

HEALTH WEALTH CAREER

CAMBRIDGESHIRE COUNTY COUNCIL PENSION FUND

INVESTMENT MONITORING REPORT QUARTER TO 31 MARCH 2020

May 2020



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Points to note:

- The value of investments can go down as well as up and you may not get back the amount you have invested. In addition investments denominated in a foreign currency will fluctuate with the value of the currency.
- The valuation of investments in property based portfolios, including forestry, is generally a matter of a valuer's opinion, rather than fact.
- When there is no (or limited) recognised or secondary market, for example, but not limited to property, hedge funds, private equity, infrastructure, forestry, swap and other derivative based funds or portfolios it may be difficult for you to obtain reliable information about the value of the investments or deal in the investments.
- Care should be taken when comparing private equity / infrastructure performance (which is generally a money-weighted performance) with quoted investment performance (which is generally a time-weighted performance). Direct comparisons are not always possible.

Peter Gent

EXECUTIVE SUMMARY

MONITORING DASHBOARD

Key



Committee to consider if action is required.



To be kept under on-going review. Includes where action is required but has already been agreed.

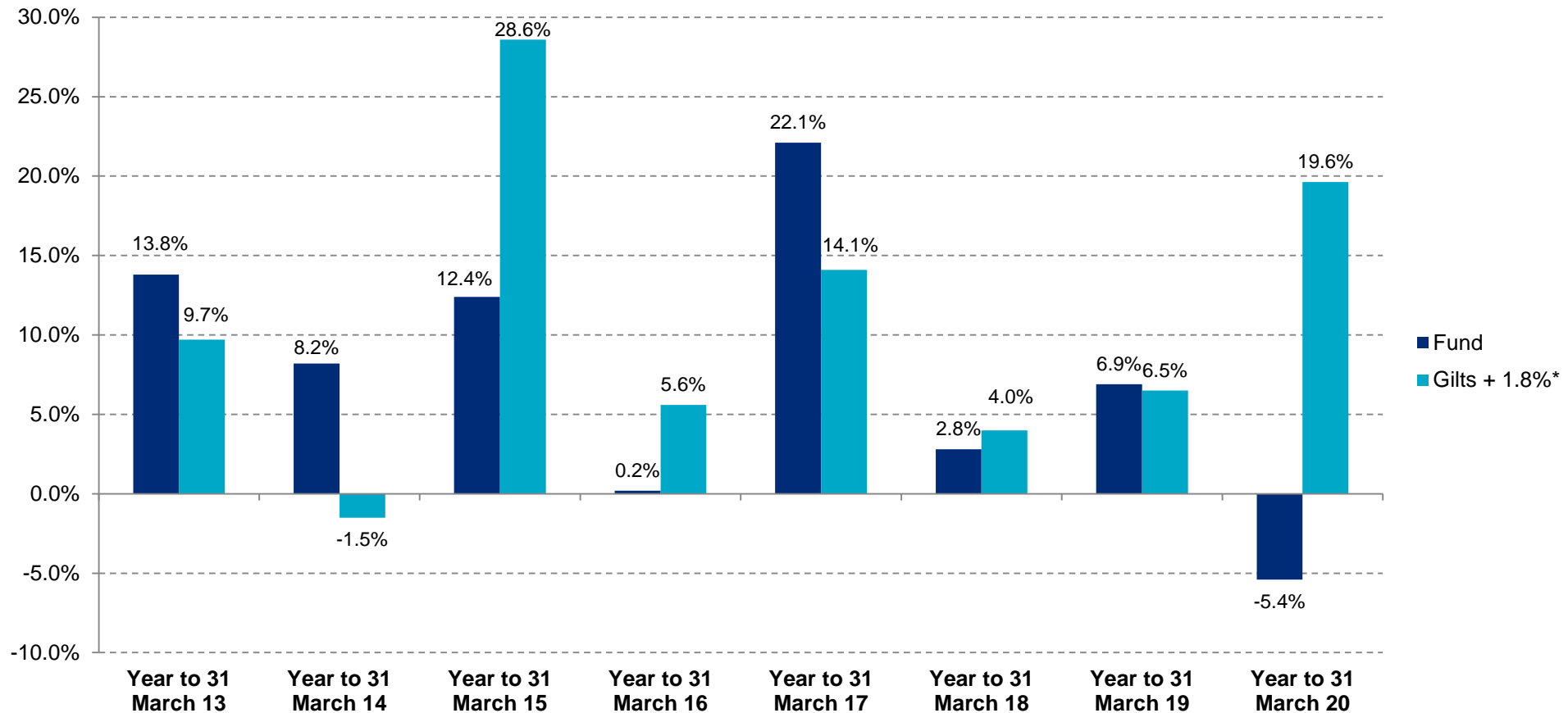


In line with objective and no action required.

Category		Comments	Current Status	Status Last Quarter
Asset Allocation		As at 31 March 2020, the Fund's asset allocation was significantly overweight to equities (+3.9%) and commensurately underweight to alternatives (-2.1%) and fixed income (-1.9%).		
Funding Level Change		<p>The present value of the Fund's liabilities increased over the quarter (from £3,298m to £3,371m). Note that the liability values have been recalibrated by Hymans post 31 March 2019 following the finalisation of the actuarial assumptions.</p> <p>The Fund's assets (excluding cash) decreased over the quarter by £411.3m from £3,417.0m as at 31 December 2019 to £3,005.7m as at 31 March 2020. The Fund's assets (excluding cash) have decreased by £176.1m over the last twelve months.</p> <p>The estimated funding level at 31 March 2020 was 89.6%, down from 104.3% last quarter. For comparison, the funding level at 31 March 2019 (the date of the last actuarial valuation) was 99.7%</p>		
Manager Monitoring	Manager Ratings	No changes to manager ratings over the quarter.		
	Developments	Some minor developments, see slide 24 for more information.		
Active Management	Overall Portfolio Performance	The Fund returned -12.2% (net of fees) over the quarter to 31 March 2020, underperforming the benchmark by 0.8%.		
	Short-term: Total scheme performance versus benchmark over the quarter	Over the quarter, the relative performance of the Fund's active managers versus their benchmarks was mixed. Dodge & Cox significantly underperformed the global equity benchmark but JO Hambro significantly outperformed. In Alternatives, the Schroders property portfolio underperformed its benchmark by 0.3%, and the M&G property and secured loans portfolios underperformed by 1.2% and 12.4%, respectively. The Schroders strategic bonds portfolio underperformed 7 Day Sterling LIBID by 14.3%.		
	Long-term: Total Fund performance versus benchmark over the last three years	Over the three year period, the global equity portfolio managed by JO Hambro outperformed the benchmark by 2.9% p.a. but the Dodge & Cox portfolio significantly underperformed its benchmark by 7.8% p.a. Within Alternatives, the Schroders property portfolio outperformed its benchmark by 0.3% p.a. and M&G secured loans significantly underperformed by 5.9% p.a. The Schroders strategic bonds portfolio significantly underperformed 7 Day Sterling LIBID by 4.6% p.a.		

