Investment Strategy Summary

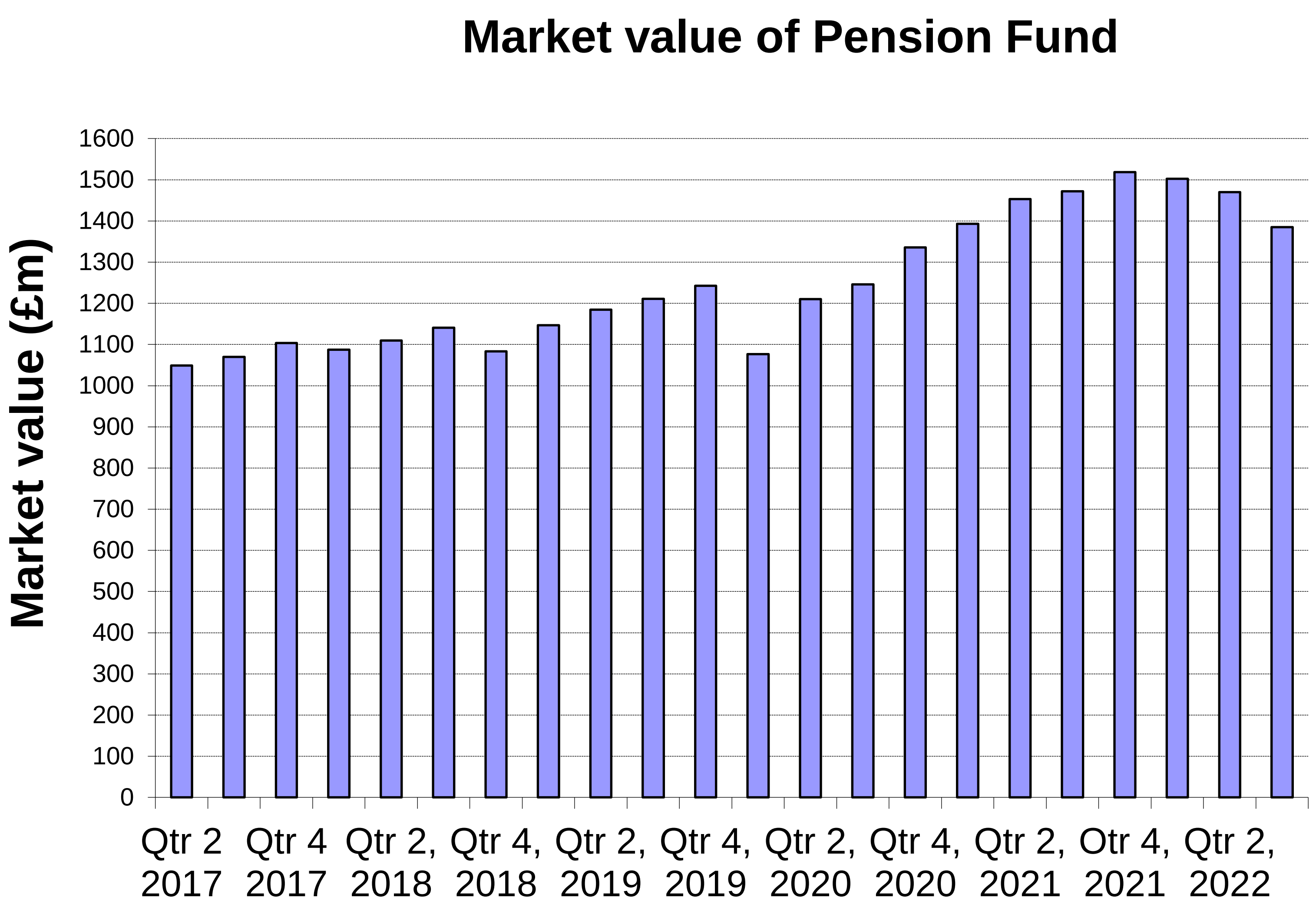
Key strategic activity since 11 July PFC meeting

- Asset values have fallen over the period 1 July 2022 to 30 September 2022 (from £1.421bn to £1.385bn. Whilst asset values have fallen, our liabilities are also likely to have reduced
- Substantial risk, both internationally and nationally. Officers took steps to accelerate Schroders DGF disinvestment to bring growth allocation in line with long-term strategic benchmark and reduce risk
- Reviewed RAFI against alternative with recommendation to switch to alternative RAFI fund – suggest consideration and decision deferred to after RI day
- Reviewing whether we should make a strategic shift towards Index-Linked gilts given significant increase in yields of these assets

