PENSIONS COMMITTEE

15 March 2023

Title: Pension Fund Quarterly Monitoring 2022/23 – 1 October to 31 December 2022	
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, Acting Chief Executive	

Summary

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

1. Introduction and Background

1.1 This report provides information for employers, members of the LBBD Pension Fund ("the Fund") and other interested parties on how the Fund has performed during the quarter 1 October to 31 December 2022 ("Q4"). The report updates the Committee on the Fund's investment strategy and performance. Appendix 2 provides a definition of terms used in this report. Appendix 3 sets out roles and responsibilities of the parties referred to in this report. A verbal update on the unaudited performance of the Fund for the period to 14 March 2023 will be provided to Members at the Pension Committee.

2. Market Background (Q4 2022)

2.1 In contrast to the previous three Quarters October to December 2022 was positive for World Equity markets. The October to December Quarter saw the MSCI World Index advance by almost 10% (in $ terms) with all major geographies seeing positive returns. However, these gains were far lower than the previous cumulative losses of 2022 which saw the MSCI World Index decline by over 25% between January and September.

2.2 October and November were both clearly positive months for Global Equities with markets generally buoyed by indications that inflation though still high was on a path to slowing and indications that the US Federal Reserve would mitigate its monetary policy tightening stance. Additionally there were generally strong corporate earnings announcements in both the US and Japan. In October the reversal by the UK Chancellor Rt Hon Jeremy Hunt MP of the vast majority of the fiscal (tax) reforms announced (in September) by his predecessor Rt Hon Kwasi Kwarteng MP buoyed not only UK but US and World stock markets. In November a positive meeting between President Joe Biden of the US and President Xi Jinping of China and expectations of the easing of COVID restrictions by China also boosted markets. Buyers purchasing equities at what they considered a discount after the significant falls earlier in 2022 could also have been a factor pushing markets upwards. The MSCI World Index advanced (in $ terms) by 7% in both October and November. December however was a negative month with the MSCI World Index falling by 4%. Statements by both US Federal Reserve and European Central Bank regarding further interest rate rises unsettled markets. This was despite the US Federal Reserve increasing interest rates by 0.5% at its December 2022 Federal Open Markets Committee meeting rather than 0.75% as at each of the four previous meetings including the 1-2 November 2022 meeting.

2.3 Since March 2022 the US Federal Reserve has applied ongoing and significant increases in interest rates in order to seek to reduce inflation. US inflation remained clearly elevated but fell during the October to December Quarter. Headline CPI which had been 8.2% in September fell to 7.7% in October, 7.1% in November and 6.5% in December. Despite declining from 5.2% in September to 5.1% in October, 4.8% in November and 4.6% in December 2022 the Core PCE Index which is closely observed by the Federal Reserve when determining monetary policy remained well above its target of 2% inflation. One reason for the continuing strength of inflation in the US is the very low unemployment rate which was only 3.5% by December 2022.

2.4 The US S&P 500 index increased by over 7% during the October to December Quarter. Both October and November were positive, but December was negative. In October, better than expected overall corporate earnings announcements, particularly from Banks (Bank of America and Goldman Sachs) and Apple boosted markets. A slowing of inflation (relating to October but reported in November) and statements from senior Federal Reserve Officials supportive of a slower pace of future rate rises also boosted stocks in November.

2.5 December however proved a difficult month. Despite the US Federal Reserve slowing the pace of interest rate rises at its December meeting markets were upset by statements from several senior Federal Reserve officials regarding the (greater than

anticipated) extent of likely future rate rises. The US market was also adversely affected in December by some weak corporate earnings data, and also by negative announcements from Tesla.

2.6 Eurozone Equities experienced a clearly positive Quarter with the MSCI EMU index advancing almost 13% (in Euro terms). As with world markets in general October and November were positive while December proved to be negative. Over the Quarter mild weather and lower gas prices were helpful to both the economy and equity markets.

2.7 On 27 October 2022 the European Central Bank (ECB) raised interest rates by 0.75% stating in its press release that "With this third major policy rate increase in a row, the Governing Council has made substantial progress in withdrawing monetary policy accommodation. The Governing Council took today's decision, and expects to raise interest rates further, to ensure the timely return of inflation to its 2% medium-term inflation target. The Governing Council will base the future policy rate path on the evolving outlook for inflation and the economy, following its meeting-by-meeting approach." At the meeting that concluded on 15 December 2022 the Governing Council of the ECB raised interest rates by a further 0.5%. However, this reduction in the pace of rate rises was accompanied by a clear message regarding likely significant future rate rises which undermined European Equity markets. In her press conference statement following the conclusion of the December Governing Council meeting ECB President Christine Lagarde stated "…We decided to raise interest rates today, and expect to raise them significantly further, because inflation remains far too high and is projected to stay above our target for too long…"

2.8 Eurozone inflation as measured by the Harmonised Index of Consumer Prices (HICP) remained way above the ECB medium-term inflation target of 2%. It had been 7.4% in March 2022 and by September reached 9.9%. In October it was 10.6% and in November 10.1% (which was the latest data available to the ECB at its December Monetary Policy meeting). In December 2022 it was 9.2%.

2.9 UK Equities also enjoyed a clearly positive Quarter with both the FTSE All Share and the FTSE 100 increasing by approaching 9% (in £ terms). The more domestically focussed FTSE 250 which had experienced a torrid previous 9 months increased by approaching 11%. The recovery in UK Equities and particularly in those whose primary market is the UK was doubtlessly aided by the the reversal in October of most of the changes to fiscal policy (including significant unfunded tax cuts) announced by the Government on 23 September 2022 and also by the replacement, on 25 October 2022, of Rt Hon Elizabeth Truss MP as Prime Minister by Rt Hon Rishi Sunak MP.

