INVESTMENT STRATEGY and FUND MANAGER PERFORMANCE (Part I)	ITEM 7

Committee	Pensions Committee
Officer Reporting	Babatunde Adekoya, Finance
Papers with this report	NT performance report on shared drive LCIV Performance reporting on shared drive Hymans Interim Valuation Report 31 March 2024

HEADLINES

The overall investment return of the Fund was 4.77% over the quarter which was 0.08% ahead of the benchmark of 4.69%. Performance over longer-term periods (3 and 5 years) was 4.54% and 4.68% per annum, which are both behind the set benchmark. However, the 3-year figure is 0.44% above the 4.1% return required in the Funding Strategy Statement, and the 5- year figure 0.58% above this requirement.

The Fund's actual asset allocation is regularly monitored and from time-to-time may require adjustments following the revisions agreed by Committee to the target investment strategy.

RECOMMENDATIONS

It is recommended that Pensions Committee:

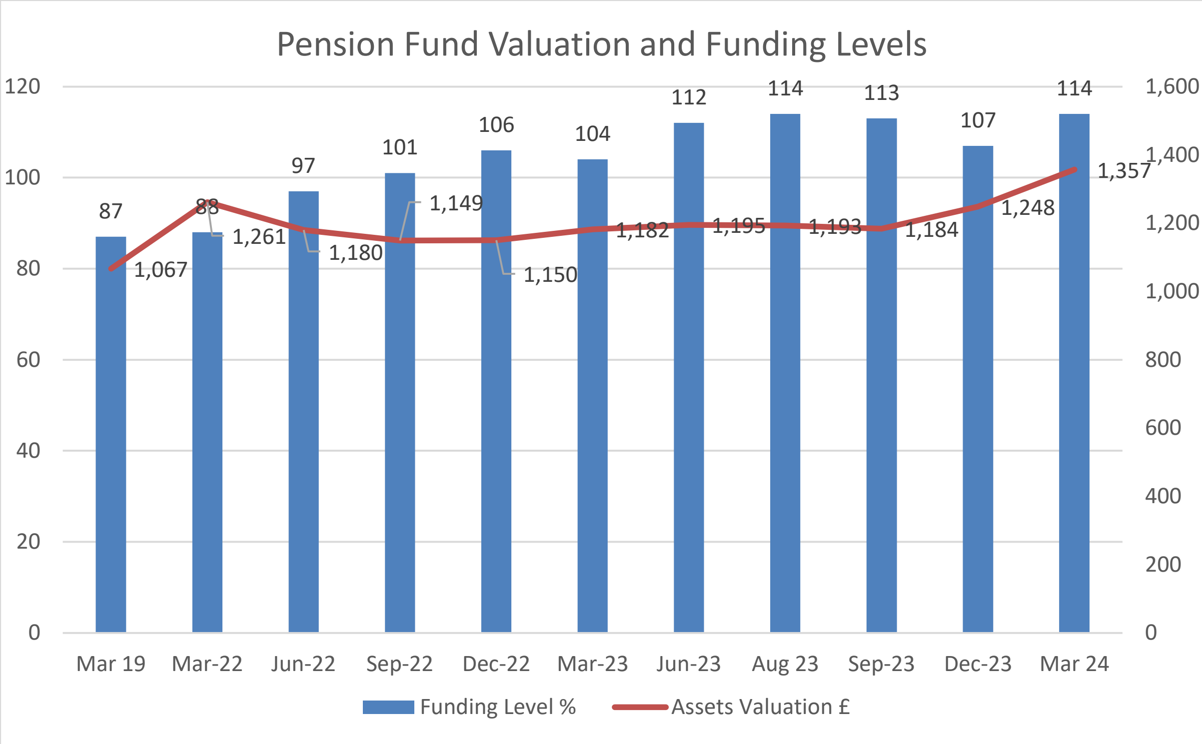
1. **Note the funding and performance update.**

SUPPORTING INFORMATION

1. Funding Update

At the last formal valuation as of March 2022, the Fund assets were £1,263m and the liabilities were £1,430m. This represented a deficit of £167m and equated to a funding level of 88%.