Transition

- Substantial capital still to be called on Private Assets
- Significant capital to be transitioned from LGIM world / RAFI to LGIM Future World – timings to be clarified
- Substantial cash balances will be held over next 6-months or so – working with LGIM / Hymans to manage this

Asset Valuation

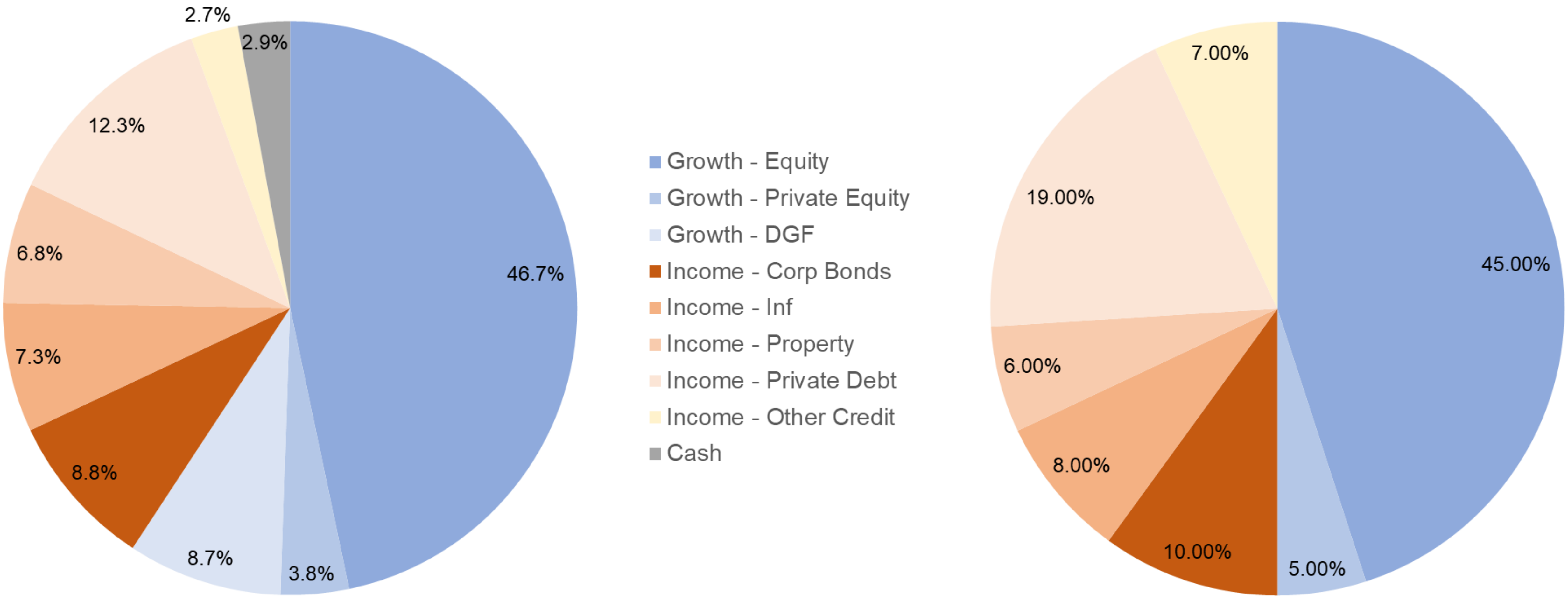


- Markets volatile over the period 1 July 2022 to 30 September 2022 (reflecting international and national environment)
- Our Fund not immune - assets declined by £35.492 million in the quarter to 30 September 2022 to £1,385.1 million (30 June 2022 1,420.6 million)
- Increases in long-term interest rates are good for pension scheme – whilst assets have decreased in value our liabilities have also likely to have decreased.

