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PUBLIC

To: Members of Pensions and Investments Committee

Tuesday, 1 December 2020

Dear Councillor,

Please attend a meeting of the **Pensions and Investments Committee** to be held at **10.30 am** on **Wednesday, 9 December 2020.** This meeting will be held virtually. As a member of the public you can view the virtual meeting via the County Council's website. The website will provide details of how to access the meeting, the agenda for which is set out below.

Yours faithfully,

**Simon Hobbs**
**Director of Legal and Democratic Services**

## A G E N D A

## PART I - NON-EXEMPT ITEMS

1. To receive apologies for absence

2. To receive declarations of interest (if any)

3. To confirm the minutes of the meeting held on 4 November 2020 (Pages 1 - 14)

To consider the reports of the Director of Finance and ICT on:

4 (a) Investment Report (Pages 15 - 96)

4 (b) Stewardship Report (Pages 97 - 128)

4 (c) LGPS Investment Pooling (Pages 129 - 136)

5. Exclusion of the Public

To move "That under Regulation 21 (1)(b) of the Local Authorities (Executive Arrangements) (Access to Information) (England) Regulations 2000, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph(s)… of Part 1 of Schedule 12A to the Local Government Act 1972"

**PART II - EXEMPT ITEMS**

6. To receive declarations of interest (if any)

To consider the exempt reports of the Director of Finance and ICT on:

7 (a) LGPS Investment Pooling - confidential (Pages 137 - 140)

7 (b) Investment in Infrastructure (Pages 141 - 144)

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**MINUTES** of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE** held on 4 November 2020

**PRESENT**

Councillor J Perkins (in the Chair)

**Derbyshire County Council**

Councillors R Ashton, J Boult, P Makin, S Marshall-Clarke, R Mihaly, P Murray (substitute Member) and B Ridgway

**Derby City Council**

Councillor M Carr

Also in attendance – M Fairman, D Kinley, N Smith and S Webster.

Apologies for absence were received on behalf of Councillors N Atkin (Derbyshire County Council) and L Care (Derby City Council).

**47/20** **MINUTES** **RESOLVED** that the minutes of the meeting held on 9 September 2020 be confirmed as a correct record.

**48/20** **MHCLG CONSULTATION ON REFORM OF EXIT PAYMENTS IN LOCAL GOVERNMENT** The Committee was advised of the publication of the Ministry of Housing, Communities and Local Government's (MHCLG) consultation on draft regulations to reform exit payment terms for local government workers, and specifically for those who were eligible to be members of the Local Government Pension Scheme (LGPS). The consultation was attached as Appendix 1.

Approval was sought for the Director of Finance & ICT, in consultation with the Chairman of the Committee, to consider the Fund's response to the consultation and to authorise its submission to MHCLG.

The Government had been working on proposals to reform public sector exit payment terms for a number of years. In April 2019, the Government had published a consultation which sought views on regulations implementing a £95,000 cap on exit payments in the public sector. The consultation closed in July 2019 and the government published its response to the consultation together with draft regulations in July 2020. The Restriction of Public Sector Exit Payments Regulations 2020 (Exit Payment Regulations) were subsequently approved by Parliament and would come into force on 4 November 2020.

The cap of £95,000 would apply to the aggregate sum of payments made in consequence of termination of employment. It was not currently proposed that an inflationary uplift would be applied to the cap, which Members expressed their concern about. The main elements of an exit payment would be:

- statutory and discretionary redundancy payments
- strain/shortfall payments to a pension fund to reduce or remove actuarial reductions on the payment of early retirement benefits

Payments in respect of the following would be exempt from restriction:

- death in service
- incapacity as a result of accident, injury or illness
- annual leave due but not taken
- compliance with an order of a court or tribunal
- pay in lieu of notice that does not exceed one quarter of the relevant person's salary
- certain payments related to firefighters and members of the judiciary

Draft HM Treasury Directions published in 2019, set out circumstances where the power to relax restrictions must be exercised (mandatory cases) and may be exercised (discretionary cases). The power to relax the cap was expected to be delegated to certain authorities which included the full council of a local authority provided they act in accordance with HM Treasury Directions or otherwise with the consent of HM Treasury.

The mandatory waiver process was expected to cover:

- settlement payments related to whistleblowing, discrimination; health and safety related detriment and unfair dismissal claims if the authority was satisfied that on the balance of probabilities an award would be made to the employee if the claim proceeded to a tribunal
- obligations to make exit payments arising as a result of TUPE transfers (but would not apply to transfers resulting from local government re-organisation)
- certain pension payments by the Nuclear Decommissioning Authority

The circumstances expected to be covered by the discretionary waiver process were highlighted. It was expected that the discretionary relaxation of the cap would only be used in exceptional circumstances and that its application by local authorities would require approval by MHCLG and HM Treasury.

The Guidance and Directions to accompany the Exit Payment Regulations, which would set out the discretionary waiver process, and the position of exits agreed before 4 November 2020 where the date of leaving was after, were published on 30 October 2020. The Head of Pension Fund informed the Committee that the Regulations were subject to four potential challenges by means of Judicial Review. These were based mainly around the fact that the Regulations had been brought in retrospectively and affected contracts of employment that were already in place.

Government departments responsible for the main public sector workforces had been asked to negotiate and agree exit payments reforms directly with each sector. On 7 September 2020, MHCLG had published a consultation on restricting exit payments in local government in England and Wales. The consultation related to proposed changes to the Local Government Pension Scheme Regulations 2013 and the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 (Discretionary Compensation Regulations).

The LGPS Regulations 2013 provided that employees aged 55 or more who were members of the LGPS were entitled to an immediate unreduced pension benefits where:

- the member is dismissed from an employment on redundancy or business efficiency ground
- the employment is terminated by mutual consent on business efficiency grounds

The consultation goes wider than addressing the government's original stated concern about the number of exit payments made to public sector workers that exceeded or come close to £100,000. Under the proposals, the value of exit packages for all English and Welsh members of the LGPS who were made redundant could be significantly reduced.

Total exit payments would be capped at £95,000 in line with the Exit Payment Regulations. However, even below the £95,000 level, local government employees would be affected by the proposed changes. It was proposed that the following would apply to redundancy payments in local government:

- a maximum tariff for calculating exit payments of three weeks' pay per year of service
- a ceiling of 15 months (66 weeks) on the maximum number of months' or weeks' salary that can be paid as a redundancy compensation payment
- a maximum salary of £80,000 on which a redundancy compensation payment can be based

As noted above, the Exit Payment Regulations came into force on 4 November 2020. The additional further exit payment reforms proposed by MHCLG, which included the accommodation of the Exit Payment Regulations, were currently subject to consultation and were not expected to come into force before the end of this year. This would mean that there would be a period of legal uncertainty when scheme employers were under an obligation under the Exit Payment Regulations to potentially limit strain cost payments and administering authorities were required under existing LGPS regulations to pay unreduced pensions to qualifying scheme members. Members expressed their concern over this issue and requested that clarification be sought. MHCLG was expected to issue a statement with respect to the difficulty this would cause for local government employers and LGPS administering authorities very shortly. The LGPS Scheme Advisory Board was also obtaining legal advice on the risk of challenge to LGPS authorities during this period.

A bulletin, including a briefing note from Hymans Robertson, the Fund's actuary, had been sent to all of the Fund's employers highlighting the issue of exit payments which may have a significant impact on current and future workforce planning arrangements. Updates would be provided to employers as appropriate. A working group of officers from the Pension Fund and from the council's HR and Legal departments were meeting regularly to discuss the implications of the evolving exit payments legislation.

The MHCLG consultation would close on 9 November 2020 and officers were working through the MHCLG consultation document and would formulate a response to the consultation in due course. Therefore, approval was sought for the Director of Finance & ICT, in consultation with the Chairman of the Committee, to consider the Fund's response to the consultation and to authorise its submission to MHCLG.

**RESOLVED** that the Committee (1) notes the publication of MHCLG's consultation on draft regulations to reform exit payment terms for local government workers; and

(2) delegates the consideration of the Fund's response to the consultation, and the approval of its submission to MHCLG, to the Director of Finance & ICT in conjunction with the Chairman of the Committee.

**49/20 <u>INVESTMENT STRATEGY STATEMENT, RESPONSIBLE INVESTMENT FRAMEWORK AND CLIMATE STRATEGY CONSULTATION</u>**

The Investment Strategy Statement (ISS), Responsible Investment (RI) Framework and Climate Strategy had been approved by Committee for consultation on 9 September 2020. The consultation process opened on 23 September 2020 and ran until 21 October 2020.

The proposed ISS, RI Framework and Climate Strategy, together with the FAQs, were attached to the consultation page. In order to make stakeholders aware of the consultation letters had been sent to over 82,000 individual members of the Fund. The letter included details of the forthcoming member self-service solution (including the required notice that Annual Benefit Statements would be available online next year); the consultation; and details of the McCloud remedy.

The deadline for providing comments on the consultation was extended, in early October, from 14 to 21 of October when it became apparent that the post was taking longer than usual to arrive due to the current pandemic

Officers of the Fund had also held a virtual meeting with representatives of Divest Derbyshire and Derbyshire Pensioners' Action Group to discuss the proposed Climate Strategy at their request.

The Fund had received 49 responses to the consultation from various respondents. The vast majority of responses related to the proposed Climate Strategy, with forty respondents wanting the Fund to divest from fossil fuels investments on the basis that:

- there was financial risk due to the global transition to a more sustainable economic and environment model (including the risk of stranded assets)
- global oil demand 'was widely thought to have already peaked'
- fossil fuels were not a sustainable energy source
- 'renewables were now cheaper than fossil fuels in every major region in the world'
- 'carbon was causing the Climate Crisis'

Amber Valley Borough Council's response to the consultation reported that the Council had voted to support the following motion at its meeting on 30 September 2020:

*'Having declared a Climate Emergency in July 2019, Amber Valley Borough Council calls for the Derbyshire Pension Fund to disinvest its remaining funds in fossil fuels and to invest in renewables.'*

This followed similar motions from Chesterfield Borough Council, passed by full Council in July 2020, and from Derby City Council, passed by full Council in March 2018.

Thirty-two respondents thought that the proposed targets for reducing the carbon footprint of the listed equity portfolio, investing in low carbon and sustainable investments and achieving a carbon neutral portfolio by 2050 were not ambitious enough. Twenty-three respondents wanted to see a greater increase in the allocation to renewable investments, with seventeen respondents asking the Fund to invest at least 80% of the portfolio in low carbon and sustainable investments by the end of 2025. Fourteen respondents wanted the Fund to achieve a portfolio of assets with net zero carbon emissions by 2030. A point which was also suggested by Councillor Carr.

The comments on the consultation process itself would be considered before the Fund next consulted with its stakeholders. Some respondents welcomed the set of Frequently Attached Questions attached to the consultation. However, all suggestions for improving written communications to stakeholders would be considered.

The Head of Pension Fund informed the Committee that taking into consideration the consultation, it was now proposed that targets for carbon footprint and low carbon and sustainable investment in the Climate Strategy would be reviewed in three years' time (rather than the five years proposed in the consultation), and would thereafter be reviewed on at least a three yearly basis' in recognition of evolving practice and concerns raised by stakeholders.

Councillor Carr suggested that a biennial review of the targets might be more appropriate, taking into consideration the increasing scientific evidence of the effects of climate change and the feedback to the consultation.

Councillor Marshall-Clarke welcomed the consultation and the feedback provided and noted the importance of considering social and governance matters alongside environmental matters. It had been a long term ambition of this Committee to have a robust climate strategy in place and he wished to thank officers for their contribution and fully endorsed the development of the strategy.

**RESOLVED** that the Committee (1) notes the outcome of the consultation in respect of Derbyshire Pension Fund's revised Investment Strategy Statement, and inaugural Responsible Investment Framework and Climate Strategy;

(2) confirms that no changes to the revised Investment Strategy Statement are required based on the outcome of the consultation and approves the revised Investment Strategy Statement attached as Appendix 1 to the report;

(3) confirms that no changes to the Responsible Investment Framework are required based on the outcome of the consultation and approves the Responsible Investment Framework attached as Appendix 2 to the report;

(4) agrees that the Fund will review the carbon footprint of the listed equity portfolio together with the low carbon and sustainable investment targets on a triennial cycle from the date of approval of the Climate Strategy; and

(5) approves the Climate Strategy attached as Appendix 3 to the report.

**50/20** **CONFLICTS OF INTEREST POLICY** Conflicts of interest had always existed for those with Local Government Pension Scheme (LGPS) administering authority responsibilities as well as for advisers to LGPS funds. This reflected the fact that many of those managing or advising LGPS funds would have a variety of other roles and responsibilities, for example as an elected member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority.

Whilst the current legislative background largely related to managing conflicts of interest with respect to members of Local Pension Boards, in the interests of best practice, this Policy would relate to:

- All members of Derbyshire Pension Board
- All members of the Pensions and Investments Committee, including trade union observers
- Senior officers involved in the governance and management of the Pension Fund (the Director of Finance & ICT, the Head of Pension Fund, the members of the Pension Officers' Management Group, senior officers from Legal Services)
- All advisers and suppliers to the Fund, whether providing advice or supplies to the Board, the Committee or Fund officers

The Policy was intended to aid good governance, in conjunction with the Fund's other governing policies, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund. The Policy would be reviewed annually.

**RESOLVED** to approve the draft Derbyshire Pension Fund Conflicts of Interest Policy attached as Appendix 1 to the report.

