Pensions Committee

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Annual Investment Update – Lothian Pension Fund

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Report number	
Executive/routine	
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Executive Summary

This report provides an update on the investments and funding position of the Lothian Pension Fund to 31 March 2017.

Following completion of the 2014 Actuarial Valuation, the Fund's Investment Strategy was reviewed. The Pensions Committee agreed in December 2015 that the Investment Strategy 2012-17 remained appropriate.

Over the twelve months to 31 March 2017, investment market returns were very strong, driven in no small part by the devaluation of sterling following the UK's decision to leave the EU - global equities gained over 32% in sterling terms, index-linked gilts rose close to 26% while property gains were somewhat more muted at a mid-single digit percentage level. With the market experiencing such strong returns, the Fund's lower risk strategy meant that despite very strong absolute returns for the Fund at +21.7%, these lagged the benchmark return of +24.8%. Over five years, the Fund is achieving its target of benchmark returns with lower-than-benchmark risk, having returned 12.9% per annum, ahead of benchmark by 1.5% per annum.

The Lothian Pension Fund's funding level (the ratio of assets to liabilities) was 91.3% at 31 March 2014. Despite good growth in the Fund's investments since then, liability values have grown faster as yields have fallen. Hence, the overall funding level is expected to be lower. Preparations for the 2017 valuations are underway.

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Report

Annual Investment Update – Lothian Pension Fund

1. Recommendations

Committee is requested to:

1.1 Invite the Pension Board to raise any relevant matters or concerns which the Committee should consider; and

1.2 Note the performance, funding update and asset allocation of the Lothian Pension Fund.

2. Background

2.1 The purpose of the report is to provide an update on the investments and funding position of the Lothian Pension Fund to 31 March 2017.

2.2 The investment performance of the Fund has a significant impact on the funding level and potentially on the contributions required by employers.

3. Main report

Market Background to 31 March 2017

3.1 UK economic growth moderated further in 2016, slowing from 2.2% in 2015 to 1.8% in 2016. Towards the end of June, the UK voted to leave the EU, a result which was largely unanticipated by most investors. Global equity markets fell for two days before steadying and recovering most of their ground by the end of the month. However, the pound weakened sharply following the result, declining by almost 15% against the dollar, contributing to an increase in expected inflation over the next year. UK bond markets rose on fears of weaker economic growth.

3.2 Anticipating a potential slowdown in the economy, the Bank of England cut interest rates in August to a historic low of 0.25%. Subsequent economic news pointed to the UK economy faring better than expected, with the Bank revising its 2017 growth forecasts upwards from 1.4% in November to 2.0% in February 2017.

3.3 Following the UK referendum, investor attention focused on the November US Presidential election. Having fallen prior to the election, equity markets then recovered strongly following another unexpected result, confounding those that had predicted market turmoil accompanying a Trump victory. Signalling its confidence in the state of the US economy, the US Federal Reserve raised interest rates during December 2016 and then again in March 2017. While signalling that further rate rises would be likely over the remainder of 2017, Fed Chair Yellen also noted that the outlook remained uncertain.

3.4 In December, the European Central Bank (ECB) voted to extend its quantitative easing programme by a further nine months to the end of 2017, as estimates suggested inflation would remain below its 2% target in 2019. The Bank of Japan left its bank rate unchanged over the year and maintained its ongoing quantitative easing programme.

3.5 For the 12 months to 31 March 2017, equity market returns for sterling-based investors were boosted by the immediate drop in the currency after the referendum, and then further weakness as investors priced in the likelihood of an unpleasant departure (in economic terms) from current arrangements with the EU. Index-linked bonds delivered strong returns over the year, as bond investors also priced in the likelihood of weaker UK economic growth. The weaker UK outlook also contributed to subdued returns from UK property, with rental income offsetting a small decline in capital values.

3.6 The outlook for the global economy – steady developed market growth and mixed conditions across emerging markets – has remained broadly constant over the past year. Recent divergence in central bank monetary policy suggests the US is ahead of the rest of the world in its economic cycle. President Trump's pre-election promises of higher infrastructure spending and tax reform has been positive for equities but negative for US bonds, in the short term. However, the prospect of the US turning inwards to support its domestic economy also looms, which would be negative for global growth and raise the risk of a global recession.

Investment Strategy and Objectives

3.7 In order to provide suitable investment strategies for the differing requirements of employers, the Fund currently operates two investment strategies.

