PENSIONS COMMITTEE

16 March 2022

Title: Pension Fund Quarterly Monitoring 2021/22 – 1 October to 31 December 2021	
Report of the Managing Director	
Open Report	**For Information**
Wards Affected: None	**Key Decision:** No
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Accountable Director: Philip Gregory, Chief Financial Officer	
Accountable Strategic Leadership Director: Claire Symonds, Acting Chief Executive	

Summary

This report provides information for employers, members of London Borough of Barking and Dagenham Pension Fund ("the Fund") and other interested parties on how the Fund has performed during the quarter 1 October to 31 December 2021.

The report updates the Committee on the Fund's investment strategy and its investment performance.

Recommendation(s)

The Pension Committee is recommended to note:

(i) the progress on the strategy development within the Fund;

(ii) the Fund's assets and liabilities daily value movements outlined in Appendix 1;

(iii) the purchase of £769k of BlackRock units at 31 December 2021; and

(iii) the quarterly performance of the fund collectively and the performance of the fund managers individually.

1. Introduction and Background

1.1 This report provides information for employers, members of the LBBD Pension Fund ("the Fund") and other interested parties on how the Fund has performed during the quarter 1 October to 31 December 2021 ("Q4"). The report updates the Committee on the Fund's investment strategy and performance. Appendix 2 provides a definition of terms used in this report. Appendix 3 sets out roles and responsibilities of the parties referred to in this report. A verbal update on the unaudited performance of the Fund for the period to 14 March 2022 will be provided to Members at the Pension Committee.

2. Market Background October to December 2021

Q4 was positive for world equity markets, as a whole, with the MSCI World Index advancing 8% (in $ terms). There were however significant differences in performance across geographies. As in the previous (July to September) Quarter the developed US, European and UK markets performed positively while Asia and Emerging Markets fell slightly with the MSCI Emerging Markets and MSCI Asia (excluding Japan) indices both falling by around 1%. October was a positive month for most markets but concerns over the Omicron COVID variant clearly adversely affected markets in November although initial concerns were somewhat alleviated by December which was also broadly positive. Generally strong corporate earnings in the US and Europe clearly helped support Listed Equities in these regions. Continuing a theme which emerged earlier in 2021 inflation was a major issue of consideration with widespread clear evidence of further increases. The OECD reported (3/2/2022) that inflation in the OECD area had reached 5.6% in December 2021. As of September 2021, the OECD had reported inflation as 4.6% and 1.2% in December 2020.

Leading monetary policy makers indicated a shift in their thinking on inflation. While still considering that long term inflation would be around their 2% target there was a shift regarding the shorter term by the US, European & UK central banks. At the US Senate Banking Committee on 30/11/2021 US Federal Reserve Chair Jay Powell stated that *"I think it's probably a good time to retire"* the term *"transitory*" in reference to inflation although he still believed inflation would reduce *"significantly"* over the next year. The US Federal Reserve ceased referring to present inflationary trends as *"transitory"* in its documentation from December 2021. At her press conference on 16 December 2021 Christine Lagarde, President of the European Central Bank (ECB) while stating that she expected inflation *"to decline in the course of next year"* also stated "*Our new staff projections foresee annual inflation at 2.6 per cent in 2021, 3.2 per cent in 2022, 1.8 per cent in 2023, and 1.8 per cent in 2024 – significantly higher than in the previous projections in September."* On 15 December, the Bank of England Monetary Policy Committee increased Bank Rate for the first time in over three years as part of its approach "*to return CPI inflation sustainably to the 2% target."*

US equities had a very strong Q4 buoyed by strong earnings results. There were also suggestions that equities may have gained at the expense of bonds in an environment of inflation, indications/action from the US Federal reserve (FED) in terms of monetary tightening and increasing market expectations of US interest rate increases. The S&P 500 which had closed at 4,308 on 30 September 2021 had risen to 4,766 by 31 December 2021 an increase of 11%.

Q4 saw the FED very carefully but clearly and significantly modifying both its views and approach to monetary policy. While the press releases issued after the September Federal Open Market Committee (FOMC) referred to elevated inflation *"largely reflecting transitory factors"* this changed to *"largely reflecting factors that are expected to be transitory"* in November. Then at the December FOMC meeting the word *"transitory"* was omitted from the press release. Resulting from an assessment of *"substantial further progress"* towards the FOMC goals of *"maximum employment and inflation at the rate of 2 percent over the longer term"* the November meeting agreed a decision to scale back the $120 billion per month asset purchase programme by $15 billion a month. At the December meeting *"In light of inflation developments and further improvements in the labor market"* the FOMC determined to further reduce these purchases by $30 billion a month from January 2022 indicating an end of the asset purchase programme by March 2022. While at both the November and December meetings the FOMC voted, yet again, to maintain its main interest rate at the range 0-0.25% the Summary of Economic Projections issued after the December meeting indicated that Federal Reserve Officials expected three interest rate rises in 2022. In September, the consensus had been one or potentially no rate rises in 2022.

In November 2021 President Biden, despite concerns expressed by some Democrats, nominated Jay Powell for a second term as Chair of the US Federal Reserve. Chair Powell who won wide praise for his leadership of the Federal Reserve during the severe crisis which hit markets in 2020 following the worldwide outbreak of COVID 19 represents experience and continuity in the face of the present context of high inflation and uncertain economic circumstances.

US inflation continued to rise further and significantly above the policy target of 2% with the Core PCE index (the FED's favoured index) registering 4.2%, 4.7% and 4.9% in October, November, and December, respectively. As the US Bureau of Economic Analysis states in the commentary accompanying the Core PCE figures this *"index makes it easier to see the underlying inflation trend by excluding two categories – food and energy – where prices tend to swing up and down more dramatically and more often than other prices…"* US Unemployment fell further in Q4 to 3.9% in December 2021 which was close to the pre pandemic January and February 2020 level of 3.5%.

US economic growth clearly accelerated during the Quarter. On 24 February 2022, the *"second"* (updated) estimate issued by the US Bureau of Economic Analysis estimated US GDP at an annual rate of 7% in the period October to December 2021 compared to 2.3% in Q3. This equates to growth of slightly under 1.8% during Q4.

Q4 was clearly positive for Eurozone Equities with the MSCI EMU index advancing 3.7% in $ terms and 5.6% in Euro terms. Corporate earnings results announced during the Quarter were, overall, clearly positive. Reducing concerns over the Omicron variant were a likely contributor to a particularly positive December. Eurozone unemployment continued downward. Unemployment which had been 8.1% in March 2021 was reported by Eurostat at 6.6% in October, 6.5% in November and 6.4% in December.

Eurozone GDP which had grown by 2.3% in the previous Quarter was estimated by Eurostat (*"flash"* estimate of 15 February 2022) to have increased by only 0.3% in the October to December Quarter. The effects of the Omicron variant including tightened restrictions, most notably in Germany (the largest Eurozone economy) were a clear contributory factor in this marked slowdown. Euro area inflation continued, however, to increase. The Harmonised Index of Consumer Prices (HICP) as reported by Eurostat which had been 3.4% in September increased to 4.1% in October, 4.9% in November and reached 5% in December.

After leaving monetary policy essentially unchanged at its October policy meeting the mid December meeting saw the ECB announce a reduction in its overall asset purchase programme. The ECB press release of 16/12/2021 stated *"The Governing Council judges that the progress on economic recovery and towards its medium-term inflation target permits a step-by-step reduction in the pace of its asset purchases over the coming quarters…"* On the basis of this statement however ECB asset purchases will continue for almost another year at least.

