PENSIONS COMMITTEE

14 June 2023

Title: Pension Fund Quarterly Monitoring 2022/23 – 1 January to 31 March 2023	
Report of the Chief Financial Officer	
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, 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 January to 31 March 2023 The report updates the Committee on the Fund's investment strategy and its investment performance.	
Recommendation(s) The Pensions Committee is recommended to note the: (i) Progress on the strategy development within the Fund, (ii) Fund's assets and liabilities daily value movements outlined in Appendix 1,and (iii) 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 January to 31 March 2023 ("Q1"). 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 13 June 2023 will be provided to Members at the Pensions Committee.

2. Independent Advisors Market Background (Q1 2023)

2.1 For the second Quarter in a row Global Equities advanced. The January to March 2023 Quarter saw the MSCI World Index increase by almost 8% (in $ terms). As in the previous Quarter all major geographies saw positive returns.

2.2 January 2023 was a very positive month for markets with the MSCI World index increasing by 7% in the context of positive macroeconomic prospects exemplified by falling energy prices, lower headline inflation in the US (December 2022 headline CPI was 6.5% compared to 7.1% in November), and a broad-based recovery/reopening in China arising from both government economic policies and loosened COVID restrictions. The US Federal Reserve slowed its rate of monetary tightening with the Federal Open Markets Committee (FOMC) only increasing its benchmark interest rate, the Federal Funds rate, by 0.25% at its policy meeting which ended on 1 February 2023 – following this announcement the S&P 500 Index rose to 4,180 on 2 February 2023 its highest point since August 2022.

2.3 February, however, proved to be a more difficult month for markets (except for Europe and the UK which both saw small gains) with the MSCI World Index falling over 2%. There were increased US China tensions beginning with the US stating it had discovered a Chinese spy balloon flying over the US and Secretary of State Antony Blinken announcing, on 3 February, the cancellation of his planned visit to China. Additionally, the release, on 3 February 2023, of the US Employment report for January 2023, showed that employment rose by 517,000 in January, way in excess of market forecasts of under 200,000. This, together with the announcement, on 14 February of higher than anticipated US CPI inflation in January 2023, suggested the US economy was stronger than had been anticipated and therefore that interest rates would be higher and for longer. This weighed against US markets and in particular Asian and Emerging Markets with the S&P 500 falling over 2% during the month but both the MSCI AC Asia (ex-Japan) and MSCI Emerging Markets Indices falling by more than 6%.

2.4 Despite a potential Banking crisis in both the US and Europe in March – which was averted by the decisive actions of the US and Swiss authorities (and likely the tougher regulatory regimes introduced after the 2008 financial crisis) markets determined there was a lack of systemic risk. After coming under pressure in the first half of the month markets enjoyed a positive second half of March with the MSCI World Index advancing by over 3% during the month with most major markets increasing over the month.

2.5 Unemployment in the US continued to be very low with a rate of 3.5% in March 2023. Inflation remained clearly elevated over the Quarter. The Core PCE Index which is closely observed by the Federal Reserve when determining monetary policy remained well above its target of 2%. Having registered no lower than 4.6% throughout 2022 it was 4.7% in both January and February 2023 and 4.6% in March 2023. The headline CPI inflation index remained higher than the Core CPE index throughout the Quarter.

2.6 The US Federal Reserve has the duel monetary policy objectives of seeking to achieve maximum employment and inflation at the rate of 2 percent over the longer run. Therefore (as stated in the press release issued after, both, the meetings that ended on 1 February 2023 and on 22 March 2023) “in support of these goals” the Federal Open Markets Committee (FOMC) of the US Federal Reserve further

increased interest rates. On each occasion, however, by only 0.25% which was in contrast to the four 0.75% increases and the two 0.5% increases seen between May and December 2022.

2.7 At its March meeting the FOMC determined a further 0.25% increase in the Federal Funds rate to the target range of 4 ¾ to 5% despite the recent turmoil in the US banking sector. However, the Press Release issued following the March meeting indicated that the long run of meeting after meeting increases in interest rates (which commenced in March 2022) may be nearing its end. The term "The Committee anticipates that ongoing increases in the target range will be appropriate…" which had been used in the March 2022 to February 2023 press releases was replaced by softer statement that "The Committee anticipates that some additional policy firming may be appropriate…"

2.8 March 2023 saw a potential US Banking crisis with the forced closure on 10 March, by the California State authorities, of Silicon Valley Bank (SVB) that had been the 16th largest bank by assets in the US. This was followed by the closure of Signature Bank, by the New York State authorities on 12 March. These represented the second and third largest bank failures in US history. A banking crisis was however averted (for the time being at least) by the immediate action of the US Government, in consultation with the Federal Reserve, with US Secretary of the Treasury Janet Yellen announcing that no depositors, at either bank, would lose any of their money. At his Press Conference on 22 March, following the Federal Reserve FOMC meeting, Chair Jay Powell referred to "decisive actions" by the Federal Reserve and US Treasury Department "to protect the U.S. economy and to strengthen public confidence in our banking system." Chair Powell went on to state "Our banking system is sound and resilient, with strong capital and liquidity. We will continue to closely monitor conditions in the banking system and are prepared to use all of our tools as needed to keep it safe and sound."

2.9 January saw a return of over 6% in the S&P 500 (the best for January since 2019). US stocks had a poor February but advanced in the later part of March. This was despite continuing turmoil in the US regional banking system which included the largest US Banks depositing $30 billion into the California based First Republic bank to bolster its finances. However, in a speech, to the American Bankers Association, on 21 March Secretary of the Treasury Janet Yellen reassured not only bankers but the wider market when she indicated government support "…if smaller institutions [banks] suffer deposit runs that pose the risk of contagion." As at the end of March the S&P 500 had returned 7.5% over the Quarter.

