PENSIONS COMMITTEE

10 July 2024

Title: Pension Fund Quarterly Monitoring 2023/24 – 1 January to 31 March 2024	
Report of the Managing Director	
Open Report	**For Information**
Wards Affected: None	**Key Decision:** No
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Accountable Director: Michael Bate, Interim Director of Financial Services (Deputy S151 Officer)	
Accountable Strategic Leadership Director: Jo Moore, Interim Strategic Director Finance and Investment (S151 Officer)	

Summary

This report provides information for employers, members of London Borough of Barking and Dagenham Pension Fund ("the Fund") and other interested parties on how the Fund has performed during the quarter 1 January to 31 March 2024.

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 the report;

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

Reason(s)

1. Introduction and Background

1.1 This report provides information for employers, members of the LBBD Pension Fund ("the Fund") and other interested parties on how the Fund has performed during the quarter 1 January to 31 March 2024 ("Q1"). The report updates the Committee on the Fund's investment strategy and performance. Appendix 1 provides a definition of terms used in this report. Appendix 2 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 9 July 2024 will be provided to Members at the Pension Committee.

2. Independent Advisors Market Background (Q1 2024)

World Equity markets experienced another very positive Quarter with the MSCI World Index gaining 9% (in US $ terms) over the January to March 2024 period. Clearly positive influences were continued expectations of interest rate cuts by Central Banks (particularly the US Federal Reserve and European Central Bank), data releases indicating strength in the US economy, positive corporate earnings in the United States (for example from the “mega stock” chipmaker Nvidia), and market positivity about artificial intelligence (as exemplified by Nvidia and Meta Platforms). United States Equities had a very successful Quarter with the S&P 500 advancing by over 10%. After 34 years the Japanese Nikkei 225 Index finally exceeded the record closing high of 38,916 set on 29 December 1989. Indeed, Japanese Equities experienced an exceptional Quarter with the Nikkei 225 advancing by over 20% during the January to March 2024 Quarter to close at 40,369 on 29 March.

In the United States the S&P 500 Index achieved 22 new record closing highs during the Quarter exceeding both the 5,100 and 5,200 level for the first time and closing at a record 5,254 on 28 March 2024. Over the Quarter the Index advanced by over 10%. While there were widespread gains across the S&P 500 Index with approaching three quarters of the stocks in the index gaining over the Quarter the influence of a handful of “mega stocks” was (again) clearly apparent. Four stocks (Nvidia, Microsoft, Meta Platforms and Amazon) which accounted for 18% of the market weight of the S&P 500 Index provided 47% of the Quarterly total return of the index.

US stocks were boosted by positive corporate earnings announcements as well as generally positive economic data – for example in terms of GDP releases from the US Bureau of Economic Analysis, employment/unemployment data, and positive consumer sentiment which according to the respected University of Michigan “surveys of consumers” surged in January 2024 and then held for the remainder of the Quarter at a level around 25% higher than at November 2023. Market positivity regarding artificial intelligence also drove stock markets in the US and beyond higher. For example, on 21 February Nvidia announced better than anticipated earnings and in a statement its Chief Executive Officer Jensen Huang said that “Accelerated computing and generative AI have hit the tipping point. Demand is surging worldwide across companies industries and nations.” This resulted in not only the US but also European and Japanese stock markets posting significant immediate gains. Market expectations regarding interest rate reductions also continued to drive financial market positivity with markets anticipating at least three cuts by the Federal Reserve during 2024.

The Core PCE (Personal Consumption Expenditures) Index which is closely observed by the US Federal Reserve when determining monetary policy continued to be clearly above the target of 2% but further reduced, very slightly, from 2.9% in December 2023 to 2.8% in February 2024 as announced by the US Bureau of Economic Analysis (BEA) on 29 March 2024.

At both the meetings of the US Federal Reserve Federal Open Markets Committee (FOMC) held on 30-31 January and 19-20 March the target range for the Federal Funds Rate (the benchmark interest rate) was held at 5.25-5.5%. Projections issued at the end of the March 2024 meeting indicated (as they had after the December 2023 meeting) that FOMC participants anticipated (three) rate cuts totalling 0.75% in 2024.

However, it should be noted that neither the extent nor timing of rate cuts is in any way guaranteed. The US Federal Reserve explicitly stated in both the Press Release issued after the January 2024 and March 2024 FOMC meetings that “In considering any adjustments to the target range for the federal funds rate, the Committee will carefully assess incoming data, the evolving outlook, and the balance of risks. The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent.”

Eurozone shares also advanced strongly in the January to March 2024 Quarter with the MSCI EMU Index gaining over 10% (in Euro terms). As in the United States positive corporate earnings results and expectations of (some) future interest rate reductions (by the European Central Bank and US Federal Reserve) boosted stock markets. The information technology sector was particularly positive based on corporate earnings which also buoyed expectations of future growth.

At its meetings held on 25 January 2024 and 7 March 2024 the Governing Council of the European Central Bank again (as in October and December 2023) kept interest rates “unchanged.” As with the US Federal Reserve the European Bank was clear that changes to interest rates will be driven by data. On 25 January 2024 at the Press Conference following the meeting of the Governing Council the President, Christine Lagarde, stated in response to a question that “One other thing which was very much the consensus around the table was that we had to continue to be data-dependent. So rather than being fixated on any kind of particular calendar, which would be being date-dependent, we reaffirmed our data dependency.” However, markets continued to anticipate interest rate reductions in 2024. Despite carefully nuanced comments, by Christine Lagarde at her 7 March 2024 Press Conference, in response to a question regarding future interest rates her comments including that “we are on this disinflationary process… and we are making good progress towards our inflation target. And we are more confident as a result. But we are not sufficiently confident, and we clearly need more evidence, more data. We know that this data will come in the next few months. We will know a little more in April, but we will know a lot more in June” were taken by some market commentators as a signal of a June 2024 interest rate cut.

Reported UK inflation fell over the Quarter. While CPI inflation for December 2023 (reported in January 2024) rose to 4.0%, up from 3.9% in November, and remained at 4.0% for January 2024, the Office for National Statistics reported (on 20 March 2024) that CPI for February was 3.4%. The February CPI was the lowest since September 2021 and slightly lower than market expectations.

The Bank of England Monetary Policy Committee (MPC) maintained Bank Rate (interest rates) at 5.25% at both the meeting ending on 31 January 2024 and the meeting ending on 20 March 2024. There was however no clear direction from the Bank regarding the pace of any future interest rate cuts. UK stocks advanced during the January to March 2024 Quarter, but as in the previous Quarter by less than US and Eurozone stocks. The FTSE All Share Index returned 3.6% over the January to March 2024 period.

