

Warwickshire Local Pension Board

21 January 2025

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.

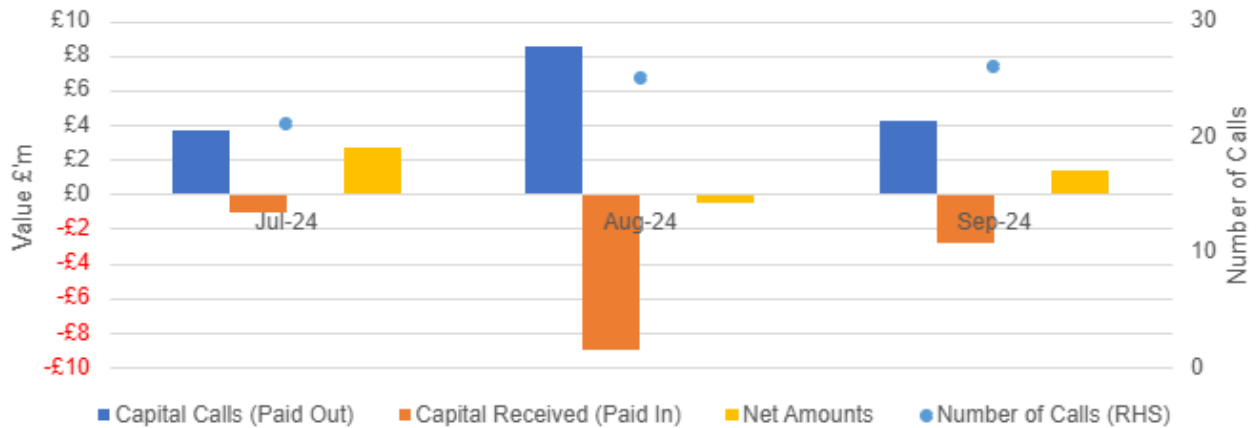
2. Portfolio Commentary

2.1. As at the end of September 2024, the pension portfolio had a value of £2.964bn which represents an increase of 0.7% from the previous quarter.

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, Private Debt and the new UK Opportunities fund). The Fund serviced 72 capital movements in the last quarter, with a net value of £3.5m. This represents a large monetary decrease in commitments compared to the previous quarter, due to large distributions from our older private market holdings.

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

Capital Calls (Qtr to 30 September 24)



2.4. This represents similar activity on the previous quarter.

Cashflow Review

2.5. The table below summarises cashflow forecasts which incorporates expected calls to fund capital commitments and cash requirement to meet daily operational activities. The information presented is based on information supplied by Border to Coast and other private markets managers and has been analysed into pooled and non-pooled funds over the forecast period.

£m	2024		2025					2026					Total
	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	
Infrastructure													
Pooled (BCPP)	(7.6)	(7.6)	(2.0)	(2.0)	(2.0)	(2.0)	(7.8)	1.6	1.6	1.6	1.6	6.5	(8.9)
Non-pooled	(0.8)	(0.8)	1.5	1.5	1.5	1.5	6.0	4.5	4.5	4.5	4.5	18.0	23.3
Infrastructure Total	(8.3)	(8.3)	(0.5)	(0.5)	(0.5)	(0.5)	(1.8)	6.1	6.1	6.1	6.1	24.5	14.4
Private Equity													
Pooled (BCPP)	(3.3)	(3.3)	(4.9)	(4.9)	(4.9)	(4.9)	(19.6)	(3.8)	(3.8)	(3.8)	(3.8)	(15.4)	(38.3)
Non-pooled	1.3	1.3	2.5	2.5	2.5	2.5	10.0	3.8	3.8	3.8	3.8	15.0	26.3
Private Equity Total	(2.1)	(2.1)	(2.4)	(2.4)	(2.4)	(2.4)	(9.6)	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(12.0)
Private Debt													
Pooled (BCPP)	(2.7)	(2.7)	(4.8)	(4.8)	(4.8)	(4.8)	(19.1)	(1.2)	(1.2)	(1.2)	(1.2)	(5.0)	(26.7)
Non-pooled	(5.6)	(5.6)	1.2	1.2	1.2	1.2	4.7	3.2	3.2	3.2	3.2	12.7	11.8
Private Debt Total	(8.3)	(8.3)	(3.6)	(3.6)	(3.6)	(3.6)	(14.4)	1.9	1.9	1.9	1.9	7.7	(14.9)
Others													
Pooled (BCPP)	0.0	0.0	(0.4)	(0.4)	(0.4)	(0.4)	(1.8)	(1.2)	(1.2)	(1.2)	(1.2)	(4.6)	(6.4)
Non-pooled	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others Total	0.0	0.0	(0.4)	(0.4)	(0.4)	(0.4)	(1.8)	(1.2)	(1.2)	(1.2)	(1.2)	(4.6)	(6.4)
All Asset Classes													
Pooled (BCPP)	(13.6)	(13.6)	(12.1)	(12.1)	(12.1)	(12.1)	(48.2)	(4.6)	(4.6)	(4.6)	(4.6)	(18.4)	(80.2)
Non-pooled	(5.1)	(5.1)	5.2	5.2	5.2	5.2	20.7	11.4	11.4	11.4	11.4	45.7	61.3
Total surplus/(shortfall)	(18.7)	(18.7)	(6.9)	(6.9)	(6.9)	(6.9)	(27.5)	6.8	6.8	6.8	6.8	27.3	(19.0)
Working Capital													
Contributions (Employee/er)	31.08	31.08	31.08	31.08	31.08	31.08	124.32	31.08	31.08	31.08	31.08	124.32	279.72
Benefit Payments	(25.65)	(25.65)	(25.65)	(25.65)	(25.65)	(25.65)	(102.60)	(25.65)	(25.65)	(25.65)	(25.65)	(102.60)	(230.85)
Other Adhoc Payments	(6.32)	(6.32)	(6.32)	(6.32)	(6.32)	(6.32)	(25.28)	(6.32)	(6.32)	(6.32)	(6.32)	(25.28)	(56.89)
Net operations surplus/(shortfall)	(0.89)	(0.89)	(0.89)	(0.89)	(0.89)	(0.89)	(3.56)	(0.89)	(0.89)	(0.89)	(0.89)	(3.56)	(8.02)
Overall Cashflow Position	(19.59)	(19.59)	(7.77)	(7.77)	(7.77)	(7.77)	(31.10)	5.92	5.92	5.92	5.92	23.70	(26.99)