3.8 Most employer liabilities are funded under Strategy 1, which adopts a long-term investment strategy, aiming to maximise the investment return within reasonable and considered risk parameters and hence minimise the cost to the employer. The investment strategy is set at the broad asset class level of Equities, Index-Linked Assets and Alternatives, which are the key determinants of investment risk and return.

3.9 A small number of employers are funded in Strategy 2, which invests in a portfolio of UK index-linked gilts to reduce funding level and contribution rate risk as these employers approach exit from the Fund. The liabilities funded by Strategy 2 represent less than 1% of total liabilities.

3.10 Following completion of the 2014 Actuarial Valuation, the Investment Strategy Panel and Pensions Committee reviewed the Fund's investment strategy in light of developments in pension fund membership, expected cash flow, funding level, investment risk and return and employer covenant. The Pensions Committee agreed in December 2015 that the Investment Strategy 2012-17 (previously agreed in October 2012) remained appropriate for Strategy 1. It includes Equities and

Alternatives on the assumption that these assets will deliver better performance than Index-Linked Assets in the long-term.

Investment Strategy 2012-17 (Strategy 1)

	Long term Strategy Allocation %	Permitted Range %
Equities	65	50 – 75
Index-Linked Assets	7	0 – 20
Alternatives	28	20 - 35
Cash	0	0 - 10
TOTAL	**100**	

3.11 Implementation of the investment strategy is delegated to the Executive Director of Resources taking advice from the Investment Strategy Panel and the officers of the Fund. The Director reviews and considers the wide range of implementation options available in the market. Over recent years, the expansion of the internal team has enhanced the Fund's intellectual capital, improved the cost structure of the Fund and lead to the development and implementation of innovative and low cost investment strategies to meet the significant funding challenges faced by the Pension Funds. The Executive Director will continue to focus on the best ways of achieving the required net investment returns.

3.12 In terms of the evolution of the Fund, as exposures have moved towards the long term strategic allocation to Strategy 1, this has resulted in a modest reduction in the allocation to Equities (including private equity), a reduction in risk within Equities and a small increase in the allocation to Index-Linked Assets and Alternatives. It recognises a gradually changing risk profile for the Fund, but retains significant exposure to real investments, such as Index-Linked Assets and Equities, which have a history of protecting or enhancing purchasing power, after the effects of inflation have been taken into account. Prior to the 2012-17 investment strategy, the targeted allocation was 71.5% Equities, 5% Index-Linked gilts, 22.5% Alternatives and 1% Cash.

3.13 The Fund's investment objectives are:

- Over long-term economic cycles (typically 5 years or more), the achievement of the same return as that generated by the strategic allocation;
- Over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.

Asset Allocation and Strategy Implementation

3.14 As described above, Strategy 2 invests in a portfolio of index-linked gilts, which has been in place notionally since 1 April 2015 on completion of the 2014 actuarial valuation. A new portfolio of these gilts was created during 2015/16 with assets of £54.3m invested at end March 2017.

3.15 The remainder of this section of the report focuses on implementation of the Investment Strategy 2012-17 (Strategy 1). It is proceeding at a measured pace as investment opportunities become available and as research on opportunities is completed. This is reflected in the interim strategy allocation shown in the table below.

Investment Strategy 2012-17 (Strategy 1)

Asset Category	Manager	Actual Allocation 31 March 2016 %	Actual Allocation 31 March 2017 %	Interim Strategy Allocation 31 March 2016 %	Interim Strategy Allocation 31 March 2017 %
EQUITIES					
UK All Cap	Internal	2.0	2.0	2.0	2.0
UK Mid Cap	Internal	2.0	1.9	1.8	1.8
Europe (ex UK)	Internal	2.0	1.8	2.1	2.1
US	Internal	2.2	2.3	2.1	2.1
Global High Dividend Yield	Internal	14.2	14.3	14.3	14.3
Global Low Volatility	Internal	18.0	17.9	17.5	17.5
Global Low Vol / Value	Internal	15.4	15.1	15.0	15.0
Global	Nordea	4.1	4.3	3.7	3.7
Global	Harris	3.5	4.0	3.5	3.5
Private Equity	Various	4.2	3.2	5.0	4.0
Currency Hedge	Internal	-0.2	0.0	0.0	0.0
Transition Account	Internal	0.4	0.4	0.0	0.0
Subtotal		**67.8**	**66.9**	**67.0**	**66.0**
INDEX-LINKED ASSETS					
Index-linked gilts/gold	Internal	7.0	7.2	7.0	7.0
Subtotal		**7.0**	**7.2**	**7.0**	**7.0**
ALTERNATIVES					
Property	Various	8.8	7.0	10.0	10.0
Other Real Assets [1]	Various	10.1	12.6	9.0	9.0
Other Bonds [2]	Various	3.5	4.0	6.0	7.5
Alternatives Cash	Internal	1.6	1.5	0.0	0.0
Subtotal		**24.0**	**25.1**	**25.0**	**26.5**
CASH	Internal	1.0	1.0	1.0	0.5
TOTAL FUND		**100**	**100**	**100**	**100**