Japanese equities had an outstanding Quarter with the Nikkei 225 Index gaining over 20% during the Quarter. Furthermore, the Nikkei 225 finally exceeded its record closing high of 38,916 set over 34 years earlier on 29 December 1989, and then ended the Quarter on 29 March 2024 at 40,369. A number of factors contributed to

the success of Japanese equities over the Quarter. Japanese corporate earnings were positive with a weak Yen also contributing to the profits of export orientated companies. The optimism over artificial intelligence boosted companies involved in the semiconductor sector. Additionally, both Japanese and overseas investors have been increasing their exposure to Japanese shares with the former encouraged by a new government subsidised savings scheme and the latter by an improved approach to corporate governance and Japanese economic prospects compared to China.

Japanese inflation which had been 2.6% in December 2023 was 2.2% in January 2024, 2.8% in February and 2.7% in March. This provided further evidence that Japan has genuinely exited its prolonged period of deflation/extremely low inflation with price increases exceeding the Bank of Japan's 2% target since April 2022.

From April 2023 following the appointment of Kazuo Ueda as Governor of the Bank of Japan there had been some, but limited, softening of the Bank of Japan's longstanding and ultra loose monetary policy approach. However, at the meeting of the Policy Board of the Bank of Japan which concluded on 19 March 2024 there was a historic change whereby the policy of negative interest rates (to control the short term rate) and yield curve control (to control longer term rates) were both abandoned. The statement issued after the meeting began with an explanation and justification of this hugely symbolic policy change "… the Policy Board of the Bank of Japan assessed the virtuous cycle between wages and prices, and judged it came in sight that the price stability target of 2 percent would be achieved in a sustainable and stable manner… The Bank considers that the policy framework…with Yield Curve Control and the negative interest rate policy to date have fulfilled their roles. With the price stability target of 2 percent, it will conduct monetary policy as appropriate, guiding the short-term interest rate as a primary policy tool… Given the current outlook for economic activity and prices, the Bank anticipates that accommodative financial conditions will be maintained for the time being." The short term interest rate was increased from minus 0.1% to "at around 0 to 0.1 percent." The Bank had applied short term negative interest rates and yield curve control since 2016 and had not raised (short term) interest rates since 2007.

In monetary policy terms the Bank of Japan's decisions were both historic and hugely symbolic. In particular the Bank finally came to the view that Japan's longstanding battle with deflation and ultra low inflation was ended (for now) and that the target of 2% inflation would be achieved in a sustainable and stable manner. Additionally, the Bank abandoned unconventional instruments (negative short term interest rates and Bond yield control) in favour of short term interest rate policy "as a primary policy tool."

However, the announcement certainly did not signal a significant tightening of Japanese monetary policy as the Bank clearly signalled that rapid interest rate rises should not be anticipated stating that "the Bank anticipates that accommodative financial conditions will be maintained for the time being." After the meeting Governor Kazuo Ueda also clearly indicated that interest rates would not rise rapidly given the need to further consolidate Japanese inflation at the 2% target. Furthermore, although Yield curve control was abandoned the Bank of Japan will continue with its policy of purchasing Japanese Government Bonds with the aim (as stated in "The Summary of Opinions" issued on 28 March 2024) "of avoiding rapid fluctuations in long-term interest rates."

Additionally, this change in approach to monetary policy by the Bank of Japan cannot address the structural issues in Japan including an ageing and declining population, low consumer demand, high public debt, and low economic growth all of which remain and act as a counter to inflation at the Bank of Japan's target of 2%. Therefore, a serious question must surely remain as to the long term sustainability of inflation at the 2% target and consequently a policy of long term moderate interest rate rises and the future long term avoidance of "unconventional" monetary policy instruments.

Asian Markets (excluding Japan) and Emerging Markets advanced but clearly underperformed Developed markets. The MSCI AC Asia (excluding Japan) and the MSCI Emerging Markets indices both gained but by less than 3% (in US$ terms) over the Quarter. Chinese stocks gained but by less than the major regional indices in the context of ongoing concerns regarding the Chinese economy (despite some stimulus measures by the Chinese authorities), and continuing strains in US-Chinese relations. Taiwan, a huge semiconductor manufacturer, however, performed exceptionally well returning over 13% supported by expectations in relation to artificial intelligence and technology companies.

The Quarter was negative for benchmark Government Bonds (US, UK, and Germany) with yields rising (and therefore prices falling) across all of the 2, 10 and 30 year yields. For example, the yield on the 10 year US Treasury rose from 3.88% to 4.20%, that on the 10 year Gilt from 3.54% to 3.93%, and that on the 10 year Bund from 2.02% to 2.30%. Concerns over the future extent/speed of downward inflation, together with the generally cautionary approaches to interest rate reductions expressed by the US Federal Reserve and European Central Bank surely weighed against the Benchmark Government Bonds. Overall Corporate Bonds in the US, UK and Eurozone also experienced a negative Quarter but less so than Government Bonds.

3. Overall Fund Performance

3.1 The Fund's closed Q1 valued at £1,455.20m, an increase of £65.0m from its value of £1,390.20 at 31 December 2023. Cash held by the Fund was £1.99m giving a total Fund value of £1,457.19. The gross value includes a short-term loan to the council of £16.9m. Adjusting for this increases the Q1 value to £1,474.09m, an increase of £68.8m from the 31 December 2023 figure of £1,405.30m.