Allocation at 31 August vs. Strategic Allocation

31 August 2022
(59% growth, 38% income, 3% cash)

Target Allocation
(50% growth, 50% income



Growth allocation (Blue 'pies') overweight relative to long-term strategic target (59% vs. 50%) **– interim step taken to accelerate DGF (8.7%) – being held as cash temporarily**

RAFI Fund review

- At the July PFC meeting it was agreed to review the RAFI fund in light of its contribution towards tCO2e (estimated that RAFI contributes 70% of the Fund's listed equity emissions despite being 15% of fund
- Hymans considered two alternative funds. The impact on key investment metrics, transition costs and emission information is summarised in the table below:

	Change Geographic Spread	Sector Spread	Style	Transition Costs / additional fees	Reduced eCO2t pa (approx)	% of Fund's listed equity emissions (30 Aug 22)	eCO2t that could be offset with transition costs*
RAFI	n/a	n/a	n/a	n/a	57k	70%	n/a
RAFI CTI	No material impact	No material impact	No material impact	£80k plus £14k p.a.	25k	50%	20k
LCIV PEPPA	No material impact	No material impact	Material – increases volatility	£190k plus £10k p.a.	20k	40%	47.5k

*assume £4 cost for offsetting 1 metric tonne source

- Hymans recommend that due to the limited impact overall profile of the equity portfolio and relatively low transition costs, but material reduction in tCO2e that assets are switched to RAFI CTI fund
- Suggest considerations of this move are deferred until after the Responsible Investment day

Index Linked Gilts – an opportunity

Pension Scheme Members

Future Pensioners

Council and members pay us money, we invest this over a period of time and pay back an inflation linked pension

We need a c2% real return otherwise we would need to put in more money to 'balance the books'

Index-linked gilts provide a risk free inflation linked return over a very long period and so are a perfect asset for an LGPS – the problem is that over the last 15-years they have been too expensive.. Until recently (see next page) – there may be short window of opportunity to purchase gilts at a real yield that is consistent with our discount rate (i.e. real yields around 2%)

Real yield on index-linked gilts

LBB Required Real Yield (c1.9%)– i.e. Index Linked gilts have reverted to a level consistent with our valuation discount rate

By late 2020 over 40% of UK gilts were owned by the Bank of England through its QE programme

QE and broader institutional demand has impact of suppressing real-yields

(Private Sector) LDI - "structural issue" causing negative feedback loop on gilts prices (increasing yields)

Inflationary pressures mean markets now anticipate QT? i.e. a reversal of QE.

Wider concerns over Fiscal position of UK.

[BoE explanation of Quantitative Easing (QE)]

BoE "When we do this (QE), the price of these bonds tend to increase which means that the bond yield, or 'interest rate' that holders of these bonds get, goes down."