EXECUTIVE SUMMARY

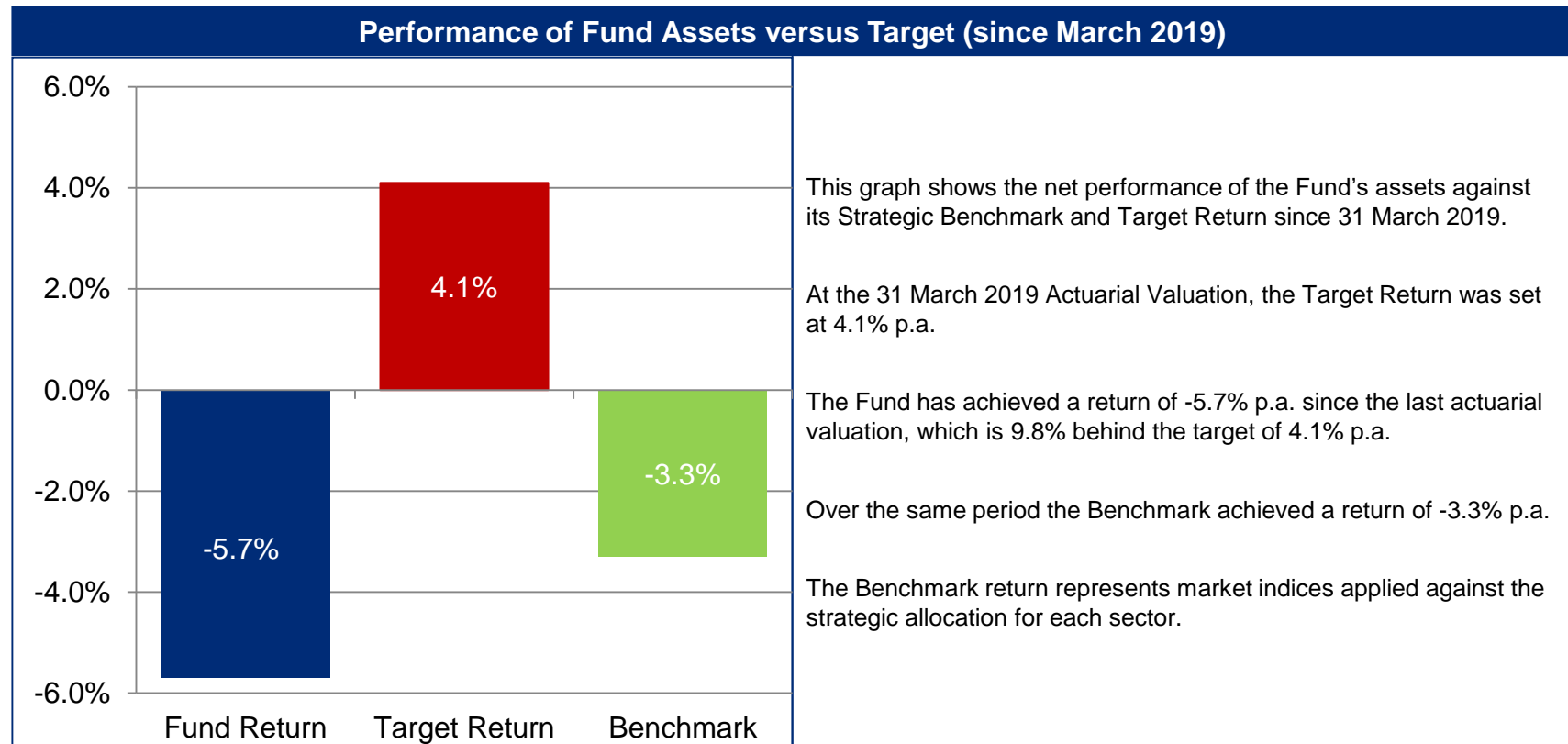
PERFORMANCE VS STRATEGIC TARGET (1)



• Showing as Gilts + 1.6% prior to 31 March 2016. Performance is gross of fees.

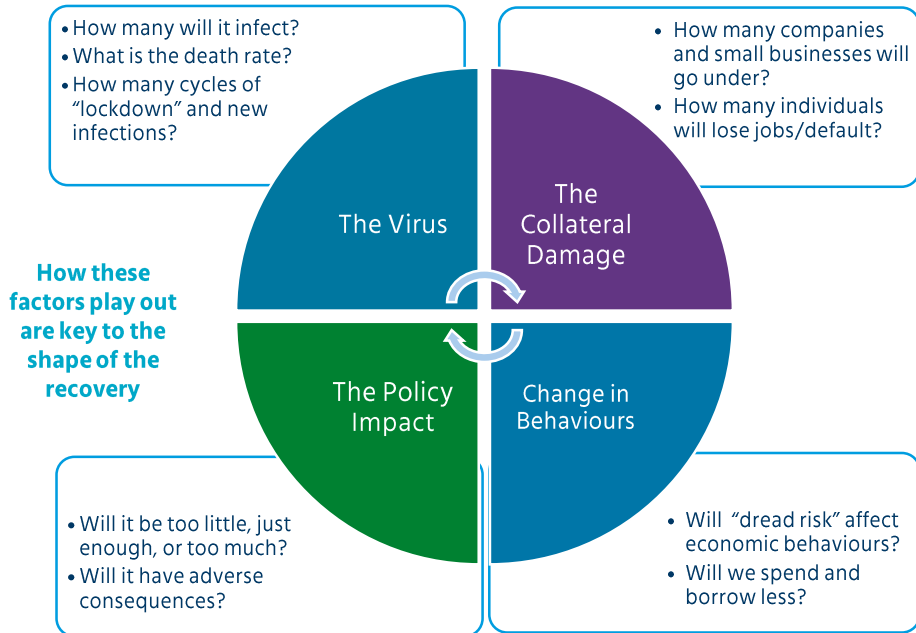
EXECUTIVE SUMMARY

PERFORMANCE VS STRATEGIC TARGET (2)

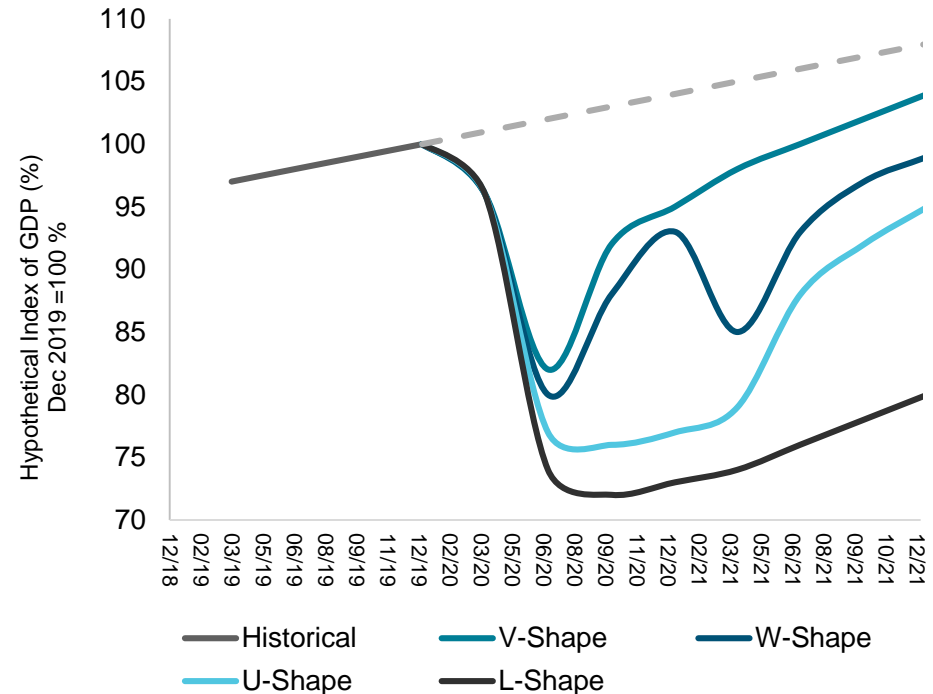


CURRENT TOPICS

Navigating the 'alphabet' of economic recovery



Potential Scenarios



Is the Fund impacted?