2.10 Eurozone stocks were the best performing of the major markets during the Quarter with the MSCI EMU Index returning over 12% (in Euro terms and over 14% in US$ terms). This was aided by the reopening of China given this is a major export market for the Eurozone, fiscal support packages by many governments in response to the energy crisis and high inflation, and moderating wholesale gas prices. The relative and clear "cheapness" of Eurozone stocks compared to US stocks may have been another factor.

2.11 In Europe, the massive Swiss bank Credit Suisse, which had suffered rapid and huge outflows was acquired, on 19 March 2023, by its arch rival UBS following negotiations, which were not merely brokered but forced, by the Swiss regulators in order to protect the Swiss banking system and to avert a potential crisis across global financial markets. However, there was no crisis or other actual or potential failures in

the wider European banking system. The robust regulation of the Eurozone banking sector and its “strong capital and liquidity” (referred to in a European Central Bank statement of 19 March 2022) doubtlessly does much to explain this. Indeed, overall, Eurozone financial stocks increased in value over the Quarter!

2.12 Eurozone inflation as measured by the Harmonised Index of Consumer Prices (HICP) declined over the Quarter but remained way above the European Central Bank (ECB) target of 2%. It had been 9.2% in December 2022 but fell to 8.6% in January, 8.5% in February and 6.9% in March 2023. However, Core Inflation (which excludes energy and food) increased from 5.2% in December 2022 to reach 5.7% in March 2023. In response to this heightened inflation the ECB raised interest rates by 0.5% at both its 2 February and 16 March 2023 monetary policy meetings. After the March 2023 meeting the benchmark ECB interest rate (known as “the deposit facility”) stood at 3%.

2.13 The March increase took place against the background of the turmoil in the US banking market and rapidly increasing concerns regarding the future of Credit Suisse. These circumstances did not however prevent the ECB from implementing a further clear tightening of monetary policy. However, whereas the Press Statement issued after the February policy meeting began with the statement “The Governing Council will stay the course in raising interest rates significantly at a steady pace…” this was omitted completely from the March Press Statement which was notable particularly as this began with the statement “Inflation is projected to remain too high for too long.” The March Press Statement placed emphasis on a “data-dependent approach” to future interest rate decisions.

2.14 UK Equities gained 3% over the Quarter (as measured by the FTSE All-Share Index). Although this was positive the return on UK equities was below that of World markets overall and other major developed markets. The mining sector, an important constituent of the FTSE indices, saw significant losses during the Quarter with both Anglo American and Glencore stocks losing over 15% and Rio Tinto over 5%. In the context of concerns about the global banking sector (in reality primarily because of issues relating to only a limited portion of the US banks and Credit Suisse) the UK listed banks having advanced in the first part of the Quarter experienced a clearly negative March.

2.15 During the January to March 2023 Quarter CPI inflation remained, as in the previous Quarter, far above the Bank of England policy target of 2% and indeed continued to be in excess of 10%. CPI inflation which had been 7.0% in March 2022 reached 11.1% in October which was the highest rate for 41 years (since October 1981). November 2022 saw a rate of 10.7% and December 10.5%. In January, February and March 2023 CPI was 10.1%, 10.4% and 10.1% respectively.

2.16 In the context of this inflationary environment the Bank of England continued to further tighten its monetary policy stance. The February meeting of the Bank of England Monetary Policy Committee (MPC) increased Bank Rate (interest rates) by a further 0.5% to 4%. At its March 2023 meeting the MPC increased Bank Rate by a further 0.25% to 4.25%.

2.17 Japanese stocks enjoyed a successful Quarter with the Nikkei 225 Index advancing over 7% during the Quarter. For the fourth Quarter in a row Japanese inflation was above the Bank of Japan's 2% target with CPI Inflation exceeding 3% in each of January, February, and March 2023. The Bank of Japan continued to be the only major Central bank to retain negative interest rates with both the January and March 2023 Monetary Policy meetings determining to maintain short term interest rates at -0.1%. The + or minus 0.5% target range for the 10 Year Japanese Government Bond Yield was also maintained. With the Federal Reserve, ECB and Bank of England all having raised their benchmark interest rates to between 3% and 5% and all indicating further potential increases the monetary policy stance of the Bank of Japan has become ever more differentiated from that of the other major Central Banks. It must however be remembered that both in the short- and longer-term Japan has experienced clearly lower inflationary pressures than the US, Eurozone and United Kingdom which surely is the fundamental explanation of the continuing monetary policy approach of the Bank of Japan.

2.18 Both Asian (excluding Japan) and Emerging Market equities clearly advanced over the Quarter but less so than World equities as a whole. The MSCI Asia (ex-Japan) index and the MSCI Emerging Markets index both returned approximately 4% (in US$ terms). The ongoing reopening of China provided an early boost as 2023 began as did a weakening US dollar (US$). However, February was a particularly negative month in the context of US China tensions and a strengthening of the US dollar. March was however generally positive for Asian and Emerging Market Equities.

2.19 US, UK, and German Government bonds all enjoyed a positive Quarter with Yields falling and consequently prices rising across the benchmark 2, 10 and also the 30 Year instruments. The Yield on the 2 Year Treasury fell from 4.43% to 4.03% and the 10 Year Treasury Yield fell from 3.87% to 3.47%. The 2 Year (UK) Gilt Yield fell from 3.58% to 3.44% and the 10 Year Gilt Yield from 3.67% to 3.49%. The German 2 Year Bund Yield fell from 2.76% to 2.68% and the 10 Year Yield fell from 2.57% to 2.29%.

2.20 The Quarter was however volatile for the major Government bond markets. Yields fell in January (with some initial market optimism regarding inflation falling and hopes that the major Central Banks might slow/soon end their monetary policy tightening) but then rose significantly in February in the context of renewed market concerns regarding inflation and the likely future course of the monetary policy approach of both the US Federal Reserve and ECB. The turmoil in the US banking sector during March was surely a factor in the significant fall in Yields experienced during March as this (naturally) led to questions over whether this might mitigate the approach of the major Central Banks to further interest rate rises.