2.10 During the October to December Quarter CPI inflation remained far above the Bank of England policy target of 2%. 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 saw a rate of 10.7% and December 10.5%. Core CPI Inflation (which excludes volatile food, energy, alcohol, and tobacco prices) also remained high. It had been 6.5% in September and by December was still 6.3%. Ongoing high inflation remained a major issue for low-income families who are particularly affected by high energy and high food costs. Unemployment remained very low with the Office for National Statistics reporting a rate of 3.7% for the October to December period.

2.11 At its meeting ending on 2 November 2022 the Bank of England Monetary Policy

Committee (MPC) raised Bank Rate (interest rates) by 0.75% the largest increase at a single meeting for 30 years. The increase took Base Rate to 3% its highest level since 2008. In justification of the 0.75% increase the Minutes of the MPC (paragraph 49) stated "…Overall, a larger increase in Bank Rate at this meeting would help to bring inflation back to the 2% target sustainably in the medium term, and to reduce the risks of a more extended and costly tightening later." At the MPC meeting ending on 14 December meeting bank Rate was increased by a further 0.5% to 3.5%. The minutes of the meeting (paragraph 48) included the statement "…The labour market remained tight and there had been evidence of inflationary pressures in domestic prices and wages that could indicate greater persistence and thus justified a further forceful monetary policy response… A 0.5 percentage point increase in Bank Rate at this meeting would help to bring inflation back to the 2% target sustainably in the medium term, and to reduce the risks of a more extended and costly tightening later."

2.12 For the third Quarter in a row Japanese inflation was above the Bank of Japan's 2% target. In December 2022 core inflation reached 4% a 41 year high. Japanese Equities (as measured by the Nikkei 225 Index) clearly underperformed other major markets advancing by less than 1% over the Quarter (in Yen terms). In October the Nikkei advanced by over 6% in part as a result of positive corporate earnings results. November saw a further advance of over 1% before a fall of 7% during December. The announcement by the Bank of Japan of a widening of its Yield Control policy on 20 December 2022 was followed by a clear weakening in Japanese equities with the Nikkei 225 losing over 4% between the close of trading on 19 December and the year end.

2.13 At its October and December 2022 Monetary Policy meetings the Bank of Japan maintained its position as the only notable Central Bank to retain negative/zero interest rates announcing a continuation of short-term interest rates at -0.1% and the long-term rate at around 0% (linked to the 10 Year Japanese Government Bond yield). At its December Monetary Policy meeting, however, the Bank surprised (or perhaps shocked) markets when it also announced a major and unanticipated shift in the conduct of its Yield Control policy that "…the Bank will expand the range of 10-year JGB yield fluctuations from the target level: from between around plus and minus 0.25 percentage points to between around plus and minus 0.5 percentage points" (Bank of Japan Statement on Monetary Policy, 20 December 2022). Yield Control is whereby a Central Bank targets a longer-term interest rate and then buys/sells bonds to maintain that target rate. The Governor of the Bank of Japan Haruhiko Kuroda denied that this clear change to Yield Control policy amounted to a tightening of monetary policy but rather stated it was to address increased market volatility and to improve the sustainability of monetary easing. While this change in the conduct of Yield Control policy resulted in an immediate strengthening of the Yen v the US $ it does not fundamentally address the differences in Japanese Monetary Policy (ultra-loose) compared to that of the other major Central Banks which have significantly tightened monetary policy and have indicated further likely tightening. In such a situation the Yen remained/remains vulnerable to sell-offs.

2.14 Overall Asian (excluding Japan) and Emerging Market Equities enjoyed a clearly positive Quarter. The MSCI Asia (ex-Japan) Index advanced by over 11% (in US$ terms) and the MSCI Emerging Markets Index advanced by approaching 10%.

2.15 In contrast to western Developed markets Asian (ex-Japan) and Emerging markets experienced a generally negative October. Chinese COVID restrictions and concerns over the future political direction of China following the 20th Communist Party Congress were

clear negatives. November 2022 was, however, an outstandingly positive month for Asian/Emerging markets. Chinese and Asian/Emerging Markets were boosted from November by expectations of the loosening of COVID restrictions in China resulting from both signals from the Chinese authorities and significant public protests against lockdowns. The favourable meeting in Indonesia on 14 November 2022 between US President Joe Biden and Chinese President Xi Jinping also buoyed markets. December was a (moderately) negative month for Asian and Emerging markets which as with Global markets generally reacted adversely to concerns that the US Federal Reserve might raise interest rates higher and for longer than had been expected.

2.16 US and German Government bonds experienced yet another negative Quarter with yields rising (and prices therefore falling). The yield on the 2 Year Treasury increased from 4.28% to 4.43% and the 10 Year Treasury yield increased (marginally) from 3.83% to 3.87%. The German 2-year Bund yield increased from 1.76% to 2.76% while the yield on the 10-year Bund increased from 2.11% to 2.57%. Overall, adverse announcements regarding inflation and expectations regarding future interest rate rises by both the US Federal Reserve and European Central Bank weighed against these benchmark Government bonds.

