

Warwickshire Local Pension Board

12 July 2022

Investment update

Recommendation

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

1. Executive Summary

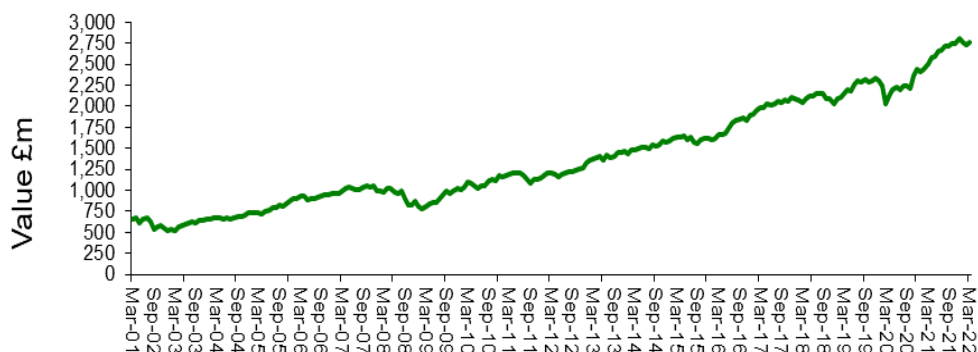
- 1.1 This report provides a general update on investment related activity.
- 1.2 The funding level remained slightly over 100% for the quarter ending 31 March 2022.
- 1.3 The report also summarises activities that have taken place over this quarter to ensure that the Fund is well-governed

2. Fund Update

Valuation

- 2.1 As at 31 March 2022, the value of the Fund stood at £2.8bn (though marginally lower than at the end of the previous quarter). The value of the Fund since inception is shown in the long-term chart below.

Total Fund Value Since March 2001

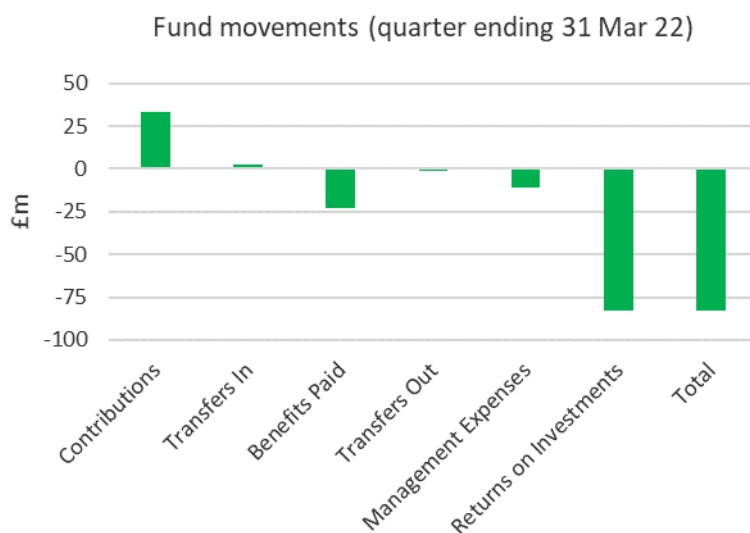


- 2.2 The total value of the Fund's assets decreased by 1.6% over the quarter ending 31 March 2022.

2.3 This decrease was driven by equity market falls, affected by events such as the war in Ukraine, and bond market falls, affected by increasing inflation and interest rate expectations.

Cashflow

2.4 The chart below summarises the main cashflow changes. It indicates that the value of contributions in (£33m) exceeded the benefits paid out (£23m) and therefore the Fund was cashflow positive.



2.5 The chart also shows a value of -£11m related to investment management expenses. This is higher than in other quarters due to year-end corrections.

2.6 The Pension Fund Investment Sub-Committee agreed a Cashflow plan based on analysis of its past movements and anticipated future requirements. This led to the decision to agree a cash float of £45m with a review to take place should new information come through on items such as prepayments, changes to the private markets portfolio, or other material information.

Performance

2.7 Detailed analysis of investment performance and the funding level were set out in the PFISC's private meeting agenda. One point of note was the results of the inflation sensitivity analysis undertaken. This showed that a 0.5% p.a. higher long-term future inflation assumption would increase past service liabilities by around 9%.

2.8 The funding update paper also stated that the past service funding level as at 31 March 2022 on a rollforward basis of the 2019 figures, stood slightly over 100%.

2.9 Appendix 1 shows performance since inception versus targets for all funds in which Warwickshire currently invests. This helps to provide a long-term view.

