



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

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Item 5

22nd November 2023

Investment Update

Purpose of Report:

To provide the Committee with an investment update including a summary of:

- investment performance to 30th September 2023
- distribution of portfolios and DIP investments as at 30th September 2023
- the Investment Advisory Panel meeting of 9th November and
- stewardship activity during Quarter 3 2023.

Recommendations:

The Committee is asked **to NOTE** the contents of this report.

Ward No(s):

Citywide: ✓

Local member(s) advised: Yes No consulted: Yes No

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1 Background

The Fund's investment objective is to support the funding strategy by adopting an investment strategy and structure which incorporate an appropriate balance between risk and return. The Fund's current investment objectives and strategy are detailed in **Appendix 1**. The strategy is reflected in the Fund's strategic benchmark and individual portfolio benchmarks. Investment performance is measured by the Fund's global custodian, Northern Trust.

2 Market Performance

Global equities performed strongly in the early part of the quarter, however, as hopes of interest rate cuts did not materialise, and the narrative from central banks changed to "higher for longer", performance tailed off. UK equities outperformed as energy prices rose and exporters benefited from a weakness in the pound. However, cost of living pressures and borrowing costs weighed on companies with a domestic focus. In the US and Europe equities declined, the former due to slower growth and tighter credit conditions, the latter due to disappointing economic data. China's economy fell into deflation, negatively impacting wider emerging market performance.

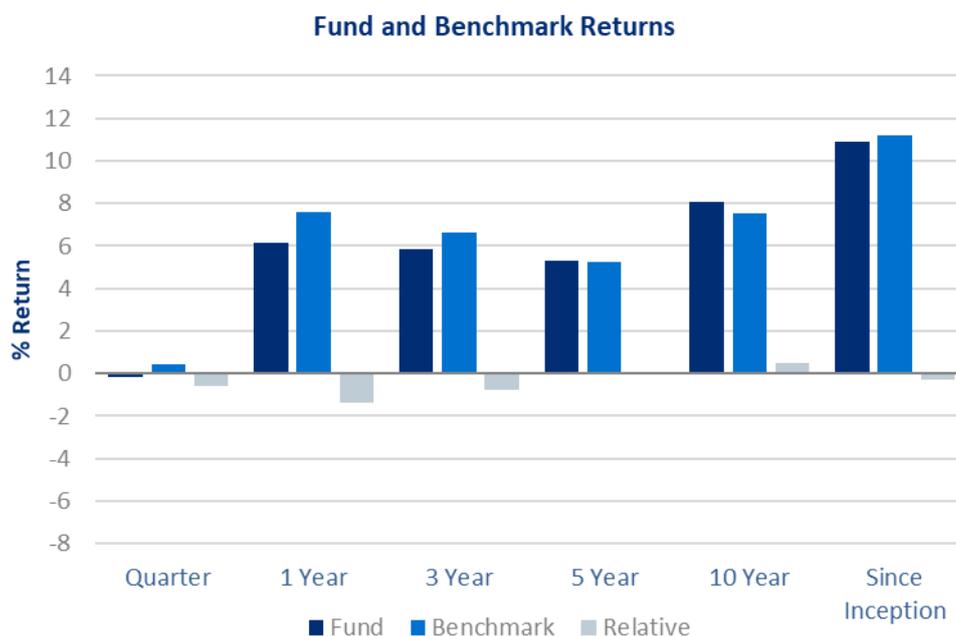
Global government bond yields rose over the quarter. In the UK, prices were more settled than in Q2 as inflation continued to fall. The Bank of England raised interest rates in August but has indicated that rates may be nearing their peak. In the US, inflation rose and the Treasury increased bond issuance which led ratings agency Fitch to downgrade its credit rating. In Europe, the ECB raised interest rates twice, but signalled that monetary policy tightening is likely finished. Yields on corporate bonds rose in the US and Europe and fell in the UK. Credit spreads tightened in all 3 regions.



- The **FTSE All Share** Index returned **+1.9%**, the **FTSE World ex UK** index **+0.7%** and the **MSCI Emerging Markets** index **+1.3%**, compared with Q2 returns of **-0.5%**, **+4.1%** and **-1.7%** respectively.
- The **FTSE All Stock Index** returned **-0.6%** compared with **-5.4%** in Q2.
- **Sterling** fell by **-1.1%** against the euro and **-4.0%** against the dollar.
- The **MSCI All property monthly return index** returned **-0.2%** as increases in the base rate and cost of borrowing caused values to fall. In Q3, the capital values in the residential and industrial sectors increased, but all other sectors experienced falls in capital values.

3 Fund Performance

The Fund's value at 30th September 2023 was **£27,988m**. (Fund value at 30th June 2023 was **£28,053m**).



The Fund's total return for Quarter 3 2023 was **-0.2%**, behind the benchmark return of **+0.4%**. Over 1 year and 3 years, the Fund has underperformed the benchmark, but over 5 years and 10 years it has outperformed. Further analysis of Fund and asset class performance can be found in **Appendix 2**.

Each of the Fund's investment managers has an individual portfolio benchmark. In Quarter 3:

- 7 managers outperformed their benchmark; and
- 14 managers underperformed.

Further analysis of manager performance can be found in **Appendix 3**.

4 Asset Allocation

The Fund's asset allocation can be summarised as follows:

| Asset Class | 30 Jun 2023 (£m) | 30 Jun 2023 (%) | 30 Sep 2023 (£m) | 30 Sep 2023 (%) | Target (%) |
|---------------------------|------------------|-----------------|------------------|-----------------|--------------|
| Equity | 15,994 | 57.0 | 15,915 | 56.9 | 52.5 |
| Hedging & insurance | 0 | 0.0 | 0 | 0.0 | 1.5 |
| Credit | 1,937 | 6.9 | 1,901 | 6.8 | 6.0 |
| Short term enhanced yield | 4,969 | 17.7 | 4,950 | 17.7 | 20.0 |
| Long term enhanced yield | 5,163 | 18.4 | 5,221 | 18.7 | 20.0 |
| Total | 28,063 | 100.0 | 27,988 | 100.0 | 100.0 |

All changes to asset allocations over the quarter were as a result of market movements or cash flows to and from private market programmes. A summary of allocations to investment manager portfolios at quarter end is provided in **Appendix 4**.

5 Direct Impact Portfolio (DIP)

A summary of the performance and activity of the Fund’s Direct Impact Portfolio and a schedule of current investments can be found at **Appendix 5**.

6 Investment Advisory Panel

The Fund’s Investment Advisory Panel met on 9th November 2023. A note of the Panel’s meeting is set out in **Appendix 6**.

7 Stewardship: Responsible Investment

A summary of responsible investment activity is included at **Appendix 7**. Highlights include:

- The Fund was named as a **2022** signatory of the **UK Stewardship Code**.
- The Fund completed the **2023 PRI** assessment. Results are expected in November or December 2023.
- **Sustainalytics** resolved 3 ongoing engagements on behalf of its clients, with **Stryker, Johnson & Johnson** and **AMP Ltd**.

8 Policy and Resource Implications

Resource Implications:

| | |
|---------------------|--------------------------|
| <i>Financial:</i> | None. Monitoring report. |
| <i>Legal:</i> | None. |
| <i>Personnel:</i> | None. |
| <i>Procurement:</i> | None |

Council Strategic Plan: SPF supports all Missions within the Grand Challenge of: **Enable staff to deliver essential services in a sustainable, innovative and efficient way for our communities**. The LGPS is one of the key benefits which enables the Council to recruit and retain staff.

Equality and Socio-Economic Impacts:

| | |
|---|--|
| <i>Does the proposal support the Council’s Equality Outcomes 2021-25? Please specify.</i> | Equalities issues are addressed in the Fund’s Responsible Investment strategy. A summary of responsible investment activity is included at Appendix 7 . |
| <i>What are the potential equality impacts as a result of this report?</i> | N/a. |
| <i>Please highlight if the policy/proposal will help address socio-</i> | N/a. |

economic disadvantage.

Climate Impacts:

| | |
|---|---|
| <i>Does the proposal support any Climate Plan actions? Please specify:</i> | Yes. Strathclyde Pension Fund's Climate Change strategy aligns with Item 34 of the Council's Climate Action Plan. SPF's stewardship activity addresses all of the SDGs to some degree. A summary of responsible investment activity is included at Appendix 7. |
| <i>What are the potential climate impacts as a result of this proposal?</i> | N/a. |
| <i>Will the proposal contribute to Glasgow's net zero carbon target?</i> | N/a. |

Privacy and Data Protection Impacts:

| | |
|---|-----|
| Are there any potential data protection impacts as a result of this report Y/N | No. |
|---|-----|

| | |
|---|------|
| If Yes, please confirm that a Data Protection Impact Assessment (DPIA) has been carried out | N/a. |
|---|------|

9 Recommendation

The Committee is asked to **NOTE** the contents of the report.

| | |
|-------------------|---|
| Appendix 1 | Investment Objectives and Strategy |
| Appendix 2 | Fund and Asset Class Performance |
| Appendix 3 | Manager Performance |
| Appendix 4 | Portfolio Summary |
| Appendix 5 | Direct Impact Portfolio |
| Appendix 6 | Investment Advisory Panel |
| Appendix 7 | Stewardship Activity |

Investment Objectives and Strategy

The Fund's investment objective is to support the funding strategy by adopting an investment strategy and structure which incorporate an appropriate balance between risk and return. The current objectives of the investment strategy should be to achieve:

- a greater than 2/3 probability of being 100% funded over the average future working lifetime of the active membership (the target funding period); and
- a less than 10% probability of falling below 70% funded over the next three years.

The Fund's investment strategy broadly defines the types of investment to be held and the balance between different types of investment. The strategy reflects the Fund's key investment principles, is agreed by the Committee and reviewed regularly. The Fund has adopted a risk-return asset framework as the basis for modelling and agreeing investment strategy.



