

Warwickshire Local Pension Board

30th January 2024

Investment Update

Recommendation

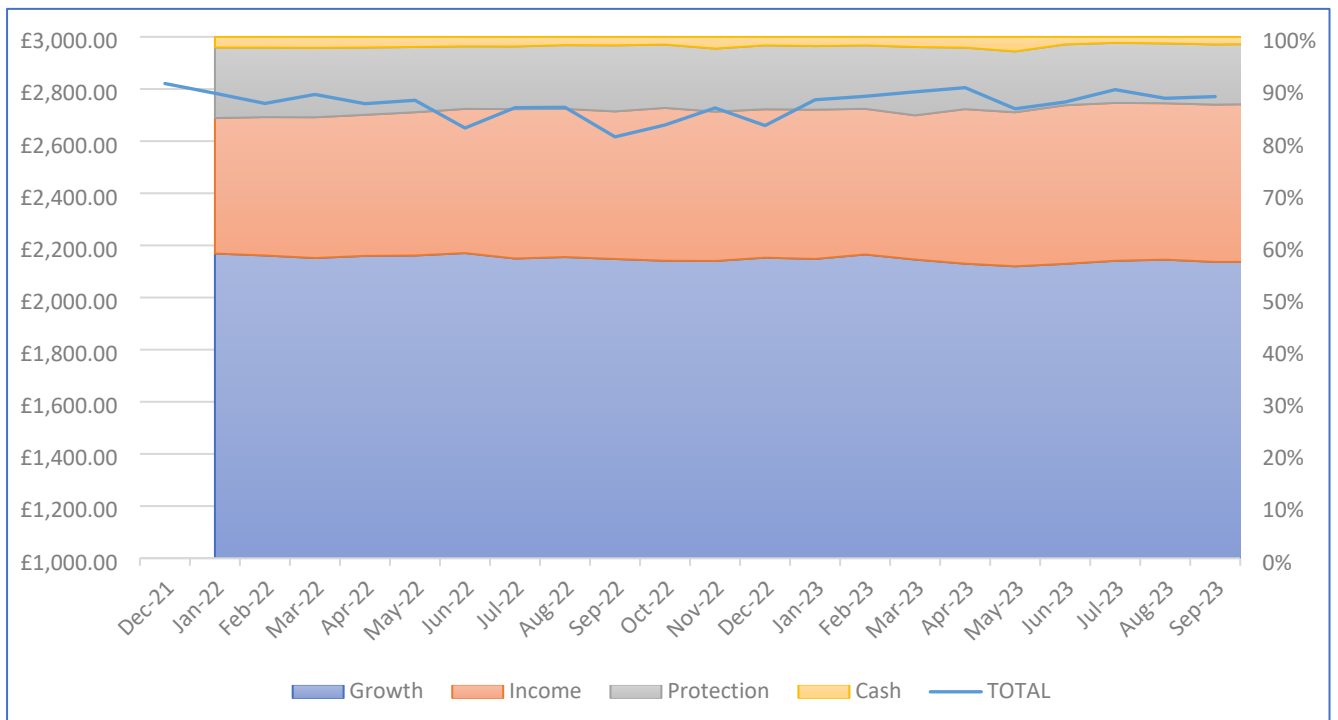
That the Warwickshire Local Pension Board notes and comments on the contents of this report.

