

IMWP

9th June 2022

10.30am

MS Teams

Attendees

Councillor Pat Cleary (Chair)	PC	WBC
Councillor Chris Carubia	CC	WBC
Councillor Tom Cardwell	TC	Liverpool City Council
Councillor George Davies	GD	WBC
Louis Paul Hill	LH	Aon
Rohan Worrall	RW	Independent Adviser
Paul Watson	PW _a	Independent Adviser
Peter Wallach (Director of Pensions)	PW	MPF
Alex Abela-Stevenson	AA	MPF
Adil Manzoor	AM	MPF
Alan Robertson	AR	MPF
Daniel Proudfoot	DP	MPF
Donna Smith	DS	MPF
Dragos Serbanica	DSe	MPF
Elizabeth Barlow	EB	MPF
Farbod Abarghouei Nejad	FN	MPF
Greg Campbell	GC	MPF
Neil Gill	NG	MPF
Owen Thorne	OT	MPF

Apologies

Councillor Cherry Povall	CP	WBC
Councillor Brian Kenny	BK	WBC
Councillor Karl Greaney	KG	WBC
Councillor Paulette Lapin	PL	SBC
Councillor Jason Walsh	JW	WBC
Roger Bannister	RB	Unison

Declarations of Interest

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

Councillor George Davies: pecuniary interest by virtue of his wife being a member of Merseyside Pension Fund.

1. Minutes of IMWP held on 2nd March 2022

Noted - no amendments.

2. Review

2.1 Investment Update – Peter Wallach

PW delivered a presentation giving an overview of the Fund as of 31 March 2022. In terms of the performance, the Fund outperformed the benchmark by +3.5% over a 12-month period. PW noted the funding position is now over 100%. PW added, this is subject to an adjustment to discount rates to reflect the increase in the inflation rate.

PW gave an update on the global market performance for 2021/22. In terms of equities, Western equity markets performed well. US equities performed the best; Japan and Emerging equities posted a negative return.

Regarding fixed income, UK nominal gilts posted a negative return, down by 5%, in anticipation of an interest rate rise, (bond prices fall as their yields rise). Index-linked bonds, (the coupon and principal are linked to RPI), added value during 2021/22.

Property markets performed well, recovering from the interruption caused by the pandemic.

Alternatives, (private equity, credit, infrastructure), performed strongly on a one-year basis.

PW highlighted the Fund's achievements for the year 2021/22. A revised NLGPS Responsible Investment (RI) policy was approved during the year and, similarly, the Fund's RI policy. PW addressed GLIL's three notable investments: SMA, Flexion and Rathcool, all related to green energy and the production of renewables, in line with the UK's ambition to move towards net zero emissions.

GLIL is a collaboration between LGPS funds that are seeking to invest into core infrastructure opportunities, predominately in the United Kingdom.

In terms of outlook, this year an actuarial valuation will be taking place to re-assess the Fund's assets and liabilities. In parallel with that, the Fund is intended to revise its investment strategy to 1) improve the risk and return balance of the Fund over the long term, 2) simplify governance, (tilting towards global mandates), 3) integrate climate risk and ESG considerations holistically, 4) de-risking strategy to provide stability, and 5) enhance reporting.

PC complimented GLIL's further investments into low-carbon projects.

PC requested clarification on "simplifying governance", in the context of MPF's strategy review. PW replied the Fund is considering a move from a geographical allocation structure to global mandates which should reduce the number of external manager relationships. This should improve costs and widen the opportunity set.

PC asked for an update regarding "Boycotts, Divestment and Sanctions. PW advised that a consultation in relation to this matter is expected to be published by the end of the year. In addition to the Jenrick Amendment to the Public Service Pensions and Judicial Offices Act, the government had included a general reference to the public sector in the Queen's Speech. There was limited visibility as to what might be expected.

2.2 Market Commentary - Rohan Worrall

RW provided a market commentary for Q1 2022. RW noted the economic growth momentum, measured by the Purchasing Managers Index (PMI), remained strong in Western economies. Inflation has continued to surge, driven by the war in Ukraine, and higher commodity and food prices. RW stated higher inflation is impacting the Fund's liabilities.

During Q1, global equity markets were hit by a heavy sell-off, (with the exception of the UK), triggered by the Russia's invasion of Ukraine, higher commodity

prices and the prospect of a tighter monetary policy. UK equities remained resilient, delivering a positive return, largely due to the UK's energy sector exposure. RW stated as a result of the recent market declines, valuations are markedly more attractive relative to long term history.

Regarding fixed income, during Q1, 10-year bond yields rose significantly. RW noted credit spreads had widened since the beginning of the year, but have narrowed in again recently.