**51/20** **GOVERNANCE POLICY AND COMPLIANCE STATEMENT** The Governance Policy and Compliance Statement (attached at Appendix 1 to the report) set out the governance arrangements for Derbyshire Pension Fund and records the extent to which the Fund complied with the statutory guidance issued by the Secretary of State in respect of these matters. The Statement had been updated to reflect:

- the move from eight formal meetings of the Pensions and Investments Committee to six formal meetings and two training sessions
- the updated arrangements for representing Derbyshire County Council on the Joint Committee and Shareholders' Forum of the LGPS Central Pool and the delegated authority for the Director of Finance & ICT to make decisions on any matter which required a decision by the shareholders of LGPS Central Ltd

- the up to date position with regard to compliance with best practice

The updated governance arrangements with respect to the LGPS Central Pool and LGPS Central Ltd were approved by full Council on 9 October 2019. Compliance with the statutory guidance based on best practice principles had continued to improve; widening scheme member and employer representation in the Fund's governance structure remained an area for development.

The Fund had recently written to all of its members as well as to scheme employers to highlight a recent Pension Fund consultation in order to improve engagement with scheme members and it was intended that a Members' Forum would be established in conjunction with the implementation of the Member Self-Service system.

**RESOLVED** to approve the draft Derbyshire Pension Fund Governance Policy and Compliance Statement attached at Appendix 1 to the report.

**52/20** **HALF-YEAR PENSION ADMINISTRATION PERFORMANCE REPORT 1 APRIL 2020 TO 30 SEPTEMBER 2020** The Committee was notified of the administration activity undertaken by the Pension Administration Team of Derbyshire Pension Fund and the performance levels that had been achieved, in the first six months of 2020-21. A quarterly report on pension administration performance had previously been provided to the Committee. For the first six months of 2020-21, a half-year report was now presented to Committee which included a summary of the Fund's performance in key areas of activity and provided assurances for the Committee.

The introduction of the Government's lockdown measures in response to the Covid-19 pandemic had posed a number of challenges for the Fund's administration. These included the need to urgently implement a plan to maintain continuity of core service provision while the majority of the team worked remotely from home. In recognition of the pressures placed on the administration of pension schemes, The Pensions Regulator had issued guidance in April 2020 for schemes including the identification of core responsibilities which should be prioritised. A detailed Covid-19 Business Continuity Plan had now been developed. The Business Continuity Plan had been circulated to members of the Committee and members of the Board in April 2020 and would remain under review.

A summary of the Fund's administrative activity during the period 1 April to 30 September 2020 was summarised and included details of membership figures; achievements against standards; quantity of work; data quality; backlog management; and monthly contribution returns.

The Fund had contributed monthly data towards the LGPS Scheme Advisory Board's analysis of member deaths during the Covid-19 pandemic to help understand its impact on the LGPS. In comparison to the same half year period in 2019 when 416 member deaths had occurred, there had, to date, been 459 member deaths reported to the Fund as having occurred during the period 1 April 2020 to 30 September 2020. This included active, deferred and pensioner members.

It was reported that 11 new academies had joined the Fund as fund employers during the first half of 2020-21 and 5 new admission bodies had formally joined the Fund during the same period.

Annual Benefit Statements based on membership as at 31 March 2020 had been issued to active and deferred scheme members. Over 91% of statements had been issued and work was ongoing to issue statements to the outstanding cases.

The programme for employers to implement the i-Connect system, part of the functionality linked to the Altair pension administration system, had developed during the first half of 2020-21. The programme had commenced at the start of 2020 and, to date, 78 employers had successfully implemented i-Connect for the transmission of member data from their payroll system directly into Altair.

The implementation of Member Self-Service (MSS), a further functionality linked to Altair, was being finalised with a view to the system being 'live' in early 2021. The Fund's MSS Project Board had agreed that the system's name when used by members would be 'My Pension Online'. This name would appear alongside the Derbyshire Pension Fund logo. MSS would be available to all scheme members, with the main functionality being the member's ability to access their own pension records securely online. Annual Benefit Statements would be issued online from 2021, although members would have the option to continue receiving a paper copy.

A McCloud Project Group had been set up in July to prepare for the implementation of the remedy in respect of the McCloud and Sargeant judgements. A response to the MHCLG Amendments to the Statutory Underpin Consultation had been developed by this group and was approved by the Chairman of the Pensions and Investments Committee and the Director of Finance and ICT for submission to MHCLG.

Similarly, the Fund was currently establishing a group to review working procedures for the changes in scheme regulations which would come into force, at short notice, as a result of the new legislation governing the restriction of exit payments in the public sector.

Members of the Committee were informed that the Pension Fund Team was very satisfied with the new pensions administration system and it had already improved efficiency. Members had recognised the progress that had already been made and the amount of work undertaken during the Covid-19 pandemic and wished to thank all of the staff for their contribution, particularly under these trying circumstances.

**RESOLVED** that the Committee notes the workloads and performance levels outlined in the report.

**53/20** **DERBYSHIRE PENSION FUND ANNUAL REPORT** It was the Fund's standard practice to present a copy of the Annual Report to Committee prior to 1 December each year and to seek approval to publish the Annual Report on the Fund's website. However, this had not been possible this year because of the timing of Committee meetings and the external audit in respect of both the County Council's and the Fund's 2019-20 Statement of Accounts which had yet to be completed due to delays caused by the Covid-19 pandemic. This was not unique to either the Council or the Fund, and many other UK county councils and LGPS pension schemes had reported similar audit delays.

Due to the delays, the Council's audited accounts, which included the Fund's Statement of Accounts, had yet to be considered and approved by the Council's Audit Committee. As a result, approval was sought for the Director of Finance & ICT, in conjunction with the Chairman of the Committee, to approve the publication of the Fund's 2019-20 Annual Report before 1 December 2020 as required by the Regulations. A copy of the Fund's 2019-20 Annual Report would be reported to Committee in December 2020.

This year, the Investment section of the Annual Report would be updated to include details of the Fund's carbon risk metrics. These metrics had been presented to Committee in March 2020 and were disclosed in the Fund's Climate-Related Disclosures Report, a copy of which was available on the Fund's website.

**RESOLVED** that approval be given for the Director of Finance & ICT, in conjunction with the Chairman of the Committee, to approve the publication of the Pension Fund's Annual Report for 2019-20.

**54/20** **DERBYSHIRE PENSION FUND RISK REGISTER** The Director of Finance & ICT presented the Derbyshire Pension Fund Risk Register for Members' consideration. The main Risk Register was attached at Appendix 2 to the report and the changes from the previous quarter had been highlighted.

The Fund's Business Continuity Plan had continued to work well and all of the Fund's critical activities had been maintained throughout the period of business disruption. Alternative processes set up to accommodate remote working, remained under review. The implications of the continuation of the current working arrangements for a longer period of time were being evaluated.

The Risk Register currently had five High Risk items but two of these would now be reviewed.

A Climate Strategy had been developed for the Fund and had now been agreed by the Committee. The strategy would now be implemented and the probability score would be reviewed.

MHCLG had published its proposed remedy related to the McCloud judgement in July 2020. The proposed remedy involved the extension of the current underpin protection given to certain older members of the Scheme when the LGPS benefit structure was reformed in 2014. It removed the condition that required a member to have been within ten years of their 2008 Scheme normal pension age on 1 Apr 2012 to be eligible for underpin protection.

Hymans Robertson (Hymans), the Fund’s actuary, had estimated that total liabilities might increase by around 0.2%, equivalent to around £0.5bn across the whole of the English and Welsh LGPS. This estimate was significantly less than the £2.5bn quoted in the MHCLG consultation.

As the remedy had not yet been finalised, the administration risk relating to the McCloud judgement would remain as a high risk for the time being. A McCloud Project Team had been set up to formalise the governance of this major impending project.

Three new risks had been added to the Risk Register this quarter. They were as follows.

- Conflicting exit payments legislation/Increased administration requirement related to exit payments (Risk No. 44).
- Lack of two factor authentication for Member Self Service (Risk No. 45):
- Implications of Goodwin ruling (Risk No. 46):

Public Sector Exit Payments Regulations 2020 (Exit Payment Regulations) were approved by Parliament and will come into force on 4 November 2020. The cap of £95,000 will apply to the aggregate sum of payments made in consequence of termination of employment.

On 7 September 2020, MHCLG published a consultation on restricting exit payments (including both redundancy compensation pay and early access to pensions) in local government in England and Wales. The additional further exit payment reforms proposed by MHCLG, which include the accommodation of the Exit Payment Regulations, are currently subject to consultation and are not expected to come into force before the end of this year.

This means that there will be a period of legal uncertainty when scheme employers are under an obligation under the Exit Payment Regulations to potentially limit strain cost payments and administering authorities are required under existing LGPS regulations to pay unreduced pensions to qualifying scheme members. The Head of Pension Fund outlined the measures that were being taken by the Fund to deal with this situation.

The Fund is implementing a member self-service solution (MSS) to improve the quality and efficiency of the service it provides to its members. MSS will allow members to view certain parts of their pension information (including Annual Benefit Statements), to undertake a restricted number of data amendments and to carry out benefit projections on-line.

The member self-service solution provided by Aquila Heywood does not currently utilise a two-factor authentication method. To mitigate this risk, robust registration and log-on procedures have been developed which have been approved by the Council’s Information Governance Group.

Following the Walker v Innospec Supreme Court ruling, the government had decided that in public service schemes, surviving male same-sex and female same-sex spouses and civil partners of public service pension scheme members would, in certain cases, receive benefits equivalent to those received by widows of opposite sex marriages. A recent case brought in the Employment Tribunal (Goodwin) against the Secretary of State for Education highlighted that these changes may lead to direct sexual orientation discrimination within the Teachers’ Pension Scheme (TPS), where male survivors of female scheme members remain entitled to a lower survivor benefit that a comparable same-sex survivor. The government concluded that changes were required to the TPS to address the discrimination and believed that this difference in treatment would also need to be remedied in those other public service pension schemes, where the husband or male civil partner of a female scheme member was in similar circumstances. A consultation would take place on the required regulatory changes for the LGPS. It was expected that the Fund would need to investigate the cases of affected members, going back as far as 5 December 2005 when civil partnerships came into force, which will provide administration challenges.

**RESOLVED** that the Committee notes the risk items identified in the Risk Register.

**55/20** **<u>EXCLUSION OF THE PUBLIC</u>** **RESOLVED** that the public be excluded from the meeting during the Committee’s consideration of the remaining items on the agenda to avoid the disclosure of the kind of information detailed in the following summary of proceedings:-

**<u>SUMMARY OF PROCEEDINGS CONDUCTED AFTER THE PUBLIC HAD BEEN EXCLUDED FROM THE MEETING</u>**

1. To receive declarations of interest (if any)

2. To confirm the exempt minutes of the meeting held on 9 September 2020 (contains exempt information)

**56/20** **MINUTES** **RESOLVED** that the exempt minutes of the meeting held on 9 September 2020 be confirmed as a correct record.

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**Agenda Item No. 4 (a)**

**DERBYSHIRE COUNTY COUNCIL**

**PENSIONS AND INVESTMENTS COMMITTEE**

**9 December 2020**

**Report of the Director of Finance & ICT**

# INVESTMENT REPORT

## 1 Purpose of the Report

To review the Fund's asset allocation, investment activity since the last meeting, long term performance analysis and to seek approval for the investment strategy in the light of recommendations from the Director of Finance & ICT and the Fund's independent adviser.

## 2 Information and Analysis

### (i) Report of the External Adviser

A copy of Mr Fletcher's report, incorporating his view on the global economic position, factual information for global market returns, the performance of the Fund and his recommendations on investment strategy and asset allocation, is attached as Appendix 1.

### (ii) Asset Allocation and Recommendations Table

The Fund's latest asset allocation as at 31 October 2020 and the recommendations of the Director of Finance & ICT and Mr Fletcher, in relation to the Fund's new intermediate strategic asset allocation benchmark, is set out overleaf.

The table also shows the recommendations of the Director of Finance & ICT, adjusted to reflect the impact of future investment commitments. These commitments (existing plus any new commitments recommended in this report) relate to Private Equity, Multi-Asset Credit, Property and Infrastructure and total around £280m. Whilst the timing of drawdowns will be lumpy and difficult to predict, the In-house Investment Management Team (IIMT) believes that these are likely to occur over the next 18 to 36 months.