1. Executive Summary

1.1 This report provides an update on the Warwickshire Pension Fund's investment-related governance activities.

2. Portfolio Commentary

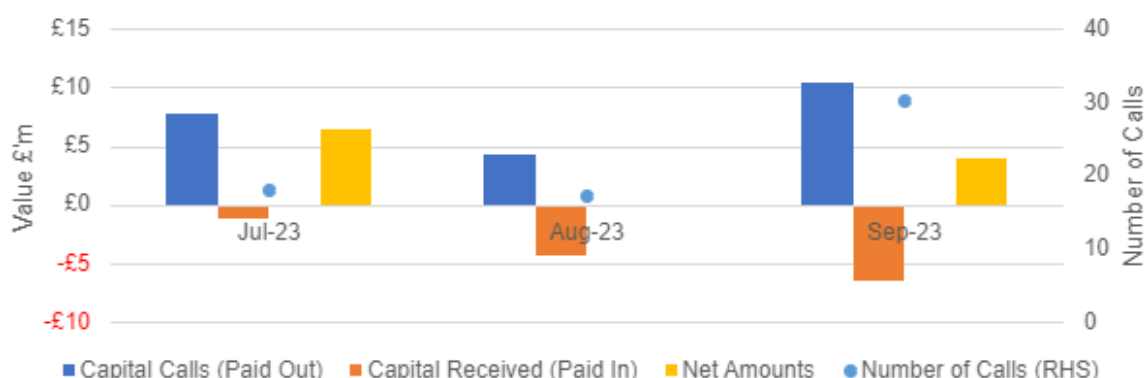
2.1 A visual view of portfolio performance (since Dec 21) is shown below:



2.2 A key activity for the Fund remains in building up investments in alternatives (private equity, infrastructure, and private debt) as per our medium-term asset allocation strategy. The Fund serviced 65 capital movements in the last quarter, with a net value of £10.2m. This was a slight reduction in activity over

the quarter (which was expected, as per our cash flow estimates).

Capital Calls (Qtr to 30 September 23)



2.3 Following currency conversions, the value invested by alternatives fund managers is as set out below:

Alternatives	£ invested with fund managers	£ still to be called	Total
£'m	£591,000,000	£430,000,000	£1,020,000,000
% of Total	58%	42%	100%

2.4 Cash balances as at the end of September 2023 were £37.6m. This total represents approximately 1.4% of the Fund's value. This total comprises £18.3m held in a Lloyds account to manage transactions such as receiving employer contributions and paying member benefits; and £19.3m held in a BlackRock account to meet capital movements.

3. Voting

3.1 The Fund holds actively managed equities through funds within the *Border to Coast Pensions Partnership (Border to Coast)*, and passive equities managed through funds held with Legal and General Investment Management (LGIM). These equities carry voting rights.

3.2 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 Q3 (1st Jul to 30th Sept 23)

Voting Direction	UK Alpha	Global Alpha	UK Alpha	Global Alpha
	Vote Count		% of Total	
For	634	440	93%	83%
Against	50	84	7%	16%
Other	0	4	0%	1%
Total	684	529	100%	100%

3.3 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/publications/?_sfm_publication_document_type=Responsible%20Investment%20Reports) (https://www.bordertocoast.org.uk/publications/?_sfm_publication_document_type=Responsible%20Investment%20Reports)

3.4 The table below summarises voting activity in the previous quarter in respect of funds held with LGIM:

LGIM Equity Funds - Voting Q3 (1st Jul to 30th Sept 23)

