

PENSIONS COMMITTEE

11 January 2023

Title: Pension Fund Quarterly Monitoring 2022/23 – 1 July to 30 September 2022	
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: Fiona Taylor, 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 July to 30 September 2022. 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; and (iii) the quarterly performance of the fund collectively and the performance of the fund managers individually.	
Reason(s)	

1. Introduction and Background

- 1.1 This report provides information for employers, members of the LBBB Pension Fund (“the Fund”) and other interested parties on how the Fund has performed during the quarter 1 July to 30 September 2022 (“Q3”). 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 10 January 2023 will be provided at the meeting.

2. Market Background (Q3 2022)

For the third Quarter in a row World Equity and Bond markets declined. World Equity markets as measured by the MSCI World Index fell by another 6% (in \$ terms) in the July to September 2022 Quarter following a fall of 16% in the April to June Quarter and around 5% in the January to March Quarter.

In very clear contrast to the overall downward trend earlier in 2022 July was a positive month for World Equity markets. However, this resurgence was short lived with both August and particularly September seeing clear losses. As in the two previous Quarters actual and anticipated interest rate rises by the major central banks, ongoing heightened inflation, the Russian invasion of Ukraine, concerns regarding economic slowdown and even recession were significant factors which weighed against Listed Equities. A notable negative event for Equities was the speech on 26 August 2022 by Jay Powell Chair of the US Federal Reserve at the annual Jackson Hole Economic Symposium. In his speech Chair Powell was clear that the world’s most important Central Bank would resolutely raise interest rates to return inflation to its 2% policy target. In this context Jay Powell stated “The Federal Open Market Committee (FOMC) overarching focus right now is to bring inflation back down to our 2 percent goal...Restoring price stability will take some time and requires using our tools forcefully...Restoring price stability will likely require maintaining a restrictive policy stance for some time. The historical record cautions strongly against prematurely loosening policy...Our responsibility to deliver price stability is unconditional...”

In the context of inflation concerns and increases in interest rates by Central Banks Credit, both Government and Corporate, experienced a clearly negative Quarter made worse by the actions of the UK government which negatively impacted not only UK Gilts but triggered significant volatility in global bond markets. The announcement, on 23 September 2022 of a £45bn debt financed tax cutting package resulted not only in a loss of market confidence in UK gilts (as evidenced by the significant fall in the value of the 10yr UK Gilt that day) but dysfunction in the Gilt market in the following days which resulted in surging yields and in the Bank of England intervening from 28 September 2022 to support the Gilt market. So serious was the situation that in the words of Bank of England Deputy Governor Sir John Cunliffe (in a letter to the Chair of the House of Commons Treasury Committee of 5 October 2022) that “The Bank acted to restore core market functioning and reduce the material risks to financial stability and contagion to credit conditions for UK households and businesses...”

In the United States unemployment fell from 3.6% in June 2022 to 3.5% in July and was 3.5% in September. Inflation continued to be clearly elevated. Headline CPI was 8.5% in July, 8.3% in August and 8.2% in September. The Core PCE Index, which is closely observed by the Federal Reserve when determining monetary policy remained

well above its target of 2% inflation. Core CPE inflation which had been clearly above 2% throughout the period April 2021 to June 2022 continued to remain well above target at 4.7% in July, 4.9% in August and 5.1% in September 2022.

In a situation of high inflation and very low unemployment the US Federal Reserve acted decisively in Q3, as in the previous Quarter, to seek to bring (Core CPE) inflation back closer to its policy target. The Federal Open Markets Committee (FOMC) raised its benchmark interest rate, the Federal Funds rate, by 0.75% at both its July and September 2022 meetings. Statements by Federal Reserve officials including Chair Jay Powell (at Jackson Hole on 26 August 2022) and Vice Chair Lael Brainard (on 7 September 2022 at the Clearing House and Bank Policy Institute 2022 Annual Conference in New York City) emphasised and reinforced the determination to restore inflation to the 2% target. In her speech entitled “Bringing Inflation Down” Lael Brainard concluded that “We are in this for as long as it takes to get inflation down...Monetary policy will need to be restrictive for some time to provide confidence that inflation is moving down to target...Our resolve is firm, our goals are clear...”

The S&P 500 index fell by 5% during the July to September 2022 Quarter which resulted in the index experiencing three successive Quarterly falls. Therefore, US equities have experienced their longest period of Quarterly losses since the financial crisis of 2008. Continuing market concerns regarding inflation, together with actual and further anticipated rises in interest rates by the US Federal Reserve, associated concerns regarding an economic slowdown or even recession were all factors which surely weighed against US equity markets.

Eurozone Equities also experienced a third successive Quarterly decline with the MSCI EMU index declining by approximately 4.5% (in Euro terms). Eurozone inflation as measured by the Harmonised Index of Consumer Prices (HICP) which had been 7.4% in March 2022 was 8.9% in July, 9.1% in August and 9.9% in September which is the highest rate recorded in the Euro’s 23-year history. At its meeting on 21 July 2022 the Governing Council of the European Central Bank (ECB) raised interest rates for the first time since 2011. The increase in interest rates of 0.5% was twice the increase that Christine Lagarde the ECB President had indicated at her press conference following the June 2022 ECB meeting. At the press conference following the 21 July meeting Christine Lagarde stated “We decided to raise the three key ECB interest rates by 50 basis points...The Governing Council judged that it is appropriate to take a larger first step on its policy rate normalisation path than signalled at its previous meeting. This decision is based on our updated assessment of inflation risks...At our upcoming meetings, further normalisation of interest rates will be appropriate...Our future policy rate path will continue to be data-dependent and will help us deliver on our two per cent inflation target over the medium term...” Despite projections of stagnation in the Eurozone economy later in 2022 and early 2023 inflationary concerns resulted in the Governing Council of the ECB raising the three key ECB interest rates by 0.75% at its meeting on 8 September 2022 with ECB President Christine Lagarde stating (at the press conference) that “We took today’s decision, and expect to raise interest rates further, because inflation remains far too high and is likely to stay above our target for an extended period.”