The table includes small rounding effects
[1] Includes infrastructure and timber; [2] includes sovereign bonds, corporate debt and private debt.

3.16 At 31 March 2017, the Fund had a small overweight position in equities and a small underweight position in Alternatives as a result of the Other Bonds weighting, compared to the interim strategy at 31 March 2017. The table above shows the changes in actual allocation over the financial year 2016/17 and the current interim strategy allocation at end of March 2017.

Equities

3.17 A key objective of the Fund's investment strategy is to reduce risk and this is largely achieved by reducing risk within the equity pool of assets. Implementation of the strategy has involved a shift from a regional to a global manager structure. Significant steps have been taken in this regard in prior years with the introduction of the internally managed global high dividend equities, low volatility equities and multi-factor low volatility, high value equities. As such, 2016/17 represented much more of a "steady state" in terms of the structure within the equity exposure. The only notable change to report over the year was within one of the internally managed regional portfolios. The Europe (ex UK) is being managed using an investment process created by the internal portfolio management team. This process, which has been rigorously back-tested and thoroughly scrutinised by both the internal team and the Investment Strategy Panel, is designed to target good quality, high-returning companies with sustainable economic moats. Turnover of holdings is expected to be low.

3.18 The activity in recent years has been to increase the proportion of internally managed global equity strategies to reduce investment risk. The resultant equity pool of assets is expected to perform relatively well when equity markets are weak and produce good positive absolute returns in rising equity markets.

a. None of the Fund's equity portfolios are constrained by market capitalisation indices, or the tracking error measurement of risk, which is regarded as a suboptimal approach to portfolio construction. Instead the focus is capital preservation and the sustainability of income generation. The Fund's independent performance measurer, Portfolio Evaluation, estimates that the Fund's equity risk is now approximately 90% of the risk of the equity benchmark. This compares with 98% as at 31 March 2012.
b. Almost 90% of the Fund's listed equities are managed internally with the majority of these in low cost, low turnover strategies, which are expected to enhance the Fund's risk-adjusted returns over the long term.

3.19 The Fund also hedges exposures to the currencies of overseas listed equities with the explicit aim of reducing volatility rather than seeking to generate improved returns. The Fund therefore maintains exposure to currencies that are expected to reduce volatility, such as the US Dollar and Japanese Yen which tend to fall as equities rise, and hedges exposure to currencies that are expected to increase volatility, such as the Australian Dollar which tend to rise as equities rise. The hedge achieved its objective of reducing volatility over 2016/17, though it detracted modestly from Fund return (-0.3%). The Fund did not hedge most currencies, which was very beneficial to the Fund as its largest equity related currency exposures appreciated against sterling – the US Dollar by 13%, the Euro by 7% and the Japanese Yen by 14%.

3.20 Given the desire to reduce risk, the decision was made in 2012 not to make further private equity investments as they tend to be more volatile investments involving greater financial leverage. As historic investments mature, cash is being returned from these investments at a faster pace than they are investing new money, as such our exposure is reducing. Private equity has fallen from 4.2% of the Fund to 3.2% at end March 2017.

3.21 The dividend income from the internally managed global equity portfolios has been withdrawn on a monthly basis. A net £98 million was withdrawn during 2016/17. There is no such cash sweep in place for the externally managed global portfolios, hence their weightings have continued to rise as equities have performed well.

Index-Linked Assets

3.22 Index-linked assets provide diversification, some insurance against an unexpected rise in inflation and a return broadly in line with the Fund's liabilities. The prospective long term real return is, however, very low. Having increased the Fund's exposure to index-linked assets in the prior year, and following very strong returns this year, the Fund is now marginally overweight versus the strategic allocation.

