



INVESTMENT SUB-COMMITTEE – 26 JULY 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

AEGON ASSET MANAGEMENT – INDEX LINKED BONDS UPDATE

Purpose of the Report

1. The purpose of this report is to provide the Investment Sub Committee (ISC) with information on the Leicestershire Pension Fund (Fund) investments held with Aegon Asset Management (“Aegon”) and the performance of the mandates held with them.
2. A PowerPoint presentation will be provided at the meeting by representatives from Aegon. A copy of the presentation slides is appended to this report.

Background

3. The Fund has a short dated investment grade credit (IGC) and index linked bonds (ILB) allocation with Aegon within the protection asset group part of the portfolio.
4. In addition, Aegon operate the Fund’s foreign exchange (FX) hedging programme. This hedges around £2bn of FX exposure (mainly US dollar, Euro, and Japanese Yen) to dampen volatility and improve overall investment outcomes.
5. The current breakdown of the mandates operated by Aegon are best described by the makeup of the Fund’s protection assets portfolio. Aegon operate three out of the 4 mandates shown below with LGPS Central (Central) operating the remaining investment grade credit mandate.

Asset group	Manager: Investment	2022 SAA target	2023 SAA target	£m 31.03.23	Actual weight 31.03.23
Protection	Aegon: Inflation-linked bonds (ILB)	4.50%	4.50%	248	4.3%
Protection	Aegon: short dated climate transition fund	0.5%	0.5%	57	1.0%
Protection	Central: Investment grade credit (IGC)	2.5%	2.25%	147	2.6%
Protection	Aegon: Currency hedge	0.5%	0.75%	34	0.6%
TOTAL		8.00%	8.00%	486	8.5%

6. The Fund has had an ILB allocation to Aegon (formally Kames) since 2014 and at present has £248m invested (31 March 2023) or 4.3% of total Fund assets.

7. The aim of this actively managed mandate is to outperform a benchmark, the FTSE UK index linked all stocks index by 0.3% pa over rolling three-year periods.
8. The presentation from Aegon will cover the following areas:
 - a. An overview of the total relationship (ILB, IGC and FX hedging)
 - b. How responsible investing (RI) is conducted at Aegon
 - c. What are ILB's and summary of the ILB mandate and parameters
 - d. Fund performance and 2022 ILB performance
 - e. Market outlook, what is real yield and opportunities

Recommendation

9. The ISC is asked to note the report and presentation.

Environmental Implications

10. The Leicestershire County Council Pension Fund has agreed a Net Zero Climate Strategy (NZCS). This outlines the high-level approach the Fund is taking to its view on Climate Risk. This will align with the Fund's Responsible Investment approach as set out in the Principles for Responsible Investment. The Fund is committed to supporting a fair and just transition to net-zero. There are no changes to this approach as a result of this paper.

Equality Implications

11. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund's approach to stewardship and voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Human Rights Implications

12. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund's approach to stewardship and voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Background Papers

None

Appendix

Appendix – Aegon Asset Management Index Linked Portfolio – Presentation

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