As in the two previous Quarters UK listed equities again outperformed Global Equities. The FTSE All Share lost 3.5% in £ terms. This relative outperformance again resulted from the performance of the FTSE 100 index of largest companies which earn revenues in US dollars and other currencies that have gained in comparison to the £.

The FTSE 100 also has a significant weighting to energy and other “value” stocks which are expected to perform generally better than high growth stocks (such as technology) during periods of high inflation and higher interest rates.

On 6 September 2022 Rt Hon Elizabeth Truss succeeded Rt Hon Boris Johnson MP as the UK Prime Minister. The UK continued to experience inflation way over the Bank of England policy target of 2%. CPI inflation had been 7.0% in March 2022 and had reached 9.4% in June, was 10.1% in July, 9.9% in August and 10.1% in September. At both its meeting on 4 August 2022 and its meeting on 22 September 2022 the Bank of England Monetary Policy Committee (MPC) voted to increase base rate by 0.5%. Following the 22 September meeting Base Rate was 2.25%.

UK Gilts experienced a torrid Quarter. Even before the new Government’s announcement of the unfunded £45bn of tax cuts on 23 September markets had clearly moved against the UK Government bond market in the context of high inflation and policy uncertainty. The 2-year Gilt yield increased (and therefore prices fell) by 1.3% in August its largest rise (price fall) since 1991 with UK inflation reported at a 40 year high on 17 August when the July 2022 CPI was announced at +10.1%. The 10-year Gilt yield increased by approaching 1% during August. By the end of August 2-year yields were 3.02%, 10-year yields 2.80% and 30-year yields 3.08%.

The new UK Government’s launch on 23 September of “The Growth Plan 2022” (to give it its official title) resulted in a rapid sell off in Gilts as markets questioned the future fiscal stability of the UK with the 10-year Gilt yield increasing by 0.3% in a day. The Gilt market seriously weakened (with the situation severely exasperated by Gilt selling to support the LDI (Liability Driven Investment) market into which many private sector (closed) Defined Benefit Pensions Schemes have invested) resulting in the Bank of England launching an emergency Gilt buying programme on 28 September 2022 to stabilise the market. Prior to the Bank of England intervention, the Yield on the 30-year gilt had risen to above 5%. From the end of June to the end of September UK 2-Year Gilt yields rose (and therefore prices fell) from 1.84% to 4.23%, 10 Year Gilt yields increased from 2.23% to 4.09% and the 30-year yield from 2.36% to 3.83%.

As in the previous two Quarters Japanese Equities although declining in absolute terms (the Nikkei 225 declined by 1.7% over the July to September Quarter) performed better than Global Equities. Corporate profits were again ahead of expectations and at its policy meetings in both July and September the Bank of Japan maintained its ultra-loose monetary policy in contrast to that of all the other major Central Banks. Indeed, following the decision in September of the Swiss National Bank to increase interest rates above zero the Bank of Japan is the only notable Central Bank to retain negative interest rates. The approach of the Bank of Japan which is increasingly in stark contrast to other Central Banks and notably the most powerful Central Bank – the US Federal Reserve – resulted in the ongoing and significant weakening of the Yen during 2022. Japanese inflation which had finally reached the Bank of Japan’s 2% target in the previous Quarter remained above 2% during Q3 - the Bank of Japan’s continuing ultra-loose monetary policy and associated weakness of the Yen are undoubtedly factors that have clearly contributed to this increase in inflation.

After having performed better (although still negatively) than Global markets as a whole in the previous Quarter both Asian (excluding Japan) and Emerging Market Equities clearly underperformed Global Equities in Q3. The MSCI Asia (ex-Japan) index declined (in US\$) terms by almost 14% and the MSCI Emerging Markets index by over

11%. Clearly, as with all equity markets high inflation, higher interest rates and concerns regarding economic growth/slowdown adversely affected markets. There are clear issues affecting China the largest Asian and Emerging Market nation – including its continuing very strict approach to COVID and a crisis in its property market. A clear slowdown in the Chinese economy adversely affects not only China but other Asian/Emerging Markets that are clearly intertwined with China. The robust approach of the US Federal Reserve to interest rates also generally weighs against Asian/Emerging Markets (particularly middle sized/smaller countries) in terms of rising borrowing costs.

While UK Gilts had a particularly poor Quarter Credit in general performed weakly. US Treasuries also experienced a negative Quarter with the yield on the on the 2 Year Treasury increasing from 2.95% to 4.28% and the 10-year yield increasing from 3.01% to 3.83%. German 2-year Bund yields increased from 0.65% to 1.76% and the 10-year Bund from 1.34% to 2.11%. Corporate bonds also performed poorly in an environment of inflation and higher actual and anticipated interest rates.

3. Overall Fund Performance

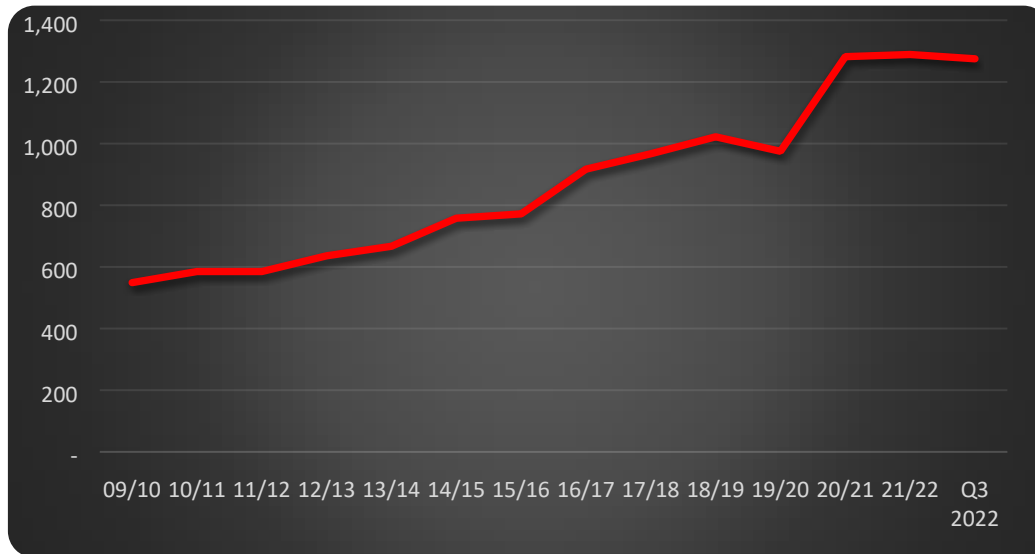
3.1 The Fund's closed Q3 valued at £1,275.2m, an decrease of £14.0m from its value of £1,289.2m at 30 June 2022. Cash held by the Fund was £1.06m giving a total Fund value of £1,276.3m. The gross value includes a prepayment of £30.0m, with the short-term loan from the Council now repaid. Adjusting for this reduces the Q3 value to £1,246.3m, a decrease of £8.2m from the 30 June 2022 figure of £1,254.4m.