Alternative Investments

3.23 The Fund's strategy is to increase the actual allocation to alternative investments, which includes assets such as property, infrastructure, non-index-linked bonds and timber, to provide greater diversification and attractive returns. Many of these investments are unlisted and increasing exposure is dependent on finding attractive opportunities. The Fund's actual allocation increased from 24% to 25% mainly as a result of investments being made in infrastructure assets.

- The Fund's longstanding commitment to infrastructure investing bore further fruit over 2016/17 as a strong pipeline of opportunities allowed the Fund to make a number of investments and commitments with a focus on secondary fund interests, selective primary fund commitments and co-investments alongside the Fund's existing manager/fund relationships. The investment value of the Fund's infrastructure assets increased from 7.8% to 10.7% despite strong distributions of £67million from several successful investments.
- The allocation to commercial property declined over the year from 8.8% to 6.9%, mainly due to relative weakness in the asset class.
- The other sub-category in Other Real Assets is timber. 2016/17 benefited from currency translation of the US dollar denominated investments. The allocation reduced modestly to 2.1% as a result of distributions.
- In the Other Bond category, the actual allocation remains below the interim strategy allocation of 7.5%, increasing from 3.5% to 4.0% over the year. A considerable amount of research effort has been expended on identifying attractive investments. It remains the case, however, that opportunities to achieve the target return of 3.5% in excess of inflation without the use of

leverage are few and far between. During the year, further commitments were made to three private debt funds, which invest in corporate loans and aim to deliver the target return with acceptable risk. The continuing backdrop of unusually low interest rates and narrowing corporate credit spreads means that the pace of investment will slow unless there is a dislocation in market prices. Meantime, the Fund continues to search for investments providing diversification and secure returns.

3.24 The Fund makes commitments to unlisted investment and the timing of these can be uncertain as it depends on the manager being able to purchase assets. Details of outstanding commitments as at 31 March 2017 were as follows:

	Unfunded Commitments in Local Currency			**TOTAL**
	US$ m	**Euros m**	**£ m**	**£ m**
Private Equity	55	8	1	52
Infrastructure	35	61	22	102
Real Estate	-	2	-	2
Private Debt	-	18	35	51
Total	**90**	**89**	**58**	**207**

Investment Performance to 31 March 2017

3.25 The Fund's performance over the last year and over longer-term timeframes is shown in the table below:

% per annum	**1 Year**	**5 Years**	**10 Years**
Lothian Pension Fund	+21.7%	+12.9%	+8.2%
Benchmark	+24.8%	+11.4%	+6.6%
Relative	***-3.1%***	***+1.5%***	***+1.5%***

While the Fund return lagged the benchmark over the year to 31st March 2017, this needs to be viewed in the context of the strong absolute return for the period and the strategic objective targeting lower risk exposure. Additionally, this follows on from 6.2% outperformance in the prior year (Fund +6.5% vs. benchmark +0.2% between March 2015 and March 2016).

3.26 The direction of the Fund's performance when markets are increasing and decreasing is one way of measuring the volatility. It has been a relatively short period of time since the lower volatility objective and strategy was put in place and market volatility has been relatively benign. Nevertheless, performance over the last 3 years does indicate that the Fund is delivering lower volatility (3 years is chosen due to the significant change in structure in December 2013 with the launch of the global low volatility equity portfolio and the shift from regional passive to active). Fund performance over the last 3 years was:

- better than the strategic allocation when markets fell (10 out of 36 months) with average performance of 0.57% better than the strategic benchmark and;
- very marginally worse than the strategic allocation when markets were rising (26 out of 36 months) with average performance 0.02% behind the strategic benchmark.

3.27 The Fund's return (+21.7%) over the year lagged the benchmark return (+24.8%) by 3.1%, though remains ahead of benchmark over longer timeframes. The returns from the underlying asset class benchmarks over 1 and 5 years are as follows:

% per annum	**1 Year**		**5 Years**	
	Fund	Benchmark	Fund	Benchmark
Equities (ex private equity)	+25.8%	+32.2%	+13.8%	+13.5%
Index-linked gilts	+25.9%	+26.1%	+10.9%	+11.8%
Alternatives	+12.7%	+6.9%	+10.3%	+5.8%

3.28 The benchmark shown in the table above comprises equity, index-linked gilt and cash indices as well as an inflation-linked index for the Alternatives allocation. The weak relative return over one year for the Fund reflect weaker relative returns for equities than the market capitalisation weighted benchmark and much better returns for Alternatives than the inflation-linked index.