3. Overall Fund Performance

3.1 The Fund's closed Q1 valued at £1,313.84m, an increase of £12.7m from its value of £1,301.13m at 31 December 2022. Cash held by the Fund was £21.4m giving a total Fund value of £1,335.23. The gross value includes a short-term loan of £19.0m. Adjusting for this reduces the Q1 value to £1,316.23m, an increase of £38.5m from the 31 December 2022 figure of £1,277.7m.

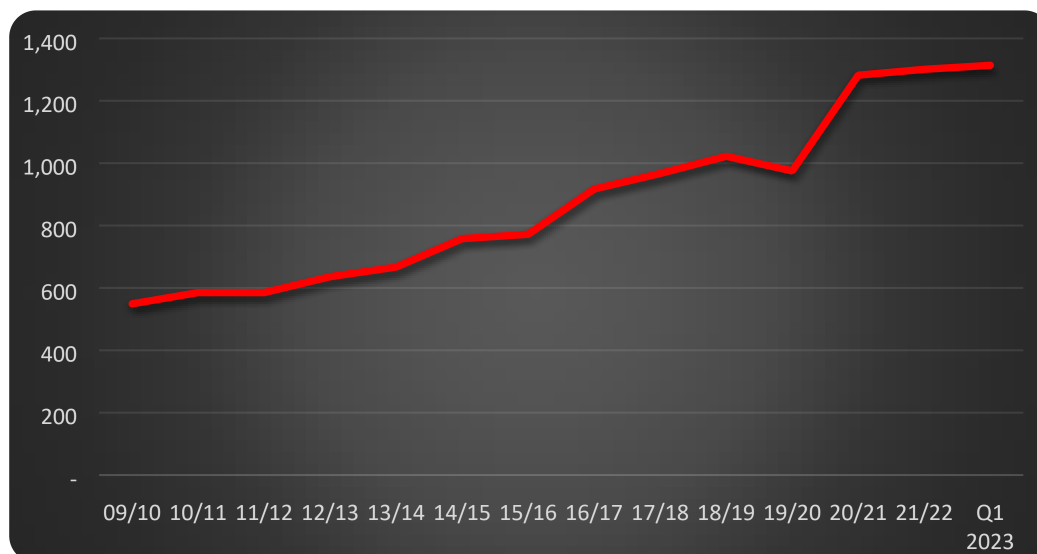
3.2 For Q1 the Fund returned 3.1%, net of fees, underperforming its benchmark of 3.5% by 0.4%. Over one year the Fund underperformed its benchmark by 2.7%, returning -1.5% and underperformed the benchmark by 0.4% over three years, returning 10.2%. The Fund has also underperformed its benchmark over five years by 1.8%, returning 6.0%. Compared to the LGPS universe of Funds, represented below by the PIRC Universe, the Fund has outperformed by 1.8% over one year and underperformed over two years by 1.7%. The Fund's returns are below:

Table1:

Fund's Quarterly and Yearly Returns

Year	2023	2022				2021			One	Two	Three	Five	Ten
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Yr	Yrs	Yrs	Yrs	Yrs
Actual Return	3.1	2.9	(1.2)	(6.3)	(2.8)	2.6	1.1	4.2	(1.5)	1.8	10.2	6.0	7.2
Benchmark	3.5	1.6	0.1	(4.0)	(0.6)	4.8	1.7	4.6	1.2	5.8	10.6	7.8	8.2
Difference to Benchmark	(0.4)	1.3	(1.3)	(2.3)	(2.2)	(2.2)	(0.6)	(0.4)	(2.7)	(4.0)	(0.4)	(1.8)	(1.0)
PIRC Universe	2.9	1.0	(0.3)	(4.8)	(3.2)	4.4	1.4	5.6	(3.3)	3.5	8.9	5.6	7.2
Difference to PIRC	0.2	1.9	(0.9)	(1.5)	0.4	(1.8)	(0.3)	(1.4)	1.8	(1.7)	1.3	0.4	(0.0)

3.3 The chart below shows the Fund's value since 31 March 2010 to 31 March 2023.



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
Δ	**A**MBER- Fund underperformed by less than 3% against the benchmark
O	**G**REEN- 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 27 April 2023. Members are asked to note the changes in value and the movements in the Fund's funding level.

3.6 There has been a change in the liability levels, resulting from significant increases in yields. As a result, the Fund's funding level has fluctuated between 106% and 111% over the quarter.

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 Q1 2023 Performance**

Fund Manager	**Actual Returns (%)**	**Benchmark Returns (%)**	**Variance (%)**	**Ranking**
Abrdn	3.7	2.4	1.3	O
Baillie Gifford	4.6	4.5	0.1	O
BlackRock	0.0	(0.2)	0.2	O
Hermes GPE	(0.1)	1.5	(1.5)	Δ
Kempen	1.7	4.8	(3.1)	
Newton	(1.3)	1.7	(3.0)	
Pyrford	1.4	3.1	(1.7)	Δ
Insight	2.8	1.0	1.8	O
UBS Bonds	2.1	2.1	0.0	O
UBS Equities	6.7	6.7	0.0	O

Table 2 highlights the Q1 2023 returns with a number of greens, indicating a number of positive returns. There was a good positive return from UBS Equities but a loss from Newton. UBS Equities returned 6.7% in line with the benchmark. Newton's performance was negative returning -1.3% over the quarter underperforming its benchmark by 3.0%. This investment is meant to provide protection in the current market conditions. Passive bonds and Insight provided a positive return for the quarter, reflecting the index linked bond performance for the quarter.

