Glasgow City Council

Strathclyde Pension Fund Committee

Report by Director of Strathclyde Pension Fund

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Item 5

24th June 2025

Investment Update

Purpose of Report:

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

- distribution of portfolios as at 30th April 2025; and
- the Investment Advisory Panel meeting of 15th May 2025.

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 ☐

1 Background

Investment strategy, structure, and performance to 31st March 2025 are detailed in the SPF Annual Report and Financial Statements as at 31st March 2025. This report provides a summary of developments since that date.

2 Fund Value

The **Fund's value** at 30th April 2025 was **£30,928m**, a decrease from the 31st March valuation of **£31,010m**.

A portfolio summary showing further details of the Fund's managers and current allocations is attached at **Appendix 1.**

3 Investment Advisory Panel

The Fund's Investment Advisory Panel met on 15th May 2025. A note of the Panel's meetings is set out in **Appendix 2**.

4 Policy and Resource Implications

Resource Implications:

Financial:	None. Monitoring report.
Legal:	None.
Personnel:	None.
Procurement:	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:

Does the proposal support the Council's Equality Outcomes 2021-25? Please specify.	Equalities issues are addressed in the Fund's Responsible Investment strategy.
What are the potential equality impacts as a result of this report?	N/a.
Please highlight if the policy/proposal will help address socio-economic disadvantage.	N/a.

Climate Impacts:

Does the proposal support any Climate Plan actions? Please specify:	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.
What are the potential climate impacts as a result of this proposal?	N/a.
Will the proposal contribute to Glasgow's net zero carbon target?	N/a.
Privacy and Data Protection Impacts:	No.
Are there any potential data protection impacts as a result of this report Y/N	
If Yes, please confirm that a Data Protection Impact Assessment (DPIA) has been carried out	N/a

5 Recommendation

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

Appendices

Appendix 1 Portfolio Summary as at 30th April 2025
Appendix 2 Investment Advisory Panel

Portfolio Summary 30th April 2025

	Equity		Hedging & Insurance		Credit		Short-term Enhanced Yield		Long-term Enhanced Yield		Total		Target
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%	%
L&G	5,936	19.2%	3,349	10.8%	1,258	4.1%					**10,543**	**34.1%**	33.0%
Baillie Gifford	2,302	7.4%									**2,302**	**7.4%**	7.5%
Lazard	935	3.0%									**935**	**3.0%**	2.5%
Oldfield	895	2.9%									**895**	**2.9%**	2.5%
Veritas	950	3.1%									**950**	**3.1%**	2.5%
Lombard Odier	374	1.2%									**374**	**1.2%**	1.0%
JP Morgan	905	2.9%							1,531	4.9%	**2,436**	**7.9%**	7.5%
Active EM Equity	115	0.4%									**115**	**0.4%**	0.0%
Pantheon	1,291	4.2%					39	0.1%			**1,330**	**4.3%**	5.8%
Partners Group	911	2.9%					329	1.1%	580	1.9%	**1,820**	**5.9%**	5.5%
RBC	418	1.3%									**418**	**1.3%**	2.0%
PIMCO							1,181	3.8%			**1,181**	**3.8%**	4.0%
Ruffer							558	1.8%			**558**	**1.8%**	2.0%
Barings (multi-credit)							726	2.3%			**726**	**2.3%**	2.3%
Oak Hill Advisors							581	1.9%			**581**	**1.9%**	1.8%
Barings (private debt)							390	1.3%			**390**	**1.3%**	1.8%
Alcentra							238	0.8%			**238**	**0.8%**	0.0%
ICG Longbow							302	1.0%			**302**	**1.0%**	1.0%
DTZ									2,512	8.1%	**2,512**	**8.1%**	9.0%
DIP	145	0.5%					95	0.3%	1,351	4.4%	**1,590**	**5.1%**	7.5%
Cash							734	2.4%			**734**	**2.4%**	1.0%
Total	**15,177**	**49.1%**	**3,349**	**10.8%**	**1,258**	**4.1%**	**5,172**	**16.7%**	**5,973**	**19.3%**	**30,928**	**100.0%**	**100.0%**
Target		**47.0%**		**10.0%**		**5.0%**		**17.0%**		**21.0%**		**100.0%**	**100.0%**

MINUTES OF MEETING ON Thursday 15th May 2025

PRESENT:	**Richard McIndoe**	Director
	Prof. Geoffrey Wood	Investment Advisor
	Iain Beattie	Investment Advisor
	Alistair Sutherland	Investment Advisor
	David Walker	Hymans Robertson
	Ben Farmer	Hymans Robertson
	Nell McRae	Hymans Roberson (part meeting)
	Jacqueline Gillies	Chief Investment Officer
	Richard Keery	Investment Manager
	Ian Jamison	Investment Manager
	Lorraine Martin	Assistant investment Manager
	Moira Gillespie	Investment Assistant

1. Minutes from Last Meeting & any Matters Arising

The minutes of the Panel meeting on 13th February 2025 were agreed to be an accurate record.

