Agenda Item 13

Leicestershire County Council

# LOCAL PENSION COMMITTEE – 25 MARCH 2022

# REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

# SUMMARY VALUATION OF PENSION FUND INVESTMENTS AND INVESTMENT PERFORMANCE OF INDIVIDUAL MANAGERS

## Purpose of Report

1. The purpose of this report is to present to the Committee, an update on the investment markets and how individual asset classes are performing, a summary valuation of the Fund's investments as at 31st December 2021 (Appendix A), together with figures showing the performance of individual managers.

## Markets Performance and Outlook

2. A summary of the asset class performance over various time frames as at the quarter ending is shown below. Three asset classes now show double digit returns over a 20 year time frame, property and high yield with gold added in this quarter having dropped slightly below the 10% during 2021. Private Equity has no 20 year source information available. The one year numbers still show significant gains in many asset classes given March 2020 contained the low point from the coronavirus markets sell off.

| | 3 MONTHS* | ONE YEAR | THREE YEARS | FIVE YEARS | TEN YEARS | TWENTY YEARS |
|---|---|---|---|---|---|---|
| GLOBAL EQUITIES | 6.6% | 18.9% | 20.8% | 14.9% | 12.5% | 8.1% |
| PRIVATE EQUITY | 7.5% | 43.6% | 26.5% | 16.0% | 17.4% | N/A |
| PROPERTY | 16.1% | 41.2% | 20.0% | 12.5% | 12.2% | 11.2% |
| INFRASTRUCTURE | 4.6% | 11.8% | 10.1% | 7.7% | 7.7% | 8.3% |
| HIGH YIELD | -0.6% | 3.8% | 7.2% | 5.5% | 9.4% | 10.7% |
| UK GILTS | 2.5% | -5.3% | 3.4% | 2.5% | 3.6% | 5.1% |
| UK INDEX-LINKED | 4.7% | 3.9% | 7.2% | 4.7% | 6.4% | 7.3% |
| GOLD | 3.7% | -2.7% | 10.4% | 7.8% | 3.0% | 10.3% |

Source: Bloomberg (NB: assumes dividends were reinvested), note: Listed proxies have been used for Infrastructure, Property and Private Equity.

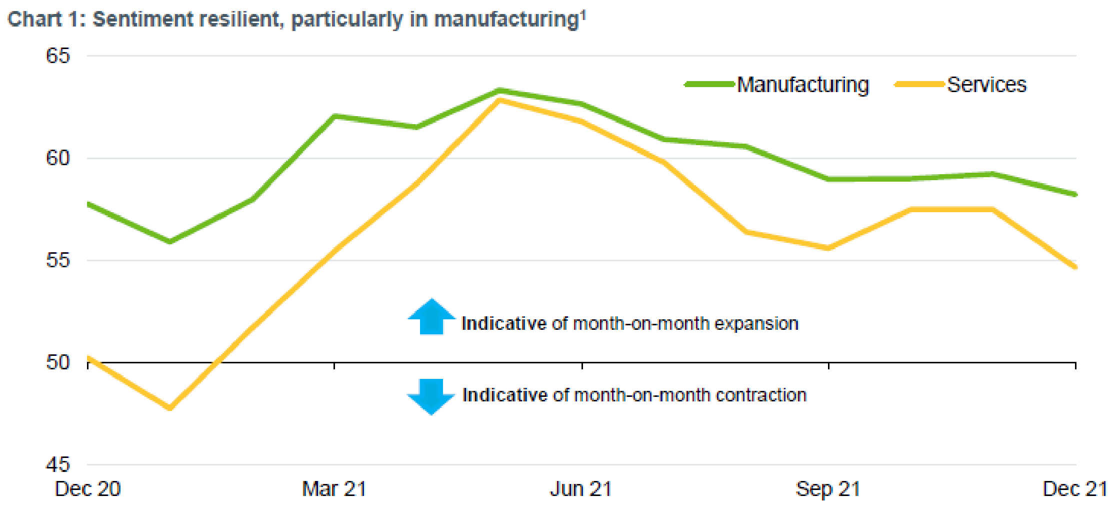
## Capital Markets Update – Hymans Winter 2021

3. A markets update is included from Hymans Robertson, the Funds Investment Advisor and is included as Appendix B. Some highlights are included below.

