INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE (Part I)

Committee	Pensions Committee
Officer Reporting	James Lake & Babatunde Adekoya, Finance
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 -6.84% over the quarter which was 1.13% behind the benchmark. Performance over longer-term periods (3 and 5 years) was 2.70% and 3.69% per annum, which are both behind the benchmark and the required 4% return required in the Funding Strategy Statement.

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

RECOMMENDATIONS

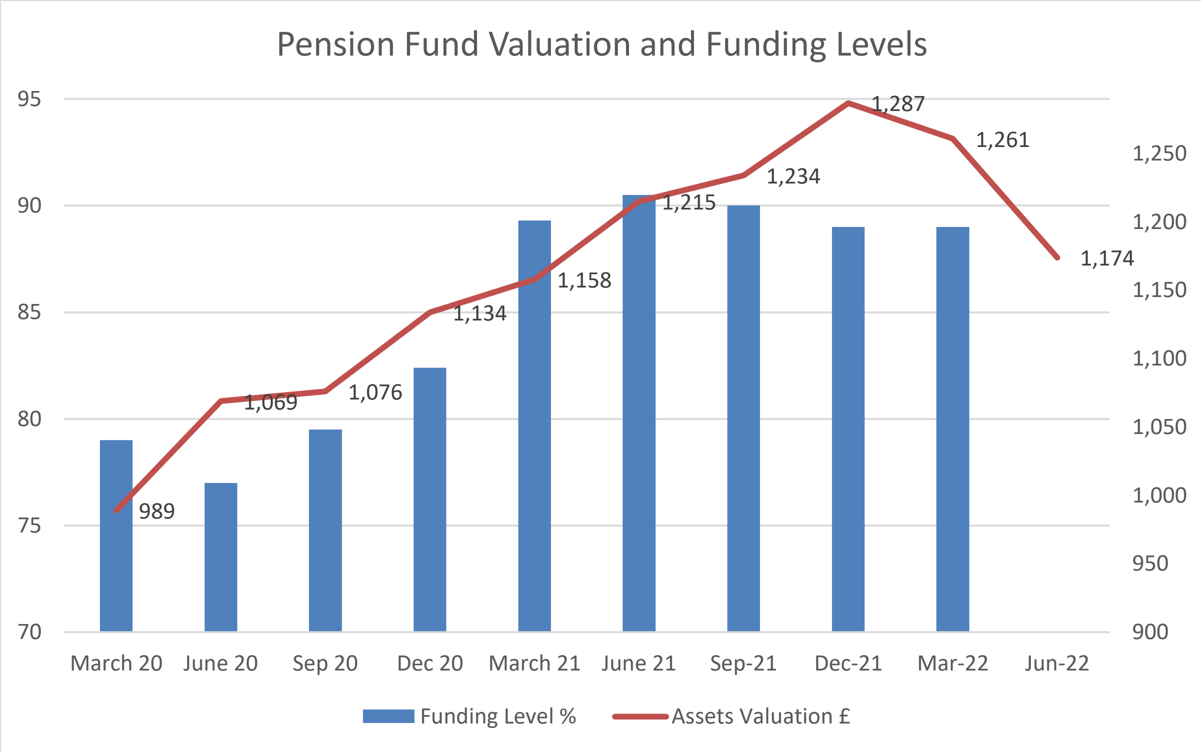
It is recommended that Pensions Committee note the funding and performance update.

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%.

As the formal triennial valuation as of March 2022 is materially complete and draft actuarial results are to be presented separately. Any necessary changes to employer contribution rates will be effective from April 2023



2. Fund Performance

Over the last quarter to 30 June 2022, the Fund returned -6.84%, underperforming the benchmark return by 1.13%. The Fund value decreased over the quarter by £86m, to £1,174m.

Period of measurement	Fund Return %	Benchmark %	Relative Performance
Quarter	-6.84	-5.78	-1.13
1 Year	-3.10	-0.30	-2.81
3 Year	2.70	4.88	-2.80
5 Year	3.69	5.28	-1.51
Since Inception (09/1995)	6.52	6.70	-0.17

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

- Alternative investments mostly kept their performance in positive territory. Adams Street & LGT Capital (Private Equity) posted relative returns of 9.98% and 12.14% for the quarter and 14.24% & 10.81% for the one-year respectively. Macquarie and M&G and both posted impressive relative returns to the benchmark with quarter and one-year figures of 2.80%/3.88% and 72.48%/16.75% respectively.