3.2 For Q3 the Fund returned -1.2%, net of fees, underperforming its benchmark of 0.1% by -1.3%. Over one year the Fund underperformed its benchmark by 8.0%, returning -7.7% and underperformed the benchmark by 2.0% over three years, returning 4.5%. The Fund has also underperformed its benchmark over five years by 2.1%, returning 5.1%. Compared to the LGPS universe of Funds, represented below by the PIRC Universe, the Fund has underperformed by 4.4% over one year and underperformed over two years by 1.2%. The Fund's returns are below:

Table 1: Fund's Quarterly and Yearly Returns

Year	2022			2021				2020	One Yr	Two Yrs	Three Yrs	Five Yrs	Ten Yrs
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4					
Actual Return	(1.2)	(6.3)	(2.8)	2.6	1.1	4.2	3.6	8.0	(7.7)	4.6	4.5	5.1	7.6
Benchmark	0.1	(4.0)	(0.6)	4.8	1.7	4.6	2.5	5.1	0.3	7.1	6.6	7.1	8.6
Difference	(1.3)	(2.3)	(2.2)	(2.2)	(0.6)	(0.4)	1.1	2.9	(8.0)	(2.5)	(2.0)	(2.1)	(1.1)
PIRC	(0.3)	(4.8)	(3.2)	4.4	1.4	5.6	2.4	5.8	(3.3)	5.8	4.4	5.5	8.3
Difference	(0.9)	(1.5)	0.4	(1.8)	(0.3)	(1.4)	1.2	2.2	(4.4)	(1.2)	0.1	(0.4)	(0.7)

3.3 The chart below shows the Fund's value since 31 March 2010 to 30 September 2022.



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

■	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

3.5 Appendix 1 illustrates changes in the market value, the liability value, the Fund’s deficit and the funding level from 31 March 2013 to 29 November 2022. Members are asked to note the changes in value and the movements in the Fund’s funding level.

3.6 Although the Fund’s asset performance has had two negative quarters and is down 7.7% for the year, there has been a greater change in the liability levels, resulting from significant increases in yields. As a result, the Fund’s funding level has fluctuated between 103% and 110% over the quarter and between 112% and 158% based on the Hymans Robertson model.

3.7 The Fund’s strategy has been set up to be able to positively respond to increasing yields and therefore the current economic environment supports the strategy, even if the return has been negative. The triennial results will likely change the assumptions used in producing the funding level, although there is the potential for this to improve the position further.

3.8 **Table 2 – Fund Manager Q3 2022 Performance**

Fund Manager	Actual	Benchmark	Variance	Ranking
	Returns (%)	Returns (%)	(%)	
Abrdn	(2.1)	1.8	(3.9)	■
Baillie Gifford	1.0	1.5	(0.5)	△
BlackRock	(4.4)	(4.0)	(0.4)	△
Hermes GPE	10.5	1.4	9.1	○
Kempen	(1.6)	2.1	(3.7)	■
Newton	(4.3)	1.1	(5.4)	■
Pyrford	(2.4)	3.3	(5.7)	■
Insight	(1.3)	1.0	(2.3)	△
UBS Bonds	(12.9)	(12.9)	0.0	○
UBS Equities	(3.1)	(3.1)	0.0	○

Table 2 highlights the Q3 2022 returns with a number of reds, indicating a number of negative returns. There was a good positive return from Hermes Infrastructure but large losses from Abrdn and Kempen. Newton's performance was disappointing as it should provide protection in these market conditions. Passive bonds provided large losses for the quarter, reflecting the index linked bond performance for the quarter. Pyrford was some way off its benchmark, but the benchmark return was driven by high RPI figures and the protection that Pyrford provided against the performance of GILTS was good.

3.9 Table 3 – Fund Manager Performance Over One Year

Fund Manager	Actual	Benchmark	Variance	Ranking
	Returns (%)	Returns (%)	(%)	
Abrdn	1.7	6.0	(4.3)	
Baillie Gifford	(23.4)	(3.2)	(20.2)	
BlackRock	12.0	13.0	(1.0)	
Hermes GPE	19.2	5.7	13.5	○
Kempen	(1.7)	(2.2)	0.5	○
Newton	(7.0)	3.9	(10.9)	
Pyrford	(0.3)	16.6	(16.9)	
Insight	(8.4)	4.0	(12.4)	
UBS Bonds	(25.0)	(25.0)	0.0	○
UBS Equities	(12.4)	(12.4)	0.0	○

Over one-year there are even greater variations between managers, with Baillie Gifford providing a negative return of 23.4% and underperforming its benchmark by 20.2%, while BlackRock provided a positive return of 12.0%. Hermes continues to see significant improvements in asset values as a result of their exposure to inflation linked assets, with a number of these being valued significantly higher.