Officers updated the Panel on the transition activity required to complete the Fund's implementation of the revised investment strategy agreed in March 2024. All changes were now complete, except for the switch from passive corporate bond funds to low carbon equivalents and the increase in the Fund's emerging market equity allocation. Implementation of these changes is expected to commence by end of Q2 / Q3 2025.

2 Monitoring

2.1 Market and Inflation Update

The Panel reviewed investment market and inflation updates from Hymans Robertson. Overall, the Panel acknowledged the difficult market conditions, but agreed that the Fund is well diversified, and that this diversification should continue to be beneficial.

2.2 Quarterly Investment Performance Review

The Fund's return for **Q1 2025** was **-0.5%**, ahead of the benchmark return of **-0.7%**. Performance for the year to 31st March 2025 was positive (+**3.6%**), but below benchmark (**+5.0%**). The Fund's return is positive on an absolute basis over five years but behind benchmark and positive on both an absolute and relative basis over ten years.

2.3 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:

- 16 of the Fund's managers were rated **green**
- 5 rated **amber**
- 1 was rated **red** following the Committee decision to review the emerging market equity portfolio.

2.4 Energy Company Analysis

The SPF Committee has agreed a climate change strategy for the Fund focussed on achieving net zero by 2050. In March 2022, the Committee agreed a minimum standards framework to support the climate change strategy by identifying companies that the Fund holds within the Energy sector which are not adequately considering climate change risk, the impact of climate change on their business and how to transition their business towards a low carbon economy, recognising the potential for ongoing policy and regulatory change.

In addition to agreeing the framework, the Committee agreed the following timeline for its application:

- Hymans Robertson apply the assessment to current Fund holdings – March/April
- IAP reviews outcomes - May
- Officers implement actions or instruct managers to do so – June to September
- Director reports results back to the committee – September/December

Hymans completed the fourth annual assessment of Fund holdings at end March 2025:

- **20** companies were held at 31st March 2025.
- **5** of the companies held during the prior assessment had improved scores.
- No companies rated red overall.
- **4** of the **6** companies that rated amber overall were not rated last year due to insufficent data coverage.
- Of the 10 companies rated green overall, **8** rated amber in at least one category.
- **10** holdings rated red in one category. The increase in red ratings this year is due to the majority of the new holdings rated scoring less well in the Metrics and Targets sub-sector.
- **4** of the companies have poor data coverage and could not be properly assessed.

8 holdings from the prior assessment were not included in this analysis as they are no longer held. **7** new companies are now held and were included. Portfolio turnover is a consideration particularly when setting engagement actions.

The Panel noted the improvement in data coverage across companies since the previous assessment, indicating that engagement encouraging disclosure had made a positive impact.

Officers will forward details of the assessment to portfolio managers and request comments on:

- the business case for companies with an overall rating of amber
- how to address specific areas of weakness identified, particularly for **3** companies whose scores had decreased and
- improving data availability for those companies rated grey.

Investment manager responses will be collated and circulated to the Panel for review and discussion at the August Panel meeting.

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:

- **57** investments are rated **green**;
- **6** are **amber**;
- **2 in Legals;**
- **None red.**

2.6 Funding Level Monitoring

The Panel reviewed an updated Funding level report from Hymans Robertson. The funding level at the end of March 2025 was estimated to have increased to **173%**, compared with the funding level of **147%** at the last valuation date, 31st March 2023.

3 Allocation

3.1 Cash flow

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.

Main points were that:

- 2025 forecasted net cash flow is **+£263m**

	2025	
	Estimate (£m)	**Actual y.t.d. (£m)**
Distributions	945	167
Calls	-682	-67
Net	**+263**	**+100**

- central cash balance at 31st March 2025 was +**£711m**
- this had increased by **£186m** during the quarter due to flows from private market programmes and the transfer of pre-agreed drawdowns from LGIM.
- **+£50m** was transferred from investments to fund benefits cash flow.

