



LOCAL PENSION COMMITTEE – 26TH NOVEMBER 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

**LGPS CENTRAL EMERGING MARKETS EQUITY
AND GLOBAL EQUITY FUNDS UPDATE**

Purpose of the Report

1. To provide the Committee with background information on the Leicestershire Pension Funds (the Fund) active equity investments held with LGPS Central (Central). A PowerPoint presentation will be used at the meeting by representatives from LGPS Central.

Background

2. The Fund invests in both passive (automatically tracks a specified benchmark such as the FTSE100 or S&P500) and active products. The active products give the Fund the opportunity to enhance returns (albeit the risk of worse performance is also a risk), have access to specialised areas of the market that are deemed attractive and can offer the underlying managers the ability to act quickly in the event of market risks and opportunities.
3. The Fund has an allocation to two LGPS Central active equity funds within the 'growth' portion of the Fund's portfolio. Both funds employ three managers to achieve the mandates target return. The combination of three managers with differing investment philosophies should allow for a less volatile investment return in the long run whilst meeting the return objective. Central are able to adjust the weighting to managers within the mandate and replace managers if it is deemed the appropriate.
4. The rationale for having mandates such as these is so that the Fund can benefit from market opportunities which active managers may take advantage of and earn returns in excess of the benchmark returns. The management fees on active equity funds are usually higher than that of passive equity funds. The return objective is therefore set higher than the benchmark to compensate:

LGPS Central global equity (GE) fund	FTSE all world sterling + 1.5% pa over rolling 5 year periods
LGPS Central emerging market equity (EME) fund	FTSE emerging markets index sterling +2.0% pa over rolling 5 year periods

5. The approach taken by the GE fund as defined by the overall style is a tilt towards momentum factors and tilt away from quality factors. Momentum factors include as the name suggests positive share price movements and improved forecasts in forward share prices. Quality factors include high returns on equity, net net profit margins and low gearing.

6. The approach taken by the EME fund as defined by the overall style is a tilt towards quality and growth factors and underweight to value factors. Quality and growth factors include, high returns on equity, net profit margins and sales growth. Value factors include, of which the fund is tilted away from include, earnings yield, cashflow flow yield and book value to price.
7. The Fund first invested in these two products in the first half of 2019. They are currently valued at a combined £711m or 12.8% of total Fund assets. The GE fund is valued at £499m (9.0% of total Fund) and EME fund is valued at £212m (3.8% of total Fund).
8. Performance for both mandates are shown in the table below:

	Q3	1 year	Since inception
LGPS Central Limited Global Equity Active Multi Manager Fund	2.68%	28.70%	17.07%
FTSE All World Index (Sterling, Total Return)	1.47%	22.67%	15.88%
Relative (vs. benchmark)	1.21%	6.03%	1.19%
Relative (vs target)	0.83%	4.53%	-0.31%

LGPS Central Limited Emerging Markets Equity Active Multi Manager Fund	-4.23%	13.16%	6.37%
FTSE Emerging Market Index (Sterling, Total Return)	-4.33%	13.97%	6.73%
Relative (vs. benchmark)	0.10%	-0.81%	-0.36%
Relative (vs target)	-0.40%	-2.81%	-2.36%

9. The GE mandate has performed ahead of its benchmark since inception after a strong past 12 months. However, the EME mandate is marginally behind the benchmark by 0.36% pa since inception. The update from Central will highlight the rationale behind the underperformance.
10. The update from Central's active equity Investment Director will cover the two mandates portfolio holdings, underlying managers styles, responsible investing and performance.

Recommendation

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

Equality and Human Rights Implications

12. None

Appendix

Appendix – LGPS Central Multi Manager Fund Presentation

Officers to Contact

Mr C Tambini, Director of Corporate Resources

Tel: 0116 305 6199 Email: Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director Strategic Finance and Property

Tel: 0116 305 7668 Email: Declan.Keegan@leics.gov.uk

Mr B Kachra, Senior Finance Analyst - Investments

Tel: 0116 305 1449 Email: Bhulesh.Kachra@leics.gov.uk

This page is intentionally left blank