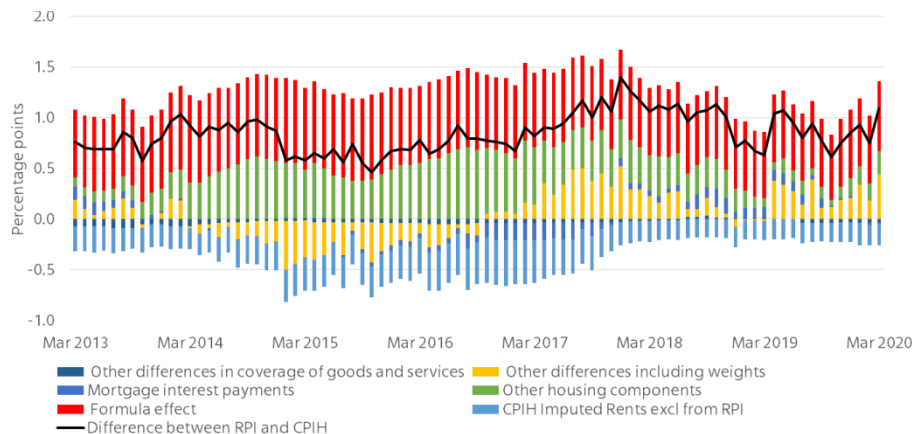


It goes without saying that COVID-19 has already materially impacted the Fund and will continue to drive markets for the foreseeable future. The chart above plots different potential recovery paths which will depend on a number of factors. Fundamentally the Fund is a long term investor and so our advice would be not to panic. However, the Committee should ensure they are happy with the balance of risks within the portfolio and retain the flexibility to act if attractive opportunities arise from the market dislocations.

CURRENT TOPICS

What to do about the RPI?

RPI	CPI	CPIH
<ul style="list-style-type: none"> • “Retail Prices Index” produced in current form since 1956 • Formula criticised – risks overstating inflation • Used by many DB schemes for pension increases as a result of being “hard-coded” into scheme rules 	<ul style="list-style-type: none"> • “Consumer Prices Index” is UK version of EU measure • Used for statutory minimum rates of pension increase and revaluation since 2011 • Used by DB schemes whose rules link pension increases to statutory requirements or do not specify RPI 	<ul style="list-style-type: none"> • The ONS’s headline inflation measure. • Government regards it as conceptually the best measure • CPI + owner-occupied housing • Not used by many DB schemes for pension increases



Who is affected?

Potentially least negatively affected

Schemes with low CPI liability exposure, e.g. <10%

Under-hedged schemes especially those that have significant unhedged RPI liabilities

Potentially most negatively affected

Those with large CPI liability exposures and high levels of hedging (particularly de-risked schemes)

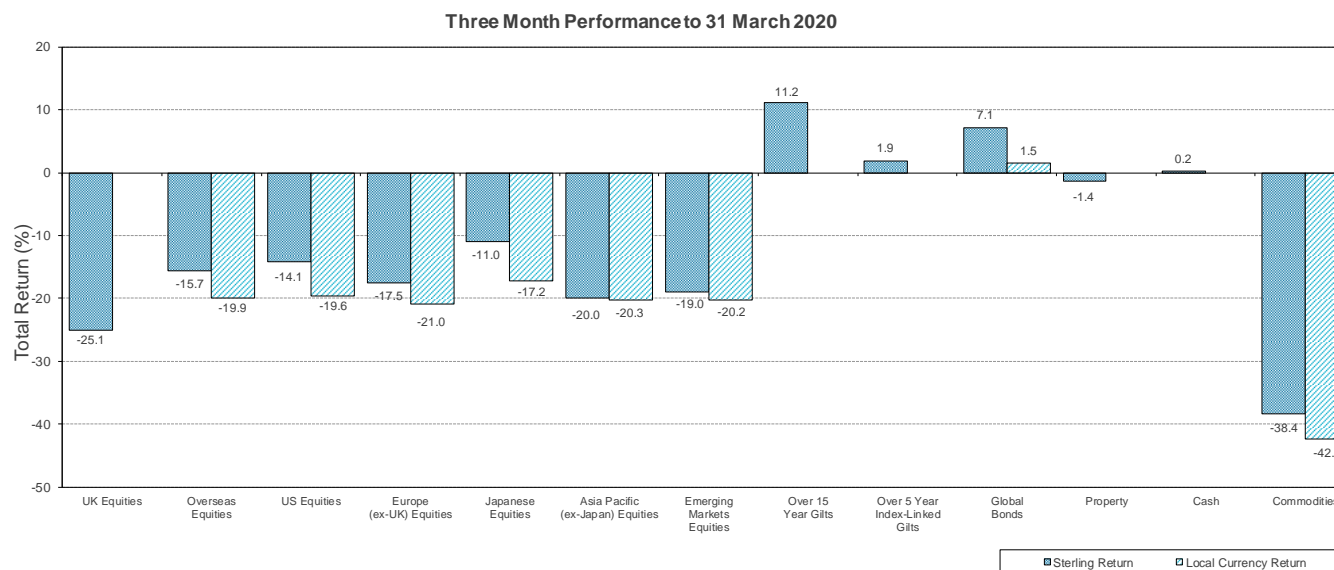
Is the Fund impacted?



Yes, we have already provided a paper on the impact of RPI reform on the Fund and consequently the decision was made to reduce the inflation sensitivity by switching half of the index linked gilt exposure to fixed interest gilts. Over the quarter the switch added material value given the fall in implied inflation.

MARKET BACKGROUND TO 31 MARCH 2020

Return Over 3 Months to 31 March 2020

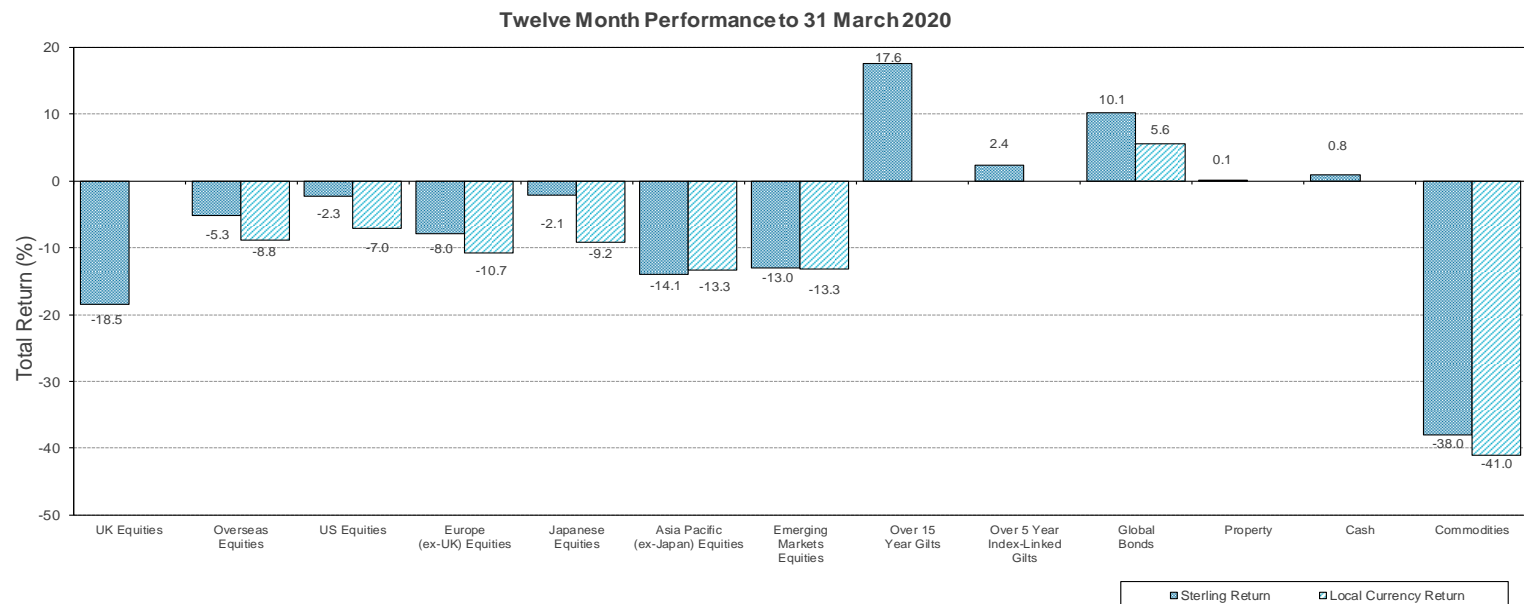


Source: Thomson Reuters Datastream.