| | Benchmark | | | Fund Allocation | Fund Allocation | Permitted Range | Benchmark Relative Recommendation | | Recommendation (1) | | Adjusted for Commitments (2) | Benchmark Sterling Return | Benchmark Sterling Return |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Current | Inter (1) | Final (1) | 31/07/20 | 31/10/20 | Inter (1) | AF 9/12/20 | DPF 9/12/20 | AF 9/12/20 | DPF 9/12/20 | DPF 9/12/20 | 3 Months to 30/9/20 | 3 Months to 31/10/20 |
| **Growth Assets** | **57.0%** | **56.0%** | **55.0%** | **54.6%** | **55.8%** | **+/- 8%** | **-** | **(0.5%)** | **56.0%** | **55.5%** | **57.0%** | **n/a** | **n/a** |
| UK Equities | 16.0% | 14.0% | 12.0% | 15.3% | 15.4% | +/- 6% | - | 0.5% | 14.0% | 14.5% | 14.5% | (2.9%) | (3.2%) |
| Overseas Equities: | 37.0% | 38.0% | 39.0% | 36.2% | 37.0% | +/- 8% | - | (0.5%) | 38.0% | 37.5% | 37.5% | n/a | n/a |
| North America | 12.0% | 6.0% | - | 11.2% | 11.3% | +/- 6% | - | (0.5%) | 6.0% | 5.5% | 5.5% | 4.5% | 2.0% |
| Europe | 8.0% | 4.0% | - | 8.4% | 7.4% | +/- 4% | - | - | 4.0% | 4.0% | 4.0% | 1.5% | (3.6%) |
| Japan | 5.0% | 5.0% | 5.0% | 5.6% | 5.9% | +/- 2% | - | - | 5.0% | 5.0% | 5.0% | 2.4% | 9.0% |
| Pacific ex-Japan | 4.0% | 2.0% | - | 4.2% | 3.9% | +/- 2% | - | - | 2.0% | 2.0% | 2.0% | 4.6% | 5.5% |
| Emerging Markets | 5.0% | 5.0% | 5.0% | 4.6% | 5.0% | +/- 2% | - | - | 5.0% | 5.0% | 5.0% | 4.5% | 4.2% |
| Global Sustainable | 3.0% | 16.0% | 29.0% | 2.2% | 3.5% | +/- 16% | - | - | 16.0% | 16.0% | 16.0% | 3.4% | 1.8% |
| Private Equity | 4.0% | 4.0% | 4.0% | 3.1% | 3.4% | +/- 2% | - | (0.5%) | 4.0% | 3.5% | 5.0% | (2.6%) | (2.9%) |
| **Income Assets** | **23.0%** | **24.0%** | **25.0%** | **20.7%** | **20.7%** | **+/- 6%** | **-** | **(2.5%)** | **24.0%** | **21.5%** | **27.4%** | **n/a** | **n/a** |
| Multi-Asset Credit | 6.0% | 6.0% | 6.0% | 6.1% | 6.2% | +/- 2% | - | 0.5% | 6.0% | 6.5% | 7.7% | 2.7% | 1.6% |
| Infrastructure | 8.0% | 9.0% | 10.0% | 6.8% | 6.7% | +/- 3% | - | (2.0%) | 9.0% | 7.0% | 11.5% | 0.5% | 0.5% |
| Direct Property (4) | 5.0% | 5.0% | 6.0% | 4.5% | 4.5% | +/- 2% | - | (1.3%) | 6.0% | 4.7% | 4.7% | 0.5% | 0.5% (3) |
| Indirect Property (4) | 4.0% | 4.0% | 3.0% | 3.3% | 3.3% | +/- 2% | - | 0.3% | 3.0% | 3.3% | 3.5% | 0.5% | 0.5% (3) |
| **Protection Assets** | **18.0%** | **18.0%** | **18.0%** | **18.1%** | **17.4%** | **+/- 5%** | **(2.0%)** | **(0.6%)** | **16.0%** | **17.4%** | **17.4%** | **n/a** | **n/a** |
| Conventional Bonds | 6.0% | 6.0% | 6.0% | 5.5% | 5.1% | +/- 2% | (2.0%) | (0.9%) | 4.0% | 5.1% | 5.1% | (1.2%) | (2.2%) |
| Index-Linked Bonds | 6.0% | 6.0% | 6.0% | 6.2% | 6.0% | +/- 2% | - | - | 6.0% | 6.0% | 6.0% | (2.2%) | (2.3%) |
| Corporate Bonds | 6.0% | 6.0% | 6.0% | 6.4% | 6.3% | +/- 2% | - | +0.3% | 6.0% | 6.3% | 6.3% | 1.6% | (0.5%) |
| **Cash** | **2.0%** | **2.0%** | **2.0%** | **6.6%** | **6.1%** | **0 – 8%** | **+2.0%** | **+3.6%** | **4.0%** | **5.6%** | **(1.8%)** | **0.0%** | **0.0%** |

Investment Assets totaled £5,212m at 31 October 2020.
(1) Intermediate benchmark effective 1 January 2021; Final benchmark effective by 1 January 2022 at the latest. Recommendations are relative to the Intermediate benchmark
(2) Recommendations adjusted for investment commitments at 31 October 2020, together with commitments expected to be placed in the quarter to 31 January 2021, and presumes all commitments are funded from cash.
(3) Benchmark Return for the three months to 30 September 2020.
(4) The maximum permitted range in respect of Property is +/- 3%.

The table above shows the current benchmark, together with the Intermediate and Final benchmarks approved by Committee November 2020. The Intermediate benchmark becomes effective from 1 January 2021, and the Final Benchmark will become effective by 1 January 2022 at the latest.

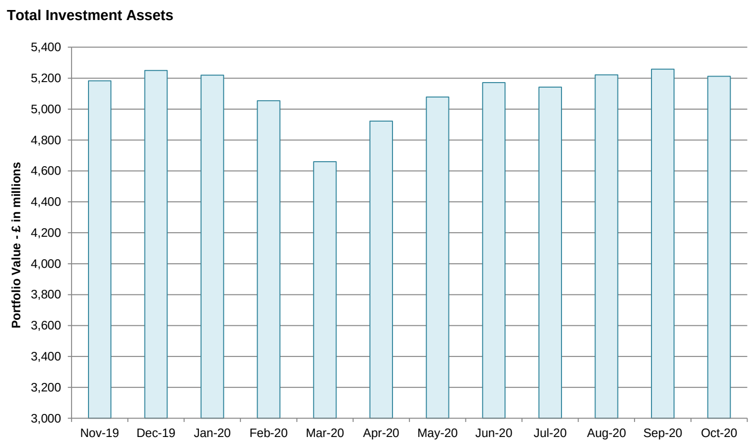
The table above reflects the following three categorisations:

- **Growth Assets**: largely equities plus other volatile higher return assets such as private equity;
- **Income Assets**: assets which are designed to deliver an excess return, but with more stable return patterns than Growth Assets because income represents a large proportion of the total return of these assets; and
- **Protection Assets**: lower risk government or investment grade bonds.

Relative to the current benchmark, the Fund as at 31 October 2020, was overweight Cash, and underweight in Growth Assets, Protection Assets and Income Assets. If all of the Fund's commitments (existing plus any new commitments recommended in this report) were drawn-down, the cash balance would reduce by 7.4% to -1.8%. However, in practice as these commitments are drawn-down, they will be partly offset by new net cash inflows from investment income, distributions from existing investments and changes in the wider asset allocation.

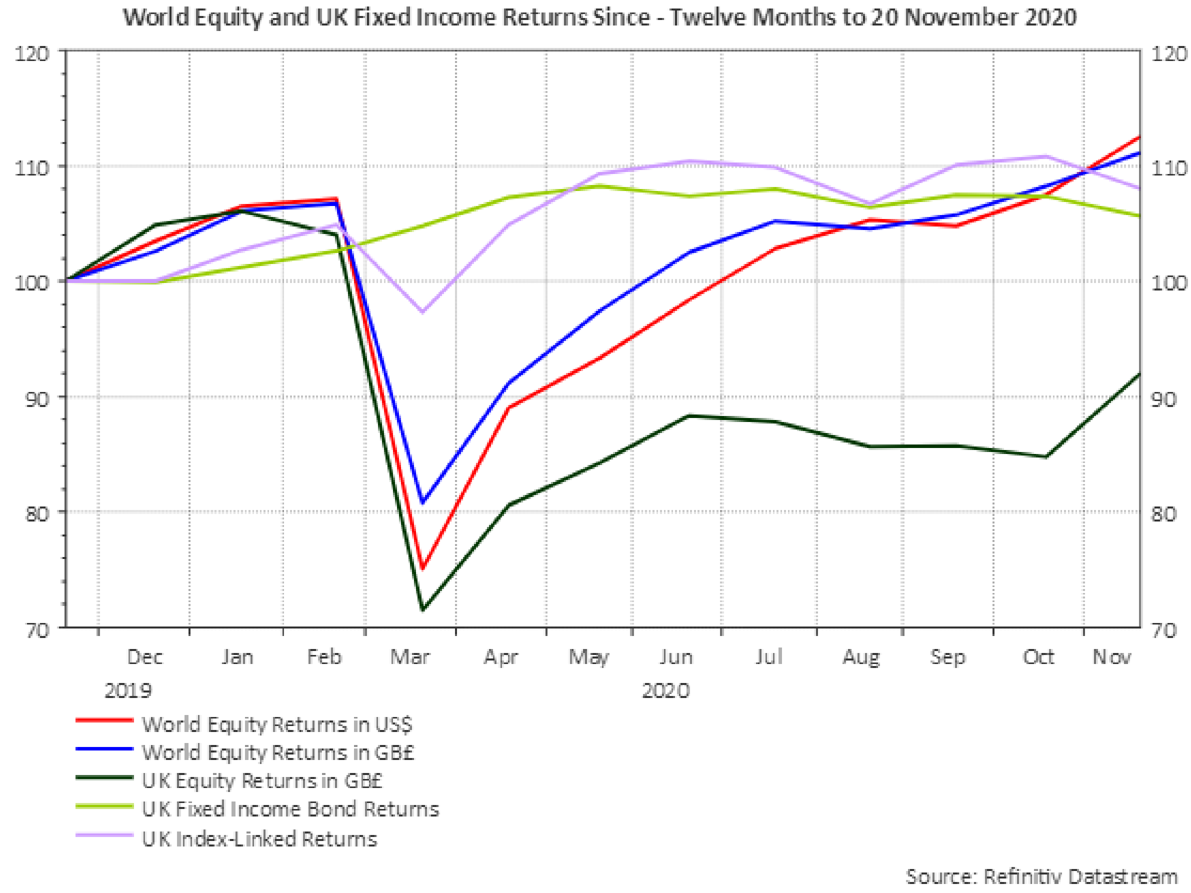
### (iii) Total Investment Assets

The value of the Fund's investment assets increased by £70m (+1.4%) between 31 July 2020 and 31 October 2020 to £5.212bn, comprising a non-cash market gain of around £50m, and cash inflows from dealing with members & investment income of around £20m. Over the twelve months to 31 October 2020, the value of the Fund's investment assets has increased by £79m (+1.5%), comprising cash inflows from dealing with members & investment income of around £150m (includes an advance contribution of £58m), partly offset by a non-cash market loss of around £70m. A copy of the Fund's valuation at 31 October 2020 is attached at Appendix 2.




The Fund's valuation can fluctuate significantly in the short term, reflecting market conditions, and supports the Fund's strategy of focusing on the long term.

## (iv) Market returns over the last 12 months




The chart above shows market returns for Global Equities in Sterling and the US dollar, UK Equities, UK Fixed Income and UK Index Linked bonds for the twelve months to 20 November 2020.

Global equities initially started 2020 on a positive note, posting sterling gains of 5.2% in the period to 19 February 2020, supported by an easing of political tensions and trade disputes between the US and China. However, over the next five weeks equities entered into a period of sharp decline as it became apparent that the Covid-19 virus, that had initially emerged as a localised health crisis in China, had developed into a global pandemic. Fixed income markets experienced significant fluctuations and by 23 March 2020 the FTSE All World had fallen almost 34% from its 19 February 2020 year-to-date peak

Central banks acted decisively to unveil unprecedented levels of stimulus and liquidity to support financial markets and to maintain the flow of credit to businesses. National governments also announced sizeable fiscal stimulus packages to support their economies with the primary aim of protecting jobs and household incomes, that would otherwise have been severely impacted by national lockdowns and closure of non-essential businesses.

The unprecedented size of the stimulus measures, and the speed in which they were rolled out, gave a significant boost to financial markets and reversed investor risk-aversion in the second half of Q1 2020. In the final six trading days of March 2020, the FTSE All World gained +7.5% in sterling terms. Government bond yields fell (i.e. prices rose), and corporate credit spreads tightened significantly. Equities continued to perform strongly during Q2 2020, with the FTSE All World posting a gain of +19.5%. By 30 June 2020, global equities had recovered just over 70% of their initial fall.

Despite equities' impressive rise during Q2 2020, the performance was largely detached from the underlying economic fundamentals. Many countries in the developed world were under some form of national or regional lockdown for most of the quarter and large parts of the workforce in the United Kingdom, Europe and North America were out of work, furloughed or enrolled on some form of job support scheme. The economic outlook was highly uncertain, and it was too early to tell whether a successful vaccine could be developed to prevent Covid-19 infection. Investors focussed on the forecast post-Covid-19 recovery and the continued support of central banks.

In Q3 2020, global equity markets continued to recover, albeit at a more moderate pace, returning 3.4% for sterling investors. Returns were higher in US dollar terms (+8.2%), reflecting sterling strength between June and September. Since late May, equity markets had benefitted from the gradual easing of lockdown restrictions and social distancing requirements, which had acted as a significant tailwind. Whilst this tailwind continued in Q3 2020, investors needed to factor in the difficulties being experienced by authorities across Europe and North America as they started to reopen economies whilst still attempting to limit the spread of the virus. In Europe in particular, a direct relationship between the continued easing of restrictions and rising Covid-19 new cases emerged.

Asia Pacific Ex-Japan, including Emerging Asia, was the strongest performing region in Q3 2020, reporting sterling gains of 4.6%. The region was boosted by fresh hopes for US stimulus, and was also pushed higher by China (+7.9%, Q3), where the economic recovery was making steady progress. China posted year-on-year GDP growth of 3.2% in Q2 2020, followed up by year-on-year growth of 4.9% in Q3.

After being on an almost continuous path of tightening between March and June 2020, UK and US government bond yields began to rise from historic lows in early July. Rising yields were supported by the continuing reopening of economies and the gradual removal of social distancing restrictions, leading government bonds to give up some of their year to date gains. Investment grade and high yield bonds continued to perform well, with spreads tightening again, albeit at a slower pace. By the end of September 2020, US investment grade spreads were only 40 basis points wider than at the start of the year, and 25 basis points wider in the UK, having been pushed out by as much as 250 basis points and 170 basis points respectively in March 2020.

In October 2020, global equities returns fell by -2.5% as coronavirus cases continued to rise, especially in the United Kingdom and Continental Europe. As October progressed it became apparent that further national lockdowns were becoming necessary. By the end of the month national lockdowns had been announced in France, Germany and the United Kingdom. Alongside this, political tensions were also rising in the United States ahead of the Presidential Election. The working relationship between Democrats and Republicans had broken down in the weeks prior to the election and hopes of a fresh stimulus deal faded with both parties unprepared to negotiate further.

Global equities have performed strongly in November month-to-date[1], returning +7.8% for sterling investors. The election result had a positive effect on the US equity market as investors digested the news that whilst Mr Biden had won the presidency, the Democratic party had not taken a controlling position (subject to two run-off elections in January 2021) in the Senate. The market assumed that this would mean that Mr Trump's corporate taxation policies would largely remain intact, and that the potential for dramatic growth in public spending would be restricted.

