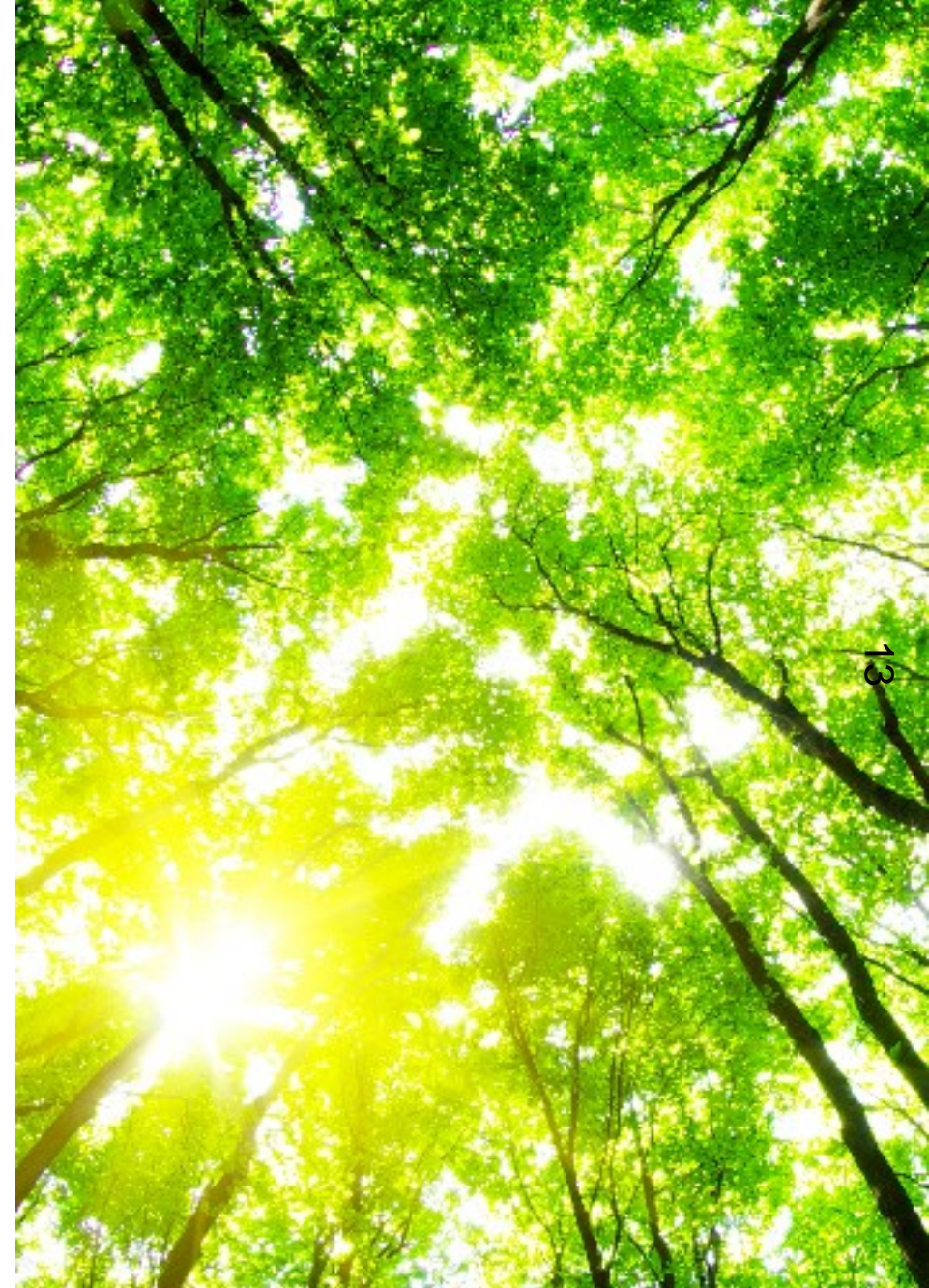




Leicestershire County Council Pension Fund

LGPS Central Limited Update

11 October 2023



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Agenda

ACTIVE FIXED INCOME UPDATE

- Global Active Investment Grade Credit Corporate Bond Multi Manager Fund
- Global Active Multi-Asset Credit Multi Manager Fund
- Outlook
- Responsible Investment & Engagement
- Appendix