Target allocations to each of the 5 asset categories are outlined below. The Fund implemented strategy Step 1 between the 2014 and 2017 actuarial valuations. After the 2017 valuation Step 2 was adopted as the strategic target model and retained following a further review of investment strategy alongside the 2020 valuation. Step 3 and Step 4 may be considered alongside the 2023 actuarial valuation.

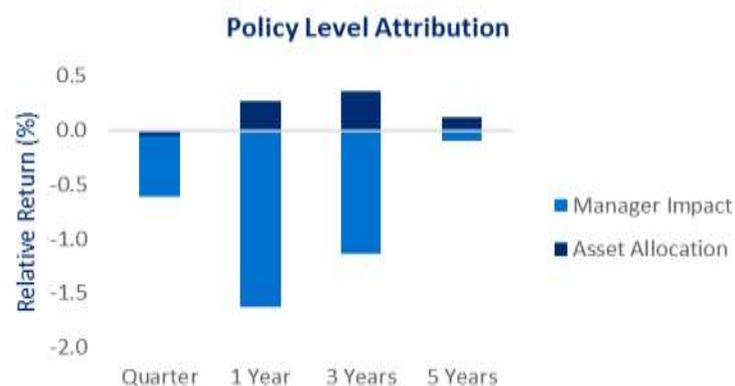
| Asset | Step 1 % | Step 2 % | Step 3 % | Step 4 % |
|---------------------------|-------------|-------------|-------------|-------------|
| Equity | 62.5 | 52.5 | 42.5 | 32.5 |
| Hedging & insurance | 1.5 | 1.5 | 1.5 | 1.5 |
| Credit | 6.0 | 6.0 | 6.0 | 6.0 |
| Short term enhanced yield | 15.0 | 20.0 | 25.0 | 30.0 |
| Long term enhanced yield | 15.0 | 20.0 | 25.0 | 30.0 |
| | 100 | 100 | 100 | 100 |
| Return (% p.a.) | 6.0 | 5.9 | 5.8 | 5.5 |
| Volatility (% p.a.) | 12 | 11 | 10 | 9 |

Fund and Asset Class Performance

1. Returns by Asset Class

| Asset Class | Latest Quarter | | | 1 Year | | | 3 Years | | | 5 Years | | |
|---------------|----------------|----------|------------|--------|----------|------------|---------|----------|------------|---------|----------|------------|
| | Fund % | B'mark % | Relative % | Fund % | B'mark % | Relative % | Fund % | B'mark % | Relative % | Fund % | B'mark % | Relative % |
| Equity | (0.3) | 0.1 | (0.5) | 9.6 | 12.8 | (2.8) | 8.2 | 9.9 | (1.5) | 7.0 | 6.5 | 0.5 |
| Hedging & Ins | - | - | - | - | - | - | - | - | - | - | - | - |
| Credit | (1.8) | (1.8) | (0.0) | 3.8 | 3.8 | (0.0) | (7.4) | (7.4) | 0.0 | (1.0) | (1.1) | 0.1 |
| STEY | 0.9 | 1.6 | (0.7) | 5.2 | 8.4 | (3.0) | 2.6 | 4.4 | (1.8) | 2.4 | 4.2 | (1.7) |
| LTEY | (0.1) | 0.8 | (0.9) | (1.6) | (4.3) | 2.9 | 5.5 | 5.3 | 0.2 | 4.1 | 4.5 | (0.4) |
| Total Fund | (0.2) | 0.4 | (0.6) | 6.1 | 7.6 | (1.4) | 5.8 | 6.6 | (0.8) | 5.3 | 5.3 | 0.0 |

2. Performance Attribution



3. Performance vs Actuarial Assumption



- In Q3 all actively managed asset classes underperformed their benchmarks. Equity saw the smallest underperformance, while STEY was the strongest asset class in absolute terms.
- Equity has underperformed over 1 year and 3 years but in absolute terms it is the best performing asset class over the longer term, largely due to the outperformance of private equity portfolios.
- Over Q3, 1, 3 and 5 years, investment manager performance has detracted from Fund return, while asset allocation has added value over 1, 3 and 5 years.
- Fund performance remains comfortably ahead of the assumed actuarial return and inflation.

Manager Performance

1 Equity

1.1 Manager Performance Summary

| Equity | | | | | | |
|-------------------------------|----------|---------------------|-----------------|------------------|------------------|--------------------------|
| Manager | | Current Quarter (%) | 1 Year (% p.a.) | 3 Years (% p.a.) | 5 Years (% p.a.) | Since Inception (% p.a.) |
| Baillie Gifford | Actual | (4.0) | 6.4 | (0.8) | 4.5 | 8.5 |
| | Relative | (4.7) | (4.2) | (9.7) | (1.9) | 1.0 |
| Lazard | Actual | (2.0) | 7.0 | 7.7 | 9.0 | 9.4 |
| | Relative | (2.7) | (3.2) | (1.1) | 1.1 | 0.8 |
| Oldfield | Actual | 1.7 | 15.4 | 9.2 | 2.1 | 7.8 |
| | Relative | 1.1 | 4.5 | 0.2 | (5.4) | (3.6) |
| Veritas | Actual | 0.8 | 10.3 | 7.2 | 7.3 | 11.9 |
| | Relative | 0.2 | (0.2) | (1.6) | (0.6) | 0.5 |
| Lombard Odier | Actual | (7.7) | 2.0 | 4.8 | 6.6 | 6.7 |
| | Relative | (5.6) | 4.2 | 1.4 | 6.9 | 2.6 |
| JP Morgan | Actual | (1.7) | 2.7 | (1.9) | 3.5 | 11.3 |
| | Relative | (2.1) | (4.5) | (6.1) | 0.3 | 1.8 |
| Active EM Equity ¹ | Actual | 0.4 | 4.4 | (3.7) | 1.1 | 8.5 |
| | Relative | (1.9) | 0.7 | (5.8) | (1.8) | 1.2 |
| Pantheon | Actual | 5.3 | (7.2) | 20.1 | 14.4 | 13.9 |
| | Relative | 4.6 | (16.0) | 8.3 | 10.9 | 5.2 |
| Partners Group | Actual | 2.6 | 6.9 | 15.6 | 13.6 | 11.9 |
| | Relative | 2.0 | (3.3) | 4.3 | 10.1 | 6.3 |
| L&G Equity | Actual | (1.1) | 17.0 | 8.9 | 6.1 | 9.2 |
| | Relative | (0.1) | (0.1) | (0.2) | (0.1) | - |
| L&G RAFI | Actual | 1.5 | 15.4 | 14.7 | 6.9 | 9.3 |
| | Relative | 0.0 | 0.3 | 0.2 | 0.1 | (0.1) |
| L&G EM Equity | Actual | 2.6 | 1.4 | - | - | (5.0) |
| | Relative | (0.0) | (0.1) | - | - | (1.6) |
| Total | Actual | (0.3) | 9.6 | 8.2 | 7.0 | 8.4 |
| | Relative | (0.5) | (2.8) | (1.5) | 0.5 | 0.7 |

¹ Portfolio was originally held in 2 funds managed by Genesis: GEMIC and GEMF. In 2021, Fidelity replaced Genesis as the manager of GEMF and the fund was renamed Fidelity Emerging Markets Limited.

1.2 Manager Performance Commentary

Overall, Equity underperformed the benchmark over the quarter, with 5 out of 9 active managers underperforming. In both absolute and relative terms, **Pantheon** was the strongest performer, followed by **Partners Group**. The weakest performers were **Lombard Odier** and **Baillie Gifford**.

Over 5 years, **Baillie Gifford**, **Oldfield**, **Veritas** and **Active Emerging Markets** (Genesis and Fidelity) are behind benchmark, but the allocation to private assets (managed by **Pantheon** and **Partners Group**) has been beneficial. **Lombard Odier** has also performed well over the long term.

Pantheon outperformed the benchmark in 2023 Q3, but has underperformed over the year, as has **Partners Group**. Both managers have outperformed the benchmark over 5 years, and are the main contributors to the outperformance of the Fund's equity allocation over the long term. The most recent Total Value / Paid In multiple, which

Manager Performance

compares the total value (funds distributed and residual value) of the portfolio with the total capital called, is 1.84x for **Pantheon** and 1.79x for **Partners Group**.

Oldfield outperformed the benchmark over the quarter. The strongest performing stock and worst performing stock were both impacted by rising oil prices. **Oldfield** have outperformed the benchmark over 1 year and 3 years but have underperformed over 5 years. As a value investor, Oldfield has limited exposure to the fast-growing companies that have dominated market performance over recent years.

Lombard Odier were the weakest performer in both absolute and relative terms due to the write-down in value of one particular stock. The portfolio is ahead of benchmark over 1-year, 3-year and 5-year periods.

Baillie Gifford underperformed the benchmark over the quarter, as market conditions were unfavourable to long-term growth investors. Stocks that performed well included Elevance, a US health insurance business, and Martin Marietta Materials, a US provider of construction aggregates. Performance is below benchmark over 1-year, 3-year and 5-year periods. However, Baillie Gifford have added some new stocks which they believe have the potential to grow earnings over the next 3 to 5 years.

JP Morgan underperformed the benchmark overall, and each of the regional benchmarks set for the portfolio. In the US absolute and relative performance were negative as stock specific events within the healthcare sector hurt performance. In Europe, stubborn inflation and macroeconomic conditions resulted in negative absolute and relative performance. In Japan, absolute returns were positive, but behind the benchmark due to sector allocation and stock selection. In the Asia Pacific region, absolute returns were positive, but behind benchmark as weak stock selection in Korea, India and Taiwan was only partially offset by positive stock selection in Hong Kong and Singapore. The portfolio has underperformed over 1 year and 3 years but has outperformed over the longer term.

