PENSIONS COMMITTEE

13 December 2023

Title: Pension Fund Quarterly Monitoring 2023/24 – 1 July to 30 September 2023	
Report of the Managing Director	
Open Report	**For Information**
Wards Affected: None	**Key Decision:** No
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Accountable Director: Jo Moore, Interim Strategic Director Finance and Investment (Section 151)	
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 July to 30 September 2023. The report updates the Committee on the Fund's investment strategy and its investment performance.	
Recommendation(s) The Pension Committee is asked to note: (i) the progress on the strategy development within the Fund, (ii) the Fund's assets and liabilities daily value movements outlined in the report, (iii) Funding level update by Barnett Waddingham, and (iv) 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 July to 30 September 2023 ("Q3"). The report updates the Committee on the Fund's investment strategy and performance. Appendix 2 provides a definition of terms used in this report. Appendix 3 sets out roles and responsibilities of the parties referred to in this report. A verbal update on the unaudited performance of the Fund for the period to 12 December 2023 will be provided to Members at the Pension Committee.

2. Independent Advisors Market Background (Q3 2023)

In contrast to the previous three Quarterly periods the July to September 2023 period saw a decline in Global Equities. After a positive July both Developed Markets and Asian/Emerging markets suffered declines in August and September with the MSCI World Index declining by over 3% (in $ terms) over the Quarter. An increasing realisation that interest rates will likely remain higher for longer (based on major Central Bank actions and statements) despite it appearing that interest rate rises are drawing to an end, and concerns over the Chinese economy were surely two notable contributory factors. Overall, the major Government Bond markets also declined over the July to September period.

In the US, on 12 July, the Bureau of Labor Statistics announced a sharp drop in the headline US CPI index from 4% in May to 3% in June. However, CPI rose to 3.2% in July and was 3.7% in both August and September. The Core PCE (Personal Consumption Expenditures) Index which is closely observed by the US Federal Reserve when determining monetary policy remained stubbornly above the target of 2%. Core PCE was 4.3 in June (reported in July), 4.3% in July, 3.8% in August and 3.7% in September. Unemployment remained very low but increased over the Quarter to 3.8% at September compared to 3.6% in June.

The June 2023 meeting of the US Federal Reserve Federal Open Markets Committee (FOMC) had held interest rates for the first time since March 2022. At its meeting which concluded on 26 July 2023 the FOMC again increased the Federal Funds rate, this time by 0.25%. The Press Release issued after the July meeting included the statement that “Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated… The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 5-1/4 to 5-1/2 percent.” At the FOMC meeting which concluded on 20 September 2023 the FOMC determined not to raise interest rates notwithstanding continuing “elevated” inflation and “low” unemployment. This more cautious approach was not surprising given the extent to which the FOMC had increased rates over the previous 18 months.

At his press conference following the September FOMC meeting Chair Jay Powell made the following statement regarding the future approach to monetary policy “Since early last year, the FOMC has significantly tightened the stance of monetary policy… We’ve covered a lot of ground, and the full effects of our tightening have yet to be felt… Looking ahead, we’re in a position to proceed carefully in determining the extent of additional policy firming that may be appropriate. Our decisions will be based on our ongoing assessments of the incoming data and the evolving outlook and risks.”

US Equities were negative over the Quarter with the S&P 500 declining over 3%. The increase in CPI in July (reported August) and particularly August (reported in September) together with the stubbornly elevated Core PCE inflation raised the possibility of further interest rate increases or the existing rates remaining for longer than perhaps expected/hoped for by markets. Statements by the US Federal Reserve also inclined towards a “high for longer” approach to interest rate policy.

As in the previous Quarter Eurozone inflation as measured by the Harmonised Index of Consumer Prices (HICP) continued to fall from 5.5% in June, to 5.3% in July, 5.2% in August, and 4.3% in September. However, it still remained clearly above the European Central Bank target of 2%. Core inflation also fell from 5.5% in June, to 5.3% by August, and 4.5% in September. Despite eight interest rate rises by the European Central Bank (ECB) between July 2022 and June 2023 Eurozone unemployment remained historically low. Eurozone unemployment was 6.5% in September 2023 only marginally up from the all-time low, in the history of the Eurozone, of 6.4% as at June 2023.

The European Central Bank continued its clear policy of monetary tightening to bring inflation under control and back to the ECB target of 2%. To quote the first two sentences from the Monetary Policy Decisions statement issued after both the July and September 2023 monetary policy meetings "Inflation continues to decline but is still expected to remain too high for too long. The Governing Council is determined to ensure that inflation returns to its 2% medium-term target in a timely manner." Therefore, at both meetings the ECB increased its benchmark interest rate by 0.25%. Following the September meeting this was at record level of 4%. However, there were clear indications that the ECB may be coming towards the end of its ongoing monetary tightening approach. The Monetary Policy Decisions statement issued after the September meeting including the comment that "Based on its current assessment, the Governing Council considers that the key ECB interest rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target." Furthermore, at her press conference following the September meeting ECB President Christine Lagarde, in response to a question, indicated that there had been a split in the Governing Council of the ECB over this latest rate rise stating "there are a few members in the Governing Council who would have preferred a pause..."

Eurozone Equities experienced a negative Quarter with the MSCI EMU index falling by over 4% (in Euro terms). News on inflation received during the Quarter (the June, July, and August figures) indicated only a slight downturn while GDP data released by Eurostat showed weakness with figures for the second Quarter of 2023, released on 7 September, indicating that GDP grew by only 0.1% in the Euro area the same as for the first Quarter of 2023. Corporate earnings reports for the second Quarter of 2023 were also disappointing.

In the April to June Quarter UK Equities, in contrast to other major developed market Equities had declined. In the July to September Quarter UK Equities again performed contrary to (most) other developed markets, this time gaining. The FTSE All Share gained almost 2% driven by the performance of the FTSE 100 (mega cap) Index which gained over 2%. The weakness of sterling versus the US dollar boosted returns for those (mainly) large UK listed companies which account/report earnings in US Dollars. The significant weighting of the FTSE All Share to Energy and Basic Materials stocks which had been weak in the previous Quarter clearly contributed to the positivity in the July to September Quarter which saw them rebound.

Fundamentally, however, there are significant questions regarding the FTSE All Share in the long term. This is in a context of, for example, the lack of big technology companies in the index, the weighting of oil and gas in the index, the movement of pension fund investors away from UK equities, and some large companies listing/moving their listing overseas and away from the London Stock Exchange.

There was a further clear decline in UK inflation reported during the Quarter although it remained far above the Bank of England target of 2% and clearly in excess of inflation levels in both the United States and the Eurozone. The June CPI inflation figure (reported in July) was 7.9% compared to 8.7% in May and the July figure (reported in August) was 6.8%. August and September saw CPI at 6.7%.

At the meeting of the Bank of England Monetary Policy Committee (MPC) held on 3 August 2023 the Committee raised Bank Rate (interest rates) by a further 0.25% to 5.25% (a fifteen year high) with 6 Members voting for this increase, two Members for a 0.5% increase and one Member for no increase. In relation to the view of the majority of the Committee who voted for a 0.25% increase the Minutes of the meeting included the statement (at Paragraph 24) that “Six members judged that a 0.25 percentage point increase in Bank Rate, to 5.25%, was warranted at this meeting… Although the monetary stance was weighing on economic activity, a 0.25 percentage point increase in Bank Rate at this meeting was necessary to address the risks from greater inflation persistence.”