Global Active Investment Grade Corporate Bond Multi Manager Fund

Update

Global Active Investment Grade Bond Multi-Manager Fund



FUND OBJECTIVE

To outperform the benchmark index (total return, in sterling) by 0.8% per annum (net of costs) over rolling 3-year periods

OBJECTIVE BENCHMARK

50% ICE BofAML Global Corporate Index (ex-emerging markets issues) and 50% ICE BofAML Sterling Non-Gilt Index

FUND STRUCTURE

Segregated ACS structure

LAUNCH DATE

23rd March 2020

FUND SPLIT

50/50 AUM split between Fidelity and Neuberger Berman

MANDATE GUIDELINES

- Investment is predominantly in Global Investment Grade Corporate bonds
- Investment in Emerging Market Debt and Sub-Investment Grade Corporate bonds is not permitted
- At least 90% of the Fund must be hedged to GBP
- No more than 10% can be invested in off-benchmark positions
- 10% can be invested in UK or US government bonds
- No constraints on sector or geographic allocation
- No more than 5% held cash
- No single investment should be more than 5% of active portfolio or issue
- Derivatives may be used for efficient portfolio management

Performance Update



- During Q2, the Fund outperformed the benchmark and target of -1.72% and -1.52% respectively, returning -1.43% (net of all fees).
- Over one year, the Fund underperformed the benchmark by 22bps, which is reflective of the difficult market conditions seen last year.
- Since inception, the Fund has underperformed the benchmark by 9bps. Since the Fund's launch, it has been a challenging market given the Russia-Ukraine invasion, the COVID pandemic, supply chain bottlenecks from global lockdowns, and high inflation. Starting in 2021, central banks have been aggressively tightening monetary policy to combat the elevated inflationary pressure, which has increased yields significantly.

External Managers

- To produce the best risk-adjusted returns, LGPS Central select managers with different strategies, so it is expected that the performance differs over different cycles.
- For example, in Q2, Additional Tier 1 bonds were the strongest performing asset class where Fidelity has a higher exposure. Neuberger Berman was the weaker performer given their US focus and that European investment grade credit outperformed US investment grade.

Fund Performance

Performance (%)	Q2 2023	1 Year	Since Inception
Benchmark	-1.72	-0.49	-0.68
Fund	-1.43	-0.71	-0.77
Vs Benchmark	0.29	-0.22	-0.09
Target	-1.52	0.31	0.12
Vs Target	0.09	-1.02	-0.89

Source: Northern Trust as at 31 August 2023. Returns in GBP, net of all fees

* Inception Date: 23/3/20.

Managers' Performance

Performance (%)	Q2 2023	1 Year	Since Inception
Benchmark	-1.72	-0.49	-0.68
Target	-1.52	0.31	0.12
Neuberger Berman	-1.50	0.45	0.06
Neuberger Berman vs Benchmark	0.22	0.94	0.74
Neuberger Berman vs Target	0.02	0.14	-0.06
Fidelity	-1.35	-1.82	-1.35
Fidelity vs Benchmark	0.37	-1.33	-0.67
Fidelity vs Target	0.17	-2.13	-1.47

Global Active Multi-Asset Credit Multi Manager Fund

Update

Global Active Multi-Asset Credit Multi-Manager Fund



FUND OBJECTIVE

To outperform 3-month GBP SONIA by 4% per annum net of fees over rolling three-year periods

FUND STRUCTURE

Segregated ACS structure

LAUNCH DATE

15th April 2021

FUND SPLIT

50/50 AUM split between Columbia Threadneedle Investments and Western Asset Management

MANDATE CHANGES UPDATE

LGPS Central is progressing with the proposed and agreed MAC mandate changes:

- An increase from 10% to 15% in emerging market debt
- An increase from 10% to 15% in investment grade
- To allow an outright 15% cash limit (from the current 5%)

MANDATE GUIDELINES

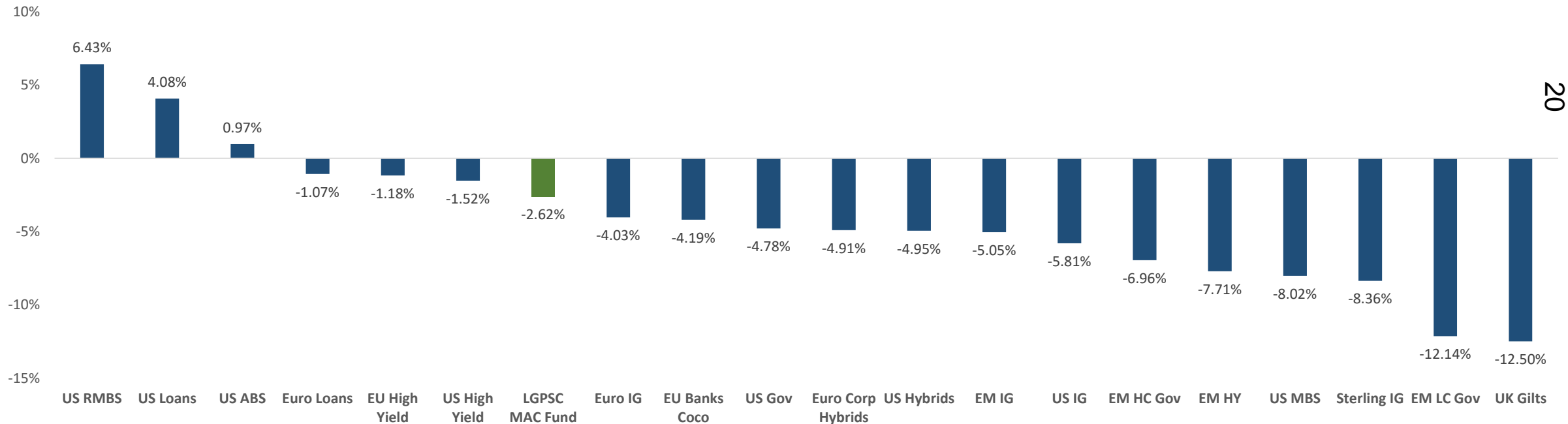
- Investment in global fixed and floating rate instruments, including but not limited to, High Yield, Covered bonds, Investment Grade credit, government bonds, emerging market debt and loans
- No restrictions on country or sector allocation
- Up to 15% in government bonds
- Up to 10% in Investment Grade bonds**
- Up to 10% in emerging market debt**
- Up to 10% in non-GBP currency exposure, where the remainder will be hedged back to GBP
- All other sectors to be a maximum of 30% of the portfolio
- Derivatives may be used for efficient portfolio management and hedging purposes

**Currently under LGPS Central management to action changes agreed with Partner Funds

Fixed Income Performance (%) by Sector

Inception (15/04/2021) to 31/08/2023

- Fixed income asset classes have produced negative absolute returns since the Fund’s inception because of several market stresses (e.g. Russia-Ukraine war, Liz Truss mini-budget, stress in the banking sector, high inflation, etc.).
- The below graph highlights the performance of the LGPSC MAC Fund (shown in green) versus other fixed income sectors.



Source Bloomberg, Indices used - ICE BofA Euro High Yield Index, ICE BofA US High Yield Index, ICE BofA Euro Corporate Index (Investment grade), ICE BofA US Corporate Index (Investment grade), ICE BofA EM High Yield Corporate Plus Index, ICE BofA EM High Grade Corporate Plus Index, ICE BofA US Emerging Markets External Sovereign Index, ICE BofA Local Debt Market Plus Index, S&P/LSTA Leveraged Loan Index GBP Hedged, S&P European Leveraged Loan Index, S&P US Mortgage-Backed Securities Index, Bloomberg US Agg ABS Total Return (unhedged), Markit iBoxx Broad US Non-Agency RMBS USD Index, ICE BofA All Maturity US Government Index, JPM indices, ICE BofA UK Gilt Index