- Global equity markets plummeted over the quarter, returning -15.9% in sterling terms but -20.0% in local currency terms – the worst quarterly returns in over a decade.
- US equities returned -14.1% in sterling terms, compared to -19.6% in local currency terms as monetary and fiscal stimulus could not offset investors' concerns about the sudden collapse in economic activity and earnings.
- European (ex UK) equities returned -17.5% in sterling terms (-21.0% local), as the region has thus far been worst affected by COVID-19, with Italy as its epicentre.
- In the UK, quarterly annualised GDP was flat for Q4 and estimates for the first quarter point to negative growth as in other developed countries. Headline CPI inflation rose to 1.7% (Source: ONS) at the end of February from 1.3% at the end of December. The Bank of England also cut its benchmark interest rate twice to 0.1% and reinstituted quantitative easing while a fiscal stimulus package amounting to around 2.3% of GDP was announced. Sterling weakened against all major currencies as investors sought refuge in safe haven currencies such as the dollar and the yen.
- The UK yield curve shifted down considerably over the quarter, in line with other developed market yield curves. Yields for all durations are now below 1%. This was a reaction to the Bank of England cutting short-dated rates close to zero as well as low to negative growth expectations, which impacted the longer end of the curve.

MARKET BACKGROUND TO 31 MARCH 2020

Return Over 12 Months to 31 March 2020

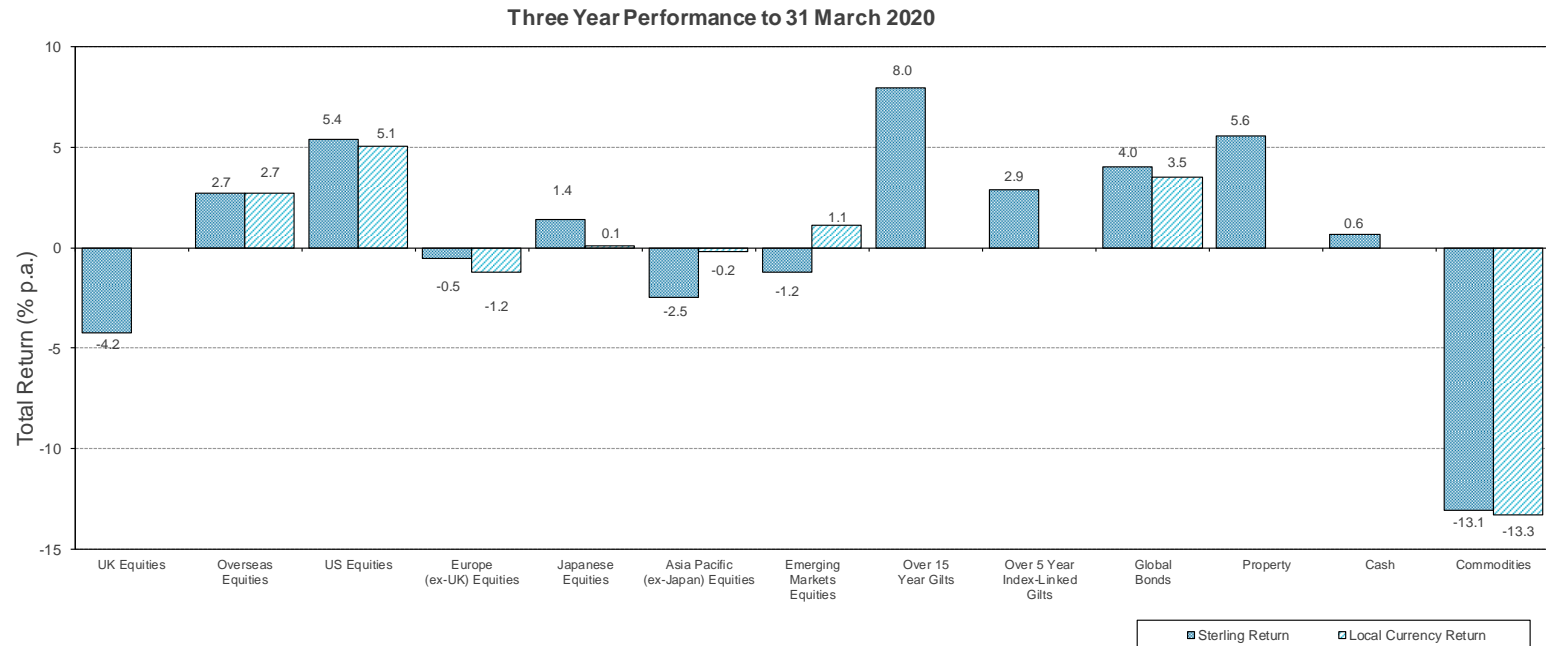


Source: Thomson Reuters Datastream.

- Over the one-year period to 31 March 2020, all markets except Over 15 Year Gilt, Over 5 Year Index-Linked Gilts, Global Bonds and cash have posted negative returns in both sterling and local currency terms.

MARKET BACKGROUND TO 31 MARCH 2020

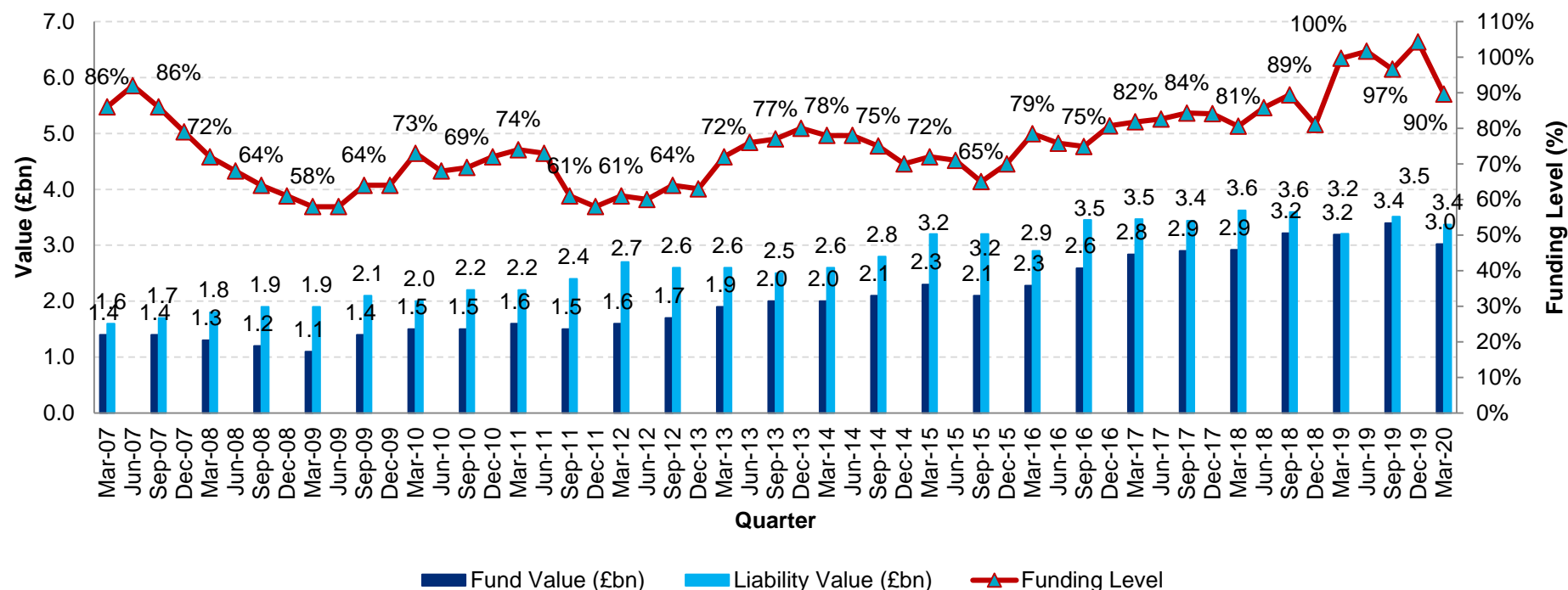
Return Over 3 Years to 31 March 2020



Source: Thomson Reuters Datastream.

