



PENSIONS COMMITTEE

12 September 2023

Subject Heading:

**INVESTMENT STRATEGY UPDATE –
LCIV GLOBAL BOND FUND**

CLT Lead:

Kathy Freeman

Report Author and contact details:

**Debbie Ford
Pension Fund Manager (Finance)
01708432569**

Policy context:

Debbie.ford@onesource.co.uk
Regulation 7 of the LGPS (Management and Investment of Funds) Regulations 2016 requires an administrative authority to periodically review the Investment Strategy Statement

Financial summary:

Implementation of the investment strategy will be met from restructuring existing mandates

The subject matter of this report deals with the following Council Objectives

| | |
|-------------------------------|-----|
| Communities making Havering | [X] |
| Places making Havering | [X] |
| Opportunities making Havering | [X] |
| Connections making Havering | [X] |

SUMMARY

This Committee at its meeting held on 21 March 2023 agreed the Investment Advisor's (Hymans) recommendations set out in Appendix A (Exempt) of Item 9 Investment Strategy update report. This included a recommendation to make a 5% allocation (c£45m) to investment grade credit funded from divestment from the LCIV Diversified Growth fund and implement this strategy through investment into the LCIV Global Bond fund subject to Hymans carrying out a further review on its suitability. Hymans have now completed their assessment of the LCIV Global Bond sub-fund and consider it to be a suitable investment that provides diversified

exposure across global bond markets and as such recommend the Committee agree to invest the Investment Grade Credit exposure in the sub-fund.

Appendix A of this report is exempt from publication by virtue of paragraph 3 and 5 of the Access to Information Procedure Rules set out in the Constitution pursuant to Schedule 12A Local Government Act 1972, as amended as it contains information relating to the financial or business affairs of the investment managers already appointed to the Fund.

RECOMMENDATIONS

That the Committee is asked to agree the implementation of a 5% allocation to investment grade credit assets via the LCIV Global Bond Fund.

REPORT DETAIL

1. Background

- a) Following the Fund's Actuarial valuation as at 31 March 2022 a review of the current Investment Strategy Statement was carried out to ensure that it remained appropriate to meet its long term objectives, this being to ensure that the assets are invested to secure funding for member's benefits.
- b) Officers discussed the outcome of this review at a meeting in October 2022 in which it was acknowledged a tilt towards "increased income" investments was necessary in any review of investment strategy and this was progressed further at a meeting with Hymans held in February 2023.
- c) Hymans, subsequently produced the Investment Strategy Considerations paper, which was agreed at the Pensions Committee meeting on the 21 March 2023. Included within those recommendations was to complete a review of the LCIV Global Credit Fund as a potential vehicle for the allocation to Investment Grade Credit.
- d) Hymans provided officers with a product assurance note in June 2023, containing an evaluation of the LCIV Global Bond sub fund and a summary of their assessment, review and conclusions, confirming that the LCIV Global Bond Fund as a suitable investment for the Fund.
- e) Training was provided to members of the committee held on 12 September 2023 to gain an understanding of the Investment Grade bond asset class and the suitability of the proposed investment in the LCIV Global Bond Fund.

- f) Appendix A to this report sets out a recommendation to invest in the LCIV Global Bond sub fund and how this will be funded.

IMPLICATIONS AND RISKS

Financial implications and risks:

Any changes made to the asset allocation will be funded from reducing or reallocating of assets within existing mandates held by the Fund.

A 5% commitment to invest in the LCIV Global Bond fund equates to c£45m. This will be funded from a full redemption in the LCIV Diversified Growth Fund (DGF) (value as at June 23 £65m). A full redemption will fund the investment in the LCIV Global Bond Fund and the increase allocation to infrastructure assets agreed at the Pensions Committee meeting held on 12 July 2023.

The proposed mandate requires that the LCIV Global Bond fund outperform the Bloomberg Global Aggregate Credit Index – GBP Hedged over a 3-year rolling period (net of fees).

There are other London LGPS Funds invested in the LCIV Global Bond fund sub fund totalling c.£700m.

Hymans have expressed confidence in LCIV's process for monitoring Environmental, Social and Governance (ESG) considerations of their underlying managers and see the evolution of the LCIV Global Bond sub-fund to incorporate ESG as a positive development, aligned with the LCIV's overall Responsible Investment aspirations.

The estimated costs of transitioning DGF assets to the LCIV Global Bond fund comprise of:

- **Advisory costs:** The advisory costs of implementing changes made to the investment strategy will be incurred through the Investment Management consultancy services contract with Hymans. The costs incurred to date is £0.011m, this includes costs for the product assurance note, training and further advice.
- **Transaction costs –** The estimated transaction costs for the disinvestment from the LCIV DGF and subsequent investment into the LCIV Global Bond Sub-Fund to fund the proposed 5.0% allocation is c.£0.178m (c.0.4% of the GBP transition amount).

Costs arising from the implementation of the investment strategy will be met from the Pension Fund.

Legal implications and risks:

None directly arising from this report

Human Resources implications and risks:

None arise directly from this report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

An EqEIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected
None arising directly.

BACKGROUND PAPERS

None