4. Hymans noted that despite November's sell off, global equity markets rose in Q4 (Oct-Dec 2021) as evidence suggested that the Omicron variant may not be as virulent as previous strains. Short-term yields rose (bond prices fell) as markets priced in a faster pace of interest-rate increases to combat high inflation.

5. Hymans note that growth as reflected by the purchasing managers indices has been slowing during 2021 and in December readings were as low as they have been for

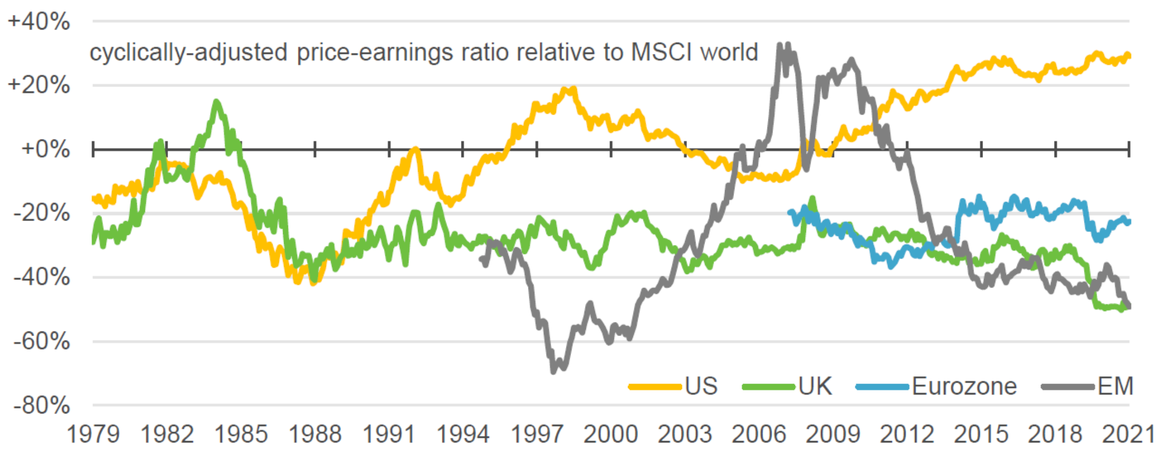
almost a year. See chart below showing the average of US, UK and European purchasing managers indices.




6. Hymans also highlight that inflation has proved more persistent and pervasive than expected. UK headline CPI inflation is as high as it has been in 10 years, while the US measure is close to 40-year highs. Although tight labour markets, particularly in the US and UK, pose an upside risk (harder to fill vacancies so higher wages offered possibly leading to further inflation), inflation is expected to moderate in 2022.

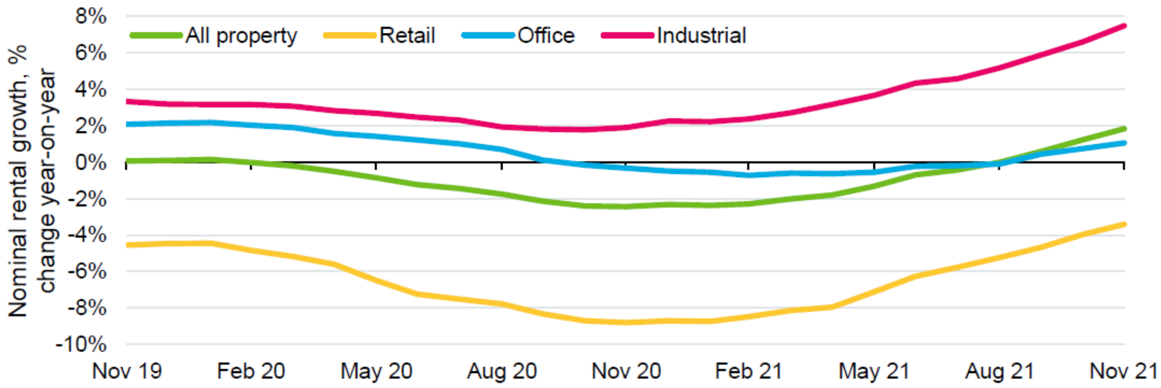
7. At the end of 2021, Hymans note that MSCI World earnings growth is forecast to have risen over 52% in 2021, marking one of the strongest years on record. This would leave earnings approximately 23% above 2019 levels. They follow that statement with the year-on-year (earnings) pace will fall dramatically, and they still anticipate robust earnings growth in 2022.