HISTORIC FUNDING LEVELS

Funding Level since March 2007 Valuation



Source: Hymans Robertson & WM Performance Reports

There has been a general trend over the period shown (i.e. from 2007) of falling gilt yields, which has increased the value placed on the liabilities. Assets have produced strong returns in general too, but not high enough over a sustained period to keep pace with the rising value of the liabilities. There was an increase in funding level at the March 2016 valuation as actual experience was reassessed against assumptions made at the 2013 valuation. Post the 2016 valuation, gilt yields continued to fall, albeit this was reversed in mid-2016 when a rise in yields along with strong asset performance caused a rise in the funding level. The results of the Q1 2019 valuation pushed up the funding level and it peaked at 104% in Q4 2019, before falling materially this quarter due to the covid-19 related market sell-off.

WHAT'S CAUSED THE CHANGES? TO 31 MARCH 2020

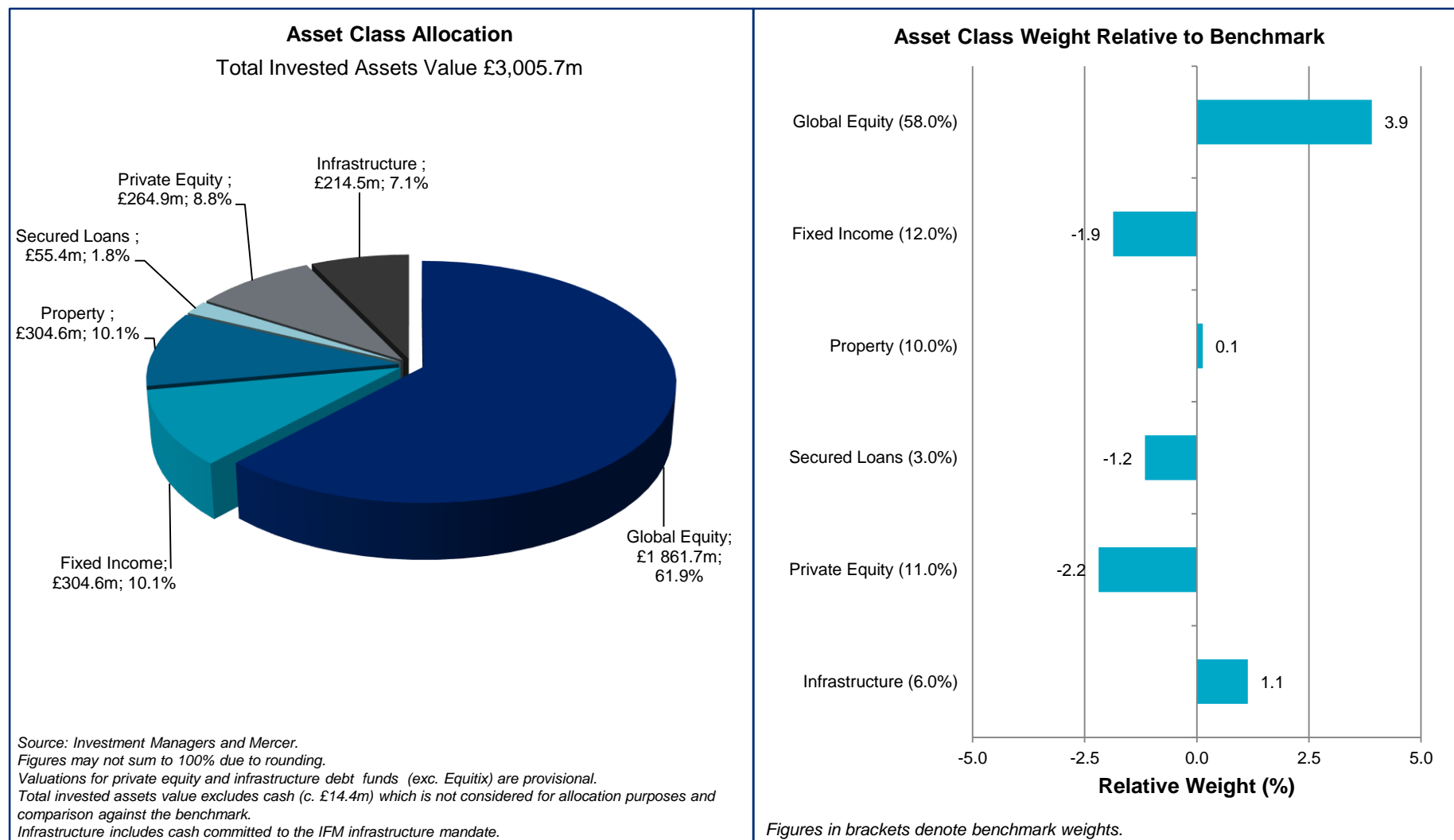
Surplus / (deficit)	£m
Surplus / (deficit) as at 31/03/2019	(11)
Contributions (less benefits accruing)	3
Interest on surplus	(1)
Excess returns on assets	(336)
Impact of change in yields and inflation	(33)
Surplus / (deficit) as at 31/03/2020	(378)

The funding level at the latest formal valuation was 99.7%. As at 31 March 2020 the funding level has decreased to 89.6%.

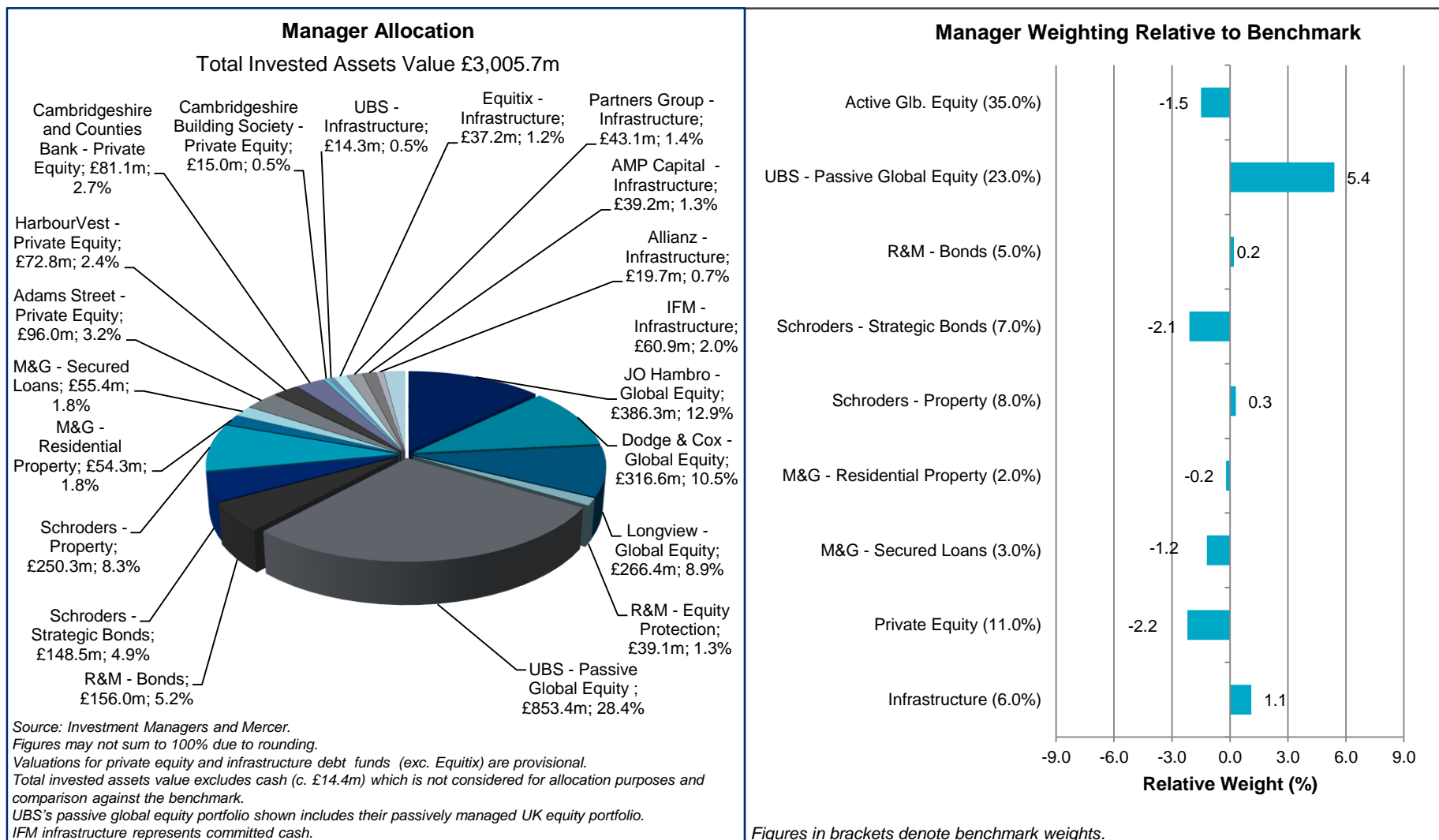
The funding level fell materially over the quarter due predominantly to a fall in the value of the assets.