Bank Rate remained at 5.25% at the MPC meeting on 2 September 2023 following a 5 to 4 vote finally determined by Governor Andrew Bailey’s casting vote. The other 4 Members voted for a 0.25% increase. The Minutes of the meeting indicated that the decision making at this meeting had indeed been difficult with (even) 4 of the 5 Members who voted to hold rates considering the decision was “finely balanced.” Paragraph 44 of the Minutes included the following “Five members judged that maintaining Bank Rate at 5.25% was warranted at this meeting. There were signs that the labour market was loosening… headline and services CPI inflation had fallen back and were lower than had been expected. Regarding activity, contacts of the Bank’s Agents had become more downbeat, and the output PMI in August was now consistent with falling GDP. For most members within this group, the latest developments meant that the judgement to keep Bank Rate unchanged at this meeting rather than increase it was finely balanced.” However, the MPC was clear that monetary policy would remain tight and that further interest rate rises could occur – with Paragraph 48 of the Minutes stating “The MPC would continue to monitor closely indications of persistent inflationary pressures and resilience in the economy as a whole, including the tightness of labour market conditions and the behaviour of wage growth and services price inflation. Monetary policy would need to be sufficiently restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term, in line with the Committee’s remit. Further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures.”

Japanese inflation continued to exceed the Bank of Japan’s target of 2% at 3.3% in July, 3.2% in August and 3.0% in September. Core inflation was 3.1% in July and August and 2.8% in September. The Nikkei 225 Index (which measures the performance of 225 large publicly owned companies) declined by 4% over the Quarter (having increased by over 18% in Yen terms in the previous Quarter).

At both its July and September monetary policy meetings the Bank of Japan, yet again, maintained short term interest rates at -0.1% and continued to be the only major Central Bank to retain negative interest rates. However, at the meeting which concluded on 28 July the Bank made a small but symbolically significant alteration to its monetary policy approach. While maintaining the 10 Year Japanese Government Bond Yield target of 0% with range of around plus or minus 0.5% the Minutes of the meeting stated that the Bank would “conduct yield curve control with greater flexibility,

regarding the upper and lower bounds of the range as references, not as rigid limits, in its market operations. The Bank will offer to purchase 10-year JGBs at 1.0 percent…” What this means is that in effect Japanese Government Bond Yields will be allowed to move as high as 1% rather than 0.5%. As at the April monetary policy meeting the Bank of Japan under its new Governor, Kazuo Ueda, signalled, at its July meeting, that the long running ultra loose monetary policy approach of the Bank of Japan may change. However, this will not happen until the Bank is clearer that inflation will remain around the Bank’s 2% target over the longer term.

Asian Markets (excluding Japan) and Emerging Markets, overall, performed broadly in line with developed markets as a whole. Both the MSCI Emerging Markets Index and the MSCI Asia (excluding Japan) Index declined by approximately 3% (in US $ terms). Chinese Equities experienced another Quarter of decline in the context of concerns regarding the Chinese economy – particularly property (which accounts for a sizeable proportion of all Chinese economic activity) and the extent of government measures to stimulate the economy. The situation regarding China and questions over the global economic outlook and the potential that US interest rates would remain higher for longer were all factors weighting against Asian and Emerging markets more widely.

Overall benchmark Government Bonds (US, UK, and Germany) experiencing another negative Quarter with yields rising and prices therefore falling. Over the Quarter the 10 Year US, UK and German yields all rose. The US 2 year yield also increased while the German 2 year yield remained static and the UK 2 year yield declined. Announcements from the major Central Banks while indicating that monetary policy tightening was drawing to a close, but that rates would likely stay high, was surely a clear factor weighing against benchmark Government Bonds. On 1 August Fitch (one of the three major credit rating agencies) downgraded its rating of US government bonds from AAA to AA+ Summarising the downgrade Fitch referred to “expected fiscal deterioration over the next three years, a high and growing general government debt burden, and the erosion of governance relative to 'AA' and 'AAA' rated peers over the last two decades that has manifested in repeated debt limit standoffs and last-minute resolutions.” The major Corporate bond markets outperformed benchmark Government Bonds with High Yield again (overall) posting positive performance.

3. Overall Fund Performance

3.1 The Fund’s closed Q3 valued at £1,328.46m, a decrease of £15.5m from its value of £1,343.97 at 30 June 2023. Cash held by the Fund was £0.3m giving a total Fund value of £1,328.77. The gross value includes a short-term loan of £5.8m. Adjusting for this increases the Q3 value to £1,334.57m, a decrease of £8.62m from the 30 June 2023 figure of £1,343.19m.

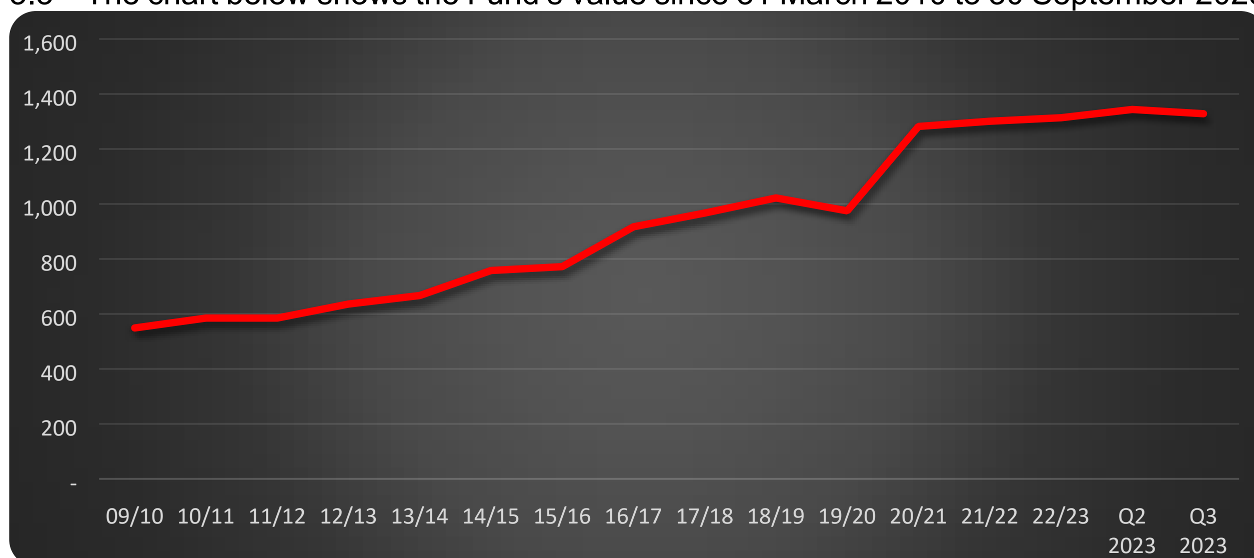
3.2 For Q3 the Fund returned -0.5%, net of fees, underperforming its benchmark of 0.6% by 1.1%. Over one year the Fund underperformed its benchmark by 0.9%, returning 7.6% and underperformed the benchmark by 1.9% over three years, returning 5.7%. The Fund has also underperformed its benchmark over five years by 2.0%, returning 5.1%. Compared to the LGPS universe of Funds, represented below by the PIRC Universe, the Fund has outperformed by 2.1% over one year and underperformed over two years by 1.0%. The Fund’s returns are below:

Table1:

Fund's Quarterly and Yearly Returns

Year	2023			2022				2021	One	Two	Three	Five	Ten
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Yr	Yrs	Yrs	Yrs	Yrs
Actual Return	(0.5)	2.0	3.1	2.9	(1.2)	(6.3)	(2.8)	2.6	7.6	(0.0)	5.7	5.1	7.3
Benchmark	0.6	2.9	3.5	1.6	0.1	(4.0)	(0.6)	4.8	8.5	4.4	7.7	7.0	8.5
Difference to Benchmark	(1.1)	(0.9)	(0.4)	1.3	(1.3)	(2.3)	(2.2)	(2.2)	(0.9)	(4.4)	(1.9)	(2.0)	(1.2)
PIRC Universe	0.9	1.9	2.9	1.0	(0.3)	(4.8)	(3.2)	4.4	5.5	1.0	5.8	4.9	7.3
Difference to PIRC	(1.4)	0.1	0.2	1.9	(0.9)	(1.5)	0.4	(1.8)	2.1	(1.0)	(0.1)	0.2	(0.0)

3.3 The chart below shows the Fund's value since 31 March 2010 to 30 September 2023.

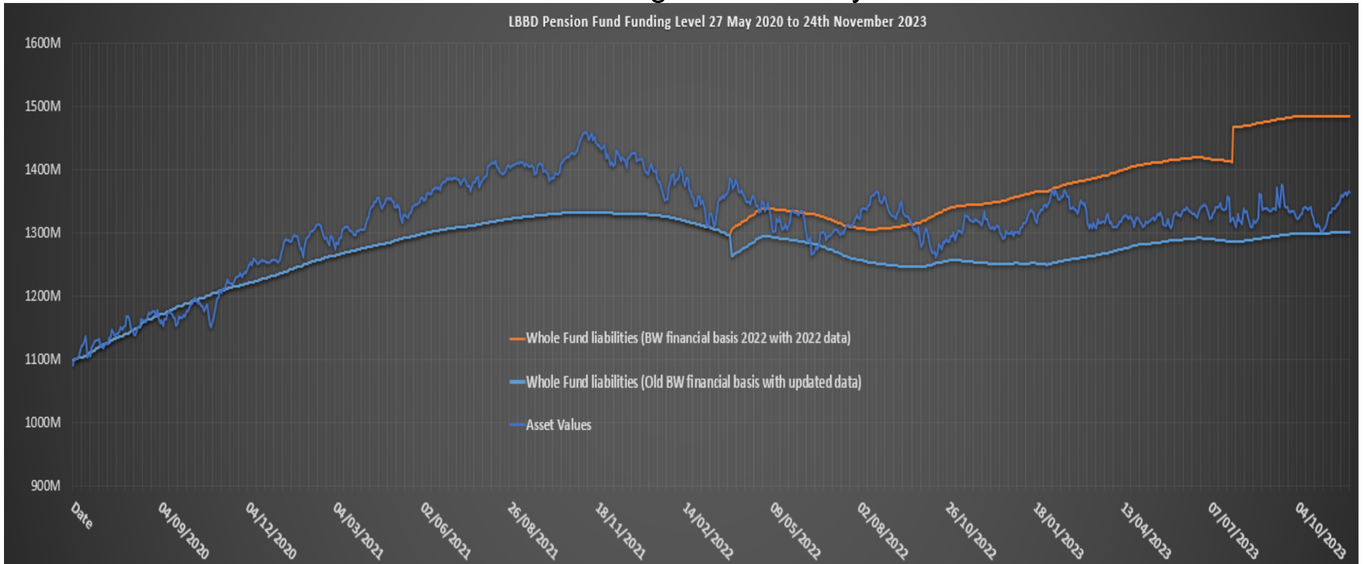


3.5 The fund manager's performance has been scored using a quantitative analysis compared to the benchmark returns, defined below:

	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

3.6 The chart below illustrates changes in the market value, the liability value, the Fund's deficit and the funding level from 31 March 2013 to 24 November 2023. 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 The chart below shows the Funds funding Level 27 May 2020 to 24 November 2023



3.8 Funding Level between 27 May 2020 to 24 November 2023

3.9 Currently, given the high interest rates, there has been a reduction in funding level from 100.8% as of 31 March 2022 to 92.4% as at 31 October 2023. Barnett Waddingham have produced a report below with the funding level update explaining these changes.

3.10 **Barnett Waddingham Funding Update**

This summary paper has been requested by and provided to the London Borough of Barking and Dagenham Council as administering authority to the London Borough of Barking and Dagenham Pension Fund (the Fund). Its purpose is to provide an approximate update on the funding position of the Fund as at 31 October 2023. A Results schedule has been provided to the Administering Authority which complies with Technical Actuarial Standard 100: General Actuarial Standards (TAS 100) as issued by the Financial Reporting Council (FRC). This is the only TAS that applies to this work.

3.11 The last full triennial valuation of the London Borough of Barking and Dagenham Pension Fund (the Fund) was carried out as at 31 March 2022 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2023.

3.12 To assess the estimated funding position as at 31 October 2023, the value of the Fund's assets and liabilities at 31 March 2022 have been projected forward allowing for changes in actual investment returns on the Fund's assets, market conditions and cashflows paid to and from the Fund, estimated where necessary.

The table below shows the approximate updated funding position of the Fund as at 31 October 2023. The results of the previous actuarial valuation are also shown for comparison.

Ongoing results	31 October 2023	31 March 2022
Liabilities	£1.484bn	£1.306bn
Assets	£1.372bn	£1.317bn
Surplus / (Deficit)	(£112m)	£11m
Funding level	92.4%	100.8%

A summary of the key financial assumptions used for this funding update are shown below, alongside the corresponding assumptions at the last triennial valuation date.

Key assumptions	31 October 2023	31 March 2022
CPI inflation	2.53% p.a.	2.88% p.a.
Salary increases	3.53% p.a. (CPI plus 1.00% p.a.)	3.88% p.a. (CPI plus 1.00% p.a.)
Discount rate	4.13% p.a. (CPI plus 1.60% p.a.)	4.32% p.a. (CPI plus 1.44% p.a.)

3.13 The estimated funding level of the Fund has reduced from 100.8% as at 31 March 2022 to 92.4% as at 31 October 2023. This is largely due to two factors:

- High levels of short-term inflation exceeding the long-term expectation, resulting in an increase in liabilities of circa £123m.
- Investment returns being lower than assumed at the last valuation, resulting in an experience loss of £44m.