8. Hymans also point out the long standing dispersion in equity valuations by region and point out that the US market could be at most risk given it's extreme valuation with non US markets poised for a period of catch up once covid disruption passes and cyclical sectors and markets start to benefit.




9. The Hymans property update includes sector level rental changes highlighting the differences between industrial and retail rental changes over the last two years. UK commercial property rents are growing strongly within the industrial sector, retail continues to fall, albeit at a declining pace with rents growing slowly in the office sector. However, rent collection remains lower than normal as rent moratoriums delay

payments to landlords. Outside of the traditional core market, the leisure and hotel sub-sectors continue to face near-term disruption stemming from the pandemic.




10. They conclude with, the ongoing Omicron wave is likely to weigh on near-term activity, but COVID should ultimately move further into the background in 2022. The consequent economic and earnings growth should lend support to risk assets. Inflation should moderate in the second half of 2022, but tight labour markets and supply disruptions pose an upside risk. Monetary policy will be less supportive in 2022 and, though we expect a modest rise in interest rates, further upside inflation surprises may necessitate a more substantial reduction in monetary support.

**Portfolio changes in the quarter (October to December 2021)**

11. An existing commitment made to the JP Morgan Infrastructure fund in October 2020 for £25m was called in the quarter.

12. The Investment Sub Committee (ISC) approved three commitments (listed below) to closed ended funds with the aim of closing the underweight position relative to the strategic asset allocation target to global credit. The investment into the LGPS Central private equity 2021 vintage ensures vintage diversification into this class. The Fund is overweight to private equity versus the strategic asset allocation, but the commitment is sized so that the overweight should still reduce over time given the level of distributions being received from the Fund's private equity portfolio.

    a. LGPS Central's Private Equity (PE) 2021 vintage of £30m
    b. LGPS Central's Private Debt high return 2021 vintage of £60m, and
    c. the CRC Capital Relief Fund 5 (CRF 5) of £52m

**Portfolio changes since the quarter ended**

13. A top up is planned to an underweight position relative to the target strategic asset allocation. At the time of writing managers have not been informed of the Fund's intention whilst officers undertake assurance on Russian asset valuations. In addition, an investment into the Aegon Short Dated investment grade fund is planned in line with the 2022 Strategic Asset Allocation as approved by the Pension Committee in January 2022. This allocation of to the Aegon Short Dated fund is a temporary position whilst commitments made to investment managers are awaiting calls. The total value of the expected investments is c£90m.

**Market developments since the quarter ended**

14. Global stock markets have deteriorated since the end of the reporting quarter led by the US markets and in particular the technology sector. The sell offs have been exacerbated by rising expectations of interest rate increases, mainly in the US but also in other developed economies. More recently the Russia and Ukraine conflict added another increased geo political risk to the mix which forced markets to re price further.