An interim funding level update was produced by the actuary on 31 March 2024. it showed funds' assets were £1,357m and equated funding level of 114%, an increase of 7% from the previous quarter. The primary reason for the improved funding level is an Increase in discount rate from 5.8% (December) up to 6.1% (March 24).



2. Fund Performance

Over the last quarter to 31 March 2024, the Fund returned 4.77%, outperforming the benchmark return by 0.07%. The Fund value also increased over the quarter by £109m, up to £1,357m, in part due to £45.2m received from HCUC after finalisation of its merger with Richmond College. Longer term performance is behind the benchmark in all time periods.

Period of measurement	Fund Return %	Benchmark %	Relative Performance
Quarter	4.77	4.69	0.07
1 Year	11.48	11.33	0.13
3 Year	4.54	5.39	-0.81
5 Year	4.68	5.91	-1.17
Since Inception (09/1995)	6.54	6.71	-0.16

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

- Permira LLP and AEW UK were the best performers in the quarter under review. Both outperformed their respective benchmarks by 3.85% and 0.39%, with portfolio returns of 6.19% and 0.91% respectively.

- Macquarie again was the standout manager over one and three-year performance measurements, with 16.57% & 14.40% returns above its set benchmark for both periods. The performances are attributable to the maturity profile of the funds in the portfolio, which are being wound up and assets disposed at considerable profits.

- Notable significant relative underperformance continues with both private equity portfolios managed by Adams Street and LGT Capital Partners. It is, however, not surprising as the funds are past their investment cycle and are in the process of being completely wound down. Both portfolios underperformed their respective benchmarks overall performance measurement periods of current quarter, one and three-year periods.

Fund Performance by Manager Relative to Benchmark as of 31 March 2024

	3 Months		1 Year		3 Years		Since Inception		
	Manager	Benchmark	Manager	Benchmark	Manager	Benchmark	Manager	Benchmark	Inception Date
Adam Street	2.27	10.29	-3.83	*25.31*	0.26	*14.75*	7.10	0	31/01/2005
AEW UK	0.91	0.51	1.91	*-0.70*	2.74	*1.50*	6.47	*4.99*	30/06/2014
Blackstone	0.00	0.00	0.00	*0.00*	0.00	*0.00*	-0.20	*0.11*	27/03/2024
LCIV Global Alpha Growth Fund Paris Aligned	8.73	10.62	15.98	*25.56*	0	0	-1.11	*13.84*	22/04/2021
LCIV Infrastructure Fund	0.46	2.01	4.99	*8.12*	7.59	*5.68*	4.73	*5.00*	14/11/2019
LCIV Mac Fund	2.32	2.38	11.52	*9.62*	0	0	6.57	*8.66*	26/05/2022
LCIV Private Debt	0.00	1.47	6.12	*6.00*	0	0	7.07	*6.00*	16/11/2021
LCIV Ruffer	-0.79	1.32	-6.01	*5.17*	0.65	*2.52*	4.86	*1.17*	28/05/2010
Legal & General World Developed Equity	9.02	8.99	21.77	*21.70*	9.14	*9.19*	9.48	*9.58*	31/10/2016
Legal & General Index Linked Gilts	-1.81	-1.81	-5.00	-4.98	-9.88	*-9.88*	-1.93	*-1.79*	22/02/2017
LGIM - Future World Equity IND	9.32	9.28	21.45	*21.05*	10.52	10.31	10.79	*10.61*	23/09/2020
LGIM LPI Income Property	1.34	1.06	-1.58	*4.30*	-2.13	*8.86*	-1.74	*6.90*	11/03/2020
LGT Capital	-2.38	10.29	0.96	*25.31*	5.08	*14.75*	10.25	0	31/05/2004
M&G Investments	-13.06	2.26	-14.62	*9.12*	14.68	*6.68*	4.21	*5.13*	31/05/2010
Macquarie	1.53	2.01	26.03	*8.12*	20.90	*5.68*	9.79	*4.13*	30/09/2010
Permira Credit	6.19	2.26	13.87	*9.12*	8.82	*6.68*	7.74	*5.31*	30/11/2014
UBS Property	-0.55	0.51	-0.39	*-0.70*	2.43	*1.50*	3.32	*3.27*	31/03/2006