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

Fund Manager	**Actual Returns (%)**	**Benchmark Returns (%)**	**Variance (%)**	**Ranking**
Abrdn	(1.4)	8.0	(9.4)	
Baillie Gifford	(5.3)	(0.4)	(4.9)	
BlackRock	(15.9)	(14.4)	(1.5)	
Hermes GPE	10.3	5.8	4.5	O
Kempen	7.0	(0.4)	7.4	O
Newton	(3.9)	5.2	(9.1)	
Pyrford	1.5	17.4	(15.9)	
Insight	3.4	4.0	(0.6)	
UBS Bonds	(16.5)	(16.5)	0.0	O
UBS Equities	(3.5)	(3.5)	0.0	O

Over one-year there are even greater variations between managers, with Blackrock providing a negative return of 15.9% and underperforming its benchmark by 1.5%, while Hermes provided a positive return of 10.3%. 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	6.6	6.3	0.3	O
Baillie Gifford	(5.5)	6.1	(11.6)	
BlackRock	2.4	3.5	(1.1)	∆
Hermes GPE	10.5	5.8	4.7	O
Kempen	7.9	7.3	0.7	O
Newton	(1.1)	4.5	(5.7)	
Pyrford	2.8	15.3	(12.5)	
Schroders	2.0	1.9	0.1	O
Insight	0.2	4.0	(3.8)	
UBS Bonds	(10.7)	(10.7)	0.0	O
UBS Equities	4.2	4.2	0.0	O

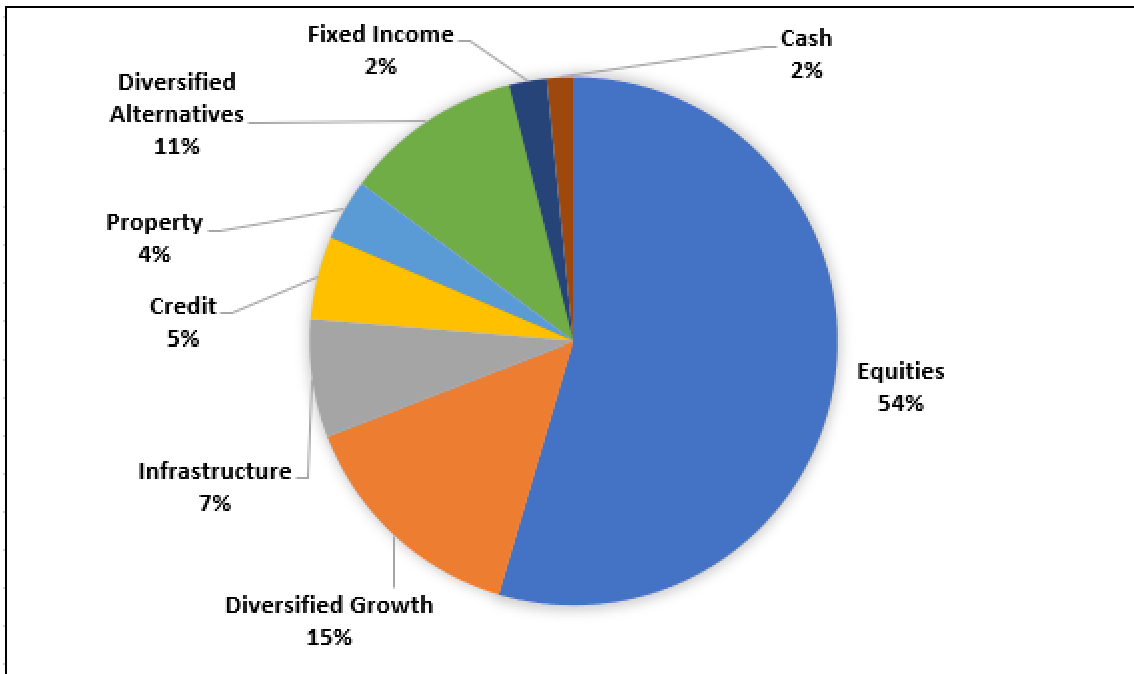
Over two years, returns ranged from (-10.7%) for UBS bonds to 10.5% for Hermes Infrastructure. Kempen and Abrdn have provided solid returns, with Kempen providing a return of 7.9% and Abrdn providing 6.6% over two years.

4. Asset Allocations and Benchmark: Table 5 outlines the Fund's asset allocation, asset value & benchmark at 31 March 2023.

4.1 **Table 5: Fund Asset Allocation and Benchmarks at 31 March 2023**

Fund Manager	Asset (%)	Market Values (£Ms)	Benchmark
Aberdeen Standard	10.9%	145.94	3 Mth LIBOR + 4% per annum
Baillie Gifford	18.6%	247.85	MSCI AC World Index
BlackRock	3.8%	50.31	AREF/ IPD All Balanced
Hermes GPE	7.2%	95.79	Target yield 5.9% per annum
Kempen	16.4%	218.69	MSCI World NDR Index
Newton	5.9%	78.62	One-month LIBOR +4% per annum
Pyrford	8.7%	115.97	UK RPI +5% per annum
Schroders	0.0%	-	AREF/ IPD All Balanced
Mellon Corporation	5.1%	67.85	3 Mth LIBOR + 4% per annum
UBS Bonds	2.3%	30.82	FTSE UK Gilts All Stocks
UBS Equities	19.6%	261.85	FTSE AW Developed Tracker
LCIV	0.0%	0.15	None
Cash	1.6%	21.40	One-month LIBOR
Fund Value	100.0%	1,335.23	
ST Loan		(19.00)	
Prepayment		-	
Net Fund Value		**1,316.23**	

