

Agenda

Pension Investment Sub-Committee

Thursday, 30 November 2023, 10.00 am
Kidderminster Room, County Hall,
Worcester

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DISCLOSING INTERESTS

There are now 2 types of interests:
'Disclosable pecuniary interests' and **'other disclosable interests'**

WHAT IS A 'DISCLOSABLE PECUNIARY INTEREST' (DPI)?

- Any **employment**, office, trade or vocation carried on for profit or gain
- **Sponsorship** by a 3rd party of your member or election expenses
- Any **contract** for goods, services or works between the Council and you, a firm where you are a partner/director, or company in which you hold shares
- Interests in **land** in Worcestershire (including licence to occupy for a month or longer)
- **Shares** etc (with either a total nominal value above £25,000 or 1% of the total issued share capital) in companies with a place of business or land in Worcestershire.

NB Your DPIs include the interests of your spouse/partner as well as you

WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days and
- **Declare** it where you have a DPI in a matter at a particular meeting
 - you must **not participate** and you **must withdraw**.

NB It is a criminal offence to participate in matters in which you have a DPI

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

- No need to register them but
- You must **declare** them at a particular meeting where:
You/your family/person or body with whom you are associated have a **pecuniary interest** in or **close connection** with the matter under discussion.

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

You will not normally even need to declare this as an interest. The only exception is where the conflict of interest is so significant it is seen as likely to prejudice your judgement of the public interest.

DO I HAVE TO WITHDRAW IF I HAVE A DISCLOSABLE INTEREST WHICH ISN'T A DPI?

Not normally. You must withdraw only if it:

- affects your **pecuniary interests** **OR** relates to a **planning or regulatory** matter
- **AND** it is seen as likely to **prejudice your judgement** of the public interest.

DON'T FORGET

- If you have a disclosable interest at a meeting you must **disclose both its existence and nature** – 'as noted/recorded' is insufficient
- **Declarations must relate to specific business** on the agenda
 - General scattergun declarations are not needed and achieve little
- Breaches of most of the **DPI provisions** are now **criminal offences** which may be referred to the police which can on conviction by a court lead to fines up to £5,000 and disqualification up to 5 years
- Formal **dispensation** in respect of interests can be sought in appropriate cases.

Pension Investment Sub-Committee
Thursday, 30 November 2023, 10.00 am, Kidderminster Room,
County Hall, Worcester

Membership: Cllr Adrian Hardman (Chairman), Cllr Elizabeth Eyre, and Cllr Karen Hanks

Co-opted Members

Cllr Peter Stoddart (voting) Herefordshire Council

Vacancy (non-voting) Employee Representative

Agenda

Item No	Subject	Page No
1	Apologies/Named Substitutes	
2	Declaration of Interests	
3	Public Participation Members of the public wishing to take part should notify the Assistant Director for Legal and Governance in writing or by e-mail indicating both the nature and content of their proposed participation no later than 9.00am on the working day before the meeting (in this case, 29 November 2023). Enquiries about this can be made through the telephone number/e-mail address listed in this agenda and on the website.	
4	Confirmation of Minutes To confirm the Minutes of the meetings held on 28 and 29 September 2024 (previously circulated).	
5	Pensions Independent Investment Advisor Update	1 - 32
6	Novum Investment Management Introduction to Shaped Equity	33 - 48
7	LGPS Central Private Equity 2023 Fund Co-Investment Opportunities	49 - 74

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All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Tuesday, 21 November 2023

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PENSIONS INVESTMENT SUB COMMITTEE

30 NOVEMBER 2023

PENSIONS INDEPENDENT INVESTMENT ADVISOR UPDATE

Recommendation

1. **The Chief Financial Officer recommends that the Pensions Investment Sub Committee note and comment on the Pensions Independent Investment Advisor's update attached as Appendix 1 together with the associated investment performance information attached as Appendix 2 and a review of the investment portfolio benchmarks attached at Appendix 3.**
2. The Pensions Independent Investment Advisors update provides:
 - a) A global overview;
 - b) A summary and market background to Worcestershire Pensions Investments as at the quarter ended the 30 September 2023; and
 - c) Brief performance details of the individual pension investments.
3. Also attached as Appendix 2 detailing Hymans Robertson quarterly investment performance update for Worcestershire Pension Fund as at the end of September 2023.
4. A review of the investment portfolio benchmarks conducted by Performance Evaluation Limited is attached as Appendix 3.
5. The Pensions Investment Sub is asked to comment on the Pensions Independent Investment Advisors update and associated appendices.
6. **Please note that Appendix 1 contains exempt information (on salmon pages) and should members wish to discuss the information included in this Appendix they would need to consider passing the appropriate resolution and moving into exempt session.**

Supporting Information

Appendix 1 – Pensions Independent Investment Advisors update (**Exempt Information – Salmon pages**).