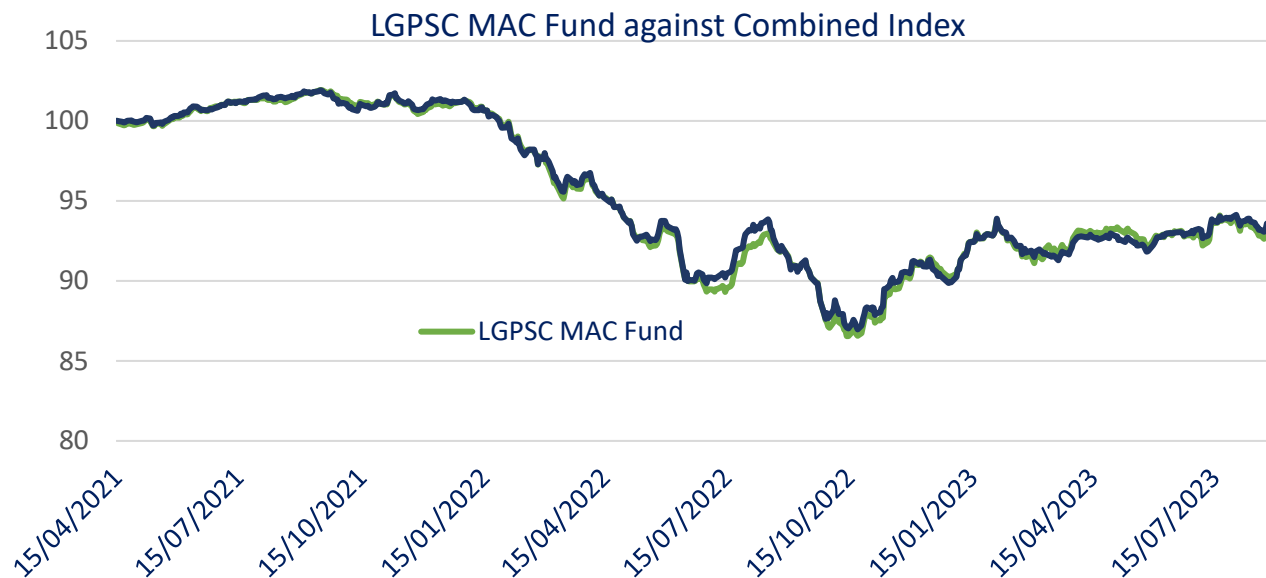
Performance Update



- During Q2, the Fund returned 0.22% (net of all costs), which underperformed the cash benchmark return of 1.17% and target return of 2.17%.
- Over one year, the Fund underperformed by 1.47%.
- Since inception, the Fund underperformed the benchmark by 4.77%. The negative market environment that has been seen since the Fund's inception has made the target objective difficult to achieve.

To measure the MAC Fund against market conditions, LGPS Central calculates a combined benchmark using underlying market indices for comparison.

Since inception to 31 August 2023



Source Bloomberg.
 Indices used - Bloomberg US Agg ABS Total Return Value Unhedged USD, ICE BofA Euro Covered Bond Index, Markit iBoxx Global Developed Markets High Yield Index TRI, ICE BofA All Maturity US Government Index, Bloomberg Global Aggregate - Developed Markets, iShares JP Morgan USD EM Corp Bond UCITS ETF , S&P/LSTA Leveraged Loan Index GBP TR Hedged, ICE Exchange-Listed Preferred & Hybrid Securities Index, J.P. Morgan EMBI Global Diversified Composite, JP Morgan GBI-EM Global Div custom index , ICE BofA Euro Corporate Index, ICE BofA US Broad Market Index, ICE BofA UK Gilt Index

Fund Performance

Performance (%)	Q2 2023	1 Year	Since Inception
Benchmark	1.17	4.26	2.15
Fund	0.22	2.79	-2.62
Vs Benchmark	-0.95	-1.47	-4.77
Target	2.17	8.26	6.15
Vs Target	-1.95	-5.47	-8.77

Source: Northern Trust as at 31 August 2023. Returns in GBP, net of all fees
 * Inception Date: 15/4/21.