- The absolute return through London CIV (Ruffer) reversed its performance from previous quarter with -4.44% and 1.67% relative returns to the benchmark 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 4.86%.

- 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 relative returns of -4.06% over the quarter and -22.27%. The Fund has met with the underlying manager and remains comfortable the strategy will deliver over the long term.

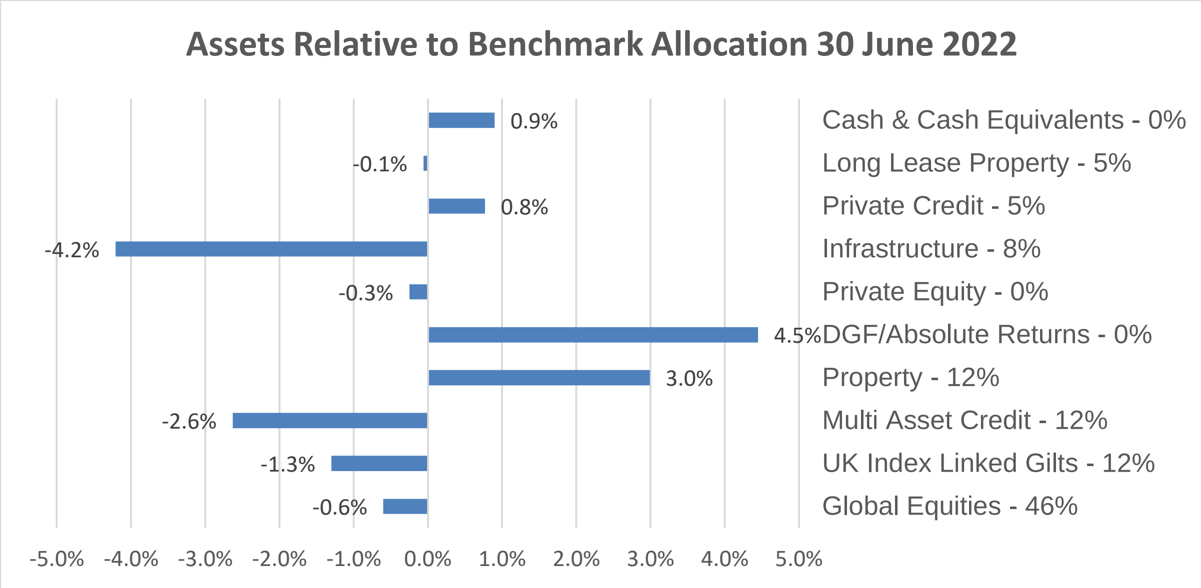
NB: Information from Northern Trust Quarterly performance report

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 2022	Actual Asset Allocation As At 01 April 2022	Market Value As at 30 June 2022	Actual Asset Allocation As At 30 June 2022	Benchmark Allocation	Market Value As at 31 August 2022
	£'000	%	£'000	%	%	£'000
Global Equities	551,163	45	520,903	44.35	45.00	555,831
UK Index Linked Gilts	142,671	12	125,583	10.69	24.00	132,287
Multi Asset Credit	113,127	9	110,000	9.37		110,000
Property	170,918	14	176,102	14.99	12.00	173,923
DGF/Absolute Returns	54,449	4	52,225	4.45	0.00	52,185
Private Equity	9,257	1	8,826	0.75	1.00	9,006
Infrastructure	41,776	3	44,494	3.79	8.00	51,834
Private Credit	65,928	5	67,739	5.77	5.00	65,803
Long Lease Property	56,836	5	57,975	4.94	5.00	58,060
Cash & Cash Equivalents	12,411	1	10,616	0.90	0.00	9,278
Totals	**1,218,536**	**100.00**	**1,174,463**	**100.00**	**100**	**1,218,207**



Highlights of transactions during the quarter under review:

- Total drawdown of £2.8m was called by the London CIV Infrastructure fund and £4.1m by LCIV Private Debt Fund in the period under review.
- During the quarter, distributions received totalled £3.4m from Permira private debt, $335k & Eur267k from Private Equity and $509k & Eur154k from Macquarie Infrastructure.