Markets were further supported on 9 November 2020 by the news that the vaccine being developed by Pfizer and BioNTech had proven to be 90% effective, and that pending further safety assessments the vaccine was being submitted for regulatory approval and could be rolled out before the end of the year. A week later, it was announced that the vaccine being developed by Moderna was 95% effective.

On a year-to-date basis[2], global equities have returned 9.4% in sterling, and 9.8% in US dollar terms, reflecting a GB£/US$ exchange rate that was only slightly above where it had started the year, albeit this masked a significant strengthening of sterling between March and November. The FTSE All World Index also surpassed its previous February year-to-date peak (+5.5%) in October, demonstrating how global equities had fully recovered from the Q1 2020 market sell-off.

Asia Pacific Ex-Japan has been the best performing region on a year-to-date basis, followed by North America, returning 15.5% and 12.8% in sterling

[1] Month-to-date: 1 November 2020 to 20 November 2020
[2] Year-to-date: 1 January 2020 to 20 November 2020

terms respectively. The UK equity market was the worst performing region in each of the three quarters to September, and was the only region to post a negative year-to-date return (-12.2%). However, in Q4 2020 to date, UK equities have returned 9.7%, outperforming other regional equity markets as confidence about the availability of reliable and effective Covid-19 vaccines grew. This boosted demand for value and cyclical stocks, favouring the UK equity market which has a relatively high proportion of these types of stocks.

UK government bonds gave up some of their gains in Q3 and have lost further ground in Q4, but have performed strongly on a year-to-date basis despite the significant recovery in equity markets. UK Gilts have returned 6.2% on a year-to-date basis, with Index-Linked bonds returning 8.2%, as a rise in Quantitative Easing (central bank purchases of bonds) and stagflation fears (stagnant economic activity coupled with higher inflation) pushed up inflation expectations.

Looking ahead to 2021, the IIMT notes that although 2020 has been characterised by a strong recovery in risk assets, the outlook for 2021 is uncertain. Whilst the recent news on the effectiveness of several Covid-19 vaccines is a very positive development, it will take time to roll-out the vaccines to material parts of the population. Varying degrees of social distancing are still likely to be required until vaccine treatments have been widely rolled out, meaning that many sectors and households will continue to face challenging circumstances whilst governments will continue to grapple with the challenge of dealing with the pandemic's hit to economic activity and the historic levels of public sector debt.

Capital Economics has recently forecast a global economic contraction of 4.3% in 2020, a slight improvement on the 4.5% contraction forecast in October. Advanced economies are forecast to contract by 5.6%, with Emerging economies contracting by 3.4%. The global economy is forecast to rebound in 2021 with growth of 6.1%.

The International Monetary Fund (IMF) also improved its global growth forecasts in its October report, although this report was released before several European countries entered a second wave of national lockdowns. The IMF projects a contraction of 4.4% in 2020, an improvement against the 4.9% contraction projected in June. The improved forecast was mainly driven by upward revisions in the Unites States, Euro Area, and China, partially offset by downward revisions across emerging markets. The IMF forecasts a 5.2% rebound in the global economy in 2021 which would result in the level of global GDP in 2021 being 0.6% above 2019. However, advanced economy GDP is forecast to be around 2% below its level in 2019.

Asset class weightings and recommendations are based on values at the end of October 2020.  As shown in the charts below, equity markets have now largely recovered most of the March 2020 sell off, albeit this differs by market. For example, the US market is now higher than at any time in the last five years, whereas the recovery in the UK market has been much more muted but has picked-up in pace in November.





## (v) Longer Term Performance

Figures provided by Portfolio Evaluation Limited show the Fund's performance over 1, 3, 5 and 10 years to 30 September 2020.

| Per annum | DPF | Benchmark Index |
|---|---|---|
| 1 year | 0.3% | (0.6%) |
| 3 year | 4.2% | 3.9% |
| 5 year | 8.6% | 7.9% |
| 10 year | 7.8% | 7.4% |

The Fund out-performed the benchmark over all time periods.

## (vi) Category Recommendations

| | Current Benchmark | Intermediate Benchmark | Final Benchmark | Fund Allocation | Permitted Range | Recommendation (1) | | Benchmark Relative Recommendation (1) | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | 31 Oct-20 | | AF | DPF | AF | DPF |
| Growth Assets | 57.0% | 56.0% | 55.0% | 55.8% | ± 8% | 56.0% | 55.5% | - | (0.5%) |
| Income Assets | 23.0% | 24.0% | 25.0% | 20.7% | ± 6% | 24.0% | 21.5% | - | (2.5%) |
| Protection Assets | 18.0% | 18.0% | 18.0% | 17.4% | ± 5% | 16.0% | 17.4% | (2.0%) | (0.6%) |
| Cash | 2.0% | 2.0% | 2.0% | 6.1% | 0 – 8% | 4.0% | 5.6% | +2.0% | +3.6% |

(1) Recommendation relative to the Intermediate benchmark effective 1 January 2021

At an overall level, the Fund was overweight Protection Assets and Cash at 31 October 2020, marginally underweight Growth Assets and underweight Income Assets, although if commitments waiting to be drawn down were taken into account, the Fund would move to an overweight position in Growth and Income Assets. The table on page 2 assumes that all new commitments will be funded out of the current cash weighting; in practice as private market commitments are drawn down they are likely to be funded partially out of cash and partially by distributions (income and capital) from existing investments and sales of public market assets. The Fund has progressively reduced its exposure to Growth Assets over the last two years, as equity valuations have become increasingly stretched, and increased the allocation to Income Assets and Protection Assets.

The IIMT recommendations reflected in this report: reduce Growth Assets by 0.3% to 55.1% (0.5% underweight), with a significant change in the regional composition reflecting the implementation of the new Intermediate benchmark: United Kingdom Equities -0.9%; North American Equities -5.8%; European Equities -3.4%; Japanese Equities -0.9%; Asia Pacific Ex-Japan Equities -1.9%; and Global Sustainable Equities +12.5%; increase Income Assets by 0.8% (Infrastructure +0.3%; Multi-Asset Credit +0.3%; and Direct Property +0.2%); and maintain Protection Assets and Cash at current levels. The IIMT notes that the recommendations are subject to market conditions, which continue to be volatile. The IIMT continues to recommend a defensive cash allocation, reflecting both the general market uncertainty and cash held to fund existing commitment drawdowns.

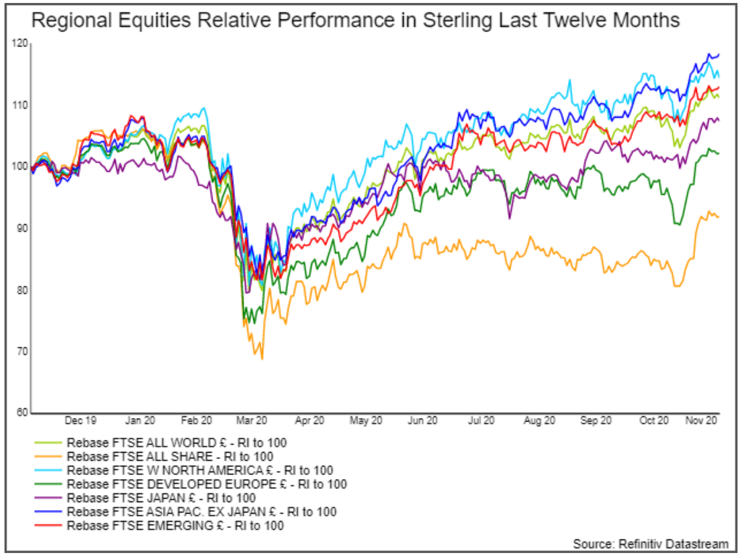
## Growth Assets

At 31 October 2020, the overall Growth Asset weighting was 55.8%, up from 54.6% at 31 July 2020, reflecting relative market strength. The IIMT recommendations below reduce the weighting slightly to 55.5%; 0.5% underweight.

The IIMT believes that a small underweight position of 0.5% in Growth Assets is justified because global equity markets are trading at close to all-time highs, largely due to substantial and unprecedented central bank monetary support. Any change in tone from the central banks is likely to have a marked effect on equity markets which have come to rely on extraordinarily supportive monetary policies.

Whilst recent developments in respect of the effectiveness of coronavirus vaccines are very positive, the roll-out of the vaccines is likely to take time. Furthermore, the economic recovery from the Covid-19 pandemic is likely to be uneven, and markets appear to be ignoring significant headwinds including considerable uncertainty about the shape of the economic recovery; how long it will take for economic activity to return to pre-outbreak levels; rising new cases and localised lockdowns; and the potential uncertainty caused by the new Biden administration in the US.

The Chart opposite shows the relative regional equity returns in Sterling terms over the last twelve months, and the charts overleaf show the sterling and local currency returns since the last Investment Report was presented to Committee in Q3 2020.




| Benchmark Return | Currency | Q4-20(*) | Q3-20 | 1 Year | 3 Year | 5 Year |
|---|---|---|---|---|---|---|
| **Sterling Returns** | | | | | | |
| FTSE All World | GB£ | 5.1% | 3.4% | 5.7% | 8.9% | 14.4% |
| FTSE UK | GB£ | 9.7% | (2.9%) | (16.6%) | (3.2%) | 3.5% |
| FTSE North America | GB£ | 3.5% | 4.5% | 10.5% | 13.6% | 17.7% |
| FTSE Europe | GB£ | 5.8% | 1.5% | 0.5% | 2.9% | 10.0% |
| FTSE Japan | GB£ | 5.8% | 2.4% | 2.6% | 5.4% | 11.4% |
| FTSE Asia Pacific Ex-Japan | GB£ | 9.5% | 4.6% | 8.4% | 5.9% | 13.7% |
| FTSE Emerging Markets | GB£ | 8.5% | 4.5% | 4.6% | 4.6% | 12.7% |
| **Local Currency Returns** | | | | | | |
| FTSE All World | US$ | 8.1% | 8.2% | 10.9% | 7.6% | 10.8% |
| FTSE UK | GB£ | 9.7% | (2.9%) | (16.6%) | (3.2%) | 3.5% |
| FTSE North America | US$ | 6.4% | 9.4% | 15.9% | 12.2% | 14.0% |
| FTSE Europe | € | 7.6% | 1.3% | (2.7%) | 2.0% | 5.8% |
| FTSE Japan | ¥ | 7.0% | 4.8% | 5.1% | 1.9% | 5.2% |
| FTSE Asia Pacific Ex-Japan | US$ | 12.5% | 9.5% | 13.8% | 4.6% | 10.2% |
| FTSE Emerging Markets | US$ | 11.5% | 9.3% | 9.8% | 3.3% | 9.2% |

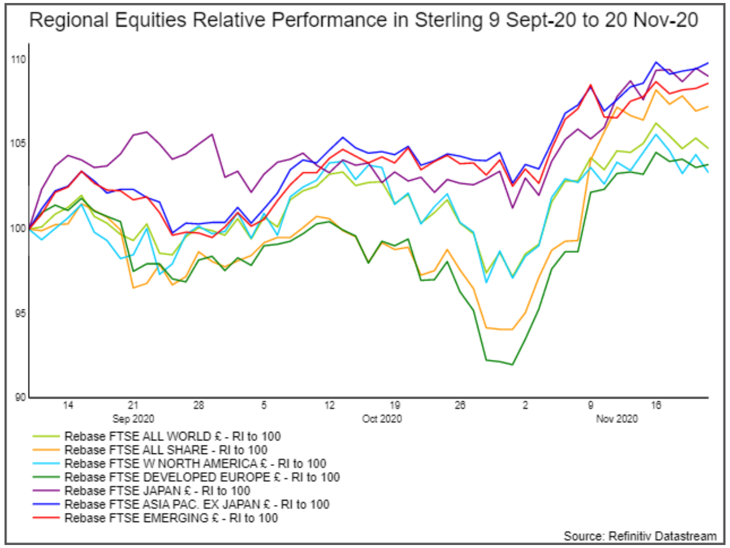
Source: Performance Evaluation Limited

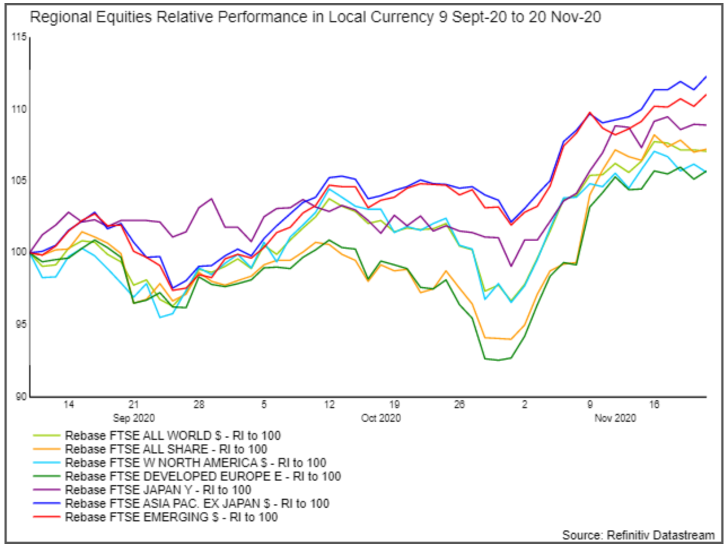
(*) 1 October 2020 to 20 November 2020

Equity markets trended upwards throughout 2019 but fell sharply in February and early March 2020 (Q1 2020 FTSE All World return -16.1%) as the coronavirus outbreak escalated and lockdown measures were introduced across the globe. Markets recovered strongly in April and May 2020 (Q2 2020 FTSE All World return +19.8%), driven by unprecedented levels of fiscal stimulus and a gradual easing of lockdown restrictions as the number of new cases fell in developed markets.

Equity markets were more subdued in Q3 2020 returning +3.4%, while investors assessed the impact of a second wave of coronavirus cases and awaited the US presidential election in November 2020. Returns differed by region and there were bouts of sizeable market volatility.