15. Sector makeup of worldwide equity indexes will have affected their 2022 year to date (YTD) performance with tech heavy indexes such as the Nasdaq 100 suffering larger losses (17% YTD at the time of writing) than the FTSE 100 with a larger industrial sector make up which has fared better in the rising interest rate environment (-2% YTD)

16. Inflation has stayed higher than many commentators expected with 2021 ending at multi year highs for UK and US headline inflation numbers. Many thought that the base effects from higher inflation in late 2020 when economies started to reopen would mean lower year on year on inflation numbers in line with pre covid were disappointed. Input cost inflation from oil soaring to over $100 a barrel and natural gas prices spiking to over £500 per therm (was c£150 a therm 31/12/21) will impact inflation as will increases to some commodities, including agricultural and metals which have seen large increases in 2022.

17. Many developed governments and their central banks will be facing similar challenges with increasing domestic inflation with fragile growth outlooks. The balancing act of reducing inflation whilst not crimping growth and inducing a recession is playing out. Equity and bond markets have in general sold off during 2022 but as we've seen over the years the markets tend to surprise when it's least expected.

**Cash at quarter end**

18. At quarter end the cash held by the Fund totalled £216m, with an additional £61m cash held as collateral with Aegon for the currency hedge. As at the time of writing the £216m balance has reduced to £205m and when the £90m is invested will reduce further to £115m.

19. It is worth noting that the collateral held for the currency hedge moves in accordance to the level of hedging and performance by Aegon. When the Pound strengthens versus hedged currencies the amount of collateral will increase and conversely when the pound weakens versus hedged currencies the amount of collateral reduces. The level of change in hedge collateral is impacted by the currencies hedged and level of hedge, either partial or full. Officers are in regular contact with Aegon to understand the current level of hedge and their rationale for the stated positions.

20. The Fund is cash flow positive as a consequence of paying less in pension benefits than it receives from member and employer contributions. This provides the Fund with flexibility in making investment changes without always having to divest and incur costs but also means regular investments are required to avoid cash building up.

21. Given the volatility in markets over the last 18 months it makes sense to hold some additional cash for the currency hedge in the event currency markets move unexpectedly which may require additional collateral. However, the requirement to hold as much cash as the Fund did has now reduced given the benchmark hedge position is 30% of foreign currency assets from the change made at the January 2021 Pension Committee meeting which was actioned in April 2021.

## 2022 Investment Plans

22. The Fund's 2022 Strategic Asset Allocation (SAA) was approved at the January 2022 Pension Committee. There were no changes to the 2022 SAA from the previous 2021 SAA. A reminder of the approved 2022 SAA is shown in the table below.

| | Proposed target weight (%) | Comments |
|---|---|---|
| Growth (55.25%) | | |
| Listed equity | 42.0 (40.0-44.0) | Review to be carried out Q4 2022/Q1 2023 |
| Private equity (inc secondaries) | 5.75 | Officers to manage ongoing commitments as required |
| Targeted return | 7.5 | Review LGPS sub-fund when final details confirmed with expectation to transition holdings in H1 2022 (subject to due diligence) |
| Income (36.75%) | | |
| Infrastructure (inc timberland and infracap) | 9.75 | Enhanced monitoring of Infracapital;<br>Review allocation to LGPSC Infrastructure Fund (Value-Add/Opportunistic) sleeve;<br>Explore potential allocation to social infrastructure and infrastructure secondaries;<br>Potential to increase target allocation to 12.5% (funded from listed equity) subject to review once current target has been achieved |
| Property | 10.0 | Review of property allocation to be carried out in H1 2022 |
| Emerging market debt | 2.5 | - |
| Global credit – liquid sub inv grade markets | 4.0 | - |
| Global credit - private debt (inc M&G/CRC) | 10.5 | Review allocation to distressed debt in mid-2022 |
| Protection (8%) | | |
| Inflation-linked bonds | 4.5 | - |
| Investment grade credit | 3.0 | - |
| Currency hedge | 0.5 | - |
| **Total** | **100.0** | |

23. The main areas of focus in 2022 will be to address the underweight positions in illiquid assets, namely property and infrastructure. Part of the infrastructure underweight was addressed with a commitment to LGPS Central's core and core plus product. There are three asset class reviews pending in the year also:

    a. Property review – this is scheduled to be bought to the April Investment Subcommittee. Hymans the Fund's investment advisor has commenced work on this area.
    b. Infrastructure and listed equity review to be bought to the two Investment Subcommittee's later in 2022.