NB: Information from Northern Trust Quarterly performance report

3. Asset Allocation

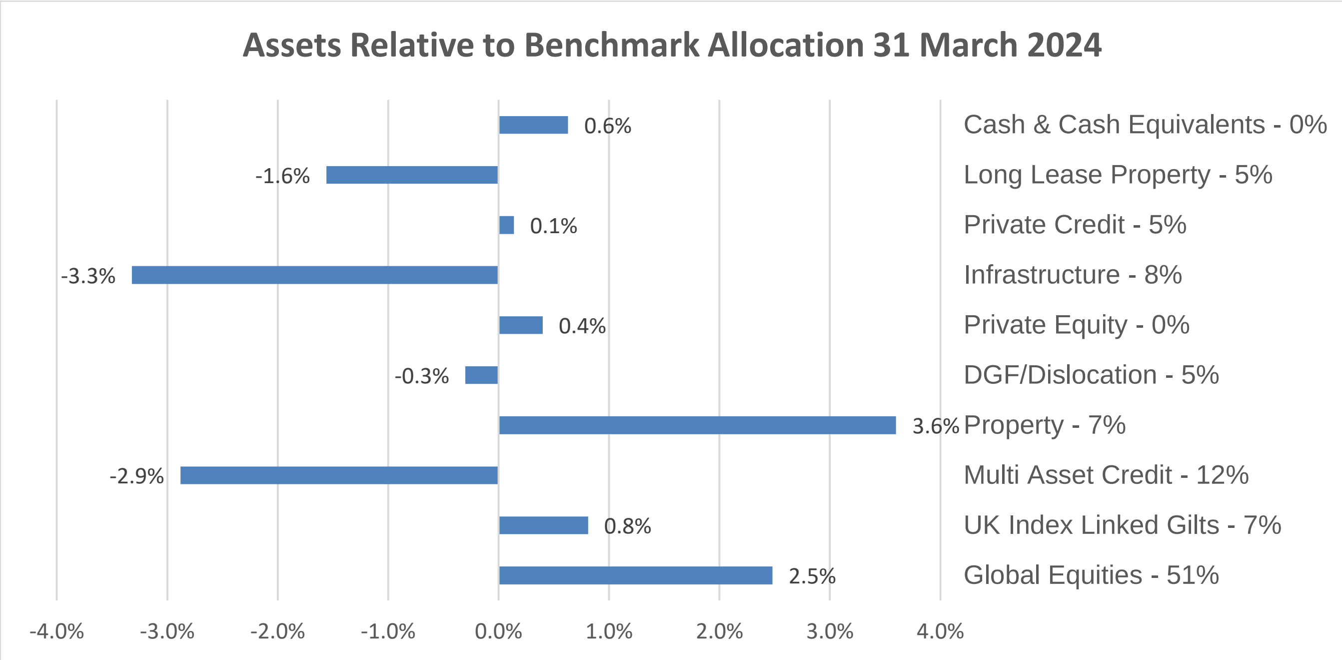
The current asset allocation, the key strategic tool for the Committee, is in the table below.

Current Asset Allocation by Asset Class

ASSET CLASS	Market Value As of 01 April 2023	Actual Asset Allocation As of 01 April 2023	Market Value As of 31 March 2024	Actual Asset Allocation As of 31 March 2024	Benchmark Allocation	Market Value As of 30 April 2024
	£'000	%	£'000	%	%	£'000
Global Equities	562,149	48	725,928	53.48	51	702,665
UK Index Linked Gilts	111,642	9	106,057	7.81	7	102,207
Multi Asset Credit	110,959	9	123,740	9.12	12	123,308
Property	148,291	13	143,822	10.60	7	144,303
DGF/Dislocation	47,406	4	63,800	4.70	5	64,325
Private Equity	6,666	1	5,446	0.40	0	5,475
Infrastructure	54,771	5	63,548	4.68	8	63,614
Private Credit	75,923	6	69,709	5.14	5	69,681
Long Lease Property	47,386	4	46,638	3.44	5	46,858
Cash & Cash Equivalents	16,650	1	8,584	0.63	0	12,009
Totals	**1,181,843**	**100**	**1,357,272**	**100**	**100**	**1,334,445**