2.17 In contrast to the previous torrid Quarter and despite further interest rate rises by the Bank of England at both its November and December 2022 Monetary Policy Committee meetings UK Gilts enjoyed a positive Quarter in the context of the Government reversing most of the unfunded tax cuts announced on 23 September 2023 (which had resulted in a crisis in Gilt markets) and the replacement of Rt Hon Elizabeth Truss MP as Prime Minister by Rt Hon Rishi Sunak MP. The yield on the 2 Year Treasury fell from 4.23% to 3.58% and the 10 Year yield from 4.09% to 3.67%.

3. Overall Fund Performance

3.1 The Fund's closed Q4 valued at £1,301.1m, an increase of £25.9m from its value of £1,275.2m at 30 September 2022. Cash held by the Fund was £1.57m giving a total Fund value of £1,302.7m. The gross value includes a prepayment of £25.0m, with the short-term loan from the Council now repaid. Adjusting for this reduces the Q4 value to £1,277.7m, an increase of £31.4m from the 30 September 2022 figure of £1,246.3m.

3.2 For Q4 the Fund returned 2.9%, net of fees, outperforming its benchmark of 1.6% by 1.3%. Over one year the Fund underperformed its benchmark by 4.4%, returning -7.4% and underperformed the benchmark by 1.7% over three years, returning 4.8%. The Fund has also underperformed its benchmark over five years by 1.8%, returning 5.0%. Compared to the LGPS universe of Funds, represented below by the PIRC Universe, the Fund has underperformed by 1.3% 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

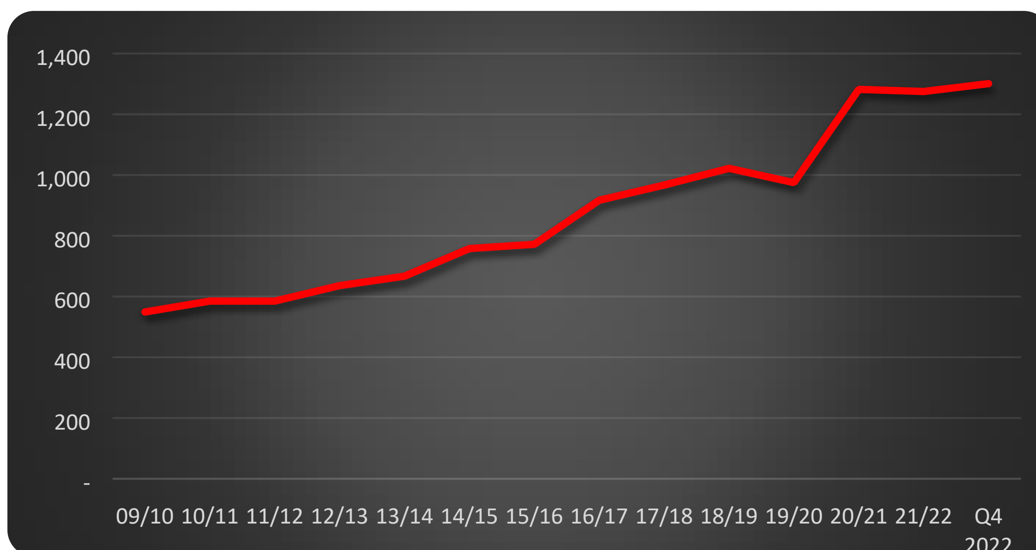
Year	2022				2021				One Yr	Two Yrs	Three Yrs	Five Yrs	Ten Yrs
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1					
Actual Return	2.9	(1.2)	(6.3)	(2.8)	2.6	1.1	4.2	3.6	(7.4)	2.1	4.8	5.0	7.8
Benchmark	1.6	0.1	(4.0)	(0.6)	4.8	1.7	4.6	2.5	(2.9)	5.3	6.5	6.8	8.6
Difference	1.3	(1.3)	(2.3)	(2.2)	(2.2)	(0.6)	(0.4)	1.1	(4.4)	(3.3)	(1.7)	(1.8)	(0.9)
PIRC Universe	1.0	(0.3)	(4.8)	(3.2)	4.4	1.4	5.6	2.4	(6.1)	3.3	4.3	4.8	8.0
Difference	1.9	(0.9)	(1.5)	0.4	(1.8)	(0.3)	(1.4)	1.2	(1.3)	(1.2)	0.5	0.2	(0.2)

3.3 The chart below shows the Fund's value since 31 March 2010 to 31 December 202

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 31 January 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 103% and 110% over the quarter and between 108% and 113% based on the Hymans Robertson model. 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.

3.7 **Table 2 – Fund Manager Q4 2022 Performance**

Fund Manager	**Actual**	**Benchmark**	**Variance**	**Ranking**
	Returns (%)	**Returns (%)**	**(%)**	
Abrdn	(1.5)	2.1	(3.6)	
Baillie Gifford	1.2	2.0	(0.8)	Δ
BlackRock	(14.4)	(14.1)	(0.3)	Δ
Hermes GPE	0.8	1.4	(0.6)	Δ
Kempen	10.0	1.9	8.1	**O**
Newton	3.7	1.4	2.3	**O**
Pyrford	3.2	4.7	(1.5)	Δ
Insight	5.7	1.0	4.7	**O**
UBS Bonds	1.7	1.7	0.0	**O**
UBS Equities	5.8	5.8	0.0	**O**