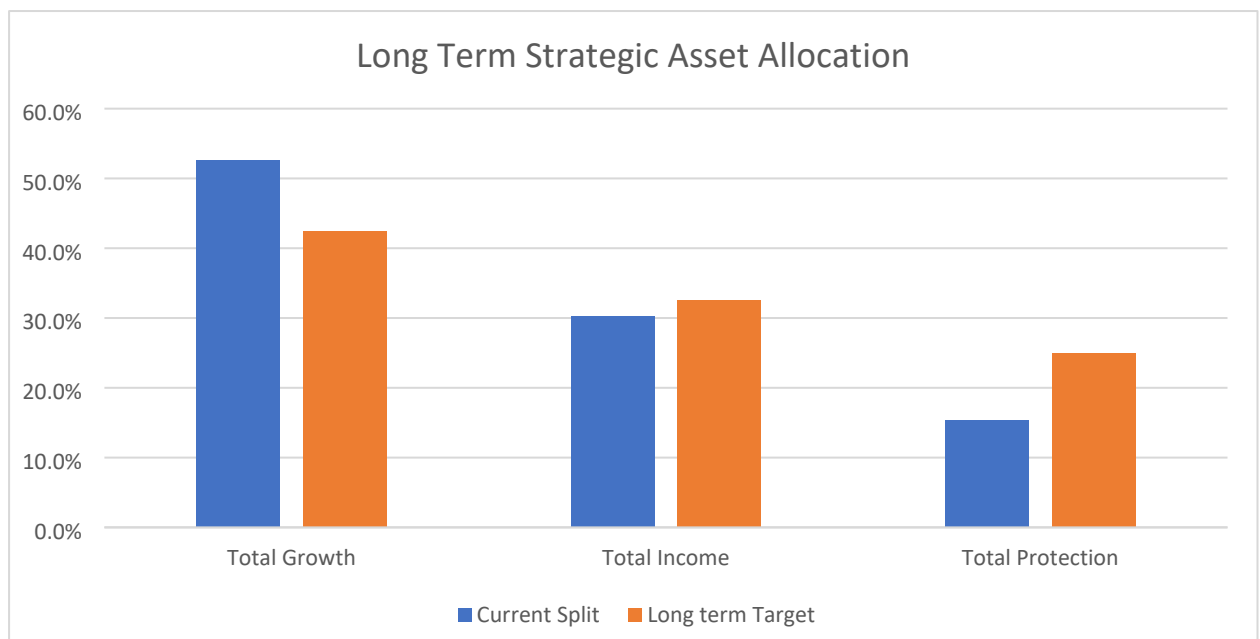
Voting Direction	UK	Rest of World	UK	Rest of World
	Vote Count	Vote Count	% of Total	% of Total
For	2293	3593	95%	76%
Against	123	1015	5%	21%
Other	0	103	0%	3%
Total	2416	4711	100%	100%

3.5 LGIM’s Investment Stewardship team directs the assets managed on the Fund’s behalf. Their [Responsible Investing](https://www.lgim.com/uk/en/responsible-investing/) (<https://www.lgim.com/uk/en/responsible-investing/>) page sets out voting (and engagement) activity, as well as their approach to Climate Risk.

4. Other activities

Asset Allocation Restructuring

4.1 We have started to allocate more money to ‘protection assets’ since the ‘Real Yield’ trigger has now been reached and higher yield assets are looking more attractive (this is in line with the asset allocation restructuring previously approved by the Pension Fund Investment Sub Committee). We are currently completing tranche 2 (of 5) and we have moved £158m so far from equities to bonds. Our current and end target asset allocation is shown below:



4.2 The PFISC agreed to the restructuring of the global passive equity funds at its meeting on the 12th June 2023 and this process will be started in January 2024. This will include the addition of a new *Responsible Investment* fund (*The LGIM Low Carbon Transition Fund*) which we see 2 tranches invested of c. £61.5m each.

Mansion House Reforms

4.3 During his Mansion House speech on 10 July 2023, Chancellor Jeremy Hunt set out his 'Mansion House Reforms', a substantial package of measures aimed at enabling the financial services sector to increase pension and other investment returns for people across the UK and boost the supply of investment capital available to support the growth of high potential businesses across the UK economy. This led to the Department for Levelling Up, Housing and Communities issuing the '*Local Government Pension Scheme (England and Wales): Next steps on investments*' consultation. On 22 November 2023, DLUHC published its response to the consultation on investment reforms. The response largely adopted the measures that the Government originally consulted on. The Government will now implement proposals to accelerate and expand pooling and increase investment in levelling up and private equity.

4.4 In the Autumn Statement the Chancellor confirmed the Government's intention to proceed with this agenda and provided its response to the consultation results.

4.5 A range of initiatives, some set out in consultations during the summer, were put forward, including:

4.5.1 A call for evidence on a 'pot for life' approach.

4.5.2 A consultation on using PPF as a public consolidator for DB pension schemes;

4.5.3 Surplus extraction arrangements for DB pension schemes; and

4.5.4 Continued enhancement of Trustee skills & capabilities.

LGPS Reform

4.6 In terms of the LGPS Reforms, the Government confirmed it will progress them to accelerate and expand pooling, and to increase investment in levelling up and in private equity. In publishing its consultation response, the Government gave clear guidance on its expectations:

4.6.1 Funds should transfer all assets to their pool by 31 March 2025. Funds will need to report the rationale, value for money implications, and date for review, of any assets not pooled.