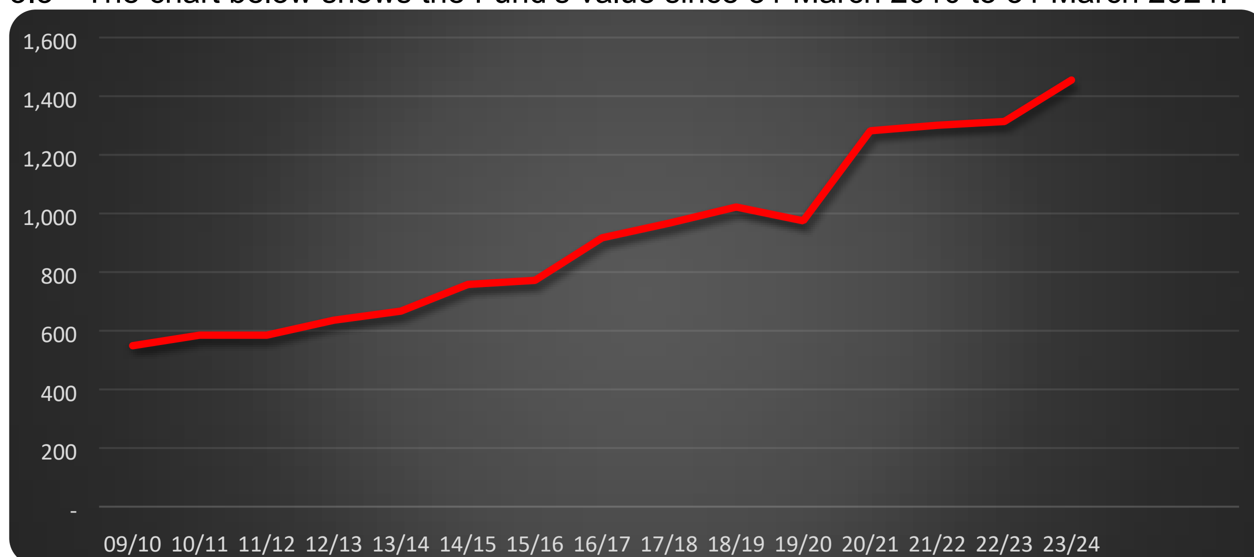
3.2 For Q1 the Fund returned 4.7%, net of fees, underperforming its benchmark of 5.4% by 0.7%. Over one year the Fund underperformed its benchmark by 2.0%, returning 11.4% and underperformed the benchmark by 3.3% over three years, returning 5.1%. The Fund has also underperformed its benchmark over five years by 1.5%, returning 7.5%. Compared to the LGPS universe of Funds, represented below by the PIRC Universe, the Fund has outperformed by 0.4% over one year and underperformed over two years by 0.7%. The Fund's returns are below:

Table1:

Year	2024	2023				2022				One	Two	Three	Five	Ten
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Yr	Yrs	Yrs	Yrs	Yrs
Actual Return	4.7	5.1	(0.5)	2.0	3.1	2.9	(1.2)	(6.3)	(2.8)	11.4	3.6	5.1	7.5	7.9
Benchmark	5.4	4.5	0.6	2.9	3.5	1.6	0.1	(4.0)	(0.6)	13.4	7.0	8.4	9.0	9.0
Difference to Benchmark	(0.7)	0.6	(1.1)	(0.9)	(0.4)	1.3	(1.3)	(2.3)	(2.2)	(2.0)	(3.4)	(3.3)	(1.5)	(1.1)
PIRC Universe	5.6	4.6	0.9	1.9	2.9	1.0	(0.3)	(4.8)	(3.2)	11.0	4.3	5.8	6.7	7.8
Difference to PIRC	(0.9)	0.5	(1.4)	0.1	0.2	1.9	(0.9)	(1.5)	0.4	0.4	(0.7)	(0.7)	0.8	0.1

Fund's Quarterly and Yearly Returns

3.3 The chart below shows the Fund's value since 31 March 2010 to 31 March 2024.

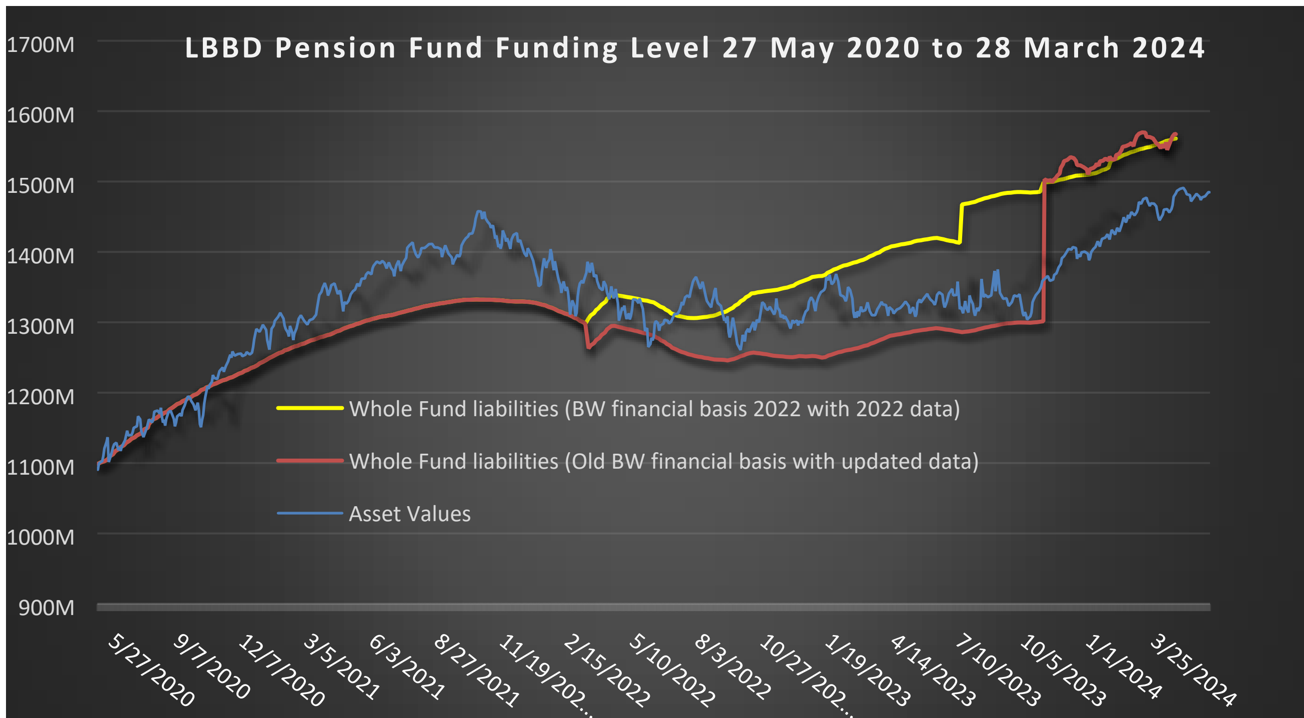


3.4 The fund manager's performance has been scored using a quantitative analysis compared to the benchmark returns, defined below:

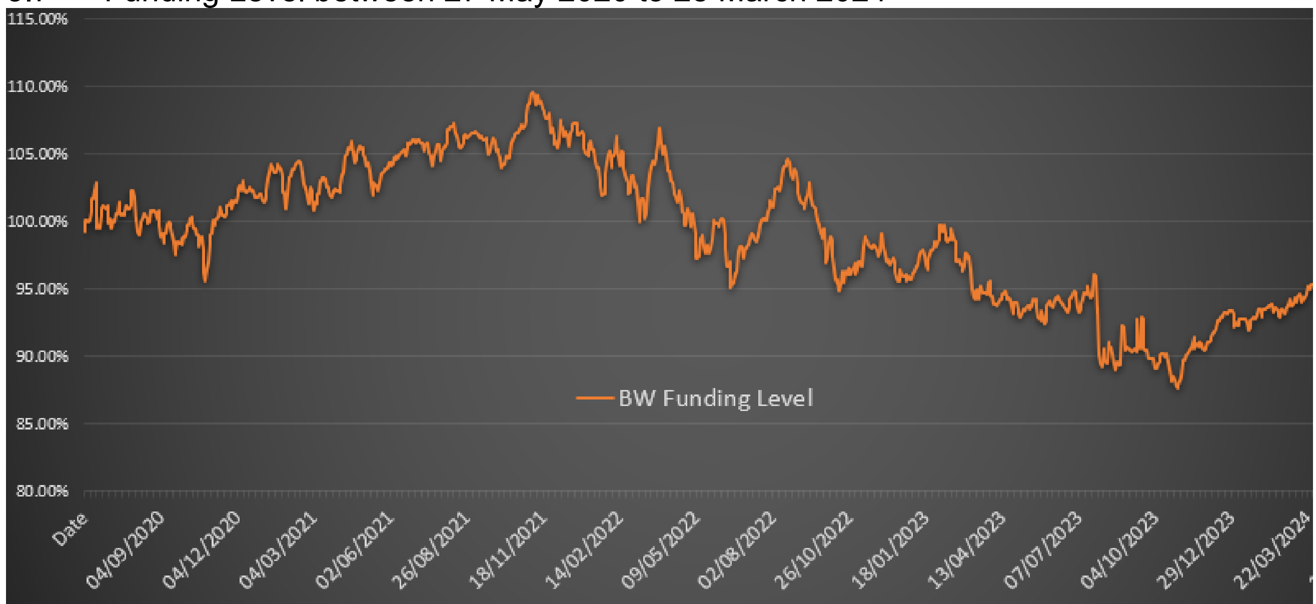
	RED- Fund underperformed by more than 3% against the benchmark
Δ	**A**MBER- Fund underperformed by less than 3% against the benchmark
O	**G**REEN- Fund is achieving the benchmark return or better

3.5 The chart below illustrates changes in the market value, the liability value, the Fund's deficit and the funding level from 31 March 2020 to 28 March 2024. 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.

3.6 The chart below shows the Funds funding Level 31 March 2020 to 28 March 2024



3.7 Funding Level between 27 May 2020 to 28 March 2024



3.8 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.

3.9 Table 2 – Fund Manager Q1 2024 Performance

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
Abrdn	3.4	2.8	0.6	O
Baillie Gifford	8.7	9.3	(0.6)	Δ
BlackRock	(4.7)	0.5	(5.2)	
Hermes GPE	0.0	1.5	(1.5)	Δ
Kempen	4.1	9.9	(5.8)	
Newton	4.1	2.1	2.0	O
Pyrford	0.5	2.3	(1.8)	Δ
Pimco	0.5	0.0	0.6	O
Insight	2.5	1.0	1.5	O
UBS Bonds	(1.6)	(1.6)	0.0	O
UBS Equities	10.1	10.1	0.0	O

Table 2 highlights the Q1 2024 returns with a number of greens, indicating a number of positive returns. Insight returned 2.5% outperforming the benchmark by 1.5%, reflecting the index linked bond performance. Newton and Pyrford had positive returns of 4.1% and 0.5% respectively with Newton outperforming the benchmark by 2.0% but Pyrford underperforming the benchmark by 1.8%. This investment is meant to provide protection in the current market conditions. Kempen the funds equity manager returned 4.1% underperforming the benchmark by 5.8%. BlackRock's performance was negative returning -4.7% over the quarter underperforming its benchmark by 5.2%.

3.10 Table 3 – Fund Manager Performance Over One Year

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
Abrdn	5.8	10.7	(4.9)	
Baillie Gifford	15.5	19.9	(4.4)	
BlackRock	(8.2)	(0.7)	(7.5)	
Hermes GPE	0.4	5.8	(5.4)	
Kempen	11.6	21.0	(9.4)	
Newton	7.8	7.9	(0.1)	Δ
Pyrford	4.7	9.0	(4.3)	
Insight	13.7	4.0	9.7	O
UBS Bonds	0.5	0.4	0.1	O
UBS Equities	23.6	23.6	0.0	O

Over one-year there are even greater variations between managers but more red returns indicating a number of negative returns, with Blackrock providing a negative return of 8.2% and underperforming its benchmark by 7.5%, while Insight provided a positive return of 13.7% outperforming the benchmark by 9.7%. Kempen returned 11.6% underperforming its benchmark of 21.0% by 9.4%.

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

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
Abrdn	8.4	8.0	0.4	O
Baillie Gifford	0.6	10.7	(10.1)	
BlackRock	(1.8)	1.5	(3.3)	
Hermes GPE	7.0	5.9	1.1	O
Kempen	9.3	11.8	(2.5)	∆
Newton	1.7	5.8	(4.1)	
Pyrford	3.4	13.9	(10.5)	
Insight	4.6	4.0	0.6	O
UBS Bonds	(7.4)	(7.4)	0.0	O
UBS Equities	10.1	10.1	0.0	O

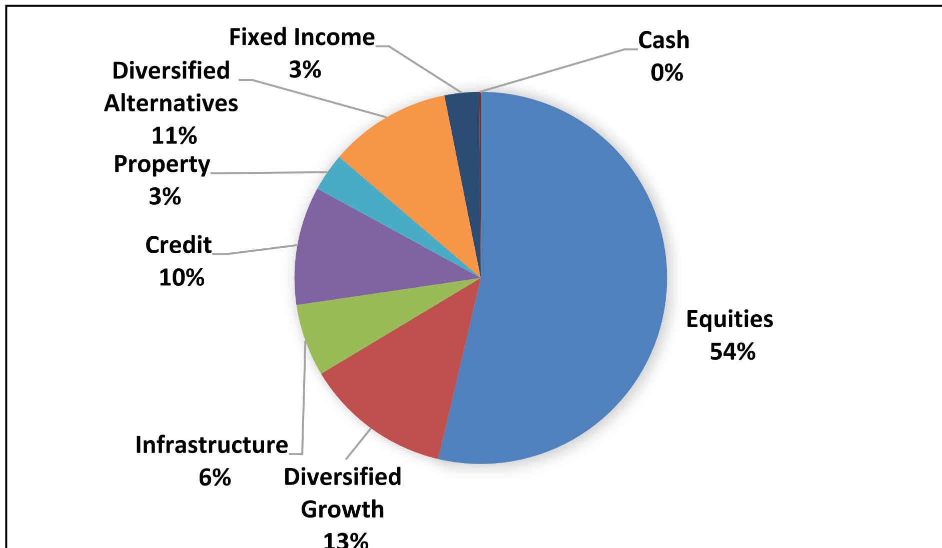
Over three years, returns ranged from (-7.4%) for UBS bonds to 10.1% for UBS Equities. Kempen and Abrdn have provided solid returns, with Kempen providing a return of 9.3% and Abrdn providing 8.4% over three years.

