INVESTMENT STRATEGY and FUND MANAGER PERFORMANCE (Part I)

Committee	Pensions Committee
Officer Reporting	James Lake, Resources Directorate Babatunde Adekoya, Resources Directorate
Papers with this report	NT performance report (on shared drive)

HEADLINES

Market concern and volatility resulting from increased inflation, reduced growth expectations and the Russian invasion of Ukraine has led to reductions in market indices. The overall investment return of the Fund was -2.01% over the quarter which was 1.11% behind the benchmark. Performance over longer-term periods (3 and 5 years) was 6.29% and 5.36% per annum, which are both behind the benchmark but ahead of the required 4% return required in the Funding Strategy Statement.

The Fund's asset allocation remains close to the target investment strategy except for Infrastructure which is yet to be drawn and funded by DGF/Absolute Return. There is also a circa 3% under allocation to MAC.

RECOMMENDATIONS

That the Pensions Committee note the funding and performance update.

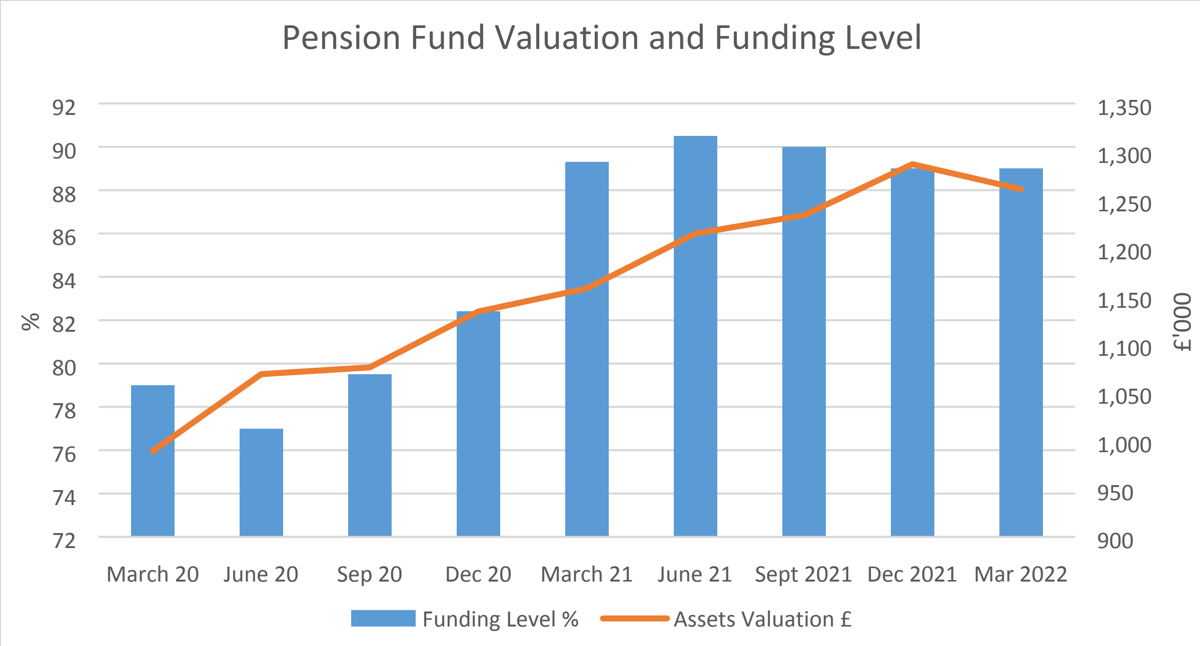
SUPPORTING INFORMATION

1. Funding Update

At the last formal valuation as of March 2019, the Fund assets were £1,067m and the liabilities were £1,228m. This represented a deficit of £161m and equated to a funding level of 87%.

The last interim funding update which illustrated the estimated funding position on 31 December 2021 showed a deficit of £159m, equivalent to a funding level of 89%.

As the formal triennial valuation as at March 2022 is now underway, no interim level is assessed at that date. Actual results are due to be presented in September 2022. Any necessary changes to employer contribution rates will be effective from April 2023.