Appendix 2 - Hymans Robertson quarterly investment performance update for Worcestershire Pension Fund.

Appendix 3 - Performance Evaluation Ltd review of investment portfolio benchmarks.

Contact Points

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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

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Worcestershire Country Council Pension Fund

Quarterly risk and return analysis (Early draft)

Period ending 30 September 2023



Total fund summary – Early draft

For period ending 30 September 2023

	Benchmark	Incep Date	Market Value £m	Weight %	QTR			Year To Date			1 Year			3 Year			5 Year			10 Year			Since Inception		
					PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER
Total Equity Fund	Client Specific Weighted Index	Mar-16	2,454.5	68.7	0.4	1.4	-1.0	1.6	3.0	-1.4	10.0	11.4	-1.5	6.5	8.9	-2.4	5.2	5.4	-0.2	-	-	-	8.7	8.8	-0.2
Total Equity Fund ex Overlay	Client Specific Weighted Index	Mar-16	2,454.5	68.7	0.4	1.4	-1.0	1.6	3.0	-1.4	9.9	11.8	-1.9	6.3	8.8	-2.5	4.8	5.9	-1.1	-	-	-	8.5	9.2	-0.7
<i>Total Active Equity Fund</i>	Client Specific Weighted Index	Mar-16	847.6	23.7	-0.3	2.0	-2.4	-1.3	1.9	-3.2	4.1	6.5	-2.3	0.4	3.9	-3.5	1.6	3.8	-2.2	-	-	-	7.1	8.1	-1.0
Nomura Far East Developed Fund	Nomura Composite Benchmark	Feb-03	361.8	10.1	2.0	2.1	-0.1	1.1	1.7	-0.6	7.6	8.3	-0.7	3.6	4.6	-1.1	3.1	3.2	-0.1	7.6	7.0	0.6	9.1	9.0	0.1
Nomura Far East Developed Fund - 01.08.21	Nomura Composite Benchmark	Aug-21	361.8	-	2.0	2.1	-0.1	1.1	1.7	-0.6	7.6	8.3	-0.7	-	-	-	-	-	-	-	-	-	-1.5	0.2	-1.7
LGPS Global Emerging Markets Fund	FTSE All World Emerging Market Index	Jul-19	298.8	8.4	0.3	2.6	-2.3	-2.6	0.6	-3.2	-0.7	1.6	-2.3	-1.9	2.0	-3.9	-	-	-	-	-	-	-1.1	1.7	-2.8
LGPS Global Sustainable Equity Active Targeted Fund	FTSE All World Index	May-22	71.7	2.0	-6.9	0.9	-7.8	-7.3	4.3	-11.5	5.8	11.1	-5.3	-	-	-	-	-	-	-	-	-	-2.9	4.4	-7.2