3.10 Table 4 – Fund manager performance over two years

Fund Manager	Actual	Benchmark	Variance	Ranking
	Returns (%)	Returns (%)	(%)	
Abrdn	13.4	5.0	8.4	○
Baillie Gifford	(1.8)	9.0	(10.8)	
BlackRock	11.8	12.8	(1.0)	△
Hermes GPE	9.7	5.8	4.0	○
Kempen	14.8	9.8	5.0	○
Newton	1.0	3.9	(3.0)	
Pyrford	2.6	13.1	(10.5)	
Schroders	4.8	4.1	0.7	○
Insight	(3.0)	4.0	(7.0)	
UBS Bonds	(15.9)	(15.9)	(0.0)	○
UBS Equities	6.4	6.4	0.0	○

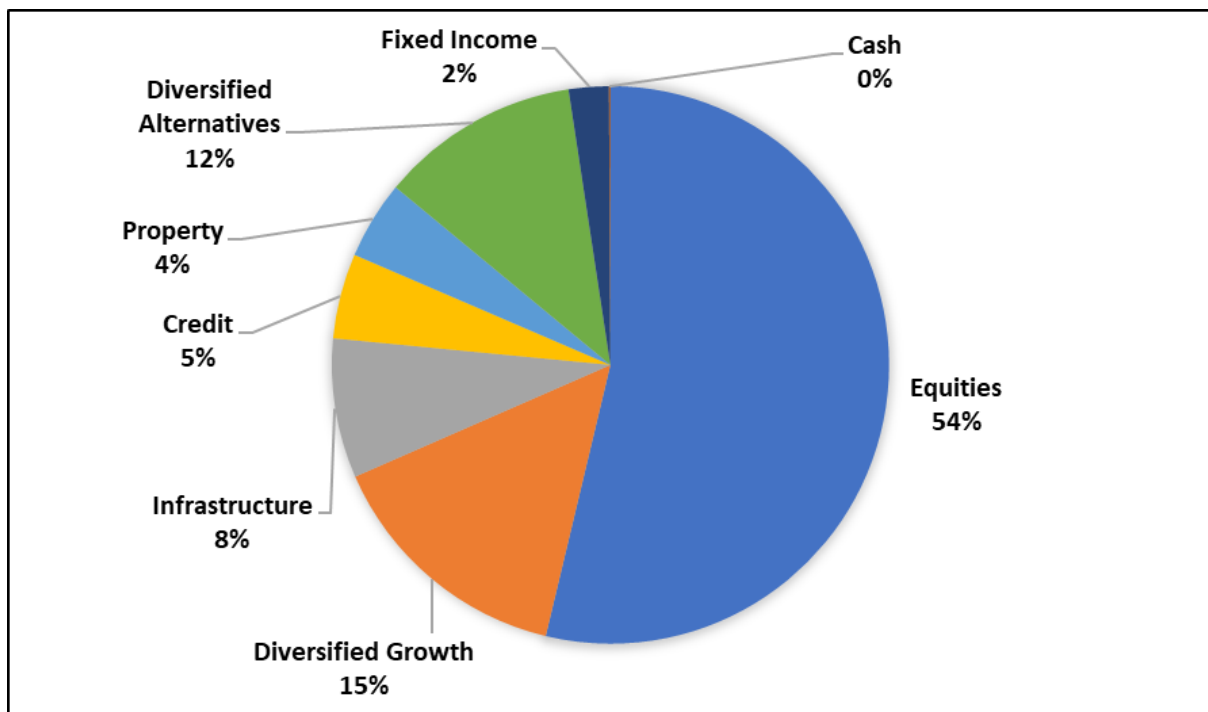
Over two years, returns ranged from (-15.9%) for UBS bonds to 14.8% for value equities (Kempen). Blackrock and Abrdn have provided solid returns, with Abrdn providing 13.4% and Blackrock providing a return of 11.8 over the year.

4. Asset Allocations and Benchmark: Table 5 outlines the Fund's asset allocation, asset value & benchmark at 30 September 2022.

4.1 **Table 5: Fund Asset Allocation and Benchmarks at 30 September 2022**

Fund Manager	Asset (%)	Market Values (£Ms)	Benchmark
Abrdn	11.6%	147.92	3 Mth LIBOR + 4% per annum
Baillie Gifford	20.3%	258.60	MSCI AC World Index
BlackRock	4.5%	57.79	AREF/ IPD All Balanced
Hermes GPE	8.1%	103.22	Target yield 5.9% per annum
Kempen	15.3%	195.06	MSCI World NDR Index
Newton	6.0%	76.81	One-month LIBOR +4% per annum
Pyrford	8.7%	110.83	UK RPI +5% per annum
Schroders	0.0%	0.08	AREF/ IPD All Balanced
Insight	4.9%	63.02	3 Mth LIBOR + 4% per annum
UBS Bonds	2.3%	29.69	FTSE UK Gilts All Stocks
UBS Equities	18.2%	232.02	FTSE AW Developed Tracker
LCIV	0.0%	0.15	None
Cash	0.1%	1.06	One-month LIBOR
Fund Value	100.0%	1,276.25	
ST Loan		-	
Prepayment		(30.00)	
Net Fund Value		1,246.25	

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



- 4.3 The strategy is overweight equities, however equities are now nearer the middle of the range at 53.7%. Cash excludes the pre-payment and short-term borrowing from the council and shows that the Fund is fully invested. The Fund is significantly below the exposure to Credit, but this will be reviewed during 2022/23.

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	53.7%	52%	1.7%	50-60
Diversified Growth	14.7%	15%	-0.3%	14-18
Infrastructure	8.1%	8%	0.1%	7-11
Credit	4.9%	8%	-3.1%	6-10
Property	4.5%	5%	-0.5%	4-7
Diversified Alternatives	11.6%	9%	2.6%	7-10
Fixed Income	2.3%	3%	-0.7%	3-5
Cash	0.1%	0%	0.1%	0-1

5. Fund Manager Performance

5.1 Kempen

Kempen	2022			2021				2020	One Year	Two Years	Since Start 6/2/13
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£195.06m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(1.6)	(3.1)	0.1	2.9	3.0	2.9	10.2	15.3	(1.7)	14.8	7.5
Benchmark	2.1	(9.1)	(2.4)	7.3	2.5	7.6	4.0	7.8	(2.2)	9.8	11.6
Difference	(3.7)	6.0	2.5	(4.4)	0.5	(4.7)	6.2	7.5	0.5	5.0	(4.1)

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 3.7% for Q3 and has outperformed over one-year by 0.5% and over two years by 5.0%. Kempen has underperformed its benchmark since inception by 4.1% but providing an annualised return of 7.5%. Overall, the strategy has provide solid returns over a number of quarters, with a strong outperformance against its benchmark.

