



Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

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Item 11

2nd June 2021

Investment Update

Purpose of Report:

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

- investment performance to 31st March 2021
- portfolios as at 30th April 2021
- the Investment Advisory Panel meeting of 13th May 2021

Recommendations:

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

Ward No(s):

Citywide: ✓

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

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1 SPF Response to COVID-19

The SPF investment team commenced working from home in late March 2020 and will continue to do so for the foreseeable future.

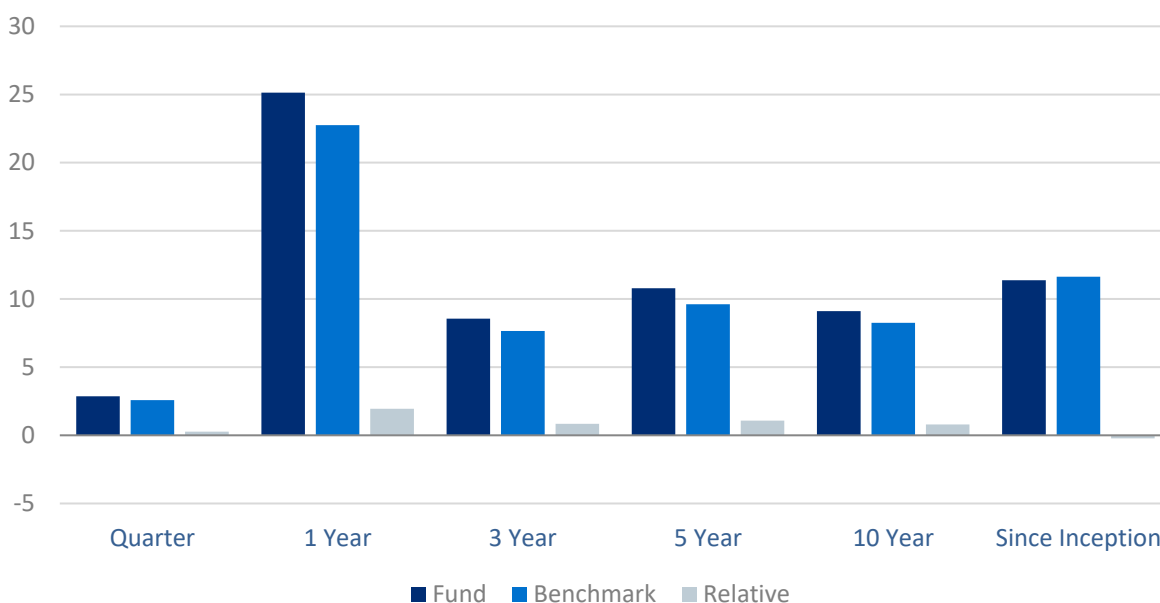
The Fund's investment managers and other providers all switched to contingency arrangements in March. Investment activity has continued since then without interruption.

COVID-19 continues to impact investment markets, portfolios and performance. This remains a focus of management attention and SPF monitoring activity.

2 Total Fund Performance

The **Fund's total return** for Quarter 1 2021 was **+2.9%**, ahead of the benchmark return of **+2.6%**. UK and global equities performed positively returning **+5.2%** and **+4.1%** respectively, bond markets declined and property markets posted marginal gains. While coronavirus risk remained top of mind for investors, a resurgence of coronavirus cases coincided with vaccine rollouts. The recovery of all major equity markets since significant falls in Q1 2020 was the principal driver behind the Fund's annual return of **+25.1%** compared with a benchmark return **+22.8%**.

Fund and Benchmark Returns



3 Fund Value

The **Fund's value** at 31st March 2021 was **£26,176m**. (Fund value at 31st December 2020 was **£25,460m**).

4 Portfolio Summary as at 30th April 2021

As at 30th April 2021 the Fund's value had increased to **£26,798m**. A summary of investment manager portfolios as at 30th April is set out in **Appendix 1**.