LGPS Global Sustainable Equity Active Thematic Fund	FTSE All World Index	May-22	115.3	3.2	-4.4	0.9	-5.3	-1.6	4.3	-5.9	5.5	11.1	-5.6	-	-	-	-	-	-	-	-	-	0.2	4.4	-4.2
<i>Total Passive Equity Fund</i>	Client Specific Weighted Index	Mar-16	1,011.2	28.3	0.9	0.8	0.1	1.7	2.2	-0.5	14.5	14.7	-0.3	10.9	11.3	-0.4	7.1	6.5	0.5	-	-	-	9.9	9.3	0.5
L&G UK Equity Fund	FTSE All Share Index	Dec-15	587.7	16.4	1.9	1.9	0.0	1.5	1.4	0.0	14.0	13.8	0.1	11.9	11.8	0.1	3.8	3.7	0.1	-	-	-	6.8	6.6	0.2
L&G North American Equity Fund	FTSE All World North American Index	Dec-15	209.3	5.9	1.0	1.0	0.0	6.6	6.5	0.0	11.0	10.9	0.0	11.7	11.7	0.0	11.2	11.2	0.0	-	-	-	14.9	14.9	0.0
L&G Europe Ex UK Equity Fund	FTSE Developed Europe Ex. UK Index	Dec-15	214.2	6.0	-2.0	-1.9	-0.1	-1.7	-1.4	-0.3	19.4	19.9	-0.6	8.1	8.4	-0.3	6.1	6.4	-0.3	-	-	-	9.2	9.4	-0.3
<i>Total Alternatives Fund</i>	Alternatives Composite Benchmark	Mar-16	595.7	16.7	0.9	0.8	0.1	5.9	5.6	0.3	15.2	14.8	0.3	8.8	9.5	-0.7	7.2	7.7	-0.5	-	-	-	10.4	10.9	-0.4
L&G MSCI World Quality Fund	MSCI World Quality Total Return Net Index	Dec-15	382.9	10.7	1.2	1.2	0.0	8.1	8.1	0.0	19.0	19.1	-0.1	10.7	10.8	-0.1	12.1	12.2	-0.1	-	-	-	15.1	15.2	-0.1
LGPS All World Passive Climate Factor Fund	FTSE AW Climate Bal Com Factor Net	Nov-21	212.8	6.0	0.2	0.1	0.1	2.2	1.9	0.3	8.9	8.5	0.3	-	-	-	-	-	-	-	-	-	0.0	-0.2	0.2
Total Fixed Income Fund	60% LGPS Corp Index & 40% Absolute Return +6%	Apr-21	272.8	7.6	0.7	0.7	0.0	0.0	0.3	-0.3	6.6	6.2	0.5	-	-	-	-	-	-	-	-	-	-4.3	-1.4	-3.0
<i>Total Corporate Bond Fund</i>	LGPS Corporate Bond Index	Mar-20	182.7	5.1	0.7	0.2	0.5	-0.7	-1.5	0.8	6.6	6.2	0.5	-5.8	-5.5	-0.3	-	-	-	-	-	-	-0.8	-0.9	0.1
LGPS Corporate Bond Fund	LGPS Corporate Bond Index	Mar-20	182.7	5.1	0.7	0.2	0.5	-0.7	-1.5	0.8	6.6	6.2	0.5	-5.8	-5.5	-0.3	-	-	-	-	-	-	-0.8	-0.9	0.1
<i>Total Corporate Debt Fund</i>	Absolute Return +6%	May-18	90.2	2.5	0.7	1.5	-0.8	1.3	3.0	-1.7	7.5	6.0	1.5	4.9	6.0	-1.1	7.8	6.0	1.8	-	-	-	8.7	6.1	2.6
