

# Local Pension Board

26 Apr 2022

## Investment Update

### Recommendation

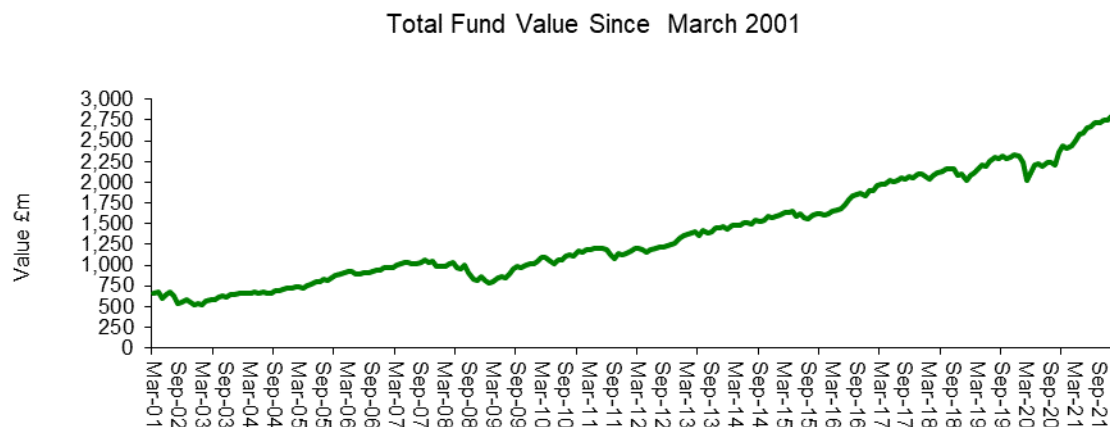
That the Local Pension Board (LPB) notes and comments on this report.

### 1. Executive Summary

- 1.1 This report provides a general update on investment related activity.
- 1.2 The funding level remained stable over the quarter ending 31 December 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.

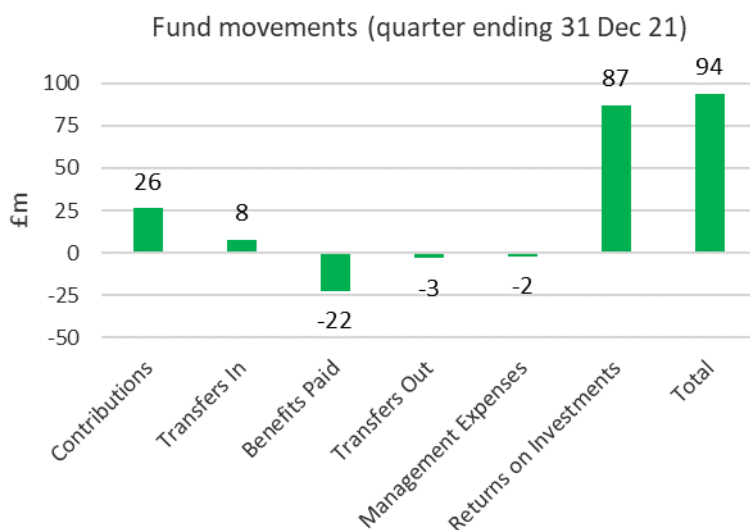
### 2. Fund Update

- 2.1 The funding level remained stable over the quarter ending 31 December 2021 at c106%.
- 2.2 As at 31 December 2021, the value of the Fund stood at £2.8bn (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 3.2% over the quarter ending 31 December 2021.

- 2.4 This increase was driven by equity and property gains. The chart below summarises the main cash flow changes.



- 2.5 Over the quarter under review the value of contributions paid in exceeded the value of benefits paid out (by £4m). In the previous two quarters this was not the case. This indicates that the Fund is broadly cashflow neutral still.

### 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. There are no funds 'on watch' at present.

### 4 Stewardship and Voting

- 4.1 At the 7 March PFISC, the following statement was issued and has been shared with the Fund's investment managers for implementation:

*"...We unreservedly condemn the invasion of Ukraine by Russia and our thoughts are with all those affected by the atrocities being carried out in Ukraine. We would like to express our solidarity and sympathy with the people of Ukraine.*

*We are instructing our fund managers, including the local government pension pool, Border to Coast, of which we are one member, to cease investment into Russia and Warwickshire Pension Fund's wish to dissociate itself from all Russian-owned and Russian-controlled investments. Due to the nature of the Russian regime, we do not make a distinction between state and non-state owned assets.*

*We will work with our fund managers to ensure that there should be no further investment into Russian owned or controlled assets and that the Fund's investment activity follows all current and future government requirements.*

*Working closely with our fund managers, we will review the timing of divestment carefully, having regard to the practical barriers and options available to divest given that some financial markets are closed or operating with less liquidity, balancing the desire we have to completely disassociate the Fund from supporting Russian investments with the fiduciary responsibility the fund has for managing its investments, and having regard to the fact that the Funds' investments are in pooled funds that the Fund cannot unilaterally control and direct.*

