

Articulating the Fund's Investment Approach

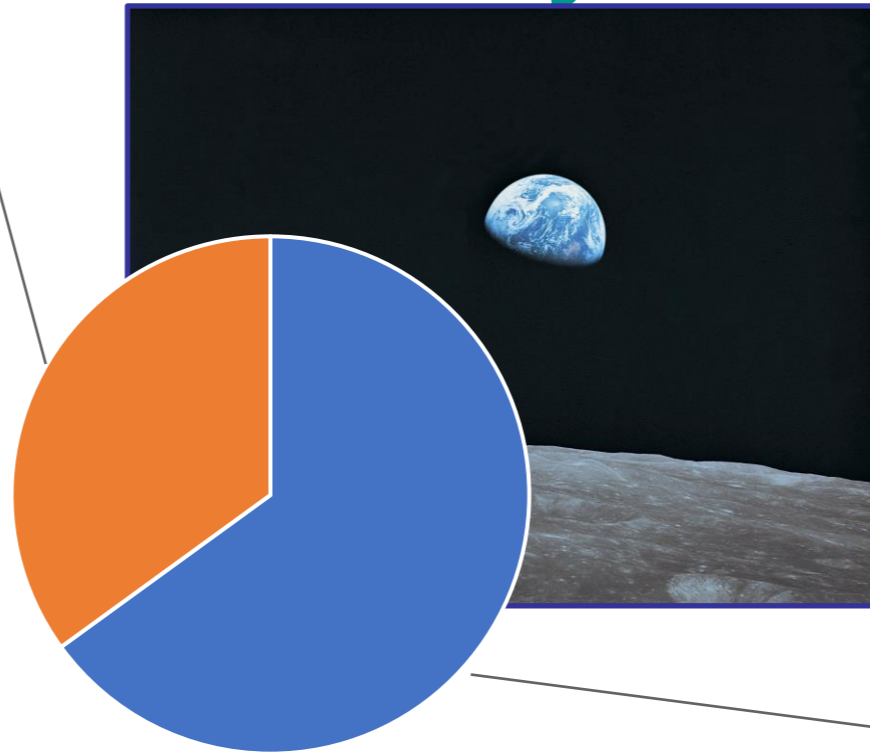
Context

- Following the work on our NetZero Model Portfolio we have been considering whether to invest towards Paris Aligned Equity Funds and also considering Nature Based Assets (Timberland) with LCIV.
- Necessarily, making an investment towards a Paris Aligned equity fund will mean that the Fund's equity investments may drift (potentially significantly) away from market (as the Fund selects certain companies more aligned towards the Paris Agreement at the expense of others). This means that the Fund's equity holdings could concentrate towards assets in specific areas. This potentially creates risk (positive or negative) that the Fund may under / over perform relative to market.
- Deviating from market is, in itself, allowable for LGPS funds, however, it is important that the Pension Fund Committee does this knowingly and with a sound investment basis for the decision – the sound investment case may be, for example, that the deviation is not expected to be material and / or the Committee has a belief that the deviation would outperform the market. These views would need to be substantiated by evidence.
- The Fund has over 21 very different Mandates and considering the Paris Aligned piece has caused the Pensions Team to step back and consider why the Fund invests in the way it does.
- Through discussions with the Chair, within the Pensions Team and with Hymans, we have tried to articulate our broader investment philosophy e.g. in terms of whether the Fund wishes to take a position relative to market, and our overall approach to investing towards Private assets.
- This paper sets out the broad conclusion of this work and overlays some further thinking instigated by Cllr Radford that splits the investment portfolio into Core assets and a Satellite portfolio.
- The reason for identifying a Core / Satellite split to the investment strategy is that the investment objectives for each of these different categories will be different and so our approach to governance and fund selection will also be different and we should not conflate the two approaches when making investment decisions.
- Finally, we set out the next steps to move forward our investigation towards Paris Aligned Funds and Nature Based Funds.