Bridgepoint Direct Lending II GBP	Absolute Return + 6.5%	May-18	55.5	1.6	0.2	1.6	-1.4	0.9	3.2	-2.3	7.7	6.5	1.2	4.9	6.5	-1.6	7.8	6.5	1.3	-	-	-	8.6	6.6	2.1
Bridgepoint Direct Lending III GBP	Absolute Return +6%	Jan-22	34.6	1.0	1.6	1.5	0.1	1.9	3.0	-1.1	6.6	6.0	0.6	-	-	-	-	-	-	-	-	-	7.7	5.1	2.6
Total Property Fund	60% FTSE EPRA Nareit Developed Europe Index & 40% Abs Ret +7.5%	Mar-16	293.1	8.2	-0.7	4.1	-4.8	-4.5	-	-	-5.8	-	-	0.6	-	-	1.4	-	-	-	-	-	4.1	-	-
<i>Total UK Property Fund</i>	Absolute Return +9%	Jul-18	50.7	1.4	0.5	2.2	-1.7	-2.2	4.4	-6.6	-0.5	9.0	-9.5	5.5	9.0	-3.5	5.5	9.0	-3.5	-	-	-	5.5	9.0	-3.5
Invesco UK Property Fund	Absolute Return +9%	Oct-18	50.3	1.4	0.7	2.2	-1.5	-1.9	4.4	-6.3	0.9	9.0	-8.1	6.1	9.0	-2.9	3.0	9.0	-6.0	-	-	-	3.0	9.0	-6.0
Venn UK Property Fund	Absolute Return +9%	Jul-15	0.4	0.0	-3.6	2.2	-5.7	-6.9	4.4	-11.3	-9.5	9.0	-18.5	-0.1	9.0	-9.1	3.2	9.0	-5.8	-	-	-	7.3	9.1	-1.8
Walton Street US Property Fund - GBP	Absolute Return +6.5%	Feb-16	0.4	0.0	-73.2	1.6	-74.8	-74.7	3.2	-77.9	-74.0	6.5	-80.5	-32.7	6.5	-39.2	-19.7	6.5	-26.2	-	-	-	-8.0	6.4	-14.4
Walton Street US Property Fund II - GBP	Absolute Return +7%	Jun-19	12.5	0.3	0.1	1.7	-1.6	-7.1	3.4	-10.6	-2.2	7.0	-9.2	4.7	7.0	-2.3	-	-	-	-	-	-	6.3	7.0	-0.7
Invesco European Property Fund - GBP	Absolute Return +6.5%	Feb-16	62.9	1.8	-2.6	1.6	-4.2	-3.7	3.2	-6.9	-3.8	6.5	-10.3	0.3	6.5	-6.2	0.4	6.5	-6.1	-	-	-	3.7	6.4	-2.7
Venn Property Debt Fund II - GBP	Absolute Return +6%	Aug-20	17.9	0.5	0.3	1.5	-1.2	1.9	3.0	-1.1	7.8	6.0	1.8	-57.3	6.0	-63.3	-	-	-	-	-	-	-	-	-
Gresham House Forestry Growth & Sustainability Fund	Absolute Return +6%	Dec-21	54.9	1.5	0.6	1.5	-0.9	0.6	3.0	-2.4	-8.8	6.0	-14.8	-	-	-	-	-	-	-	-	-	-8.1	5.2	-13.3
Gresham House Forestry Fund VI	Absolute Return +5.5%	Oct-22	74.9	1.5	0.0	1.3	-1.3	-11.3	2.7	-14.0	-11.7	5.5	-17.2	-	-	-	-	-	-	-	-	-	-11.7	5.5	-17.2
AEW Property Fund	UK RPI +4%	Oct-17	18.8	0.5	0.7	1.5	-0.8	2.4	5.0	-2.6	-6.5	12.9	-19.4	3.8	12.8	-9.0	2.6	9.9	-7.3	-	-	-	3.2	9.5	-6.3