In terms of currencies, in Q1, sterling fell against major currencies, but rose against the Japanese yen. On commodities, crude oil experienced a further surge in prices, which has exacerbated after the invasion of Ukraine. Gold has performed well, as investors sought safe-haven assets.

Looking ahead, inflation appears to be the main economic and political concern. RW stated central banks, (with the exception of China and Japan), will continue to tighten monetary policy try to bring inflation back under control without causing a recession. Therefore, equity markets are going to be more volatile and fragile, driven by higher interest rates and reduced liquidity. Overall, inflation remains elevated in the short term. Fixed income markets offer little long-term value due to soaring inflation.

PC asked, since factors behind inflation are supply driven, will rate hikes be enough to bring inflation back under control. RW replied, inflation has become a political problem, and therefore, central banks are determined to tighten monetary policy in order to suppress demand.

PC asked, what do rising energy prices mean for the green energy transition. RW replied energy transition is not likely to be interrupted by short-term price swings.

2.3 Strategic Adviser Update

LPH provided an update on the Fund's funding level, which is now over 113.9% on a roll-forward basis. Since 2019 valuation, MPF's assets have increased significantly, supported by a prolonged period of monetary stimulus. LPH highlighted the Fund's strong performance during the Q1 amid the market sell-offs. LPH added the funding level is subject to change to account for the changes in actuarial assumptions and discount rate. LPH continued with highlighting Aon's view on the Fund's strategic asset allocation. The Fund is transitioning over time to a new strategic asset allocation by 1) tilting towards global mandates, 2)

investing in lower-risk securities, and 3) investment in assets with independent and diversifying return drivers (i.e., alternatives).

LPH concluded with addressing inflation and longevity risk, and their impact on the Fund's liabilities.

2.4 Monitoring Report – Peter Wallach

The report provided Members with an update of the performance of the Fund's mandates. PW highlighted the market rotation into value stocks in Q1 2022, (due inflation and the prospect of higher interest rates), had severely impacted "growth oriented" mandates.

PW stated Newton, (a UK equity mandate), had underperformed the benchmark on a 1-year basis, driven by being overweight in Tech stocks, (growth), and a lack of exposure to Energy and Mining & Metals stocks, (value). Albeit the long-term performance is adequate.

PW highlighted the direct property portfolio's strong performance, which returned 27.42% over a 1-year period, outperforming the benchmark by 3.48%.

PW asked about factors that contributed to the Internal UK equity fund's one-year underperformance. PW replied, exposure to Platinum Group Metals (PGM) and a Russian mining company, (LSE listed), had been driving the short-term underperformance. The Long-term performance remains robust.

3. Responsible Investment - Owen Thorne

OT introduced the Fund's Responsible Investment (RI) advisors: PIRC and LAPFF. The Fund is committed to engage extensively with companies and market participants to address and mitigate governance and ESG risks.

OT provided an overview of MPF's RI reporting policy and navigated Members to various links where stakeholders can find the Funds' RI Policy statements and its activities. OT noted the Fund is seeking to enhance reporting on this matter.

OT highlighted MPF's stewardship policy. The Fund is seeking to address systematic risks (i.e., climate, human rights, supply chain) across the global

economy. OT added, the Fund is expected to submit its stewardship code report to Financial Reporting Council (FRC) by October 22.

OT provided an update regarding the UN's Principles of Responsible Investment programme on human rights, which is aimed to maximise investors' collective contribution to respect for human rights issues. The first phase of the programme is now published. The Fund is considering taking an active part, by become a signatory of the framework, subject to approval of the Pensions Committee.

PC asked whether the UN stewardship initiative for human rights and social issues addresses geopolitical concerns, (i.e., China, Yemen and Palestine). OT replied a provision has been built into the model to address extraordinary risks/ issues. In parallel with the framework, the Fund, through its partnership with LAPFF, is engaging with companies to address social and human right issues, (i.e., issues in relation to Occupied Palestinian Territories).

PC stated the PRI initiative provides a coherent evidence-based framework to address social and human right issues.

It has been agreed that RI reports are included in the public pack for the Pensions Committee.

LAPFF Quarterly Engagement Report

<https://lapfforum.org/wp-content/uploads/2022/04/LAPFF-QER-2022-Q1.pdf>

Northern LGPS Quarterly Stewardship Report

https://northernlgps.org/assets/pdf/stewardq1_2022.pdf

4. AOB

None

PC closed the meeting at 12:30pm

Date of next meeting: Wed 9th September 2022, 10:30am MS Teams.