Undrawn commitments on 30 June 2022 are as follows:

- £3.2m (8%) awaiting drawdown on Private Credit.
- £28.9m (52.6%) 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 £37.4m (53.47%).

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 30 June 2022**	**Actual Asset Allocation**	**Market Value As at 31 August 2022**
FUND MANAGER	**ASSET CLASS**	**£'000**	**%**	**£'000**
LGIM	Global Equities	273,892	23.32	291,295
LGIM	Future World	197,375	16.81	210,461
LCIV - BALLIE GIFFORD	Global Equities	49,636	4.23	54,075
LGIM	UK Index Linked Gilts	125,583	10.69	132,287
LCIV MAC Fund	Multi Asset Credit	110,000	9.37	110,000
UBS PROPERTY	Property	97,219	8.28	96,285
AEW	Property	79,819	6.80	79,670
LCIV - RUFFER	DGF/Absolute Returns	52,225	4.45	52,185
ADAMS STREET	Private Equity	6,094	0.52	6,263
LGT	Private Equity	2,732	0.23	2,743
LCIV - STEPSTONE	Infrastructure	26,347	2.24	33,544
MACQUARIE	Infrastructure	18,147	1.55	18,290
M&G	Private Credit	1,927	0.16	692
LCIV Private Debt	Private Credit	32,572	2.77	31,963
PERMIRA	Private Credit	33,240	2.83	33,148
LGIM	LPI Property	57,975	4.94	58,060
Non-Custody	Cash & Cash Equivalents	9,680	0.82	7,246
		1,174,463	**100**	**1,218,207**

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

The narrative in capital markets shifted over the course of the second quarter. Inflation is certainly still a key issue, as evidenced by the 9.1% year on year increase in UK inflation in May, but the risk of recession is now central to the conversation. Growth is anaemic, at best, and sentiment indicators have turned down across the world.

Looking at the evidence, we can see that consensus growth forecasts for the G8 economies have been revised down sharply, from 3.8% and 2.3% for 2022 and 2023 respectively at the beginning of this year, to a range around 1.5% now. Inflation, based on CPI, is now expected to average 7.3% in 2022, compared to 3.8% at the start of the year, although economists think central bank action will drive inflation back down in 2023 and 2024.

Equities performed badly in the second quarter, so much so that the S&P 500 Index had its worst half-year period since 1962, posting a loss of more than 20% in U.S. Dollar terms, truly a multi-generational correction! The tone improved late in the period, albeit briefly, after the US Federal Reserve increased its reference rate by 0.75% to a range of 1.5% to 1.75%. Based on the MSCI World Index, global stocks lost 16.6% in U.S. Dollars in Q2 and just over 9% in Sterling terms, reflecting the continued poor performance of Sterling.

Emerging market stocks outperformed developed market stocks in the quarter. The most positive feature of Q2was the recovery of Chinese stocks after an extended period in the doldrums. The reopening of key Chinese cities is a big development. If new lockdowns can be avoided, this will restore, at least partly, an important engine of growth for the global economy, and it should help reduce friction in global supply chains.

Equity investors are divided on whether central banks can find the right balance between combating inflation and averting a sharp slowdown. Stocks displaying value characteristics outperformed growth stocks by almost 16% in the first half of this year, but they are perceived to be relatively highly geared to economic activity and their performance have weakened as the risks of recession have increased, and oil and metals prices have softened.

Growth stocks are less aggressively mispriced than they were at the end of 2021, and there are pockets of exposure in that segment to companies which will be expected to be relatively resilient in a downturn. However, although investors appear to be starting to warm up to growth stocks, the tide can turn quickly – companies are punished severely for even small ‘misses’ in revenues or earnings.

FINANCIAL IMPLICATIONS

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

The Fund Actuary has undertaken 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.