*The Warwickshire Pension Fund's current assessment of Russian holdings is that they make up approximately £5m or 0.2% of the total fund value..."*

- 4.2 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.
- 4.3 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	231	109	91.3%	86.5%
Against	21	14	8.3%	11.1%
Other	1	3	0.4%	2.4%
Total	253	126	100.0%	100.0%

- 4.4 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/>
- 4.5 The main proposal category for votes against management was 'Board related' for the UK Equity Alpha Fund, and 'Compensation' for the Global Equity Alpha Fund.
- 4.6 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		% of Total	
For	1,285	2,888	92%	74%
Against	106	724	8%	19%
Other	0	288	0%	7%
Total	1,391	3,900	100%	100%

- 4.7 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](https://www.lgim.com/landg-assets/lgim/document-library/esg/q2-2021_esg-impact-report-uk_europe-final.pdf)
- 4.8 In the UK Fund, 37 votes against were for 'Non-Salary Compensation' and 35 for 'Directors related' proposals.
- 4.9 In the Rest of World funds, 483 votes against were for 'Directors Related' proposals.

## **5 Additional Voluntary Contributions review**

- 5.1 The Fund commissioned Hymans to carry out a review of the current Additional Voluntary Contributions (AVC) options offered to members. The review found that there are several areas for potential improvement.
- 5.2 The intention is to discuss development opportunities in further detail and carry out market testing in summer with the results to be presented at September 2022's PFISC.

## **6 People**

- 6.1 The tendering process for a second Independent Pensions Specialist Adviser has completed with the Anthony Fletcher of MJ Hudson as the successful candidate.
- 6.2 It feels appropriate to acknowledge the working career of Neil Buxton who dedicated almost 47 years to the Fund in a variety of guises including Pension Administration Manager and more recently as the technical Governance Officer. His role following retirement in March 2022 has been taken up by Martin Griffiths.

## **7 UK Stewardship Code**

- 7.1 The first draft of this report is now ready, however the expectation is that the Fund's application will not be ready for the next submission deadline (30 April 2022).

## **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 LGPS Pooling**

9.1 There are a number of vacancies at the Border to Coast Pensions Partnership (BCPP). The key ones are the Chief Investment Officer, Head of Real Estate and Head of Client Relationship Management (CRM).

9.2 Warwickshire participated in the following engagement items with BCPP:

- Responsible Investment Operational Officers' Group
- Operational Officers' Group
- External management quarterly update meetings
- Customer satisfaction survey
- Climate change workshops
- Climate opportunities (alternatives) workshops
- Informal Shareholder calls
- Capital calls custodian workshop
- Multi-Asset Credit Fund post-transition workshop
- Multi-Asset Credit Fund cash withdrawal planning
- S151 calls
- Quarterly funds reporting – externally managed and alternatives

9.3 The 11 Partner Funds are actively thinking about further ways in which we could collaborate on LGPS matters.

9.4 Warwickshire participated in the launch of Series 2a for Infrastructure, Private Debt and Private Equity.

## **10 Commitments to Alternative Assets**

10.1 At the 7 March 2022 Pension Fund Investment Sub-Committee meeting the Committee approved:

1. Investment of £40m in Border to Coast Pension Partnership's (BCPP) Series 2a Private Equity Fund
2. Investment of £30m in BCPP's Series 2a Infrastructure Fund
3. Investment of £30m in BCPP's Series 2a Private Debt Fund
4. Commissioning Hymans Robertson to carry out third party fund manager evaluations for the non-BCPP commitments set out in the table below.
5. The indicative commitment amounts for 2023 and 2024 as set out below:

Commitment	Private Equity	Infrastructure	Private Debt
2022	£40m to BCPP Series 2	£30m to BCPP Series 2	£30m to BCPP Series 2
2023 – <i>indicative</i>	£40m to BCPP Series 2	£30m to BCPP Series 2  £75m to one/two alternative managers	£30m to BCPP Series 2  £105m to one/two alternative managers
2024 – <i>indicative</i>	£40m to BCPP Series 2	£30m to BCPP Series 2	£30m to BCPP Series 2

## 11 Training

11.1 Since December, Committee members, Board members and officers have had access to several tailored workshops, all of which are available as recordings:

- Private Markets (2 December)
- Valuation Assumptions and Club Vita update (6 December)
- Contribution Rates for Precepting Employers and Investment Portfolio Modelling (4 February)

11.2 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. Please do let the Governance Officer (Martin Griffiths) know if you have attended additional external training.

11.3 The Fund has also provided Committee members, Board members and officers with access to Hymans' LGPS Online Learning portal.

## 12 Financial Implications

12.1 None for this Board.

## 13 Environmental Implications

13.1 Climate risk is a key issue facing the Fund in the longer term. This has been a feature of training this year and a set of actions which are being converted into a plan for 2022/23.