Strategy Drivers

INFLATION: Increasing demand and disrupted supply is pushing price levels up and price inflation is proving persistent and above expectation across the board. Shortage in basic resources is having an impact throughout the supply chain, with the Ukraine conflict creating additional shortages in energy and food supply that has a global impact on prices. Rising prices for consumption goods are putting pressure on the purchasing power of consumers. Strong labour markets give workers bargaining power for higher wages. Companies are mentioning a negative impact on their margins due to rising input costs and wages

MONETARY TIGHTENING: Central banks across the world are moving forward their projected path of monetary tightening. Strong labour markets mean central banks can be aggressive with monetary tightening. Interest rates have increased sharply on the back of tighter monetary policy and elevated inflation. Real interest rates remain low due to the high level of inflation. Higher rates are putting pressure on valuation multiples and companies with high leverage

RECESSION: Eroding purchasing power of consumers and higher interest rates are slowing down the economy. A wage-price spiral is difficult for central banks to break. Concerns are mounting there may be a recession needed to cool down inflation. If wages manage to keep up with inflation consumer spending should stabilize. Higher input costs and rising wages are a risk to corporate profits. Financial markets appear to already price in a mild recession.

5.2 Baillie Gifford

Baillie Gifford	2022			2021				2020	One Year	Two Years	Since Start 6/2/13
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£258.60m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.0	(12.1)	(12.4)	0.1	(0.6)	7.1	2.2	11.1	(23.4)	(1.8)	12.0
Benchmark	1.5	(8.4)	(2.5)	6.3	1.5	7.4	3.7	8.6	(3.2)	9.0	11.3
Difference	(0.5)	(3.7)	(9.9)	(6.2)	(2.1)	(0.3)	(1.5)	2.5	(20.2)	(10.8)	0.7

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.

In July 2022 the Fund transferred from BG's Global Alpha strategy to the BG Paris Aligned Global Alpha fund (BGPA). The transition was completed between 11 and 14 July. The BGPA Fund aims to outperform the MSCI ACWI Index (in Sterling), by at least 2% per annum over rolling five-year periods. In addition, the Fund commits to having a weighted average greenhouse gas intensity lower than that of the MSCI ACWI EU Paris Aligned Requirements Index. BGPA is consistent with the objectives of the Paris Agreement. The portfolio is a variant of the core Global Alpha strategy. It is managed by the same team and with the same investment philosophy and performance objective. However, there is an additional process to screen out carbon intensive companies that do not or will not play a major role in our energy transition.

Performance Review

For Q3 BG returned 1.0%, underperforming its benchmark by 0.5%. BG's one-year return was -23.4%, underperforming its benchmark by 20.2%. Since initial funding, the strategy has returned 12.0% p.a. outperforming its benchmark by 0.7%.

This was a quarter of two halves for the Sub-fund as the positive start in July to mid-August was followed by a negative September. Notwithstanding the modestly negative outcome for the quarter relative to the benchmark index, it is noted that performance has begun to stabilise despite the challenging backdrop facing the businesses the Sub-fund invests in.

Importantly, the pattern of returns now appears characteristically different to what we have been experiencing since late 2021. Performance is driven less by the more aggressive 'disruptors' segment of the portfolio, and more by the 'compounders' which are expected to grow at a relatively steady pace over the long-term.

At the stock level this was expressed in the list of top contributors which included companies that operate in traditionally more defensive sub-sectors such as the pharmaceuticals company Alnylam, and the chemicals company Albemarle. At the other end of the spectrum negative returns were more evenly spread across companies including Prosus, AIA, Li Auto and Prudential.

Positioning

Compared to the second quarter the Sub-fund's regional exposures were broadly unchanged as of the end of September 2022, with a large allocation to North American equities at c. 63% followed by an exposure of 16% to European ex U.K. equities. At the sector level, the largest exposure was to information technology companies at 22.4% followed by health care at 14.6% and financials at 14%.

LCIV Summary

This was the sixth consecutive quarter of negative relative returns for the Subfund. However, there are signs of stabilisation in the performance pattern. This is due to a gradual shift in the portfolio away from more aggressive-growth, high-volatility holdings, predominantly found in the Disruptors bucket, into the relatively stable Compounders bucket.

Some of that shift happened naturally due to market moves, particularly the aggressive derating of highly valued stocks, but largely this was due to the investment manager's pragmatic approach to get rid of the 'dead wood' in the portfolio, Carvana and Peloton being two prime examples.

In the third quarter of 2022, London CIV completed an extended investment due diligence (IDD) on the investment manager using a Red, Amber, Green (RAG) scoring framework. Following this exercise and with the approval of the London CIV Investment Panel, the investment manager's overall monitoring status was maintained at 'Normal Monitoring'. The findings were shared with investors in the Sub-fund on the 3rd of October.

In summary, for performance, resourcing, investment risk management and value-for-money LCIV assigned an 'Amber' score. While performance has clearly been disappointing, LCIV remain confident the investment manager retains its ability to recover losses. On investment risk management, portfolio exposures within the Sub-fund were allowed to become more concentrated than they should have, and that the diversification of growth profiles did not work effectively. Consequently, value-for-money appears weak considering current level of fees and underperformance.

On the positive side, a 'Green' rating has been assigned to the investment process, responsible investing (RI) and engagement, overall business risk and best execution and liquidity. The investment process remains intact. The investment manager continues to do what they know best, finding companies with superior growth prospects. Baillie Gifford is strongly committed to RI and Engagement and continue to build up relevant teams and processes and retrain personnel. Business remains stable. The organisation provides a fertile ground for this type of strategy to work well. There are no concerns on execution capabilities and portfolio liquidity.