The press release however also confirmed the existing policy on interest rates remaining at or below 0% and in effect indicated this level throughout 2022 thereby signalling a more cautious approach to tightening monetary policy than both the US Federal Reserve and Bank of England.

As in the previous Quarter, Q4 saw UK equities advance positively. Despite a negative November – significantly influenced by the new COVID Omicron variant the FTSE All Share and the FTSE 100 both advanced by approximately 4% while the FTSE 250 (domestically focussed mid cap index) increased by around 2%.

UK GDP increased by 1% over the Quarter the same rate as for the previous Quarter. Therefore, UK GDP was still 0.4% below its pre pandemic level. This contrasts with the US, Eurozone and China which have all achieved GDP above the levels of the final Quarter of 2019. The UK unemployment rate, however, continued to fall and was reported by the Office for National Statistics (on 15 February 2022) at 4.1% for the October to December Quarter only 0.1% above the pre COVID pandemic level. UK CPI inflation increased dramatically during the Quarter reaching its highest level in 30 years by December 2021 with commentators referring to a "cost of living crisis." CPI inflation which had been 3.1% in September increased to 4.2% in October, 5.1% in November, and 5.4% in December. Despite low unemployment prices outpaced pay increases for the Quarter, according to Office for National Statistics data.

The Bank of England Monetary Policy Committee (MPC) surprised markets by not raising rates at its November meeting. It was however clearly stated in the Monetary Policy Summary issued after the November meeting that there would likely be increases in Base Rate *"over coming months"* At its meeting ending on 15 December 2021 the MPC increased Base Rate from 0.1% to 0.25% – the first increase since August 2018. The Monetary Policy Summary issued after the December MPC meeting stated *"At its November meeting, the Committee judged that, provided the incoming data, particularly on the labour market, were broadly in line with the central projections in the November Monetary Policy Report, it would be necessary over coming months to increase Bank Rate in order to return CPI inflation sustainably to the 2% target. Recent economic developments suggest that these conditions have been met. The labour market is tight and has continued to tighten, and there are some signs of greater persistence in domestic cost and price pressures…The Committee judges that an increase in Bank Rate of 0.15 percentage points is warranted at this meeting."*

As in the previous Quarter Asia and Emerging markets, overall, performed less well than developed western markets. The MSCI AC Asia (excluding Japan) index and the MSCI Emerging Markets index both fell by over 1% (in $ terms) on a total returns net basis. China performed poorly amid investor concerns regarding mixed economic indicators, lockdown restrictions and implications relating to the COVID Omicron variant which also adversely affected other Asian and Emerging Markets. Investor sentiment regarding Asia and Emerging markets was also adversely affected by concerns regarding slowing global growth, inflation and possible future interest rate rises in the US and other advanced economies.

Japanese equities had a negative Quarter with the Nikkei 225 declining by approximately 2%. The period October to December saw inflation, rather than deflation in Japan but at levels still far below the Bank of Japan's 2% target. CPI inflation reached 0.8% in December. While at its December policy meeting the Bank of Japan announced a reduction of its corporate debt purchases to pre pandemic levels there was no change to its core approach to monetary policy. The Statement on Monetary Policy issued after the meeting included that the Bank *"expects short- and long-term policy interest rates to remain at their present or lower levels."* Furthermore, possible new stimulus measures were explicitly referred to by the inclusion of the words *"For the time being, the Bank will closely monitor the impact of COVID-19 and will not hesitate to take additional easing measures if necessary."*

The benchmark 10-year yields of US and UK Government bonds were little changed over the Quarter. However, the more policy sensitive 2-year yields increased significantly (meaning the price of the bonds fell) in the context of inflationary concerns, indications of future interest rate rises from the US Federal Reserve and Bank of England, and an actual rate rise by the Bank of England in December 2021. The 2 Year US Treasury yield increased (weakened) from 0.28% to 0.73% and the 2 Year UK Gilt yield increased (weakened) from 0.41% to 0.69%.

<u>Russia (Q1 2022)</u>

Overall the Fund had very little exposure to Russia by the end of January, with only Kempen, Baillie Gifford, Abrdn and Insight having exposure. Insight, as outlined later in this paper, sold out of the position before the invasion of Ukraine.

Bailie Gifford has exposure of £1.5m to Sberbank and £0.17m to VK Company, with Kempen having a total of £3.2m exposure to Lukoil, Severstal and Phosagro.

A summary of the potential impact of the war in Ukraine is provided below but the actual impact could develop in a number of ways and the impact could spread to outside of Europe.

Impact on global growth

The increase in geopolitical risk and sharp upward move in energy prices is likely to have an adverse impact on economic activity globally until there is greater certainty as to how events in Ukraine will play out. Europe, which remains heavily reliant on Russian gas, will experience the greatest impact from higher energy prices, with fracking helping to insulate the impact on prices in the US. It is expected that broader disruption to commodity markets as both Russia and Ukraine are significant commodity exporters.

In the longer term the impact of events in Ukraine will limited impact on US growth. In Europe governments are likely to increase defence spending and accelerate the transition away from costly Russian fossil fuels towards renewables. Overall, the main impact of the Russian invasion from a global economic perspective will be higher energy prices, which in turn will increase inflationary pressures. The full extent of sanctions will be revealed in the weeks ahead, and there is a possibility that they will include Russian oil and gas exports. It is also possible that Russia reduces energy supplies to Europe as a tactical move, deliberately causing a spike in prices to maximise disruption and economic pain. Excess household savings should insulate consumption to a degree, and there are various long-term investment programmes in place, such as the European Recovery Fund and US Build Back Better plans, that should help to underpin growth.

Central bank reaction functions are likely to be influenced by their individual remits. In the US, the FED is focused on both inflation and growth, so may be tempted to tighten at a slower pace than currently forecast for 2022. The asset purchases will still cease as planned in March. In the eurozone, the European Central Bank's (ECB) mandate is focused on inflation, which was already elevated even before the conflict in Ukraine. Although they may look through any energy spike as 'transitory' they will be conscious of the risk that forward looking inflation expectations shift upwards if inflation remains elevated for a prolonged period. The ECB would like to edge interest rates back to 0%, with the inflationary impulse from higher energy prices likely to outweigh growth concerns. There is a risk, however, that a significant decline in risk assets tightens financial conditions sufficiently to force global central banks to pause and more meaningfully push back plans to tighten policy.

Although the global economy should not experience stagflation as per its technical definition, there is likely to be a period of elevated inflation and slowing, although not contracting, growth.

Impact on developed market government bonds

Developed government bond markets have been volatile in recent sessions. Yields initially declined as investors fled to safe haven assets and expectations for the tightening cycle in markets such as the US and UK softened. Inflationary concerns remain, however, and the sharp rise in energy prices that has occurred as a result of the conflict has further exacerbated this. It is expected that there will be continued volatility in the weeks ahead as market sentiment shifts between concerns about either the growth or inflation outlook. It would not be surprising to see yield curves steepen as shorter maturity bonds move to price in a reduced risk of future interest rate hikes whereas longer maturity bonds underperform on inflation fears.

Impact on global credit

With potentially slower global growth and rising uncertainty, corporate bond spreads have widened by around 30 basis points, taking them back to levels seen in mid-2020. Spreads have been broadly widening since October 2021, with markets growing increasingly nervous about how central banks would react to elevated levels of inflation. On a percentile basis, credit spreads have moved from 12th percentile (expensive over a 20-year history) to 35th percentile.

Fundamentally, however, corporates remain in a strong position. Balance sheets have been repaired, leverage has declined to pre-COVID levels and cash positions are robust. Recent earnings reports, although generally positive, have been notable in toning down growth expectations. Against this backdrop defaults have remained low, and it is not expected that to change materially. M&A activity may decline from elevated levels given the increase in uncertainty and higher financing costs.