4. Asset Allocations and Benchmark: Table 5 outlines the Fund's asset allocation, asset value & benchmark at 31 March 2024.

4.1 **Table 5: Fund Asset Allocation and Benchmarks at 31 March 2024.**

Fund Manager	Asset (%)	Market Values (£Ms)	Benchmark
Aberdeen Standard	10.6%	154.58	3 Mth LIBOR + 4% per annum
Baillie Gifford	15.8%	230.06	MSCI AC World Index
BlackRock	3.3%	48.05	AREF/ IPD All Balanced
Hermes GPE	6.3%	91.59	Target yield 5.9% per annum
Kempen	15.4%	224.13	MSCI World NDR Index
Newton	5.8%	84.82	One-month LIBOR +4% per annum
Pimco	5.1%	74.27	Bloomberg Global Aggregate Credit
Pyrford	6.9%	100.28	UK RPI +5% per annum
BNY Mellon	5.2%	75.77	3 Mth LIBOR + 4% per annum
UBS Bonds	3.0%	43.58	FTSE UK Gilts All Stocks
UBS Equities	22.5%	327.92	FTSE AW Developed Tracker
LCIV	0.0%	0.15	None
Cash	0.1%	1.99	One-month LIBOR
Fund Value	**100.0%**	**1,457.19**	
ST Loan		16.90	
Net Fund Value		**1,474.09**	

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



4.3 The strategy is slightly overweight equities and almost nearer the higher 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 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	53.7%	50%	3.7%	*48-53*
Diversified Growth	12.7%	13%	-0.3%	*11-15*
Infrastructure	6.3%	8%	-1.7%	*6-8*
Credit	10.3%	11%	-0.7%	*6-9*
Property	3.3%	4%	-0.7%	*3-5*
Diversified Alternatives	10.6%	11%	-0.4%	*10-12*
Fixed Income	3.0%	3%	0%	*4-5*
Cash	0.1%	0%	0.1%	*0-1*

5. Fund Manager Performance

5.1 Kempen

Kempen	2024	2023				2022			One Year	Three Years	Since Start 6/2/13
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£224.13m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**4.1**	3.8	1.9	1.8	1.7	10.0	(1.6)	(3.1)	11.6	9.3	8.7
Benchmark	**9.9**	6.7	0.6	3.9	4.8	1.9	2.1	(9.1)	21.0	11.8	12.6
Difference	**(5.8)**	(2.9)	1.3	(2.1)	(3.1)	8.1	(3.7)	6.0	(9.6)	(2.5)	(4.1)

Reason for appointment

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

Performance Review

The strategy underperformed its benchmark by 5.8% for Q1 and has underperformed over one-year by 9.6% and over three years by 2.5%. Kempen has underperformed its benchmark since inception by 4.1% but providing an annualised return of 8.7%. 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	2024	2023				2022			One Year	Three Years	Since Start 6/2/13
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£230.06m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**8.7**	8.1	(4.4)	3.2	4.6	1.2	1.0	(12.1)	15.5	0.6	12.3
Benchmark	**9.3**	6.4	0.7	3.4	4.5	2.0	1.5	(8.4)	19.9	10.7	12.2
Difference	**(0.6)**	1.7	(5.1)	(0.2)	0.1	(0.8)	(0.5)	(3.7)	(4.4)	(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 Q1 BG returned 8.7%, underperforming its benchmark by 0.6%. BG's one-year return was 15.5%, underperforming its benchmark by 4.4%. Since initial funding, the strategy has returned 12.3% p.a. outperforming its benchmark by 0.1%.

In Q1 the Sub-fund moderately underperformed, giving back some of the strong gains it made in the previous quarter. Over the previous 12 months performance has generally improved but remained volatile. The performance improvement came on the back of a more favourable market environment for growth stocks, but importantly also due to idiosyncratic, stock specific factors. Encouragingly, positive performance drivers were well diversified with CRH from the 'Capital Allocators' segment, META from the 'Compounders' segment and DoorDash from the 'Disruptors', all featuring in the list of top contributors.

Negative contributors were similarly dispersed with NVDIA ('Disruptors' segment) costing the most as the investment manager retains an underweight to this strongly performing name. The Hong-Kong based insurer AIA ('Compounders' segment) was also a detractor as the company continued to face challenges and slow growth in its local market. Alnylam Pharmaceuticals ('Disruptor' segment), despite its strong revenue growth, and the pet-related products online retailer Chewy, which continued to disappoint, were the two other top detractors from relative performance.

LCIV Summary

This was a moderately negative quarter, and the Sub-fund gave back some of the strong gains it made in the previous quarter. Over the previous 12 months performance has generally improved but remained volatile. As previously noted, we are encouraged by the stabilisation in performance but remain cautious and continue to monitor carefully how the investment manager positions the Sub-fund and enhances the investment process and investment risk management.

Over the quarter the investment manager will be changing the name of the 'Scouts' network and will reorganise it. The role of these scouts – representatives from different teams around the Baillie Gifford investment floor – is to share the investment insights developed within their teams that may be relevant to the Global Alpha strategies. The 'Scouts' will now be renamed 'Trusted Advisors'. The investment manager has also decided to change the number and mix of 'Trusted Advisors' and make this group more diversified.

The total number is going up from seven to nine and they will be organised into two separate groups (Flexible Growth Advisors and Disruptive Growth Advisors) to improve interactions between them and with the team. In terms of selecting the new group of Advisors, emphasis was placed on cognitive diversity. The team was actively looking for colleagues who "were doing things differently" and "timing things differently". In the LCIV's view, the reorganisation of the Scouts/Trusted Advisors network is a positive development as it strengthens the research networks used to uncover new opportunities, encourages greater engagement, and should help the team challenge conviction in, and the sizing, of portfolio positions.