5.3 UBS Equities

UBS Equities	2022			2021				2020	One Year	Two Years	Since Start 31/08/12
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£232.02m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(3.1)	(12.9)	(4.0)	7.6	0.9	7.5	5.8	11.2	(12.4)	6.4	11.4
Benchmark	(3.1)	(12.9)	(4.0)	7.6	0.9	7.5	5.8	11.2	(12.4)	6.4	11.5
Difference	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.1)

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 -3.1% for Q3 and -12.4% over one year. Since funding in August 2012, the strategy has provided an annualised return of 11.4%.

Equities

Global equities fell for a second straight month in September as central banks signalled a faster pace of policy tightening to curb inflation. The MSCI All Country World index lost 9.6% in total return terms, with all major equity markets in negative territory for the month. Chinese equities and emerging market stocks more broadly were hit particularly hard, declining 14.1% and 11.7%, respectively. The S&P 500 had its worst month since March 2020, returning -9.2%. Eurozone, Swiss, and Japanese equities all lost around 6%. UK equities, which have been a relative bright spot for much of 2022, declined 5% as concerns about the new government's fiscal policy weighed on sentiment.

For the quarter as a whole, global equities returned -6.8%, with weak performance in August and September outweighing a bright July. Chinese equities delivered a total return of -21.7% as zero-COVID-19 restrictions and the property crisis weighed on sentiment. Emerging market equities were down 11.6%, with a hawkish Federal Reserve (Fed), strong US dollar, and geopolitical uncertainty among the headwinds. Rising bond yields weighed on Swiss and Eurozone equities, which lost 4.9% and 4.5%, respectively, during the quarter. The S&P 500 returned -4.9%, recording its third consecutive quarterly decline for the first time since the global financial crisis. UK equities lost 2.9%, while Japanese stocks were down just 1.6% on the quarter.

5.4 UBS Bonds

UBS Bonds	2022			2021				2020	One Year	Two Years	Since Start 5/7/2013
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£29.69m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(12.9)	(7.4)	(7.2)	2.4	(1.8)	1.7	(7.2)	0.6	(25.0)	(15.9)	0.6
Benchmark	(12.9)	(7.4)	(7.2)	2.4	(1.8)	1.7	(7.2)	0.6	(25.0)	(15.9)	0.6
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. There is a link between the bond price and the Fund's liabilities and therefore the reduction in returns will have helped to reduce the Fund's liabilities.

Performance

The fund returned -12.9% for Q3, -25.0% for one year and -15.9% for two-year return. Since inception the strategy has returned 0.6%.

Review

Fixed income markets faced further headwinds over the course of September, with the main drag from higher-than expected inflation readings, especially in the US and Europe. Top central bankers continued to stress that further large rate rises were on the way. Yields on government bonds moved higher over the month, with the 10-year US Treasury yield starting the month at 3.27% and ending at 3.78%. The German 10-year yield also increased, rising from 1.57% to 2.10%. The sharpest moves came in the UK gilts market, amid mounting concern over the fiscal sustainability of the UK following a package of tax cuts and spending increases. The yield on the 30-year gilt, which started the month at 3.08% reached an intraday high of 5.09%. The surge led to intervention from the BoE, which pushed the yield back to 3.85% by the end of the month.

Credit spreads around the world also widened, as investors moved to price in rising risks of default as economies slow. The spread on US high yield credit rose by around 50 basis point. Total returns on high yield were around minus 4% for both US and euro credit.

5.5 Schroders Indirect Real Estate (SIRE)

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, although the final sale will be in Q3 2022. The distribution paid will be used to increase the Fund's cash balance.

5.7 BlackRock

BlackRock	2022			2021				2020	One Year	Two Years	Since Start 1/1/2013
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£57.79m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(4.4)	2.9	6.8	6.7	4.3	2.9	2.1	2.5	12.0	11.8	1.7
Benchmark	(4.0)	3.9	5.6	7.5	4.5	3.8	2.2	2.1	13.0	12.8	4.7
Difference	(0.4)	(1.0)	1.2	(0.8)	(0.2)	(0.9)	(0.1)	0.4	(1.0)	(1.0)	(3.0)

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. In 2021 the allocation to BlackRock was increased following the closure of the Schroders SIRE fund.

Q3 2022 Performance and Investment Update

BR returned -4.4% for Q3 against a benchmark of -4.0%, returned 12.0% over one year against a benchmark of 13.0%. The Fund's valuers have a highlighted increased volatility and uncertainty in their valuations. This is not a 'material uncertainty clause' as was seen during COVID, however the valuers are relying more on sentiment than transaction evidence. The LDI crisis and associated bond market crash had several impacts on the UK property market.

Market Conditions

The UK economy, and the real estate sector continue to face headwinds. Even though inflationary pressures arising from the pandemic were already evident at the beginning of the year, Russia's invasion of Ukraine was not. The post pandemic world has quickly become one characterised by macro-economic and political uncertainty, rising interest rates and now recessionary fears. Navigating the real estate market in this environment is challenging, but by understanding longstanding structural trends, opportunities can be better understood.

After a strong first half of the year for the UK real estate investment market, almost £34bn was transacted, however the latest data has pointed to a significant slowdown in activity. In this environment price discovery is becoming increasingly opaque due to a lack of liquidity. Price chips on deals underway are commonplace as the bid ask spread widens. However, now is the time for investors to position their portfolios along the themes that will drive future growth in preparation for the cyclical upturn when it arrives.

Transactions: In Q3, the fund disposed of two properties for £14.52m; no acquisitions were completed during the quarter. In July, the Fund completed on the sale of 180-183 Fleet Street & 140-146 Fetter Lane, a 25,540 sq. ft. mixed use office and retail asset located in the Midtown district of London. The rationale for the sale related to it being below BUKPF's target lot size by value. The Fund also disposed of a 0.8-acre site in Towcester, Northamptonshire for £1.02m.

5.8 Hermes

Hermes	2022			2021				2020	One Year	Two Years	Since Start 9/11/2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£103.22m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	10.5	(1.0)	10.5	(0.9)	2.2	(1.1)	0.6	(1.5)	19.2	9.7	8.7
Benchmark	1.4	1.4	1.5	1.4	1.4	1.4	1.5	1.4	5.7	5.8	5.9
Difference	9.1	(2.4)	9.0	(2.3)	0.8	(2.5)	(0.9)	(2.9)	13.5	3.9	2.8

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 10.5% in Q3 outperforming the benchmark by 9.1%. Over one year the strategy reported a one-year return of 19.2%, outperforming its benchmark by 13.5%. Since inception the strategy has provided a good, annualised return of 8.7%, outperforming its benchmark by 2.8%.

