INVESTMENT STRATEGY and FUND MANAGER PERFORMANCE (Part I)

Committee	Pensions Committee
Officer Reporting	James Lake – Finance Directorate Babatunde Adekoya – Finance Directorate
Papers with this report	Northern Trust performance report on Members' shared drive

HEADLINES

Market concern and volatility resulting from increased inflation, reduced growth expectations and the Russian invasion of Ukraine continue the downward pressure on market indices. The overall investment return of the Fund was -2.01% over the quarter which was 1.02% behind the benchmark. Performance over longer-term periods (3 and 5 years) was 1.01% and 2.94% per annum, which are both behind the benchmark and the 4% return required in the Funding Strategy Statement.

The Fund's asset allocation remains close to the target investment strategy except for LCIV Infrastructure and Private Debt Funds which are yet to be fully drawn. There is also a circa 3% under-allocation to MAC.

RECOMMENDATIONS

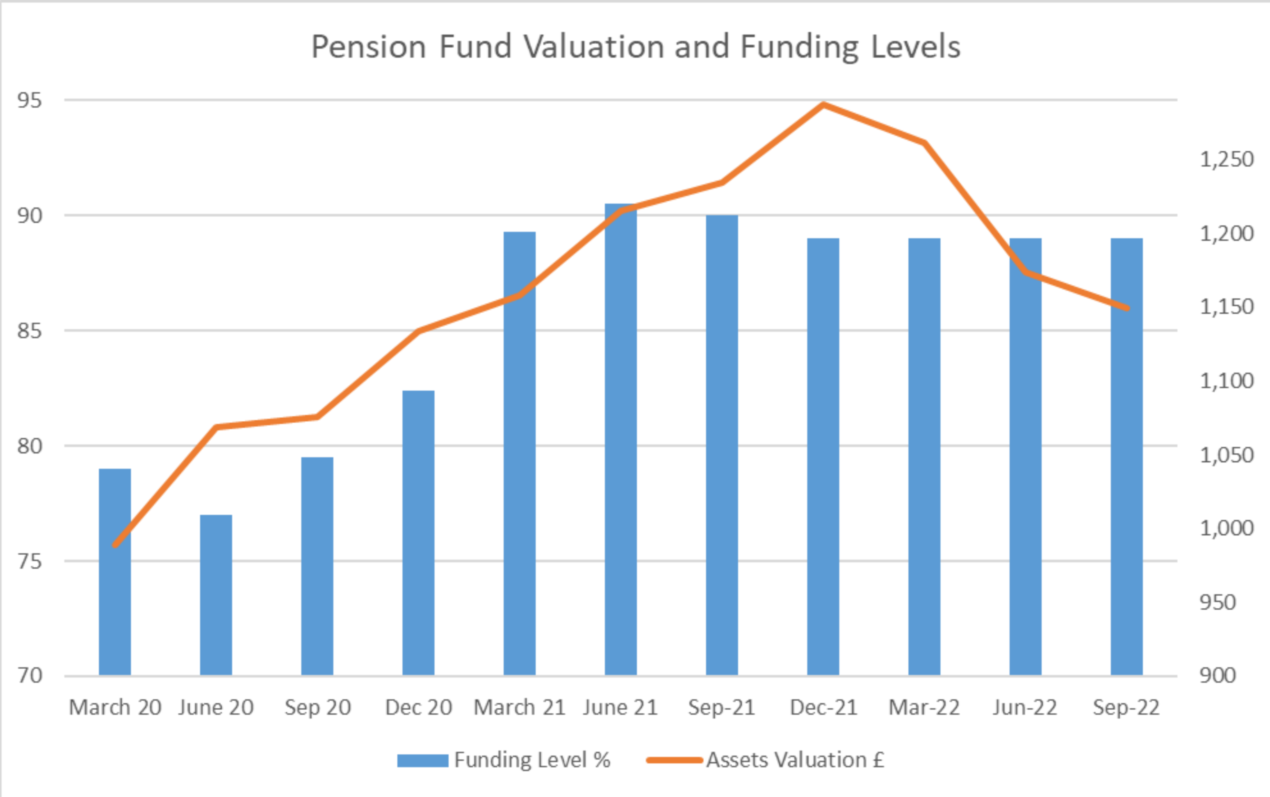
That Pensions Committee note the funding and performance update.

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%.