3. Overall Fund Performance

3.1 The Fund's closed Q4 valued at £1,424.44m, an increase of £27.66m from its value of £1,396.90m at 30 September 2021. Cash held by the Fund was £1.74m, giving a total Fund value of £1,426.03m. The gross value includes a prepayment of £25.0m and a short-term loan of £19.2m from the Council.

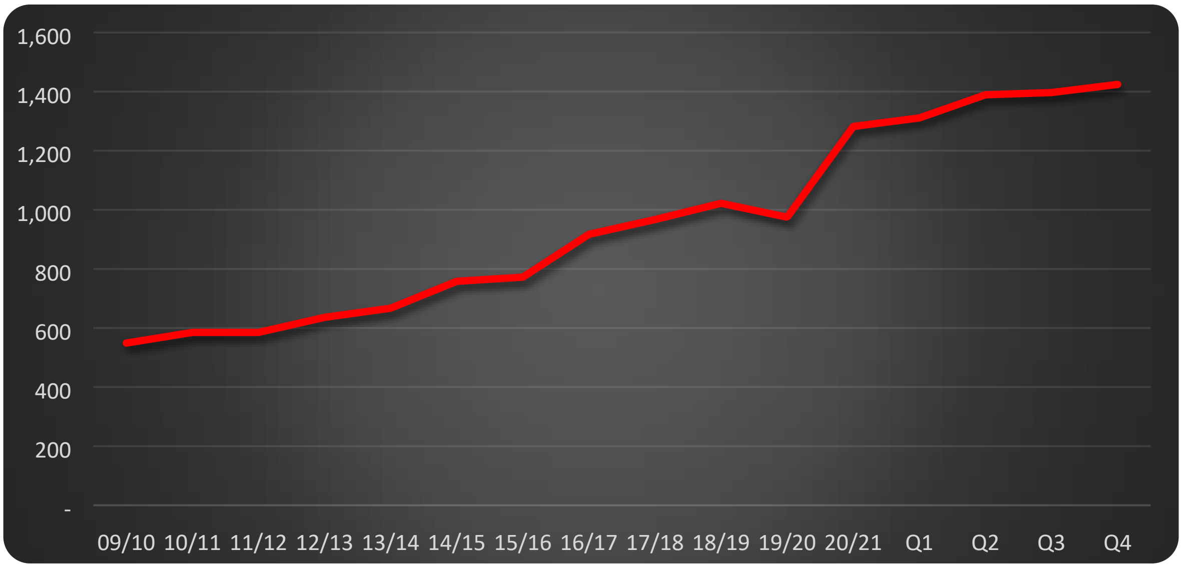
Adjusting for this reduces the Q4 value to £1,381.83m, an increase of £39.08m from the 30 September figure of £1,342.75m.

3.2 For Q4 the Fund returned 2.6%, net of fees, underperforming its benchmark by 2.2%. Over one year the Fund underperformed its benchmark by 2.2%, returning 12.0% and underperformed the benchmark by 0.4% over three years, returning 11.9.6%. The Fund has also underperformed its benchmark over five years by 0.6%, returning 8.8%. Compared to the LGPS universe of Funds, represented below by the PIRC Universe, the Fund has underperformed by 2.2% over one year but outperformed over three years and five years. The Fund's returns are below:

Table 1: Fund's 2021, 2020 and 2019 Quarterly and Yearly Returns

Year	2021				2020				One Yr	Two Yrs	Three Yrs	Five Yrs	Ten Yrs
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1					
Return	2.6	1.1	4.2	3.6	8.0	2.8	12.3	(11.4)	12.0	11.6	11.9	8.8	9.2
Benchmark	4.8	1.7	4.6	2.5	5.1	2.5	9.6	(7.7)	14.2	11.6	12.3	9.4	9.8
Difference	(2.2)	(0.6)	(0.4)	1.1	2.9	0.3	2.7	(3.7)	(2.2)	0.0	(0.4)	(0.6)	(0.6)
PIRC	4.4	1.4	5.6	2.4	5.8	1.8	11.3		14.2		11.6	8.7	9.9
Difference	(1.8)	(0.3)	(1.4)	1.2	2.2	1.0	1.0		(2.2)	11.6	0.3	0.1	(0.7)

3.3 The chart below shows the Fund's value since 31 March 2010 to 31 December 2021.



3.4 The fund manager's performance has been scored using a quantitative analysis compared to the benchmark returns, defined below:

3.5 Appendix 1 illustrates changes in the market value, the liability value, the Fund's deficit and the funding level from 31 March 2013 to 13 March 2022. Members are asked to note the changes in value and the movements in the Fund's funding level.

	RED- Fund underperformed by more than 3% against the benchmark
	AMBER- Fund underperformed by less than 3% against the benchmark
	GREEN- Fund is achieving the benchmark return or better

3.6 **Table 2 – Fund Manager Q4 2021 Performance**

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
Abrdn	1.6	1.0	0.6	
Baillie Gifford	0.1	6.3	(6.2)	
BlackRock	6.7	7.5	(0.8)	
Hermes GPE	(0.9)	1.4	(2.3)	
Kempen	2.9	7.3	(4.4)	
Newton	3.7	1.0	2.7	
Pyrford	1.3	4.0	(2.7)	
Schroders	0.0	0.0	0.0	
Insight	(0.7)	1.0	(1.7)	
UBS Bonds	2.4	2.4	0.0	
UBS Equities	7.6	7.6	0.0	

Table 2 highlights the Q4 2021 returns BlackRock, Newton and Kempen provided returns around 3% or above, with UBS bonds providing a 2.4% return. Most other funds were flat. Schroders and BlackRock figures are still being reviewed to pick up the in-specie transfers between the two funds. The underperformance against benchmark of Baillie Gifford and Kempen are significant and have resulted in the Fund underperforming its benchmark for the quarter and over longer periods too.

3.7 **Table 3 – Fund Manager Performance Over One Year**

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
Abrdn	18.3	4.0	14.3	
Baillie Gifford	8.8	18.9	(10.1)	
BlackRock	15.9	18.0	(2.1)	
Hermes GPE	0.8	5.7	(4.9)	
Kempen	18.9	21.3	(2.4)	
Newton	7.2	4.0	3.2	
Pyrford	3.7	12.0	(8.3)	
Schroders	6.8	6.0	0.8	
Insight	(0.6)	4.0	(4.7)	
UBS Bonds	(4.9)	(5.0)	0.0	
UBS Equities	21.7	21.7	0.0	

Over one-year Kempen has provided a return of 18.9% which was 2.4% below the benchmark, Abrdn has returned 18.3%, significantly outperforming the benchmark by 14.3% and UBS a return of 21.7%. UBS Bonds has returned -4.9% over the 1-year period. The underperformance against benchmark of Baillie Gifford and Pyrford are significant.