Managers' Performance

Performance (%)	Q2 2023	1 Year	Since Inception
Benchmark	1.17	4.26	2.15
Target	2.17	8.26	6.15
Western Asset	0.18	2.49	-3.27
Western Asset vs Benchmark	-0.99	-1.77	-5.42
Western Asset vs Target	-1.99	-5.77	-9.42
CTI	0.28	3.14	-1.92
CTI vs Benchmark	-0.89	-1.12	-4.07
CTI vs Target	-1.89	-5.12	-8.07

Outlook

Market Outlook

- Despite underperformance of fixed income markets and the rising yield environment, LGPS Central maintains that credit markets present attractive opportunities to invest.
- We expect that central banks are near peak interest rates after a long period of aggressive hiking. However, we do also expect that interest rates will remain elevated for some time in the “higher for longer “ rates environment.
- Attractive yields in the corporate credit markets create opportunities for the investment grade corporate bond and multi-asset credit managers.



Responsible Investment & Engagement (RI&E)

Responsible Investment & Engagement (RI&E)



Q2 2023 Climate Metrics for LGPS Central Fixed Income Funds (Aggregated)

Fixed Income Asset Class	Active Strategy	Multiple Fund Manager	£465,761,206 NAV	Q2 2023 Calendar Year
Carbon Footprint Metrics				Data Availability
		Portfolio	Previous Year	Portfolio
Total Financed Emissions tCO2e	Scope 1+2	22,790	25,593	52.4%
	Scope 3	138,545	133,275	52.3%
Normalised Financed Emissions	Scope 1+2	111.5	148.5	
Weighted Average Carbon Intensity tCO2e/\$M Revenue	Exclude Sovereign	246.6	271.0	62.9%
	Include Sovereign	379.5	418.7	83.0%

Notably in Q2, normalised financed emissions and WACI have decreased YoY. This is primarily attributable to a reduction in exposure to utilities, and increased exposure to financials, a sector associated with low emissions.

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Engagement Included in LGPS Central's Latest Stewardship Code Report



Western Asset engaged with the mining company Vale. This engagement focused on the company's management of thermal coal assets and the regional socio-economic implications of operations. Following engagement, Vale confirmed they were searching for a responsible partner to take over the operations. The following year Vale confirmed they had sold their thermal coal assets in the region, concluding a two-year long engagement.

Disclaimer: The above contains aggregated metrics of all fixed income funds. Data availability is notably low for both the Total Fixed Income portfolio and blended benchmark. The figures presented should therefore be considered with these data weaknesses in mind.