3.8 Table 2 highlights the Q4 2022 returns with a number of greens, indicating a number of positive returns. There was a good positive return from Kempen but a large loss from Abrdn. Kempen returned 10% outperforming its benchmark by 8.1%. Newton's performance was good outperforming its benchmark by 2.3% and provided protection in the current market conditions. Passive bonds also 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)	7.1	(8.5)	
Baillie Gifford	(22.3)	(7.5)	(14.8)	
BlackRock	(9.2)	(8.6)	(0.6)	
Hermes GPE	20.9	5.8	15.1	O
Kempen	5.4	(7.6)	13.0	O
Newton	(7.0)	4.3	(11.3)	
Pyrford	1.6	17.3	(15.7)	
Insight	(2.0)	4.0	(6.0)	
UBS Bonds	(25.8)	(25.7)	(0.1)	
UBS Equities	(14.2)	(14.2)	0.0	O

Over one-year there are even greater variations between managers, with Baillie Gifford providing a negative return of 22.3% and underperforming its benchmark by 14.8%, while Hermes provided a positive return of 20.9%. 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 Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
Abrdn	8.5	5.6	2.9	O
Baillie Gifford	(6.7)	5.7	(12.4)	
BlackRock	3.4	4.7	(1.3)	Δ
Hermes GPE	10.8	5.8	5.0	O
Kempen	12.2	6.8	5.4	O
Newton	0.1	4.2	(4.1)	
Pyrford	2.6	14.7	(12.1)	
Schroders	3.4	3.0	0.4	O
Insight	(1.3)	4.0	(5.3)	
UBS Bonds	(15.4)	(15.4)	0.0	O
UBS Equities	3.7	3.7	0.0	O

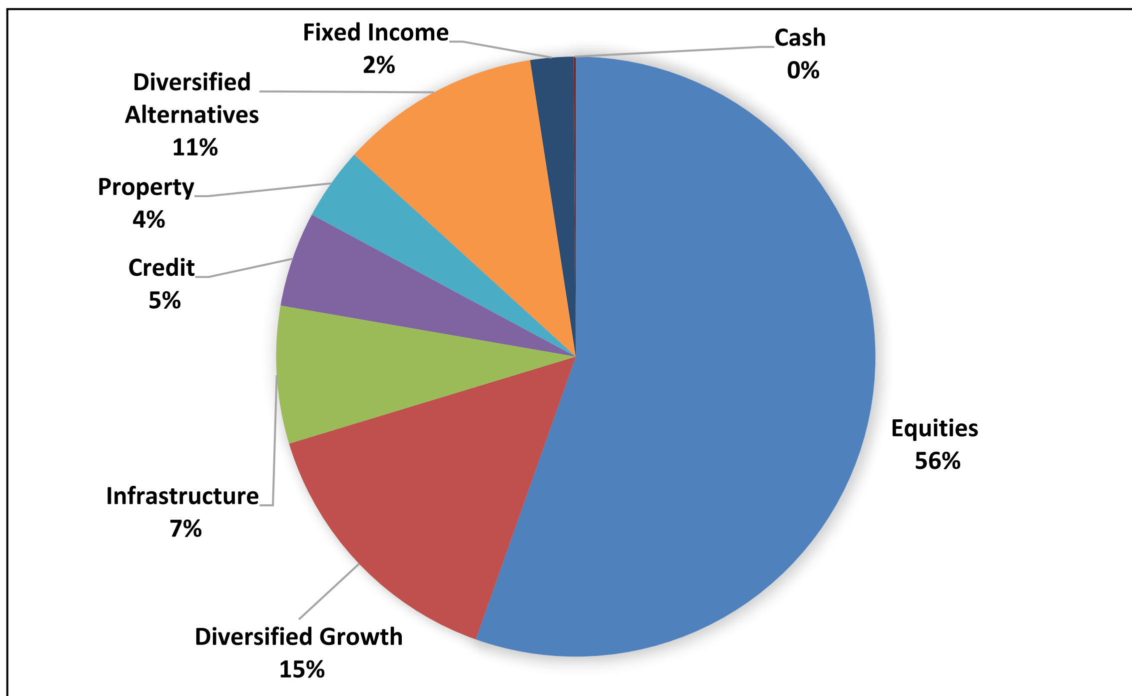
Over two years, returns ranged from (-15.4%) for UBS bonds to 12.2% for value equities (Kempen). Hermes and Abrdn have provided solid returns, with Abrdn providing 8.5% and Hermes providing a return of 10.8% over two years.

4. Asset Allocations and Benchmark: Table 5 outlines the Fund's asset allocation, asset value & benchmark at 31 December 2022.

4.1 **Table 5: Fund Asset Allocation and Benchmarks at 31 December 2022**

Fund Manager	Asset (%)	Market Values (£Ms)	Benchmark
Abrdn	10.8%	140.79	3 Mth LIBOR + 4% per annum
Baillie Gifford	20.1%	261.61	MSCI AC World Index
BlackRock	3.9%	50.81	AREF/ IPD All Balanced
Hermes GPE	7.4%	96.56	Target yield 5.9% per annum
Kempen	16.5%	214.78	MSCI World NDR Index
Newton	6.1%	79.65	One-month LIBOR +4% per annum
Pyrford	8.8%	114.40	UK RPI +5% per annum
Schroders	0.0%	0.08	AREF/ IPD All Balanced
Insight	5.1%	66.67	3 Mth LIBOR + 4% per annum
UBS Bonds	2.3%	30.19	FTSE UK Gilts All Stocks
UBS Equities	18.8%	245.44	FTSE AW Developed Tracker
LCIV	0.0%	0.15	None
Cash	0.1%	1.57	One-month LIBOR
Fund Value	**100.0%**	**1,302.70**	
ST Loan		-	
Prepayment		(25.00)	
Net Fund Value		**1,277.70**	

