



Investment Sub-Committee

Minutes of a meeting of the Investment Sub-Committee held at The Jeffrey Room, The Guildhall, Northampton, NN1 1DE on Wednesday 30 November 2022 at 2.00 pm.

Present:

Councillor Malcolm Longley (Chair)
Councillor Cathrine Russell
Councillor Phil Bignell
Councillor Graham Lawman
Peter Borley-Cox
Robert Austin

Also Present:

Chris West, Mercer Ltd
James Thurgood, Mercer Ltd
Phil Nicholson, IFM
Philip Nixon & Phelim Bolger, IFM

Officers:

Mark Whitby, Head of Pensions
David Crum, Independent Advisor
James Smith, Assistant Director - Finance (Strategy)
Tomasz Wardzala, Pension Services Financial Manager
Ben Barlow, Funding and Investment Manager
Jeverly Findlay, Democratic Services Officer

73. **Apologies for Absence**

Apologies for absence were received from Councillor Charles Morton.

74. **Declarations of Interest**

Robert Austin declared a disclosable pecuniary interest as a member of LGPS.
Councillor Graham Lawman disclosed personal interests as his wife was a deferred members of LGPS.

75. **Minutes of Previous Meeting**

It was highlighted that Chris Murphy and Tatjana Evans-Macleod who had been in attendance at the last meeting and worked for Baillie Gifford not BlueBay.

RESOLVED:

That, subject to the above amendment, the minutes of the Investment sub-committee of 21 September 2022 be approved and signed as a correct record.

76. Quarterly Performance Report for the Period Ending 30 September 2022

At the Chair's invitation, Chris West from Mercer presented the quarterly performance report. Referring to the executive dashboard, he explained that liabilities had fallen over the quarter in response to the persistent high inflation and interest rates. Investment Managers had expected that there would be a 2-3% rise but the markets were now pricing at rates of 5%. There was a global recession; sterling had been weak, particularly at the end of September which was linked to the volatility caused by the mini budget. The fund had not been exposed to the LDI's (Liability Driven Investment), therefore unaffected. The gilts had fallen in value as the interest rates had risen. Liabilities had fallen in material value. The funding level as at 30 September 2022 was 130% which was higher than in June, largely driven by a fall in funding liability.

Mercer continued their report and explained that although the liquid assets were underweight, private equity and infrastructure were overweight. Some balancing was being undertaken to address this. The investment strategy review would be coming through next year and the standalone UK equity allocation would be considered as part of this.

The Committee's attention was drawn to the management performance table on page 9 of the report. Baillie Gifford had underperformed by -38%, this had been expected and was still up from their inception. They had advised that they would invest in growth companies. The gilt market was volatile, but yields had gone up and the falls in liabilities had resulted in a net positive position. Bluebay generally invested in more risky ventures, and it appeared that they had underperformed but it was broadly in line with the performance over the market. When market conditions were more favourable and the asset values lowered, it was expected that BlueBay's performance would improve.

Councillor Bignell raised concerns that the value of Peloton had reduced significantly. David Crum highlighted that it was expected that the performance of some businesses would suffer but the results had to be looked at in their entirety.

Robert Austin queried whether the benchmark for performance should be altered. Mercer explained that benchmarking was only one of the assessment tools that they used. Baillie Gifford was an exceptional case.

Referring to the performance table, Mercer noted that there were some outstanding returns for private equity mandate because of the strength of the US dollar, but this was not a large area of the portfolio. Regarding the infrastructure funds, money was locked up so there may be fewer assets in the portfolio. The Chair queried whether any action needed to be taken. Mercer advised that this would be addressed as part

of the investment strategy review next year. The re-balancing to the gilts was ongoing and would be considered at year end. The equity portfolio would also be reviewed. The inflation risk would be managed and cashflow was a larger risk.

Further to an enquiry from Councillor Lawman, Mercer advised that the performance difference between the two infrastructure companies was due to the different asset holdings and the quality of those assets. Infrastructure was still an active market and cashflows would be harvested when a return was made. It was noted that it was difficult to trade assets.

Mercer advised that the watch rating set for M&G was because of their senior management turnover, they had recently recruited a new Chief Executive Officer.

Councillor Lawman queried whether in cash terms there would be sufficient funds to repay the pension liabilities in the future. The Head of Pensions advised that a detailed cash flow model had been commissioned and this would be shared with Mercer. The valuation had to be agreed by 31 March 2023 and consultation was taking place with employers. It was likely that the rates would remain as they were, but there could be some affordability issues. The Committee had already agreed the funding strategy and an update would be provided at the next meeting which would illustrate the downward pressure on some rates.

Chris West advised that IFM would be attending the meeting later and Members would have an opportunity to raise questions.

RESOLVED: That the Investment Sub-Committee noted the quarterly performance report for the period ending 30 September 2022.

77. **Stewardship Report**

The Funding and Investment Manager advised that the report would be submitted to the Committee on a six-monthly basis and drew their attention to the summary in section 2 of the report and the voting activities in section 6. Paragraph 6.1.7 of the referred to the ACCESS guidelines, which would be revisited soon.

The Funding and Investment Manager highlighted an example of an engagement that had taken place and also some voting actions as examples of the kind of detail that exists behind the report. The report would be extremely long if officers were to add all this detail as an appendix. The Committee were asked if they wanted more details; the Chair considered that exception reports would be sufficient.

Robert Austin enquired if any voting opportunities had been missed. Ben Barlow did not believe there had been but undertook to ascertain this.

RESOLVED: That the Investment Sub-Committee note the Stewardship Report.

78. **Exclusion of Press and Public**

RESOLVED: That Under Section 100A of the Local Government Act 1972, the Local Pension Board agreed that the public be excluded from the meeting for the following items of business on the grounds that if the public were present it would be likely that exempt information under Part 3 of Schedule 12A to the Act would be disclosed to them.

The meeting closed at 4.25 pm

Chair: _____

Date: _____