Manager Performance

2 Short Term Enhanced Yield

2.1 Manager Performance Summary

| Short term enhanced yield | | | | | | |
|-------------------------------|----------|---------------------|----------------|------------------|------------------|-------------------------|
| Manager | | Current Quarter (%) | 1 Year (% p.a) | 3 Years (% p.a.) | 5 Years (% p.a.) | Since Inception (% p.a) |
| PIMCO | Actual | 0.1 | 3.2 | 2.0 | 3.1 | 2.5 |
| | Relative | (2.0) | (4.1) | (2.9) | (1.6) | (0.1) |
| Ruffer | Actual | (0.6) | (3.5) | 4.3 | n/a | 5.3 |
| | Relative | (2.6) | (10.1) | (0.5) | n/a | 0.8 |
| Barings (Multi Credit) | Actual | 2.0 | 9.1 | 2.6 | 1.1 | 2.1 |
| | Relative | (0.3) | 0.7 | (3.0) | (4.1) | (2.9) |
| Oak Hill | Actual | 3.2 | 13.1 | 4.5 | 3.3 | 3.4 |
| | Relative | 1.0 | 4.3 | (1.2) | (2.1) | (1.7) |
| Barings (Private Debt) | Actual | 2.3 | 7.4 | 7.5 | 5.4 | 5.4 |
| | Relative | 0.1 | (0.9) | 1.6 | (0.0) | 0.2 |
| Alcentra | Actual | 1.1 | 3.7 | 6.5 | 5.9 | 6.4 |
| | Relative | (1.1) | (4.3) | 0.7 | 0.4 | 1.1 |
| ICG | Actual | 1.2 | 1.4 | 5.0 | n/a | 3.5 |
| | Relative | (1.0) | (6.5) | (0.8) | n/a | (2.0) |
| Partners Group (Private Debt) | Actual | 2.3 | 7.5 | 7.9 | n/a | 3.2 |
| | Relative | 0.0 | (0.8) | 2.0 | n/a | (2.3) |
| Ashmore | Actual | (3.5) | 8.2 | (9.2) | (6.1) | (5.0) |
| | Relative | (1.1) | (1.2) | (5.4) | (4.8) | (3.8) |
| Total | Actual | 0.9 | 5.2 | 2.6 | 2.4 | 2.3 |
| | Relative | (0.7) | (3.0) | (1.8) | (1.7) | (1.5) |

2.2 Manager Performance Commentary

Overall, performance of short-term enhanced yield is behind benchmark over the quarter, with only 2 managers outperforming their benchmarks. **Oak Hill** was the strongest performer in both absolute and relative terms. **Ashmore** was the only manager to deliver negative absolute returns, while in relative terms **Ruffer** was the weakest performing manager.

The strategy is behind benchmark over the longer term, with only **Ruffer**, **Alcentra** and **Barings Private Debt** outperforming since inception.

Amidst challenging conditions in credit markets, **Oak Hill** was the best performer on both an absolute and relative basis. The primary driver of performance was idiosyncratic credit selection, particularly within high yield bonds. The top performing sector was high tech and the top performing stock was Brand Industrial Services. On the downside, the worst performing industry was personal transportation and the worst performing stock was Envision Healthcare. The portfolio is ahead of benchmark over 1 year but has underperformed over the longer term.

Ruffer was the weakest performer in relative terms. Bond positions suffered as exposure was increased at a time when the market saw yields increased to levels not seen since the 2008 financial crash. However, losses were mitigated by the positive performance of BP, Rolls-Royce and Marks and Spencer. The portfolio has

Manager Performance

significantly underperformed the benchmark over one year, and underperformance in Q3 pushed 3-year relative returns into negative territory.

Ashmore underperformed the benchmark and was the only manager to deliver negative returns. Corporate debt was the main driver of underperformance. On a country basis, the main detractor was China and the main contributor was Venezuela.

3 Long Term Enhanced Yield

3.1 Manager Performance Summary

| Long term enhanced yield | | | | | | |
|---|----------|---------------------|----------------|------------------|------------------|-------------------------|
| Manager | | Current Quarter (%) | 1 Year (% p.a) | 3 Years (% p.a.) | 5 Years (% p.a.) | Since Inception (% p.a) |
| DTZ | Actual | (0.7) | (10.7) | 3.6 | 2.7 | 6.3 |
| | Relative | (0.9) | 5.4 | 1.2 | 1.1 | 0.1 |
| Partners Group RE ⁽²⁾ | Actual | (2.8) | (9.5) | 2.3 | 2.2 | 6.4 |
| | Relative | (6.0) | (13.3) | (6.3) | (6.3) | (2.2) |
| JP Morgan IIF | Actual | 1.8 | 12.2 | 8.0 | n/a | 6.5 |
| | Relative | (0.1) | 3.9 | (0.0) | n/a | (1.4) |
| Total | Actual | (0.1) | (1.6) | 5.5 | 4.1 | 5.3 |
| | Relative | (0.9) | 2.9 | 0.2 | (0.4) | 0.1 |

3.2 Manager Performance Commentary

Overall, long term enhanced yield underperformed the benchmark in Q3. The only manager to deliver positive absolute performance was the **JP Morgan Institutional Infrastructure Fund**. **DTZ** and **Partners Group** produced negative returns and underperformed their benchmarks.

The **JP Morgan Infrastructure Investments Fund** underperformed benchmark over the quarter but is ahead of benchmark over 1 year. The fund further diversified its exposure across sectors and geographies through platform investments.

DTZ underperformed the benchmark over the quarter. Capital values declined and the acquisition costs in respect of two large purchases weighed on returns. The portfolio has performed well over the longer term and is the only LTEY portfolio to outperform the benchmark since inception.

Partners Group are behind their strategic benchmark (8% per annum adjusted for currency movements) over all time periods but over 3 years are ahead of the FTSE/EPFA NAREIT Total Return Index reported by the manager. The portfolio has a Total Value / Paid In multiple of 1.3x.

Portfolio Summary 30 September 2023

| | Equity | | Hedging & Insurance | | Credit | | Short Term Enhanced Yield | | Long Term Enhanced Yield | | Total | | Target |
|------------------------|---------------|--------------|---------------------|-------------|--------------|-------------|---------------------------|--------------|--------------------------|--------------|---------------|---------------|---------------|
| | £m | % | £m | % | £m | % | £m | % | £m | % | £m | % | % |
| L&G | 7,286 | 26.0% | 0 | 0.0% | 1,901 | 6.8% | | | | | 9,187 | 32.8% | 31.5% |
| Baillie Gifford | 2,036 | 7.3% | | | | | | | | | 2,036 | 7.3% | 7.5% |
| Lazard | 865 | 3.1% | | | | | | | | | 865 | 3.1% | 2.5% |
| Oldfield | 794 | 2.8% | | | | | | | | | 794 | 2.8% | 2.5% |
| Veritas | 822 | 2.9% | | | | | | | | | 822 | 2.9% | 2.5% |
| Lombard Odier | 363 | 1.3% | | | | | | | | | 363 | 1.3% | 1.0% |
| JP Morgan | 809 | 2.9% | | | | | | | 1,111 | 4.0% | 1,920 | 6.9% | 6.5% |
| Active EM Equity | 343 | 1.2% | | | | | | | | | 343 | 1.2% | 1.5% |
| Pantheon | 1,506 | 5.4% | | | | | | | | | 1,506 | 5.4% | 5.0% |
| Partners Group | 967 | 3.5% | | | | | 278 | 1.0% | 519 | 1.9% | 1,764 | 6.3% | 6.0% |
| PIMCO | | | | | | | 1,038 | 3.7% | | | 1,038 | 3.7% | 4.0% |
| Ruffer | | | | | | | 529 | 1.9% | | | 529 | 1.9% | 2.0% |
| Barings (multi-credit) | | | | | | | 705 | 2.5% | | | 705 | 2.5% | 2.8% |
| Oak Hill Advisors | | | | | | | 512 | 1.8% | | | 512 | 1.8% | 1.8% |
| Barings (private debt) | | | | | | | 471 | 1.7% | | | 471 | 1.7% | 1.3% |
| Alcentra | | | | | | | 367 | 1.3% | | | 367 | 1.3% | 1.3% |
| ICG Longbow | | | | | | | 320 | 1.1% | | | 320 | 1.1% | 1.0% |
| Ashmore | | | | | | | 414 | 1.5% | | | 414 | 1.5% | 2.5% |
| DTZ | | | | | | | | | 2,413 | 8.6% | 2,413 | 8.6% | 10.0% |
| DIP | 124 | 0.4% | | | | | 132 | 0.5% | 1,178 | 4.2% | 1,434 | 5.1% | 6.0% |
| Cash | | | | | | | 183 | 0.7% | | | 183 | 0.7% | 1.0% |
| Total | 15,915 | 56.9% | 0 | 0.0% | 1,901 | 6.8% | 4,950 | 17.7% | 5,221 | 18.7% | 27,988 | 100.0% | 100.0% |
| Target | | 52.5% | | 1.5% | | 6.0% | | 20.0% | | 20.0% | | 100.0% | |

Direct Impact Portfolio

1 Portfolio Summary

The portfolio can be summarised as follows.

| | Since Inception (£m) | Current Portfolio (£m) |
|--------------------------------------|----------------------|------------------------|
| Total Commitments Agreed | 2,132 | 2,034 |
| Amounts Drawn Down by Managers | 1,558 | 1,481 |
| + Increase in Value | 581 | 536 |
| - Received Back in Distributions | 579 | 579 |
| - Realisations | 122 | - |
| = Total Net Asset Value (NAV) | 1,438 | 1,438 |

Based on a current total Fund value of **£27,988bn**, DIP's **5%** target allocation is a NAV of **£1,399m**. In addition, a co-investment program of £200m which is not reflected in the table above has been approved but is as yet unallocated.

The portfolio comprises **59** separate investments. In Q3, total drawdowns and distributions amounted to **£22m** and **£61m** respectively.