The investment manager recognises that growth can come in many varieties. To capture this diversity in the construction of the portfolio they use three growth profiles ('Capital Allocators', 'Disruptors', 'Compounders') to categorise stocks. Until the end of 2023, there was no explicit target weight for those growth profiles and in practice allocations across them varied significantly. Following a detailed analysis of performance drivers, the team observed that for the period 2020 – 2023 the most impactful driver of performance outcomes was allowing the weighting of the 'Disruptors' profile to expand significantly, peaking at almost half of the portfolio.

Towards the end of the first quarter of 2024, the London CIV Public Markets team completed an in-depth review of the Sub-fund. This review was brought forward in light of concerns about performance. The findings were presented to the London CIV Executive Investment Committee (EIC) on the 9th of April and the recommendation to maintain the monitoring status of the Sub-fund at 'Normal' was approved.

5.3 UBS Equities

UBS Equities	2024	2023				2022			One Year	Three Years	Since Start 31/08/12
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£327.92m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**10.1**	8.9	(1.6)	6.2	6.7	5.8	(3.1)	(12.9)	23.6	10.1	13.2
Benchmark	**10.1**	8.9	(1.6)	6.2	6.7	5.8	(3.1)	(12.9)	23.6	10.1	13.3
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 10.1% for Q1 and 23.6% over one year. Since funding in August 2012, the strategy has provided an annualised return of 13.2%.

Equities

Following the FTSE quarterly review in March, 16 stocks were added to and 41 stocks were deleted from the index, along with various changes in the shares in issue of the index constituents. Two-way turnover totalled 0.96%. Also, during the quarter but outside of the review, Splunk was deleted from the index following acquisition for cash.

Labor market data in the UK softened somewhat, with the unemployment rate edging up to 3.9 percent in January and employment change unexpected declining by 21,000 for the three months ending January, counting expectations for a small increase. However, pay growth remains robust, with average weekly earnings excluding bonuses edging lower to growth of 6.1 percent year-on-year for the three months ending January.

5.4 UBS Bonds

UBS Bonds	2024	2023				2022			One Year	Three Years	Since Start 5/7/2013
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£43.58m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**(1.6)**	8.1	(0.6)	(5.4)	2.1	1.7	(12.9)	(7.4)	0.5	(7.4)	0.9
Benchmark	**(1.6)**	8.1	(0.6)	(5.4)	2.1	1.7	(12.9)	(7.4)	0.4	(7.4)	0.8
Difference	**0.0**	0.0	(0.0)	0.0	0.0	(0.0)	0.0	(0.0)	0.1	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 -1.6% for Q1, 0.5% for one year and -7.4% for three-year return. Since inception the strategy has returned 0.9%.

Review

The All Stock Gilt index returned -1.62% in sterling terms over the quarter. In yield terms, 2 year nominal yields rose by 0.20% to 4.24% and 10 year nominal yields rose by 0.45% to 4.08%. The modified duration of the index is 8.63 years. The Bank of England's Monetary Policy Committee increased the policy rate to 5.25%. The UK Debt Management Office held 15 nominal bond auctions during the quarter across a range of maturities.

Inflation data was mixed, as core CPI ran at an annual rate of 4.5 percent in February, a tick lower than expected, while service sector inflation ran a tick hotter than expected at 6.1 percent. The Bank of England kept rates unchanged at its March meeting, but the two officials who had been dissenting and favored more hikes joined the majority decision, with the central bank broadly sending the signal that rate cuts are coming before long. In his budget speech, Chancellor Jeremy Hunt announced some changes to tax policy that will contribute to 265 billion pounds of debt issuance in this fiscal year. Home prices rose, with the Rightmove index up 0.8 percent year-on-year and the monthly increase accelerating to 1.5 percent from 0.9 percent.

5.5 Pimco

Pimco	**2024**	2023				2022			**One Year**	**Three Years**	**Since Start 18/07/2023**
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£74.27	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**0.5**	7.5	(2.1)						5.9		5.5
Benchmark	**(0.0)**	7.0	(2.0)						5.0		4.5
Difference	**0.5**	0.5	(0.1)						0.9		1.0

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 0.5% for Q1 against a benchmark of nil and returned 5.5% since inception.

Investment grade credit markets delivered near-neutral returns (-0.01% for the benchmark) in a quarter where positive returns from spread tightening were offset by the rising long-term rates. Against that backdrop, the portfolio's outperformance was primarily driven by strong security selection. Contributions from positive credit selection were broad based and came from a variety of industries. Within financials, bank debt issued in U.S. Dollars performed well. Reverse inquiries (corporates/banks reaching out to the investment manager for issuance) and relative value trades were also a source of positive alpha.

Rising long term interest rates were the main headwind for investment grade credit in Q1 but the Sub-fund's marginal underweight to duration protected against the rise in long term yields. Heading into the quarter, the Sub-fund was positioned to be risk averse, so broader spread tightening should have led to relative underperformance. However, this was balanced by the timely reduction to the underweight in generic credit risk during the quarter. More importantly, the overweight to financials, which outperformed non financials, meant that overall attribution from credit spread remained neutral.

The investment manager has updated their views and reduced the number of rate cuts they expect by the U.S. Federal Reserve Bank (Fed) from 3 to 2 in 2024. As a result, the portfolio's underweight to interest rate risk has increased significantly. This is achieved through running large underweights in the 1-3 and 10+ years maturity credits. Unsurprisingly (given the views above), the overall duration underweight is driven by a material underweight to U.S. duration, whereas in Europe, exposure to interest rate risk is positive.

From an asset allocation perspective, the investment manager deployed capital across asset classes, but particularly to securitized credit and high yield bonds. In the investment manager's opinion both asset classes offer attractive spreads on a risk adjusted basis.

5.6 BlackRock

BlackRock	2024	2023				2022			One Year	Three Years	Since Start 1/1/2013
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£48.05m	**%**	%	%	**%**	%	%	%	%	**%**	**%**	**%**
Actual Return	**(4.7)**	(2.4)	(0.7)	(0.4)	0.0	(14.4)	(4.4)	2.9	(8.2)	(1.8)	0.3
Benchmark	**0.5**	(1.2)	(0.4)	0.4	(0.2)	(14.1)	(4.0)	3.9	(0.7)	1.5	3.4
Difference	**(5.2)**	(1.2)	(0.3)	(0.8)	0.2	(0.3)	(0.4)	(1.0)	(7.5)	(3.3)	(3.1)

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

Q1 2024 Performance and Investment Update

BR returned -4.7% for Q1 against a benchmark of 0.5%, returned -8.2% over one year against a benchmark of -0.7%. 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

Despite subdued capital markets activity and lower transaction volumes year on-year, there is a sense of stability and cautious optimism returning to the UK real estate market, as wider macroeconomic conditions improve. These are encouraging, positive signals following a challenging 21 months for UK real estate, characterised by low liquidity and an average repricing of 25% from peak to trough, variable across

sectors. Accordingly, the market is showing signs of reaching the bottom, and while it's impossible to time it precisely, there exists a highly attractive cyclical entry point to the UK real estate market today.