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 54.6%. 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	54.6%	52%	2.6%	50-60
Diversified Growth	14.6%	15%	-0.4%	14-18
Infrastructure	7.2%	8%	-0.8%	7-11
Credit	5.1%	8%	-2.9%	6-10
Property	3.8%	5%	-1.2%	4-7
Diversified Alternatives	10.9%	9%	1.9%	7-10
Fixed Income	2.3%	3%	-0.7%	3-5
Cash	1.6%	0%	1.6%	0-1

5. Fund Manager Performance

5.1 Kempen

Kempen	2023	2022				2021			One Year	Two Years	Since Start 6/2/13
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£218.69m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.7	10.0	(1.6)	(3.1)	0.1	2.9	3.0	2.9	7.0	7.9	8.3
Benchmark	4.8	1.9	2.1	(9.1)	(2.4)	7.3	2.5	7.6	(0.4)	7.3	11.7
Difference	(3.1)	8.1	(3.7)	6.0	2.5	(4.4)	0.5	(4.7)	7.4	0.6	(3.4)

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 3.1% for Q1 and has outperformed over one-year by 7.4% and over two years by 0.6%. Kempen has underperformed its benchmark since inception by 3.4% but providing an annualised return of 8.3%. 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	2023	2022				2021			One Year	Two Years	Since Start 6/2/13
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£247.85m	%	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**4.6**	1.2	1.0	(12.1)	(12.4)	0.1	(0.6)	7.1	(5.3)	(5.5)	12.0
Benchmark	**4.5**	2.0	1.5	(8.4)	(2.5)	6.3	1.5	7.4	(0.4)	6.1	11.4
Difference	**0.1**	(0.8)	(0.5)	(3.7)	(9.9)	(6.2)	(2.1)	(0.3)	(4.9)	(11.6)	0.6

<u>Reason for appointment</u>

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.

<u>Performance Review</u>

For Q1 BG returned 4.6%, outperforming its benchmark by 0.1%. BG's one-year return was -5.3%, underperforming its benchmark by 4.9%. Since initial funding, the strategy has returned 11.0% p.a. outperforming its benchmark by 0.6%.

The Sub-fund was off to a good start this quarter posting strong returns in January as investors felt more confident over prospects for the global economy and the outlook for interest rates became more constructive. This rally, however, was short-lived as sentiment quickly turned negative following several high-profile failures in the banking market, starting with Silicon Valley Bank (SVB), and swiftly followed by New York-based Signature Bank (more on this below). This led to a much weaker February and March and an overall flat quarter in relative performance terms.

Signature Bank was a holding in the portfolio, albeit a small one, and an unfortunately timed purchase, having been added in February. The investment manager's investment case for Signature Bank was based on the potential growth of its loan book primarily by developing deep expertise in certain sectors or industries and using these relationships to gain market share. However, as fears mounted about the impact of rapidly rising interest rates on the liquidity profile of the banking sector, both the concentration of Signature Bank's customers and the on-demand nature of the deposit base became a source of vulnerability.

Although strictly speaking not as vulnerable to interest rate risk as banks are, the large wealth manager Charles Swab also proved exposed to the turbulence in the financial sector and was a significant detractor over the quarter. Despite recent weakness Baillie Gifford retains its conviction and weight in this holding. The top detractor over the quarter was Elevance Health, the U.S. health insurer. Despite recent weakness, this holding has proven to be a resilient franchise that held up well over periods of stress and generated substantial profits for the Sub-fund. Over the quarter the investment manager reduced the holding weight and used the proceeds to fund new ideas.

LCIV Summary

At the regional level, as of the end of March 2023, the Sub-fund's largest exposure remained North America at 60.8% followed by Europe ex UK at 17.5%. At the sector level, the largest exposure is the consumer discretionary sector with 20.7% followed by IT at 16.9% and financials at 16.8%.

The shape of the portfolio has shifted significantly over the last eighteen months. This is most evident in the Sub-fund's 'growth profiles' where the weight in 'Disrupters' (31%) continues to be at relatively low levels. More recently the balance of the investment manager's investment research has tilted towards the recycling of capital from the relatively highly valued 'Compounders' profile towards the other areas of the portfolio, reflected in reductions to Elevance, AJ Gallagher and Alphabet. Consequently, the weight in 'Compounders' (42%) was slightly down compared to last quarter while the weight in 'Capital Allocators' (26%) was up.

Other noticeable sells included exits from Twilio and Chegg. The investment manager's renewed focus on operating efficiency, long term profitability and sustainable cashflows was very much behind these decisions. For instance, the communications software business Twilio was sold in the quarter because despite the impressive headline growth the company failed to deliver operational efficiencies and reduce costs. The U.S. educational services company Chegg was sold due to concerns over long term profitability, triggered by an increase in competition and a slowdown in online traffic following the launch of ChatGPT and other AI-enabled tools.

In what proved to be yet another volatile quarter for the global equity markets, driven by macroeconomics and sentiment rather than fundamentals, the Sub-fund delivered returns moderately below the benchmark. This performance, while far from impressive, is nonetheless offering further reassurance that the performance pattern has stabilised. Importantly, it also offers practical evidence that the Sub-fund portfolio now consists of companies that are more able to withstand market volatility and offer a degree of downside protection.

The flip side of this portfolio repositioning is that compared to more 'aggressively' positioned strategies the Sub-fund lagged. Characteristically, the MSCI Growth Index, which at this point has a more aggressive growth orientation than the Sub-fund, delivered a return in Q1 which was more than double the return achieved by the Sub-fund. At this point of the cycle and while macroeconomics trump fundamentals LCIV are comfortable with how the Sub-fund is positioned even if that means upside participation may be somewhat mundane.

5.3 UBS Equities

UBS Equities	2023	2022				2021			One Year	Two Years	Since Start 31/08/12
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£261.85m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	6.7	5.8	(3.1)	(12.9)	(4.0)	7.6	0.9	7.5	(3.5)	4.2	12.1
Benchmark	6.7	5.8	(3.1)	(12.9)	(4.0)	7.6	0.9	7.5	(3.5)	4.2	12.2
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 6.7% for Q1 and -3.5% over one year. Since funding in August 2012, the strategy has provided an annualised return of 12.1%.