2 Performance

Portfolio performance to 30th September 2023 is as follows:

| | Q3 2023 (%) | 1 year (%) | 3 years (% p.a.) | 5 years (% p.a.) | Since Inception (% p.a.) |
|----------------|-------------|-------------|------------------|------------------|--------------------------|
| DIP | 0.9 | 10.6 | 9.1 | 6.5 | 7.9 |
| DIP Benchmark* | 2.3 | 12.0 | 9.0 | 7.0 | 3.1 |
| SPF Total Fund | -0.2 | 6.1 | 5.8 | 5.3 | 10.9 |

Performance continues to be very positive. Main drivers have been:

- strong returns from the predominantly index-linked revenues underpinning most of the LTEY investments, which form the majority of the DIP portfolio;
- the ongoing effect of stronger power prices has been positive for the valuations of the renewable energy funds, however as power prices ease, assets are experiencing some valuation decreases, as evidenced in Quarter 3 and with the softening in the return over 1 year; and
- the DIP equity portfolio has also performed very well, while the credit funds have contributed positively.

Overall, the portfolio has performed well as have the majority of its individual investments. On a RAG analysis:

- 54 investments are rated **green**
- 4 are rated **amber**
- None are rated **red**
- 1 is in legals

A complete list of current DIP investments and their progress to date is shown below.

Direct Impact Portfolio

3 DIP Investments

| Fund | Vintage Year | Sector | Asset Category | SPF Commitment (£m) | Cumulative Drawdowns (£m) | Undrawn Commitment (£m) | Cumulative Distributions (£m) | Net Asset Value (£m) |
|--|---------------|-----------------|----------------|---------------------|---------------------------|-------------------------|-------------------------------|----------------------|
| Asset Category: Equity | | | | | | | | |
| Clean Growth Fund | 2021 | Venture Capital | Equity | 20 | 10 | 10 | 0 | 10 |
| Corran Environmental Fund II | 2023 (Legals) | Growth Capital | Equity | 20 | 0 | 20 | 0 | 0 |
| Epidarex Fund II | 2012 | Venture Capital | Equity | 5 | 5 | 0 | 2 | 5 |
| Epidarex Fund III | 2018 | Venture Capital | Equity | 15 | 9 | 6 | 0 | 10 |
| Foresight Regional Investment V LP | 2021 | Growth Capital | Equity | 30 | 2 | 28 | 0 | 1 |
| Maven Regional Buyout Fund | 2017 | Growth Capital | Equity | 20 | 18 | 2 | 7 | 16 |
| Palatine Impact Fund II | 2022 | Growth Capital | Equity | 25 | 3 | 22 | 0 | 2 |
| Palatine Private Equity Fund IV | 2020 | Growth Capital | Equity | 25 | 14 | 11 | 8 | 18 |
| Panoramic Enterprise Capital Fund 1 LP | 2010 | Growth Capital | Equity | 3 | 3 | 0 | 9 | 1 |
| Panoramic Growth Fund 2 LP | 2015 | Growth Capital | Equity | 15 | 12 | 3 | 16 | 6 |
| Panoramic SME Fund 3 LP | 2022 | Growth Capital | Equity | 25 | 3 | 22 | 0 | 3 |
| Par Equity Northern Scale-Up Fund | GC | Growth Capital | Equity | 25 | 3 | 22 | 0 | 3 |
| Pentech Fund III | 2017 | Venture Capital | Equity | 10 | 7 | 3 | 0 | 12 |
| SEP II | 2004 | Venture Capital | Equity | 5 | 5 | 0 | 4 | 0 |
| SEP III | 2006 | Growth Capital | Equity | 5 | 5 | 0 | 18 | 0 |
| SEP IV LP | 2011 | Growth Capital | Equity | 5 | 5 | 0 | 7 | 4 |
| SEP V LP | 2016 | Growth Capital | Equity | 20 | 20 | 0 | 9 | 29 |
| SEP VI LP | 2021 | Growth Capital | Equity | 30 | 4 | 26 | 0 | 3 |
| Total as at 30/09/2023 | Q3 | | | 303 | 128 | 175 | 80 | 124 |

Direct Impact Portfolio

| Fund | Vintage Year | Sector | Asset Category | SPF Commitment (£m) | Cumulative Drawdowns (£m) | Undrawn Commitment (£m) | Cumulative Distributions (£m) | Net Asset Value (£m) |
|--|--------------|----------------|----------------|---------------------|---------------------------|-------------------------|-------------------------------|----------------------|
| Asset Category: LTEY | | | | | | | | |
| Albion Community Power LP | 2014 | Renewables | LTEY | 40 | 40 | 0 | 12 | 41 |
| Alpha Social Long Income Fund | 2014 | Support Living | LTEY | 15 | 15 | 0 | 4 | 18 |
| Capital Dynamics Clean Energy Infrastructure VIII | 2019 | Renewables | LTEY | 40 | 35 | 5 | 3 | 35 |
| Capital Dynamics Clean Energy UK Fund | 2023 | Renewables | LTEY | 60 | 0 | 60 | 0 | 0 |
| Clydebuilt Fund II LP | 2020 | Property | LTEY | 100 | 17 | 83 | 0 | 17 |
| Clydebuilt Fund LP | 2013 | Property | LTEY | 75 | 75 | 0 | 66 | 26 |
| Dalmore Capital Fund 3 LP | 2017 | Infrastructure | LTEY | 50 | 50 | 0 | 12 | 57 |
| Dalmore Capital Fund 4 LP | 2020 | Infrastructure | LTEY | 50 | 50 | 0 | 4 | 51 |
| Dalmore II 39 LP | 2020 | Infrastructure | LTEY | 50 | 30 | 20 | 2 | 31 |
| Dalmore PPP Equity PiP Fund | 2013 | Infrastructure | LTEY | 50 | 50 | 0 | 33 | 47 |
| Equitix Fund IV LP | 2016 | Infrastructure | LTEY | 30 | 30 | 0 | 11 | 30 |
| Equitix Fund V LP | 2018 | Infrastructure | LTEY | 50 | 50 | 0 | 11 | 51 |
| Equitix Fund VI LP | 2019 | Infrastructure | LTEY | 50 | 50 | 0 | 2 | 51 |
| Equitix MA 19 LP (Co-Investment Fund) | 2019 | Infrastructure | LTEY | 50 | 50 | 0 | 4 | 56 |
| Funding Affordable Homes | 2021 | Property | LTEY | 30 | 0 | 30 | 0 | 0 |
| Greencoat Solar Fund II LP | 2018 | Renewables | LTEY | 50 | 50 | 0 | 12 | 47 |
| Hermes Infrastructure Fund II | 2017 | Infrastructure | LTEY | 50 | 42 | 8 | 12 | 47 |
| Iona Environmental Infrastructure LP | 2014 | Renewables | LTEY | 10 | 10 | 0 | 4 | 8 |
| Iona Renewable Infrastructure LP | 2017 | Renewables | LTEY | 14 | 14 | 0 | 1 | 16 |
| Iona Resource and Energy Efficiency (Strathclyde) LP | 2021 | Renewables | LTEY | 6 | 5 | 1 | 0 | 5 |

Direct Impact Portfolio

| Fund | Vintage Year | Sector | Asset Category | SPF Commitment (£m) | Cumulative Drawdowns (£m) | Undrawn Commitment (£m) | Cumulative Distributions (£m) | Net Asset Value (£m) |
|--|--------------|----------------|----------------|---------------------|---------------------------|-------------------------|-------------------------------|----------------------|
| Legal & General UK Build to Rent Fund | 2019 | Property | LTEY | 75 | 75 | 0 | 3 | 80 |
| Macquarie GIG Renewable Energy Fund I | 2015 | Renewables | LTEY | 80 | 80 | 0 | 58 | 66 |
| Man GPM RI Community Housing Fund | 2020 | Property | LTEY | 30 | 24 | 6 | 0 | 25 |
| NextPower UK ESG Fund | 2022 | Renewables | LTEY | 60 | 19 | 41 | 1 | 20 |
| NTR Wind I LP | 2015 | Renewables | LTEY | 40 | 36 | 5 | 31 | 45 |
| PIP Multi-Strategy Infrastructure LP(Foresight) | 2016 | Infrastructure | LTEY | 130 | 120 | 10 | 51 | 96 |
| Places for People Scottish Mid-Market Rental (SMMR) Fund | 2019 | Property | LTEY | 45 | 25 | 20 | 2 | 25 |
| Quinbrook Renewables Impact Fund | 2020 | Renewables | LTEY | 50 | 40 | 10 | 0 | 45 |
| Resonance British Wind Energy Income Ltd | 2014 | Renewables | LTEY | 10 | 10 | 0 | 6 | 10 |
| Temporis Impact Strategy V LP | 2021 | Renewables | LTEY | 50 | 27 | 23 | 7 | 29 |
| Temporis Operational Renewable Energy Strategy (TORES) | 2017 | Renewables | LTEY | 30 | 28 | 2 | 4 | 59 |
| Temporis Operational Renewable Energy Strategy (TORES II) (prev. TREF) | 2015 | Renewables | LTEY | 30 | 30 | 0 | 7 | 45 |
| Total as at 30/09/2023 | Q3 | | | 1,500 | 1,175 | 326 | 364 | 1,182 |