Initial 2022 valuation results show a funding level of 88%. Following the consultation period any necessary changes to employer contribution rates will be effective from April 2023



2. Fund Performance

Over the last quarter to 30 September 2022, the Fund returned -2.01%, underperforming the benchmark return by 1.02%. The Fund value decreased over the quarter by £25m to £1,149m.

Period of measurement	Fund Return %	Benchmark %	Relative Performance
Quarter	-2.01	-1.00	-1.02
1 Year	-6.50	-2.98	-3.63
3 Year	1.01	3.73	-2.62
5 Year	2.94	4.73	-1.71
Since Inception (09/1995)	6.38	6.60	-0.20

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

- Alternative investments mostly kept their performance in positive territory. Macquarie and LCIV Infrastructure Funds posted relative returns of 7.55% and 10.29% for the quarter and 22.34% & 10.49% for the one-year respectively.

- AEW Property Funds were the biggest detractors to performance in the quarter under review with relative underperformance of -14.89% and -24.79% for one year.

- Notable relative 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 -1.21% over the quarter and -23.08% over one year. The Fund and Pool have met with the underlying manager and currently remain comfortable the strategy will deliver over the long term.

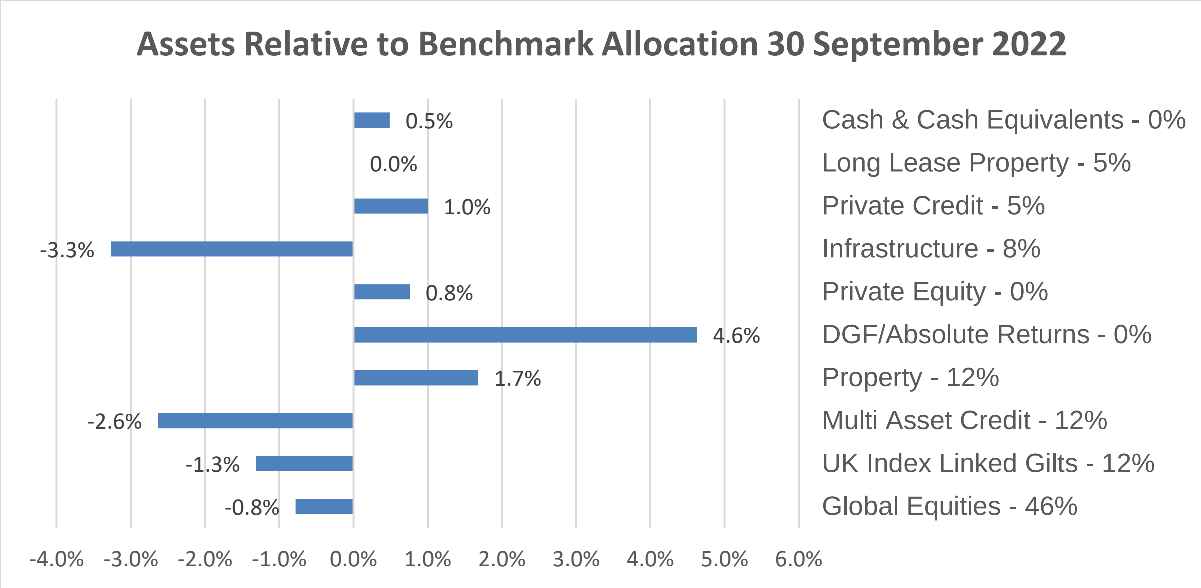
NB: Information from Northern Trust Quarterly performance report

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 of 01 April 2022	Actual Asset Allocation As of 01 April 2022	Market Value As of 30 September 2022	Actual Asset Allocation As of 30 September 2022	Benchmark Allocation	Market Value As of 31 October 2022
	£'000	%	£'000	%	%	£'000
Global Equities	551,163	45	519,768	45.22	46.00	533,953
UK Index Linked Gilts	142,671	12	113,885	9.91	24.00	108,908
Multi Asset Credit	113,127	9	110,000	9.57		110,000
Property	170,918	14	157,273	13.68	12.00	148,736
DGF/Absolute Returns	54,449	4	53,162	4.63	0.00	48,798
Private Equity	9,257	1	8,742	0.76	0.00	8,261
Infrastructure	41,776	3	54,420	4.73	8.00	57,048
Private Credit	65,928	5	68,973	6.00	5.00	70,993
Long Lease Property	56,836	5	57,549	5.01	5.00	55,420
Cash & Cash Equivalents	12,411	1	5,610	0.49	0.00	5,912
Totals	**1,218,536**	**100.00**	**1,149,382**	**100.00**	**100**	**1,148,029**



Highlights of transactions during the quarter under review:

- Total drawdown of £5.4m was called by the London CIV Infrastructure fund and £5.6m by LCIV Private Debt Fund in the period under review.
- During the quarter, distributions received totalled £93k from Permira private debt, $101k from Private Equity and $421k from Macquarie Infrastructure.