Core / Satellite - Summary

Satellite:

- Return profile bespoke to each investment opportunity
- Because bespoke likely to have higher governance
- Illiquid / Less liquid
- Where possible, investments aligned to Council's priorities (detail to be clarified)



Core:

- Low(er) governance
- Passive / market balanced as starting point (i.e. as a default not looking to take position relative to market)
- Where active management or off-market approach taken, then this needs to be justified / substantiated by evidence
- Balanced style (e.g. growth vs. value stocks, geography, sectors) unless justified
- Likely to be highly liquid (and therefore may be used to pay for pension as Fund matures)

Balance between Core / Satellite to be determined and will depend on:

- Liquidity requirements (e.g. over 10 year period)
- Overall diversification
- Funding level
- Return outlook for investment classes
- Investment opportunities available (e.g. via pooling)
- Governance bandwidth

In investment parlance, our Core Portfolio will look to develop “Beta” returns (i.e. returns generated by the market) and our Satellite Portfolio will look to develop our “Alpha” returns (i.e. returns incremental to market)

Core Assets - Philosophy

Governance	Low governance, passively managed where possible	
Market bias	No active position taken unless justified through strategic reasons i.e. Balanced towards market as a default unless alternative justified	
Asset Classes	Listed Equity Listed Bonds Cash instruments Property / Real Estate	
Current Strategic tilts		2024 Review?
Equity	Fundamental weighted approach via RAFI Fund Sustainable Tilt through Future Worlds / Sustainable Exclusion Emerging Market – active manager as believe market inefficiencies within emerging markets can be exploited / need to be managed	Yes, as part of Paris Aligned work
Bonds	Active Global Bond Fund (all duration) [LCIV Fund / ESG focus] Buy and Maintain [To lock into high yields when Bonds Purchased (23/24)]	No. May review if Bond yields drop
Cash	MMF (liquid) Trade Finance (balance between liquidity / return/ credit exposure)	No
Real Estate	Actively managed through two Funds (ABRDN / CBRE)	No

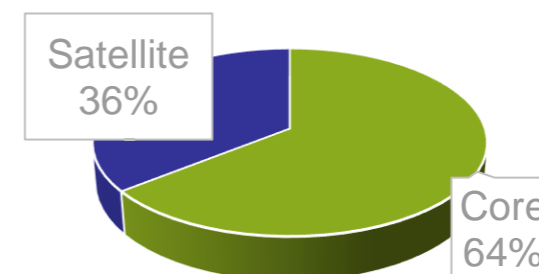
Satellite Assets - Philosophy

Governance	High governance / Bespoke investments Tend to be relatively illiquid without tradeable market.
Market bias	Investment taken on a case-by-case basis
Asset Classes	Private Equity Private Debt / Credit Infrastructure
Strategic tilts	Allocation set after considering Asset Liability Modelling undertaken by Hymans (optimise yield / risk relative to liabilities) Future consideration: Investments to dovetail with Council's objectives [Detail to be worked up]
Number	11 Broad mandates representing 36% of Fund Value

Current Allocation – 31 December 2023

Manager	£'m	Core / Satellite	Income / Growth	Sustainable Tilt
RAFI (LGIM)	100.70	Core	Growth	N
Future Worlds (LGIM)	213.70	Core	Growth	Y
LCIV Sustainable Exclusion	41.70	Core	Growth	Y
LCIV Emerging Markets	44.60	Core	Growth	N
Adam Street	78.80	Satellite	Growth	N
IFM	102.80	Satellite	Income	N
LCIV Renewable Infrastructure	21.30	Satellite	Income	N
ABRDN - Long Lease	24.90	Core	Income	N
CBRE	31.10	Core	Income	N
Fiera	26.70	Satellite	Income	N
Barings Multi Credit	42.30	Satellite	Income	N
LCIV MAC	65.60	Satellite	Income	N
Insight - Secured Finance	97.90	Satellite	Income	N
LCIV B&M Credit	246.10	Core	Income	N
LCIV ESG Bonds	236.30	Core	Income	Y
Alcentra	11.20	Satellite	Income	N
Partners MAC	37.70	Satellite	Income	N
LCIV Private Debt	46.90	Satellite	Income	N
Barings Special Situations	35.60	Satellite	Income	N
Cash	28.70	Core	Income	N
Allianz	27.10	Core	Income	N
Pemberton	27.10	Core	Income	N
	1,588.80			

Core / Satellite



Sustainable / Neutral

