Minutes of IMWP Meeting held on 18th September 2024

Attendees

Name	**Initials**	**Organisation**
Councillor Brenda Hall (Chair)	BH	
Councillor Helen Cameron	HC	WBC
Councillor Chris Carubia	CC	WBC
Councillor Pat Cleary	PC	WBC
Councillor George Davies	GD	WBC
Councillor Jeff Green (Vice Chair)	JG	WBC
Councillor Brian Kenny	BK	WBC
Councillor Christine Howard	CH	Sefton
Jill Davys	JD	Redington
Charlie Sheridan	CS	Redington
Paul Watson	PWa	Independent Advisor
Rohan Worrall	RW	Independent Advisor
Peter Wallach	PW	MPF
Owen Thorne	OT	MPF
Alex Abela-Stevenson	AAS	MPF
Emma Littler	EL	MPF
Daniel Proudfoot	DP	MPF
Adil Manzoor	AM	MPF
Neil Gill	NG	MPF
Roksana Klapkowska	RK	MPF
Allister Goulding	AG	MPF
Ciaran Sharp	CS	MPF
Joseph Hull	JH	MPF
Roksana Klapkowska	RK	MPF

1. **Apologies**

Councillor Ann Ainsworth
Councillor Martin Bond

2. **Minutes of IMWP 5th June 2024**

Noted, no amendments.

3. Market Commentary – Rohan Worrall (RW)

Most equity markets have done well over the quarter. Global PMI that is a forward-looking economic indicator suggests that the growth should continue in the next few months. Inflation has been in decline, with core inflation closer to the target line, but elevated CPI due to price increases in services. The performance in equities has been led by the US, mostly due to the outperformance of growth stocks (particularly the Magnificent 7). In the UK market value stocks are a bigger component of the index. MPF's portfolio is also biased towards value.

Bond yields have been going up and so the bond prices were going down.

GBP was fairly stable in the last 3 -12 months. Yen is weak due to its short selling yen caused by low interest rates in Japan.

Commodities performed well over the last 12 months, especially silver and gold as since the invasion of Ukraine, central banks are buying gold to diversify their reserves.

In terms of the future outlook, growth looks firm, core inflation is under control, with interest rates in most developed countries expected to continue to come down moderately. Issues that will be destabilising the market include the US election, as both candidates have very strong views, for example, the USA may leave NATO in case of Trump's victory. In France the elected government is very polarised and both sides plan high spending. With the French budget deficit already high, there will be political pressures from EU to curb it, which may impact the Euro. China seems to be in stagnation. Risk reduction and staying close to the benchmark are recommended.

Q&A

It was asked whether the speculation about the elections may impact the market. RW confirmed and highlighted that whoever will be the president will probably not have a strong mandate so may not be able to pass legislation, especially if Trump loses, he might still seek to have influence. The USD is already starting to weaken.

I was noted that Japanese equities were lower and that China's entering stagnation must be dangerous for the world's economy. RW explained that the West has shrinking population so it's harder to generate growth and in China peak population is declining so it's also going to be harder to generate growth. PW added that governments will have to increase spending, resulting in higher inflation components. Potential deflation in China would help to mitigate inflationary pressures in the west. In higher inflation real assets perform better as they store value. Equities may not perform as well but still better than fixed income.

Japan's aging population and how it's affecting the yen was discussed. RW replied that Japan is a very experimental case as it has aging population but with high saving rates contrary to the US, so Japanese are able to finance themselves.

4. MPF Monitoring Report – Peter Wallach (PW)

PW informed MPF has terminated the Newton and Unigestion mandates, but there are still some portfolios flagged as underperforming. The Fund continues to reallocate money from equities into bonds (as per the SAA changes), resulting in relatively high level of cash earning an attractive level of interest.

Q&A

It was asked whether divestment resulted in the overall number of mandates coming down. PW confirmed that MPF continues to reduce the number of equity mandates and will gradually increase fixed income exposure.

RW asked whether there is a factor exposure that explains some of the underperformance of some of the mandates. PW explained that it provides some explanation but there are some anomalies as, for example, the UK passive is flagged red which should not be the case as it should perform in line with the market; but there is some volatility due to its ESG tilts.

The underperformance of infrastructure was questioned. AM explained that allocation to infrastructure is 10% and involves 2 strategies (direct and indirect infrastructure). Direct is allocated to GLIL and the balance are global funds invested in the UK, US, Europe. The benchmark is inflation linked and with the very high inflation over the last couple of years, it was underperforming. Once the inflation normalises, the performance should stabilise.

It was asked whether the Fund should be worried about the direction in which the policy is going with an emphasis on investing in greenfield infrastructure. AM explained that the Fund’s strategy reflects its risk appetite. The fund is fully funded but cash flow negative, so it is tilted towards brownfield operating assets rather than greenfield.

In reply to a follow-on question as to when the infrastructure portfolio is expected to start performing, AM replied that hopefully in the next couple of years, once the benchmark comes down, we should be closer to it. PW added that looking at the returns since pre-covid, the infrastructure portfolio had returned 4% every year whereas bonds that were deemed to be much safer returned -2%.