Direct Impact Portfolio

| Fund | Vintage Year | Sector | Asset Category | SPF Commitment (£m) | Cumulative Drawdowns (£m) | Undrawn Commitment (£m) | Cumulative Distributions (£m) | Net Asset Value (£m) |
|--|--------------|--------|----------------|---------------------|---------------------------|-------------------------|-------------------------------|----------------------|
| Asset Category: STEY | | | | | | | | |
| Beechbrook UK SME Credit II Fund | 2018 | Credit | STEY | 30 | 29 | 1 | 16 | 22 |
| Beechbrook UK SME Credit III Fund | 2022 | Credit | STEY | 40 | 22 | 18 | 2 | 22 |
| Healthcare Royalties Partners III LP | 2014 | Credit | STEY | 20 | 20 | 0 | 18 | 8 |
| Invesco Real Estate Finance Fund II (formerly GAM REFF II) | 2018 | Credit | STEY | 20 | 14 | 6 | 13 | 10 |
| Muzinich UK Private Debt Fund | 2015 | Credit | STEY | 15 | 15 | 0 | 15 | 0 |
| Pemberton UK Mid-Market Direct Lending Fund | 2017 | Credit | STEY | 40 | 37 | 3 | 48 | 24 |
| Scottish Loans Fund | 2010 | Credit | STEY | 6 | 6 | 0 | 6 | 0 |
| TDC II (prev Tosca Debt Capital Fund II LP) | 2017 | Credit | STEY | 30 | 8 | 22 | 15 | 15 |
| TDC III (prev Tosca Debt Capital Fund III LP) | 2021 | Credit | STEY | 30 | 27 | 3 | 1 | 31 |
| Total as at 30/09/2023 | Q3 | | | 231 | 179 | 52 | 135 | 132 |
| DIP Portfolio Total | | | | | | | | |
| Total as at 30/09/2023 | Q3 | | | 2,034 | 1,481 | 553 | 579 | 1,438 |
| Total as at 30/06/2023 | Q2 | | | 2,034 | 1,459 | 575 | 518 | 1,434 |

Investment Advisory Panel Meeting November 2023

MINUTES OF MEETING ON Thursday 9th November 2023

| | | |
|-----------------|--------------------------------|--------------------------|
| PRESENT: | Richard McIndoe | Director |
| | Councillor Richard Bell | Glasgow City Council |
| | Prof. Geoffrey Wood | Investment Advisor |
| | Iain Beattie | Investment Advisor |
| | Alistair Sutherland | Investment Advisor |
| | David Walker | Hymans Robertson |
| | Nell McRae | Hymans Robertson |
| | Jacqueline Gillies | Chief Investment Officer |
| | Ian Jamison | Investment Manager |
| | Moira Gillespie | Investment Administrator |

1. Minutes from Last Meeting & any Matters Arising

The minutes of the Panel meeting on 10th August 2023 were agreed to be an accurate record. There were no matters arising which were not covered on the current agenda.

2 Monitoring**2.1 Market and Inflation Update**

The Panel noted investment market and inflation updates from Hymans Robertson.

2.2 Local Authority Pension Fund Performance

The Panel noted the PIRC 2023 annual review of local authority pension fund performance.

2.3 Quarterly Investment Performance Review

The Fund's return for Q3 2023 was **-0.2%**, behind the benchmark return of **+0.4%**. Performance for the year to 30th September 2023 was positive (**+3.9%**), but below benchmark (**+4.8%**). The Fund's return is positive on an absolute and relative basis over five- and ten-year periods.

2.4 Manager Ratings

Current officer assessments of the Fund's investment managers had been circulated, together with Hymans Robertson's manager update. The Panel discussed the ratings. On a Red, Amber, and Green (RAG) analysis:

- 17 of the Fund's managers were rated **green**
- 4 rated **amber**
- None **red**.

2.5 Direct Impact Portfolio Monitoring Report

The Panel reviewed the quarterly monitoring report for the Direct Impact Portfolio (DIP). Overall the portfolio and most of its investments are progressing well. On a Red, Amber, Green (RAG) analysis:

- **54** investments are rated **green**
- **4** are **amber**
- **1** is in legals
- **None red**.

Investment Advisory Panel Meeting November 2023

3 Allocation**3.1 Private Market Allocations**

The Panel reviewed a schedule of estimated cash flows for the Fund's private market investment programmes - private equity, global real estate, the Direct Impact Portfolio, and private debt commitments. Totals as at 30th September 2023 were as follows.

| | 2022 | | 2023 | | |
|---------------|-----------------|---------------|-----------------|-------------|-----------------|
| | <i>Estimate</i> | <i>Actual</i> | <i>Estimate</i> | <i>YTD</i> | <i>Probable</i> |
| | <i>(£m)</i> | <i>(£m)</i> | <i>(£m)</i> | <i>(£m)</i> | <i>(£m)</i> |
| Distributions | 678 | 631 | 707 | 282 | 500 |
| Calls | -783 | -790 | 577 | 194 | 466 |
| Net | -105 | -159 | +130 | +89 | +34 |

The Fund's central cash balance at 30th September 2023 was **£182m**.

3.2 Rebalancing Strategy

The Panel reviewed a rebalancing report as at 30th September 2023. The Panel discussed the detail of the report, which showed:

- short term enhanced yield was below its target range (16.9% vs 20.0%) due to its relatively weak performance and outstanding commitments.
- At a portfolio level, emerging market debt was below its target range (1.5% vs 2.5%) due to poor performance, while the Direct Impact Portfolio's LTEY investments were over their target weight (4.2% vs 4%).

The Panel agreed that no immediate action was required pending the conclusion of the current review of investment strategy and structure.

3.3 Relative Value Framework

The Panel reviewed a relative value report from Hymans Robertson as at 30th September 2023, which showed:

- average credit spreads (vs gilts) are equal to the 20 year median, though the current UK spread is just above median level.
- A rise in nominal gilt yields has increased their attractiveness versus Hymans' assessment of fair value.

The tightening of credit spreads presented the option for the Fund to reduce its current overweight position in credit back to a neutral allocation and to implement a 1.5% allocation to Gilts. However, while credit remains fairly priced, the current supply and demand dynamics of the gilt market continue to present a technical challenge. The Panel agreed that the Fund should retain its current overweight position in credit.

3.4 Investment Income and Cash Flow

Analysis and modelling of current and future investment income cash-flows is updated annually and reviewed by the IAP to ensure that the Fund can meet its benefits cash flow requirements.

Investment Advisory Panel Meeting November 2023

Preliminary results of the 2023 Actuarial Valuation show a funding level of **147%** as at 31st March 2023. The very strong funding position allows some flexibility to reduce employer contribution rates. Rate reductions have been proposed for the financial years 2024/25, 2025/26 and 2026/27.

The Panel reviewed:

- An updated 10 Year benefits cash flow forecast indicating the significant impact that reductions in contribution rates over 2024/25, 2025/26 and 2026/27 will have on benefits cash flow, with a projected shortfall in funds from member transactions of **£493m**, **£535m** and **£195m** in each year respectively.
- Updated investment income modelling, which showed that total distributed income is not predicted to be sufficient to cover benefit payment requirements in 2024/25 or 2025/26. However, total re-invested income and distributed income would cover the estimated cash flow shortfall.

The Panel discussed the two analyses. While projected cash shortfall may be sourced from income, the Panel agreed that amounts required in the next 2 financial years suggest it is unlikely to be practical or prudent to take all of the funds from income.

A sale of assets is also an option to meet all or part of the cash requirement. The Fund is currently overweight its equity portfolio, with the value of the LGIM passive market cap portfolio 1.2% above its target weighting.

The Panel agreed that the Fund should sell down around **1%** or **£270m** of total Fund from the LGIM passive market cap portfolio - £150m immediately, followed by monthly amounts of £10m throughout 2024. This would ensure that the Fund can meet benefit payments through the first half of 2024. The Panel will review the sourcing of the additional funds required to meet benefit payments for remainder of 2024/25 at its meeting in February 2024 and on a quarterly basis thereafter.

4 Manager Reviews

4 investment managers attended the Investment Advisory Panel:

- **Pantheon**
- **Partners Group**
- **Fidelity**
- **Genesis**

Performance of each of the managers was reviewed.

4.1 Pantheon

The Pantheon private equity portfolio is currently valued at **£1,506m**, or **5.4%** of total Fund, versus a target weight of 5.0%. Pantheon provided an update on the current portfolio, performance and investment markets together with updated forecasts for the future development of the Strathclyde portfolio.

The portfolio is currently over its target allocation but this will move to an underweight position in H2 2024 as distributions from the portfolio are forecast to continue to exceed drawdowns to fund new investments. In order to achieve and maintain the Fund's target allocation of 5% of total Fund, Pantheon proposed the following new investment allocations:

Investment Advisory Panel Meeting November 2023

- £125m to a concentrated primary portfolio via a dedicated Separate Managed Account (SMA)
- £250m in Pantheon Global Co-investment Fund V ('PGCO VI')
- £125m in Pantheon Global Secondary Fund VII ('PGSF VII').

The Panel supported the new investment allocations.

4.2 Partners Group

The Partners Group private equity portfolio is currently valued at **£967m – 3.5%** of Fund versus a target weight of 2.5%. The private real estate portfolio is currently valued at **£519m – 1.9%** of total Fund versus a target weight of 2.5%. The private debt portfolio is currently valued at **£278m – 1.0%** of total Fund versus a target weight of 1.0%. Partners Group updated the Panel on the performance of the Fund's private equity, private real estate and private debt investments.

The private equity portfolio is currently over the Fund's target weight and as a result, no new commitments are required. The private real estate portfolio is currently under target weight. However, drawdown of existing commitments is expected to increase allocation to the Fund's target weighting during 2024.

The private debt portfolio is fully invested but the current environment represents an attractive investment opportunity amid rising rates. As limited refinancing activity is anticipated within the Fund's existing portfolio, Partners proposed an additional commitment of £100m to private debt.

The Partners Group private debt portfolio is currently at target weight. The Panel will consider the proposal to increase the portfolio size at its February meeting as part of the ongoing review of STEY mandates and the Fund's overall investment strategy.

4.3 Fidelity

Following the change in management and tender offer of the Genesis Emerging Markets Fund (GEMF) in October 2021, the Fund now has a holding in the Fidelity Emerging Markets Limited (FEML) investment trust. The holding is currently valued at **£116m** or **0.4%** of total Fund. Fidelity provided an overview of the trust's investment strategy and performance, as well as an overview of future marketing plans.

4.4 Genesis

The Genesis emerging markets portfolio is currently valued at **£226m**, or **0.8%** of total Fund, versus a target weight of 1.5%. The portfolio is underweight due the change in management of GEMF from Genesis to Fidelity as well as negative investment performance relative to the Fund overall. Genesis provided an update on the current portfolio, performance and investment markets together with an overview of changes to the investment team.