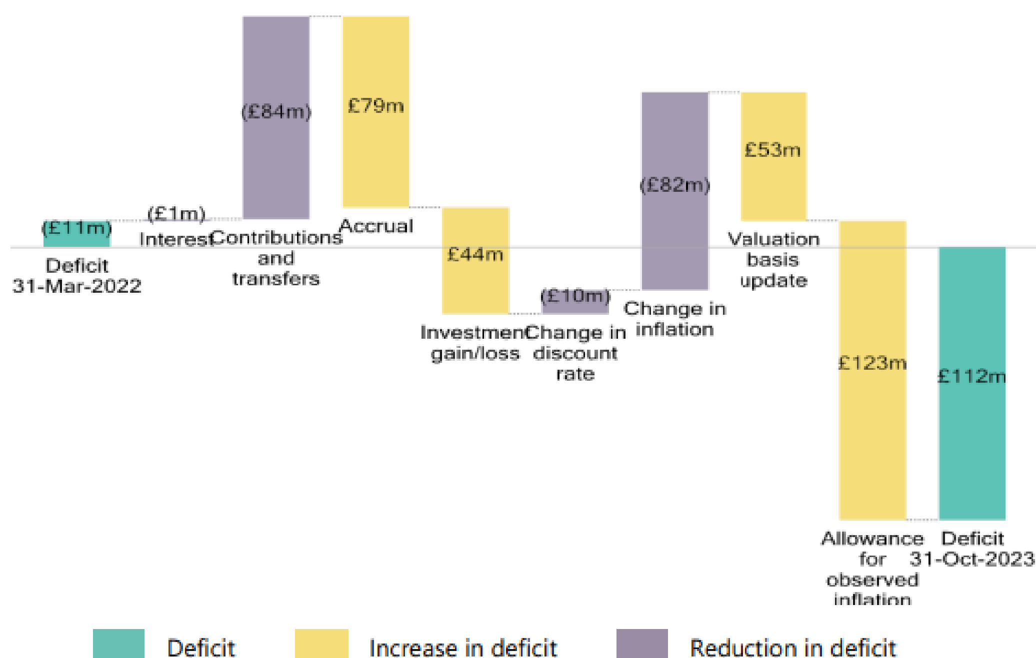
3.14 To assess the Fund's liabilities more accurately, we have adopted an approach to capture inflation experience monthly. Therefore, the funding level as at 31 October 2023 includes the effects of the expected 2024 Pension Increase award of 6.7% and the known increase of 10.1% that was awarded in April 2023. This actual increase in liabilities has been partially offset by the expectation that CPI inflation will be lower over the long-term than assumed at 31 March 2022, as some of the bad news is now in the past.

3.15 Although the Fund returns have outperformed the LGPS benchmark, investment markets have been poor since 31 March 2022 and so investment returns achieved by the Fund over the period have been lower than expected which has contributed to the increase in deficit.

3.16 An adjustment has been made to the derivation of the long-term return estimated on the Fund's holding in absolute return investments. At the 2022 valuation the approach was to set the expected returns of these funds with reference to interest rates. However, given the significant increase in interest rates since the valuation date, and subsequent increase in benchmark returns for these asset classes, our view is that the target returns have become more difficult for investment managers to achieve. Therefore, we have updated the derivation of the expected returns so that they are instead set with reference to the expected returns on gilts and equities. This has led to a reduction in the discount rate as at 31 October 2023 and therefore an increase in the value of the liabilities.

3.17 However, the key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – a higher real discount rate places a lower value on the liabilities. The real discount rate has increased from 1.44% to 1.60% and therefore the overall impact of the change in financial assumptions partially offsets the increase in deficit resulting from the reasons given above i.e., short-term high inflation and low return environment.

3.18 The chart below shows an analysis of the change in the funding position from 31 March 2022 to 31 October 2023.



3.19 **Next Steps**

This is an update for the Committee and for information only. The next full triennial valuation of the Fund is expected to be carried out as at 31 March 2025 with new contribution rates set from 1 April 2026. As part of this review the appropriateness of the assumptions used will be assessed and the funding level of the Fund and employers will be taken into account in setting new contribution rates. This review will

seek to maintain stability and consistency in the level of contributions required whilst retaining a prudent long-term view of funding liabilities.

3.20 Inflation is currently running higher than anticipated and asset returns since the last valuation are lower than anticipated, both of which have served to reduce general funding levels within the LGPS, all else being equal. Models that are linked to gilt yields will have projected an increase in LGPS funding levels because of a significant increase in gilt yields since the last valuation date, an increase in the real discount rate and a decrease in liabilities. The Fund valuation model is linked to the actual long-term investment strategy of the Fund and changes in gilt yields have not affected the value of the liabilities materially.

3.21 **Table 2 – Fund Manager Q3 2023 Performance**

Fund Manager	**Actual Returns (%)**	**Benchmark Returns (%)**	**Variance (%)**	**Ranking**
Abrdn	1.7	2.7	(1.0)	Δ
Baillie Gifford	(4.4)	0.7	(5.1)	
BlackRock	(0.7)	(0.4)	(0.3)	Δ
Hermes GPE	0.0	1.4	(1.4)	Δ
Kempen	1.9	0.6	1.3	O
Newton	0.3	2.0	(1.7)	Δ
Pimco*	(2.4)	(2.4)	0.0	O
Pyrford	1.4	1.7	(0.3)	Δ
Insight	2.2	1.0	1.2	O
UBS Bonds	(0.6)	(0.6)	0.0	O
UBS Equities	(1.6)	(1.6)	0.0	O

*Part quarter return

Table 2 highlights the Q3 2023 returns with a number of ambers, indicating a number of negative returns. Kempen the funds equity manager returned 1.9% outperforming the benchmark by 1.3%. Baillie Giffords performance was negative returning -4.4% over the quarter underperforming its benchmark by 5.1%. Newton returned 0.3% underperforming the benchmark by 1.7%. This investment is meant to provide protection in the current market conditions. Insight provided a positive return for the quarter, reflecting the index linked bond performance for the quarter.

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

Fund Manager	**Actual Returns (%)**	**Benchmark Returns (%)**	**Variance (%)**	**Ranking**
Abrdn	5.5	9.8	(4.3)	
Baillie Gifford	4.6	10.7	(6.1)	
BlackRock	(15.5)	(14.3)	(1.2)	Δ
Hermes GPE	1.2	5.8	(4.6)	
Kempen	15.4	11.1	4.3	O
Newton	0.9	7.0	(6.1)	
Pyrford	4.3	13.2	(8.9)	
Insight	12.2	4.0	8.2	O
UBS Bonds	(2.3)	(2.3)	0.0	O
UBS Equities	17.0	17.0	0.0	O

Over one-year there are even greater variations between managers, with Blackrock providing a negative return of 15.5% and underperforming its benchmark by 1.2%, while Insight provided a positive return of 12.2% outperforming the benchmark by 8.2%. 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.

