP UK EQUITY BENCHMARK	5.54	01/Dec/18
BCPP UK EQUITY + 2%	7.58	01/Dec/18
Harbour Vest	14.29	01/Apr/11
Harbour Vest Benchmark	12.67	01/Apr/11
JP Morgan	2.94	01/Feb/13
JP Morgan Benchmark	0.44	01/Feb/13
JP Morgan Benchmark + 3%		01/Feb/13
LGIM Bond	6.53	01/Nov/08
LGIM Bonds	6.12	01/Nov/08
LGIM Equity	11.05	01/Nov/08
LGIM Equity BM	10.98	01/Nov/08
Partners Group	7.77	01/Jan/16
Partners Group BM	7.00	01/Jan/16
Partners Group II	4.33	01/Apr/18
Partners Group II BM	5.00	01/Apr/18
Schroders Property	2.95	01/Apr/07
Schroders Property BM	2.95	01/Apr/07
SL Capital	6.95	01/Jun/15
SL Capital	7.01	01/Jun/15
Threadneedle Property	4.24	01/Apr/07
Threadneedle Property BM	3.66	01/Apr/07
WARKS - PIMCO DIF	1.76	01/Mar/21
WARKS-BCPP GE	14.99	01/Oct/19
BCPP GE Benchmark	14.58	01/Oct/19
BCPP GE + 2%	16.59	01/Oct/19
WARKS-BCPP IG CR	3.28	01/Feb/20
BCPP IG CR Benchmark	1.66	01/Feb/20
WARKS-BCPP INFRA	-9.61	01/Oct/19
BCPP INFRA Benchmark	7.00	01/Oct/19
WARKS-BCPP PE	12.91	01/Jul/19
BCPP PE Benchmark	15.35	01/Jul/19
WARKS-BCPP PR CR	2.55	01/May/20
BCPP PR CR Benchmark	5.00	01/May/20



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.