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	55.4%	52%	3.4%	50-60
Diversified Growth	14.9%	15%	-0.1%	14-18
Infrastructure	7.4%	8%	-0.6%	7-11
Credit	5.1%	8%	-2.9%	6-10
Property	3.9%	5%	-1.1%	4-7
Diversified Alternatives	10.8%	9%	1.8%	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				One Year	Two Years	Since Start 6/2/13
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£214.78m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	10.0	(1.6)	(3.1)	0.1	2.9	3.0	2.9	10.2	5.4	12.2	8.4
Benchmark	1.9	2.1	(9.1)	(2.4)	7.3	2.5	7.6	4.0	(7.6)	6.8	11.5
Difference	8.1	(3.7)	6.0	2.5	(4.3)	0.5	(4.7)	6.2	13.0	5.4	(3.1)

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 outperformed its benchmark by 8.1% for Q4 and has outperformed over one-year by 13.0% and over two years by 5.4%. Kempen has underperformed its benchmark since inception by 3.1% but providing an annualised return of 8.4%. 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				**One Year**	**Two Years**	**Since Start 6/2/13**
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£261.61m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**1.2**	1.0	(12.1)	(12.4)	0.1	(0.6)	7.1	2.2	(22.3)	(6.7)	11.8
Benchmark	**2.0**	1.5	(8.4)	(2.5)	6.3	1.5	7.4	3.7	(7.5)	5.7	11.2
Difference	**(0.8)**	(0.5)	(3.7)	(9.9)	(6.2)	(2.1)	(0.3)	(1.5)	(14.8)	(12.4)	0.6

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 Q4 BG returned 1.2%, underperforming its benchmark by 0.8%. BG's one-year return was -22.3%, underperforming its benchmark by 14.8%. Since initial funding, the strategy has returned 11.8% p.a. outperforming its benchmark by 0.6%.

This was a marginally positive quarter as performance continued to stabilise in the Sub-fund following sizeable drawdowns earlier in 2022. These drawdowns continue to take a toll on longer term performance but the gradual shift of the portfolio away from the most aggressively valued holdings, and into less volatile but still growth oriented companies is starting to reap benefits.

These are typically well-known names that one might call ‘franchise compounders’ with established pricing power, such as Prudential, AIA and Shiseido, all of which added to relative performance in Q4. The growth on offer from such established companies may not appear spectacular compared to a rapidly scaling, early-stage technology business. However, the value of this growth, when compounded many years into the future, is often underappreciated.

Concurrently, the overall exposure to early-stage, often pre-profit businesses was reduced. This has been an exercise to weed out of the portfolio several businesses where the investment thesis has deteriorated or where their financial resilience looks increasingly brittle as the cost of capital has increased. These businesses are often found in the ‘Disruptors’ segment of the portfolio. Not surprisingly, given their higher volatility, some of the largest contributors and the largest detractors came from within this bucket. Prosus NV, Abiomed and Moderna were the largest positive contributors while The Trade Desk, Farfetch and Tesla detracted.

LCIV Summary

At the regional level, as of the end of December 2022, the Sub-fund’s largest exposure was North America at 59.8% followed by Europe ex UK at 16.7%. At the sector level, the largest exposure is the financial sector with 19.1% followed by health care at 18.8% and consumer discretionary at 18.5%. From a ‘growth profiles’ perspective, the split remained at approximately 44% in ‘Compounders’, 30% in ‘Disruptors’ and 24% in ‘Capital Allocators’ (the balance of 2% is held in cash).

The investment manager highlighted three key areas of research. The first relates to the ‘Capital Allocators’ segment, where the portfolio managers are hunting for companies which are positioned to benefit from positive structural drivers, but which are facing near-term cyclical pressure which has prompted a derating of their shares. Eaton is a new addition which falls into that category. The investment manager is also interested in the top tier of U.S. housebuilders.

The second area of focus is ‘serial acquirors’. These are companies which are well capitalised, disciplined in allocating capital and skilled in accelerating growth through acquisitions. CRH (0.9% of the Sub-fund at the end of 2022) and, at the other end of the capitalisation spectrum, SiteOne Landscape Supply (0.7%), are examples of the types of companies the investment manager is looking for.

Finally, the investment manager highlights ‘growth for sale’ opportunities to buy companies, possibly including long-term holdings in the Sub-fund, with outstanding potential which are available at attractive prices. MercadoLibre (0.5%), which was added to the portfolio in Q3 2022, is one example.

A very challenging year for the Sub-fund ended on a positive note. The last quarter of 2022 saw the portfolio posting a modest positive return which offers further signs that performance is stabilising. To an extent this is not surprising as the more volatile, typically smaller holdings in the Sub-fund were either sold or significantly reduced when concurrently the relative weight of more stable companies has increased.

This was the result of an overdue 'surgical' operation to reduce the portfolio's exposure to very early-stage, loss-making companies. As a result, the portfolio is now more balanced for the current economic environment. The challenge with such balancing acts is to make sure that the investment manager must continue to seek out and buy exciting, immature companies with high return potential even if the range of outcomes can be very wide. Sustaining a reward-seeking mentality remains paramount. While the Sub-fund is only starting to recover some of the lost ground, we remain confident in the investment manager's ability to deliver further outperformance over the long-term.

5.3 UBS Equities

UBS Equities	**2022**				2021				**One Year**	**Two Years**	**Since Start 31/08/12**
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£245.44m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**5.8**	(3.1)	(12.9)	(4.0)	7.6	0.9	7.5	5.8	(14.2)	3.7	11.8
Benchmark	**5.8**	(3.1)	(12.9)	(4.0)	7.6	0.9	7.5	5.8	(14.2)	3.7	11.8
Difference	**0.0**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**

Reason for appointment

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

Performance

The fund returned 5.8% for Q4 and -14.2% over one year. Since funding in August 2012, the strategy has provided an annualised return of 11.8%.