3.23 **Table 4 – Fund manager performance over three years**

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
Abrdn	13.1	6.8	6.3	O
Baillie Gifford	(0.6)	9.5	(10.1)	
BlackRock	2.1	3.2	(1.1)	Δ
Hermes GPE	6.7	5.9	0.8	O
Kempen	15.3	10.2	5.1	O
Newton	0.8	5.1	(4.3)	
Pyrford	3.2	13.8	(10.6)	
Schroders	0.0	0.0	0.0	O
Insight	1.9	4.0	(2.1)	Δ
UBS Bonds	(11.3)	(11.3)	0.0	O
UBS Equities	9.4	9.4	0.0	O

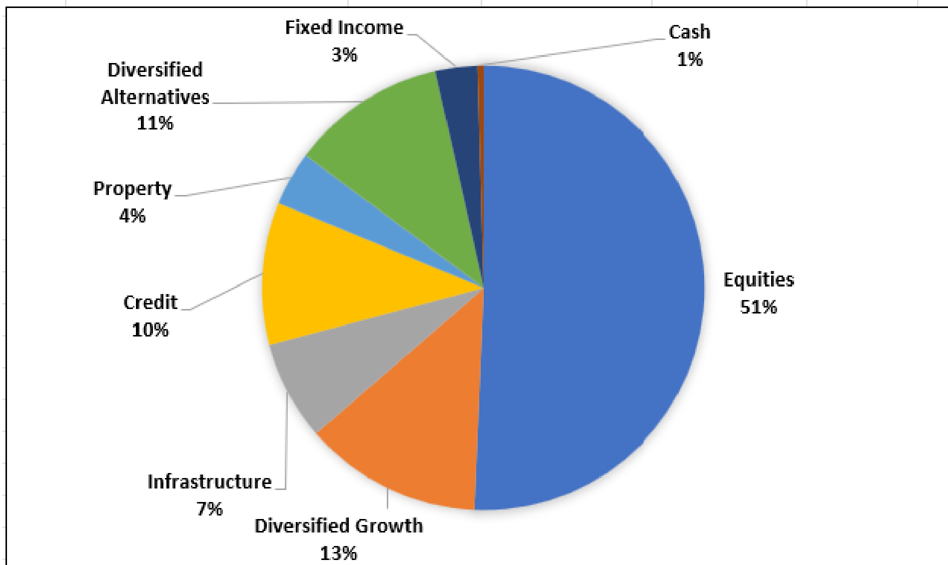
Over three years, returns ranged from (-11.3%) for UBS bonds to 15.3% for Kempen. UBS Equities and Abrdn have provided solid returns, with UBS providing a return of 9.4% and Abrdn providing 13.1% over three years.

4. **Asset Allocations and Benchmark:** Table 5 outlines the Fund's asset allocation, asset value & benchmark at 30 September 2023.

4.1 **Table 5: Fund Asset Allocation and Benchmarks at 30 September 2023**

Fund Manager	Asset (%)	Market Values (£Ms)	Benchmark
Aberdeen Standard	11.3%	150.78	3 Mth LIBOR + 4% per annum
Baillie Gifford	14.7%	195.80	MSCI AC World Index
BlackRock	3.9%	52.67	AREF/ IPD All Balanced
Hermes GPE	7.2%	96.26	Target yield 5.9% per annum
Kempen	15.5%	207.01	MSCI World NDR Index
Newton	5.8%	77.43	One-month LIBOR +4% per annum
Pimco	5.1%	68.72	Bloomberg Global Aggregate Credit
Pyrford	7.2%	95.53	UK RPI +5% per annum
Mellon Corporation	5.2%	69.62	3 Mth LIBOR + 4% per annum
UBS Bonds	3.1%	40.97	FTSE UK Gilts All Stocks
UBS Equities	20.5%	273.54	FTSE AW Developed Tracker
LCIV	0.0%	0.15	None
Cash	0.5%	6.10	One-month LIBOR
Fund Value	100.0%	1,334.57	
ST Loan		-5.8	
Net Fund Value		**1,328.77**	

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



4.3 The strategy is slightly overweight equities; however equities are now nearer the middle of the range at 50.7%. Cash excludes the pre-payment and short-term borrowing from the council and shows that the Fund is fully invested. The Fund is below the exposure to infrastructure, but this will be reviewed.

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	50.7%	50%	0.7%	48-53
Diversified Growth	13.0%	13%	0.0%	11-15
Infrastructure	7.2%	8%	-0.8%	6-8
Credit	10.4%	9%	1.4%	6-9
Property	3.9%	4%	-0.1%	3-5
Diversified Alternatives	11.3%	11%	0.3%	10-12
Fixed Income	3.1%	5%	-1.9%	4-5
Cash	0.5%	0%	0.5%	0-1

5. Fund Manager Performance

5.1 Kempen

Kempen	2023			2022				2021	One Year	Three Years	Since Start 6/2/13
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£207.01m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**1.9**	1.8	1.7	10.0	(1.6)	(3.1)	0.1	2.9	15.4	15.3	8.3
Benchmark	**0.6**	3.9	4.8	1.9	2.1	(9.1)	(2.4)	7.3	11.1	10.2	11.6
Difference	**1.3**	(2.1)	(3.1)	8.1	(3.7)	6.0	2.5	(4.4)	4.3	5.1	(3.3)

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 1.3% for Q3 and has outperformed over one-year by 4.3% and outperformed over three years by 5.1%. Kempen has underperformed its benchmark since inception by 3.3% 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	Three Years	Since Start 6/2/13
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£195.80m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**(4.4)**	3.2	4.6	1.2	1.0	(12.1)	(12.4)	0.1	4.6	(0.6)	11.3
Benchmark	**0.7**	3.4	4.5	2.0	1.5	(8.4)	(2.5)	6.3	10.7	9.5	11.2
Difference	**(5.1)**	(0.2)	0.1	(0.8)	(0.5)	(3.7)	(9.9)	(6.2)	(6.1)	(10.1)	0.1

Reason for appointment

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

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

Performance Review

For Q3 BG returned -4.4%, underperforming its benchmark by 5.1%. BG's one-year return was 4.6%, underperforming its benchmark by 6.1%. Since initial funding, the strategy has returned 11.3% p.a. outperforming its benchmark by 0.1%.

This quarter was a setback for the Sub-fund which in the first half of 2023 had managed to stabilise performance. Over the quarter, once again, macroeconomic uncertainty dominated the news, "short-termism" became the dominant behaviour and stock market participants struggled to assess the impact of inflation and the direction of interest rates. Against this backdrop, many of the Sub-fund's holdings underperformed. This is because despite the 'de-risking' that the investment manager performed over the previous 12 months the Sub-fund by and large maintains its growth orientation and long-term investing horizon.

At the stock level the largest detractors were Chewy, the pet food online retailer, the payments processing company Adyen and two luxury goods companies, Pernod Ricard and Richemont. Chewy was mainly affected by slower new customers' acquisition as well as by comments the company's management made that customers are starting to trade down to value-priced items. Both developments can potentially decelerate growth, but the investment manager advocates that the market overreacted to the news.

Adyen underperformed on the back of concerns that the accelerated hiring of engineers is increasing costs and will hurt the bottom line. The two luxury goods companies, Richemont and Pernod Ricard were mainly hit by concerns about demand for luxury goods in general in the scenario of a recession and specifically by concerns regarding China which remains a key market for these products.

LCIV Summary

At the country level, as of the end of September 2023, the Sub-fund's largest exposure remained the U.S. at 64.5%. At the sector level, the Sub-fund maintained its large exposure to the consumer discretionary sector at 21.2%. This sector remains the largest exposure followed by financials at 17.4% and IT at 16.4%.