5 Investment Strategy and Structure

A review of investment strategy in conjunction with the actuarial valuation of the Fund as at 31st March 2023 is one of the major items in the SPF 2023/24

Investment Advisory Panel Meeting November 2023

business plan. The Panel considered the following as part of the ongoing review:

- Asset Liability Modelling Results
- Review of Emerging Market Equities
- Fixed Income Implementation Options
- Net Zero Impact Analysis (Passive Equities)

5.1 Presentation of Asset Liability Modelling Results

Hymans Robertson presented asset liability modelling results based on the data and results from the actuarial valuation. Hymans had carried out modelling to test:

- the potential to set more stringent measures of success and risk;
- lower employer rate contribution strategies;
- a range of alternative investment strategies;
- high-level cashflow requirements; and
- key risks – including stress testing of inflation, and climate change scenario modelling.

Given the improved funding position, the Panel had agreed the following set of metrics to help assess the effectiveness of the current and alternative investment strategies.

- Primary metrics
 - A greater than 2/3 probability of being 100% funded over the average future working lifetime of the active membership (the target funding period); and
 - a less than 10% probability of falling below 80% funded over the next three years.
- Secondary metrics
 - probability of being over 125% funded over the average future working lifetime of the active membership (the target funding period); and
 - probability of the funding level falling by 25% (from March 2023 level) over the next three years.

As expected, the results of the 2023 asset liability modelling confirm that the Fund is in a strong position. The current investment strategy maintains a high likelihood of being over 125% funded in 2036. On the risk measures, there is a negligible chance of funding falling below 80% over the next valuation cycle but a 23% chance of the funding level falling by 25% over this period.

This strong position gives the Fund lots of flexibility to consider changes to investment strategy. Hymans modelled a further 4 strategies in total including

- a 10% reduction in equities in favour of STEY and LTEY ('Alt3' on the Funds current risk return strategy framework);
- a 10% reduction in equities in favour of fixed income;
- a move to a more balanced split between growth, income and protection assets and finally
- a 5% reduction in equities as well as a reduction in STEY to reflect possible changes to mandate allocation within this asset category, in favour of increased allocations in fixed income and LTEY.

Modelling showed that there was not a huge differentiation between the alternative strategies from a quantitative perspective.

Investment Advisory Panel Meeting November 2023

The Panel discussed the modelling at some length and agreed that, whilst there was no absolute imperative to make strategic changes, the very strong funding level did present an opportunity to do so, and that it would be prudent to reduce equity risk. In light of ongoing discussions around STEY, Hymans will model a reduction of equities of 7.5% and in STEY of 2.5% in favour of increased allocation to fixed income and infrastructure. The Panel will review the results at its February 2024 meeting with a view to agreeing a recommendation for the SPF committee to consider at its March meeting.

Inflation risk

Inflation has risen further and for longer than most market participants expected. Hymans modelled the impact of different future inflation scenarios based on a 5% reduction in equities. In higher inflation environments, this strategy results in a slight reduction in risk and an improvement in success relative to the Fund's current investment strategy. However, the high funding level means variation in results is marginal over a range of different scenarios.

Climate scenario analysis

Hymans Robertson's asset liability modelling included a scenario-based review of climate transition risk. Conclusions were that:

- the Fund is exposed to climate risk through both its assets and liabilities
- the modelling tests and compares the resilience of funding and investment strategies as a direct result of government and business action or inaction on climate change and the timing of such action or inaction
- the likelihood of being fully funded remains above 90% over a 25-year period and in all scenarios tested. These results are based on the current investment strategy and a reduction in equity exposure of 5%.
- downside risk is affected to a greater extent than the likelihood of success with the average of the worst 5% of funding level outcomes in 25 years' time all below 80%.

The Panel acknowledged that the Fund already recognises the risk posed by climate change and is responding to it via its climate action plan. The modelling will be useful in informing future development of the climate change strategy.

5.2 Review of Emerging Market Equities

The Fund has exposure to emerging market ("EM") equities across 4 different dedicated mandates, due in part to changes to the make-up of the underlying active holding with Genesis over recent years. Hymans Robertson presented a paper which reviewed the investment case for continued allocation to emerging market equity via specialist mandates as well as alternative ways of structuring the Fund's allocation.

The Panel discussed the paper and agreed:

- that a strategic allocation to emerging market equity remains attractive and should result in additional returns over the long term.
- that the Fund should retain exposure to an active growth EM manager in order to access high growth companies in a risk-controlled manner.
- given the practical aspects of investing in this region, a passive allocation can help balance costs and governance alongside an active allocation.

Investment Advisory Panel Meeting November 2023

- the Fund would benefit from consolidating its current exposure into two mandates, one active and one passive.
- allocation of the active mandate would require further discussion. The Panel agreed that Hymans Robertson should prepare a shortlist of preferred managers for its February 2024 meeting.
- the Panel agreed that the passive EM RAFI allocation, which is relatively small but has a high carbon footprint, should be removed. The passive market cap emerging market allocation should be transferred to a low carbon alternative alongside the rest of the Fund's passive market cap portfolio.

5.3 Fixed Income Implementation Options

Hymans Robertson presented a paper which reviewed the Fund's current fixed income allocation. The paper analysed potential investment options should the Fund decide to increase the allocation as part of the current strategy review and given the objectives of the Fund's climate action plan.

The Panel agreed to revisit possible changes to the fixed income structure at its February 2024 meeting, after it had reviewed results from Hymans' re-modelling of overall Fund strategy.

5.4 Net Zero Pathway Analysis

The Panel agreed at its August meeting that moving the Fund's existing passive exposure onto the Low Carbon Transition equivalent indices would be an appropriate conclusion of the current investment review. This would have a significant positive impact in re-aligning the Fund's current net-zero pathway.

Hymans Robertson had produced a paper which had re-run net zero pathway analysis to illustrate the effect of the change in the Fund's passive equity exposure. The analysis confirmed that the switch to Low Carbon Transition equivalent indices would have a positive impact.

6 Governance

6.1 Strathclyde Pension Fund Committee.

The Panel noted the draft agenda for the next committee meeting on Wednesday 22nd November 2023.

6.2 The Panel agreed that it would meet on the following dates in 2024:

- 14th February
 - 9th May
 - 15th August
 - 14th November
-

Responsible Investment: Quarter 3 2023

A summary of quarterly activity against the United Nations Principles for Responsible Investment is provided below.

Principle 1

We will incorporate Environmental, Social and Governance (ESG) issues into investment analysis and decision-making processes.

1.1 Strategy Review

A key focus of the current review of the Fund's investment strategy and structure is the incorporation of further measures aimed at carbon reduction in line with the SPF Climate Action Plan. Recommendations in this regard will be considered by the SPF Committee at its meeting in March 2024.

1.2 United Nations Global Compact Screen

In quarter 3, equity manager Veritas Asset Management, reported on how it uses the United Nations Global Compact Screen ("UNGC") to ensure international ESG norms and standards are addressed in its investment process.

The UNGC screen identifies companies involved in controversies where the company's alleged actions constitute a violation of one or more of the ten principles that cover environmental, anti-corruption, human rights and labour standards. On a monthly basis, utilising MSCI ESG research data and 'RAG' rating alert system, Veritas reviews all investee companies to determine if a company fails any of the global compact principles. If there are notable changes during the month, the Veritas system will distribute an email alert to the Investment Team, Compliance Team, and ESG Team. Veritas will identify which principle has been violated, assess the materiality of the violation, and engage with the business if required.

| | | |
|-------------------|---|--|
| Fail | ➔ | The company is implicated in one or more controversy cases where there are credible allegations that the company or its management inflicted serious large-scale harm in violation of global norms. |
| Watch List | ➔ | The company is implicated in one or more controversy cases that are serious and warrant ongoing monitoring. However, based on information available to date, it does not constitute a significant breach of global norms according to the methodology. |
| Pass | ➔ | According to the methodology, the company has not been implicated in any controversy case constituting a significant breach of global norms within the last three years. |

During quarter 3, no companies held in the SPF portfolio "Failed" the UN Global Compact screen. Two companies in the Fund were listed on the Global Compact "Watchlist" including Unilever Plc which is listed on the watchlist for a potential breach of UNGC Principle 7: "Businesses should support a precautionary approach to environmental challenges, specifically concerning allegations of criticism by NGOs over the company's alleged contribution to global plastic pollution."

Responsible Investment: Quarter 3 2023

Veritas will continue to monitor the company's progress in this area. Should this flag escalate to a "Fail", they will engage. Further detail is available in the Veritas ESG Framework at:

<https://www.vamllp.com/assets/VAM-LLP-ESG-Framework-June-2023.pdf>

Principle 2

We will be active owners and incorporate ESG issues into our ownership policies and practices.

2.1 Voting Activity

Managers' voting activity during the quarter to 30th September 2023 is summarised as follows.

| Voting activity to 30th September 2023 | | |
|--|---------------|------------|
| | | (%) |
| Total meetings | 1,993 | |
| Votes for | 11,955 | 77 |
| Votes against | 3,319 | 21 |
| Abstentions | 103 | 1 |
| Not voted | 182 | 1 |
| No. of Resolutions | 15,559 | 100 |
| | | |

Voting activity in the quarter included:

- **Baillie Gifford** opposed two remuneration resolutions at the **Richemont** AGM. The appointment of the chair of the remuneration committee and approval of executive variable remuneration was opposed due to ongoing concerns with executive variable remuneration practices which are not in the best long-term interests of shareholders. Concerns include poor disclosure and a lack of responsiveness to previous shareholder dissent. (resolutions passed).
- At the **Remy Cointreau** AGM, **Lazard** opposed management by voting against three executive remuneration resolutions as they were deemed not to be in the best long-term interests of shareholders (resolutions passed).
- **Veritas** opposed management at the **Diageo Plc** AGM by voting against a resolution to authorise the issue of equity without pre-emptive rights. Veritas believe disapplication of pre-emptive rights is not in the best interests of shareholders.
- **J.P. Morgan** voted against executive compensation at Swedish technology trading company, **Addtech AB** due to the lack of disclosure. The CEO was due to receive a significant salary increase of 24% without a clear rationale for the increase (resolution passed).

