



LOCAL PENSION COMMITTEE – 19TH JUNE 2020

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

LGPS CENTRAL GLOBAL INVESTMENT GRADE CORPORATE BOND FUND - URGENT ACTION TAKEN BY THE DIRECTOR OF CORPORATE RESOURCES

Purpose of the Report

1. To inform the Board of the action taken by the Fund since the last meeting, using the delegated powers of the Director of Corporate Resources. This action has previously been notified to all members of the Investment Sub Committee by email on the 31st March 2020.

Background

2. At the Committee meeting on 24th January 2020 the Fund's Annual Strategic Asset Allocation was approved. It was agreed to initiate an exposure to global investment grade corporate bonds at 3% of total fund value.
3. Investment grade is a rating that signifies a bond presents a relatively low risk of default. Bond rating firms like Standard & Poor's (S&P) and Moody's use different designations, consisting of the upper- and lower-case letters "A" and "B," to identify a bond's credit quality rating. "AAA" and "AA" (high credit quality) and "A" and "BBB" (medium credit quality) are considered investment grade. Credit ratings for bonds below these designations ("BB," "B," "CCC," etc.) are considered low credit quality, and are commonly referred to as "junk bonds" or "sub investment grade".
4. The LGPS Central product consists of 2 managers, Fidelity and Neuberger Berman (NB). The review by our Advisor Hymans Robertson stated, "Fidelity focuses on identifying relative value across investment-grade corporate and other fixed income sectors with an emphasis on proprietary fundamental research and quantitative modelling. Macroeconomic and top-down perspectives also play a significant role in complementing the fundamental research effort. NB adopt a more traditional approach to global credit investing, with the focus on exploring the global corporate bond universe and identifying relative value opportunities.
5. The investment sub committee scheduled for 1st April 2020 was cancelled, however papers were circulated to members for comment which included a review of the Central product and managers concluded by Hymans Robertson.
6. The capital required for the initial investment estimated of £100 million was raised via, utilising £15m surplus cash within the pension fund's cash holdings, £30m surplus cash within the Kames currency hedge mandate and a £55m divestment from the Kames index linked mandate. This reduction to the index linked mandate was also approved as part of the annual strategic asset allocation at the 24th January Local Pension Committee.

7. The Fund's advisor, Hymans Robertson was consulted prior to the decision. The advisor supported the transition from index linked gilts to investment grade bonds, and the timing of the one off investment.
8. Given the actual valuations of individual fund managers had not yet been received, officers have estimated a prudent initial allocation of £100m which once valuations have been received from all asset classes may require the Fund to top-up the investment to reach the full 3% target allocation.

Action taken under delegated power

9. The Chairman was supportive of the proposed action and the changes to the portfolio were implemented during April 2020 with £100million GBP being transferred to LGPS Central.

Recommendation

10. The Local Pension Committee is asked to note the report.

Equality and Human Rights Implications

None

Appendix

None

Background Papers

None

Officers to Contact

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