Sub-fund turnover remains low which aligns with the long-term investment horizon of the strategy. The investment manager remains, perhaps overly so, confident regarding buying opportunities in the market at reasonable valuations, going as far as stating: "we find ourselves amidst a once-in a generation opportunity stemming from the market's addled state". In this vein, they have taken a new holding in Comfort Systems, one of America's leading industrial mechanical, electrical and plumbing contractors which is expected to benefit from the unfolding US industrial renaissance. They have also taken new positions in Nippon Paint, the Japanese paint business with exposure to the fast-growing Asian market, and Yeti, the US outdoor equipment business, who have built a very strong brand according to the manager.

New purchases and additions have been funded by the sale of Deutsche Boerse, who are the operator of the German stock exchange, Eurex and Clearstream. The shares of Deutsche Boerse saw their valuation rise strongly and opportunities to upgrade the growth profile of the portfolio compelled the investment manager to move on.

The quarter was a setback for the Sub-fund from a performance perspective as the progress made in the first half part of 2023 to stabilise returns was more than offset by a strongly negative Q3. Disappointingly, since inception relative performance numbers, which were marginally positive at the end of Q2, have now moved into negative territory. This remains the main watch point in the monitoring of the Sub-fund, but it is noted that this quarter's rout of performance is driven, to a large extent, by current market dynamics. These are not favouring the Sub-fund's style but nonetheless remain fluid and subject to a reversal. If that occurs, the Sub-fund should be well positioned to benefit.

5.3 UBS Equities

UBS Equities	2023			2022				2021	One Year	Three Years	Since Start 31/08/12
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£273.54m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**(1.6)**	6.2	6.7	5.8	(3.1)	(12.9)	(4.0)	7.6	17.0	9.4	12.0
Benchmark	**(1.6)**	6.2	6.7	5.8	(3.1)	(12.9)	(4.0)	7.6	17.0	9.4	12.1
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 -1.6% for Q3 and 17.0% over one year. Since funding in August 2012, the strategy has provided an annualised return of 12.0%.

Equities

Following the FTSE quarterly review in September, 14 stocks were added to and 42 stocks were deleted from the index, along with various changes in the shares in issue of the index constituents. During the quarter, Johnson & Johnson's weight in the index decreased following spin-off of Kenvue Inc.

The US economy continued its solid performance in September. The labor market is undergoing a gentle cooling, with non-farm payroll growth of 187,000 in August, better than expected and above negatively-revised July figures. The unemployment rate unexpectedly rose to 3.8% from 3.5%, but this was mainly driven by higher labor force participation as more people stayed in the workforce. On a six month annualized rate of change, aggregate labor income is still broadly slowing, though it has picked up on a higher frequency. Initial jobless claims linger near record lows, pointing to enduring tightness in the labor market.

The August CPI inflation report was largely in-line with expectations, with headline rising 0.6% month-on-month and core up 0.3% on a monthly basis. PCE inflation data released late in the month painted a slightly more subdued picture for price growth, with headline and core up 0.4% and 0.1%, respectively. Both of these figures were lower than anticipated. The Federal Reserve kept rates unchanged at a range of 5.25 to 5.5% at its September meeting, as expected. The central bank's updated forecasts reflected optimism about the economy's ability to withstand higher interest rates. Real GDP projections were revised up materially for 2023, with 2024 estimates increased as well. Monetary policymakers also think the labor market will remain tighter for longer, reducing their forecast for the unemployment rate at the end of 2024 and 2025 to 4.1% from 4.5%. During his press conference, Fed Chair Jerome Powell indicated that the last three months of CPI inflation data had been positive, which suggests that the central bank is not overly concerned about the renewed rise in energy prices or some acceleration in supercore measures of inflation. At the end of the month, Congress reached a bipartisan deal to fund the government for 45 days, narrowly avoiding a government shutdown which was due to start October 1.

5.4 UBS Bonds

UBS Bonds	2023			2022				2021	One Year	Three Years	Since Start 5/7/2013
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£40.97m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**(0.6)**	(5.4)	2.1	1.7	(12.9)	(7.4)	(7.2)	2.4	(2.3)	(11.3)	0.3
Benchmark	**(0.6)**	(5.4)	2.1	1.7	(12.9)	(7.4)	(7.2)	2.4	(2.3)	(11.3)	0.3
Difference	**(0.0)**	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Reason for appointment

UBS were appointed as the Fund's passive bond manager to allow the Fund to hold a small allocation (4%) of UK fixed income government bonds. There is a link between the bond price and the Fund's liabilities and therefore the reduction in returns will have helped to reduce the Fund's liabilities.

Performance

The fund returned -0.6% for Q3, -2.3% for one year and -11.3% for three-year return. Since inception the strategy has returned 0.3%.

Review

The All Stock Gilt index returned -0.63% in sterling terms over the quarter. In yield terms, 2 year nominal yields fell by 0.28% to 4.98% and 10 year nominal yields rose by 0.18% to 4.56%. The modified duration of the index is 8.46 years. The Bank of England's Monetary Policy Committee increased the policy rate to 5.25%. The UK Debt Management Office held 13 nominal bond auctions during the quarter across a range of maturities.

Inflation in Japan came in slightly above expectations in August. Annual headline inflation of 3.2% was a tick above July's reading, but higher than the 3% estimate. Core inflation remained unchanged at 3.1% year-on-year versus the 3% projection. However, labor cash earnings continued to show a marked deceleration from the strong growth seen in May. As of July, labor cash earnings increased 1.3% year-on-year, far below the consensus call for 2.4%, and are deeply negative in real terms. The Bank of Japan kept policy unchanged at its September meeting. Governor Kazuo Ueda indicated that there was a high bar to hike rates back to 0, emphasizing that the central bank could ease more if necessary to ensure that underlying inflation reaches 2% on a durable basis.

5.5 Pimco

Pimco	2023			2022				2021	One	Three	Since Start
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Year	Years	18/07/2023
£68.72	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(2.1)										(2.4)
Benchmark	(2.0)										(2.4)
Difference	(0.1)										0.0

Reason for appointment

Pimco were appointed as the increase in bond yields over the past year significantly increased the attractiveness of fixed income assets, including investment grade credit. Although slowing earnings growth may weigh on company debt affordability going forward, high interest coverage levels and lower leverage mean that the funds advisor doesn't anticipate a very high level of defaults and downgrades. The investment was completed in 3 tranches of £20m in July 2023, £25m in August 2023 and £25m in September 2023.

Performance and Investment Update

Pimco returned -2.1% for Q3 against a benchmark of 2.0% and returned -2.4% since inception. The Q3 return was a part quarter return as the date of inception was 18th July 2023.

Q3 was another challenging quarter for investment grade credit as yields kept rising on the back of monetary policy guidance. Key to this further increase in yields was the 'higher for longer' narrative on interest rates which was reinforced by comments from the U.S. central bank. Against that backdrop, the Sub-fund's incremental increase in duration, particularly through exposure to U.S. credit, was the main headwind for the portfolio.

The Sub-fund's allocation to generic credit risk detracted slightly from performance. Credit spreads tightened slightly over the first half of the quarter and widened in September, ending the quarter broadly unchanged. The investment manager had added to credit risk as spreads widened, resulting in marginal underperformance for the Sub-fund.