Total fund summary – Early draft

For period ending 30 September 2023

	Benchmark	Incep Date	Market Value £m	Weight %	QTR			Year To Date			1 Year			3 Year			5 Year			10 Year			Since Inception		
					PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER
Total Infrastructure Fund	70% UK CPI +5.5% & 30% Abs Return +10%	Mar-16	552.9	15.5	-8.0	2.0	-10.0	-7.5	4.8	-12.4	-4.2	10.5	-14.7	7.2	10.8	-3.6	7.0	10.2	-3.2	-	-	-	7.0	9.5	-2.5
Green UK Infrastructure Fund	Absolute Return +7.6%	Apr-15	42.6	1.2	1.7	1.8	-0.2	-5.4	3.7	-9.2	-0.4	7.6	-8.0	11.9	7.6	4.3	-	-	-	-	-	-	6.7	7.6	-0.9
Gresham House BSIF Housing and Infrastructure	Absolute Return +8%	May-20	54.5	1.5	-1.0	1.9	-3.0	2.2	3.9	-1.7	3.8	8.0	-4.2	5.2	8.0	-2.8	-	-	-	-	-	-	8.5	8.0	0.5
Gresham House BSIF II Infrastructure Fund	Absolute Return +9%	Jan-22	51.9	1.5	0.1	2.2	-2.1	0.8	4.4	-3.7	5.7	9.0	-3.3	-	-	-	-	-	-	-	-	-	-3.2	6.4	-9.6
Hermes UK Infrastructure Core Fund	Absolute Return +8.4%	May-15	9.1	0.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Hermes Diversified Infrastructure Fund	Absolute Return +8.4%	Apr-23	34.3	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Hermes UK Infrastructure Fund II	Absolute Return +8.5%	Jun-18	40.9	1.1	-9.2	2.1	-11.3	-9.9	4.2	-14.0	-19.5	8.5	-28.0	-4.3	8.5	-12.8	-3.5	8.5	-12.0	-	-	-	-3.9	8.6	-12.4
Stonepeak Infrastructure Core Fund III - GBP	Absolute Return +12%	Jan-18	130.9	3.7	-4.4	2.9	-7.3	-5.4	5.8	-11.2	-4.2	12.0	-16.2	9.9	12.0	-2.1	19.7	12.0	7.7	-	-	-	12.5	12.0	0.5
Stonepeak Infrastructure Core Fund IV - GBP	Absolute Return +12%	Jan-22	39.7	1.1	0.9	2.9	-2.0	-1.5	5.8	-7.3	19.0	12.0	7.0	-	-	-	-	-	-	-	-	-	12.2	10.2	2.0
First Sentier EDIF II GBP	Absolute Return +9%	Jun-18	141.1	3.9	3.4	2.2	1.2	8.5	4.4	4.1	16.6	9.0	7.6	16.5	9.0	7.5	11.9	9.0	2.9	-	-	-	11.8	9.1	2.8
First Sentier EDIF III GBP	Absolute Return +8%	Nov-22	7.9	0.2	5.8	1.9	3.9	6.9	3.9	3.0	-	-	-	-	-	-	-	-	-	-	-	-	10.9	7.3	3.6
Worcestershire CC Total Fund ex Overlay		Mar-87	3,573.4	100.0	-1.0	1.6	-2.6	-0.6	3.1	-3.7	6.0	10.0	-4.0	5.3	7.9	-2.7	4.3	5.9	-1.6	7.2	7.9	-0.7	7.7	8.3	-0.6
Worcestershire CC Total Fund		Mar-87	3573.4	100.0	-1.0	1.6	-2.6	-0.6	3.1	-3.7	6.1	9.7	-3.7	5.4	8.0	-2.6	4.7	5.5	-0.9	7.4	7.7	-0.3	7.7	8.2	-0.5

Total fund benchmark – Early draft



Total fund benchmark (effective from 1 July 2023):

17% FTSE All Share (allocation dependent upon actual drawdowns of Infra. & Prop.)

5.5% FTSE Developed Europe ex UK

10% FTSE All World Emerging Markets

15% Nomura Composite Benchmark

60% MSCI World Quality

40% FTSE All World Climate Balanced

6.5% FTSE All World North America

6% FTSE All World

10% Alternatives Composite Benchmark

55% FTSE All World Asia Pacific ex Japan

45% FTSE All World Japan

6% LGPS Corporate Bonds

4% Corporate Private Debt (Absolute Return +10%)

Actual Infrastructure Composite Benchmark

70% CPI + 5.5%

30% Absolute Return +10%

Actual Property Composite Benchmark

60% FTSE EPRA NARIET Dev Europe

40% Absolute Return +7.5%

Notes

This is an early draft version of the report and subject to further changes.

Q3 2023: Property benchmark component changed to FTSE EPRA NARIET Dev Europe.

All historic data before Q3 2023 has been sourced from PEL.

Q4 2022: Disinvested from River & Mercantile Equity Protection Fund from 10th November 2022. Invested into First Sentier EDIF III from 15th November 2022. All returns are in GBP

Q2 2022: Investment into LGPSC Global Sustainable Equity Active Targeted Fund and LGPSC Global Sustainable Equity Active Thematic Fund from 04.05.2022. Total Fund Benchmark updated. The attribution for Total Active/Total Equity/Total Fund will not add up due to the transition.

Q4 2021: Total Fund Benchmark updated and backdated from 01.04.2021. Total Fixed Income Fund created from 01.04.21. New investments were made on 24.11.2021 into LGPSC All World Passive Climate Factor Fund, and Stonepeak Fund IV Infrastructure Core Fund (data is 'lagged'). A new investment was also made with Gresham House Forestry Growth & Sustainability Fund from 10.12.2021 (data is produced annually in February). Full disinvestments were made from L&G RAFI Fundamental Developed Reduced Carbon Pathway Index Fund on 22.10.2021 and from L&G MSCI World Minimum Volatility Fund on 24.11.2021.