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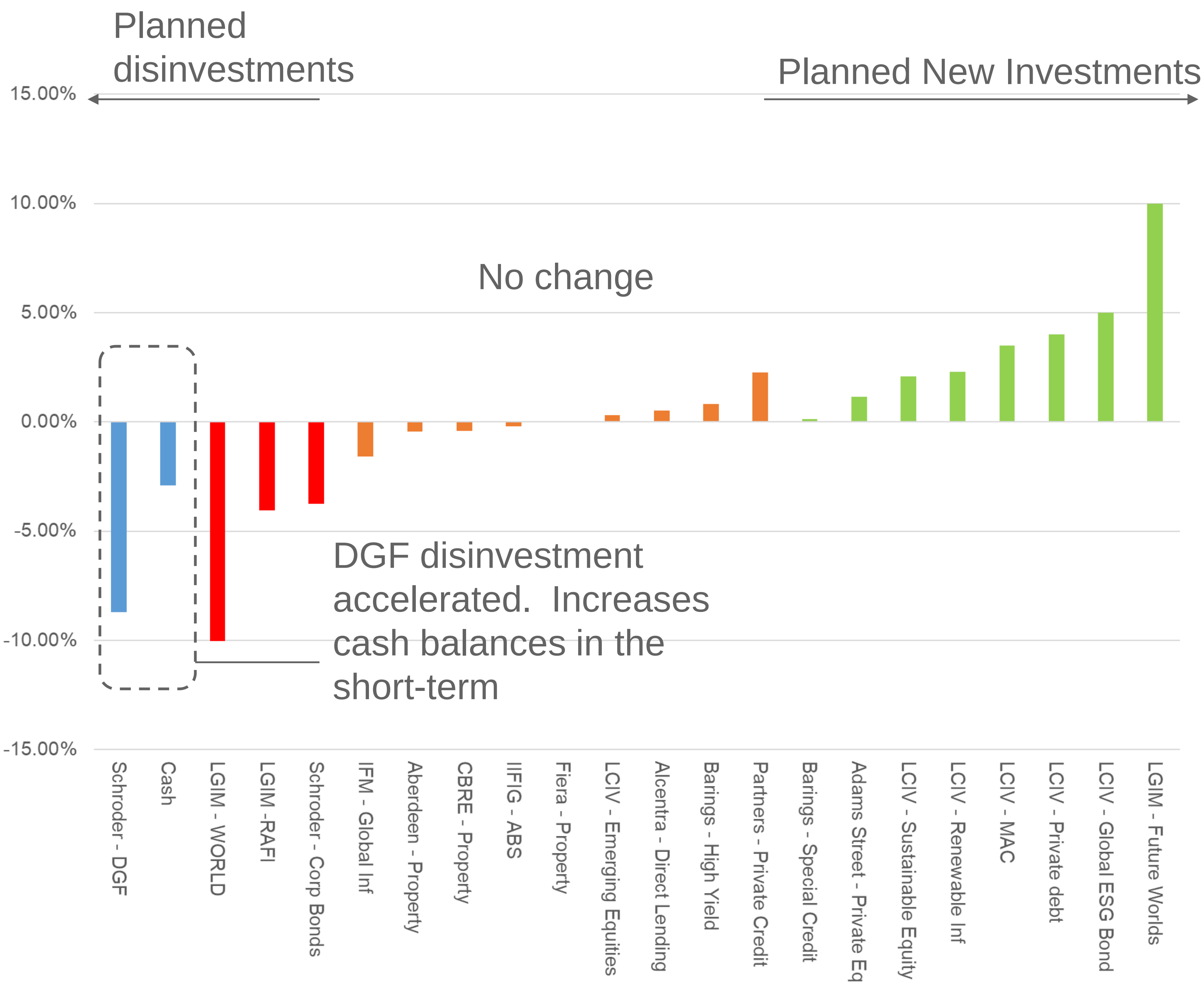
Gilt review

Report pending: Hymans to update at meeting

Progress towards long-term strategy (31 August)



The chart to the left summarises the agreed strategy shifts.

As noted, Officers decided to accelerate the DGF disinvestment with proceeds held in cash. The cash will be used to fund capital calls from Private investments.

This means that the Fund will hold a significant level of cash over the next 6-months or so – we are taking advice on how best to maximise the return on this for a suitable level of risk.

This was to move the overall strategy towards the 50% growth / 50% income balance long-term strategic asset allocation.

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Summary of PFC agree transactions (October 2022)

- A detailed summary of planned transactions is provided in the table below
- The LCIV MAC transaction is on hold pending potential allocation to Index Linked gilts