The yield to maturity of the Sub-fund increased from 5.6% at the end of Q2 to 6% at the end of Q3, 0.4% higher than the benchmark index. The current yield also increased, by 0.7% to 4.7%. The weighted average rating of the holdings in the Sub-fund is 'A+', compared to 'A' for the benchmark. Borrower exposure is spread across a very large number of companies. In our view, the yield to risk profile of the Sub-fund is attractive when compared to the index.

The investment manager has achieved a strong recovery over the last year and relative performance is now positive across short and long-term horizons. It is expected that the investment manager to continue to build on this improvement through careful positioning in terms of interest rate risk and credit market beta, as well as diligent selection of borrowers.

5.6 BlackRock

BlackRock	**2023**			**2022**				**2021**	**One Year**	**Three Years**	**Since Start 1/1/2013**
	Q3	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4			
£52.67m	**%**	**%**	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**(0.7)**	(0.4)	0.0	(14.4)	(4.4)	2.9	6.8	6.7	(15.5)	2.1	0.7
Benchmark	**(0.4)**	0.4	(0.2)	(14.1)	(4.0)	3.9	5.6	7.5	(14.3)	3.2	3.5
Difference	**(0.3)**	(0.8)	0.2	(0.3)	(0.4)	(1.0)	1.2	(0.8)	(1.2)	(1.1)	(2.8)

Reason for appointment: In December 2012, a sizable portion of the Fund's holdings with Rreef were transferred to BlackRock (BR). The transfer to BR provides the Fund with access to a greater, more diversified range of property holdings within the UK. In 2021 the allocation to BlackRock was increased following the closure of the Schroders SIRE fund.

Q3 2023 Performance and Investment Update

BR returned -0.7% for Q3 against a benchmark of -0.4%, returned -15.5% over one year against a benchmark of -14.3%. The Fund's valuers have a highlighted increased volatility and uncertainty in their valuations. This is not a 'material uncertainty clause' as was seen during COVID, however the valuers are relying more

on sentiment than transaction evidence. The LDI crisis and associated bond market crash had several impacts on the UK property market.

Market Conditions

The UK saw the Bank of England pausing further rate rises at their meeting in September, opting to leave the Base Rate at 5.25% following inflation data surprising on the downside. The manager sees this as a significant step forward as the market moves through the steps of the cycle. It would be wrong to prematurely celebrate, not least because inflation remains well above the 2% pa target, and it should be seen as an inflation spike again then the BoE will respond accordingly. It is certainly a milestone however, following nearly two years of frequent rate rises to attempt to check inflation, that the Bank's decision to pause, we believe, points to more stability in Q4. Uncertainty around inflation and subsequent rate hikes has plagued the property market, negatively impacting transaction activity.

The Fund has received a heightened level of redemption requests, reflecting the actions of a number of UK corporate defined benefit pension scheme clients, many of whom found the macro market changes effectively moved them from underfunded to overfunded. This is clearly good news for many of our clients who have achieved their objectives, however the very same cause of their success simultaneously creates a handbrake on the property market, linked to the rising cost of finance, the impact of an elevated rate environment on occupiers, and inflation on build costs. These opposing forces create tension, with less liquidity due to these challenges.

Transactions: In the third quarter of 2023, the Fund completed the sale of Watling House, a multi-let office building, with ancillary retail and leisure at ground and lower ground floors, in the City of London, EC4. No acquisitions were completed during the quarter.

5.7 Hermes

Hermes	2023			2022				2021	One Year	Three Years	Since Start 9/11/2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£96.26m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**0.0**	0.5	(0.1)	0.8	10.5	(1.0)	10.5	(0.9)	1.2	6.7	8.0
Benchmark	**1.4**	1.4	1.5	1.4	1.4	1.4	1.5	1.4	5.8	5.9	5.9
)ifference	**(1.4)**	(1.0)	(1.5)	(0.6)	9.1	(2.4)	9.0	(2.3)	(4.6)	0.8	2.0

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 0.0% in Q3 underperforming the benchmark by 1.4%. Over one year the strategy reported a one-year return of 1.2%, underperforming its benchmark by 4.6%. Since inception the strategy has provided a good, annualised return of 8.0%, outperforming its benchmark by 2.0%.

The remaining interests in HIF I are A Shade Greener I and II ("ASG"), the Innisfree funds and Southern Water. The managers intention is to wind up the Fund through disposal of the remaining assets: A Shade Greener I & II ("ASG") for which the sales process continues to progress, Innisfree M&G PPP 'B commitments' and Innisfree PFI continuation Fund, which continue to yield.

The disposal proceeds, £32.2m, from the previously completed sale of the Innisfree M&G PPP 'A commitments' are due to be received in March 2024. The remaining HIF I Core assets after the completion of the ASG sale are the Innisfree M&G PPP 'B commitments' and Innisfree PFI Continuation fund. The funds distributed twice in 2023 and are forecast to continue to yield in the coming years, more than covering fund expenses.

30 June is the first independent valuation of FHDIF following the close of Project Orion in April. Following the Independent Valuation Committee, the portfolio valuation is down 5.0% (4.6% after accounting for H1 2023 distributions to the Fund) compared to 31 December 2022. The write down of ABP, because of an aborted sale of a stake in ABP rather than any operational issues in the business, as described further in the report, accounts for over two thirds of the portfolio valuation movement. Increased discount rates, particularly for UK assets, and the strengthening of Sterling against the Euro, which negatively impacts the GBP valuations of the Euro denominated assets, account for the balance. Relative to the market, we consider that the FHDIF portfolio has performed robustly, consistent with the design characteristics we sought.

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.

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**").

5.8 Abrdn Asset Management

Abrdn	**2023**			**2022**				**2021**	**One Year**	**Three Years**	**Since Start 15/9/2014**
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£150.78	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**1.7**	1.6	3.7	(1.5)	(2.1)	(1.4)	3.7	1.6	5.5	13.1	7.0
Benchmark	**2.7**	2.5	2.4	2.1	1.8	1.6	1.6	1.0	9.8	6.8	5.4
fference	**(1.0)**	(1.1)	1.3	(3.6)	(3.9)	(3.0)	2.1	0.6	(4.3)	6.3	1.6

Reason for appointment

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

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

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 £148m, which is 11% 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 posted a solid gain over the three months to the end of September. Returns were led by strong performance from hedge funds including DE Shaw Oculus and Frere Hall, and higher June 30 valuations for private equity investments including Advent VIII and SOF IV (the secondaries fund). Over one year the return of 1.6% underperforms the benchmark return of 8.9% by 7.3%. Since inception the strategy has returned 7.0%, outperforming the benchmark by 1.8%.

ASAM have built a portfolio of hedge funds, private equity funds and co-investments, which can offer a balanced return not wholly dependent on traditional asset class returns. In the case of private equity, the intention is to be able to extract an illiquidity premium over time.

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

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

Outlook

The manager continues to see a broad opportunity set for discretionary macro managers, which in the near term will continue to be driven by inflation dynamics and tight monetary policy. Macro managers remain closely aligned in their views on the path for interest rates, yet the destination and timing differ. Some discretionary specialists, however, are particularly focused on idiosyncratic country-level opportunities, especially within EM as opposed to the bigger macro picture. 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.