3.8 **Table 4 – Fund manager performance over two years**

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
Abrdn	15.9	4.3	11.6	
Baillie Gifford	21.1	17.4	3.7	
BlackRock	6.7	8.5	(1.8)	
Hermes GPE	2.1	5.8	(3.7)	
Kempen	10.0	18.2	(8.2)	
Newton	7.5	4.1	3.4	
Pyrford	3.3	9.0	(5.8)	
Schroders	2.0	2.5	(0.5)	
Insight	2.7	4.3	(1.6)	
UBS Bonds	1.6	1.6	0.0	
UBS Equities	18.9	18.9	0.0	

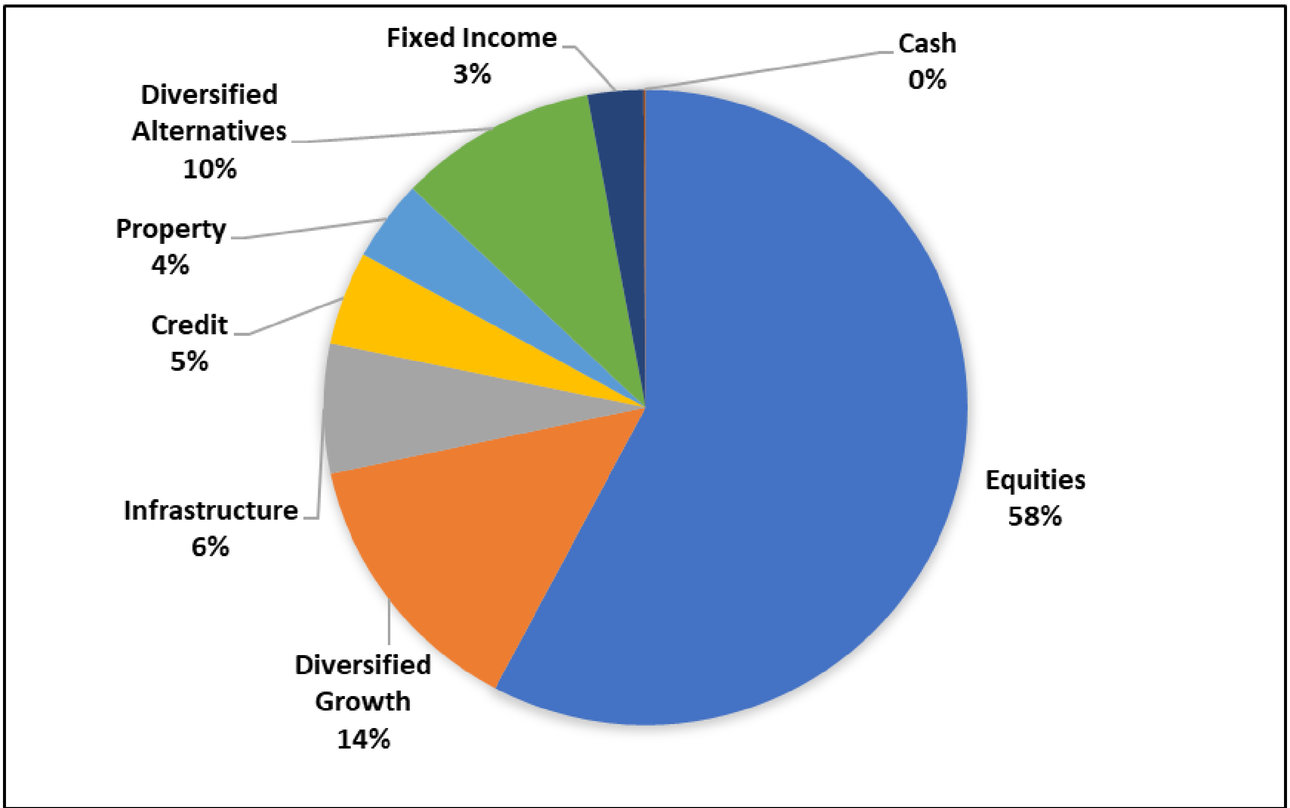
Over two years, (table 4), all mandates, are positive. Returns ranged from (1.6%) for UBS bonds to 21.1% for Baillie Gifford. Pyrford and Insight (formerly Mellon Corp and Standish) continue to struggle, underperforming their benchmarks but providing positive actual returns overall. Kempen also underperformed the benchmark by 8.2% with a return of 10.0%.

4. Asset Allocations and Benchmark: Table 5 outlines the Fund's asset allocation, asset value & benchmark as at 31 December 2021.

4.1 **Table 5: Fund Asset Allocation and Benchmarks as at 31 December 2021**

Fund Manager	Asset (%)	Market Values (£000)	Benchmark
Abrdn	10.0%	142,455	3 Mth LIBOR + 4% per annum
Baillie Gifford	23.3%	332,965	MSCI AC World Index
BlackRock	3.9%	55,657	AREF/ IPD All Balanced
Hermes GPE	6.6%	93,901	Target yield 5.9% per annum
Kempen	14.3%	203,935	MSCI World NDR Index
Newton	6.0%	85,680	One-month LIBOR +4% per annum
Pyrford	7.9%	112,672	UK RPI +5% per annum
Schroders	0.2%	3,081	AREF/ IPD All Balanced
Insight	4.8%	67,911	3 Mth LIBOR + 4% per annum
UBS Bonds	2.8%	39,647	FTSE UK Gilts All Stocks
UBS Equities	20.1%	286,334	FTSE AW Developed Tracker (part hedged)
LCIV	0.0%	150	None
RREEF		53	
Cash	0.1%	1,592	One-month LIBOR
Fund Value	100.0%	**1,426,034**	
ST Loan		-19,200	
Prepayment		-25,000	
Net Fund Value		1,381,887	

4.2 The percentage split by asset class is graphically shown in the pie chart below.



4.3 The strategy is overweight equities, with equities near the top end of the range. Cash excludes the pre-payment and short-term borrowing from the council. The current position, compared to the strategic allocation, is in table 6 below:

Table 6: Strategic Asset Allocation

Asset Class	Current Position	Strategic Allocation Target	Variance	Range
Equities	57.7%	52%	5.7%	*50-60*
Diversified Growth	13.9%	15%	-1.1%	*14-18*
Infrastructure	6.6%	8%	-1.4%	*7-11*
Credit	4.8%	7%	-2.2%	*6-10*
Property	4.1%	5%	-0.9%	*4-7*
Diversified Alternatives	10.0%	9%	1.0%	*7-10*
Fixed Income	2.8%	4%	-1.2%	*3-5*
Cash	0.1%	0%	0.1%	*0-1*
Total Fund	100.00%	100.00%		

5. Fund Manager Performance

5.1 Kempen

Kempen	2021				2020				One Year	Two Years	Start 6/2/13
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£203.9m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	2.9	3.0	2.9	10.2	15.3	(3.2)	16.9	(27.9)	18.9	10.0	8.8
Benchmark	7.3	2.5	7.6	4.0	7.8	3.2	19.8	(15.7)	21.3	18.2	13.9
Difference	(4.4)	0.5	(4.7)	6.2	7.5	(6.4)	(2.9)	(12.2)	(2.4)	(8.2)	(5.2)

Reason for appointment

Kempen were appointed as one of the Fund's global equity managers, specialising in investing in less risky, high dividend paying companies which will provide the Fund with significant income. Kempen holds approximately 100 stocks of roughly equal weighting, with the portfolio rebalanced on a quarterly basis. During market rallies Kempen are likely to lag the benchmark.

Performance Review

The strategy underperformed its benchmark by 0.5% for Q4 by 4.4% and has outperformed over one-year by 9.6%. Kempen provided an annual return of 9.1% over two years which was 5.9% below the benchmark. It has also underperformed its benchmark since inception by 4.7% but providing an annualised return of 8.7%.

Strategy Update

The portfolio has a current dividend yield of 4.6 against 1.6 for the MSCI World index.

Kempen announced in January 2022 that Joris Franssen will take over as Head of the Dividend Team, effective 1 April 2022. Jorik van den Bos will leave Kempen also on 1 April 2022 after a 20-year career in dividend investing to pursue other career interests outside of dividend investing.

When inflation is persistently higher than current market expectations, active management based on attractive valuation, cash generation and solid balance sheets will benefit this strategy. Kempen to note evidence of this in the strategy's strong relative returns in early 2022 and they continue to engage with the underlying companies from an ESG perspective and continue to improve the portfolio's carbon footprint in-line with the 2030 target.