2. Fund Performance

Over the last quarter to 31 March 2022, the Fund returned -2.01%, underperforming the benchmark return by 1.11%. The Fund value decreased over the quarter by £26m, to £1,261m.

Period of measurement	Fund Return %	Benchmark %	Relative Performance
Quarter	-2.01	-0.91	-1.11
1 Year	9.16	10.54	-1.25
3 Year	6.29	7.97	-1.55
5 Year	5.36	6.72	-1.27
Since Inception (09/1995)	6.87	7.00	-0.12

Highlights of the investment managers' relative performance are as follows:

- Property investments kept their performance in positive territory. UBS posted a total return of 6.88% for the quarter and 26.62% for the one-year. AEW and LGIM and both posted slightly modest positive returns in comparison with quarter and one-year figures of 2.87%/18.48% and 3.14%/12.97% respectively.

- The absolute return through London CIV (Ruffer) delivered by providing downside protection in a stressed market with positive 4.44% and 7.27% returns over the three-month and one-year horizons. True to their 'preservation of capital in all market conditions' strategy they have delivered annualised returns since their May 2010 inception in with the Fund of 6.15%.

- Notable underperformance is seen in the LCIV Global Alpha Paris Aligned Growth Fund. Since investing the growth style has struggled and the manager has delivered negative returns of -13.75& over the quarter and -11.83% since inception, both of which are behind the benchmark. The Fund has met with the underlying manager and remains comfortable the strategy will deliver over the long term.

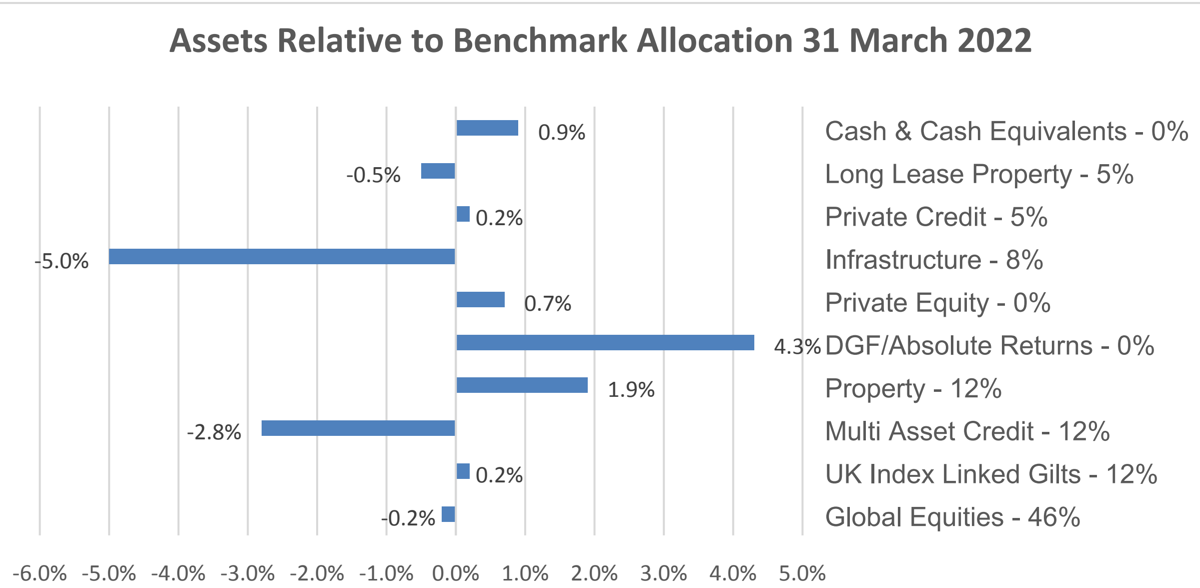
NB: Information from Northern Trust Quarterly performance report

3. Asset Allocation

The current asset allocation, the key strategic tool for the Committee, is in the table below.