Equities

Global equities lost ground in December, as worries over the pace of central bank tightening resurfaced. All major markets except China moved lower. The largest decline was in the S&P 500, with a total return of minus 5.8%. Japan was also among the biggest losers for the month after the BoJ surprised markets by saying it would tolerate a higher yield on 10-year government bonds. The MSCI Japan lost 5.2%. More defensive markets fared better, with the MSCI UK giving a negative total return of 1.4%. The Swiss market lost 3.6%. China was a bright spot. The market was boosted by a swift move toward reducing COVID-19 restrictions. With a full reopening now in sight in the first quarter of 2023, MSCI China rallied 4.8%, taking its gain for the quarter to 12.5%. However, the MSCI EMU was the best performing index for the quarter, with a total return of 12.7%, as the Eurozone proved more resilient than expected in the face of declining supplies of Russian energy.

Following the FTSE quarterly review in December, no stock was added to, and three stocks were deleted from the index, along with various changes in the shares in issue of the index constituents. Two-way turnover totalled 0.86%. Also, during the quarter but outside of the review, Prologis weight in the index increased following

acquisition of Duke Realty Corp. As a result, Duke Realty Corp was deleted from the index.

5.4 UBS Bonds

UBS Bonds	2022				2021				One Year	Two Years	Since Start 5/7/2013
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£30.19m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	1.7	(12.9)	(7.4)	(7.2)	2.4	(1.8)	1.7	(7.2)	(25.8)	(15.4)	0.8
Benchmark	1.7	(12.9)	(7.4)	(7.2)	2.4	(1.8)	1.7	(7.2)	(25.7)	(15.4)	0.7
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 1.7% for Q4, -25.8% for one year and -15.4% for two-year return. Since inception the strategy has returned 0.8%.

Review

Trading in the US bond market was less volatile than equities in December, with the yield on the 2-year US Treasury rising only 3 basis points over the month to 4.35%. The yield on the 10-year US Treasury rose around 10 basis points to 3.76%. Overall, the return on the Bloomberg US Treasury index was a negative 0.5%. But there was a bigger shift in European fixed income markets over the month. This followed a more hawkish statement from ECB President Christine Lagarde than markets had been expecting. The Bloomberg Pan-European Aggregate index delivered a negative return of 2.9% while the Bloomberg Euro Aggregate Corp. index lost 1.8%. US and Euro high yield both produced negative total returns. But even after this weak end of the year, fixed income also reflected the risk-on shift for the quarter overall. US and Euro high yield gained 4% and 4.7% respectively.

The All-Stock Gilt index returned 1.69% in sterling terms over the quarter. In yield terms, 2-year nominal yields fell by 0.70% to 3.55% and 10-year nominal yields fell by 0.45% to 3.65%. The modified duration of the index is 9.10 years. The Bank of England's Monetary Policy Committee increased the policy rate to 3.50%. The UK Debt Management Office held 16 nominal bond auctions during the quarter across a range of maturities.

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

5.7 BlackRock

BlackRock	2022				2021				One Year	Two Years	Since Start 1/1/2013
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£50.81m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**(14.4)**	(4.4)	2.9	6.8	6.7	4.3	2.9	2.1	(9.2)	3.4	0.8
Benchmark	**(14.1)**	(4.0)	3.9	5.6	7.5	4.5	3.8	2.2	(8.6)	4.7	3.7
Difference	**(0.3)**	(0.4)	(1.0)	1.2	(0.8)	(0.2)	(0.9)	(0.1)	(0.6)	(1.3)	(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.

Q4 2022 Performance and Investment Update

BR returned -14.4% for Q4 against a benchmark of -14.1%, returned -9.2% over one year against a benchmark of -8.6%. 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

Navigating the commercial real estate market remains challenging for investors, however, the manager believes that now is the time for strategic positioning of portfolios along the themes of future growth, ahead of a cyclical upturn, and recognising the acceleration of structural change in a post pandemic world.

Debt costs remain above yields for prime properties, and lenders have become increasingly cautious. The correction in valuations is continuing across the UK commercial real estate market. However, the speed of revaluations could imply that a lot of the pain has already been felt. Increased debt costs, an unfavourable spread to yields, alongside an uncertain macro-economic backdrop has continued to take a toll. In turn, transaction volume across the key sectors has remained subdued throughout the quarter, this is likely to continue into the first quarter of 2023.

The current allocations, being overweight to high quality industrial and strong alternative sectors and being underweight to retail and office, the manager believes will result in a competitive return going forward.

Transactions: In Q4, the fund disposed of one asset for £22.80m; no acquisitions were completed during the quarter. The Fund completed the sale of CBXII, Milton Keynes, a multi let office and retail property extending to 162,150 sq. ft. The gross sale price reflected £141 per sq. ft. After the deduction of top ups to cover rent free and rental guarantees on vacant space, the price reflected a Net Initial Yield of 9.7%. The asset required substantial capital expenditure in the short term, as well as

carrying significant future vacancy risk with multiple tenants not occupying their leased space post the pandemic.