The manager outlook for fixed income relative value strategies remains positive. The manager sees 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.

Abrdn Acquisition

On 20th July, Abrdn announced that it has entered into an agreement to transfer the management of approximately $4 billion in assets under management and 30 employees to HighVista Strategies LLC. Abrdn concluded following a comprehensive business review of its private markets business that the US Private Equity and Venture Capital capabilities (from the acquisition of FLAG Capital Management) would be best developed under a different ownership and management structure. The sale is expected to complete later this year. Officers are in talks with Abrdn about the potential impact this would have on the funds investment and will keep the committee updated.

Abrdn recently announced that it has entered into an agreement to sell its European headquartered private equity business ("abrdn Private Equity") to Patria Investments ("Patria"), a leading private markets asset management firm. Patria is a Nasdaq-listed, entrepreneurial global partnership with assets under management in excess of $28 billion and over 30 years of experience in direct private equity, infrastructure, real estate and credit. The sale includes all of the European and Global private equity funds and mandates managed or advised by abrdn Private Equity, representing approximately £7.5 billion in total assets. Officers are currently in discussion with Abrdn and the fund's investment advisor to establish the full impact of this acquisition on the fund and will keep members updated. It The Patria/abrdn transaction is not expected to formally close until March or April 2024.

5.9 Pyrford

Pyrford	2023			2022				2021	One Year	Three Years	Since Start 28/9/2012
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£95.53m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**1.4**	(1.7)	1.4	3.2	(2.4)	(0.8)	1.5	1.3	4.3	3.2	3.1
Benchmark	**1.7**	3.7	3.1	4.7	3.3	6.3	3.1	4.0	13.2	13.8	8.7
Difference	**(0.3)**	(5.4)	(1.7)	(1.5)	(5.7)	(7.1)	(1.6)	(2.7)	(8.9)	(10.6)	(5.6)

Reason for appointment

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

Performance

The value of the Sub-fund increased by 1.4% in the third quarter of 2023. Over one year, the Sub-fund has gained 4.3%, whereas the RPI plus 5% benchmark has increased by 16.9%. On an annualised basis, the Sub-fund has returned 3.1% since inception.

The Sub-fund was well positioned to withstand the sharp increase in bond yields and falls in equity markets in the second half of Q3. All of the main blocks of exposure in the Sub-fund made money in Q3.

Bonds are the biggest segment of the portfolio. This segment is invested entirely in short-dated bonds which are less sensitive to changes in reference interest rates. UK (+1.1% contribution to composite performance, source: investment manager) and overseas bonds (+0.4%) both outperformed their respective reference indices by big margins. The Sub-fund holds only developed market government bonds maturing in five years or less.

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.

5.10 Newton

Newton	**2023**			**2022**				**2021**	**One Year**	**Three Years**	**Since Start 31/8/2012**
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£77.43m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**0.3**	(1.8)	(1.3)	3.7	(4.3)	(2.1)	(4.4)	3.7	0.9	0.8	3.0
Benchmark	**2.0**	1.8	1.7	1.4	1.1	0.9	0.8	1.0	7.0	5.1	4.6
rence	**(1.7)**	(3.6)	(3.0)	2.3	(5.4)	(3.0)	(5.2)	2.7	(6.1)	(4.3)	(1.6)

<u>Reason for appointment</u>

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.

<u>Performance</u>

Newton generated a return of 0.3% in Q3, underperforming its benchmark by 1.7%. Over one year the strategy has returned 0.9%, underperforming its benchmark by 6.1%, although the return over three years is 0.8% against a benchmark of 5.1%. Newton’s performance since inception is 3.0% per annum.

The return-seeking segment of the Sub-fund lost 1.1% in Q3 (source: investment manager, before fees). Equities were down (in local currency terms), but protective positions helped mitigate losses in the second half of the quarter. Emerging markets debt also made a small loss, partly because of the performance of the Mexican Peso. Alternatives were weak, mainly because of the impact of higher bond yields on the valuations of renewable energy and infrastructure funds. The equity market beta embedded in listed real assets funds was another headwind.

The stabilising layer was up 0.6% in Q3. The allocation to cash was increased over the quarter, and these holdings generated attractive yields. Government bonds weathered the big rise in yields well, ending the quarter flat. The investment manager actively adjusted positioning in this part of the Sub-fund in Q3, including by taking short positions in interest rate futures. Derivatives made a positive

contribution to recover a portion of the losses incurred in the first half of 2023, when equity protection proved to be expensive.

The investment manager's central view remains that the risk of recession or an extended period of sub-par growth is high. Corporate profits have held up well so far, but the investment manager expects consumer spending and capital investment to slow down in the wake of the shift in the rates markets to a 'higher for longer' scenario. The investment manager remains concerned that equity valuations are misaligned to the sharp increase in discount rates in the past 12 to 18 months, and that credit markets are not correctly pricing default and downgrade risk.

5.11 Insight (Mellon Corporation / Standish)

Insight	2023			2022				2021	One Year	Three Years	Since Start 20/8/2013
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4			
£69.62	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**2.2**	1.5	2.8	5.7	(1.3)	(3.8)	(2.6)	(0.7)	12.2	1.9	1.2
Benchmark	**1.0**	1.0	1.0	1.0	1.0	1.0	1.0	1.0	4.0	4.0	4.8
Difference	**1.2**	0.5	1.8	4.7	(2.3)	(4.8)	(3.6)	(1.7)	8.2	(2.1)	(3.6)

Reason for appointment

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

Performance

Q3 saw the BNY Mellon Targeted Return Bond Fund outperform its reference benchmark by 1.2%, providing a positive return of 2.2%. Over one year the strategy has returned 12.2% and over three years it has returned 1.9%, with a return of 1.2% since inception.

The third quarter of 2023 saw the BNY Mellon Targeted Return Bond Fund slightly underperform its reference benchmark. The bulk of the period's positive alpha can be attributed to the fund's overweight to credit markets, while this was offset by positioning in duration markets. The best performing rates positions was an underweight in Canada and a 2s10s steepener in the United Kingdom. Small overweights to several other markets including Australia, Korea, Mexico, New Zealand and South Africa underperformed as rates were under pressure. Within European countries the fund continued to benefit from its overweight in Greek debt although this was offset by underperformance from a larger overweight in Italian debt. In aggregate, duration positioning was the main driver of underperformance throughout the quarter.

The fund's large overweight to corporate credit and other risk assets during the spread tightening environment made a large positive contribution to returns on the quarter, and almost offset the underperformance from duration. Specifically material positions in banking, communications, and non-cyclical consumer companies lead the outperformance in spread products. Active FX positioning was not a meaningful source of performance throughout the quarter.

5.12 Currency Hedging

No new currency hedging positions were placed in Q3 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: David Dickinson, Investment Fund Manager

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 Q3 2023 Report; and
- Fund Manager Q3 2023 Reports.

List of appendices:

Appendix 1 - Fund Asset and Liability Values 31 March 2013 to 21 November 2023
Appendix 2 - Definitions
Appendix 3 - Roles and Responsibilities