Current Asset Allocation by Asset Class

ASSET CLASS	Market Value As at 01 April 2021	Actual Asset Allocation As at 01 April 2021	Market Value As at 31 March 2022	Actual Asset Allocation As at 31 March 2022	Benchmark Allocation As at 31 March 2022	Market Value As at 30 April 2022
	£'000	%	£'000	%	%	£'000
Global Equities	537,066	46	577,626	46	46	551,225
UK Index Linked Gilts	144,920	13	152,319	12	24	142,671
Multi Asset Credit	116,580	10	115,979	9		113,127
Property	139,177	12	175,645	14	12	170,895
DGF/Absolute Returns	50,833	4	54,528	4	0	54,448
Private Equity	12,499	1	9,097	1	0	9,216
Infrastructure	33,403	3	41,366	3	8	41,777
Private Credit	59,208	5	66,138	5	5	65,928
Long Lease Property	49,749	4	56,203	4	5	56,836
Cash & Cash Equivalents	15,254	1	11,928	1	0	12,413
Totals	**1,158,689**	**100.00**	**1,260,829**	**100.00**	**100**	**1,218,536**



Highlights of transactions during the quarter under review:

- Total drawdown of £2.0m was called by the London CIV Infrastructure fund and £1.1m by LCIV Private Debt Fund in the period under review.
- During the quarter, distributions received totalled £3.1m from Permira private debt, $541k & Eur416k from Private Equity and $988k from Macquarie Infrastructure.

Undrawn commitments on 31 March 2022 are as follows:
- £3.2m (8%) awaiting drawdown on Private Credit.
- £31.8m (58%) to London CIV Infrastructure Fund. These funds are currently held in the LCIV Ruffer Absolute Return Fund.
- £3m in for the AEW Urban Renewal property fund.
- LCIV Private Debt £40m.

4. Investment Managers

The assets of the Fund are invested across 11 different Fund Managers and 13 portfolios in a range of passive and active mandates, including a mix of liquid and illiquid allocations to reflect the Fund's long-term horizon.

Current Asset Allocation by Manager		**Market Value As at 31 March 2022**	**Actual Asset Allocation**	**Market Value As at 30 April 2022**
FUND MANAGER	**ASSET CLASS**	**£'000**	**%**	**£'000**
LGIM	Global Equities	305,648	24.24	291,617
LGIM	Future World	215,555	17.10	207,721
LCIV - BALLIE GIFFORD	Global Equities	56,423	4.48	51,887
LGIM	UK Index Linked Gilts	152,319	12.08	142,671
JP MORGAN	Multi Asset Credit	115,979	9.20	113,127
UBS PROPERTY	Property	94,061	7.46	94,555
AEW	Property	82,349	6.53	77,214
LCIV - RUFFER	DGF/Absolute Returns	54,528	4.32	54,448
ADAMS STREET	Private Equity	6,189	0.49	6,490
LGT	Private Equity	2,908	0.23	2,726
LCIV - STEPSTONE	Infrastructure	23,518	1.87	23,518
MACQUARIE	Infrastructure	17,848	1.42	18,259
M&G	Private Credit	1,851	0.15	1,641
LCIV	Private Credit	28,483	2.26	28,483
PERMIRA	Private Credit	35,804	2.84	35,804
LGIM	LPI Property	56,203	4.46	56,836
Non-Custody	Cash & Cash Equivalents	11,163	0.89	11,539
		1,260,829	**100**	**1,218,536**

5. Market and Investment/Economic outlook (March 22 provided by London CIV)

Russia's invasion of the Ukraine marked a step change in risk aversion in the capital markets. Inflationary pressure had already come into focus and the immediate surge in energy prices and futures contracts linked to agricultural staples, combined with heightened risks to supply chains, reverberated through the markets. Government bonds, credit and stocks all lost money in the first quarter of 2022. With nominal yields at very low levels, bonds could not fulfil their traditional role as 'shock absorbers' when inflation accelerated. The Bloomberg Global Aggregate Index (GBP hedged) lost more than 5% in Q1, and the Credit segment was down more than 7%.

What is perhaps most striking is that equity markets held up as well as they did in the face of mounting risks, although they needed a rally of more than 8% between the 8th of March and the end of the quarter to recover from a drawdown which peaked at more than 11% in Sterling terms based on the MSCI World Net index.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report.

During 2022/23, the Actuary will undertake a formal actuarial valuation based on the Fund status on 31 March 2022. Any necessary changes to employer contribution rates will be effective from April 2023.

LEGAL IMPLICATIONS

There are no legal implications in the report.