Appendix

Risk warning

Hymans Robertson LLP has relied upon managers and third-party data providers to provide the data used in compiling this report. Whilst every effort has been made to ensure the accuracy of the data, we cannot be held liable for any loss howsoever arising from its use. The information contained in this publication should not be construed as advice and should not be considered a substitute for specific advice. This report should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation or without our prior written consent. We accept no liability where the report is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the report may only be released or otherwise disclosed in a complete form.

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Worcestershire County Council Pension Fund – Benchmark Discussion

As the Fund has evolved and given its current manager structure and associated benchmarks it has been noticed that a small number of them should be reviewed. This review considers three of them:

The three benchmark items for discussion are as Follows:

1. The weighting to the UK equity benchmark allocation is the sum of 17% minus the property and infrastructure weight in excess of 20%. This can result in the equity benchmarks being under the expected strategic weight with resulting in an impact of the Total Fund benchmark return.
2. The inflation plus absolute return benchmarks (there are two used in the Fund) sum to more than 15% as of June 2023. It should be noted that as of March 31 the benchmark return for RPI was 13% for the year and that the asset class underperformed it. Please note that only the Infrastructure benchmark is part of the Total Fund benchmark. As this was unexpected it is appropriate to review it and consider other options.
3. The property benchmark (due to a large fee being charged by MSCI) needs to be reviewed. It only accounts for 60% of the Total Property Asset class benchmark and less than 5% of the Total Fund benchmark. Two options are considered, using an Absolute Return Target only (as used on the underlying Property Funds, or substituting the MSCI UK Monthly Property Index with the FTSE EPRA Nareit Developed Europe Index.

If any of the changes are implemented it should be noted that the Fund strategy and investment management structure and future investment funding is expected to remain unchanged.

Additionally, the benchmark options, if implemented would be expected to have a limited impact on the overall Fund benchmark return. Please note that the purpose of the Fund benchmark and the constituent manager benchmarks is to provide:

- An objective comparison for each of the portfolios and as such should reflect the objectives and long-term investment goals of the various portfolios and asset classes.
- At the asset class and Total Fund level to also provide a comparative risk and return assessment of the Fund strategy and investment return targets of the Fund.
- It should be the drivers to Fund allocation, results and objectives of the Fund that should be key to the Fund and the benchmark structure should be a support measure for those functions.

UK Equity Weighting in The Total Equity and Total Fund Benchmarks

Within the Total Fund benchmark the UK Equity benchmark weighting is determined by a calculation including the current benchmark weights of Property and Infrastructure as follows:

- The strategic asset allocation to UK equities in the Total Fund benchmark is 17%; this is a component of the 70% strategic weight to equities.
- The combined strategic weight to Property and Infrastructure is 20%.
- The strategic benchmark weight to Property and Infrastructure is the sum of the underlying actual portfolio weights i.e. there is no overweight / underweight position due to the holdings in the Fund from these two asset classes.
- Any excess over / under the 20% allocation in the allocation to property and infrastructure (8% and 12% respectively – although this must be confirmed) is deducted / added to the UK equity strategic benchmark weight.

- A minor point is that the benchmark return of the Fund cannot be determined until the results of the Fund's investments have been calculated for each month. This is quite unusual and may slow down the production of performance reporting.

This policy was decided a number of years ago when the property and infrastructure asset classes were subject to large contributions.

The result of this has been:

- That the allocation to UK equities in the benchmark has been significantly less than 17% since mid-2022 (prior to that it was overweight); as of the end of June 2023 the weight to UK equities in the Total fund benchmark was 13.4% and the overall weight to equities was 66.4%, more than 3% underweight the Total Equity strategic benchmark weight.
- There are no asset allocation attribution contributions from property or infrastructure because the overweight position is neutralised by using the invested weights in the Fund as the benchmark weights. This results in the overweight position to these asset classes is not reviewed.
- The asset allocation attribution contributions from UK equities will have been under / overstated.

The return of the Total Fund benchmark and Total equity benchmark will have been impacted to some degree (in effect the benchmark has been underweight UK equities and overweight property and infrastructure. An approximate calculation if the 17% weight for UK equities and 20% weight for Property and Infrastructure) would have increased the Total Fund benchmark return by 5 – 15 bps.

It should be noted that this approach to Fund benchmark construction is rare.