Wording and data provided by Hymans Robertson. Surplus/deficit figure will not reconcile with Mercer's number given the difference in assets.

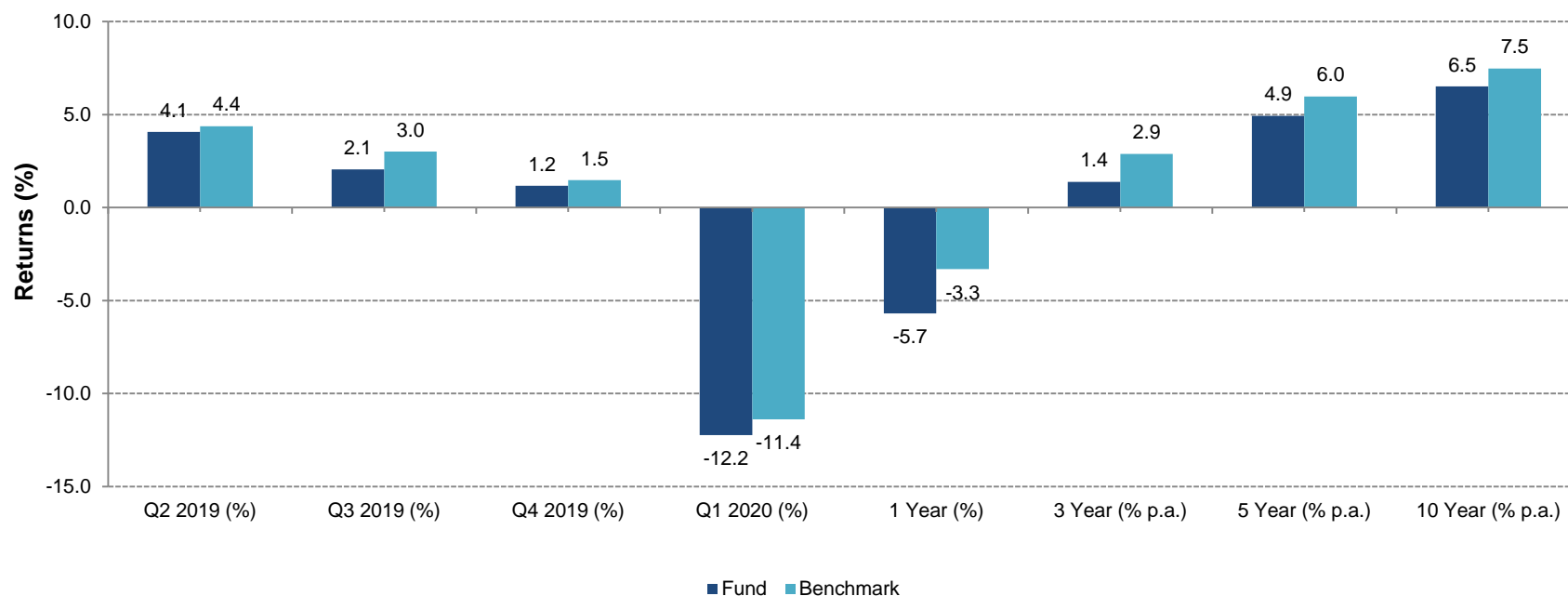
ASSET CLASS ALLOCATION AT END MARCH 2020



MANAGER ALLOCATION AT END MARCH 2020



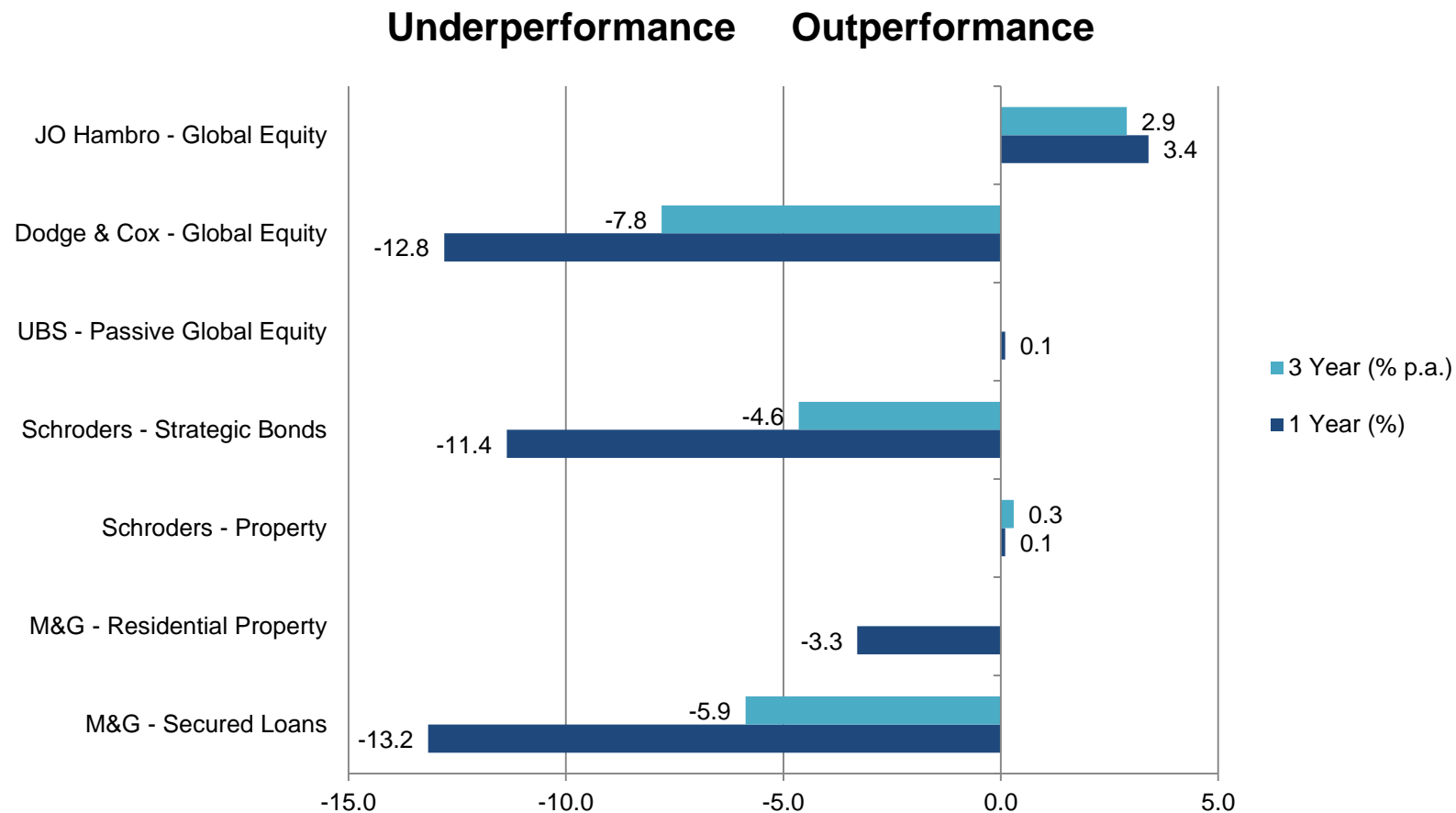
NET FUND PERFORMANCE VERSUS BENCHMARK



Figures shown are based on performance provided by the Investment Managers, Link Asset Services, Mercer estimates and Thomson Reuters Datastream.