5.2 Baillie Gifford

Baillie Gifford	2021				2020				One Year	Two Years	Start 6/2/13
	Q4	**Q3**	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**			
£333.0m	**%**	**%**	%	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**0.1**	**(0.6)**	7.1	2.2	11.1	7.6	27.9	(13.2)	8.8	21.1	16.3
Benchmark	**6.3**	**1.5**	7.4	3.7	8.6	3.5	19.8	(15.9)	18.9	17.4	13.5
Difference	**(6.2)**	**(2.0)**	(0.3)	(1.5)	2.5	4.1	8.1	2.7	(10.1)	3.7	2.8

Reason for appointment

Baillie Gifford (BG) is a bottom-up, active investor, seeking to invest in companies that will enjoy sustainable competitive advantages in their industries and will grow earnings faster than the market average. BG's investment process aims to produce above average long-term performance by picking the best growth global stocks available by combining the specialised knowledge of BG's investment teams with the experience of their most senior investors. BG holds approx. 90-105 stocks.

Performance Review

For Q4 BG returned 0.1%, underperforming its benchmark by 6.2%. BG's one-year return was 8.8%, underperforming its benchmark by 10.1%. Since initial funding, the strategy has returned 16.3% p.a. outperforming its benchmark by 2.8%.

The largest detractors were SEA Limited, Moderna and DoorDash. SEA, the online content, e-commerce and payments company, reversed previous quarter relative gains and dropped sharply in Q4 (c. -30%). The stock price came under significant pressure following an announcement from Tencent, one of the largest shareholders of SEA, that they will be reducing the size of their holding to 18% (a reduction of 2%). The number of shares divested is not large in absolute terms, but the market didn't like the signalling effect of this move and the overhang it creates over the stock price.

The biotechnology pharmaceuticals company Moderna also detracted this quarter as shipment delays prompted a downgrade in 2021 revenue guidance and caused subsequent pressure on the stock price. The investment manager takes the view the downward pressure on the stock price will be short lived and remains very confident in the long-term prospects of the company which they view as essentially a 'software' company with favourable operating leverage due to its innovative mRna technology.

U.S. food ordering and delivery platform DoorDash performed poorly as investors were unnerved by the company's heavy reinvestment of earnings in acquisitions such as the recent one of Wolt (a European courier business). While investors with shorter term horizons penalised the stock, Baillie Gifford emphasised that spending now to grow the business later should be beneficial over the longer term.

The largest positive contributors were: Teradyne, a company that develops automatic test equipment for semiconductors and wireless devices, which advanced on the back of strong demand for their products and services; the heavy building materials producer Martin Marietta Materials which had a good Q4 on the back of positive news for the infrastructure sector in its key U.S. market; and Anthem, a health care benefits and life insurance provider, that benefitted from a positive surprise in its quarterly earnings and improved full year guidance.

5.3 UBS Equities

UBS Equities	2021				2020				One Year	Two Years	Start 31/08/12
	Q4	**Q3**	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**			
£286.3m	**%**	**%**	%	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**7.6**	**0.9**	7.5	5.8	11.2	5.6	18.8	(19.3)	21.7	18.9	15.0
Benchmark	**7.6**	**0.9**	7.5	5.8	11.2	5.6	18.8	(19.3)	21.7	18.9	15.0
Difference	**0.0**	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Reason for appointment

UBS are the Fund's passive equity manager, helping reduce risk from underperforming equity managers and providing a cost-effective way of accessing the full range of developed market equity growth.

Performance

The fund returned 7.6% for Q4 and 21.7% over one year. Since funding in August 2012, the strategy has provided an annualised return of 15.0%.

Equities

Risk assets were resilient in the quarter as profit growth and earnings expectations stayed strong despite a sharp move higher in short-term interest rates, uncomfortably elevated inflation, and the emergence of a new variant of COVID-19.

For the quarter, the MSCI World Index rose 7.5%, fuelled by a 10.7% gain for the S&P 500 Index. European stocks rose 6.2%, and Japanese equities fell by 1%. Emerging market equities also moved lower, linked to broad-based FX weakness and continued concerns about the potential for a hard landing in China as well as a regulatory overhang on major internet companies.

Financial markets moved violently on low volume as the COVID-19 Omicron variant quickly rose to the forefront of market concerns in late November on the heels of a US holiday. Oil prices tumbled more than 15% over four sessions, 10-year Treasury yields declined by roughly 30 basis points, and global stocks slumped by 4%. Much of these moves retraced by year-end, with a sharp improvement in risk appetite seeing global equities end 2021 just shy of record highs.

The nascent repricing of short-term US interest rates during September accelerated aggressively to the upside in the final three months of 2021. Two-year Treasury yields jumped 45 basis points, as traders fully priced in three rate hikes from the Fed in 2022. The Treasury curve flattened meaningfully, with 5s30s falling more than 40 basis points to eclipse lows not seen since the market turmoil of March 2020. Longer-term bond yields in the US and Germany were little changed over the course of the quarter, as investors questioned the duration and terminal rate of central bank tightening cycles. Total returns in EM dollar-denominated sovereign debt were slightly positive, with -3% in total returns for local-currency bonds.

The performance of equity styles over the final month of the year suggests markets were balancing concerns related to the broad-based removal of monetary policy stimulus expected in 2022 with a growth outlook that remains above-trend despite the emergence of the Omicron variant. Quality and value were the best performing factors near year end, while more speculative pockets of the equity market came under pressure.

Credit generally performed worse than equities in the quarter, as US high yield spreads tightening marginally while US investment grade spreads widened immaterially. Asian high yield underperformed amid enduring concerns about China's real estate sector. Oil prices finished the quarter down 1%, with raw industrials up 4.5%.

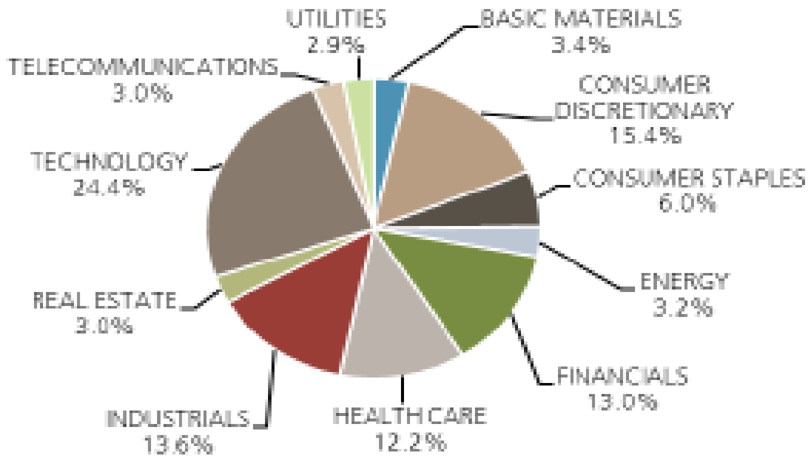
Review - (Q4 2021)

Following the FTSE quarterly review in December, 11 stocks were added to and six stocks were deleted from the index, along with various changes in the shares in issue of the index constituents. Two-way turnover totalled 0.73%.