Equities

Stocks advanced in March, despite concerns over the health of the Banking sector. The MSCI All Country World index returned 3.1%, for a quarterly gain of 7.3%. The advance reflected optimism that regulators on both sides of the Atlantic had acted forcefully enough to prevent an economically damaging banking crisis. Meanwhile, the best-performing market in March was China, which returned 4.3% amid continued confidence over the economic outlook following the end of pandemic restrictions. The MSCI China index gained 5.1% in the first quarter. The MSCI EMU lagged in March, returning only 0.7%. But the index is still the best-performing market for the first quarter overall, gaining 12.2%. The worst performer on the month was the UK, with a loss of 2.7%

Equity markets gained in March and over the quarter, pointing to confidence that regulators had acted with sufficient speed and force to avert a full-blown banking crisis. Global stocks (MSCI All Country World index) delivered a total return of 3.1% on the month, for a gain of 7.3% in the quarter overall. The S&P 500 gained 3.7% in March, for a return of 7.5% on the quarter.

But confidence is fragile, market volatility is likely to stay high, and policymakers may have to go further to make sure faith in the global financial system stays solid. Financial conditions are also likely to tighten, which increases the risk of a hard landing for the economy, even if central banks ease off on interest rate hikes.

5.4 UBS Bonds

UBS Bonds	2023	2022				2021			One Year	Two Years	Since Start 5/7/2013
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£30.82m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	2.1	1.7	(12.9)	(7.4)	(7.2)	2.4	(1.8)	1.7	(16.5)	(10.7)	1.0
Benchmark	2.1	1.7	(12.9)	(7.4)	(7.2)	2.4	(1.8)	1.7	(16.5)	(10.7)	0.9
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 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 2.1% for Q1, -16.5% for one year and -10.7% for two-year return. Since inception the strategy has returned 1.0%.

Review

Market sentiment was undermined early in the month by the collapse of two mid-sized lenders in the US-Silicon Valley Bank and Signature Bank-forcing US regulators to take urgent action to shore up confidence. That was followed by news a week later that UBS would acquire Credit Suisse, in a move that Swiss regulator FINMA said would "ensure stability for the bank's customers and the financial center."

The concerns contributed to a sharp fall in government bond yields, with investors assuming that economic headwinds from the banking system would lead to an early end to central bank rate hikes. The yield on the 2-year US Treasury, which hit a peak of 5.06% prior to the turmoil in the Banking sector, ended the month at 4.03%. The yield on the 10-year US Treasury declined from a high of over 4% to 3.47% by the end of the month.

High-quality fixed income had a positive month, bolstered by growing confidence that central banks are nearing the end of the rate hiking cycle. The Bloomberg US Treasury Index returned 2.9% in March, for a quarterly gain of 3%. The Bloomberg Pan-European Aggregate gained 1.9% in March and over the quarter.

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 and distribution paid will be used to increase the Fund's cash balance.

5.7 BlackRock

BlackRock	2023	2022				2021			One Year	Two Years	Since Start 1/1/2013
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£50.31m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	0.0	(14.4)	(4.4)	2.9	6.8	6.7	4.3	2.9	(15.9)	2.4	0.8
Benchmark	(0.2)	(14.1)	(4.0)	3.9	5.6	7.5	4.5	3.8	(14.4)	3.5	3.6
Difference	0.2	(0.3)	(0.4)	(1.0)	1.2	(0.8)	(0.2)	(0.9)	(1.5)	(1.1)	(2.9)

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.

Q1 2023 Performance and Investment Update

BR returned nil for Q1 against a benchmark of -0.2%, returned -15.9% over one year against a benchmark of -14.4%. 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 first quarter of 2023 initially demonstrated a level of stability and economic tailwinds, however they fast became overshadowed by the fragility in the banking system as the impacts of a changing macro environment continued to play out for the real estate market.

Most notable is the under-utilisation of many non-core offices, which, combined with obsolesce and the expense required to improve the environmental emissions performance means liquidity across many office submarkets is likely to be low. The market spread will be wide here, and the manager sees leasing activity for the right product.

The general focus on office has to be put in context as it is a shrinking part of the market share. It comprises around 24% of the benchmark, and BUKPF remains underweight at c.20% of the portfolio, with over half exposed to Central London markets, a higher proportion than the benchmark. The structural drivers remain strong however for industrial (over 40% of the market) and alternative sectors (like healthcare and student housing) which are all much more liquid at this time.

Transactions: In Q1, the Fund completed the sale of Alpha Park, a fully let logistics park near Southampton, which extends to 148,331 sq. ft. across three units. The park was developed by the Fund and reached practical completion in 2017. The sale price reflected £26.1m / 5.0% NIY / £176 per sq. ft. Following the disposal of Alpha Park,

the Fund unconditionally exchanged the sale of Caledonian Exchange, Edinburgh, an office property extending to 59,755 sq. ft.

5.8 Hermes

Hermes	2023	2022				2021			One Year	Two Years	Since Start 9/11/2012
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£95.79m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(0.1)	0.8	10.5	(1.0)	10.5	(0.9)	2.2	(1.1)	10.3	10.5	8.3
Benchmark	1.5	1.4	1.4	1.4	1.5	1.4	1.4	1.4	5.8	5.8	5.9
Difference	(1.5)	(0.6)	9.1	(2.4)	9.0	(2.3)	0.8	(2.5)	4.5	4.7	2.4

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 -0.1% in Q1 underperforming the benchmark by 1.5%. Over one year the strategy reported a one-year return of 10.3%, outperforming its benchmark by 4.5%. Since inception the strategy has provided a good, annualised return of 8.3%, outperforming its benchmark by 2.4%.

