

Warwickshire Local Pension Board

16 April 2024

Investment Update

Recommendation

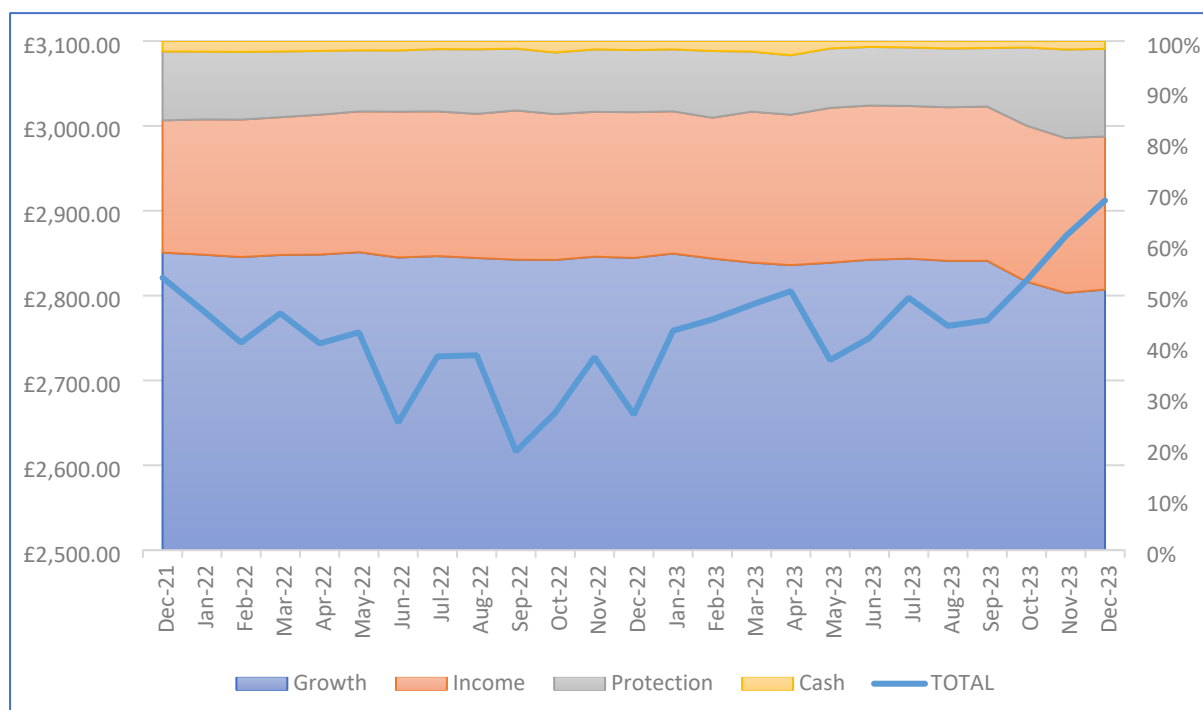
That the Pension Board notes and comments on the contents of this report.

1. Executive Summary

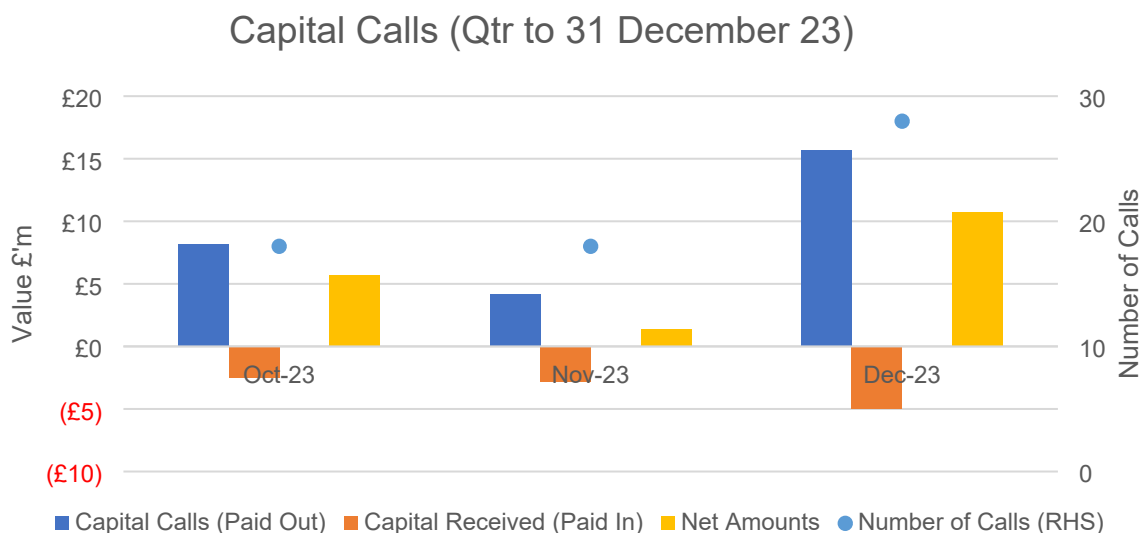
1.1. This report provides a general update on investment related activity including cashflow, private markets activity, voting, and the next steps for the LGPS investment management following a recent government consultation.

2. Portfolio Commentary

2.1. The return on the Fund's assets over the quarter (end Sept to end Dec 2023) was 1.34%, with equities and bonds remaining flat over the period. This means that the Fund was above its benchmark target (of 1%) over this quarter. A visual view of portfolio performance (since Dec 21) is shown below:



- 2.2. A key activity for the Fund remains the building up of investments in alternatives, in line with the approved Investment Strategy (private equity, infrastructure, and private debt). The Fund serviced 64 capital movements in the last quarter, with a net value of £17.83m. This represents almost a doubling in activity compared to the previous quarter.