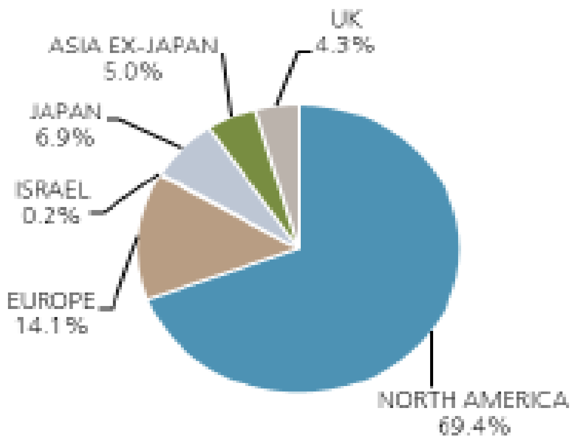
Also, during the quarter but outside of the review, SK Square was added to the index following a spin-off from SK Telecom. Kansas City Southern was acquired by CP Railway for cash and shares.

Positioning: the various weightings and top 10 holdings are included below:

Industry group weights in FTSE (Dev) World index as at 31 Dec 21



Regional allocation in FTSE (Dev) World index as at 31 Dec 21



Industry group weights in FTSE (Dev) World index as at 31 Dec 21

	Weight %
APPLE INC.	4.3
MICROSOFT CORP	4.0
AMAZON.COM	2.3
ALPHABET CLASS A	1.4
TESLA	1.3
ALPHABET CLASS C	1.3
META PLATFORMS INC	1.2
NVIDIA	1.1
UNITEDHEALTH GROUP	0.7
JPMORGAN CHASE & CO	0.7

Source: UBS

5.4 UBS Bonds

UBS Bonds	2021				2020				One Year	Two Years	Start 5/7/2013
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£39.7m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	2.4	(1.8)	1.7	(7.2)	0.6	(1.2)	2.5	6.3	(4.9)	1.6	4.1
Benchmark	2.4	(1.8)	1.7	(7.2)	0.6	(1.2)	2.5	6.3	(5.0)	1.6	4.1
Difference	0.0	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0

Reason for appointment

UBS were appointed as the Fund's passive bond manager to allow the Fund to hold a small allocation (4%) of UK fixed income government bonds.

Performance

The fund returned 2.4% for Q4, (4.9%) for one year and 1.6% for two-year return.

Review - (Q4 2021)

The All-Stock Gilt index returned 2.42% in sterling terms over the quarter. In yield terms, 2-year nominal yields rose by 0.26% to 0.67% and 10 year nominal yields fell by 0.05% to 0.97%. The modified duration of the index is 12.24 years.

The Bank of England's Monetary Policy Committee decreased the policy rate to 0.25%. The UK Debt Management Office held 12 nominal bond auctions during the quarter across a range of maturities.

5.5 Schroders Indirect Real Estate (SIRE)

Schroders	2021				2020				One Year	Two Years	Start 6/8/2010
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£3.1m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	0.0	0.0	3.9	2.9	2.7	0.3	(2.0)	(3.9)	6.8	2.0	5.1
Benchmark	0.0	0.0	3.8	2.2	2.1	0.2	(2.0)	(1.3)	6.0	2.5	7.1
Difference	0.0	0.0	0.1	0.7	0.6	0.1	0.0	(2.6)	tbc	tbc	tbc

Reason for appointment: Schroders is a Fund of Fund manager appointed to manage a part of the Fund's property holdings. The mandate provides the Fund with exposure to 210 underlying funds, with a total exposure to 1,500 highly diversified UK commercial properties. The strategy is currently being sold down and will cease towards the end of 2021.

Q2 2021 Performance and Investment Update

Returns for Schroders were not completed by the time of this report as the custodian was still confirming the impact of the in-specie transfers.

A number of disinvestments were made in Q4. Further sales are in progress and Schroders anticipate the majority of SIRE's underlying investments will be sold by March 2022. As at 31 December 2021 only £3.1m remained of the strategy.

5.7 BlackRock

BlackRock	2021				2020				One Year	Two Years	Start 1/1/2013
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£55.7m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	6.7	4.3	2.9	2.1	2.5	0.5	(2.9)	(2.8)	15.9	6.7	1.5
Benchmark	7.5	4.5	3.8	2.2	2.1	0.2	(2.0)	(1.3)	18.0	8.5	4.6
Difference	(0.8)	(0.2)	(0.9)	(0.1)	0.4	0.3	(0.9)	(1.5)	(2.1)	(1.8)	tbc

Reason for appointment: In December 2012, a sizable portion of the Fund's holdings with Rreef were transferred to BlackRock (BR). The transfer to BR provides the Fund with access to a greater, more diversified range of property holdings within the UK.

Q2 2021 Performance and Investment Update

BR returned 6.7% for Q4 against a benchmark of 7.5%, returned 15.9% over one year against a benchmark of 18.0%, although these figures are subject to further review by the Custodian. A further 16,100 units were purchased on 31 January, costing £769k at December 2021 NAV prices as part of increasing the allocation to BR. This will increase the BR holding to over £57.4m, based on current values.

During Q4 the Fund completed three acquisitions totalling £149.55m with no disposals. This included the off-market acquisition of Saffron House in Farringdon, EC1 for £95.00m generating an income yield of 4.65%. The Fund has been reviewing the office component of the portfolio to make sure it is well configured going forward. Whilst BR don't believe in the 'death of the office', it is increasingly clear a pattern of hybrid working between home and office is likely to become a more permanent feature of normal working life for many office tenants post pandemic.

5.8 Hermes

Hermes	2021				2020				One Year	Two Years	Start 9/11/2012
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£93.9m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(0.9)	2.2	(1.1)	0.6	(1.5)	0.0	0.9	3.9	0.8	2.1	7.5
Benchmark	1.4	1.4	1.4	1.5	1.4	1.4	1.4	1.5	5.7	5.8	5.9
Difference	(2.3)	0.7	(2.5)	(0.9)	(2.9)	(1.4)	(0.6)	2.4	(4.9)	(3.7)	1.6

Reason for appointment

Hermes were appointed as the Fund's infrastructure manager to diversify the Fund away from index linked fixed income. The investment is in the Hermes Infrastructure Fund I (HIF I) and has a five-year investment period which ended on 30th April 2020 and a base term of 18 years. In March 2015 Members agreed to increase the Fund's allocation to Hermes to 10%.

Performance

Hermes returned (0.9%) in Q4 underperforming the benchmark by 2.3%. Over one year the strategy reported a one-year return of 0.8%, underperforming its benchmark by 4.9%. Since inception the strategy has provided a good, annualised return of 7.5%, outperforming its benchmark by 1.6%.

Portfolio review

Anglian Water Group (HIF I Core)

Following a good offer from Ontario Teachers' Pension Plan ("OTPP"), the Fund is participating alongside First Sentier Investors in the sale of a 15.56% interest in Anglian Water Group ("AWG") to OTPP, of which HIF I's interest in AWG is 3.3%.

The EV/RCV multiple achieved is exceeds the target. Completion is expected to occur in Q1 2022, subject to customary conditions and approvals. Distribution of proceeds is planned to be staged throughout 2022, with the first c. 46% expected to be returned in Q1 and the remaining 54% by the end of December 2022.

Viridor (HIF I, II & SAP VA)

Viridor has already proved to be successful. As a result of transactions signed shortly before year end Hermes expect to have received 48.5% of invested capital back by the end of Q1 2022, whilst continuing to retain managed stake in the restructured Viridor business. This is expected to represent good return.

Following these Viridor related transactions, across all Federated Hermes Infrastructure managed funds, Hermes will continue to own a 9.45% stake in the Viridor holding company. Following the divestment of non-core activities, Viridor will be a focused EfW business, developing new EfW plants and holding an 80% interest in Viridor Energy Limited that manages the operational EfW fleet. The independent valuation process for 31 December 2021 is ongoing, but based on indicative figures, the residual Viridor business is forecast to be valued above the original investment.