Recessionary pressures and higher rates have weighed on demand in 2023, which has seen global freight flows soften, in particular. The HIF I Core portfolio has proved resilient, notably Associated British Ports ("ABP") is performing above EBITDA budget in the three months to 31 March, driven by its highly diversified revenues and strong inflation linkage despite softness in volumes. Strong leisure sector volumes have offset freight at Scandlines to perform at or around budget in 2023.

HIF I Net Asset Value ("NAV") was £1.22bn at 31 March 2023, a reduction of 1.4% from 31 December 2022, primarily resulting from marking the Innisfree funds to the transaction price (further information below), and the strengthening of Sterling against the Euro, which reduced NAV of the Euro-denominated assets. Ordinary course gross dividends from Cadent and ASG I and II totalling £8.1m were received by HIF I in the three months to 31 March 2023.

Project Orion

Project Orion aims to combine the Limited Partnership interests of HIF I and two single investor managed accounts into one single diversified Core/Core+ strategy. Orion provides an opportunity to simplify some of the historic administrative complexities of HIF I, whilst leveraging off the proven track record of its asset pool (and that of two HGPE managed accounts) in order to raise additional capital, to further diversify the fund and increase returns for investors.

How does Project Orion benefits HIF I Investors?

• Offers a more diversified portfolio in a simplified structure
• Limited Partners all invest into the same pool of assets (no sub-portfolios) in equal proportions (pro rata to their investment)
• Reduced overall fees with reduction in gross to net return spread, compared to HIF I for equivalent asset portfolio
• Performance Fees abolished
• Provides liquidity options for investors that are not currently available in HIF I
• Post completion liquidity option for HIF I LPs wishing to exit or reduce exposure
• Additional GP led liquidity process in 2030, subject to market conditions
• Individual secondary liquidity GP assistance on request during remaining term

The completion of Project Orion occurred on Friday 14 April 2023 and the London Borough of Barking and Dagenham Pension Fund has been admitted as a limited partner in Federated Hermes Diversified Infrastructure Fund LP (the "**Orion Partnership**"). The next steps will be confirmed in due course.

5.9 Abrdn Asset Management

Abrdn	2023	2022	2022			2021			One	Two	Since Start
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Year	Years	15/9/2014
145.94m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	3.7	(1.5)	(2.1)	(1.4)	3.7	1.6	4.9	4.4	(1.4)	6.6	7.0
Benchmark	2.4	2.1	1.8	1.6	1.6	1.0	1.0	1.0	8.0	6.3	5.0
Difference	1.3	(3.6)	(4.0)	(3.0)	2.1	0.6	3.9	3.4	(9.4)	0.3	2.0

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 £140.8m, which is 10.8% 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 gained 3.7% (net of fees) over the three months to the end of March. This was due to a combination of higher December 31 valuations across some of the more seasoned private equity investments and SOF IV, the secondaries fund, plus an uplift from revaluing the investment in Horizon Capital Growth Fund II in-line with

the manager's valuation. Over one year the return of -1.4% underperforms the benchmark return of 8.0% by 9.4%. Since inception the strategy has returned 7.0%, outperforming the benchmark by 2.0%.

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.

<u>Outlook</u>

The manager sees a broad opportunity set for discretionary macro managers, which in the near term will continue to be driven by elevated inflation and tight monetary policy. Macro managers remain closely aligned in their views on the path of interest rates, yet the destination and timing differ. Rates-focused managers continue to see pockets of value trading G3 rates as well as emerging markets, where some central banks have already started cutting, potentially starting a new multi-year trading opportunity. Although some managers believe the currency markets offer muted directional opportunities, largely because the US dollar has already peaked in the current cycle, other FX specialists remain active in the space, especially around the Euro, Japanese Yen, Chinese Renminbi, and the broader emerging markets complex.

The outlook for fixed income relative value strategies remains positive. The manager continues to see dispersion across fixed income instruments in developed markets, with G7 central banks having notably tightened monetary policy, persistent uncertainty on inflation and economic growth (and thus the future course of monetary policy), reduced liquidity and dealers' ability to warehouse risk, as well as on-going geopolitical tensions. Consistent with history, higher levels of interest rates and increased volatility in fixed income assets have translated into an improved opportunity set for relative value managers not only in cash vs. futures basis trading, but in other strategies such as asset swap spreads, yield curve arbitrage (cash bonds vs. cash bonds), macro, inflation, and cross-currency basis trading. Although fixed income volatility has slightly moderated from 2022 levels, it remains high; the manager sees volatility stabilizing at a higher, but not extreme, level as a positive as it will hopefully allow managers as a group to capture more of the increased opportunity set than they did in 2022, when dispersion among managers was higher than usual. Higher front-end interest rates in G7 countries are also a notable tailwind for these managers given the high levels of unencumbered assets and cash they typically run with; cash management has become a positive line item in performance attribution again.

5.10 Pyrford

Pyrford	2023	2022				2021			One Year	Two Years	Since Start 28/9/2012
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
115.97m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.4	3.2	(2.4)	(0.8)	1.5	1.3	0.3	1.1	1.5	2.8	3.3
Benchmark	3.1	4.7	3.3	6.3	3.1	4.0	2.7	3.6	17.4	15.3	8.6
Difference	(1.7)	(1.5)	(5.7)	(7.1)	(1.6)	(2.7)	(2.4)	(2.5)	(15.9)	(12.5)	(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

Equities were the biggest source of profits in Q1 (+1%gross of fees). UK stocks account for 35% of the equity portfolio and contributed about 1/3 of the gains in absolute terms. Both UK and overseas stocks underperformed the FTSE All Share and FTSE All World ex-UK Indices respectively. The Sub-fund equity portfolio shows a clear tilt to value characteristics and a preference for companies which are expected to deliver stable earnings and cash flows. This style of investing underperformed in the first quarter.