5 Investment Advisory Panel

The Fund's Investment Advisory Panel met on 13th May 2021 via MS Teams.

A note of the Panel's meeting is set out in **Appendix 2**.

6 Policy and Resource Implications

Resource Implications:

Financial: None

Legal: None

Personnel: None

Procurement: None

Council Strategic Plan: Strathclyde Pension Fund aligns with the theme of a well governed city.

Equality and Socio

Economic Impacts:

Does the proposal support the Council's Equality Outcomes 2017-22 Equalities issues are addressed in the Fund's Responsible Investment strategy, in the scheme rules which are the responsibility of Scottish Government and in the Fund's Communications Policy which has been the subject of an Equalities Impact Assessment.

What are the potential equality impacts as a result of this report? No specific equalities impacts.

Please highlight if the policy/proposal will help address socio economic disadvantage. ESG (Environmental Social and Governance), and local impacts are addressed in the Fund's Responsible Investment strategy.

Sustainability Impacts:

Environmental: ESG (Environmental Social and Governance), and local impacts are addressed in the Fund's Responsible Investment strategy.

Social, including opportunities under Article 20 of the European Public Procurement Directive: ESG (Environmental Social and Governance), and local impacts are addressed in the Fund's Responsible Investment strategy.

Economic: ESG (Environmental Social and Governance), and local impacts are addressed in the Fund's Responsible Investment strategy.

**Privacy and Data
Protection impacts:** None.

7 RECOMMENDATIONS

The Committee is asked to note the contents of this report.

Appendices

Appendix 1 Portfolio Summary as at 30th April 2021

Appendix 2 Note of Investment Advisory Panel meeting on 13th May 2021

Portfolio Summary as at 30th April 2021

	Equity		Hedging & Insurance		Credit		Short Term Enhanced Yield		Long Term Enhanced Yield		Total		Target
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	%
L&G	7,531	28.1%	339	1.3%	1,391	5.2%					9,262	34.6%	31.5%
Baillie Gifford	2,360	8.8%									2,360	8.8%	7.5%
Lazard	898	3.4%									898	3.4%	2.5%
Oldfield	757	2.8%									757	2.8%	2.5%
Veritas	814	3.0%									814	3.0%	2.5%
Lombard Odier	482	1.8%									482	1.8%	1.0%
JP Morgan	1,058	3.9%							556	2.1%	1,614	6.0%	5.5%
Genesis	533	2.0%									533	2.0%	1.5%
Pantheon	1,181	4.4%									1,181	4.4%	5.0%
Partners Group	854	3.2%					114	0.4%	371	1.4%	1,340	5.0%	6.0%
PIMCO							1,208	4.5%			1,208	4.5%	5.0%
Ruffer							253	0.9%			253	0.9%	1.0%
Barings (multi-credit)							724	2.7%			724	2.7%	2.8%
Oak Hill Advisors							481	1.8%			481	1.8%	1.8%
Barings (private debt)							422	1.6%			422	1.6%	1.3%
Alcentra							378	1.4%			378	1.4%	1.3%
ICG Longbow							132	0.5%			132	0.5%	1.0%
Ashmore							504	1.9%			504	1.9%	2.5%
DTZ									2,163	8.1%	2,163	8.1%	10.0%
DIP	73	0.3%					112	0.4%	790	2.9%	974	3.6%	7.0%
Cash							320	1.2%			320	1.2%	1.0%
Total	16,541	61.7%	339	1.3%	1,391	5.2%	4,646	17.3%	3,880	14.5%	26,798	100.0%	100.0%
Target		52.5%		1.5%		6.0%		20.0%		20.0%		100.0%	

Investment Advisory Panel Meeting on 13th May 2021INVESTMENT ADVISORY PANEL
Held via MS TeamsMINUTES OF MEETING ON Thursday 13th May 2021

PRESENT:	Richard McIndoe	Director
	Prof. Geoffrey Wood	Investment Advisor
	Eric Lambert	Investment Advisor
	Iain Beattie	Investment Advisor
	David Walker	Hymans Robertson
	Andy Green	Hymans Robertson (part meeting only)
	Jacqueline Gillies	Chief Investment Officer
	Richard Keery	Investment Manager
	Ian Jamison	Investment Manager
	Lorraine Sweeney	Assistant Investment Manager
	Veronica Antonucci	Investment Assistant

1. Minutes from Last Meeting & any Matters Arising

The minutes of the Panel meetings on 11th February 2021 were agreed to be an accurate record.

