Investment Monitoring Working Party

10.30am, 16th November 2021

Microsoft Teams meeting

Contents

Attendees

Name	Initials	Organisation
Councillor Pat Cleary (Chair)	PC	WBC
Councillor Brian Kenny	BC	WBC
Councillor Tony Cox	TC	WBC
Councillor Adrian Jones	AJ	WBC
Councillor Jayne Aston	JA	WBC
Councillor Jeff Green	JG	WBC
Councillor Jo Bird	JB	WBC
Councillor Les Rowlands	LR	WBC
Roger Bannister	RB	UNISON
Cllr Chris Carubia	CC	WBC
Ted Frith	TF	GLIL Infrastructure
Rohan Worrall	RW	Independent Adviser
Paul Watson	PWa	Independent Adviser
Lucinda Downing	LD	Aon
Louis Paul Hill	LH	Aon
John Raisin	JR	Chair of Pension Board
Peter Wallach	PW	MPF
Adil Manzoor	AM	MPF
Greg Campbell	GC	MPF
Allister Goulding	AG	MPF
Daniel Proudfoot	DP	MPF
Alan Robertson	AR	MPF
Elizabeth Barlow	EB	MPF
Owen Thorne	OT	MPF

Joseph Hull	JH	MPF
Farbod Abarghouei Nejad	FN	MPF
Alex Abela-Stevenson	AA	MPF
Dragos Serbanica	DS	MPF
Emma Jones	EJ	MPF
Donna Smith	DS	MPF

Apologies

Cllr. Cherry Povall – WBC
Cllr. Paulette Lapin – SBC
Cllr. Martin Bond – WBC

Declarations of Interest

It has been agreed that Declarations of Interest are an annual declaration at the beginning of the municipal year.

1. Minutes of IMWP held on 15th September 2021

Noted, no amendments.

2. Review
2.1 Market Commentary – RW

RW gave a general update on Q3. Economic activity is strong in US, UK, EU but less so in Asia. RW noted global debt levels are at record highs, comparable with WW2 levels, which constrains central banks' ability to raise interest rates.

RW moved onto equity markets, noting Japan's strong Q3 performance after a poor Q2. China's market has been weak due to regulatory tightening on equity markets and fears over Evergrande . RW highlighted that UK, Japan and some emerging markets are looking relatively cheap compared to norms, describing UK as a value market presently. RW highlighted MPF's value bias in the portfolio which should translate to a good performance in this environment.

On fixed income markets, RW noted rising bond yields in US and UK in Q3, with comments from BoE around rate rises driving the change. Credit spreads remain

tight in the US and elsewhere, suggesting traditional fixed income products are not attractive.

On currencies, RW noted Sterling's relative strength over 12 months but Q3 saw some weakness as a result of Brexit-related issues and supply chains.

RW stated oil pricing has recovered from last year's weakness and is creating inflationary pressures.

The general outlook is dominated by medium term inflation concerns.

Questions

JG asked about ways in which inflation risk can be controlled

RW pointed out that many queries are around climate change and inflation. Sees 4-5% inflation, also potentially bolstered by infrastructure spending.

PW referred to real assets as providing some protection against inflation and gave an example of a direct property investment (Tesco Heswall) as an example of how MPF protects portfolio from inflation pressures, as rental rates are linked to CPI.

TC asked whether the landscape of printing money, albeit tapering and prospective rate rises are in conflict. RW stated he doesn't expect significant rate rises, possible good environment for gold in next 12 months. RW stated he didn't expect significant fiscal tightening ahead of any rate rises, and a landscape of high debt, high spending and negative real rates seemed likely.

2.2 Strategic Adviser Update

LPH gave update on fund. On a roll-forward basis, the funding level is 114%, well above liabilities. LPH also highlighted the risks of persistent inflation. While not expect to persist, given the significance to the fund on both the liabilities of the fund via active member salaries and pensioner benefits, and also the equity asset base of the fund. LPH noted the difficulty of finding assets with inflation linkage and highlighted real assets as examples of possibilities.

LPH commented that bond returns are not attractive, even with the high funding level, hence private market assets have been a focus. Private market assets like property, infrastructure and private equity offer an illiquidity premium which may provide more attractive returns.

LPH highlighted key statistics. Fund value has risen by £176m over the quarter with liabilities reducing by £3m. The discount rate has been reduced by 0.1% as a result of strong returns environment, and hence lower return expectations in future. 1 year 95% VAR figure of £2.3bn, representing a 1 in 20 year expected maximum loss.

RW asked whether, given high funding level, are there any risks that should be hedged or reduced in the current environment. LPH stated equities as single biggest risk factor, especially given the large allocation. LPH noted some equity protection strategy, albeit at a return cost. LPH noted life expectancy assumptions as another risk factor, and the general difficulty of making approximations for the overall liability value.

LPH noted the impacts of COVID lockdowns on the fund and over the longer term the progression from £4bn to over £10bn today. LPH cautioned against assuming next 10 years being similar to previous 10 years.

PC complimented the format of the presentation slides and asked whether managing risk via a move away from equities towards private markets is a sensible approach. LPH stated this is a prudent approach, although noted that private markets are difficult to shift in and out of so a longer term view is needed.

2.3 Monitoring Report

PW delivered an update on fund performance by asset classes and investment markets, noting that the fund is performing well overall.