4.6.2 The Government will set out a preferred model of pooling (including delegation of manager selection and strategy implementation).

4.6.3 Funds are to set a training policy for pensions committee members, and report against the policy.

- 4.6.4 Funds to publicly report their asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling, and net returns for each asset class against their chosen benchmark.
- 4.6.5 Funds to have an ambition to invest 10% in Private Equity and a plan to invest 5% in Levelling Up.
- 4.6.6 Pools should seek scale and should be c.£200bn by 2040 (Gad estimating LGPS at c. £950bn by 2040 implies 4-5 pools).
- 4.7 The Government wishes to see greater collaboration between pools in the meantime and has indicated its intention to develop the associated Guidance by summer 2024. The Government has previously stated that if an individual Fund does not meet this policy intent, their position as an Administrating Authority can be removed through existing powers.
- 4.8 We are currently in discussion with *Border to Coast* and Partner Funds regarding a proposed *UK Real Estate Fund*, which would in the long term potentially replace our existing property exposure (currently with *Schroders and Threadneedle*).
- 4.9 We are currently in discussion with *Border to Coast* and Partner Funds regarding a proposed *UK Opportunities Fund*. This fund is partly aimed at satisfying the current government levelling up agenda and its investment remit is far reaching.
- 4.10 We are also currently in discussion with *Border to Coast* and Partner Funds regarding a proposed *Climate Opportunities II Fund*. This fund aims to take advantage of climate related investment opportunities.
- 4.11 We have engaged with *Border to Coast* and Partner Funds to monitor the performance of pooled funds through various governance forums including a Joint Committee and an Operational Officers Group.

Pension Fund Accounts

- 4.12 The Pension Fund Accounts 2022/23 were presented to the Audit and Standards Committee on 30 November 2023 and endorsed to Council where they were approved on 16 December 2023. There were some further minor updates noted as necessary and accordingly final sign off of the accounts was delegated to the Executive Director for Resources in consultation with the Chair of the Council. The final accounts will be reported back to Audit and Standards Committee.
- 4.13 The completion of the accounts has proved more difficult this year due to resourcing issues coupled with continuing challenges in the external audit market being able to resource local government accounts audits. However, the Fund's Annual Report and Accounts document was published online with draft accounts in line with the 1 December 2023 deadline. A finalised version will be published with the final accounts.

RI Pledges

- 4.14 We continue to monitor all our managers, regarding their RI pledges. The latest report from BCPP (who are very active and committed to RI principles) is their *Quarterly Stewardship Report Q3* which is available on request from their data room. This includes some excellent engagement examples. For example, with *National Grid*, they voted against the re-election of the Chair of the Board and engaged the company ahead of the AGM. They felt the company was not currently meeting expectations on climate change risk. Whilst the vote was unsuccessful, the re-election of the Chair was opposed by 4% of shareholders.

Procurement Activity

- 4.15 Procurements for three significant contracts are due to be re-procured in the next year (custodian services, actuarial services, and financial consultancy services). Steps are being taken to prepare for these procurement exercises.

CMA compliance statement

- 4.16 The Fund must comply with a Competition and Markets Authority compliance statement that requires the Fund to set objectives for their investment consultant and advisors. Officers and Councillors discussed the performance of these roles at the December Pension Fund Investment Sub Committee and the following statement was approved.

Investment Consultancy and Fiduciary Management Market - Investigation Remedy Compliance Statement for Warwickshire County Council as the Administrating Authority for the Warwickshire Local Government Pension Fund:

'I, Robert Powell, confirm on behalf of Warwickshire County Council that during the period commencing on 13 December 2022 and ending on 11 December 2023, Warwickshire County Council has complied with Part 7 of the Investment Consultancy and Fiduciary Management Market Investigation Order 2019.

FOR AND ON BEHALF OF Warwickshire County Council as Administering Authority of the Warwickshire Local Government Pension Fund.'

5. Financial Implications

- 5.1 None arising directly from this report.

6. Environmental Implications

- 6.1 None arising directly from this report

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: not applicable