The strongest performers in the equity portfolio in Q1 included Telenor (1% of Sub-fund), a Norwegian company which is expected to benefit from opportunities to consolidate telecommunications networks in the Asia Pacific region, and ASM Pacific Technology (0.4%), a beneficiary of capital spending in the semiconductor industry. ASM Pacific was added to the Sub-fund in Q4 2022.

Conversely, Computershare (0.5%), an Australian supplier of share registry and employee share plan services, performed poorly. This is because the company's earnings are sensitive to changes in interest rates. Bonds made a small positive contribution (+0.25%), but the UK and overseas segments also lagged comparator indices because the duration of the portfolio is lower.

The Sub-fund is built around four pillars: sovereign bonds, equities, currencies and cash. The key drivers of returns are allocations across the pillars, duration management and sovereign bond selection, as well as country and stock selection decisions within the equity segment. The asset allocation process is slow moving. Derivatives are used only to manage currency risk.

The only change to target allocations in Q1 was a 5% reduction in equities to 35% and a 5% increase in bonds to 62%. This was implemented at the end of January, after a period of strong performance for stocks. The trigger for this move was a decline in the forecast five-year real rate of return after the dividend yield on UK equities dropped below 3.5%.

5.11 Newton

Newton	2023	2022				2021			One	Two	Since Start
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Year	Years	31/8/2012
78.62m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(1.3)	3.7	(4.3)	(2.1)	(4.4)	3.7	(0.1)	2.4	(3.9)	(1.1)	3.3
Benchmark	1.7	1.4	1.1	0.9	0.8	1.0	1.0	1.0	5.2	4.5	4.5
Difference	(3.0)	2.3	(5.4)	(3.0)	(5.2)	2.7	(1.1)	1.4	(9.1)	(5.6)	(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 -1.3% in Q1, underperforming its benchmark by 3.0%. Over one year the strategy has returned -3.9%, underperforming its benchmark by 9.1%, although the return over two years is -1.1% against a benchmark of 4.5%. Newton's performance since inception is 3.3% per annum.

The main driver of underperformance over the quarter was equity hedging which forms a significant part of the portfolio's 'Stabilising' layer. The equity hedging basket was meant to play a defensive role, aiming to protect the Subfund from further drawdowns in equity markets. Within that basket the investment manager held short positions in the S&P 500, Nasdaq 100, Eurostoxx and DAX indices. These positions are implemented via futures contracts linked to the performance of the underlying indices. As these indices, and particularly NASDAQ performed strongly over the quarter, the equity hedging basket delivered a negative return of approximately -3.7%.

The other large negative contributor was the corporate bonds exposure which is held in the 'Return Seeking' segment of the portfolio. This exposure returned -0.5% in Q1 mainly due to knock on effects from the Credit Suisse forced merger with UBS. The manager held a large proportion of the corporate bonds basket in a form of contingent convertible bonds known as 'Additional Tier 1' or 'AT1'. These instruments are among the riskiest types of bond a bank can issue and are designed to act as shock absorbers if a bank's capital levels fall below a certain threshold.

Coming into Q1 the Sub-fund maintained a 'de-risking' positioning stance evident in the roughly 50/50 split in the allocation between the 'Stabilising' and 'Return seeking layers. The net exposure to risky asset classes such as equities was very low at 10.5%. Notwithstanding the investment manager's outlook, the picture at the end of Q1 is different, with the split between the 'Stabilising' and 'Return Seeking' layers now closer to the long-term average at 42%/58%. Net equity exposure has now increased to 19.2% purely as a result of the unwinding of short positions. Exposure to government bonds has decreased from ~25% in Q4 to ~15.7% at the end of Q4

and duration decreased to 1.7 years (from 2.4 years last quarter) indicating that the investment manager is trimming interest rate risk.

5.12 Insight (Mellon Corporation / Standish)

Insight	2023	2022				2021			One Year	Two Years	Since Start 20/8/2013
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£67.85m	%	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**2.8**	5.7	(1.3)	(3.8)	(2.6)	(0.7)	0.0	0.2	3.4	0.2	0.9
Benchmark	**1.0**	1.0	1.0	1.0	1.0	1.0	1.0	1.0	4.0	4.0	4.9
Difference	**1.8**	4.7	(2.3)	(4.8)	(3.6)	(1.7)	(1.0)	(0.8)	(0.6)	(3.8)	(4.0)

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

Q1 saw the BNY Mellon Targeted Return Bond Fund outperform its reference benchmark by 1.8%, providing a positive return of 2.8%. Over one year the strategy has returned 3.4% and over two years it has returned 0.2%, with a return of 0.9% since inception.

The portfolio outperformed the benchmark in Q1 2023. Overweight duration positioning in developed markets drove most of the outperformance with the US being the strongest positive contributor. Away from the US, underweights in Japan and Canada detracted slightly from performance but were offset by gains in Europe and UK rates. EM local duration overweight in Korea, South Africa and Mexico also contributed positively.

Currency positioning was a small detractor to performance with positive attribution from overweights in the Mexican Peso and the Euro offset by losses on overweight in the Canadian Dollar, Swiss Franc and Korean Won.

The portfolio was overweight to credit markets in the quarter which also contributed positively in aggregate. The portfolio experienced strong gains from positions in Index CDS, Consumer Cyclicals, Banking and Basic Industries. Overweights in REITS and Financials detracted in the quarter.

5.13 Currency Hedging

No new currency hedging positions were placed in Q1 2023.

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 Q1 2023 Report; and
- Fund Manager Q1 2023 Reports.

List of appendices:

Appendix 1 - Fund Asset and Liability Values 31 March 2013 to 27 April 2023
Appendix 2 - Definitions
Appendix 3 - Roles and Responsibilities