Public minutes of the Pension Committee Investment Sub-Committee

Date: 22 September 2022

Time: 10:00am-12.25pm

Place: New Shire Hall, Alconbury Weald

Present: County Councillors A Whelan (Chair), C Boden, A Costello and A Sharp; J Walker and L Phanco

Officers: B Barlow, D Cave (virtual), S Heywood (virtual), R McRobbie (virtual), D Snowdon and M Whitby

Advisers/Consultant: P Gent and C West (Mercer); S Gervaise-Jones

External presenters: B Peterkin and R Kuo (Dodge & Cox) (virtual)

35. Apologies and Declarations of Interest

Apologies were presented on behalf of Councillor C Rae.

John Walker declared a personal interest (i) as a retired member of the Local Government Pension Scheme (LGPS), (ii) his son and daughter-in-law were deferred members of the LGPS.

36. Public minutes of the Pension Fund Investment Sub-Committee held 26th May 2022

The public minutes of the Committee meeting held 26th May 2022 were agreed as a correct record.

37. Action Log

With regard to item 8 on the Action Log, officers advised that the Private Equity options meeting on 6th September had gone well, and the Sub-Committee would be presented with decisions for passive options at the November meeting.

The Action Log was noted.

Public Question

A public question from Cambridge Mothers Climate Action Network was considered by the Sub-Committee. This, and the officer response, is appended at Appendix 1.

The Chair thanked the Cambridge Mothers Climate Action Network for submitting their question, and officers for providing a response.

38. Cambridgeshire County Council Pension Fund Quarterly Performance Report for the period ending 30th June 2022

The Sub-Committee received a report summarising the performance of the Pension Fund for the quarter to 30th June 2022. The following points were highlighted:

- The value of the majority of Fund's assets had decreased over the quarter, by £179M. However, this was exceeded by the decrease in the Fund's liabilities, so the overall change in the funding position was positive. Each asset class was broadly in line with strategic targets. Alternatives were slightly overweight against the target allocation.

- The Fund outperformed the benchmark over the quarter (returning -4.3% against -6.4%), with notable outperformance by Longview;

- There was material underperformance by the Bluebay (MAC) mandate during the quarter (-9.7%) but this was in line with that asset class;

- The main reason for the current economic situation globally was inflation. Central banks were continuing to increase interest rates in their attempts to rein in inflation, and those increases were steeper than the market had anticipated. This was putting a downward pressure on prices, and for equities in particular, leading to a deterioration in market expectations. More recently, there had been some rebound in equity markets, particularly in the US, with other regions also seeing some positive returns;

- There was a negative return for Global equities over the second quarter, but the Fund's Global equity allocation had outperformed the MSCI World Index return. In terms of individual managers, JO Hambro had underperformed over Quarter 2, but their longer term returns were more reassuring. Dodge & Cox follow a Value style, and had outperformed the index materially over the quarter (-2.5%), with positive returns over 12 months. Similarly Longview had enjoyed strong returns, with a positive return of 3% over the 12 month period;

- The performance of other asset classes including bonds, property and other Alternatives were outlined, along with the performance of each mandate against their relative asset classes.

Arising from the presentation:

- A Member asked how the benchmarks for each manager allocation were formulated. It was noted that they were developed by Mercer, based on their knowledge and experience of markets concerned, working with officers and the investment managers;

- In response to a question on the benchmarks for longer term performance, e.g. for one and three years, officers confirmed that these represented an accumulation of the short term figures, weighted according to the investment in those particular funds. Over a longer period of time these became a more effective comparator;

- A Member asked whether a stricter comparator was available to measure Fund performance, noting that there was a lot of comparator information available for LGPS Funds, and that the LAPF produced tables showing different metrics. Mercer advised that type of information could be considered but cautioned that they did not take into account all factors e.g. a Fund may appear to have strong performance compared to peer authorities but this could be due to having a more risky approach to asset allocation, and the Cambridgeshire Fund was well funded so did not need to take a high degree of risk. The Member commented that there were surprising difference between local authority pension funds in terms of allocations, and he was unclear as to why there was such great variability, and asked how Investment Sub-Committee Members could judge what the correct balance was. Mercer advised that the local authority universe was reviewed when looking at allocation, but ultimately allocations should be driven by the Cambridgeshire Fund's objectives and beliefs. The variability in performance among local authority funds reflected the wide range of different Fund sizes, ages, beliefs, funding levels and resources availability (i.e. officer capacity). At the time of the last Strategy Review, Cambridgeshire was very much middle of the pack in terms of equity allocations. A higher equity allocation may result in improved performance, but would be inherently riskier;

- A Member asked how the Sub-Committee could judge the direction of travel, and the metric that should be used going forward. The Independent Advisor highlighted that the upcoming Strategy Review would specifically address asset allocation, and would be an opportune moment to look at the wider picture. There were a multitude of reasons why funds end up in different situations, especially as funds move to more climate aware portfolios. The Member suggested that the LAPF asset allocations could be shared as part of that review process, as it would help if Members had as much information as possible;

- In discussion, it was stressed that asset allocation should be based on what was best for the Fund's current and future pensioners. The Fund was currently in a very stable position, and as a result was able to deliver stable contribution rates to employers;

- There was a discussion on the change in the funding level since the previous quarter, and the corresponding fall in the liability position. Advisors confirmed that whilst inflation pushed up the cost of liabilities across the board, the overall liability position had fallen due to level at which the present value was discounted: the increase in long term interest rates had reduced liabilities, long term gilt yields were used as the proxy.

The Sub-Committee resolved to note the report.

39. Exclusion of Press and Public

The Sub-Committee resolved that the press and public be excluded from the meeting for the following items on the grounds that they contained exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended (information relating to the financial or business affairs of any particular person (including the authority holding that information)) and that it would not be in the public interest for this information to be disclosed as they contained commercially sensitive information.

40. Confidential minutes of the Pension Fund Investment Sub-Committee held 26th May 2022

The confidential minutes of the Committee meeting held 26th May 2022 were agreed as a correct record.

41. Manager presentation - Dodge & Cox

Members received a presentation from Dodge & Cox.

The Sub-Committee resolved to note the report.

42. BlueBay Multi Asset Credit – Environmental, Social & Governance (ESG)

The Sub-Committee considered a report on an ESG variant to the Fund's current BlueBay Multi Asset Credit product.

It was resolved, by a majority, to:

(i) Defer a decision on the new MAC ESG product offered by BlueBay.