24. Outstanding changes to bring the Fund in line with the SAA that officers are also considering:

    a. Targeted return – officers and Hymans are working with LGPS Central to deliver a product alongside one other partner fund. The product is now likely to be available in mid 2022. This product has been delayed owing to the due diligence work that is ongoing by Central and the two partner funds interested. Hymans have commenced due diligence work on this product.

    b. Infrastructure – Pending due diligence the Fund may invest in the LGPS Central infrastructure value add/opportunistic fund once manager selection has progressed. Owing to the specialist nature of this area, infrastructure manager selection is deemed to be a more important factor when deciding to invest. The

Fund will await further information to see which managers are selected before deciding to commence due diligence. Whilst the Fund is awaiting the outcome of the infrastructure review by Hymans the use of the value add/opportunistic sleeve will be on hold.

c. Property – LGPS Central are in process of launching a direct property fund with an external manager having been selected. The Fund is currently underweight property but whilst the Fund is undergoing a review of this asset class officers have instructed Central that any commitments to this product will not be made until the outcome of the review.

**Overall Investment Performance**

25. A comprehensive performance analysis over the quarter, year and three-year period to 31st December 2021 is provided in Appendix A. Portfolio Evaluation collate information directly from managers and calculate performance, which provides an independent check of valuations and allows greater reporting flexibility.

26. Officers have requested the movement of the currency hedge be applied to the total portfolio, previously this calculation only applied to the equity portion of the portfolio. This is a more accurate reflection, given that the hedge applies to all unhedged foreign currency positions throughout the portfolio. The Fund now reports the total portfolio including and excluding the effect of the hedge.

27. It is important to note that the valuations produced can be different to those provided by managers or included in the Statement of Accounts. For example, timing differences or use of different accounting methodologies. The differences are not expected to be material in the context of the messages being conveyed by the report.

28. Summarised returns for the whole Fund versus benchmark is shown below:

| | Quarter | 1 yr | 3 yr | 5yr |
|---|---|---|---|---|
| Total Fund | +4.6% | +15.9% | +11.3% | +8.4% |
| vs benchmark | +0.3% | +3.5% | +0.8% | +0.5% |

29. The Fund's total value as at the quarter end is £5.8 billion. (£5.5bn at 31th September 2021) At 31st March 2019, the last triennial valuation date, the Fund had assets valued at £4.3 billion.

30. The Fund has experienced strong returns in an absolute sense with positive returns across all time frames alongside favourable returns versus the benchmark. It is important to note that investment returns can be negative and for a protracted period of time. One of the objectives of the annual SAA exercise is to understand the risks and opportunities to the Fund over a longer period of time and as such the portfolio has a diverse mix of assets including a number of investments within the 'protection' category that should provide a cushion in the event of market shocks.

31. These 'protection' assets include index linked bonds and investment grade credit which have historically performed well under market stresses. In addition, there are other investments within the growth the income portions of the portfolio that display good defensive characteristics.

32. Examples include infrastructure investments which have a lower proportion of investments tied to GDP sensitive industries or managers who employ defensive strategies that profit in the event of market volatility or decline.

**Asset class performance covering growth, income and protection investments**

33. The +0.3% outperformance in the quarter versus the blended benchmark was largely as a result of the investments within the growth and income portions of the Fund outperforming the benchmark by +0.5% and +0.6% respectively.

34. Over a longer one-year timeframe the total Fund outperformed the market benchmark by +3.5%. This was led by 'growth' assets which outperformed by +4.5% with small underperformance to benchmark from the protection assets at -0.4% versus their benchmark. Outperformance within growth assets was led by private equity where valuations are lagged and have softer comparisons to the year earlier. Officers expect this outperformance to normalise over the coming quarters.