5.8 Hermes

Hermes	2022				2021				One Year	Two Years	Since Start 9/11/2012
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£96.56m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**0.8**	10.5	(1.0)	10.5	(0.9)	2.2	(1.1)	0.6	20.9	10.8	8.5
Benchmark	**1.4**	1.4	1.4	1.5	1.4	1.4	1.4	1.5	5.8	5.8	5.9
Difference	**(0.6)**	9.1	(2.4)	9.0	(2.3)	0.8	(2.5)	(0.9)	15.1	5.0	2.6

Reason for appointment

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

Performance

Hermes returned 0.8% in Q4 underperforming the benchmark by 0.6%. Over one year the strategy reported a one-year return of 20.9%, outperforming its benchmark by 15.1%. Since inception the strategy has provided a good, annualised return of 8.5%, outperforming its benchmark by 2.6%.

The HIF I portfolio has performed robustly in the second half of the year, remaining resilient in challenging trading conditions, including significant interest rate volatility around the so called 'mini budget'. Despite rising discount rates across the portfolio and a significant amount of capital returned to investors, total HIF I Net Asset Value ("NAV") reduced by 2.1% from 30 June 2022 to 31 December 2022.

Asset level trading performance has been robust, partly owing to the high contractual inflation linkage across the portfolio. The demand exposed assets ABP, IHR and Eurostar achieved at or above budget performance in 2022, (with Scandlines c.5% below an ambitious budget), though management remain cautious on the outlook for 2023 with lower global growth projections. UK power prices remain elevated, this has resulted in a positive impact on valuation at generating assets, partially offset by non-generating assets experiencing rising costs.

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

Timeline

February 2023

- Orion LPA finalised
- Circulate amended HIF I LPA for review
- 10 February Orion fund documentation submitted to the FCA
- Draft valuation reports and PwC reasonableness opinion received
- Late February submit HIF I LPA to FCA for material change consent Subject to demand Secondary Adviser Appointed
- LPAC update meeting / Investor Update
- End of February updated know your client information provided

March 2023

- Early March FCA consent received for Orion
- Valuations approved by Infra ValCo within range determined by PwC reasonableness opinion
- Investor Pack circulated for signature
- Late March FCA consent received for HIF material change
- Late March Orion restructuring close
- Relevant assets transfer from HIF I to Orion Fund

5.9 Abrdn Asset Management

Abrdn	**2022**				2021				**One Year**	**Two Years**	**Since Start 15/9/2014**
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
140.79m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**(1.5)**	(2.1)	(1.4)	3.7	1.6	4.9	4.4	7.4	(1.4)	8.5	6.8
Benchmark	**2.1**	1.8	1.6	1.6	1.0	1.0	1.0	1.0	7.1	5.6	4.9
Difference	**(3.6)**	(3.9)	(3.0)	2.1	0.6	3.9	3.4	6.4	(8.5)	2.9	1.9

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 lost around -1.5% (net of fees) over the three months to the end of December. This was largely due to a lower September 30 valuation for the Advent IX private equity investment which we were able to reflect in October. Over one year the return of -1.4% underperforms the benchmark return of 7.1% by 8.5%. Since inception the strategy has returned 6.8%, outperforming the benchmark by 1.9%.

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) 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) iii) tail risk protection which is intended to offer significant returns at times of stress and more muted returns in normal market environments.

Outlook

The manager remains constructive on the outlook for macro strategies, which it believes are well placed to take advantage of the current trading climate. Although global central banks have started to catch up to inflation (and forward-looking 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. It is this attractive backdrop for macro to persist for the foreseeable future.

The outlook for fixed income relative value strategies remains positive. The opportunity set continues to be very attractive 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. With the end of quantitative easing across developed markets and the start of quantitative tightening in the US/UK and shortly in Europe, the amount and magnitude of the dislocations across fixed income instruments continues to be high. The manager expects interest rate volatility to likely moderate from the extreme levels reached in 2022 given the pace of Fed rate hikes is most likely to slow, with a pause also likely in the second part of the year. This should translate in less volatility in manager returns.

Credit should also become an increasingly attractive asset class, not only on a total return basis, but also for distressed and structured products. Significantly higher rates and wider spreads over the past year have created remote risk credit issues with high single digit yields and short-dated maturities. 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 and corporate capital structures. 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.

While private equity deal flow was more muted in Q2 2022 due to the changing market conditions, the manager is starting to see a pick-up in activity in Q1 2023 and some renewed optimism. In the buyout space, we are seeing an increase in complex and value deals such as corporate carve-outs, as well as continued strong pricing for the highest quality, more resilient assets. Rising interest rates and lower liquidity and debt availability mean that larger deals are harder to achieve, with a consequent impact on pricing. In the growth space, there is an increasingly interesting opportunity set, with more attractive pricing and structures even for good quality, high growth companies addressing disruptive themes. Some investors and LPs are struggling with the denominator effect, as private market valuations have held up more strongly than public market valuations. This will cause a slowdown in fundraising during 2023.

5.10 Pyrford

Pyrford	**2022**				2021				**One Year**	**Two Years**	**Since Start 28/9/2012**
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
114.40m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**3.2**	(2.4)	(0.8)	1.5	1.3	0.3	1.1	0.9	1.6	2.6	3.2
Benchmark	**4.7**	3.3	6.3	3.1	4.0	2.7	3.6	1.7	17.3	14.7	8.5
Difference	**(1.5)**	(5.7)	(7.1)	(1.6)	(2.7)	(2.4)	(2.5)	(0.8)	(15.7)	(12.1)	(5.3)

<u>Reason for appointment</u>

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 Q4. Overseas stocks contributed 1.2% to the Sub-fund and outperformed the FTSE All World ex-UK Index on the strength of contributions from Asian financials (AIA Group and United Overseas Bank). Large underweight positions in the United States, as well as in big information technology and consumer discretionary companies also contributed positively.