Current Asset Allocation by Asset Class

ASSET CLASS	01 April 2023		31 March 2024			30 April 2024
	Market Value £m	%	Market Value £m	%	Benchmark %	Market Value £m
Global Equities	562.1	48	725.9	53.5	51	702.6
UK Index Linked Gilts	111.6	9	106.1	7.8	7	102.2
Multi Asset Credit	111.0	9	123.7	9.1	12	123.3
Property	148.3	13	143.8	10.6	7	144.3
DGF/Dislocation	47.4	4	63.8	4.7	5	64.3
Private Equity	6.7	1	5.4	0.4	0	5.5
Infrastructure	54.8	5	63.5	4.7	8	63.6
Private Credit	75.7	6	69.7	5.1	5	69.7
Long Lease Property	47.4	4	46.6	3.4	5	46.9
Cash & Cash Equivalents	16.7	1	8.6	0.6	0	12.0
Totals	**1,181.8**	**100**	**1,357,272**	**100**	**100**	**1,334.4**



Highlights of transactions during the quarter under review:

Total gross drawdown of £3.3m by LCIV Infrastructure Fund in the period under review.

- During the quarter, distributions received totalled £832k from Permira Private Debt, $178k & Euro 126k from Private Equity and US$1.14m from Macquarie Infrastructure.

Undrawn commitments on 31 March 2024 are as follows:

- £3.2m (8% of commitment) awaiting drawdown on Private Credit (Permira).
- £11.4m (21% of commitment) to London CIV Infrastructure Fund.
- £2.8m in for the AEW Urban Renewal property fund.
- LCIV Private Debt £22.9m (33% of commitment).

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 of 31 March 2024	Actual Asset Allocation	Market Value As of 30 April 2024
FUND MANAGER	**ASSET CLASS**	**£'000**	**%**	**£'000**
LGIM	Global Equities	359,696	26.50	351,583
LGIM	Future World	304,306	22.42	291,236
LCIV - BALLIE GIFFORD	Global Equities	61,926	4.56	59,846
LGIM	UK Index Linked Gilts	106,057	7.81	102,207
LCIV MAC Fund	Multi Asset Credit	123,740	9.12	123,308
UBS PROPERTY	Property	74,913	5.52	74,988
AEW	Property	72,517	5.34	73,013
Blackstone	DGF/Absolute Returns	19,241	1.42	19,411
LCIV - RUFFER	DGF/Absolute Returns	44,559	3.28	44,914
ADAMS STREET	Private Equity	3,736	0.28	3,757
LGT	Private Equity	1,710	0.13	1,718
LCIV - STEPSTONE	Infrastructure	49,716	3.66	49,716
MACQUARIE	Infrastructure	13,832	1.02	13,898
M&G	Private Credit	488	0.04	460
LCIV Private Debt	Private Credit	54,689	4.03	54,689
PERMIRA	Private Credit	14,532	1.07	14,532
LGIM	LPI Property	46,638	3.44	46,858
Non-Custody	Cash & Cash Equivalents	4,976	0.37	8,311
		1,357,272	**100**	**1,334,445**

5. Market and Investment/Economic outlook (March 2024 provided by London CIV)

We ended our December update with a warning that investors had become complacent about risks to inflation and expectations for monetary policy, specifically the timing and magnitude of cuts in official interest rates by central banks in the U.K., Eurozone, and U.S. These expectations were a big driver of the strong performance of equity and credit markets in 2023.

Inflation and employment data released in the first half of Q1 caused concerns which were reflected quickly in bond yields and equity markets. These concerns faded but then reappeared late in Q1. This did not cause much of a ripple in credit and equity markets in Q1. Spreads on investment grade and high-yield debt declined and equities continued to perform well.

Fluctuations in yields have been less extreme than they were for most of 2023, and we think the UK have made progress in moving towards the ‘normalisation’ of the relationship between monetary policy and economic conditions. However, sentiment shifts quickly as new data is released. This was evident early in the second quarter, particularly in the U.S., when inflation, growth and employment data all came in

above expectations, prompting the Chair of the U.S. Federal Reserve to remind investors that the case for early reductions in interest rates is not clear cut.
As shown, yields on U.K. government bonds ended the first quarter higher than their starting point for the year and then moved up again in early Q2 as investors moderated their expectations for cuts in interest rates. The pattern is similar in the U.S. Treasury market.