Performance up to 31 March 2016 provided by WM and chain linked with performance provided by the Investment Managers onwards for the underlying portfolios and Mercer estimates for the Total Fund. Includes performance of terminated mandates.

NET EXCESS PERFORMANCE BY MANAGER



Figures shown are based on performance provided by the Investment Managers, Link Asset Services, Mercer estimates and Thomson Reuters Datastream.

ASSET CLASS ALLOCATIONS

Asset Class	Actual Allocation				Benchmark Allocation (%)	Tolerance Ranges (%)
	Start of Quarter (£m)	End of Quarter (£m)	Start of Quarter (%)	End of Quarter (%)		
Global Equity ^(a)	2,256.8	1,861.7	66.0	61.9	58.0	-
Equities	2,256.8	1,861.7	66.0	61.9	58.0	53.0 - 63.0
Government Bonds	153.3	156.0	4.5	5.2	5.0	-
Non-Government Bonds	173.0	148.5	5.1	4.9	7.0	-
Fixed Income	326.3	304.6	9.6	10.1	12.0	9.0 - 15.0
Property	308.8	304.6	9.0	10.1	10.0	-
Secured Loans	62.4	55.4	1.8	1.8	3.0	-
Private Equity ^(b)	252.0	264.9	7.4	8.8	11.0	-
Infrastructure ^{(b) (c)}	210.7	214.5	6.2	7.1	6.0	-
Alternatives	833.9	839.4	24.4	27.9	30.0	25.0 - 35.0
Total Invested Assets	3,417.0	3,005.7	100.0	100.0	100.0	-
Cash	22.2	14.4	-	-	-	-
Total Assets (including Cash)	3,439.3	3,020.1	-	-	-	-

Source: Investment Managers, Link Asset Services and Mercer.

Figures may not sum to total due to rounding.

^(a) Includes the global equity portfolios managed by JO Hambro, Dodge & Cox, Longview, UBS and the River & Mercantile equity protection portfolio.

^(b) End of quarter valuation is provisional.

^(c) Includes the cash committed to the IFM infrastructure mandate.

MANAGER ALLOCATIONS

Manager	Start of Quarter			End of Quarter		
	Actual (£m)	Actual (%)	Benchmark Allocation (%)	Actual (£m)	Actual (%)	Benchmark Allocation (%)
JO Hambro - Global Equity	546.1	16.0	32.0	386.3	12.9	35.0 ^(c)
Dodge & Cox - Global Equity	552.5	16.2		316.6	10.5	
Longview - Global Equity	-	-		266.4	8.9	
River & Mercantile - Equity Protection	-5.7	-0.2		39.1	1.3	
UBS - Passive Global Equity	1,163.9	34.1	23.0	853.4	28.4	23.0
Total Equities	2,256.8	66.0	58.0	1,861.7	61.9	58.0
River & Mercantile – Bonds	153.3	4.5	5.0	156.0	5.2	5.0
Schroders - Strategic Bonds	173.0	5.1	7.0	148.5	4.9	7.0
Total Fixed Income	326.3	9.6	12.0	304.6	10.1	12.0
Schroders - Property	254.3	7.4	8.0	250.3	8.3	8.0
M&G - Residential Property	54.5	1.6	2.0	54.3	1.8	2.0
M&G - Secured Loans	62.4	1.8	3.0	55.4	1.8	3.0
Adams Street - Private Equity	87.3	2.6	7.4	96.0	3.2	11.0 ^(c)
HarbourVest - Private Equity	68.5	2.0		72.8	2.4	
Cambridge and Counties Bank - Private Equity	81.1	2.4		81.1	2.7	
Cambridge Building Society - Private Equity	15.0	0.4		15.0	0.5	
UBS – Infrastructure	13.4	0.4	6.2	14.3	0.5	7.1
Equitix – Infrastructure	36.2	1.1		37.2	1.2	
Partners Group – Infrastructure	41.0	1.2		43.1	1.4	
AMP Capital – Infrastructure	38.0	1.1		39.2	1.3	
Allianz – Infrastructure	19.9	0.6		19.7	0.7	
IFM - Infrastructure ^(a)	62.2	1.8		60.9	2.0	
Total Alternatives ^(b)	833.9	24.4	30.0	839.4	27.9	30.0
Total Invested Assets	3,417.0	100.0	100.0	3,005.7	100.0	100.0
Cash	22.2	-	-	14.4	-	-
Total Assets (including Cash)	3,439.3	-	-	3,020.1	-	-
Total Invested in ACCESS	2,262.5	66.3	-	1,822.7	60.7	

Invested in pool

Source: Investment Managers, Link Asset Services and Mercer.

Figures may not sum to total due to rounding.

^(a) Cash committed to the IFM infrastructure mandate.

^(b) End of quarter valuations for private equity and infrastructure mandates (exc. Equitix) are provisional.

^(c) Drifting benchmark allocation.

ASSET ALLOCATION COMMENTS

- As at 31 March 2020, the Fund's asset allocation was significantly overweight to equities (+3.9%) and significantly underweight to alternatives (-2.1%) and fixed income (-1.9%).
- On 31 January 2020, £0.5m was distributed and reinvested within the secured loans portfolio managed by M&G.
- In February 2020, c. £350m was disinvested from global equities managed by Dodge & Cox (c. £124.0m), JO Hambro (c. £118.8m) and UBS (c. £108.0m). The proceeds were used to invest in a new global equity fund managed by Longview.
- **Over the quarter to 31 March 2020, there were also the following private markets cashflows:**

Manager	Contributions (£m)	Distributions (£m)	Net cashflow (£m)
Adams Street - Private Equity	(4.0)	1.3	(2.7)
Harbourvest - Private Equity	(4.1)	2.3	(1.9)
UBS - Infrastructure	-	-	-
Equitix - Infrastructure	-	0.8	0.8
Partners Group - Infrastructure	-	-	-
AMP Capital - Infrastructure	(0.9)	1.5	0.5
Allianz - Infrastructure	-	0.2	0.2
Total Cashflows	(9.0)	6.1	(3.1)

Source: Investment Managers and Thomson Reuters Datastream.