2.2 Engagement

Engagement during the quarter include the following.

Responsible Investment: Quarter 3 2023

Baillie Gifford spoke with the head of ESG engagement at **Amazon.com** to discuss progress and developments in their climate strategy.

Amazon has positioned itself as a climate leader by setting ambitious decarbonisation targets and establishing 'The Climate Pledge' to accelerate climate action by the world's top companies. However, recent developments indicate challenges to delivering on its climate strategy. Baillie Gifford discussed the company's decision to step back from its Science-Based Targets initiative (SBTi) commitment. Amazon referred to methodological differences with the SBTi regarding business complexity and differentiated pathways, both organisations' approach to offsets and Amazon's ongoing development as a high growth business. The company is looking at alternative organisations to validate its emissions targets and Baillie Gifford hope a new supply chain standards report, due in 2024, provides more insight into how the company is progressing climate action and sustainability across its value chain. Baillie Gifford encouraged Amazon to broaden the scope of its targets to include upstream emissions from first-party and third-party sellers on its platform. Given the company's systemic importance, this would be an important catalyst for decarbonisation across the value chain.

Baillie Gifford remain supportive of Amazon's long-term aspiration to be net zero by 2040 and understand the pathway to this goal will be challenging. Baillie Gifford asked for greater transparency in how Amazon plans to achieve its objectives and outlined that external validation of its targets is important to ensure accountability beyond its immediate emissions boundary. Baillie Gifford will continue to monitor the company's progress and engage when necessary.

Baillie Gifford engaged with the Swiss luxury holding group **Richemont** due to board changes and ongoing concerns regarding executive remuneration practices.

The concerns relate to poor structure and disclosure of remuneration, which undermines investor's ability to assess pay for performance. This meant Baillie Gifford voted against variable remuneration at the 2022 AGM. Baillie Gifford asked Richemont to reflect on the significant dissent on remuneration received from free-float shareholders at last year's AGM. Richemont believed the primary reason for this was the undisclosed executive receiving a special award. This year, Richemont has disclosed the CFO as the beneficiary. Replacement of long-tenured board members is also an ongoing process, and the board is seeking new representatives with an understanding of clientele in the US and Asian markets.

Baillie Gifford escalated voting action to oppose the Remuneration Committee Chair and the variable remuneration component at the 2023 AGM. Remuneration was the subject of significant dissent again this year, with 23% of shareholders voting against executive variable remuneration. The Remuneration Committee Chair also received 9% of votes against their re-election.

Responsible Investment: Quarter 3 2023

Oldfield Partners continued engagement with **Southwest Airlines** to better understand their position on the transition to net zero and on the topic of female representation on the Board.

Previous discussion with Southwest Airlines in November 2022 was constructive, however Oldfield Partners emphasised the need to formalise net zero transition targets and to work with a third party to verify their science-based alignment. Oldfield were pleased to note progress when they spoke to the team again this August, with a 2035 carbon intensity reduction target pending submission to the Transition Pathway Initiative (TPI). The company shared that they had felt more confident to commit to a formal target based on the support given to sustainable aviation fuel (SAF) in the Inflation Reduction Act. They consider SAF to be the most impactful lever to support decarbonisation and continue to engage with government, through their trade association of Airlines for America (A4A) and are investing in a number of SAF start-ups, to support its production.

In August Oldfield followed up with the company on the topic of female representation on the Board which they had raised last year and again around the AGM. Oldfield wanted to understand why the company had set diversity targets for 2025 throughout the organisation but not at the Board level. The company repeated that they remain focused on this, despite not committing to a target. Having paused Board refreshment during COVID this is now a priority. They look at diversity in many forms, including diversity of industry, function etc. With the recent appointment of 2 female Board members, increasing female representation to 21%, Oldfield reiterated the optimal target of 30% but are encouraged by their consistent message and look to see further evidence of this in their near-term

With productive dialogue, Oldfield will continue the annual updates with Southwest.

J.P. Morgan met with Irish building materials company, **Grafton Group** to discuss Board diversity, environmental impact/risks and social risks.

From an environmental perspective, Grafton has an opportunity to make improvements through its vehicle fleet, where they have converted some vehicles to hydrotreated vegetable oil (HVO) and are trialling electric vehicles. The company said that they are in the process of quantifying scope 3 emissions and will look to move towards less energy intensive products. The company's recycling efforts historically focused on diversion from landfill, but they are now more focused on actively recycling. Whilst Grafton has no specific target on this yet, the company is working on it and the current recycling rate is c.58%. From a diversity, equity, and inclusion perspective, the company is making progress and currently has c.38% gender diversity, which they aim to get to >40% and they currently have one ethnic diverse director.

Responsible Investment: Quarter 3 2023

Principle 3

We will seek appropriate disclosure on ESG issues by the entities in which we invest

Improved disclosure is a recurring theme of engagements with portfolio companies by investment managers, Sustainalytics, and many of the investor coalitions in which the Fund participates.

These include **Climate Action 100+**, which in October released the latest round of its company assessments against its newly updated and more ambitious Net Zero Company Benchmark.

The Disclosure Framework assessments show:

- **More companies are disclosing details on their net zero transition plans, but quantification of individual decarbonisation levers is lacking:** 59% of focus companies assessed this year now identify actions needed to meet their GHG reduction targets, compared to 52% in October 2022. However, further progress is needed on quantifying the contribution of these actions to their GHG reduction goals, as well as on disclosures on the use of offsets and abatement technologies.
- **Companies are making steady progress on long- and medium-term target setting, but most of these targets are not sufficiently comprehensive or Paris aligned.** 82% of focus companies have set long-term GHG reduction targets and 87% of focus companies have now set medium-term targets. However, only 37% of these long-term and 33% of medium-term targets also cover material Scope 3 emissions. In addition, while 30% of long-term GHG reduction targets can now be considered aligned with a 1.5°C trajectory, this is true for only 13% of medium-term targets.
- **New climate solutions disclosures show positive potential:** Despite this being the first year climate solutions metrics have been introduced, it is positive that approximately a third (29%) of focus companies disclose how much they invested in climate solutions in the past year and 32% specify the value of CapEx they plan to allocate to climate solutions in the future. Examples of climate solutions include electric vehicles and renewable energy (wind and solar). These results come at a crucial time, following the publication of the IEA's updated Net Zero Roadmap indicating that limiting global warming to 1.5°C remains possible due to the growth of clean energy technologies.

The Disclosure Framework is assessed by the Transition Pathway Initiative (TPI) Centre in collaboration with data partners.

Baillie Gifford met with Netherlands based global investment group, Prosus to monitor the evolution of its climate strategy.

Baillie Gifford spoke with the Head of Global Sustainability to learn more about the company's approach to climate change and its long-term ambitions. In conversation they learnt that over the past 12-18 months, the company has made significant progress in better understanding possible sources of climate-related risk and opportunity across its own operations and portfolio of holdings and taken steps to address those. Disclosure of emissions data has improved this year (an expectation under EU regulation), and new decarbonisation

Responsible Investment: Quarter 3 2023

targets have been set. Specifically, the company commits to reduce absolute scope 1 and 2 emissions by 100 per cent by 2028 versus a 2020 baseline. It also targets 35 per cent of eligible private and listed investments by invested capital have set validated SBTi targets by 2028. The latter scope 3 target is important as this is where most of the company's emissions are located. Baillie Gifford also learnt that the company aims to show leadership in representing emerging markets and southern hemisphere businesses in the development of climate policy and standards.

Following the discussion, the company's emissions targets received external validation from SBTi, including confirmation of alignment with a 1.5-degree pathway. This demonstrates significant improvement in the business's climate strategy.

Barings engaged with a US based global industrial minerals and logistics company following a review of the company's annual sustainability report.

The Barings' team noticed that emissions reporting and disclosure around reduction targets trailed peers and engaged with the company to better understand its approach to climate risk and seek examples of planned emission reduction efforts and targets. Following a call with Investor Relations, the company communicated that it was the end of year two of a three-year data gathering exercise that will serve as a baseline to set reduction targets from in the future. The Barings' team plans to follow up with the company later this year to understand progress on targets being set and published post 2023.

Principle 4**We will promote acceptance and implementation of the Principles within the investment industry**

- The Fund is a signatory the new **UK Stewardship Code** (2020). The Fund also encourages its external investment managers and service providers to demonstrate their commitment to effective stewardship by complying with the UK Stewardship Code.
- In May, SPF submitted its 2022 Stewardship Report to the FCA. The FCA has completed its assessment and confirmed SPF as a 2022 signatory in late August 2023.
- An up-to-date list of signatories to the Code is available at: <https://www.frc.org.uk/library/standards-codes-policy/stewardship/uk-stewardship-code-signatories/>
- Following the most recent assessment, fourteen of the Fund's investment managers and consultants Hymans Robertson and Sustainalytics are signatories.
- The Fund submitted its **2023 PRI assessment** during Quarter 3, with the Fund's assessment report due in November or December 2023.
- Currently all the Fund's investment managers are signatories to the PRI principles and 31 of the 33 managers within the Direct Investment Portfolio are also signatories. The Fund strongly encourages managers to become

