

Local Pension Board

31 January 2022

General Activity Update

Recommendation

That the Local Pension Board 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 remains high, driven by falling long term inflation expectations and higher expected future asset returns.

2. Fund Update

- 2.1 As at 30 September 2022, the value of the Fund stood at £2.5bn, the total value of the Fund's assets decreased by 1.2% over the quarter ending 30 September 2022. This decrease was driven by equity market and bond market falls, affected by increasing inflation rate expectations and rising interest rates.
- 2.2 The value of contributions in (£22.5m) was broadly in line with the benefits paid out (£23.0m) and therefore the Fund's operating cashflows remain neutral.

3. Portfolio Commentary

- 3.1 During the quarter, the fund was rebalanced with the Overseas Fundamental Equity allocation trimmed and invested in corporate bonds to bring this closer to target.
- 3.2 Asset values in total fell; however, the Fund performed better than its composite target for the quarter, and over the long term the Fund remains ahead of the required return benchmark of 4%. 4% is the updated benchmark reflecting the strategy, but it will take some time to implement the transactions required to fully express the new strategy, for example moving some funds from growth assets to protection assets and moving more capital into private markets.

- 3.3 Following the private debt fund manager selection exercise, the Fund has onboarded funds with ICG's Senior Debt Partners 5 and Barings' Global Private Loan Fund 4. Commitments of £52.5m have been made to each manager.
- 3.4 Cash balances as at the end of September 2022 were £44.0m (1.7% of the Fund's value), and the Fund has been able to service all capital calls and operational cashflows.
- 3.5 At the June Pension Fund Investment Sub Committee meeting, the Committee agreed to restructure the Fund's equity portfolio in line with advice from the Fund's Investment Consultant, Hymans Robertson. Part of this recommendation was to delegate implementation to Officers, with the PFISC to have oversight of how the process is being carried out. Following conversations with advisors, implementing this change has been postponed until markets become less volatile.

4. Border to Coast Pensions Partnership

- 4.1 The Border to Coast Pensions Partnership (BCPP) has recruited a new Chief Investment Officer, Joe McDonnell, who will join the company in January.
- 4.2 The restructure of the Global Equity Alpha Fund took place in line with expectations.
- 4.3 BCPP have updated their Responsible Investment policy, Climate Change Policy and Corporate Governance and Voting Policy. These have been agreed by the Joint Committee which is attended by the Chair of the Warwickshire Pension Fund Investment Sub Committee.

5. Voting

- 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.

6. Accounting

- 6.1 The draft Annual Report and Accounts has been prepared, however final approval and publication is on hold due to delays in the Government issuing guidance on how to treat infrastructure assets. This has delayed the finalisation of the County Council's accounts, and the delay then also affects the pension fund accounts which are considered alongside the Council's.

7. Other activities

- 7.1 The Fund's AGM was held on Friday 4th November 2022, at Northgate House, Warwick. This was a hybrid meeting and received positive feedback from attendees regarding the content.

8. Competition Markets Authority

The Fund is required by the Competition Markets Authority (CMA) to set objectives for its investment consultant and advisors. Officers and Councillors have fed back on the performance of these roles and a response has been submitted to the CMA confirming that the requirement has been fulfilled.

9. Additional Committee Meeting

- 9.1 A number of agenda items from the December Pension Fund Investment Sub Committee were deferred, these were in relation to private markets infrastructure fund manager selection, liability benchmark, a review of the Fund's Additional Voluntary Contributions arrangements, and the selection of a liquidity fund. An additional meeting has been arranged in February to consider these items in order to ensure that the March Committee meeting has the time to properly consider the business due at that time, which will include the sign off of the 2022 valuation.

10. Financial Implications

- 10.1 None.

11. Environmental Implications

- 11.1 Climate risk is a key issue facing the Fund in the longer term and is considered by the Fund's climate risk and responsibly investment policies.

12. Supporting Information

- 12.1 None

13. Timescales associated with the decision and next steps

- 13.1 None.

Appendices

None

Background Papers

None

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

Local members: not applicable

Other members: Cllrs Kettle and Gifford