NET PERFORMANCE BY MANAGER

Manager	Last Quarter		Last Year		Last 3 Years		Last 5 Years	
	Fund (%)	B'mark (%)	Fund (%)	B'mark (%)	Fund (% p.a.)	B'mark (% p.a.)	Fund (% p.a.)	B'mark (% p.a.)
JO Hambro - Global Equity	-10.3	-16.0	-3.3	-6.7	4.7	1.8	-	-
Dodge & Cox - Global Equity	-26.6	-15.7	-18.6	-5.8	-5.6	2.2	-	-
Longview - Global Equity ^(b)	-24.7	-19.7	-	-	-	-	-	-
River & Mercantile – Equity protection	9.5	-	-	-	-	-	-	-
UBS - Passive Global Equity	-19.4	-19.3	-6.9	-7.0	-	-	-	-
Total Equities ^(a)	-17.7	-17.1	-10.3	-6.3	-0.3	2.1	-	-
River & Mercantile – Bonds	1.8	1.8	-	-	-	-	-	-
Schroders - Strategic Bonds	-14.2	0.1	-10.7	0.7	-4.1	0.5	-1.9	0.5
Total Fixed Income	-6.7	0.9	-4.2	1.8	-0.8	1.7	-	-
Schroders - Property	-1.6	-1.3	0.1	0.0	5.1	4.8	5.5	5.8
M&G - Residential Property	0.3	1.5	2.7	6.0	-	-	-	-
M&G - Secured Loans	-11.2	1.2	-8.2	5.0	-1.1	4.8	1.3	4.7
Adams Street - Private Equity ^{(c) (d)}	6.8	-15.5	16.7	-5.3	14.4	2.8	16.9	7.6
HarbourVest - Private Equity ^{(c) (d)}	3.4	-15.5	12.5	-5.3	13.4	2.8	16.0	7.6
Cambridge and Counties Bank - Private Equity ^(e)	0.0	-15.5	0.0	-5.3	0.0	2.8	0.0	7.6
Cambridge Building Society - Private Equity ^(e)	0.0	-15.5	0.0	-5.3	-	-	-	-
UBS - Infrastructure ^{(c) (d)}	6.8	2.5	5.8	10.0	4.5	10.0	6.3	10.0
Equitix - Infrastructure ^(c)	4.9	2.5	10.5	10.0	12.1	10.0	13.9	10.0
Partners Group - Infrastructure ^{(c) (d)}	5.1	2.5	9.3	10.0	12.2	10.0	14.1	10.0
AMP Capital - Infrastructure ^{(c) (d)}	4.6	2.5	3.1	10.0	-	-	-	-
Allianz - Infrastructure ^{(c) (d)}	0.0	1.0	5.4	4.0	-	-	-	-
IFM - Infrastructure	-2.0	2.5	-	-	-	-	-	-
Total Alternatives ^(f)	0.3	-5.6	4.1	-0.1	6.3	5.0	-	-
Total ^{(a) (g)}	-12.2	-11.4	-5.7	-3.3	1.4	2.9	4.9	6.0
FTSE Over 5 Year Index-Linked Gilt Index	-	1.9	-	2.4	-	2.9	-	6.2

Figures shown are based on performance provided by the Investment Managers, Link Asset Services, WM, Mercer estimates and Thomson Reuters Datastream.

Performance up to 31 March 2016 provided by WM and chain linked with performance provided by the Investment Managers onwards for the underlying portfolios and Mercer estimates for the Total Fund. Total Equities, Total Fixed Income, Total Alternatives and Total Fund performance includes the performance of terminated mandates.

^(a) Includes the contribution of the equity protection strategy managed by River & Mercantile.

^(b) Performance shown since inception on 14 February 2020.

^(c) Figures shown in GBP are calculated by Mercer using a Modified Dietz approach over each period and are based on data provided by Investment Managers and Thomson Reuters Datastream.

^(d) End of quarter valuation is provisional and, therefore, the quarterly return is also provisional. The return includes the impact of movements in the exchange rates for non-sterling denominated funds.

^(e) Performance assumed to be 0.0% for performance measurement purposes.

^(f) Includes the performance of cash committed to the IFM infrastructure mandate.

^(g) Total Fund performances include quarterly performances for Adams Street, HarbourVest, UBS, Equitix, Partners Group, AMP Capital and Allianz calculated by Mercer using a Modified Dietz approach based on data provided by these managers. Over the long term, performances are chain linked using quarterly Total Fund performances. Performance shown is net of illiquid mandates' fees.

APPENDIX



APPENDIX A

BENCHMARKS

Asset Class	Allocation (%)	Benchmark	
Global Equity	58.0	35.0%	MSCI AC World (NDR) Index
		23.0%	Composite Benchmark ^(a)
Fixed Income	12.0	Composite Benchmark - See Appendix B.	
Property	10.0	80%	MSCI All Balanced Property Funds Index
		20%	Absolute Return of 6.0% p.a.
Secured Loans	3.0	3 Month Sterling LIBOR +4% p.a.	
Private Equity	11.0	MSCI World Index	
Infrastructure	6.0	Composite Benchmark - See Appendix B.	
Total	100.0	-	

Figures may not sum to total due to rounding.

^(a) In relation to the UBS passive global equity asset class.

APPENDIX B

TARGETS

Manager	Benchmark	Outperformance Target	Tracking Error Expectation / Tolerance / Expected Volatility
J O Hambro - Global Equity	MSCI AC World (NDR) Index	+3% p.a. (gross of fees)	5% - 12% p.a. ^(a)
Dodge & Cox - Global Equity	MSCI World (NDR) Index	+3% p.a. (gross of fees)	-
Longview - Global Equity	MSCI World (NDR) Index	- ^(b)	-
UBS - Passive Global Equity	Composite Benchmark	To match the benchmark	-
River & Mercantile - Equity Protection	-	-	-
Schroders - Strategic Bonds	7 Day Sterling LIBOR	+4% (gross of fees)	-
River & Mercantile - Gilts & Cash	Assumed equal to fund performance	-	-
Schroders - Property	MSCI All Balanced Property Funds Index	+0.75% p.a. (net of fees)	-
M&G - Residential Property	Absolute Return of 6.0% p.a.	To outperform the benchmark	-
M&G - Secured Loans	3 Month Sterling LIBOR +4.0% p.a.	To outperform the benchmark	-
Adams Street - Private Equity	MSCI World Index	+3% p.a. (gross of fees)	-
HarbourVest - Private Equity	MSCI World Index	+3% p.a. (gross of fees)	-
Cambridge and Counties Bank - Private Equity	MSCI World Index	+3% p.a. (gross of fees)	-
Cambridge Building Society - Private Equity	MSCI World Index	-	-
UBS - Infrastructure	IRR of 10.0% p.a.	To outperform the benchmark	-
Equitix - Infrastructure	IRR of 10.0% p.a.	To outperform the benchmark	-
Partners Group - Infrastructure	IRR of 10.0% p.a.	To outperform the benchmark	-
AMP Capital - Infrastructure	IRR of 10.0% p.a.	To outperform the benchmark	-
Allianz - Infrastructure	IRR of 4.0% p.a.	To outperform the benchmark	-

^(a) Tracking error expectation.

^(b) To achieve capital growth, net of fees, over the long term.

APPENDIX B

TARGETS

UBS - Passive Global Equity

Fund	Benchmark	Outperformance Target	Tracking Error Tolerance
UK Equity	FTSE All-Share Index	To match the benchmark	Up to $\pm 0.20\%$ p.a.
North America Equity (GBP Hedged)	FTSE North America (GBP Hedged) Index	To match the benchmark	Up to $\pm 0.25\%$ p.a.
Europe (ex-UK) Equity (GBP Hedged)	FTSE Developed Europe (ex-UK) (GBP Hedged) Index	To match the benchmark	Up to $\pm 0.50\%$ p.a.
Japan Equity (GBP Hedged)	FTSE Japan (GBP Hedged) Index	To match the benchmark	Up to $\pm 0.25\%$ p.a.
Asia Pacific (ex-Japan) Equity (GBP Hedged)	FTSE Developed Asia Pacific (ex-Japan) (GBP Hedged) Index	To match the benchmark	Up to $\pm 0.50\%$ p.a.
Global Fundamentally Weighted Equity (GBP Hedged)	FTSE RAFI Developed 1000 (GBP Hedged) Index	To match the benchmark	Up to $\pm 0.50\%$ p.a.
Global Optimised Volatility Equity	MSCI World Minimum Volatility (NDR) Index	To match the benchmark	Up to $\pm 0.50\%$ p.a.
Global Quality Companies Equity	MSCI World Quality (NDR) Index	To match the benchmark	Up to $\pm 0.50\%$ p.a.

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