The office market is not dead, but the divergence between the prime and secondary part of the market will persist. Broadly speaking, sentiment towards the office sector remains weak as it grapples with adapting to remote working habits, increasingly stringent EPC regulation and cyclical headwinds. Transaction volumes in Q1 were just shy of £1billion, which represents a 69% decline versus levels in Q1 last year. However, the office sector should not be disregarded, as it still makes up a large part of the investible universe and in many ways the reversion back to the office post-pandemic has highlighted that there is still a societal demand for office space, in particular best in class, ESG driven stock.

The long-term outlook for the logistics sector remains positive. Throughout 2023, pricing remained relatively stable following steep correction in 2022. In total, the UK prime yields have moved out by circa 160bps since peak. Investors remain uncertain on where pricing is going to settle, hence transaction volumes have remained muted, with Q1 volumes reaching only £1.1billion.

Transactions: The Fund completed the sale of four assets for £99.7m during the quarter. There were no acquisitions completed.

5.7 Hermes

Hermes	2024	2023				2022			One Year	Three Years	Since Start 9/11/2012
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£91.59m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	0.0	(0.1)	0.0	0.5	(0.1)	0.8	10.5	(1.0)	0.4	7.0	7.6
Benchmark	1.5	1.4	1.4	1.4	1.5	1.4	1.4	1.4	5.8	5.9	5.9
Difference	(1.5)	(1.5)	(1.4)	(0.9)	(1.6)	(0.6)	9.1	(2.4)	(5.4)	1.1	1.7

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 Q1 underperforming the benchmark by 1.5%. Over one year the strategy reported a one-year return of 0.4%, underperforming its benchmark by 5.4%. Since inception the strategy has provided a good, annualised return of 7.6%, outperforming its benchmark by 1.7%.

The deferred disposal proceeds of £32.2m from the previously completed sale of the Innisfree M&G PPP 'A commitments' were received and shared onwards with investors at the end of March 2024. The remaining HIF I Core assets after the completion of the A Shade Greener I & II sale in Q4 2023 are the Innisfree M&G PPP 'B commitments' and the Innisfree PFI Continuation fund. The funds continue to yield, more than covering fund expenses. Our plan remains to liquidate these

investments at the optimal time. As the universe of buyers is small and any sale will be subject to supportive market conditions, timing remains uncertain.

The remaining asset in HIF I Value Added is Southern Water. Southern Water remains a stressed business with no near-term prospect for realisation. HIF I will continue to warehouse the investment until the opportunity for sale arises. HIF I Core Net Asset Value increased by 2% in the three months to 31 March 2024 to £54.3m. This was a result of the roll forward impact for the Innisfree funds. HIF I Value Added NAV was flat in the three months to 31 March 2024. There were no returns of capital or contributions in the period for Southern Water.

The FHDIF portfolio has continued to perform robustly in 2024, consistent with the design parameters set for the Fund. All FHDIF investments have either distributed to the fund in 2024 or are forecast to do so in the second half of the year. It returned over £23m to FHDIF investors so far in 2024, in addition to the material return of capital (over £32m) in March 2024 from Hermes Infrastructure Fund I LP, arising from the deferred sale proceeds of a portion of the interest in Innisfree M&G PPP.

The Independent Valuation Committee approved the 31 March 2024 valuations on 1 May with the portfolio NAV at 31 March marginally down compared to 31 December 2023. This was driven by the return of capital from Viridor following the sale of a further 10% in Viridor Energy Limited and unfavourable FX movements as Sterling strengthened against the Euro. Adjusting for the Viridor proceeds and ordinary course distributions, the FHDIF portfolio NAV increased 1% despite the FX swing.

5.8 Abrdn Asset Management

Abrdn	2024	2023				2022			One	Three	Since Start
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	**Year**	**Years**	**15/9/2014**
£154.58	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**3.4**	(0.8)	1.7	1.6	3.7	(1.5)	(2.1)	(1.4)	5.8	8.4	6.9
Benchmark	**2.8**	2.7	2.7	2.5	2.4	2.1	1.8	1.6	10.7	8.0	5.7
erence	**0.6**	(3.5)	(1.0)	(0.9)	1.3	(3.6)	(3.9)	(3.0)	(4.9)	0.4	1.2

Reason for appointment

As part of the Fund's diversification from equities, Members agreed to tender for a Diversified Alternatives Mandate. Abrdn Asset Management (ASAM) were appointed to build and maintain a portfolio of Hedge Funds (HF) and Private Equity (PE). All positions held within the portfolio are hedged back to Sterling. Since being appointed ASAM have built a portfolio of HFs and PEs, which offer a balanced return not dependent on traditional asset class returns. In the case of PE, the intention is to be able to extract an illiquidity premium over time. The allocation to PE, co-investments, infrastructure, private debt, and real assets will be opportunistic and subject to being able to access opportunities on appropriate terms.

Performance summary

Three of the hedge fund holdings were positive contributors over the last quarter, led by the multi-strategy macro fund, DE Shaw Oculus which had a very strong start to the year thanks to gains from their equity arbitrage, discretionary macro and

systematic futures sub-portfolios. The main Private Equity drivers of performance were Magnesium Capital 1 LP, Too Good To Go and Advent International GPE IX LP. The one year the return of 5.8% underperforms the benchmark return of 10.7% by 4.9%. Since inception the strategy has returned 6.9%, outperforming the benchmark by 1.2%.

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.

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 formally completed at the end of March 2024.

5.9 Pyrford

Pyrford	**2024**	**2023**				**2022**			**One Year**	**Three Years**	**Since Start 28/9/2012**
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£100.28m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**0.5**	4.5	1.4	(1.7)	1.4	3.2	(2.4)	(0.8)	4.7	3.4	3.4
Benchmark	**2.3**	1.3	1.7	3.7	3.1	4.7	3.3	6.3	9.0	13.9	8.7
Difference	**(1.8)**	3.2	(0.3)	(5.4)	(1.7)	(1.5)	(5.7)	(7.1)	(4.3)	(10.5)	(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.