2 Monitoring**2.1 Quarterly Investment Performance Review (Main Fund)**

The Fund's return for Q1 2021 was positive (+2.9%), and above benchmark (+0.3%). Performance for the year to 31st March 2021 was very positive (+25.1%), and above benchmark (+1.9%). Both absolute and relative performance were positive over the three and five year periods.

2.2 Manager Ratings

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

- 19 of the Fund's managers were rated green
- 2 rated amber and
- None red.

2.3 Direct Investment Portfolio Monitoring Report

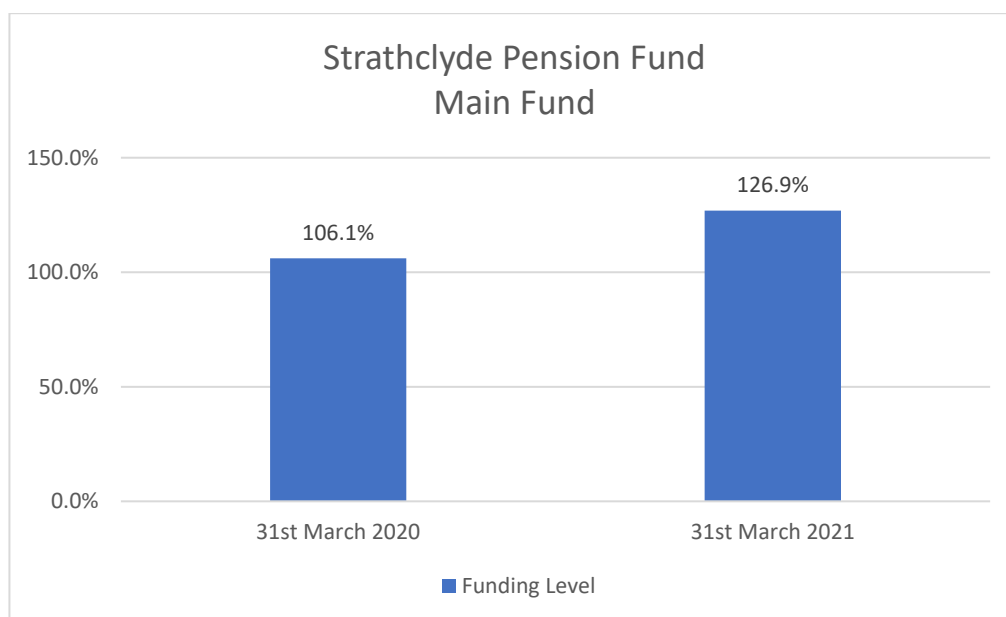
The Panel reviewed the quarterly monitoring report for the Direct Investment Portfolio (DIP). DIP investment managers had continued to provide detailed updates on the effect of coronavirus on their respective assets/ investee companies, and reported portfolio impact assessments had been in line with expectations. Overall the portfolio and most of its investments are still progressing well. On a Red, Amber, Green (RAG) analysis:

- 39 investments were rated green
- 5 amber and
- None red.

Investment Advisory Panel Meeting on 13th May 2021

2.4 Estimated Funding Levels

Hymans Robertson provided the following estimates of the funding levels as at 31st March 2021. The funding level had increased since the 31st March 2020 actuarial valuation.



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 Investment Portfolio, and private debt commitments. Totals as at 31st March 2021 were as follows.