Whilst this position could be reversed by market movements it is unlikely given the Funding being invested in Alternative assets by the Fund. Therefore, the Fund may wish to consider fixing the weights to accurately reflect the strategic benchmark and rebalance when appropriate. The options are numerous:

- A review of Fund results coupled with a review of expected drawdowns could be implemented annually (or half yearly or quarterly) and the Total Fund benchmark amended accordingly.
- Establish automatic rebalancing points that are mechanistic and triggered when allocation limits are exceeded.

The key to both these approaches is to include the impact of market movements in the process. If market movements are the cause to rebalancing this will generate more benchmark volatility and more administration. Therefore, the expected value of drawdowns and distributions should be monitored in respect of the benchmark structure.

The timeline for review is not urgent but it should probably be completed by the end of the financial year (it would also be possible to back date it until April 2023).

Impact of RPI on Benchmark Returns

For the year ending March 2023 CPI and RPI were 10% and 13% respectively. For portfolios and asset classes that had these measures as part of their benchmark structure the impact would have been significant. Within the Fund this impacts only two benchmarks:

- AEW Property Fund whose benchmark is UK RPI +4%. This portfolio has significantly underperformed to a level that implies that it is not just because of the benchmark. Please note that its weight within the Fund was only 0.5% as of June 2023, it is not part of the Total Fund benchmark. Within the benchmark RPI was 13% for the year ended March 2023.

- Total Infrastructure Asset Class whose benchmark is 70% UK CPI +5.5% plus 30% Absolute Return of 10%. For the period ended June 2023 the benchmark had a return of 12% and for March 2023 13%. The asset class has underperformed by -0.3% and -2.3% respectively. Please note that its weight within the Fund benchmark was 15.3% as of June 2023. Within the benchmark CPI was 10% for the year ended March 2023.

As would normally be expected it is appropriate to review benchmarks in times of unusual stresses. It should be noted that the average 12-month growth rate of the CPI between 1950 and 1988 was 6.4%, while the average between 1989 and April 2022 was 2.5%. CPI has now dropped to below 5%. For the year ending March 2023 the level of inflation was a considerable outlier.

Usually with unusual movements in markets (e.g. stock market crashes) the Fund will 'weather' the results, this is partly due to the both the portfolios and the benchmarks are impacted. In this instance only the benchmark is impacted as the correlation between the assets and the benchmarks is less than in other asset classes.

The options available to the Fund are numerous and include:

- Leaving the current structure as is with the expectation that the asset class returns, over the long term, will 'catch-up' as inflation returns to a more expected level i.e. treat the results as an anomaly and that the rationale underpinning them is still relevant.
- If it is considered that CPI / RPI may increase significantly or that recent events were outside of the expected parameters when the CPI / RPI benchmarks were selected it may be appropriate to cap them, for example at 7% per annum. This could be considered if these benchmarks are still considered relevant comparators to the portfolios being considered.
- Review CPI and RPI benchmarks to determine if they are still relevant as comparators.

As regards implementation the timeline for review is not urgent but it should probably be completed by the end of the financial year (it would also be possible to back date it until April 2023).

Total Property Benchmark

Currently the Property asset class benchmark consists of a blended benchmark of 60% MSCI UK Monthly Property Index and 40% of an Absolute Return Target of 7.5%. When reviewing the composition of the property investment funds of the Fund the following should be noted:

- Of the nine property portfolios eight are evaluated relative to an Absolute Return Target of between 5.5% and 9% per annum. The remaining portfolio is evaluated relative to a UK RPI plus an Absolute Return Target of 4% per annum.
- The Fund maintains a diversified property portfolio that consists of UK Property Funds, European and US Property Funds.
- The Fund also invests in some specialist property vehicles such as Forestry Funds, and Property Private Debt Funds.
- No property portfolios of the Fund are monitored versus the MSCI UK Monthly Property Index.
- The MSCI UK Monthly Property Index is just less than five percent of the Total Fund benchmark.
- The MSCI UK Monthly Property Index is a benchmark that has a market capitalisation of approximately £27,000 million and monitors assets of 34 portfolios and 1445 properties. It consists of predominantly UK assets. I have attached a recent factsheet for this benchmark. It is clear that the composition of it has little resemblance to the composition of the Fund, both in terms of geographical and asset group diversification.

It has been identified that the Fund will have to pay a significant fee to continue to use the MSCI Property Monthly Index, or any other MSCI Property benchmark such as the MSCI Property Quarterly Index (this also has a problem as it is not usually finalised by the time WCCPF receives its quarterly report).