PWa asked about 1 year UK equity performance, being 10% down in recent months. AG mentioned precious metal exposure; in particular rhodium which doubled in price in Q2 due to supply disruption. MPF couldn't sell as much of its physical exposure as it would have liked due to market liquidity and as the price settled, some outperformance was given back. MPF also has significant exposure to other precious metals which impacted returns in Q3.

RW asked about the factor portfolios and the different factors being exposed to.

3. Presentation. Ted Frith, GLIL Infrastructure LLP

TF gave an introduction to GLIL, the cross-pool direct infrastructure platform. GLIL was highlighted as a good way of acquiring infrastructure assets in order to meet pension fund obligations, investing in the UK economy and providing essential services to benefit communities.

In 2015, central government was keen for LGPS funds to pool together to bring scale to drive better deals. GLIL was created by a few LGPS schemes who wanted to try

and bring infrastructure ‘in house’ and a secondment model for investment team members, including 4 from MPF.

TF stated that GLIL is run on a more cost effective basis as a result of avoiding large management fees being paid; a key differentiator compared to many private market funds.

TF noted that the open-ended nature of GLIL allows a long term strategic option for infrastructure, and highlighted some of the key attributes of what GLIL typically looks at: inflation linkage, well run businesses, cash yielding, strong management teams and governance rights.

GLIL’s portfolio assets were highlighted, with a large exposure to renewable energy, via Clyde and Cubico. GLIL has funded the development of two fleets of rolling stock, and also has PFI assets, smart meters and recently a battery energy storage platform Flexion. TF noted the recent acquisition on an onshore wind investment in Ireland, which offers further development opportunities.

PC thanked TF for the presentation and noted his excitement at seeing MPF directly contributing to local investments and taking governance positions. PC asked about Anglian as a case about how concerns would be raised. TF stated recent presentation from Anglian Board regarding recent sewage instances, regarding what happened and what to do about it. TF noted MPF representation on calls with Anglian. Wider point is that TF sees GLIL using its influence to positive effect in portfolio companies.

PC asked about local investment angles for underlying LGPS contributors. TF mentioned appetite for local investment, but conflicts sometimes prevent projects occurring. TF highlighted recent UKIB and general large amount of capital around, and demand for new projects around the UK, but we need some sort of broker system to bridge the gap between finance and regional projects. PW added that the Catalyst Fund is complementary to GLIL in terms of scale but in terms of local investments GLIL/MPF could look to invest in e.g. battery sites in either platform. PW mentioned LCR as a potentially positive driver of projects.

JG asked if private sector infrastructure opportunities in this area are being maximised. TF mentioned broader UK issue of infrastructure investments that could be encouraged by UK Govt, especially as some assets may be off the market for some time if bought by long term holders like pension funds. JG asked about GLIL’s not for profit model, TF explained how GLIL operates on a cost recovery basis and does not pay performance fees on investment returns in contrast to an outsourced investment manager.

4. Responsible Investment

OT provided a summary of the LAPFF (Local Authority Pension Fund Forum) Q3 quarterly engagement report, detailing the engagement with Shell, taking a harder line than other investors in our network e.g. Climate Action 100 network. Shell's net zero plan met some, but not all, of the group's demands, and resulted in NGO-led protests in Holland.

OT stated the LAPFF report also highlighted activities regarding occupied territories in the Middle East. LAPFF has brought in expertise to assist engagement with corporates in the area and alignment with UNCHR standards.

OT stated that an exercise to update MPF's website on RI activities on a more frequent basis is underway, and highlighted the holdings sections and Northern LGPS section, with quarterly updates from PIRC, and PRI principles reporting.

OT also highlighted future reporting improvements; unfortunately the TCFD paper for LGPS has been delayed and was not available by the meeting date but is imminent.

OT detailed work to produce a submission under the Stewardship Code, which has itself undergone significant raising of standards regarding ESG and asset management and service providers such as consultants. OT highlighted that it is insufficient to simply formulate a policy, with detailed monitoring being required and with threshold standards applied. The deadline for submission is April.

OT drew attention to a write-up of COP26 from IIGCC and highlighted the $130tn committed to overall renewable and climate investments by 2030.

In terms of engagement activity, PC noted disappointment with the positions of Shell and with companies operating in the occupied territories.

RW asked whether the IIGCC has a policy around net zero, which can allow offsets which might allow problematic investment practices to continue. OT mentioned some specific work on the O&G sector, detailing capex/opex changes required to be considered on an alignment pathway to net zero, as well as policies on venting/flaring. OT noted there are signals and expectations being sent to companies that investors will withdraw capital if expected pathways are not being followed.

JB stated she hoped the LAPFF report could go to Pensions Committee to highlight the issues. JB asked for an update to information collated in June regarding concerning activities in occupied territories. PC stated LAPFF reports would be useful to have at Pensions Committee.

OT noted Motorola and Booking Holdings as being MPF's main exposures via index weight positions, and not directly. OT noted an update could be provided on the companies and highlighted that this is being prioritised by LAPFF and sustained pressure is being applied.

Action point: PC asked for an update list of the previously identified firms with MPF's capital exposure to each.

5. AOB

None.

PC closed the meeting at 12:30pm

Date of next meeting: Wed 2nd March 2022, 10:30am, MS Teams.