The generally positive tone in Q1 also belies the lack of progress on resolving conflicts in Europe and the Middle East, as well as heightened geopolitical risks in a big year for elections. In addition, we should not discount the potential for an unexpected shock in the financial markets, along the lines of the crisis in the banking sector in the first quarter of 2023.

One of the interesting features of Q1 was the surge in the price of gold, despite the declining trend in inflation. Bullion gained 8% to set new record highs above $2,300 an ounce, reflecting strong demand amidst concerns about geopolitical risks and the outlook for the U.S. Dollar should differentials in interest rates on government bonds begin to narrow. Oil prices have also been strong this year (Brent crude +13.5% in Q1) because of production cuts and geopolitical concerns.

The grounds for optimism we highlighted in our previous update are having a positive impact. Opportunities linked to adjustments in global supply chains, fiscal measures to promote investment in infrastructure and renewable energy and innovation in the use of artificial intelligence to boost productivity and create new channels for growth are evident in overall corporate earnings data.
This has boosted confidence, as evidenced by a small narrowing of the differential in valuation multiples between the market leaders in 2023, specifically the 'Magnificent 7' group, and the broader market late in Q1. We have also seen cracks appear in the Magnificent 7, with Apple and Tesla shares dropping by 10% and 28% respectively in Q1 (in Sterling terms), Alphabet and Microsoft 'subdued' with gains of 9% and 13% respectively whereas Nvidia propelled itself into the 3rd spot in the ranking of the world's largest companies by market cap (2.2 trillion in U.S. Dollar terms) with a gain of more than 84%. Nvidia shares are up 218% in the year to the end of March 2024.

Japanese stocks have surged back into the spotlight with a gain of 23% over one year and a new record high, more than thirty years after the previous record was set. Japan is the second largest constituent of the MSCI World Index, albeit with a weight of only 6.1% at the end of March 2024. The Bank of Japan moved official interest rates above zero, if only just, and scrapped its yield curve control programme, reflecting increasing confidence that deflation has been conquered. Equity investors have seized on the improved outlook for corporate earnings to push stock prices up.

The actions taken by the Bank of Japan had been expected to push the Yen higher against the U.S. Dollar and other major currencies. Instead, the Yen weakened based on the view that the differential between yields on Japanese Government Bonds and other sovereign bonds would not narrow as quickly as had been expected at the beginning of the year. This is an important watching point because of the volume of overseas assets purchased using Yen as the funding currency. A rapid narrowing of the gap could accelerate the repatriation of capital back to Yen-denominated assets and prompt a surge in volatility in global capital markets.

Developed markets companies outperformed emerging markets companies by a margin of more than 16% over one year. The poor performance of Chinese stocks (-1.3% in Q1 2024 and -18.7% over 12 months based on MSCI index constituents), which accounted for about 25% of the MSCI Emerging Markets Index in Q1, has diluted strong performance in other markets, notably Taiwan (+13.5% in Q1), led by Taiwan Semiconductor Manufacturing Company, and India (+7.1%), where industrial and consumer companies geared to growth in the local economy have offset the weak performance of leading banks.

Outlook
With inflation on a clearer downward path, albeit with the risk of setbacks (possibly linked to disruption of supply chains caused by geopolitical events or an unexpected shock in the financial system), we think bond yields will move in a tighter range than we have seen since early 2021. This should allow for a more rational assessment of the outlook for economies and companies, and in turn, the pricing of assets.
Yields available from credit assets are attractive, although spreads have narrowed and don't look compelling by historic standards. The same can be said about headline valuations of equities. However, divergences in performance across regions and sectors are wider than they were during the long period of easy money. This will create opportunities for active credit and equity investors to add value through sector rotation and/or good security selection.

Consistent with our message at the end of 2023, we encourage Partner Funds to review the strongest sources of performance within their funds and consider opportunities to adjust the balance of exposure across asset classes, and within the main blocks of risk, equities, and credit in particular.

London CIV Team

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

LEGAL IMPLICATIONS
There are no legal implications in the report.