UK stocks account for about one third of the equity segment of the Sub-fund. These stocks gained 0.9% in absolute terms but lagged the FTSE All Share Index. Losses on Vodafone Group and Reckitt Benckiser offset gains on holdings in Legal & General, as concerns about the impact of the liquidity crisis in the Gilts market abated, Imperial Brands, which resumed its share buyback programme, and GlaxoSmithKline (GSK), which recovered from a poor third quarter when concerns about the potential cost of litigation faded. Vodafone Group is not performing well in Germany, and the EU industry regulator has taken a hard line on consolidation in the industry which constrains the company's ability to exit the operation.

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. Target allocations to bonds (57%), equities (40%) and cash (3%) did not change in Q4. The only significant adjustment was to lengthen the targeted duration of the bond portfolio to 3 years from 1.5 years. At the end of 2022, the actual duration was 2.8 years. The move reflects the investment manager's tentative view that upward pressure on yields will moderate as inflation begins to decline from peak levels.

5.11 Newton

Newton	**2022**				2021				**One Year**	**Two Years**	**Since Start 31/8/2012**
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
79.65m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**3.7**	(4.3)	(2.1)	(4.4)	3.7	(0.1)	2.4	1.1	(7.0)	0.1	3.5
Benchmark	**1.4**	1.1	0.9	0.8	1.0	1.0	1.0	1.0	4.3	4.2	4.4
Difference	**2.3**	(5.4)	(3.0)	(5.2)	2.7	(1.1)	1.4	0.1	(11.3)	(4.1)	(0.9)

Reason for appointment

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

Performance

Newton generated a return of 3.7% in Q4, outperforming its benchmark by 2.3%. Over one year the strategy has returned -7.0%, underperforming its benchmark by 11.3%, although the return over two years is 0.1% against a benchmark of 4.2%. Newton's performance since inception is 3.5%.

The investment manager believes that the new regime for inflation, monetary policy and growth, against a backdrop of persistent geopolitical risk, warrants a dynamic and opportunistic approach to managing multi asset portfolios. In practice, this means that they aim to cover a broad spread of asset classes and remain nimble by supplementing physical holdings with futures and other derivatives which can help them capitalise on volatility and adjust the risk profile of the Sub-fund quickly.

The Sub-fund was defensively positioned at the beginning of Q4, leaving it exposed to lagging in a 'relief rally.' In that context, the 3.7% gain in the final quarter was a solid result, although the loss of 7% for the full year, a shortfall of more than 11% against the SONIA + 3% performance target, is disappointing. The investment manager's opportunistic approach worked well in the final quarter, and they need to build on that in 2023.

Equities were the single biggest source of profits in Q4, net of the cost of hedges used to guard against downside risk. Stock selection contributed positively because of the emphasis on relatively stable and reasonably valued companies, and exposure to a selection of energy and mining companies. Gains on individual stocks were supplemented by profits on tactical allocations to the U.S., European and Hong Kong stock markets through futures contracts, call options used to participate in market rallies and premiums earned from writing short term put options on specific stocks when implied volatility was mispriced.

The capacity to hunt widely has improved after the big surge in yields on government debt and the widening of credit spreads in 2022. In short, government bonds and credit are credible again, both in terms of potential returns and utility as diversifiers of equity risk. The investment manager also highlights the opportunities presented by the decoupling of regional economies and asset markets.

5.12 Insight (Mellon Corporation / Standish)

Insight	2022				2021				One Year	Two Years	Since Start 20/8/2013
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1			
£66.67m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**5.7**	(1.3)	(3.8)	(2.6)	(0.7)	0.0	0.2	(0.1)	(2.0)	(1.3)	0.6
Benchmark	**1.0**	1.0	1.0	1.0	1.0	1.0	1.0	1.0	4.0	4.0	4.9
Difference	**4.7**	(2.3)	(4.8)	(3.6)	(1.7)	(1.0)	(0.8)	(1.1)	(6.0)	(5.3)	(4.3)

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

Q4 saw the BNY Mellon Targeted Return Bond Fund outperform its reference benchmark by 4.7%, providing a positive return of 5.7%. an inverse of the third quarter, the bulk of the period's positive alpha can be attributed to the fund's overweight to developed market duration. Over one year the strategy has returned -2.0% and over two years it has returned -1.3%, with a return of 0.6% since inception.

With material overweights in US, UK and European duration, the fund benefitted significantly from moderating developed market inflation as yields dropped precipitously from their late October peaks. The fund also benefitted from smaller overweights in local Mexican, South African and Korean duration.

The fund's large overweight to corporate credit and other risk assets made a large positive contribution to relative returns on the quarter. After a soft start to the period, risk assets rallied aggressively from late October through the end of the year. Secondarily, relative returns were boosted by the significant outperformance of EUR denominated risk assets as the bulk of the funds exposure to corporate credit was held in this currency.

At the country level, the fund suffered modestly from its underweight to Italian government debt with BTPS spreads tightening alongside those of corporate credit. While fundamentals did not favour tighter BTPS spreads in Q4, the strong environment for risk globally dominated this factor.

With risk free rates falling globally and spreads moving rapidly tighter, most fixed income assets saw significant positive total returns. In contrast to prior quarters, cash was one of the worst asset classes in Q4.

5.13 Currency Hedging

No new currency hedging positions were placed in Q4 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 Q4 2022 Report; and
- Fund Manager Q4 2022 Reports.

List of appendices:

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