- 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	£611,000,000	£410,000,000	£1,022,000,000
% of Total	60%	40%	100%

- 2.4. Cash balances as at the end of December 2023 were £44.2m. This total represents approximately 1.5% of the Fund's value. (£21m in Lloyds – to manage transactions such as receiving employer contributions and paying member benefits and £23.2m in BlackRock – this account is used to meet capital movements). Following recommendations approved at the December 2023 Pension Fund Investment Sub-Committee, our cash float target is now £50m going forward.

3. Voting

- 3.1. The Fund holds actively managed equities through funds within the Border to Coast Pensions Partnership (BCPP), and passive equities managed through funds held with Legal & 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 (September 30, 2023 - December 31 2023)				
Voting Direction	UK Alpha	Global Alpha	UK Alpha	Global Alpha
	Vote Count		% of Total	
For	164	196	92%	81%
Against	13	39	7%	16%
Other	2	8	1%	3%
Total	179	243	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](#).
- 3.4. The table below summarises voting activity in the previous quarter in respect of funds held with LGIM.

LGIM Equity Funds - Voting Q3 (September 30, 2023 - December 31 2023)				
Voting Direction	UK	Rest of World	UK	Rest of World
	Vote Count		% of Total	
For	1246	2586	94%	74%
Against	78	786	6%	23%
Other	4	109	0%	3%
Total	1328	3481	100%	100%

- 3.5. LGIM's Investment Stewardship team directs the assets managed on the Fund's behalf. Their [Responsible Investing](#) page sets out voting (and engagement) activity, as well as their approach to climate risk.

4. Other activities

Protection Assets

- 4.1. More money is now being allocated to 'protection assets' since the 'Real Yield' trigger (this is when bond yields are above long-term inflation rates) has now been reached and higher yield assets are more attractive. Tranche 2 (of 5 allocation tranches) is being completed and to date £158m has been moved so far from listed equities (seperate from private equity) to bonds.

- 4.2. The global passive equity funds restructuring (which is in 3 separate tranches and will also include the addition of to the new Responsible Investment (“RI”)fund (The LGIM Low Carbon Transition Fund) has started well and to date £170m has been moved. The additional 2 tranches are expected to be completed in early 2024.

Government Consultation – LGPS Next Steps on Investments

- 4.3. Chancellor Jeremy Hunt announced a package of measures in July 2023 which were indicated to be aimed at enabling the financial services sector to increase pension and other investment returns for people across the UK and to 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.
- 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. 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. This guidance included:
- 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.
 - The Government will set out a preferred model of pooling (including delegation of manager selection and strategy implementation).
 - Funds are to set a training policy for pensions committee members, and report against the policy.
 - 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.
 - Funds to have an ambition to invest 10% in Private Equity and a plan to invest 5% in Levelling Up.
 - Pools should seek scale and should be c.£200bn by 2040 (Gad estimating LGPS at c. £950bn by 2040 implies 4-5 pools).
- 4.6. The Government wishes to see greater collaboration between pools in the meantime. The Government has indicated its intention to develop the associated Guidance, ideally by the summer. The Government has previously

stated that if an individual Fund doesn't meet this policy intent, their position as an Administrating Authority can be removed through existing powers.

- 4.7. Russia/Ukraine War. Our exposure to the region is very limited now, with our total exposure (across all asset classes including bonds and equities) totalling £293k via the BCPP Multi Asset redit ("MAC") Fund.
- 4.8. The Fund is in discussion with Border to Coast regarding their newly proposed UK Real Estate Fund, which would potentially replace our existing property exposure (currently with Schroders and Threadneedle). We are now awaiting further workshops to increase our understanding.
- 4.9. The Fund has been undertaking due diligence on the Border to Coast UK Opportunities Fund and Climate Opportunities II Fund.
- 4.10. There has been a collaboration with seven other LGPS funds, to facilitate independent external research (via a company called Inalytics) into the current Equity 'Alpha' funds held with Border to Coast.
- 4.11. We continue to monitor all our managers, regarding their RI pledges. The latest report from BCPP (who are very active and committed to their RI principles) is their Quarterly Stewardship Report Q3 which is available on their [data room](#) (This includes (amongst other RI related items) some excellent engagement examples.
- 4.12. At the time of writing, a procurement exercise is underway in respect of the contract for actuarial services to the Fund. There is also the intention to tender for the custodian service and investment consultant service at a point in the future. However, decisions on the timing of these further procurements will have regard to the capacity to undertake the procurement processes.

CEM Benchmarking Study

- 4.13. The results of the 2022-23 CEM Benchmarking study, which highlights how we have performed against a similar peer group, in relation to our funds performance, costs and funding. The report is available on request, with the key takeaways below:
 - Our investment costs of 67.6 basis points ("bps") was below the benchmark cost of 96.9 bps.
 - Our investment costs were £18m (67.6bps) versus £18.8m in 2022 (70.1bps).

- Our 5-year net total return was 6.9%. This was above the LGPS median of 6.3%.
- Our funding level of 118% on the standard SAB basis in 2022 was below the LGPS median of 123%.
- Our strategic asset allocation suggests that we take less risk relative to our liabilities than LGPS peers.
- Our cumulative 5-year net value added has added £46 million to the funding of our plan.

5. Financial Implications

- 5.1. Further detailed information about the financial implications of the last quarter’s investment performance is included in a report elsewhere on the agenda entitled “Investment and Fund Performance”.

6. Environmental Implications

- 6.1. Climate risk is a key issue facing the Fund in the longer term and is covered in greater detail in separate items on the agenda.

Background Papers

None

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

Local members: not applicable – pension fund report

Other members: Cllr C Kettle, Cllr B Gifford