**Growth assets**

35. Growth assets comprise of passive and active equity managers, private equity and the three targeted return managers the Fund employs. The return over the year was 21.0% (+25.3% at previous quarter) and is coming off low points from a year ago. Over the next few quarters this positive one-year performance may become harder to achieve as last year comparatives improve.

36. Global equity markets continued to advance over the quarter as companies reported strong corporate earnings and economic data pointed towards a recovery. 2021 provided investors with the third calendar year in a row of strong positive returns. The MSCI World Index rose 7.49% over the quarter following strong performance in the US, Europe, and the UK.

37. The S&P 500 finished the quarter up 10.65% as investors put aside fears of rising cases of the Omicron variant of COVID-19 and the speed of the US Federal Reserve's asset tapering. Tech was one of the strongest performers over the quarter, as well as Real Estate.

38. Q4 saw inflation continue to be an area of concern with a number of major economies reporting elevated figures. In the US, CPI rose 6.8% YoY in December, and although the Federal Reserve's Open Market Committee stopped short of voting to increase interest rates it did announce plans to accelerate the tapering of asset purchases, and consequently markets priced in rate hikes for 2022.

39. Europe reported annual inflation of 4.9% in November, and the European Central Bank confirmed it would taper bond purchases but ruled out interest rate rises in 2022. In the UK, CPI rose 5.1% in November YoY, fuelled by continued supply chain issues and a tightening in the job market. The Bank of England subsequently reacted in December by raising interest rates from 0.10% to 0.25%.

40. There were mixed absolute returns in the quarter from the Funds equity investments, with a number of passive funds from LGIM showing negative returns but being offset by others to post an overall +5.8% from the LGIM passive funds. These LGIM passives give the Fund a broad global exposure to

equity markets at a very low cost. This management fee deal is shared by a number of local authorities in the LGPS Central pool. The procurement exercise was conducted pre pooling.

41. As described earlier the majority of the outperformance this quarter within growth assets has come from the private equity investments once again which are measured versus a FTSE all world benchmark. The benchmark returned +6.2% in the quarter, however the holdings at Adam Street Partners, where the majority of the Funds private equity investments reside returned +11.8% in the quarter owing to a number of underlying holdings performing well and valuations being revised accordingly.

42. At the end of the quarter growth assets are overweight to benchmark allocation by c6%, a similar position to last quarter. Officers have consulted with Hymans with regard to divesting but given the underweight positions are within illiquid asset classes and cash available it is deemed reasonable to maintain the overweight position in the near term.

43. Whilst investment returns for growth assets have been positive versus benchmark and other asset classes generally it has benefited the Fund. There are few good options to reduce this position in the short term. One of the outcomes from the annual SAA review is for officers to create a rebalancing policy for Committee to approve. This will include upper and lower limits on asset allocations after which reallocation should be performed. This can be a tricky area to address with respect to reallocation given the number of permutations between various asset classes and a mix of public and private investments that have differing liquidity and queuing requirements which need to be taken into account. This is currently scheduled to be complete later in 2022 once the more pressing items within the SAA are resolved, namely the three asset class reviews.

44. The three targeted return managers quarterly performance was +0.2 versus a SONIA + 4% per annum target. Aspect returned -4.5%, Ruffer +1.7% and Pictet +3.8%. Over a longer time frame of 5 years, the annualised returns were +2.5%, +6.1% and +4.6% respectively, which is a combined +4.4% pa return and marginally ahead of the 5 year benchmark return of +4.3%. Overall, a reasonable performance as a group versus the target benchmark return.

45. Aspect’s underperformance in the quarter was entirely due to a result of bond positioning. A combination of a sizeable net short position and yield curve positioning brought a -6.1% return from this area. There were positive contributions from equities (+1.5%) and currency (+1.0).