Equity markets have risen in Q4 2020 to date[3] (FTSE All World +5.1%) as confidence about the availability of reliable and effective Covid-19 vaccines has grown. This particularly boosted demand for value and cyclical stocks, favouring the UK equity market which has a relatively high proportion of these types of stocks. US equity returns in Q4 to date have also been boosted by the result of the US Presidential election. However, some of the local currency regional gains over the period were offset by a stronger pound, which pushed down regional equity returns. This reduced the FTSE All World return from +8.1% in US dollars to +5.1% in sterling.

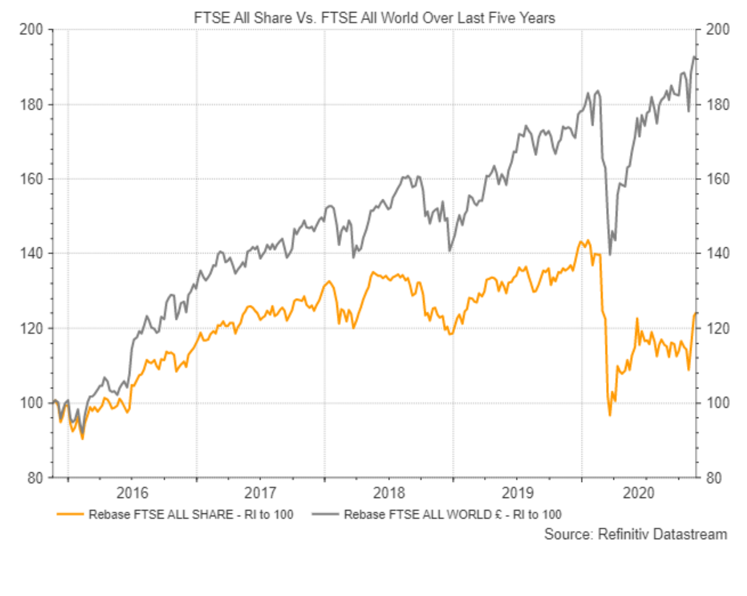



[3] Quarter-to-date: 1 October 2020 to 20 November 2020

## United Kingdom Equities

| DPF Weightings | |
|---|---|
| Current Neutral | 16.0% |
| Intermediate Neutral | 14.0% |
| Final Neutral | 12.0% |
| Actual 31.10.20 | 15.4% |
| AF Recommendation | 14.0% |
| IIMT Recommendation | 14.5% |
| | |
| **Benchmark Returns (GB£)** | |
| Q3 20/21 to 20 Nov-20 | 9.7% |
| Q2 20/21 | (2.9%) |
| 1 Year to Sept-20 | (16.6%) |
| 3 Years to Sept-20 (pa) | (3.2%) |
| 5 Years to Sept-20 (pa) | 3.5% |




The Fund's UK Equity allocation increased from 15.3% at 31 July 2020 to 15.4% at 31 October 2020 (0.6% underweight) reflecting net investment of £31m, partly offset by relative market weakness.

Mr Fletcher notes that the new Investment Strategy Statement, which together with the Fund's Responsible Investment Framework and Climate Strategy, will lead to some significant changes in the way in which the Fund's Growth Assets are managed. As the changes are so significant, it has been agreed that the implementation of the new benchmark will be phased in over time, with an intermediate benchmark coming into effect on 1 January 2021. The final change to the benchmark is expected to take place by 1 January 2022 at the latest.

Mr Fletcher notes that for the purposes of this quarter's asset allocation recommendations he has used the intermediate benchmark, and at an overall level, there is a 1% switch from Growth assets to Income Assets. Within Growth Assets, the main changes are to transition from a regional country based allocation to a global sustainable based allocation.

Mr Fletcher notes that the IIMT have been keen to enhance the growth, performance and diversification characteristics of the new benchmark and to incorporate the Responsible Investment Framework and Climate Strategy without sacrificing potential risk adjusted returns. Mr Fletcher further notes that as the scale of the changes are significant, he does not recommend attempting to overweight or underweight any particular country versus another at this stage. The capacity and speed of the transition into Global

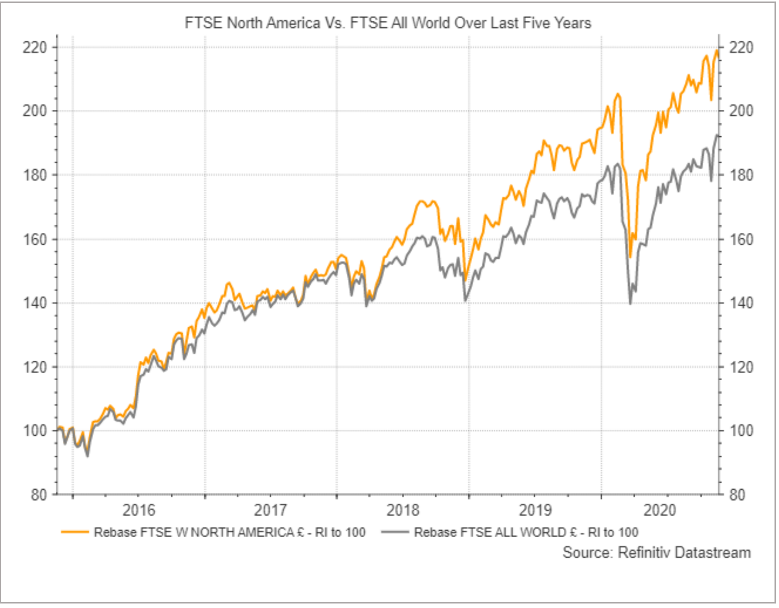
Sustainable Equities will probably govern on the pace of the reallocation. However, Mr Fletcher recommends that the Fund should start by selling the most expensive country allocations first, which for Mr Fletcher would be phased and executed in the following order: North America; Europe; Asia Pacific Ex-Japan, and finally, the United Kingdom.

UK GDP increased by 15.5% in Q3 2020 (following the record breaking fall of 19.8% in Q2 2020) as the UK emerged from lock-down and consumer spending increased. However, UK growth is expected to weaken again in Q4 2020, following the reintroduction of a national lock-down in November 2020, stemming from a second wave of coronavirus cases. Latest consensus forecasts indicate that the UK economy will contract by 11.0% in 2020 before growing by 4.7% in 2021, indicating that it will take several years for the UK economy to fully recover from the Covid-19 pandemic.

The IIMT believes that whilst UK Equity returns are likely to be volatile in the short-term as the uncertainty caused by the Covid-19 pandemic and on-going Brexit negotiations weigh on investor confidence, UK equity valuations are attractive on a relative basis. UK Equities have outperformed other regional equity markets in the month to 20 November 2020 (FTSE All Share +14.0% versus +7.8% FTSE All World), as confidence about the availability of effective Covid-19 vaccines boosted demand for value and cyclical stocks. The IIMT also notes that UK Equities also pay a higher dividend than most other regional equity markets, albeit these are likely to be lower in the short to medium terms as companies preserve cash. As a result, the IIMT recommend a modest 0.5% overweight allocation of 14.5% to UK Equities.

## North American Equities

| DPF Weightings | |
|---|---|
| Current Neutral | 12.0% |
| Intermediate Neutral | 6.0% |
| Final Neutral | - |
| Actual 31.10.20 | 11.3% |
| AF Recommendation | 6.0% |
| IIMT Recommendation | 5.5% |
| | |
| **Benchmark Returns (GB£)** | |
| Q3 20/21 to 20 Nov-20 | 3.5% |
| Q2 20/21 | 4.5% |
| 1 Year to Sept-20 | 10.5% |
| 3 Years to Sept-20 (pa) | 13.6% |
| 5 Years to Sept-20 (pa) | 17.7% |




There were no transactions in the period and relative market strength increased the weighting from 11.2% at 31 July 2020 to 11.3% at 31 October 2020; 0.7% underweight.

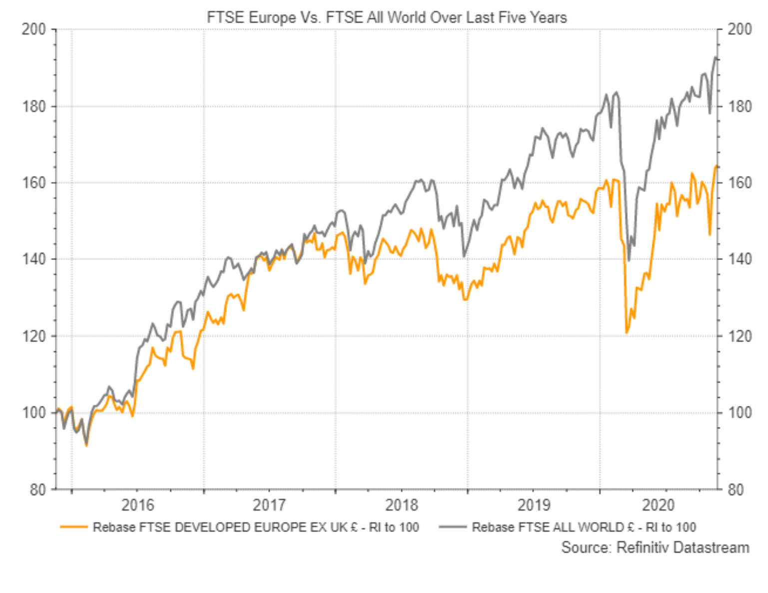
Mr Fletcher recommends a neutral weighting relative to the new intermediate benchmark across all of the Fund's regional equity allocations; 6% in respect of North American Equities.

The US equity market has recovered sharply since the March 2020 sell off, and is now higher than at the start of the calendar year, hitting an all-time high in November 2020 following the announcement of the effectiveness of the Pfizer BioNTech vaccine. US Equities in local currency terms have returned +13.1% YTD, well ahead of global markets (FTSE All World +9.8%), although there has been significant sector performance dispersion (e.g. technology and online retailers have driven the increases).

The IIMT continues to believe that the shape of the economic recovery from the Covid-19 pandemic is uncertain, albeit the development of reliable and effective vaccines has reduced this risk. However, daily new cases in the US have been rising sharply since October 2020, and it will take time to establish the key priorities for the new Biden administration, including which party will control the US Senate following some run-off elections in January 2021. Given the strong relative performance of the US Equity market over the last twelve months, the IIMT continues to believe that an underweight position remains justified, and recommend a 0.5% underweight allocation relative to the new intermediate benchmark of 5.5%.

## European Equities

| DPF Weightings | |
|---|---|
| Current Neutral | 8.0% |
| Intermediate Neutral | 4.0% |
| Final Neutral | - |
| Actual 31.10.20 | 7.4% |
| AF Recommendation | 4.0% |
| IIMT Recommendation | 4.0% |
| | |
| **Benchmark Returns (GB£)** | |
| Q3 20/21 to 20 Nov-20 | 5.8% |
| Q2 20/21 | 1.5% |
| 1 Year to Sept-20 | 0.5% |
| 3 Years to Sept-20 (pa) | 2.9% |
| 5 Years to Sept-20 (pa) | 10.0% |




Divestment of £36m in September 2020, together with relative market weakness, reduced the Fund's allocation to European Equities to 7.4% at 31 October 2020; 0.6% underweight.

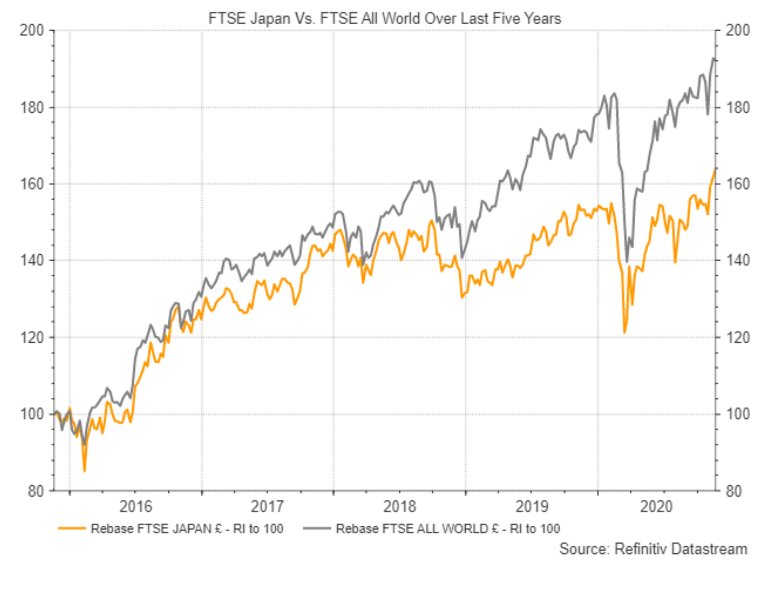
Mr Fletcher recommends a neutral weighting relative to the new intermediate benchmark across all of the Fund's regional equity allocations; 4% in respect of European Equities.

Eurozone GDP increased by 12.7% in Q3 2020 (the largest quarterly rise in the Eurozone's history), rebounding from the 11.8% contraction in Q2 2020. Similar to the United Kingdom, Q4 2020 economic activity is expected to be weaker reflecting a second wave of coronavirus cases, with significant country-by-country dispersion. Latest consensus forecasts indicate that Eurozone economic activity will contract by 7.3% in 2020 before growing by +4.5% in 2021.

The IIMT notes that the economic backdrop in the Eurozone was weak even before the Covid-19 pandemic despite continued European Central Bank monetary support. Several Eurozone countries have been badly impacted by the Covid-19 pandemic, and the ongoing second wave of new cases, means that the shape of the economic recovery across Europe is unclear. The IIMT recommends a 4% neutral allocation relative to the new intermediate benchmark.