3.29 While relative returns over the year appear weak, this is consistent with strategy (given the very strong market backdrop) and returns were very strong in absolute terms. Committee will also recall, this follows on from a period of significant outperformance in the prior year (2015/16) where the Fund outperformed its benchmark by 6.2%. Notable performance within each asset class was as follows:

- The Fund's Equity investments, managed by the internal team and two external managers, combined to produce a return of 25.8% over the year, aided in no small part by the weakness of sterling (which boosts returns to a UK investor from overseas equities). While strong in absolute terms, this lagged the equity benchmark return by 6.4%. This should come as little surprise, given the low-risk nature of the equity exposure. The Fund would expect to garner some (though not all) of the upside in markets but importantly provide downside protection in the event of significant market weakness, as occurred in 2015/16. Relative weakness in equities was mainly driven by underperformance from each of the global equity portfolios other than Harris. Exposure to the UK portfolios, which did not benefit from currency depreciation, and to listed private equity, where valuations tend to lag the equity market, both detracted from relative returns.
- The Fund's Index-Linked investments delivered a surprisingly stellar return of 25.9% over the year as real yields continued their long-term downtrend

while the Fund's small gold holding rose 15.5% in sterling terms by virtue of being priced in US dollars.

- The Fund's Alternative investment performance was 12.7% over the year. Within Alternatives, returns from property and private debt lagged with gains of 5.4% and 7.3% respectively, while timber & agriculture, other bonds and infrastructure limited partnerships experienced gains of 16.1%, 14.7% and 18.7% over the year to March 2017.

3.30 Over 2016/17, asset allocation differences with the benchmark had a minor impact, adding 0.3% to relative returns. The biggest driver of this was the underweight allocation to Alternatives – the underweight reflected the gradual pace of building the portfolio of private market assets up to the strategy weight. The return of the Alternatives RPI-related benchmark was 6.9%, which was notably lower than the 26.1% return of the Index-Linked Asset benchmark and the 32.2% gain in the Equity benchmark.

3.31 The Fund reduced equity risk over the period around the UK's referendum on EU membership by selling a portion of its equity exposure and reinvesting it in bond futures contracts. This "hedge" contributed 0.1% to the excess return at the Total Fund level despite being in place for just a short (10 day) period.

3.32 The structure of the equity pool of assets and the currency hedge were helpful in achieving the outcome of lower volatility. The Fund hedges exposure to overseas equities where hedging is expected to reduce Fund risk and does not hedge exposure where hedging is expected to magnify Fund risk. Over 2016/17, the impact of currency hedging on overseas equities exposure was in line with the strategy – although it generated a small negative return (0.3%), it succeeded in reducing Fund risk (volatility), which is its primary purpose. The negative return occurred because the Fund had two small hedges and sterling was notably weak over the year against most currencies.

3.33 Returns relative to the benchmark over a one year period need to be placed in the context that there are no ideal benchmarks for many of the assets held in the Fund, especially the Alternatives. The true value and returns on the unlisted investments in the Alternatives portfolio will not be known until assets are realised, perhaps not for several years. Investments are made in Alternative asset classes due to the attractive expected long-term returns and the diversification they provide. Additionally, the low risk equity exposure is specifically designed to provide downside protection in times of market stress while participating in some, though not necessarily all, of any upward movement. Committee should expect returns to deviate meaningfully from the benchmark over shorter time periods. The Investment Strategy Panel assesses the underlying risks of the portfolios that make up the asset allocation to ensure that these are consistent with the long-term objectives of the Fund.

Scrutiny and Transparency of Investments

3.34 Details of the Lothian Pension Fund's investments are reported regularly, both in Committee reports and in the Report and Accounts, both of which are publicly available. The Fund is also subject to regular Freedom of Information requests to which it responds promptly. A complete list of holdings is also made available on the Fund's website.

Funding Level Update and 2017 Actuarial Valuation

3.35 The funding level is the ratio of the pension scheme's assets to liabilities. At the last actuarial valuation at end March 2014, the funding level was 91.3%. The key financial assumptions included in the actuarial valuation were:

- the return which will be generated by the assets i.e. the rate used to discount the liabilities. This was 3.5% on the gilts basis and 5.0% p.a. on the ongoing basis and;
- the rate at which pension liabilities increase, the Consumer Price Index (assumed to be 2.7%p.a., the market's expectation for Retail Price Index less 0.8%p.a.).