	2021 Estimate (£m)	2021 Actual YTD (£m)
Distributions	561	154
Calls	-1,010	-250
Net	-449	-96

The projected net cash flows to private markets programmes in 2021 is **(£449m)**. The Fund's private debt and Direct Investment portfolios are still building their investment exposure and drawdowns to these investments are expected to exceed distributions from them. The Pantheon private equity and the Partners Group private equity and real estate programmes are mature portfolios and distributions will largely cover the anticipated drawdowns to more recent fund commitments.

The Fund's central cash balance at 31st March 2021 was **£316m**. This had

Investment Advisory Panel Meeting on 13th May 2021

increased by **£113m** since December 2020. During Quarter 1 2021, **£150m** was received from passive rebalancing activity, **£35m** margin surplus was received from the emerging market future account and **£5m** in dividends. **(£9m)** was transferred to GCC to cover VAT obligations on the property portfolio and remaining outflows were for net drawdowns to private market programmes.

3.2 Re-balancing Strategy

The Panel reviewed a re-balancing report as at 31st March 2021.

The Fund's allocation to equity remains above target and, though still within its allocation range, is at the higher end of it. The Panel agreed that the Lazard and JP Morgan portfolios should be trimmed by £50m each in order to bring allocations back within target. Proceeds of the sales will be held in cash.

The Pantheon private equity portfolio is currently underweight its target (4.5% vs 5.0%). The Fund completed two previously agreed commitments in the course of Quarter 1 2021: £100m to Pantheon Global Co-Investment Fund V (PGCO V); and £75m to Pantheon Global Select 2019. Legal Diligence is about to commence on the 3rd and final approved commitment: £75m to Pantheon Global Secondary Fund VII (PGSF VII).

In advance of the final commitment, Pantheon had updated forecasts of the expected future Net Asset Value (NAV) of the Fund's private equity programme and these showed that the NAV was not expected to hit the Fund's target allocation in spite of the new commitments to Pantheon Global Select 2019 and PGCO V. An additional commitment of £50m to PGSF VII would achieve and maintain the Fund's target allocation of 5%. The Panel supported an increase in the Fund's commitment to PGSF VII from £75m to £125m.

The Fund's allocation to short-term enhanced yield is underweight but the Panel agreed that no additional action is required as unfunded commitments should be sufficient to increase the weight back to target.

The Fund's allocation to long-term enhanced yield remains underweight. Global real estate was under its target allocation, but unfunded commitments should be sufficient to increase the mandate weight back to target. The DTZ portfolio remains under its target allocation. The Panel agreed that DTZ should continue to re-invest rental income should suitable investment opportunities arise.

4 Governance

4.1 Strathclyde Pension Fund Committee

The Panel noted the draft agenda for the next committee meeting on Wednesday 2nd June 2021 and that Councillor Mandy Morgan will be replaced by Councillor Graham Campbell as a member of the Pension Fund Committee in June 2021.

5 Investment Strategy and Structure

5.1 Investment strategy review: RAFI alternatives

As part of the 2020/21 review of investment strategy, the Fund agreed to review alternative indices, including low carbon versions of the RAFI approach to

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passive investment. L&G presented alternative index based solutions to the Panel, which were discussed further in a paper by Hymans Robertson.

RAFI is an alternative approach to passive investment where allocation to stocks is based on value factors as opposed to market capitalisation. The Fund first invested in a RAFI strategy in 2013 and increased its exposure to the current level in 2015. The current allocation is split between the RAFI Global 3000 Fund (5.3% of total Fund) and the RAFI Fundamental Emerging Markets Fund (0.7% of total Fund).

The value tilt of the RAFI allocation plays a key role in balancing overall style exposures across the Fund's equity mandates, but the strategy's high carbon intensity is a cause for concern given the Fund's broader approach to ESG factors including climate risk. Since the RAFI strategy was adopted the market has evolved significantly, and a number of other factor based investment strategies are now available, some of which now also target Environmental, Social and Governance (ESG) and sustainability factors.