## 14 Supporting Information

14.1 None.

## 15 Timescales Associated with Next Steps

15.1 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): None

Other members:

## Appendix 1

Structure	Inception to 31/12/21	Inception Date
Total Consolidation	8.60	01-Jul-04
WWS - Reflex BM Total Fund	8.14	01-Oct-04
Alcentra	8.79	01-Nov-18
Alcentra BM	5.00	01-Nov-18
BCPP UK EQ RK	8.21	01-Dec-18
BCPP UK EQUITY BENCHMARK	6.78	01-Dec-18
BCPP UK EQUITY + 2%	8.77	01-Dec-18
Harbour Vest	14.10	01-Apr-11
Harbour Vest Benchmark	13.05	01-Apr-11
LGIM Bond	6.65	01-Nov-08
LGIM Bonds	6.25	01-Nov-08
LGIM Equity	10.98	01-Nov-08
LGIM Equity BM	10.79	01-Nov-08
MFS	10.25	01-Sep-04
MFS Global Equity BM	10.86	01-Sep-04
Partners Group	8.76	01-Jan-16
Partners Group BM	7.00	01-Jan-16
Partners Group II	4.65	01-Apr-18
Partners Group II BM	5.00	01-Apr-18
Schroders Property	3.54	01-Apr-07
Schroders Property BM	3.55	01-Apr-07
SL Capital	6.82	01-Jun-15
SL Capital	7.00	01-Jun-15
Threadneedle Property	5.06	01-Apr-07
Threadneedle Property BM	4.35	01-Apr-07
WARKS-BCPP GE	13.84	01-Oct-19
BCPP GE Benchmark	14.87	01-Oct-19
BCPP GE + 2%	16.88	01-Oct-19
WARKS-BCPP IG CR	2.31	01-Feb-20
BCPP IG CR Benchmark	0.88	01-Feb-20
WARKS-BCPP INFRA	-12.66	01-Oct-19
BCPP INFRA Benchmark	7.00	01-Oct-19
WARKS-BCPP MA CR	0.03	01-Oct-21
WARKS-BCPP PE	15.79	01-Jul-19
BCPP PE Benchmark	16.50	01-Jul-19
WARKS-BCPP PR CR	5.23	01-May-20
BCPP PR CR Benchmark	5.00	01-May-20

\*fund performance figures are shown net of fees



# Alternatives Funds Commitments

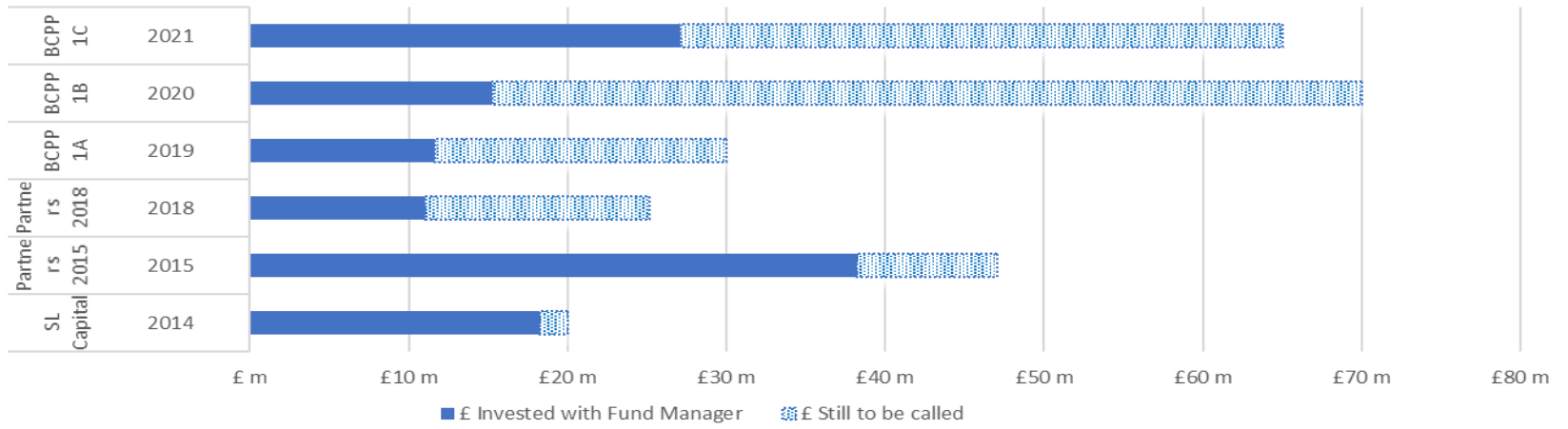
## Appendix 2

Note that these charts only show the extent to which capital has been invested, they do not show the planned investment profile and therefore are not an indicator of the performance of fund managers in getting capital invested.

Commitments to Private Equity



### Commitments to Infrastructure



### Commitments to Private Debt