## Japanese Equities

| DPF Weightings | |
|---|---|
| Current Neutral | 5.0% |
| Intermediate Neutral | 5.0% |
| Final Neutral | 5.0% |
| Actual 31.10.20 | 5.9% |
| AF Recommendation | 5.0% |
| IIMT Recommendation | 5.0% |
| | |
| **Benchmark Returns (GB£)** | |
| Q3 20/21 to 20 Nov-20 | 5.8% |
| Q2 20/21 | 2.4% |
| 1 Year to Sept-20 | 2.6% |
| 3 Years to Sept-20 (pa) | 5.4% |
| 5 Years to Sept-20 (pa) | 11.4% |




Relative market strength (partly offset by net divestment of £9m – monies that were switched into Global Sustainable Equities), increased the Fund's weighting in Japanese Equities to 5.9% at 31 October 2020; 0.9% overweight.

Mr Fletcher recommends a neutral weighting relative to the new intermediate benchmark across all of the Fund's regional equity allocations; 5% in respect of Japanese Equities.

The Japanese economy was suffering from weakness prior to the Covid-19 pandemic, and fell into recession in Q1 2020 with a 2.2% contraction. The economy fell by a further 8.2% (an annualised fall of 28.8%) in Q2 2020, wiping-out the benefits brought by former Prime Minister Abe's 'Abenomics' stimulus policies employed since late 2012, before partly rebounding by 5% in Q3 2020 (annualised growth of 21.4%). Latest consensus forecasts, expect the Japanese economy to contract by 5.5% in 2020, before growing by 2.5% in 2021. Similar to other developed markets, the Japanese government has provided significant levels of financial stimulus in response to the pandemic. Notwithstanding the 2020 economic slowdown, the IIMT believes that the long term story in Japan remains intact supported by attractive relative valuations, improving corporate governance, and the diversifying and defensive qualities of the Japanese market (e.g. the safe-haven status of the ¥).

The IIMT recommends a neutral allocation of 5.0%.

## Asia Pacific Ex-Japan and Emerging Market Equities

| DPF Weightings | Asia-Pac | EM |
|---|---|---|
| Current Neutral | 4.0% | 5.0% |
| Intermediate Neutral | 2.0% | 5.0% |
| Final Neutral | - | 5.0% |
| Actual 31.10.20 | 3.9% | 5.0% |
| AF Recommendation | 2.0% | 5.0% |
| IIMT Recommendation | 2.0% | 5.0% |
| | | |
| **Benchmark Returns (GB£)** | **Asia-Pac** | **EM** |
| Q3 20/21 to 20 Nov-20 | 9.5% | 8.5% |
| Q2 20/21 | 4.6% | 4.5% |
| 1 Year to Sept-20 | 8.4% | 4.6% |
| 3 Years to Sept-20 (pa) | 5.9% | 4.6% |
| 5 Years to Sept-20 (pa) | 13.7% | 12.7% |

Source: Refinitiv Datastream

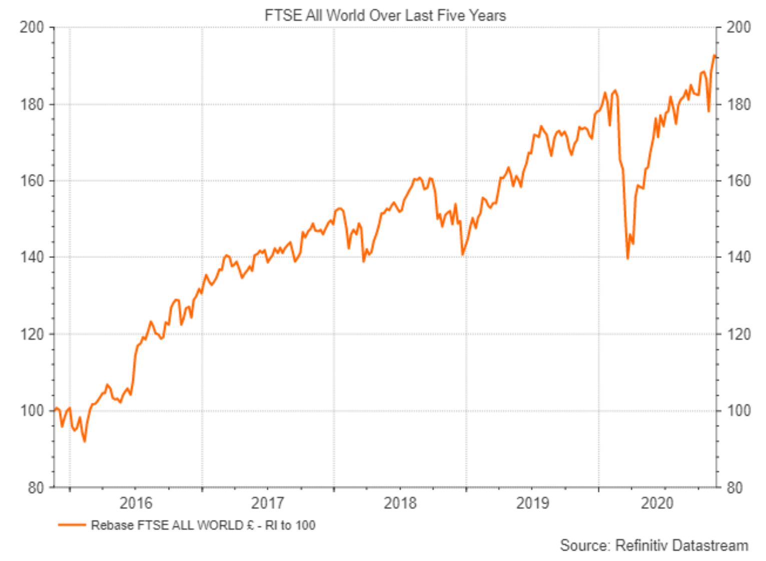
Divestment of £26m into market strength reduced the Fund’s allocation to Asia Pacific Ex-Japan Equities to 3.9% at 31 October 2020 (0.1% underweight). Net investment of £11m, together with relative market strength, increased the Fund’s allocation to Emerging Market Equities to a neutral weighting of 5.0% at 31 October 2020.

Mr Fletcher recommends a neutral weighting relative to the new intermediate benchmark across all of the Fund’s regional equity allocations; 2% in the case of Asia Pacific Ex-Japan and 5% in Emerging Market Equities.

The IIMT continues to believe in the long-term growth potential of these regions, noting that these regions have accounted for well over half of global growth over the last ten years. However, the economic impact of the Covid-19 pandemic remain unclear, and whilst it appears likely that the new Biden administration will seek to de-escalate US – Chinese trade tensions, there is a risk that following the pandemic, political agendas and supply chains will become much more domestically focused (e.g. at the expense of further globalisation). As a result, the IIMT recommends neutral allocations relative to the new intermediate benchmark in respect of both Asia Pacific Ex-Japan Equities (2%) and Emerging Market Equities (5%).

## Global Sustainable Equities

| DPF Weightings | |
|---|---|
| Current Neutral | 3.0% |
| Intermediate Neutral | 16.0% |
| Final Neutral | 29.0% |
| Actual 31.10.20 | 3.5% |
| AF Recommendation | 16.0% |
| IIMT Recommendation | 16.0% |
| | |
| **Benchmark Returns (GB£)** | |
| Q3 20/21 to 20 Nov-20 | 5.4% |
| Q2 20/21 | 3.4% |
| 1 Year to Sept-20 | 5.7% |
| 3 Years to Sept-20 (pa) | 8.9% |
| 5 Years to Sept-20 (pa) | 14.4% |




Net investment in the three months to 31 October 2020 totalled £63m, taking the asset class weighting to 3.5% at end of October 2020; 0.5% overweight.

Mr Fletcher recommends a neutral weighting relative to the new intermediate benchmark across all of the Fund's regional equity allocations; 16% in respect of Global Sustainable Equities.

The new intermediate benchmark results in a significant increase in the Fund's allocation to Global Sustainable Equities (3% to 16%). The IIMT recommends a neutral allocation of 16.0%.

## Private Equity

| DPF Weighting | | | | | |
|---|---|---|---|---|---|
| Current Netural | Final Neutral | Actual 31.10.20 | Committed 31.10.20 | AF Recommendation | IIMT Recommendation |
| 4.0% | 4.0% | 3.4% | 5.0% | 4.0% | 3.5% |
| | | | | | |
| **Benchmark Returns (GB£)** | | | | | |
| Q3 20/21 to 20 Nov-20 | Q2 20/21 | 1 Year to Sept-20 | 3 Years to Sept-20 (pa) | 5 Years to Sept-20 (pa) | |
| 10.0% | (2.6%) | (15.6%) | (2.2%) | 4.5% | |

The Private Equity weighting increased from 3.1% at 31 July 2020 to 3.4% at 31 October 2020 reflecting the flow through of June 2020 valuation reports which started to see the reversal of the previous quarter's losses caused by the Covid-19 pandemic.

Mr Fletcher recommends a neutral weighting of 4% in Private Equity.

The IIMT continues to assess private equity opportunities, and notes that the Fund's outstanding private equity commitments of around £90m are well position to benefit from any market opportunities resulting from the recovery from the coronavirus outbreak with a strong focus on small and mid-cap deals. The IIMT recommends that the Private Equity weighting is increased by 0.1% to 3.5% (0.5% underweight) in the forthcoming quarter, in anticipation of existing commitment drawdowns.

**Income Assets**

At 31 October 2020, the overall weighting in Income Assets was 20.7%, in line with the weighing at 31 July 2020. The IIMT recommendations below would take the overall Income Asset weighting to 21.0%, and the committed weighting to 24.7%.

**Multi Asset Credit**

| DPF Weighting | | | | |
|---|---|---|---|---|
| Current Neutral | Final Neutral | Actual 31.10.20 | AF Recommendation | IIMT Recommendation |
| 6.0% | 6.0% | 6.2% | 6.0% | 6.5% |
| | | | | |
| **Benchmark Returns (GB£)** | | | | |
| Q3 20/21 to 20 Nov-20 | Q2 20/21 | 1 Year to Sept-20 | 3 Years to Sept-20 (pa) | 5 Years to Sept-20 (pa) |
| 2.5% | 2.7% | 1.4% | 3.0% | n/a |

There were minimal net transactions in the three months to 31 October 2020, with commitment drawdowns being matched by distributions, and the asset class weighting increased slightly to 6.2% at 31 October 2020. Adjusting for commitments, the weighting increases to 7.7%. Whilst this implies the pension fund will be 1.7% overweight should all the commitments be drawn-down, in practice it is unlikely that the commitments will be fully drawn, and some of the existing closed-ended investments have now entered their distribution phase (i.e. returning cash to investors).

Mr Fletcher has reduced his previous 2% overweight allocation to Multi-Asset Credit to 6% neutral noting that the spread available from high yield bonds and loans is not as attractive as it was before.

The IIMT continues to be positive about the long-term attractions of the asset class, and favours a strong bias towards defensive forms of credit (e.g. senior secured debt and asset backed securities). The IIMT recommends increasing the invested weighting by 0.3% to 6.5% in the upcoming quarter (0.5% overweight) to cover anticipated commitment drawdowns.

## Property

| DPF Weighting | | | | |
|---|---|---|---|---|
| Current Neutral | Final Neutral | Actual 31.10.20 | AF Recommendation | IIMT Recommendation |
| 9.0% | 9.0% | 7.8% | 9.0% | 8.0% |
| | | | | |
| **Benchmark Returns (GB£)** | | | | |
| Q3 20/21 to 20 Nov-20 | Q2 20/21 | 1 Year to Sept-20 | 3 Years to Sept-20 (pa) | 5 Years to Sept-20 (pa) |
| Not Available | 0.5% | (2.6%) | 2.4% | 4.0% |

The allocation to Property remained flat at 7.8%. Direct Property accounted for 4.5% (0.5% underweight) and Indirect Property accounted for 3.3% (0.7% underweight). The committed weight was 8.0% at 31 October 2020.

Mr Fletcher recommends that the property allocation remains neutral overall, but notes that the uncertainty over the future use of buildings created by Covid-19 has increased the potential volatility of the returns from this asset class. Certain types of building may need to be re-purposed, at a minimum property could see a medium term downward re-rating and the income lower generated by rents that could have an impact beyond the short term. Mr Fletcher notes that as a long term investor, the Fund can afford to “look through” the volatility and in a low yield environment, property probably remains an attractive income asset class.

Colliers Capital, the Fund’s Property Manager, notes that although the UK economy began to recover during the summer months following the initial lockdown, the second wave of cases and a second national lockdown is expected to have a further damaging effect on the economy. Although the Government furlough scheme is being extended, the unemployment rate is nevertheless rising steadily. Rent collection continues to be challenging for landlords. The total return from all property as measured by the MSCI Quarterly Index was 0.1% in Q3 2020, with an income return of 1.1% and a capital value decline of -0.9%. The total return for the year to 30 September 2020 was -2.9%, comprising an income return of 4.4% combined with a capital value decline of -7.1%. The Fund’s portfolio continues to perform well relative to its benchmark. The current void rate within the portfolio is 6.4%, lower than the benchmark rate of 7.4%.

Colliers Capital note that further investment into the UK commercial property market is likely to focus on additional investment in the industrial sector. In light of the effect of the coronavirus on the retail and leisure sectors, further investment in those areas is less likely for the time being, with the possible exception of properties let on long leases to strong tenants with rents reviewed in line with RPI or CPI. The manager continues to monitor the effect that working from home has had on demand for offices and how this will translate into investment demand, yield movement and performance in the medium and longer term.

The IIMT recommends that the Fund's current allocation to Direct Property is increased by 0.2% to 4.7% (1.3% underweight relative to the new intermediate benchmark) to reflect the purchase of a single let industrial unit in Leamington Spa for £12.5m in November 2020. The IIMT recommends that the Indirect Property allocation is maintained at 3.3%; 0.3% overweight relative to the new intermediate benchmark.

**Infrastructure**

| **DPF Weighting** | | | | | |
|---|---|---|---|---|---|
| Current Neutral | Intermediate & Final Neutral | Actual 31.10.20 | Committed 31.10.20 | AF Recommendation | IIMT Recommendation |
| 8.0% | Intermediate: 9.0% Final: 10.0% | 6.7% | 11.5% | 9.0% | 7.0% |
| | | | | | |
| **Benchmark Returns (GB£)** | | | | | |
| Q3 20/21 to 20 Nov-20 | Q2 20/21 | 1 Year to Sept-20 | 3 Years to Sept-20 (pa) | 5 Years to Sept-20 (pa) | |
| 0.3% | 0.5% | 2.5% | 2.6% | 2.6% | |

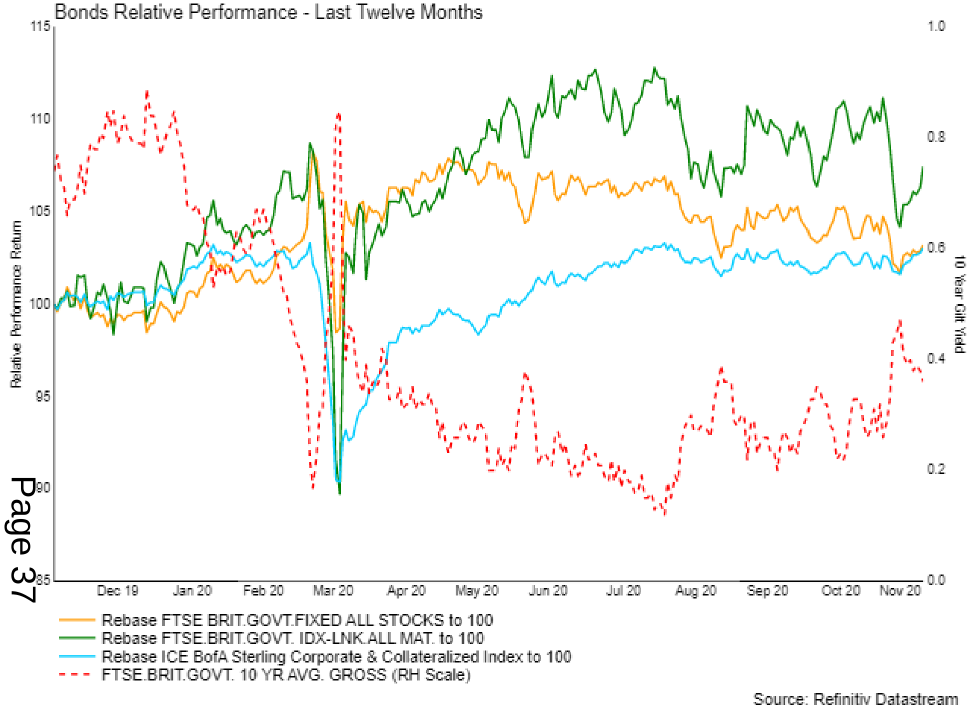
Relative market weakness reduced the Fund's allocation to Infrastructure from 6.8% at 31 July 2020 to 6.7% at 31 October 2020; 11.5% on a committed basis.