This has led to a review of alternative property benchmarks available to the Fund. As a general observation there are no real direct UK property benchmarks other than MSCI available in the UK. There are two alternative options available to the Fund:

1. Have the Property Asset Class benchmark consist of, like the underlying property portfolios, and Absolute Return Target Only. This will be consistent with the underlying portfolios but have no allocation to a property asset benchmark.
2. An alternative to replace the MSCI Monthly Property Benchmark is the FTSE EPRA Nareit Developed Europe Index. This is available from the new investment performance monitoring provider. I have attached a recent factsheet from FTSE about this index. It consists of Real Estate Investment Trusts (REITs) and Real Estate Holding & Development companies. It is available at the end of the day in GBP sterling.

The Index consists of 107 portfolios incorporating assets from a broad range of European countries. The following should be noted:

- It appears to have underperformed the MSCI Property Index over the 1 year, 3 year and 5-year periods ended 31st December 2022 (this may need more analysis).
- It is more volatile than the MSCI Property Index largely due to the daily valuation of these assets on the stock market, the correlation to other equity assets and the lagged nature of the property valuations in the MSCI Property Index.

If the Fund decides to change the Property Benchmark of the Fund this should be completed before the production of the investment performance report for the 30th September 2023.

Conclusion

There is considerable scope for movement due to the options available on all three topics being considered; however, at this time further discussion is required.

Please note that all numbers, comments, and ideas contained in this document are for information purposes only and as such are not investment advice in any form. Please remember that past performance is not a guide to future performance. the property valuations in the MSCI Property Index.

PENSIONS INVESTMENT SUB COMMITTEE

30 NOVEMBER 2023

NOVUM INVESTMENT MANAGEMENT INTRODUCTION TO SHAPED EQUITY

Recommendation

- 1. The Chief Financial Officer recommends that the Pensions Investment Sub Committee note and comment on Novum Investment Management Limited Introduction to shaped equity presentation.**

Background and Purpose

2. As part of the Fund's strategic asset allocation review, Pension Committee agreed that officers would look to procure a replacement segregated Equity Protection strategy mandate so that it is available to the Fund as and when required. Some update training has already been provided, mainly for the benefit of newer officers and members involved with the Fund.
3. The Novum introduction to shaped equity presentation includes provides an overview of:
 - a) The rationale for shaped equity;
 - b) The principles of shaped equity; and
 - c) Kinked lines within a shaped equity strategy.
4. The Pensions Investment Sub is asked to note and comment on note and comment on the Novum Investment Management Limited Introduction to shaped equity presentation.
- 5. Please note that the Appendix contains exempt information (on salmon pages) and should members wish to discuss the information included in this Appendix they would need to consider passing the appropriate resolution and moving into exempt session.**

Supporting Information

Appendix (**Exempt Information – Salmon pages**) – Novum Investment Management Ltd Introduction to Shaped Equity.

Specific Contact Points for this report

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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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PENSIONS INVESTMENT SUB COMMITTEE

30 NOVEMBER 2023

LGPS CENTRAL PRIVATE EQUITY 2023 FUND CO-INVESTMENT OPPORTUNITIES

Recommendation

- 1. The Chief Financial Officer recommends that the LGPS Central Private Equity 2023 Fund Co-Investment Opportunities presentation be noted and considered.**

Background

- As part of the Fund's strategic asset allocation review, approved by Pension Committee on 22 March 2023, officers are required to consider an allocation to private equity investments. An opportunity to invest in the LGPSC private equity 2023 fund as a co-investor has arisen.
- The LGPSC private equity co-investment presentation is attached and covers the following areas:
 - Private Equity primary overview;
 - Co-investments overview; and
 - Considerations for Worcestershire
- The Pensions Investment Sub-Committee is asked to note and comment on the LGPSC private equity 2023 fund co-investment presentation.
- Please note that the Appendix contains exempt information (on salmon pages) and should members wish to discuss the information included in this Appendix they would need to consider passing the appropriate resolution and moving into exempt session.**

Contact Points

Specific Contact Points for this report

Sherief Loutfy

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Supporting Information

- Appendix (**Exempt Information – Salmon pages**) LGPS Central Private Equity 2023 Fund Co-Investment Opportunities

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report:

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