<u>Performance</u>

The value of the Sub-fund increased by 0.5% in the first quarter of 2024. Over one year, the Sub-fund has gained 4.7%, whereas the RPI plus 5% benchmark has increased by 16.9%. On an annualised basis, the Sub-fund has returned 3.4% since inception.

The investment manager had increased the duration, or sensitivity to changes in interest rates, of the Sub-fund to 5 years from 3 years early in Q4 2023. This was a profitable decision. Although the investment manager made the right call by bringing duration back down again early in 2024, when yields on government bonds started to move up, the bond sub-portfolio lost money in Q1.

Gilts are the single biggest block of assets in the Sub-fund. This segment declined by about 1% in absolute terms in the first quarter, contributing a loss of about 0.5% at the Sub-fund level, but outperformed the FTSE British Government All Stocks Index by 0.6%. Holdings in government bonds issued by the U.S., Canada and Australia lost 1.3%, about 0.5% less than the proxy index (JP Morgan Global Government Bond ex-UK). At the Sub-fund level, and including currency effects, overseas bonds cost the Sub-fund 0.7% in Q1.

Equities contributed +1.1% to composite performance. The investment manager reduced the allocation to equities in early 2023 and has not reinvested since then. The equity portfolio is tilted to companies which are expected to deliver stable earnings and cash flows, and which are trading at discounts to headline market

valuations. The UK (12.3%) and overseas (23.0%) portions of the stock portfolio lagged the FTSE All Share and FTSE All World ex-UK Indices respectively in Q1.

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	**2024**	**2023**				**2022**			**One Year**	**Three Years**	**Since Start 31/8/2012**
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£84.82m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**4.1**	5.2	0.3	(1.8)	(1.3)	3.7	(4.3)	(2.1)	7.8	1.7	3.7
Benchmark	**2.1**	2.0	2.0	1.8	1.7	1.4	1.1	0.9	7.9	5.8	4.8
erence	**2.0**	3.2	(1.7)	(3.6)	(3.0)	2.3	(5.4)	(3.0)	(0.1)	(4.1)	(1.1)

Reason for appointment

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

Performance

Newton generated a return of 4.1% in Q1, outperforming its benchmark by 2.0%. Over one year the strategy has returned 7.8%, underperforming its benchmark by 0.1%, although the return over three years is 1.7% against a benchmark of 5.8%. Newton's performance since inception is 3.7% per annum.

By and large, performance in the first quarter was a continuation of trends seen in Q4 with the 'Return Seeking' layer driving returns. Within that layer, global equities were the 'star performer' with a well-timed increase in the allocation to stocks of about 5% (circa 4% when accounting for derivatives) and good stock selection. The stabilising layer marginally detracted, mainly due to the cost of protective strategies.

The global equities segment consists of a basket of stocks predominantly in the technology, financials and consumer related sectors. Enthusiasm around artificial intelligence (AI) and the prospect of a soft economic landing in the US helped drive robust stock-market gains over the first quarter of 2024. There was some broadening out of performance to other areas of the stock market but nevertheless the AI dynamic dominated the action. Top performers in the Sub-fund included NVIDIA, Taiwan Semiconductor Manufacturing Company (TSMC), Microsoft and ASML, all beneficiaries of AI optimism. Both Lonza and Eli Lilly also featured among the leaders, the former bouncing back as funding concerns around its biotech business were allayed, and the latter boosted by continued robust growth in its GLP-1 drug franchise to treat obesity. Positive stock performance was enhanced by tactical upside exposure through a combination of futures and options, primarily on the S&P 500 Index.

Elsewhere in the portfolio, alternatives displayed weakness amid softness in the carbon price, which was affected by a depressed gas price owing to a mild winter

and weak industrial production in Germany. Renewable infrastructure holdings also detracted owing to narrowing spreads versus nominal bond yields, as well as the need for enhanced regulatory cost disclosure.

The stabilising layer marginally detracted, primarily because of the cost associated with downside protection against a backdrop of rising equity markets. Government bonds were broadly flat, with a positive contribution from physical positions largely offset by bond futures exposure. Gold experienced a strong upswing in the last month of the quarter, favoured for its role as a hedge against the inflationary repercussions of monetary and fiscal largesse, as well as being supported by central bank demand.

5.11 Insight (Mellon Corporation / Standish)

Insight	**2024**	**2023**				**2022**			**One Year**	**Three Years**	**Since Start 20/8/2013**
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£75.77m	**%**	%	%	%	%	%	%	%	**%**	**%**	**%**
Actual Return	**2.5**	7.6	2.2	1.5	2.8	5.7	(1.3)	(3.8)	13.7	4.6	2.1
Benchmark	**1.0**	1.0	1.0	1.0	1.0	1.0	1.0	1.0	4.0	4.0	4.8
Difference	**1.5**	6.6	1.2	0.5	1.8	4.7	(2.3)	(4.8)	9.7	0.6	(2.7)

Reason for appointment

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

Performance

Q1 saw the BNY Mellon Targeted Return Bond Fund outperform its reference benchmark by 1.5%, providing a positive return of 2.5%. Over one year the strategy has returned 13.7% and over three years it has returned 4.6%, with a return of 2.1% since inception.

Credit markets were generally stronger during the quarter as evidence was building that economies, particularly the US, were beginning to improve, and inflation continued to decline. The option adjusted (OAS) spread over governments for the investment grade (IG) Bloomberg US Aggregate (Agg) Corporate Index, which was already reaching low levels by historic standards, declined a further 9bp, to 90bp.

The fund manager remained positioned with a long credit risk position, expecting to see credit spreads continue to narrow as the recession risk and inflation concerns faded paving the way for interest rate cuts. Over the quarter the portfolio credit spread duration has remained at 7.6-7.7 years. Within investment grade credit it continued to favour Euro credit given valuations and expected to see the markets price out some of the recession risk premium which has been present most of 2023. Over the quarter it took a partial profit on this position as it moved in our favour over the period. Although spreads contracted in the high yield market as well, on a risk adjusted basis the market lagged the rally in the investment grade market. Looking back at the historic relationship between high yield and investment grade, the high yield market looks very expensive with very little risk

premium priced in for any potentially bad news. For this reason, it remains strategically underweight HY relative to IG. The interest rate positioning of the fund remains short at 2 years. The markets started the year pricing in some very aggressive interest rate cuts which seemed at odds with the improving growth environment. Over the period we purchased government bonds from Panama, Israel, Peru and Mexico

5.12 Currency Hedging

No new currency hedging positions were placed in Q1 2024.

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 Q1 2024 Report; and
- Fund Manager Q1 2024 Reports.

List of appendices:

Appendix 1 - Definitions
Appendix 2 - Roles and Responsibilities