46. The target weight for this asset class is 7.5%. During the year the Fund divested c£80m combined from the Pictet and Ruffer portfolios to part fund the Central MAC subscription and to reduce the asset class weight closer to the 7.5% SAA target which also reduces the overall overweight position to the growth class and rebalances the three managers with more equal amounts invested. As at the quarter ended 31st December 2021 the overall weight to this class was 7.9% and 0.4% over the SAA target. There will be an opportunity to rebalance this class once due diligence is completed on the Central Targeted Return product and it is deemed a suitable product for the Fund.

47. The Fund is invested in three LGPS Central equity funds, global equity, global

emerging markets and the Climate balanced fund. The LGPS Central quarterly investment report which is included within this pack has details of all the Fund's Central investments including performance. The returns for the three funds are shown below including a comparison versus the benchmark over one year. Comparisons to benchmark to shorter timeframes are more volatile. The Fund has a longer term investment horizon and underlying active managers that are selected by Central have longer term benchmark targets to meet which are at least in excess of three years.

| Fund | Qtr | 1yr | 1yr vs Benchmark |
|---|---|---|---|
| **Global Equity** | +5.4% | +22.3% | +2.3% |
| **Global Emerging Equity** | -0.7% | -0.1% | -1.1% |
| **All World Climate Multi Factor** | +8.9% | +23.4% | +0.3% |

48. Emerging markets underperformed developed markets over the quarter. The Hang Seng, which includes a large weighting in Chinese-based companies such as Tencent and Alibaba, fell 4.79% with concerns over slowing growth exacerbated by China's zero Covid policy. In 2021, Chinese equities significantly underperformed global equities and contributed to the underperformance of emerging market equities versus developed markets.

49. The LGPS Global Emerging Markets Equity fund is a multi-manager fund comprising three managers, BMO, UBS and Vontobel. An exempt manager report is included within the agenda. Since inception the fund has achieved the benchmark return but has a target to outperform the FTSE emerging markets index by 2.0% per annum over rolling 5 year periods. The inception date of the fund is July 2019, however LGPS Central will be reviewing the mandate given almost three years have passed since inception.

50. BMO and Vontobel both delivered positive relative returns in all three months of the quarter. UBS lagged; however, this possibility was flagged in previous Central quarterly reports after such strong performance over the almost two years from fund inception to June 2021.

51. The Central Investment Director and team meet (virtually) each of the managers every month to ensure that the key drivers of investment philosophy, process and people remain intact for the underlying portfolios. Central confirm that they have not seen any significant changes to any of the portfolios during the period.

52. Central continue to look at Responsible investment and ESG risks and opportunities across the constituents of the fund. They have revisited the Net-Zero focus of the three managers in the quarter. UBS and BMO both have Net Zero targets in place. Vontobel has yet to set formal Net-Zero targets but is keen to address this in the near future.

**Income Portfolio**

53. This section of the portfolio comprises property, infrastructure and credit (debt) funds. The Fund has a number of investments across each sub sector to get access to various areas and provide diversification. Credit encompasses a wide range of funds including, emerging and developed market government and

corporate bonds, private lending to business (private debt) and corporate investment grade debt.

54. Overall the income class saw a return of +3.3% in the quarter vs a benchmark return of +2.7%. Given the wide range of investments and exposures a summary of the main classes with commentary is included below.

55. Infrastructure, the blended return from the five managers is +2.7% in the quarter. Given the illiquid nature and valuation cycles of many of the investments in this sector it is better to look at returns over a longer period of time. Over a one and three year timeframe the asset class has returned +10.4% and +6.1% pa vs a benchmark return of 3.9% and 4.3% pa.

56. The Funds single largest manager within infrastructure is Stafford who manage three vintages of timber funds, the current valuation is £131m or 2.3% of total Fund assets. The Fund has invested in three vintages, the last fund, Stafford International Timberland (SIT) 8 had its final close in April 2018 and has started distributing. The remaining two funds, SIT 6 and 7, closed in 2012 and 2015 respectively. Given the long term nature of the three funds it is expected that distributions are due to end for SIT 5, 6 and 7 in 2024, 2027 and 2030 respectively based on conversations with the fund managers.