- 2.6. Based on expected capital call/distributions from fund managers, it is estimated that the Fund will require net cash of approximately £27m over the next two years. Although, a cash requirement of circa £50m will be required in the next 12 months mitigated by a net cash inflow of £24m in 2026.
- 2.7. Cash balances as at the end of September 2024 were £57.5m. This total represents approximately 1.82% of the Fund's value. (£17.6m in Lloyds – to manage transactions such as receiving employer contributions and paying member benefits and £38.1m in BlackRock – this account is used to fund capital calls).
- 2.8. The Fund always plans to ensure it has enough cash to meet its obligations. In a scenario where a shortfall in cash is identified, the Fund has several tools at its disposal to manage cashflows. Generally, the Fund would follow this hierarchy of actions to manage cashflow:
- i. Cashflow model that forecasts expected inflows/outflows of cash to the Fund.
 - ii. Utilise cashflow from income generating assets such as property / passive equity holdings.
 - iii. Match naturally accruing cashflows (bonds, dividends) to mitigate cash shortfall.
 - iv. Orderly selloff of overweight positions to rebalance and meet cash shortfall.
 - v. Redemption of low liquidity assets such as active equities, credits and multi-asset strategy holdings.
 - vi. Redemption of illiquid assets as a last resort.

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 Q1 (July 01, 2023 - Sept 30, 2024)				
Voting Direction	UK Alpha	Global Alpha	UK Alpha	Global Alpha
	Vote Count		% of Total	
For	660	457	92.3%	89.4%
Against	55	54	7.7%	10.6%
Other	0	0	0.0%	0.0%
Total	715	511	100.0%	100.0%

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 summarise voting activity in the previous quarter in respect of funds held with LGIM.

LGIM Equity Funds - Voting Q3 (1 July, 2024 - Sept 30, 2024)				
Voting Direction	UK	Rest of World	UK	Rest of World
	Vote Count	Vote Count	% of Total	% of Total
For	2286	3374	93.7%	78.7%
Against	155	858	6.3%	20.0%
Other	0	57	0.0%	1.3%
Total	2441	4289	100%	100%

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

4. Other activities

Funding Update

4.1. The table below summarises the funding position at March 2022 and as at September 2024, as it stands going into the 2025 valuation process.

Executive summary

Reported funding position	30 September 2024	31 March 2022
Assets (£bn)	3.06	2.78
Past service liabilities (£bn)	2.09	2.68
Surplus/(Deficit) (£bn)	0.96	0.10
Funding level	146%	104%
Assumed future investment return (pa)	6.1%	4.0%
Likelihood of achieving this return*	75%	75%
Progress to target		
Funding target	100%	100%
Return required to be 100% funded (pa)	3.9%	3.8%
Likelihood of achieving this return*	92%	77%

* likelihood of the Fund's portfolio achieving these returns over the next 20 years

4.2. The Fund is in a positive funding position, but note that a significant element of this is driven by higher underlying interest rates which reduce the valuation

of liabilities.

- 4.3. The valuation timeline for activities leading up to the completion of the 2025 valuation is set out in Appendix 1 to this report.

LGPS Guarantee for Further Education (FE) Bodies

- 4.4. The UK government has confirmed that it will provide a LGPS guarantee to certain further education bodies including FE corporations, sixth form college corporations and other designated institutions set up under the Further and Higher Education Act 1992 that are legally obliged to offer their non-teaching staff membership of the LGPS.
- 4.5. An annual limit of £32m was also confirmed as part of the announcement, although assurance was given that all claims will be paid. The host government department, the Department for Education (DfE) will seek additional approval where total claims submitted in the year exceeds £32m.
- 4.6. The provision of this guarantee mitigates the covenant risks associated with two active employers with substantial assets and liabilities in the Warwickshire Pension Fund. At the 2022 valuation, these employers had total assets of £152.5m and £135.6m total liabilities.
- 4.7. The DfE expects funds to apply the lowest risk employer funding strategies to FE bodies like those applied to local authorities. Therefore, the expectation is that affected employers will contact the Fund for a potential 'inter-review' valuation to take advantage of the benefit of the guarantee. We will report back to the Committee if either of the two colleges request for an 'inter-review' and the potential impact of such a request including any changes that may be required to be made to the funding strategy or employer contribution rates.
- 4.8. In line with the guidance, officers will review how to engage with relevant employers or manage any engagement from employers, and how to have regard to the changes in the 2025 valuation.

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.

7. Appendices

Appendix 1 – 2025 Valuation Plan / Timetable

Background Papers

None

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

Local members: not applicable

Other members: Cllr C Kettle, Cllr B Gifford