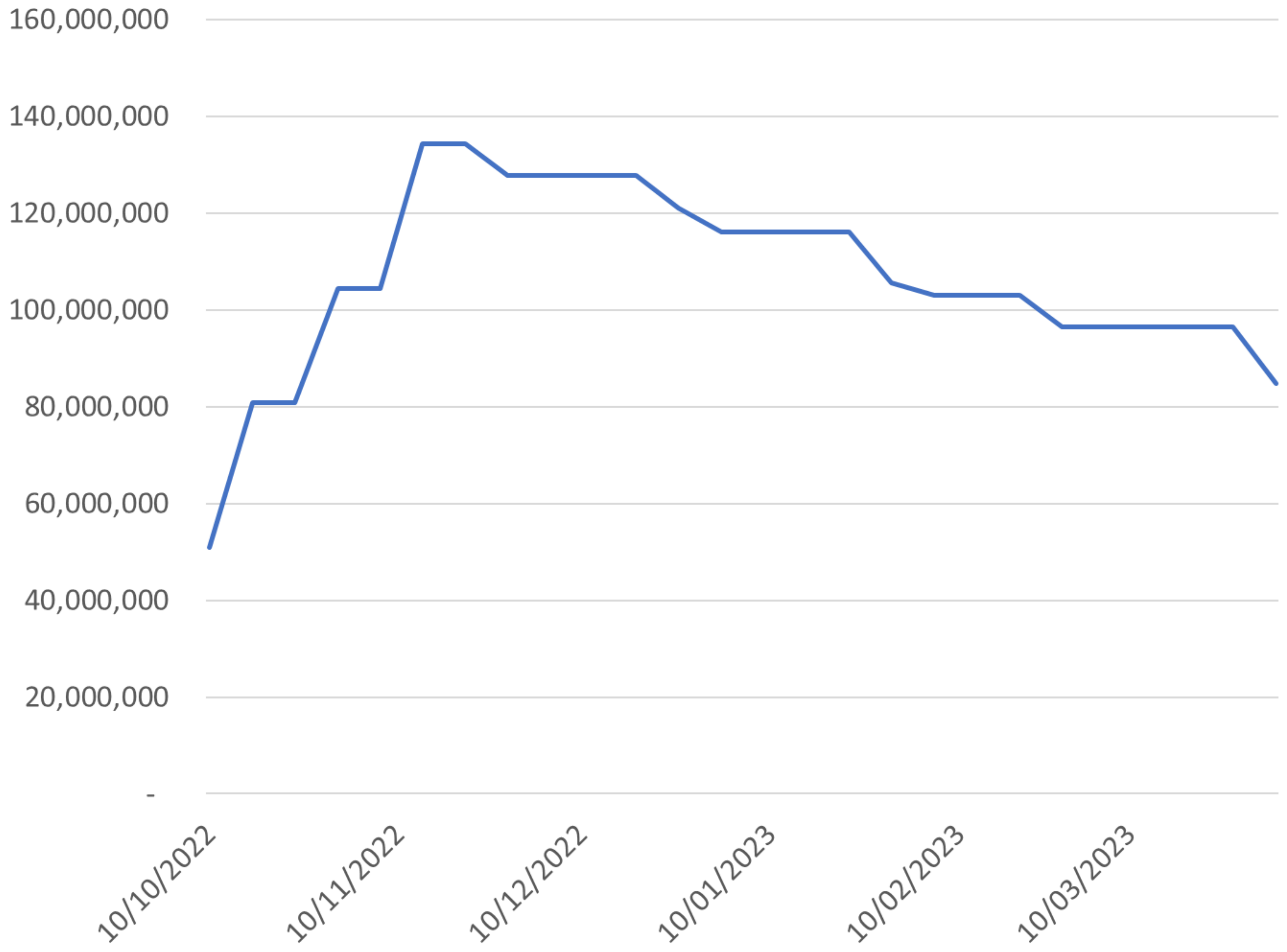
Strategy Changes summary

Date: 18 October 2022 (based on 31 August allocation)

	Fund	Dis-investment*	Investment*		Timing	Method	Primary Driver	Source of Funding
	LGIM - WORLD	150			Over a two year period to March 2023	Automatic	ESG	
	LGIM -RAFI	55			Over a two year period from Summer 202	Automatic	ESG	
	LGIM - Future Worlds		175		Over a two year period to March 2023	Automatic	ESG	LGIM World & RAFI
	LCIV - Sustainable Equity		30		Pending	Manual	ESG	LGIM World & RAFI (?)
	Schroder - DGF	125			Over period to end of October 2022	Automatic	Risk	
	Barings - Special Credit		5		Expect by end of January 2023	Manual - when called	Strategy	Cash
	Adams Street - Private Eq		70		Expect by end of January 2024	Over next 18-months	Strategy	Cash
	LCIV - Renewable Inf		30		Expect by end of January 2024	Manual - when called	Strategy	Cash
	LCIV - MAC		50		Pending	Manual	Strategy	Cash
	LCIV - Private debt		25		Expect by end of January 2024	Manual	Strategy	Cash
	LCIV - Global ESG Bond		60		Pending	Manual	ESG	Schroders Corp Bonds
	Schroder - Corp Bonds	60			Pending	Manual	ESG	
	Total	390	445					
	Shortfall (disinvestments less investments)			- 55				
	Cash at bank			40				
	Balance (i.e. unfunded transitions)			- 15	OK - balance manageable through general rebalancing relative to benchmark			

*Figures approximate based on 31 August whole of fund asset values

Cash forecast to 31 March 2023



Due to the disinvestment of the Schroders' Diversified Growth Fund the Fund has significant levels of cash balances which is likely to continue until the undrawn commitments have been made.

Officers are working with LGIM and Hymans to optimise the return on these cash balances subject to our liquidity requirements.