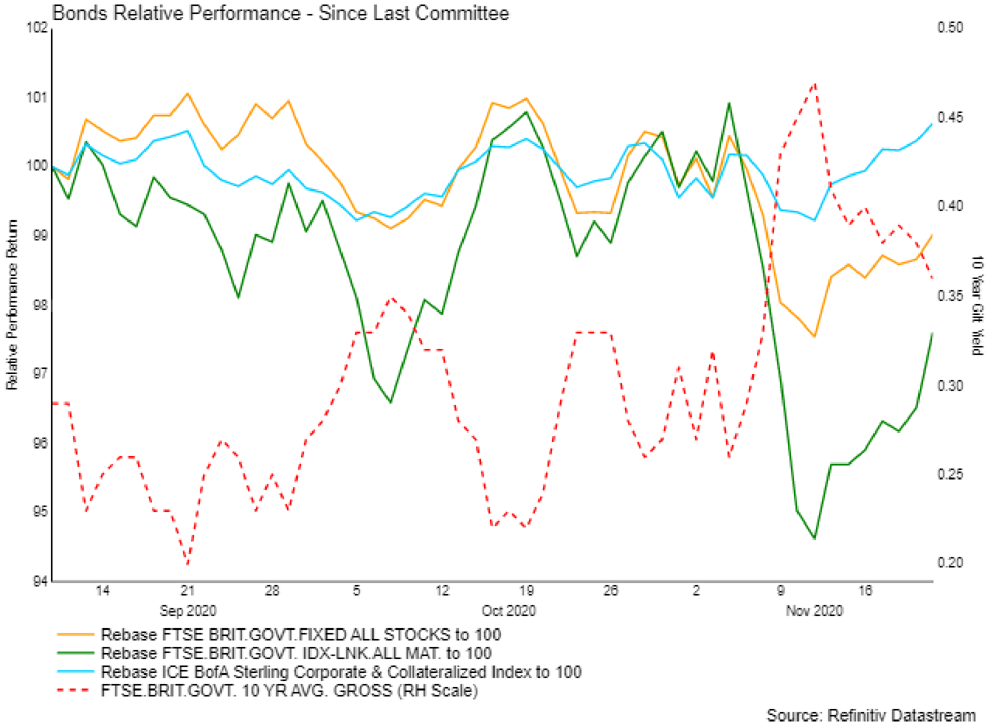
Mr Fletcher recommends a neutral weighting relative to the new intermediate benchmark of 9% allocation.

The IIMT continues to view Infrastructure as an attractive asset class, and favours a bias towards core infrastructure assets. Core infrastructure assets can offer low volatility; low correlation to equity and fixed income; and reliable long-term cash flows. Notwithstanding the noted favourable characteristics of the asset class, the IIMT continues to believe that infrastructure assets are exposed to increased political and regulatory risk, and this risk is managed through asset type and geographical diversification.

The IIMT continues to assess investment opportunities, which are in line with these objectives, and expects to make around £140m to £150m of commitments to infrastructure funds over the next three to six months, to support the transition towards the new final benchmark weighting of 10% (9% on an intermediate basis). It is expected that over 75% of these commitments will relate to renewable energy assets. As a result, the IIMT recommends that the invested weighting is increased by 0.3% to 7.0% in the next quarter, and the committed weighting is increased to 11.5%. Whilst this implies that the Fund is over-committed to the asset class, the draw-down of these commitments will take up to five years, and as these commitments are drawn-down, they will be partly offset by distributions from existing infrastructure investments.

## (ix) Protection Assets



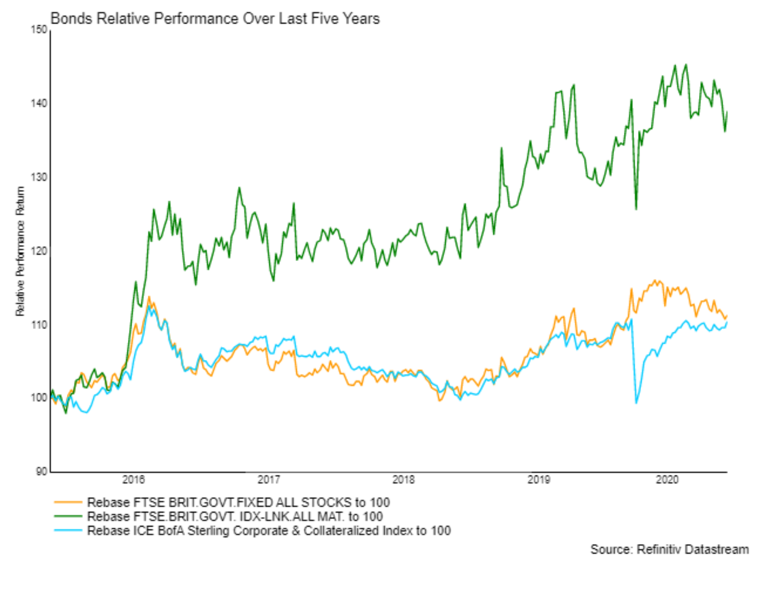

Page 37

The weighting in Protection Assets at 31 October 2020 was 17.4%, down from 18.1% at 31 October 2020, reflecting relative market weakness. The IIMT recommendations below maintain the weighting at 17.4%.

Government bond yields generally traded sideways in September and October 2020 before rising sharply in early November 2020 following the positive announcement about the effectiveness of the Pfizer BioNTech vaccine. Notwithstanding the recent rise, UK Government bond yields remain near historic lows, consistent with expectations for a prolonged period of zero-or-below policy rates in response to the economic backdrop.

## Conventional Bonds

| **DPF Weightings** | |
|---|---|
| Current Neutral | 6.0% |
| Intermediate Neutral | 6.0% |
| Final Neutral | 6.0% |
| Actual 31.10.20 | 5.1% |
| AF Recommendation | 4.0% |
| IIMT Recommendation | 5.1% |
| | |
| **Benchmark Returns (GB£)** | |
| Q3 20/21 to 20 Nov-20 | (1.3%) |
| Q2 20/21 | (1.2%) |
| 1 Year to Sept-20 | 3.4% |
| 3 Years to Sept-20 (pa) | 5.7% |
| 5 Years to Sept-20 (pa) | 5.1% |




There were no transactions in the period, and relative market weakness reduced the Fund's allocation to Conventional Bonds by 0.4% to 5.1% at 31 October 2020; 0.9% underweight.

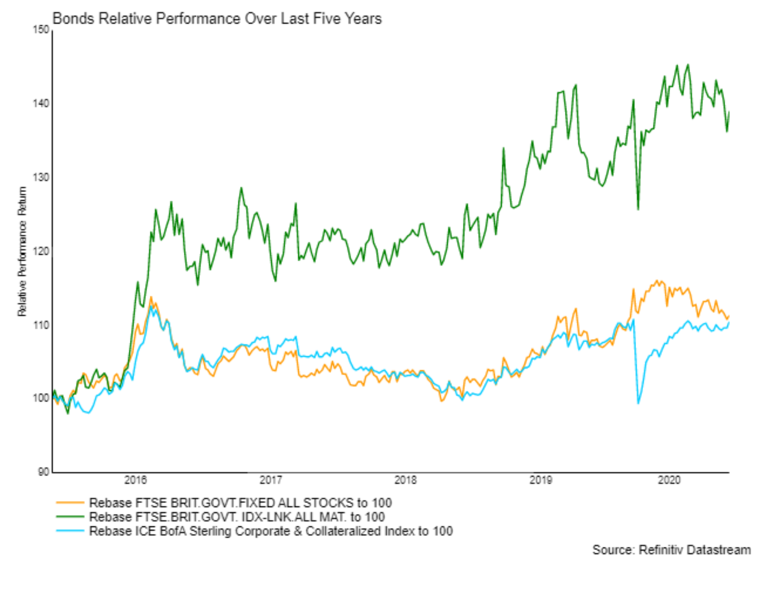
Mr Fletcher has increased his recommended allocation to Conventional Bonds from 3% to 4% (2% underweight) with the 2% being allocated to an increase in the Cash weighting. Mr Fletcher believes that government bonds will not provide as much protection as they have done in the past, and at the current extremely low levels of yield, increasing the level of cash provides the Fund with more flexibility.

The IIMT continues to believe that whilst conventional sovereign bonds do not appear to offer good value at current levels with yields around historic lows, they are diversifying assets and continue to afford greater protection than other asset classes in periods of market uncertainty as evidenced during the Covid-19 pandemic.

The IIMT recommends that the current 0.9% underweight allocation of 5.1% is maintained.

## Index-Linked Bonds

| **DPF Weightings** | |
|---|---|
| Current Neutral | 6.0% |
| Intermediate Neutral | 6.0% |
| Final Neutral | 6.0% |
| Actual 31.10.20 | 6.0% |
| AF Recommendation | 6.0% |
| IIMT Recommendation | 6.0% |
| | |
| **Benchmark Returns (GB£)** | |
| Q3 20/21 to 20 Nov-20 | (1.4%) |
| Q2 20/21 | (2.2%) |
| 1 Year to Sept-20 | 0.4% |
| 3 Years to Sept-20 (pa) | 6.4% |
| 5 Years to Sept-20 (pa) | 7.5% |




There were no transactions in the period, and relative market weakness reduced the Fund's allocation to Index-Linked Bonds by 0.2% to 6.0% at 31 October 2020; neutral weight.

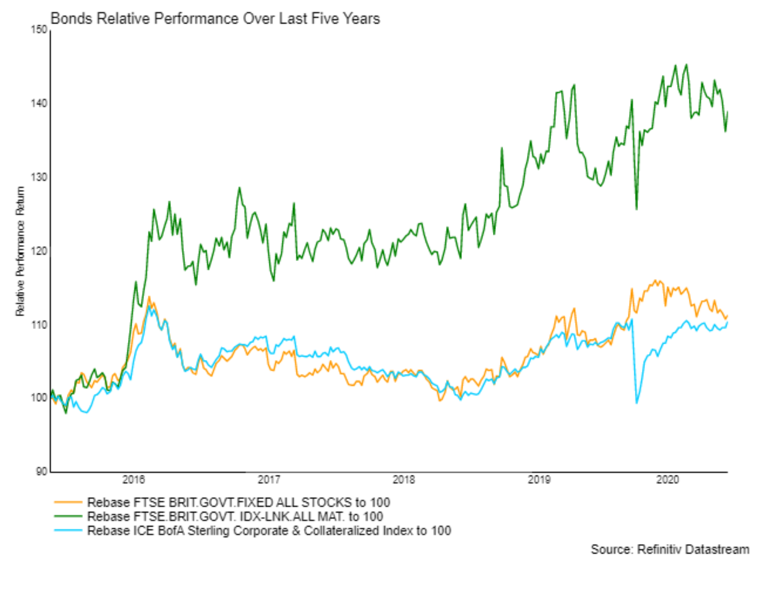
Mr Fletcher recommends a neutral 6% allocation to Index-Linked Bonds (UK Linkers). In terms of the allocation to Index Linked Bonds Mr Fletcher prefers to remain 2% underweight UK Index Linked with a 2% allocation to US Treasury Inflation Protected Bonds (TIPS). TIPS have continued to outperform UK Index Linked. Mr Fletcher believes that UK Index Linked bonds remain overvalued relative to UK conventional bonds and UK inflationary expectations.

The outcome of the consultation on the change to CPIH from RPI indexation was announced at the same time as the Autumn Statement. The change will be implemented from 2030 and not from an earlier date between 2025 and 2030 as considered. This is positive for inflation accruals between 2025 and 2030. However, it was also announced that the government will not offer compensation to the holders of index-linked gilts which was not good news for the longer end of the index linked market.

In line with the IIMT's recommendation in respect of Conventional Bonds, the IIMT notes that whilst Index-Linked Bonds appear expensive at current levels, it is too early to call the bottom of the Covid-19 pandemic. The IIMT believes that inflation expectations in the short-term are muted reflecting the deflationary effects of weaker demand and lower oil prices but in the medium term inflation is likely to pick-up driven by the enormous policy stimulus (both fiscal and monetary) and tighter global supply chains. The IIMT recommends a 6% neutral allocation to Index-Linked Bonds, and that the current exposure to US TIPS (around 20% of the Index-Linked portfolio) is maintained.