Undrawn commitments on 30 September 2022 are as follows:

- £3.2m (8%) awaiting drawdown on Private Credit (Permira).
- £23.6m (42.94%) 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 (51.87%).

4. Investment Managers

The assets of the Fund are invested with a number of underlying managers and portfolios and in a range of passive and active mandates, including a mix of liquid and illiquid allocations to reflect the Fund's long-term horizon. The table below provides a breakdown of asset class and manager.

Current Asset Allocation by Manager		Market Value As at 30 September 2022	Actual Asset Allocation	Market Value As at 31 October 2022
FUND MANAGER	**ASSET CLASS**	**£'000**	**%**	**£'000**
LGIM	Global Equities	269,603	23.46	279,229
LGIM	Future World	199,724	17.38	204,763
LCIV - BALLIE GIFFORD	Global Equities	50,441	4.39	49,961
LGIM	UK Index Linked Gilts	113,885	9.91	108,908
LCIV MAC Fund	Multi Asset Credit	110,000	9.57	110,000
UBS PROPERTY	Property	94,009	8.18	88,797
AEW	Property	65,220	5.67	62,006
LCIV - RUFFER	DGF/Absolute Returns	53,162	4.63	48,798
ADAMS STREET	Private Equity	5,902	0.51	5,669
LGT	Private Equity	2,840	0.25	2,592
LCIV - STEPSTONE	Infrastructure	35,025	3.05	38,467
MACQUARIE	Infrastructure	19,395	1.69	18,581
M&G	Private Credit	693	0.06	659
LCIV Private Debt	Private Credit	36,153	3.15	38,206
PERMIRA	Private Credit	32,127	2.80	32,128
LGIM	LPI Property	57,549	5.01	55,420
Non-Custody	Cash & Cash Equivalents	3,654	0.32	3,845
		1,149,382	**100**	**1,148,029**

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

With the concept of 'transitory' inflation firmly consigned to the scrap heap, the focus has shifted to assessing the impact of tighter monetary policy. Having been slow off the mark, central banks in the U.K., Eurozone and U.S. are intent on reasserting their authority by raising interest rates. The risk that the pendulum of monetary action swings too far, choking off growth and amplifying the depth and severity of a recession, has clearly increased.

This is reflected in the twitchiness in interest rate, credit, and equity markets, with sentiment shifting rapidly as new data is released. Volatility in the bond market remains exceptionally high by historic standards, and the trend of positive correlation in the performance of stocks and bonds in periods of risk aversion has continued. This is certainly a challenging time for capital allocators and security selectors.

Consensus growth forecasts for the G8 economies declined further in Q3. At the beginning of 2022, projected growth was 3.8% and 2.3% for 2022 and 2023 respectively. By the end of September, these forecasts had been reduced to 1.6% and 0.6%. Expectations are for an anaemic recovery in 2024, with growth of 1.6%. Inflation, based on CPI, is now expected to average 7.5% in 2022, compared to 3.8% at the start of the year, although economists think central bank action and decelerating growth will drive inflation down to about 4% in 2023 and 2.2% in 2024. Employment levels are still expected to be stable, an important factor in a period of high inflation and increasing borrowing costs. Investor surveys from Bank of America, ASR research and others see investors expecting a recession in 2023.

Turning to markets, the worst of the excesses in valuation of stocks and corporate bonds have been stripped away. Headline valuations have moderated, forward price to earnings ratios have dropped below long-term averages.

The outlook for growth, inflation and asset markets is still murky, at best, particularly given the relentless rise of the U.S. Dollar. Rapid changes in sentiment will continue to drive surges in volatility in the coming months.

Stocks are trading slightly below their long-term averages, but with significant earnings risks.

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.