Responsible Investment: Quarter 3 2023

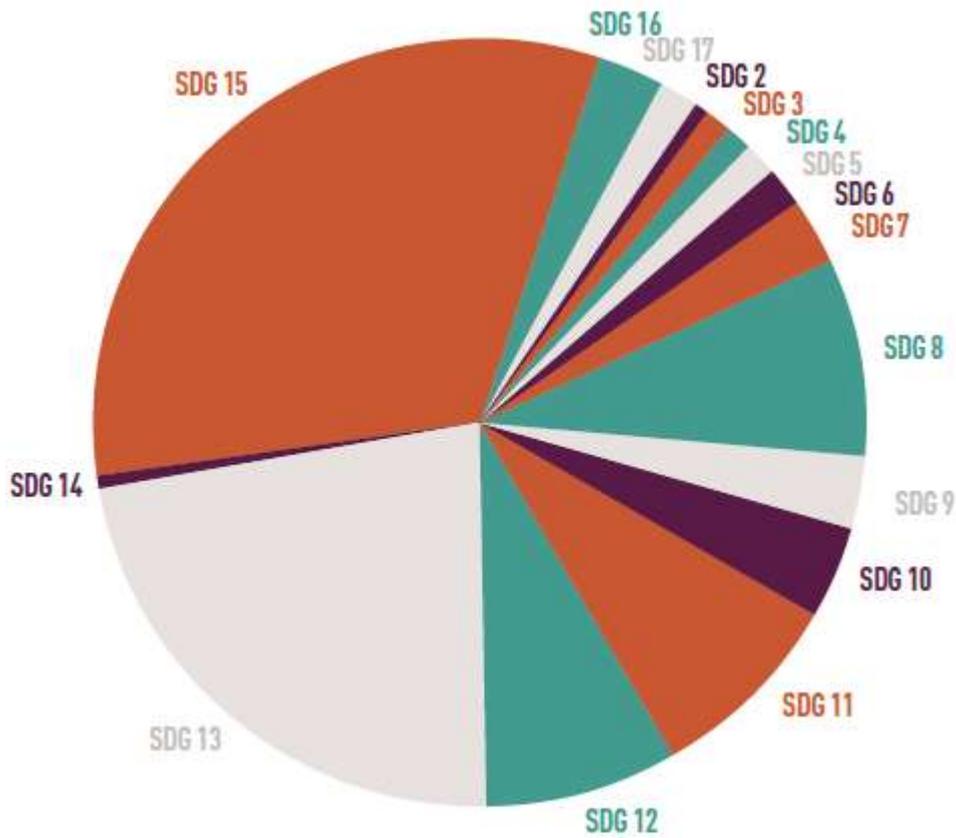
signatories and to adhere to the principles. However, for some this will be less appropriate due to the specialised nature of their activities.

Principle 5**We will work together to enhance our effectiveness in implementing the Principles**

- The Fund seeks to improve the effectiveness of company engagement and voting by acting collectively with other institutional investors, charities, and interest groups. Working with ShareAction and others, the Fund has carried out direct collaborative engagement across a range of initiatives. It is also a member of industry collaborative forums including the Local Authority Pension Fund Forum, the Institutional Investors Group on Climate Change and the Carbon Disclosure Project (CDP).
- In quarter 3 the Fund joined with 273 other financial institutions to back the 2023 Science-Based Targets Campaign, where investors request large, high-emitting companies to set greenhouse gas emission reduction targets following guidance from the **Science-Based Targets initiative (SBTi)**. SBTi, which is a collaboration between CDP, World Resources Institute, the WWF, and the UN Global Compact, aims to define and promote best practice in greenhouse gas emissions reduction target-setting. The 2022 CDP Science-Based Targets (SBT) Campaign included 318 financial institutions and multinational firms with \$37 trillion in assets and called on over 1,060 of the world's highest-impact businesses to set emissions goals in line with the Paris agreement's 1.5°C goal. This marked a growth of 30% from the previous campaign, both in terms of the number of supporting organizations and their collective assets and purchasing power. The over 1,060 companies targeted in the campaign are critical for global efforts to limit global warming to 1.5°C. As a result of meaningful engagement through the campaign, 77 targeted companies joined the ranks of 5100+ SBTi companies committed to align their business with the Paris Agreement. The 2023 Campaign will call on 2100 of the most impactful companies globally to set science-based targets.
- In Quarter 3, the Local Authority Pension Fund Forum (LAPFF) provided a Quarterly Engagement Report, which is available at <https://lapfforum.org/wp-content/uploads/2023/10/LAPFF-QR2.pdf>

LAPFF summarise their quarterly engagement cases by mapping to the **United Nations Sustainable Development Goals (SDGs)** as illustrated in the chart below.

Responsible Investment: Quarter 3 2023



LAPFF SDG ENGAGEMENTS

| | |
|--|-----|
| SDG 1: No Poverty | 0 |
| SDG 2: Zero Hunger | 2 |
| SDG 3: Good Health and Well-Being | 4 |
| SDG 4: Quality Education | 4 |
| SDG 5: Gender Equality | 4 |
| SDG 6: Clean Water and Sanitation | 6 |
| SDG 7: Affordable and Clean Energy | 9 |
| SDG 8: Decent Work and Economic Growth | 27 |
| SDG 9: Industry, Innovation, and Infrastructure | 10 |
| SDG 10: Reduced Inequalities | 13 |
| SDG 11: Sustainable Cities and Communities | 27 |
| SDG 12: Responsible Production and Consumption | 27 |
| SDG 13: Climate Action | 73 |
| SDG 14: Life Below Water | 2 |
| SDG 15: Life on Land | 106 |
| SDG 16: Peace, Justice, and Strong Institutions | 9 |
| SDG 17: Strengthen the Means of Implementation and Revitalise the Global Partnership for Sustainable Development | 5 |

Responsible Investment: Quarter 3 2023

Principle 6

We will report on our activities and progress towards implementing the Principles

- Baillie Gifford, JP Morgan, Lombard Odier, Veritas, Barings and Oldfield Partners provided reports on ESG engagement during the quarter. Ashmore provided its 2022 annual engagement report.
- Sustainalytics provided a full engagement report for the quarter summarising the shareholder engagement activities performed on behalf of investor clients during the quarter and including updates on individual portfolio companies. Sustainalytics map these Global Standards Engagement cases with relevant **SDGs** (UN Sustainable Development Goals) and engagement dialogue aims to work toward achieving the sustainable outcomes. 153 active engagements, including one new and 3 resolved, in quarter 3 can be attributed to the following SDGs (as percentage of total cases).

| | | | |
|---|-----|---|-----|
| 1 No Poverty | 4% | 10 Reduced Inequalities | 6% |
| 2 Zero Hunger | 3% | 11 Sustainable Cities & Communities | 4% |
| 3 Good Health & Well-Being | 14% | 12 Responsible Consumption & Production | 12% |
| 4 Quality Education | 1% | 13 Climate Action | 3% |
| 5 Gender Equality | 2% | 14 Life Below Water | 3% |
| 6 Clean Water & Sanitation | 3% | 15 Life on Land | 9% |
| 7 Affordable & Clean Energy | 0% | 16 Peace, Justice & Strong Institutions | 24% |
| 8 Decent Work & Economic Growth | 13% | 17 Partnerships for the Goals | 0% |
| 9 Industry, Innovation & Infrastructure | 3% | | |

In all, Sustainalytics completed 46 meetings and 454 emails and phone call exchanges on behalf of its clients during quarter 3 2023. 36 of the 153 engagements are at an advanced stage of implementation, with 15 engagement milestones achieved during the quarter. 21% of engagements show good or excellent progress, 55% standard progress, with 18% of engagements deemed poor performers.

Responsible Investment: Quarter 3 2023

Engagements resolved during the quarter concerned Quality and Safety – Human Rights at **Stryker Corp** (Healthcare) and **Johnson & Johnson** (Pharmaceuticals) and Consumer Interests – Business Ethics at **AMP Ltd** (Diversified Financials).

- Following several controversies relating to product quality and safety, Sustainalytics engaged with **Stryker** to ask that the company take appropriate actions to responsibly address the negative impacts of its products. Specifically, Sustainalytics engaged with Stryker to ensure that the company continued to improve the quality and safety of its devices and to improve the disclosure of all product-related data to ensure that relevant information is communicated to the public.

As a result of four years of engagement, the company has shown considerable improvements in the level of meaningful disclosure, culminating in a dedicated quality website. While the company responded to queries with strong technical responses, it also provided additional assurances that its quality system was effective through compliance and certification with international standards (ISO). The effectiveness of the company's refreshed approach to quality is seen through reduced numbers of US Food and Drug Administration interventions. Considering improvements in product quality and safety management and the lack of any new severe product quality and safety issues over the past few years, Sustainalytics decided to resolve the case.

- **Johnson & Johnson** had been involved in repeated issues related to the quality and safety risks of several of its medical devices, medicines, and other products. Sustainalytics engaged with the company to ensure that the lessons learned from the numerous product quality issues have been incorporated into its protocols and procedures to minimize the risk of future litigation. Since engagement began, more effective quality control can be evidenced through reduced FDA activity against the company and subsequent product recalls. In addition, the company has mostly resolved its product controversies - for example, the decision to discontinue talc-based products eliminates any potential future issues relating to its safe use. Finally, the company now favours regular internal audits to monitor the effectiveness of its quality management system, complemented with external regulator-led audits. Considering improvements in product quality and safety management and a lack of any new severe product quality and safety issues over the past few years, Sustainalytics decided to resolve the case.
- **AMP Limited** has faced scrutiny from Australian authorities over its business ethics practices, with accountability reaching the board and executive levels. Sustainalytics engaged with the objective of ensuring that robust policies and internal controls addressing product governance and business ethics were implemented, universally applied, and, where appropriate, disclosed. Since initial engagement, effective improvements to responsible business conduct have been evidenced by the bank sustainably embedding its compliance and cultural transformation programmes. AMP has also implemented the Remediation Programme required by the Australian Royal Commission by fully

Responsible Investment: Quarter 3 2023

compensating clients affected by service misconduct. The company has embraced the need for change and has taken significant action to develop a new risk governance and compliance system to ensure sustained improvements to risk culture within the organization. Finally, AMP has improved its financial regulatory reporting and disclosures on its risk management, ethics and compliance and, over the last three years, AMP has not been complicit in any financial misconduct and business ethics incidents, As a result of the improvements made by the company, Sustainalytics have deemed the engagement resolved.