Appendix

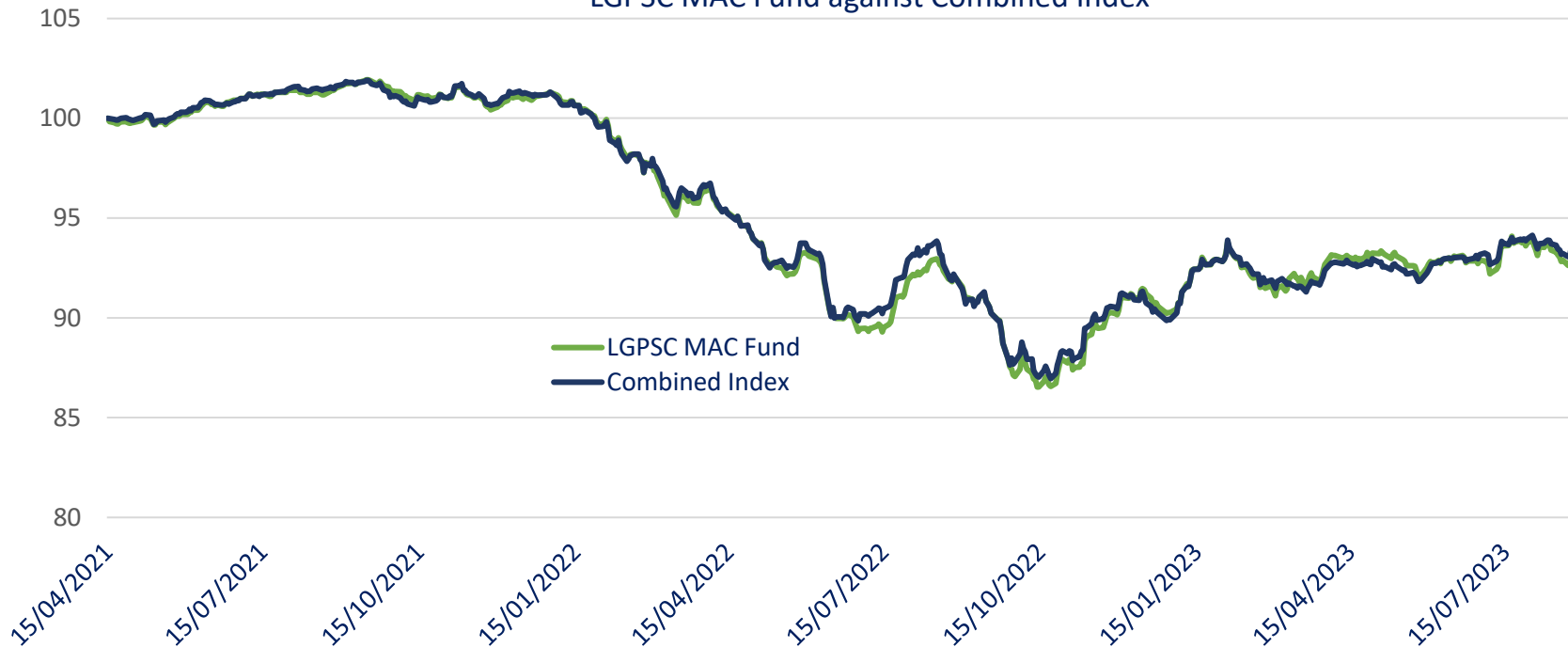
LGPS Central Multi-Asset Credit Fund Against Combined Index



Since inception to 31 August 2023

- To measure the MAC Fund against market conditions, LGPS Central calculates a combined benchmark using underlying market indices (capped at the mandate exposure limits seen in the table) for comparison.

LGPS MAC Fund against Combined Index



Source Bloomberg.

Indices used - Bloomberg US Agg ABS Total Return Value Unhedged USD, ICE BofA Euro Covered Bond Index, Markit iBoxx Global Developed Markets High Yield Index TRI, ICE BofA All Maturity US Government Index, Bloomberg Global Aggregate - Developed Markets, iShares JP Morgan USD EM Corp Bond UCITS ETF, S&P/LSTA Leveraged Loan Index GBP TR Hedged, ICE Exchange-Listed Preferred & Hybrid Securities Index, J.P. Morgan EMBI Global Diversified Composite, JP Morgan GBI-EM Global Div custom index, ICE BofA Euro Corporate Index, ICE BofA US Broad Market Index, ICE BofA UK Gilt Index

Performance (%)	Q2 2023	1 Year	Since Inception
LGPS MAC Fund	0.22	2.79	-2.62
Combined Index	0.85	3.32	-2.49
Vs Combined Index	-0.63	-0.53	-0.13

Asset Class	Combined Index Limit
Emerging Market Securities	10.0%
Government Bonds	10.0%
Investment Grade	10.0%
High Yield	30.0%
Loans	15.0%
Asset-backed securities	8.3%
Covered Bonds	8.3%
Hybrid securities	8.3%
Total	100.0%

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DISCLAIMER:



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Share Class and Benchmark performance displayed in GBP.

Performance is shown on a Net Asset Value (Nav) basis, with gross income reinvested where applicable.

All information is prepared as of **25 September 2023**.

This document is intended for **PROFESSIONAL CLIENTS** only.