The IAP will revisit investment cash balances, private market flows and potential sources of cash to meet benefit payments for 2025/26 at its August meeting.

3.2 Rebalancing Strategy

The Panel reviewed a rebalancing report showing Fund allocations vs strategy allocations as at 31st March 2025.

As a result of the transition activity carried out since March last year, allocations were generally very close to the new strategic targets agreed at the conclusion of the investment strategy review.

The ICG Longbow portfolio was below the lower limit of its target range, but this allocation should increase over the next few months following the Fund's commitment to a new fund, ICG Real Estate VII, which was finalised during Q1 2025. The Fund's credit allocation was also below its target range, following the Panel's decision last quarter to move to an underweight position in credit in favour of an overweight position in gilts.

There were no other breaches of ranges and the Panel agreed that no rebalancing action was required.

3.3 Relative Value Framework

The relative value framework was introduced following the 2020/21 review of investment strategy to generate additional value and reduce the risk of capital losses by varying implementation of the Fund's allocation held in protection assets. The framework was reviewed following the 2023/24 investment strategy review to account for revised strategic allocations to Hedging and Insurance and Credit assets.

Decisions to move away from the new strategic – or neutral - allocation of 2.5% Passive Credit (50/50 UK/US investment grade) and 10.0% Hedging and Insurance (50/50 UK gilts and index-linked gilts) allocation are based on pre-defined metrics.

The quarterly relative value report from Hymans Robertson provided the following summary assessment of the framework metrics at 31st March 2025:

- Spreads on both US and UK investment grade credit remain substantially below 20-year medians. Global credit spreads are significantly below the 25th percentile levels. This supports maintaining the underweight position in passive credit agreed at the February 2025 meeting.
- Nominal gilt yields remain attractive relative to Hymans' assessment of fair value based on long-term growth and inflation forecasts, across all maturities. This supports retaining an overweight allocation to nominal gilts.
- Inflation protection remains expensive, supporting the underweight allocation to index-linked gilts implemented in Q1 2025.

The Panel discussed the report's assessment of the latest metrics and agreed to maintain the underweight position in index-linked gilts and credit in favour of nominal gilts.

The Panel discussed the allocation range for passive credit, which had been set at 0-5% following review of the relative value framework at the Panel's meeting in August 2024. The Panel agreed that this range should be revised to 1.25%-3.75% to ensure that the Fund maintained exposure to the new low carbon passive corporate bond mandates agreed as part of the 2023/24 investment strategy review.

4. Manager Reviews

4 investment managers attended the Investment Advisory Panel:

- **Oldfield**
- **Veritas**
- **Lazard**
- **RBC GAM**

Performance of each of the managers was reviewed.

4.1 Oldfield

The Oldfield global equity portfolio is currently valued at **£910m**, or **2.9%** of total Fund, versus a target weight of 2.5%. Oldfield provided an update on portfolio performance which, while still behind benchmark since inception, was strongly positive in Q1 2025. Oldfield provided an update on its investment management business following recent staff changes, including the departure of the two lead managers of the global equity strategy.

4.2 Veritas

The Veritas global equity portfolio is currently valued at **£980m**, or **3.2%** of total Fund, versus a target weight of 2.5%. Veritas provided an update on the current portfolio and performance.

4.3 Lazard

The Lazard global equity portfolio is currently valued at **£954m**, or **3.1%** of total Fund, versus a target weight of 2.5%. Lazard provided an update on the current portfolio, performance and investment market outlook.

4.4 RBC

The Fund's initial investment in the RBC GAM Emerging Market Equity fund was completed in December 2024. The portfolio is currently valued at **£420m** or **1.4%** of total Fund, versus a target weight of 2.0%. RBC provided an update on the current portfolio and investment markets together with an outline of their approach to managing portfolios.

5 Investment Strategy and Structure

5.1 Value Manager Allocation Review

The Panel had previously discussed the long-term feasibility of the Oldfield strategy and agreed that it would be prudent for the Fund to gain an understanding of other global equity value investment products. Hymans presented an analysis of the wider global value equity universe at the Panel's February meeting.

In light of discussions at the February meeting, Hymans Robertson had prepared a follow-up paper that examined alternative allocation options across the Fund's existing global equity portfolios.

The Panel discussed the conclusions of the latest Hymans analysis and agreed to keep the Oldfield portfolio under review.

6 Governance

6.1 Strathclyde Pension Fund Committee.

The Panel noted the draft agenda for the next committee meeting on Wednesday 24th June 2025.