L&G and Hymans Robertson outlined ways that the Fund could integrate climate factors into 5 different index-based alternatives to the RAFI Global 3000 Fund. The Panel discussed all of the options available. The RAFI Fundamental Climate Transition Index, due to launch later this year, will target a 30% reduction in carbon intensity at launch relative to market cap levels and a further 7% per annum thereafter. This index will also retain most of the value exposure that the Fund is seeking to retain at an overall level.

The Panel agreed that the Fund should switch the current RAFI Global Allocation to the RAFI Fundamental Climate Transition Index when it becomes available.

At present there are limited alternative options to achieve more meaningful decarbonisation in relation to the Fund's RAFI Emerging Markets Fund exposure. One option is to switch the allocation into the passive market cap alternative, another to work with L&G to design a custom solution. The Panel will discuss further at its August meeting.

5.2 Investment strategy review: protection and credit assets

At its March 2021 meeting, as a result of the review of investment strategy, the Committee approved a recommendation to sell the relatively small allocation (1.5% of total Fund) to Index-linked gilts, with proceeds to be held in cash.

The Panel had previously agreed that there may be an opportunity to add some value by switching between the hedging/ insurance (protection) and credit assets. Hymans had presented a paper at the February 2021 Panel meeting, outlining a relative value framework for switching between index linked gilts, corporate bonds, nominal gilts and cash over time.

A Hymans paper containing further analysis of a relative value framework was discussed by the Panel.

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The Panel agreed that further work should be carried out on the relative value framework and presented at its August meeting.

5.3 Investment strategy review: Implementation update

The Fund concluded its investment strategy review in March 2021, when the following recommendations were approved by the Committee:

- The Baillie Gifford's portfolio should be moved to that manager's Global Alpha strategy
- The L&G benchmark should be changed to accommodate a revision to the Fund's regional equity benchmark and the changes to the Baillie Gifford mandate
- 1% of total Fund should be reallocated from DIP to the JP Morgan Infrastructure Investments Fund
- 1% of total Fund should be reallocated from PIMCO to Ruffer
- the small (1.5% of total Fund) index linked gilts allocation in Hedging & Insurance should be sold and held as cash.

Officers circulated a paper to update the Panel on the implementation progress of these changes.

The Baillie Gifford and L&G portfolios will transition to their new benchmarks in late May/ early June. The sale out of index-linked gilts and the 1% allocation switch between PIMCO and Ruffer will also be completed in early June.

The Fund has formally increased its commitment to the JP Morgan Infrastructure Investments Fund. There is currently a commitment queue, and the expectation is that the additional commitment will be drawn down in 6-9 months' time.

5.4 Motion Approved by Glasgow City Council

An early draft of a report to Committee, considering a motion approved by Glasgow City Council, had been circulated to the Panel for review.

The Panel was wholly supportive of the paper's conclusions in respect of the inefficacy of fossil fuel divestment. A final version of the report will be considered by the Committee at its meeting on 2nd June 2021.

5.5 Climate change strategy

A draft Committee report presenting an update and proposed amendments to the Fund's climate change strategy had been circulated to the Panel for review.

The Panel had previously acknowledged the growing perception of climate change as a significant economic issue and were wholly supportive of the Committee report's recommendations that

- Strathclyde Pension Fund's Climate Change strategy should incorporate the explicit objective of implementing an investment strategy that is consistent with achieving the goal of global net-zero emissions by 2050; and therefore

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- SPF should have a target of net-zero emissions across its own portfolios by 2050.

6 Manager Reviews

Oak Hill Advisors attended the Investment Advisory Panel

Performance of the manager was reviewed.

The Oak Hill portfolio is currently valued at £478m, or 1.83% of total Fund, versus a target weight of 1.75%. Oak Hill provided an update on performance since inception and current portfolio positioning. The manager also provided an update on their ESG strategy.