3. Portfolio Commentary

- 3.1 Following agreement to update the Investment Strategy Statement – as shown elsewhere on this agenda – the PFISC undertook a review of the Fund’s equity portfolio, which makes up c.42% of the new strategy.
- 3.2 The review covered:
- Geographic allocation of the Fund’s listed equities;
 - The split between active and passive management;
 - The role of alternatively-weighted indices; and
 - Currency exposure and the case for hedging.
- 3.3 The Fund is currently undertaking a search for an Infrastructure manager and a Private Debt manager to run two mandates to go alongside the Fund’s current private markets allocations and meet the Fund’s strategic asset allocation objectives. To facilitate this the PFISC agreed to split into two sub-groups (one for each asset class) so that these groups could focus on the shortlists and selection parades that are part of choosing a manager. There will then be due diligence of the proposed fund and a final decision made at a PFISC quarterly Committee meeting to agree the selected manager for each asset class.

4. Climate risk

- 4.1 The PFISC received a climate risk report. This paper suggested that the Fund monitors four metrics annually at an underlying fund level:
- Weighted average carbon intensity;
 - Total carbon emissions;
 - % of the portfolio in green revenues; and
 - % of the portfolio with ties to fossil fuels.
- 4.2 At present, this information is available for the c.50% of the portfolio currently invested in listed equities, with the expectation that more data will become available for remaining parts of the portfolio as the industry improves its data quality and reporting.

5. Voting and Stewardship

- 5.1 The PFISC received voting information on its active and passive equity portfolios which are managed by Border to Coast Pensions Partnership and Legal and General Investment Management respectively. These equities carry voting rights and are voted in line with each manager’s voting (and engagement) policy.
- 5.2 The Fund has contacted all of its investment managers stating its position as set out by the PFISC in the March 2022 meeting. [This statement](#) has been made public through the Warwickshire Pension Fund website.

6. Financial Implications

6.1 None for this Board.

7. Environmental Implications

7.1 Climate risk is a key issue facing the Fund in the longer term. Appropriate governance of this risk is managed through the proposed climate monitoring mentioned in section 4 of this paper, as well as through the risk register.

8. Supporting Information

8.1 None

9. Timescales associated with the decision and next steps

9.1 None

Appendices

1. Appendix 1 – Performance since inception

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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 31/3/22	Inception Date
Total Consolidation	8.38	01/Jul/04
WWS - Reflex BM Total Fund	7.95	01/Oct/04
Alcentra	8.63	01/Nov/18
Alcentra BM	5.00	01/Nov/18
BCPP UK EQ RK	5.83	01/Dec/18
BCPP UK EQUITY BENCHMARK	6.41	01/Dec/18
BCPP UK EQUITY + 2%	8.46	01/Dec/18
Harbour Vest	14.02	01/Apr/11
Harbour Vest Benchmark	12.50	01/Apr/11
LGIM Bond	6.06	01/Nov/08
LGIM Bonds	5.67	01/Nov/08
LGIM Equity	10.71	01/Nov/08
LGIM Equity BM	10.58	01/Nov/08
MFS	10.16	01/Sep/04
MFS Global Equity BM	10.53	01/Sep/04
Partners Group	9.54	01/Jan/16
Partners Group BM	7.00	01/Jan/16
Partners Group II	4.58	01/Apr/18
Partners Group II BM	5.00	01/Apr/18
Schroders Property	3.80	01/Apr/07
Schroders Property BM	3.77	01/Apr/07
SL Capital	6.82	01/Jun/15
SL Capital	7.00	01/Jun/15
Threadneedle Property	5.26	01/Apr/07
Threadneedle Property BM	4.66	01/Apr/07
WARKS-BCPP GE	10.48	01/Oct/19
BCPP GE Benchmark	12.08	01/Oct/19
BCPP GE + 2%	14.05	01/Oct/19
WARKS-BCPP IG CR	-0.73	01/Feb/20
BCPP IG CR Benchmark	-2.15	01/Feb/20
WARKS-BCPP INFRA	-6.70	01/Oct/19
BCPP INFRA Benchmark	7.00	01/Oct/19
WARKS-BCPP MA CR	-4.91	01/Oct/21
WARKS-BCPP MA CR BM	0.11	01/Oct/21
WARKS-BCPP PE	16.62	01/Jul/19
BCPP PE Benchmark	13.92	01/Jul/19
WARKS-BCPP PR CR	6.13	01/May/20
BCPP PR CR Benchmark	5.00	01/May/20