

# Pension Fund Investment Sub-Committee

3 February 2023

## Macro Update

### Recommendation

That the Pension Fund Investment Sub-Committee (PFISC) notes and comments on the report.

### 1. Executive Summary

- 1.1 The purpose of this report is to provide a six-monthly update on the wider factors having the greatest influence on the Pension Fund's performance, particularly from a macroeconomic perspective.
- 1.2 The key areas brought out by the Camdor Global report (Appendix 1) are:
  - UK interest rates, with inflation taken into consideration (real rates), seem to have stopped falling following a steep decline between mid-2021 and mid-2022. This could influence the Fund's implementation of a proposed protection portfolio restructure which relies on 20yr real rates being above 0.5%.
  - Global inflation is likely to have peaked, though the global economy continues to contract. This means that there is greater value in some investment areas, e.g. corporate bonds and UK equities.
  - Interest rate increases are expected to continue into 2023, but market expectations are that they may stop by the end of the year. Camdor's expectation is that the UK may encounter a harsher period of austerity than following the 2007/8 financial crisis which took real GDP c.7 years to recover from.
  - Civil unrest continues to increase globally which is destabilising for the global economy.
  - UK company insolvencies are at their highest level since Q3 2009, this could affect the Fund's private debt and UK corporate bonds holdings.
  - UK commercial property rent expectations have fallen, as has capital value expectations. This may be reflected in the Fund's property holdings.
  - Private equity managers' expectations around asset prices have fallen since early 2020 (pre-covid).
  - The UN expects an average temperature rise of 2.8 degrees Celsius this century given current policies. This is significantly above the

unconditional nationally determined contributions (NDCs) from The Paris Agreement 2015. Significant investment is required to transform the global economy to a low-carbon setting. Some additional investment is going into renewables, and hydrocarbons. The Fund's Climate metrics are likely to be affected by the gradual movements.

## 2. Financial Implications

2.1 None

## 3. Environmental Implications

3.1 None arising directly from this report. Whilst the matters covered by Camdor in their general overview are likely to impact on the environmental position of the Fund, these impacts will be dealt with in respect of individual investments and decisions as appropriate.

## 4. Supporting Information

4.1 See Appendix 1.

## 5. Timescales associated with the decision and next steps

5.1 N/a

## Appendices

Appendix 1 – The Bigger Picture (Camdor Global Advisors)

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

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