5. Strategy Update and Investment Workplan– Jill Davys (JD) and Charlie Sheridan (CS)

JD presented key metrics over the quarter; no significant changes. In terms of the Pension Risk Management Framework, red flags relate to liquidity and cash flow, which is like other LGPS that see a reduction in cash coming in. CAA didn’t change much over the quarter. With respect to the implementation update the

Fund has gone through the equity change programme and working with Redington to reduce the risk of the portfolio, as well as optimise it to consider ESG ambitions. MPF is currently going through the fixed income change programme with the next element of the programme relating to private markets.

Charlie Sheridan introduced the private markets change programme, compared liquid and illiquid assets and their characteristics. Discussed private credit, equity, property, infrastructure, natural capital, hedge funds.

CS moved on to the fixed income Change Programme. A material increase in fixed income planned, a higher number of mandates, diversification to more global exposures. Increase exposure to leveraged loans, high yield, ABS, diversifying the type of credit. Explained the different types of credit and risks associated with them. Fixed income will be used to drive the reduction in emissions as well. Majority with of the fixed income portfolio will be actively managed.

Q&A

Clarification was sought whether when Funds are relatively well-funded and overfunded, but MPF is cash flow negative, the funding would continue to shrink. JD explained that LGPS remains an open scheme. There were some significant reductions in number of employees over the last 15 years but that has now stabilised. It’s much more gradual process for LGPS than for other schemes.

It was asked how pooling relates to this. JD said that pooling is more about the economies of scale and the consolidation of funds is currently rather difficult and not many funds have merged.

In relation to an inquiry about the next actuarial review, PW advised it’s in March 2025. JD and PW explained the principal assumptions in the actuary valuation and implications of the pooling of assets.

When asked whether investments in emerging markets would be in the liquid or illiquid bucket, CS replied they can be found in both, but mostly liquid.

Clarification was also sought on the nature of debt investments and liquidity. JD explained the difference between public and private markets debt and discussed the risk profiles of liquid and illiquid assets. Regarding the instances when the fund would choose senior and when junior debt, CS explained it depends on the risk appetite and market environment. PWa and RW further explained the characteristics of junior and senior debt.

Regarding an inquiry whether the fund has any investments in natural capital, PW replied there is an aspiration but no investment yet.

In relation to debt, a question was asked whether, with the Government involved in housing and housing associations being countercyclical and relatively safe, is that a direction the Fund would be considering. JD clarified that’s not something the Fund is looking at and that there is a broader opportunity set related to equity in housing.

It was noted that the slides about natural capital talked about achieving climate objectives and noted this would be difficult to measure and asked whether that would be measured and, if so, how. CS replied that Redington is monitoring the net zero targets set up in July using a climate framework in terms of emissions and alignment. The Fund uses S&P Trucost which provides climate metrics on annual basis. OT added that measuring natural capital is complex, but we would take climate metrics from S&P and TNFD. They can measure the impact and materiality.

In relation to a question as to how the fund is going to measure the level of positive environmental impact, CS explained it's led by the investment strategy survey which indicated a desire to increase this, noting that the Fund's objective is an aspiration to increase this. OT added that the pension committee approved the climate target solutions which included the determination of the quantum of investment related to the positive ESG impact, but it's also important where we allocate this capital.

RW asked whether there is a common factor in the decreased fundraising in the private markets and whether the opportunity set is shrinking. CS replied he will get back on that, but considering the trend there was a spike in 2021/2022 post Covid.

PWa asked about the weights within the fixed income. CS explained Redington don't look at fixed in isolation so there are no specific weights assigned to sub-classes.

RW noted that with switching from equities to fixed income, it needs to work harder to generate the desired returns and that's why new sources of fixed income are being introduced. CS agreed.

The reduction of fees resulting from bringing some mandates in-house was discussed. JD explained how the fees work and where the potential reduction comes from. PW added that more complex strategies would still be outsourced, but the Fund can optimise by moving some things in-house.

RW asked about the confidence in the reliability of the expected returns figures. CS replied that Redington has a team specialised in that and they rely on the data from the market. As always, caution should be exercised with respect to any predictions, but Redington can share their analysis if requested.

6. Pensions investment review – Peter Wallach (PW)

The Chancellor had announced there will be a review of pensions, mentioned in the King's speech. In September a call for evidence has been issued and needs to be submitted before 25th. PW discussed the general questions. MPF in its response will focus on the infrastructure and private equity funds pooled under GLIL and NPEP. That enables the delivery of lower fees as result of the scale. MPF has invested in the UK housing already. With respect to the costs versus value issue, MPF's view is that collaboration delivers the same benefits as consolidation. Regarding questions around investing in the UK, MPF has around half of its assets in the UK (as well as the Catalyst and commercial loan book) which, in terms of equities has been sub-optimal relative to returns from other international markets. MPF would welcome incentives for investing in the UK.