57. Of the Fund's four other infrastructure managers, the next two largest comprise a combined £231m of the total £421m of infrastructure investments. IFM global infrastructure (IFM) is an open ended fund investing in core infrastructure which is valued at £125m at the quarter end. Fund returns over one, three and five years are 17.7%, 9.7% pa and 12.1% pa respectively. These returns are ahead of benchmark returns. IFM will be presenting to the Committee as part of the agenda on performance, ESG, their strategy and market outlook.

58. JPM infrastructure, the other open ended fund also investing in core global infrastructure is the third largest holding and is valued at £106m. Fund returns over one, three and five years are 4.9%, 8.0% and 7.2%. These returns are ahead of benchmark returns.

59. The Fund employs three property managers, Aegon, Colliers and LaSalle, the blended return from the three managers is +7.0% in the quarter against a strong quarter for the benchmark which returned +7.9%. Property has had a strong 12 months to December 31st 2021 with the benchmark (MSCI UK property index) returning +17.4%.

60. The combined one year return from the three managers underperformed with a +14% return. The only manager that beat the benchmark over the one year time frame was LaSalle who manage the UK and Europe property funds and is the Fund's largest property holding with a valuation of £251 at the end of the year. The second largest manager Colliers manages the Fund's direct property holdings (value £113m at 31st December 2021)

61. A review of property is planned as described earlier in the paper in line with the recommendations from the Fund's investment advisor where future property strategy and implementation of the proposed strategy will be bought to the Investment Subcommittee for approval. This review will look into the best way to manage a multi manager property portfolio with direct and indirect holdings alongside any Central property offering.

62. The Fund also holds global credit within the income part of the portfolio. This is split between private debt and sub investment grade credit, with target weights of 10.5% and 4% respectively.

63. The Fund is currently underweight by c£270m or 4.7% for Private Debt but has made progress to closing the underweight with a £272m GBP combined commitment made in 2021 using the Partners Group MAC 6 product, Christofferson Robb and Co's (CRC) Capital Release Fund, LGPS Central's low return 2021 vintage and LGPS Central's high return 2021 vintage. At 31st December the vast majority of this commitment was yet to be called with £24m called by MAC 6.

64. This money will take some time to be fully called whilst the earlier investments made with Partners Group, M&G's distressed opportunities fund and CRC continue to distribute money. When appropriate officers will propose further investment opportunities to the investment sub committee for approval.

**Protection portfolio**

65. The Protection portion of the portfolio contains the most defensive investments, namely, investment grade (IG) credit, short dated investment grade (SDIG) corporate bonds and inflation linked (IL) bonds. The Fund employs two managers for this exposure, Central for IG credit who in turn use two external active managers and Aegon who the Fund employ for IL bond exposure and the SDIG bond fund.

66. The allocations to the protection asset class are roughly in line with benchmark, 7.3% vs a 7.5% target. Returns over 1, 3 and 5 years for protection assets is shown in the table below alongside the benchmark returns.

| | 1 year % return | 3 year pa % returns | 5 year pa % returns |
|---|---|---|---|
| Protection assets actual | +1.3 | +6.6 | +4.7 |
| Protection assets benchmark | +1.7 | +6.9 | +4.5 |

67. The Fund has employed an active currency hedge with Aegon as the manager since quarter one of 2014. Officers have regular contact with the manager to understand the level of hedge in place. At quarter end (31st December 2021) there is £61m of cash collateral.

**Recommendation**

The Local Pension Committee is asked to note the report.

**Appendices**

Appendix A - Portfolio Evaluation - Summary Valuation of Funds Performance.

Appendix B – Hymans – Capital markets Winter 2021

**Equality and Human Rights Implications**

None.

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