3.36 The table below compares these assumptions with the actual experience of the Fund in the three years since the actuarial valuation.

	2014/15 %	**2015/16 %**	**2016/17 %**	**Three years 2014-2017 % p.a.**	**Assumed % p.a.**
Pension Increase [1]	+1.2	-0.1	+1.0	+0.7	+2.7
Investment Return – Strategy 1	+16.5	+6.5	+21.7	+14.7	+5.0
Investment Return – Strategy 2	+16.5	+2.4	+19.9	+12.7	+3.5

[1] CPI applied to pensions in April 2015, 2016 and 2017

3.37 Inflation has been lower than expected and investment returns for both strategies have been in excess of that assumed. These would be expected to increase the funding level, all other things being equal.

3.38 The net discount rate used to value the liabilities is based on the yield on government bonds. At 31 March 2014, the yield was 3.5%. For those employers invested in Strategy 1, an additional allowance of 1.5% was included in the discount rate to reflect expected performance of the strategy. The equivalent yield on government bonds at 31 March 2017 was 1.7%. This reduction in the bond yield would be expected to have increased the value of the liabilities.

3.39 In summary, despite good growth in the Fund's investments since March 2014, liability values have also grown as yields have fallen.

3.40 Preparatory meetings have been held with the Actuary as part of the 2017 actuarial valuation and draft results are expected to be available in the autumn.

Conclusion

3.41 Implementation of Investment Strategy 1 has progressed steadily over the last twelve months. As the private equity investments mature and distribute cash, this has allowed a modest reduction in the overall allocation to equities. While exposure to property has reduced following underperformance of the asset class, the overall allocation to alternatives has increased with further investment in infrastructure and a modest increase in other bonds through further commitment to private debt. Strategy 2 is invested in a portfolio of index-linked gilts to reduce funding level and contribution rate risk for employers approaching exit from the Fund.

3.42 The absolute performance of Lothian Pension Fund over the twelve-month period was 21.7%. Five-year performance is 12.9% per annum. Over ten years, the Fund returned 8.2% per annum.

3.43 The context for the strong double-digit return for the Fund was a period of generally strong investment markets and notable sterling weakness, boosting returns for UK based investors.

3.44 The Investment Strategy Panel and internal team continue to focus on implementation of the investment strategies, particularly on increasing the allocation to alternative investments in Strategy 1 where possible and on researching and finding complementary strategies.

3.45 At the 2014 triennial actuarial valuation, the funding level at 31 March 2014 was 91.3%. Despite good growth in the Fund's investments since March 2014, liability values have also grown as yields have fallen.

4. Measures of success

4.1 The investment performance of the Lothian Pension Fund is crucial to the achievement of the required investment return which impacts on the funding level and employers' contributions. The objectives for the investments are:

- Over long-term economic cycles (typically 5 years or more), the achievement of the same return as that generated by the strategic allocation;
- Over shorter periods, the Fund should perform better than the strategic allocation if markets fall significantly.

5. Financial impact

5.1 The report details the investment performance of the Lothian Pension Fund. The investment performance has a significant impact on the funding levels and potentially on the contributions required from employers.

6. Risk, policy, compliance and governance impact

6.1 Investment strategy is a key determinant of funding level, risk and volatility of employer contribution rates. The Fund's investment strategies are aimed at reducing the risk without sacrificing returns.

6.2 There is no governance impact as a result of this report. Committee delegates the implementation of investment strategy to the Executive Director of Resources, who takes advice from the Investment Strategy Panel. The Investment Strategy Panel is an important element of the governance of the Pension Fund investments. In addition, active engagement with the companies in which the Fund invests should reduce risk and enhance the sustainability of investment performance.

7. Equalities impact

7.1 There are no equalities implications as a result of this report.

8. Sustainability impact

8.1 The Statement of Investment Principles (covered elsewhere on the agenda) sets out the Funds' approach as responsible asset owners, and details how voting, engagement and other Environmental, Social and Governance activity will be undertaken. Compliance with it is expected to contribute to the sustainability of the Fund's investments.

9. Consultation and engagement

9.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the Fund.

10. Background reading/external references

10.1 None.

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Executive Director of Resources

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11. Appendices

None