5.9 Abrdn Asset Management

Abrdn	2021				2020				One Year	Two Years	Start 15/9/2014
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£142.46m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.6	4.9	4.4	7.4	8.3	5.1	(0.6)	0.7	18.3	15.9	7.2
Benchmark	1.0	1.0	1.0	1.0	1.0	1.0	1.3	1.2	4.0	4.3	4.6
Difference	0.6	3.9	3.4	6.4	7.3	4.1	(1.9)	(0.5)	14.3	11.6	2.6

Reason for appointment

As part of the Fund's diversification from equities, Members agreed to tender for a Diversified Alternatives Mandate. Abrdn Asset Management (ASAM) were appointed to build and maintain a portfolio of Hedge Funds (HF) and Private Equity (PE). All positions held within the portfolio are hedged back to Sterling.

Since being appointed ASAM have built a portfolio of HFs and PEs, which offer a balanced return not dependent on traditional asset class returns. In the case of PE, the intention is to be able to extract an illiquidity premium over time. The allocation to PE, co-investments, infrastructure, private debt, and real assets will be opportunistic and subject to being able to access opportunities on appropriate terms.

Performance summary

The Portfolio had a further strong quarter, posting a gain of around 1.6% (net of fees) over the three months to the end of December. This has subsequently been updated by the manager to 5.5%, largely due to higher September 30 valuations across some of the more seasoned private equity investments (Advent, OEP, PAI) which Abrdn were able to reflect in October and November. The revised figure will be reported in the March 2022 figure.

Looking at 2021 overall, the Portfolio performed very well, returning circa 18.3% (net of fees). Gains were driven by private equity investments, most notably the primary commitments to Advent (funds GPE VIII and GPE IX) and OEP which in aggregate contributed over 1500 basis points to the Portfolio's overall return.

Abrdn have built a portfolio of hedge funds, private equity funds and co-investments, which can offer a balanced return not wholly dependent on traditional asset class returns. In the case of private equity, the intention is to be able to extract an illiquidity premium over time. The allocation to private equity (and other less liquid opportunities such as infrastructure, private debt and real assets) will be opportunistic and subject to being able to access opportunities on appropriate terms.

The hedge funds selected for the Portfolio include a blend of:

i) relative value strategies, intended to profit from price dislocations across fixed income and equity markets;
ii) macro strategies, which are intended to benefit significantly from global trends, whether these trends are up or down, across asset classes and geographies; and
iii) tail risk protection which is intended to offer significant returns at times of stress and more muted returns in normal market environments.

Outlook

Turning to hedge funds, Abrdn remain constructive on the outlook for equity hedge. Abrdn envisage an environment in which bottom-up stock-picking will be better rewarded than it has been since the onset of COVID-19. Market and factor beta have been key drivers of equity hedge performance in a market quick to pivot on incremental COVID-related news. In that environment, equity hedge managers with sustained or flexible net exposures, and particularly those willing and able to proactively trade between sectors and styles, have outperformed. While the ability to remain nimble will continue to be valuable amidst heightened macroeconomic uncertainty, Abrdn believe those managers that have struggled to generate alpha should see improved results going forward.

Abrdn have upgraded their outlook for fixed income relative value strategies to positive, predicated on the fact that the opportunity set for bond basis trading in G3 countries is notably improved and Abrdn expect it to improve further now that the Fed is moving towards rate hikes and balance sheet run-off. In addition to the Fed, the BoE has already started a rate hike trajectory and is discussing balance sheet reduction. The ECB is further behind, but rhetoric has turned marginally more hawkish in recent weeks as the ECB also faces persistently above target inflation in the Eurozone. Consistent with history, Abrdn would expect central bank action to be supportive of the opportunity set for fixed income relative value funds as it creates more volatility around each point on the curve as well as higher flows through the various fixed income instruments as investors adjust positioning.

Abrdn’s outlook for discretionary macro remains cautiously positive. Abrdn are seeing the COVID-19 or vaccination uptake-related global recovery divergence theme becoming less and less of a factor in the context of macro hedge fund returns and Abrdn’s outlook. Instead, Abrdn are seeing inflation rhetoric and central bank thinking around interest rate policy being among the dominant themes in 2022. Abrdn believe that this backdrop should continue to be supportive and allow specialists to identify attractive directional and relative value opportunities, particularly in interest rates and currencies.

In terms of private equity, the market has remained robust, both in terms of fund-raising and deal activity, and deal pricing remains competitive. However, the underlying managers within the LBBD portfolio have continued to deploy capital in a disciplined manner to acquire assets with the potential for future earnings growth. Abrdn have continued to see a number of exits announced across the portfolio, typically at meaningful uplifts to holding valuations.

Russia and Ukraine Exposure:

Pharo Gaia is a macro fund focused on emerging markets and represents a 4.4% of the Portfolio. The fund lost 11.8% YTD driven by Russia and Ukraine positions. One of the two PMs has breached his drawdown limit and has been stood down from trading (in-line with the firm’s risk management policies).

Horizon, a Ukraine-based/-focused PE firm/fund, represents a 1.5% allocation. The Horizon portfolio comprises three TMT-focused assets. It is too early to assess the full impact of events on these companies, but Abrdn will update when possible.

5.10 Pyrford

Pyrford	2021				2020				One Year	Two Years	Start 28/9/2012
	Q4	**Q3**	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**			
£112.7m	**%**	**%**	%	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**1.3**	**0.3**	1.1	0.9	3.1	(1.6)	6.2	(4.8)	3.7	3.3	3.4
Benchmark	**4.0**	**2.7**	3.6	1.7	1.6	1.8	1.3	1.5	12.0	9.0	7.5
Difference	**(2.7)**	**(2.4)**	(2.5)	(0.8)	1.6	(3.4)	4.9	(6.3)	(8.3)	(5.8)	(4.1)

Reason for appointment

Pyrford were appointed as the Fund's absolute return manager (AR) to diversify from equities. The manager's benchmark is to RPI, which means that the manager is likely to outperform the benchmark during significant market rallies. AR managers can be compared to equities, which have a similar return target. When compared to equities, absolute return will underperform when markets increase rapidly and tend to outperform equities during periods when markets fall.

Performance

Pyrford generated a return of 1.3% in Q4 underperforming its benchmark by 2.7%. Over one year it returned 3.7%, underperforming its benchmark of 12.0% (which reflects the surge in RPI since the early part of 2021), by 8.3%. Pyrford underperformed its benchmark by 4.1% since inception and has returned 3.4% p.a. Pyrford's benchmark is ambitious for its strategy, which is largely defensive. Compared to the Credit benchmark over 2 years of 4.3% and the Fund's bond return over two years of 1.6%, its return is reasonable and provides the Fund with protection.

All Q4 returns were from the equities. U.K. stocks which account for the bulk of the equity holdings outperformed overseas stocks by a big margin, led by National Grid, GlaxoSmithKline, Bunzl and Legal & General. Overseas holdings were profitable, but returns were well below the FTSE All World ex-UK Index because of the poor performance of the Japanese stocks and the large underweight position in the U.S.

Holdings in U.K. Gilts and foreign sovereign bonds were negative. The duration of the bond portfolio is only 1.2 years, but yields on short term govt. debt increased, particularly U.K. Exposure to unhedged investments in stocks & bonds denominated in foreign currencies accounts for 25% of the Sub-fund portfolio. Although sterling was more volatile in Q4, the quarter-on-quarter variances were modest and currency positioning and cash holdings did not have a significant impact on returns.