Return of capital

Hermes returned £9.4m of capital to the Fund in April 2022. This distribution, which followed a similar increase in value in Q1 2022, resulted in the Fund receiving a large cash return, with the value of the holding remaining at roughly the same level of £93m.

On 10 August the Fund received a further distribution of £6.2m comprising almost all of the remaining proceeds from the sale of Anglian Water (which was received earlier than expected) and the proceeds of two stake sales in Viridor Energy. Ordinary course distributions from ASG, Innisfree and Viridor, took place on 7 November 2022. Further ordinary course distributions are expected from Associated British Ports ("ABP") and Scandlines

Cadent has had strong operational performance during the quarter however, the ongoing Russia/Ukraine conflict, gas availability and price volatility and the associated potential for impact on Cadent will continue to be monitored closely. The appetite for travel post Covid-19 also continues to be strong, with demand for services outstripping supply, driving high yields. This is particularly the case for Eurostar.

Other options are also being discussed with LCIV around the infrastructure they offer. The discussions are focused on the type of infrastructure, the location (Global and within the UK) and governance as it is likely that any initial investment would be fairly small, unless the strategic allocation target were increased.

These options will be discussed with the Fund's advisors and then training and options will be provided to Members towards the end of 2022 / early 2023.

5.9 Abrdn Asset Management

Abrdn	2022			2021				2020	One Year	Two Years	Since Start 15/9/2014
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
147.92m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(2.1)	(1.4)	3.7	1.6	4.9	4.4	7.4	8.3	1.7	13.4	7.2
Benchmark	1.8	1.6	1.6	1.0	1.0	1.0	1.0	1.0	6.0	5.0	4.8
Difference	(3.9)	(3.0)	2.1	0.6	3.9	3.4	6.4	7.3	(4.3)	8.4	2.4

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.

Over a number of years further investments have been made to ASAM, with the focus on increasing the allocation to Private Equity, with the total holding now £147.9m, which is 11.6% of the Fund, significantly higher than the strategic allocation of 9.0%. As part of the strategy review this overweight position will be reviewed with the potential to reduce the allocation, potentially to Hedge Funds, or to increase the strategic allocation level.

Performance summary

The Portfolio lost around -2.1% (net of fees) over the three months to the end of September. The quarter's loss was primarily driven by lower June 30 valuations for the Advent VIII and IX private equity investments and the Cinven Cullinan co-investment which we were able to reflect in July and August. Over one year the return of 1.7% outperforms the benchmark return of 6.0% by 4.3%. Since inception the strategy has returned 7.2%, outperforming the benchmark by 2.4%.

ASAM 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 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

ASAM remain constructive on the outlook for macro strategies, which are well placed to take advantage of the current trading climate. Although global central banks have started to catch up to inflation (and forward inflation expectations), the path forward remains uncertain, likely keeping macro trading opportunities high. Macro strategies invest across equity indices, credit indices, currencies, commodities and interest rates. They invest directionally across these markets, as well as on a relative value basis, i.e. one asset class vs. another. When central banks are tightening, and confusion across forward macroeconomic fundamentals is high, macro strategies have the most “tools in their tool kits” to capitalize on the market’s response function. We expect this attractive backdrop for macro to persist for the foreseeable future.

ASAM maintain a positive outlook for fixed income relative value strategies. There is now notable volatility across fixed income instruments in developed markets, with the Fed/BoE/ECB/RBA hiking rates and engaging in quantitative tightening, high levels of uncertainty on inflation and economic projections, high uncertainty on future monetary policy and the timing/likelihood of recessions, as well as on-going geopolitical tensions. As a consequence, the opportunity set is very attractive for fixed income relative managers not only in cash vs. futures basis trading, but in other traditional strategies such as asset swap spreads, yield curve arbitrage (cash bonds vs. cash bonds), macro, inflation and cross-currency basis trading.

Within credit, significantly higher rates and wider spreads over the past year have created remote risk credit issues, with short-dated maturities, offering high single digit yields. Moreover, a sustained period of high rates is likely to slow the global economy and present more defaults and restructuring opportunities. During these recent periods of higher volatility, investors often act irrationally, creating inefficiencies between and across assets across a corporate capital structure. This phenomenon benefits those strategies that target relative value or arbitrage opportunities. Finally, structured credit is likely to benefit from favourable technical dynamics with less price support from the Fed and bank balance sheets for the foreseeable future.

Turning to private equity, there has been a slowdown in deal activity post the summer as private equity managers assess the new market conditions and potentially challenges ahead. However, deal pricing remains competitive for high quality assets. The fundraising market has remained robust year-to-date, but we expect some slowdown in the coming quarters. We expect the secondary market to offer some interesting opportunities in the coming months, particularly for LP portfolios. The underlying managers within the LBBB portfolio have continued to deploy capital in a disciplined manner to acquire assets with the potential for future earnings growth and are working hard to protect the portfolios in the midst of rising interest rates, inflationary pressures, and supply chain challenges. The coming 12-24 months should represent a very interesting period for private equity investment and our managers are poised to take advantage of such opportunities as they arise.

5.10 Pyrford

Pyrford	2022			2021				2020	One Year	Two Years	Since Start 28/9/2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
110.83m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(2.4)	(0.8)	1.5	1.3	0.3	1.1	0.9	3.1	(0.3)	2.6	3.0
Benchmark	3.3	6.3	3.1	4.0	2.7	3.6	1.7	1.6	16.6	13.1	8.3
Difference	(5.7)	(7.1)	(1.6)	(2.7)	(2.4)	(2.5)	(0.8)	1.5	(16.9)	(10.5)	(5.3)

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

The Sub-fund weathered the turmoil in the Gilts market in late September reasonably well, mainly because exposure is concentrated in short-dated bonds, and not the longer maturity bonds which bore the brunt of selling pressure. Nevertheless, Gilts accounted for almost 45% of the portfolio at the beginning of Q3, and this segment was the biggest source of losses (-1.2%) during the quarter.