Outlook and Change in Ownership

Pyrford's views have not changed materially, with expectation that the surge in inflation will prove to be transitory has moderated, in line with the shift in tone from central banks, but not to the point that Pyrford expect more aggressive action to be taken to boost interest rates. The risk to growth is too high in the context of the accumulation of debt held by Governments, companies, and consumers. Despite that view, and the modest increase in bond yields in Q4, Pyrford believe that yields are still too low. Negative real yields present an asymmetric risk profile, where the risk of severe capital destruction outweighs the nominal returns available.

5.11 Newton

Newton	2021				2020				One Year	Two Years	Start 31/8/2012
	Q4	**Q3**	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**			
£85.7m	**%**	**%**	%	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**3.7**	**(0.1)**	2.4	1.1	5.6	3.5	8.0	(9.2)	7.2	7.5	4.7
Benchmark	**1.0**	**1.0**	1.0	1.0	1.0	1.0	1.1	1.2	4.0	4.1	4.4
Difference	**2.7**	**(1.1)**	1.4	0.1	4.6	2.5	6.9	(10.4)	3.2	3.4	0.3

Reason for appointment

Newton was appointed to act as a diversifier from equities. The manager has a fixed benchmark of one-month LIBOR plus 4%. AR managers have a similar return compared to equity but are likely to underperform equity when markets increase rapidly and outperform equity when markets suffer a sharp fall.

Performance

Newton generated a return of 3.7% in Q4, outperforming its benchmark by 2.7%. Over one year the strategy has returned 7.2%, outperforming its benchmark by 3.2%. Newton's performance since inception is 4.7%, outperforming its benchmark.

The equity portfolio contributed 3.7% of returns (before management fees) in Q4. Some long-held positions, such as Microsoft, Accenture and Abbott Laboratories performed well, offsetting losses on Chinese stocks. The gains on individual stocks were supplemented by a 0.4% contribution from derivatives linked to equity indices. Alternative assets generated 1.1% of profits. Exposure to copper and oil paid off, and the portfolio profited on a note linked to carbon futures contracts (discussed later). Investments in renewable energy generators also performed well.

Derivatives held to protect the Sub-fund from losses on equity investments cost 0.5%. The investment manager uses short and long dated put options on major stock indices. The only other significant contribution came from currency positions.

Market View

Newton is still positive on the outlook for global growth and corporate earnings based on the expectation that consumer spending will remain resilient, restocking of inventories will continue and capital investment will recover from depressed levels. However, that view is tempered by concerns about the risk of sharp busts of volatility linked to geopolitical risks and changes in expectations for policy action. This is reflected in a moderation of exposure to equity markets, realignment of exposure within the equity and alternatives segments of the Sub-fund, and the increased weighting of cash. The investment manager wants dry powder to put to work when volatility presents opportunities to buy mispriced assets.

The cash position also illustrates the challenge of finding diversifying and return generating assets which do not expose the Sub-fund to the risk of substantial capital losses. Developed market government bonds don't fulfil that role now, and the investment manager does not see value in investment grade credit.

5.12 Insight (Mellon Corporation / Standish)

Insight	2021				2020				One Year	Two Years	Start 20/8/2013
	Q4	**Q3**	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**			
£67.91	**%**	**%**	%	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**(0.7)**	**0.0**	0.2	(0.1)	2.2	1.5	4.7	(2.3)	(0.6)	2.7	0.9
Benchmark	**1.0**	**1.0**	1.0	1.0	1.0	1.0	1.3	1.2	4.0	4.3	5.0
Difference	**(1.7)**	**(1.0)**	(0.8)	(1.1)	1.2	0.5	3.4	(3.5)	(4.7)	(1.6)	(4.1)

Reason for appointment

Insight were appointed to achieve a 6% total return from income and capital growth by investing in a globally diversified multi-sector portfolio of transferable fixed income securities including corporate bonds, agency and governments debt. The return target was later reduced to 4.4%.

Performance

In Q4, the Fund returned (0.7%) against a benchmark return of 1.0%. Over one year the strategy has underperformed its benchmark of 4.0% by 4.7%, providing a return of (0.6%). Since funding in August 2013, Mellon Corporation has only provided an annual return of 0.9%.

Portfolio Composition:

The vast majority of this underperformance can be attributed to the fund's overweight in Emerging market and peripheral European government debt.

In rates space, the Fund benefitted from a significant underweight in GBP denominated duration as rising inflation kept pressure on bond yields. This positive alpha was partially offset by underperformance associated with overweights in local EM and Australian duration.

Active FX positioning made a modestly positive contribution to relative performance with positions in the Australian dollar and Swedish Krona more than offsetting negative alpha associated with EUR and INR positions.

Asset allocation was the most material driver of relative performance as overweight to EM assets and other spread product accrued negative alpha. From a security selection standpoint, the overweight to high yield corporate and sovereign debt was an additional drag on performance. With inflation rising and global liquidity drying up, high yield external emerging market debt has come under notable stress.

With most spread sectors under pressure in Q4, the decision to own a significant amount of non-treasury assets insured underperformance over the period.

Exposure to Russia

Q4 positions were due to a view on monetary policy, Russia was hiking rates, real yields were high and Insight felt they would be pausing the cycle and eventually cut rates. As the probabilities on Russia invading Ukraine increased, Insight felt risk reward deteriorated on that view and exited before Russia actually invaded Ukraine.

5.13 Currency Hedging

No new currency hedging positions were placed in Q2 2021.

6. Consultation

6.1 Council's Fund monitoring arrangements involve continuous dialogue and consultation between finance staff, external fund managers and external advisers. The Chief Operating Officer and the Fund's Chair have been informed of the approach, data and commentary in this report.

7. Financial Implications

Implications completed by: Philip Gregory, Finance Director

7.1 The Council's Fund is a statutory requirement to provide a defined benefit pension to scheme members. Investment decisions are taken based on a long-term investment strategy. The investment performance has a significant impact on the General Fund. Pensions and other benefits are statutorily calculated and are guaranteed. Any shortfall in the assets of the Fund compared to the potential benefits must be met by an employer's contribution.

7.2 This report updates the Committee on developments within the Investment Strategy and on scheme administration issues and provides an overview of the performance of the Fund during the period.

8. Legal Implications

Implications completed by: Dr. Paul Feild, Senior Governance Solicitor

8.1 The Council operates the Local Government Pension Scheme which provides death and retirement benefits for all eligible employees of the Council and organisations which have admitted body status. There is a legal duty fiduciary to administer such funds soundly according to best principles balancing return on investment against risk and creating risk to call on the general fund in the event of deficits. With the returns of investments in Government Stock (Gilts) being very low they cannot be the primary investment. Therefore, to ensure an ability to meet the liability to pay beneficiaries the Fund is actively managed to seek out the best investments. These investments are carried out by fund managers as set out in the report working with the Council's Officers and Members.

8.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 are the primary regulations that set out the investment framework for the Fund. These regulations are themselves amended from time to time. The Regulations are made under sections 1(1) and 3(1) to (4) of, and Schedule 3 to, the Public Service Pensions Act 2013. They set out the arrangements which apply to the management and investment of funds arising in relation to a Fund maintained under the Local Government Pension Scheme.

9. Other Implications

9.1 **Risk Management** - Investment decisions are taken based on a long-term investment strategy. Investments are diversified over several investment vehicles (equities – UK and overseas, bonds, property, infrastructure, global credit and cash) and Fund Managers to spread risk.

Performance is under constant review, with this focused on how the Fund has performed over the past three months, one year and three years.

Background Papers Used in the Preparation of the Report:

- Northern Trust Quarterly Q4 2021 Report; and
- Fund Manager Q4 2021 Reports.

List of appendices:

Appendix 1 - Fund Asset and Liability Values 31 March 2013 to 31 December 2021
Appendix 2 - Definitions
Appendix 3 - Roles and Responsibilities