The Sub-fund is built around four pillars: sovereign bonds, equities, currencies and cash. The key drivers of returns are allocations across the four pillars, duration management and sovereign bond selection, and country and stock selection decisions within the equity segment. The asset allocation process is slow moving. Derivatives are used only to manage currency risk. Currency exposure arising from bond and equity selection decisions is adjusted based on long-term valuation models.

The asset allocation process is slow moving. In mid-June, Pyrford made their first change to the model portfolio for the Strategy since the first quarter of 2020. The target allocation to equities was increased by 5% to 40% when triggers linked to the projected real rate of return, over a five-year horizon, were hit. The default response is to implement the change in asset allocation based on the prevailing regional, country and stock weights and make any necessary adjustments at the next quarterly forecasting point for growth and inflation. The investment manager is unlikely to make significant changes to the composition of the equity portfolio in the near term.

The investment strategy is applied methodically to mitigate the risk that behavioural biases influence decision-making. Adjustments to allocations are made in modest increments and the magnitude of changes in asset prices has to be very large to prompt action. It will be important for the investment manager to redeploy capital decisively when triggers are hit to recover underperformance relative to the target benchmark.

5.11 Newton

Newton	2022			2021				2020	One Year	Two Years	Since Start 31/8/2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
76.81m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(4.3)	(2.1)	(4.4)	3.7	(0.1)	2.4	1.1	5.6	(7.0)	1.0	3.2
Benchmark	1.1	0.9	0.8	1.0	1.0	1.0	1.0	1.0	3.9	3.9	4.4
Difference	(5.4)	(3.0)	(5.2)	2.7	(1.1)	1.4	0.1	4.6	(10.9)	(2.9)	(1.2)

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 -4.3% in Q3, underperforming its benchmark by 5.4%. Over one year the strategy has returned -7.0%, underperforming its benchmark by 10.9%, although the return over two years is 1.0% against a benchmark of 3.9%. Newton's performance since inception is 3.2%.

The shift implemented in Q2 included a reduction in the allocation to equities and a repositioning of the stock portfolio to trim exposure to highly valued companies and those perceived to be most vulnerable to the effects of higher inflation and/or slower growth. These changes had a negative impact in Q3: global stock markets ended the quarter in positive territory, albeit largely because of the poor performance of Sterling (see below), and stock selection within the equity portfolio was weak.

Alternative assets, which includes renewable energy generators, property stocks, risk premia strategies and commodities, had been steady performers in 2021 and the first half of 2022. This segment lost money in Q3, as a note linked to the price of carbon fell and listed vehicles used to create exposure to renewable energy, infrastructure and property assets performed poorly. The equity market risk embedded in Investment Trusts and similar vehicles is often a detractor in periods of risk aversion. The Sub-fund remains defensively positioned, relative to the long-term history of this strategy, in terms of the mix between return-seeking (65%) and stabilising assets (35%).

The performance of the stabilising layer of the portfolio was disappointing. Decisions to increase exposure to government bonds, beginning in the first quarter of this year, have not worked in a period of exceptional volatility. The allocation to gold was reinstated in Q1 of this year and increased in Q2 as a hedge against inflation and geo-political risk. This also detracted as gold languished, partly because of the relentless strength of the U.S. Dollar. The only bright spot in Q3 was the currency book, where the unhedged exposure to U.S. Dollars, which is the biggest source of currency risk in the Sub-fund, was profitable.

5.12 Insight (Mellon Corporation / Standish)

Insight	2022			2021				2020	One Year	Two Years	Since Start 20/8/2013
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£63.02m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(1.3)	(3.8)	(2.6)	(0.7)	0.0	0.2	(0.1)	2.2	(8.4)	(3.0)	(0.0)
Benchmark	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	4.0	4.0	4.9
Difference	(2.3)	(4.8)	(3.6)	(1.7)	(1.0)	(0.8)	(1.1)	1.2	(12.4)	(7.0)	(4.9)

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

Q3 saw the BNY Mellon Targeted Return Bond Fund significantly underperform its reference benchmark by 2.3%, providing a negative return of 1.3%. As was the case in the first half of the year, the bulk of the period's negative alpha can be attributed to the fund's overweight position in developed market duration. Over one year the strategy has returned -8.4% and over two years it has returned -3.0%, with a flat since inception return.

The fund suffered from active positioning in the UK rates space as unfunded spending plans called the sustainability of the UK balance sheet into question and pushed rates significantly higher. Unfortunately, this underperformance was compounded by the negative alpha associated with material overweights to USD and EUR duration. Overweight positions in local Mexican and South African debt were additional, marginal, sources of negative alpha. Active FX positioning was a source of modest positive alpha with short GPBCHF positions yielding notably strong returns.

The fund's overweight to corporate credit and other risk assets made a materially negative contribution to relative returns on the quarter. After a strong start to the period, risk assets came under pressure into the end of the summer as DM central banks reaffirmed their commitment to tighter monetary policy. Notably, and negatively for risk assets, policy makers reiterated their focus on bringing inflation down while downplaying the negative macroeconomic impact of higher interest rates. The underperformance of EUR denominated risk asset relative to their USD counterparts was an additional source of negative alpha.

At the country level, the strategy benefited modestly from its underweight to Italian government debt in favor of sovereign German debt. The spread between the two widened significantly in the third quarter as the ECB remained resolutely hawkish and European spreads in general trended wider.

With risk free rates rising and spreads pushing wider, most fixed income assets saw significant negative total returns in Q3 2022. For the third consecutive quarter, cash was one of the best performing asset classes.

5.13 Currency Hedging

No new currency hedging positions were placed in Q3 2022.

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 Financial 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, Chief Financial Officer

- 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 Q2 2022 Report; and
- Fund Manager Q2 2022 Reports.

List of appendices:

Appendix 1 - Fund Asset and Liability Values 31 March 2013 to 1 August 2022

Appendix 2 - Definitions

Appendix 3 - Roles and Responsibilities