## Corporate Bonds

| **DPF Weightings** | |
|---|---|
| Current Neutral | 6.0% |
| Intermediate Neutral | 6.0% |
| Final Neutral | 6.0% |
| Actual 31.10.20 | 6.3% |
| AF Recommendation | 6.0% |
| IIMT Recommendation | 6.3% |
| | |
| **Benchmark Returns (GB£)** | |
| Q3 20/21 to 20 Nov-20 | 1.6% |
| Q2 20/21 | 1.6% |
| 1 Year to Jun-20 (1) | n/a |
| 3 Years to Jun-20 (pa) (1) | n/a |
| 5 Years to Jun-20 (pa) (1) | n/a |




(1) Benchmark returns for the LGPS Central Limited Investment Grade Bonds Sub-Fund only available since the launch of the product in February 2020

Relative market weakness reduced the Fund's allocation to the asset class from 6.4% at 31 July 2020 to 6.3% at 31 October 2020; 0.3% overweight.

Mr Fletcher has reduced his previous 1% overweight allocation to Corporate Bonds to a neutral allocation of 6% noting that non-government yield spreads have narrowed recently, and as such an overweight position is no longer warranted.

The IIMT concurs that investment grade bond spreads have narrowed significantly since spiking in March 2020, and it is unclear whether the current level of spread is sufficient to compensate for the increased default, particularly when the shape of the recovery is unknown, and the recovery cannot easily be benchmarked to previous trends. Whilst the impact of the current situation on corporate profitability, balance sheets and cash flows remains unclear, the IIMT believes that the current modest overweight allocation of 6.3% should be maintained.

## (x) Cash

The Cash weighting at 31 October 2020 was 6.1% (4.1% overweight relative to the benchmark).

Mr Fletcher has increased his previous 2% neutral allocation to Cash to 4% noting that ,given the amount of change the Fund is about to transact, a higher cash balance is prudent.

The IIMT notes that global markets have recovered strongly following the sharp sell-off in Q1 2020, with the recovery heavily dependent on substantial and unprecedented central bank monetary support. Any change of tone from the central banks is likely to have a material effect on markets. Whilst recent announcements in respect of the effectiveness of coronavirus vaccines are a very positive development, the roll-out of the vaccines is likely to take time. Furthermore, the recovery from the Covid-19 pandemic is likely to be uneven, and markets appear to be ignoring significant headwinds including considerable uncertainty about the shape of the economic recovery; uncertainty about how long it will take for economic activity to return to pre-outbreak levels; rising new cases and localised lockdowns; and the potential uncertainty caused by the new Biden administration in the US.

The IIMT recommends a defensive cash allocation of 5.6% (3.6% overweight relative to the benchmark) due to the uncertain economic outlook. This will also ensure that the Fund has sufficient operational headroom after adjusting for term-loan maturities (i.e. short-term loans provided by the Fund to other public sector bodies) to cover upcoming investment commitment drawdowns (expected to be in excess of £120m over the course of 2020-21), and to cover the likelihood that cash inflows into the Fund, particularly, from investment income, reduce as a result of the Covid-19 pandemic.

## 3 Other Considerations

In preparing this report the relevance of the following factors has been considered: financial, legal and human rights, human resources, equality and diversity, health, environmental, transport, property and prevention of crime and disorder.

## 4 Background Papers

Files held by the Investment Section.

## 5 Officer's Recommendations

5.1 That the report of the external adviser, Mr Fletcher, be noted.

5.2 That the asset allocations, total assets and long term performance analysis in this report be noted.

5.3 That the strategy outlined in the report be approved.

PETER HANDFORD

Director of Finance & ICT

MJ HUDSON Allenbridge

# Third Quarter 2020 Investment Report

PREPARED FOR:

Derbyshire County Council Pension Fund: Pensions and Investment Committee Meeting

DECEMBER 2020

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# Investment Report for Derbyshire County Council Pension Fund

This report has been prepared by Anthony Fletcher "External Investment Advisor" of Derbyshire County Council Pension Fund (the Fund). At the request of the Pension and Investment Committee the purpose of the report is to fulfil the following aims: -

- Provide an overview of market returns by asset class over the last quarter and 12 months.
- An analysis of the Fund's performance by asset class versus the Fund specific benchmark for the last quarter and the last 12 months.
- An overview of the economic and market outlook by major region, including consideration of the potential impact on the Fund's asset classes
- An overview of the outlook for each of the Funds asset classes for the next two years; and recommend asset class weightings for the next quarter together with supporting rationale.

The report is expected to lead to discussions with the in-house team on findings and recommendations as required. The advisor is expected to attend quarterly meetings of the Pensions and Investment Committee to present his views and actively advise committee members.

Meeting date 9th December 2020
Date of paper 23rd November 2020

MJ HUDSON Allenbridge

# 1. Market Background (Third quarter 2020)

The development of the Covid 19 pandemic remains the main driver of economic activity. In the 3rd quarter the governments of the UK and Europe released their populations from the tightest of domestic restrictions, but foreign travel restrictions remained in place with travellers having to quarantine for 14 days upon return to their home countries.

There were no changes in the level of monetary support provided by central banks over the quarter. While there were no changes in policy rates, they were the main buyers of newly issued government bonds and continued to buy corporate bonds in the secondary markets. Following the Fed's virtual Jackson Hole meeting in August it announced that in future they would move to rate setting based on average inflation. This opens the way for inflation to move above the 2% target and could herald an extended period of low policy rates. The Bank of England suggested that along with negative policy rates an average inflation rate target was being considered.

With the upswing in economic activity over the summer The UK and US governments were willing to reduce the amount of fiscal help being provided to support incomes and the retention of workers. In the US, Congress failed to agree a reduced package of measures as political tensions increased with the run up to the congressional and presidential elections. Across Europe many countries chose to extend their domestic support packages and the EU agreed a Euro 750 billion package of grants and loans aimed at supporting the poorer member states as they seek to recover from the pandemic. The recovery fund will be backed by increased member contributions and by the issue of bonds in the name of the European Commission, this could be the 1st step on the path to fiscal union.

Reported economic data showed a sharp recovery in manufacturing activity in the 3rd quarter but consumer activity especially in the leisure and hospitality sectors remains well below pre-covid levels despite the good summer weather and "eat out to help out". Leading indicators however were showing a marked slowing in the pace of recovery and aggregate inflation has remained very low.

In local currency terms, US and Emerging equities had a strong quarter as their tech and growth heavy indices produced out-sized returns as the sector dispersion witnessed in the 2nd quarter continued. In Sterling terms returns were more subdued due to the strength of the currency. Other risk assets, like investment grade and high yield bonds also had a strong quarter with prices rising as spreads narrowed to extremely low yielding government bonds. Oil prices along with most other commodity prices were pretty much unchanged as the recovery has yet to broaden out across the whole of the economy. Gold on the other hand had a very strong quarter making a new high as these investors worried about central bank monetisation of debt and the risk of inflation.

MJ HUDSON
Allenbridge

**Table 1**, below shows the total investment return in pound Sterling for the major asset classes, using FTSE indices except where noted; for the month of October 2020 and the 3 and 12 months to the end of September 2020.

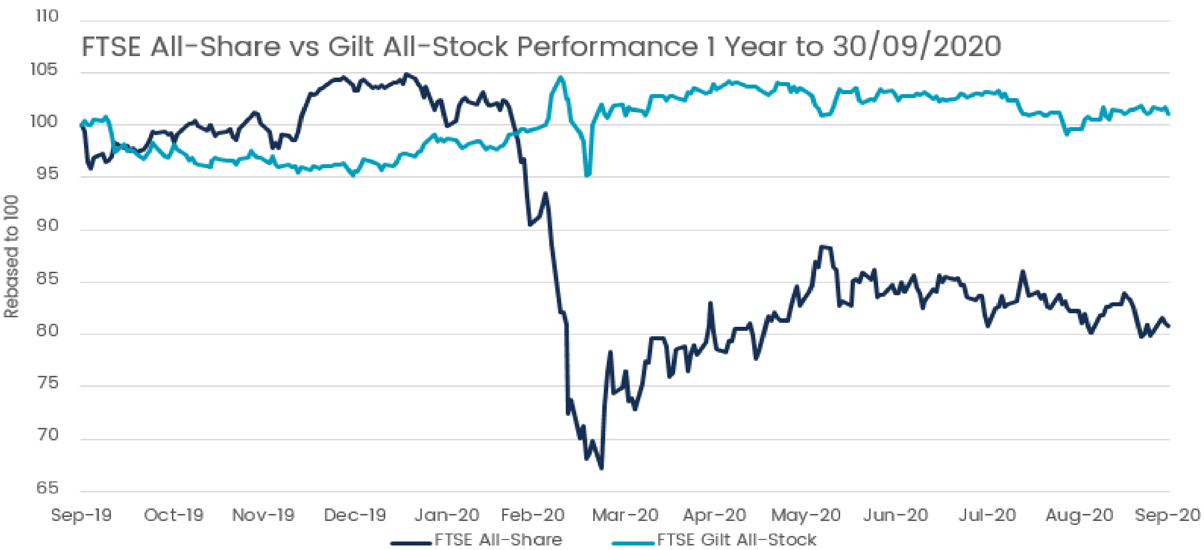
## % TOTAL RETURN DIVIDENDS REINVESTED

### MARKET RETURNS

| | | Period end 30th September 2020 | |
|---|---|---|---|
| | **October 2020** | **3 months** | **12 months** |
| Global equity ACWI^ | -3.1 | 3.3 | 5.8 |
| Regional indices | | | |
| UK All Share | -3.8 | -2.9 | -16.6 |
| North America | -2.7 | 4.5 | 10.5 |
| Europe ex UK | -2.4 | 3.7 | 6.9 |
| Japan | -1.8 | 2.4 | 2.6 |
| Pacific Basin | -0.2 | 2.3 | 1.1 |
| Emerging Equity Markets | 2.4 | 4.5 | 4.7 |
| UK Gilts - Conventional All Stocks | -0.5 | -1.2 | 3.4 |
| UK Gilts - Index Linked All Stocks | 0.7 | -2.2 | 0.4 |
| UK Corporate bonds* | 0.2 | 1.6 | 4.3 |
| Overseas Bonds** | -0.1 | 0.8 | 3.6 |
| UK Property quarterly^ | - | -1.1 | 0.7 |
| Sterling 7 day LIBOR | 0.01 | 0.02 | 0.4 |

^ MSCI indices * iBoxx £ Corporate Bond; **Citigroup WGBI ex UK hedged

**Chart 1**: - UK bond and equity market returns - 12 months to 30th September 2020



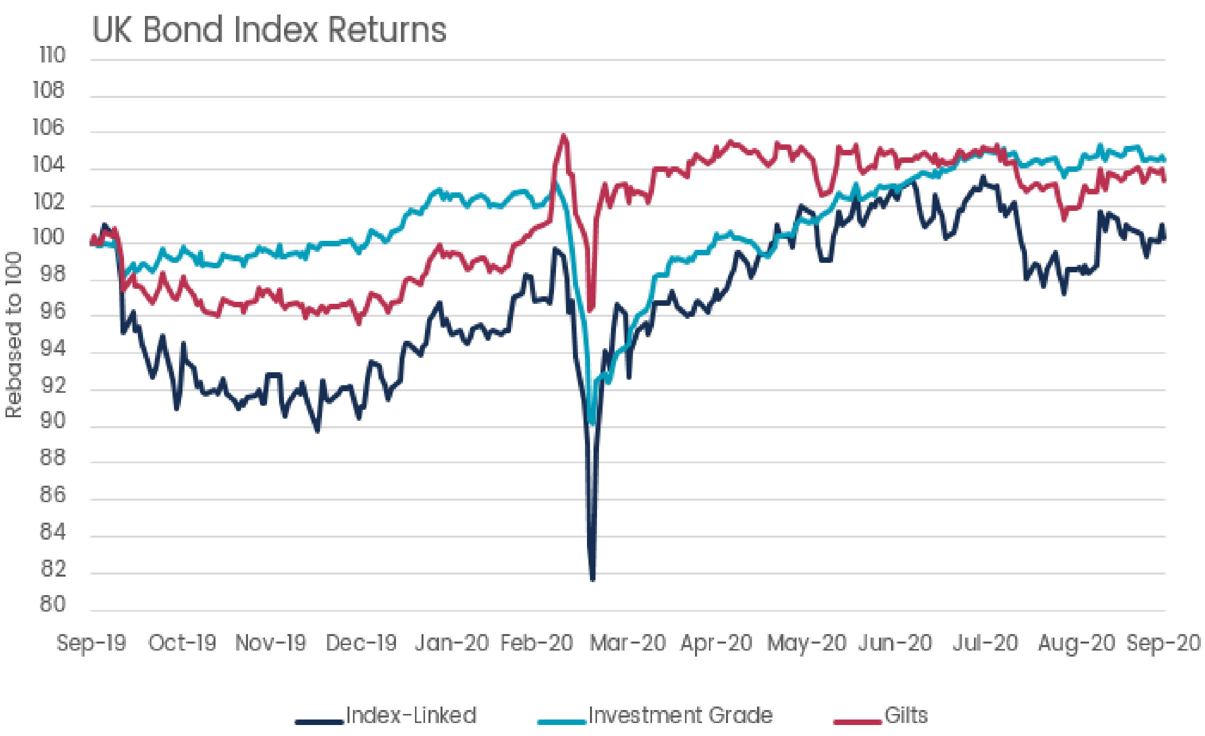

Source: - Bloomberg

**Table 2**: - Change in Bond Market yields over the quarter and 12 months.

| BOND MARKET % YIELD TO MATURITY | 30th June 2020 | 30th September 2020 | Quarterly Change % | 30th September 2019 | Current 14th November 2020 |
|---|---|---|---|---|---|
| **UK GOVERNMENT BONDS (GILTS)** | | | | | |
| 10 year | 0.17 | 0.23 | **0.06** | 0.50 | 0.33 |
| 30 year | 0.64 | 0.78 | **0.14** | 0.96 | 0.92 |
| Over 15y Index linked | -2.36 | -2.25 | **0.11** | -2.22 | -2.11 |
| **OVERSEAS 10 YEAR GOVERNMENT BONDS** | | | | | |
| US Treasury | 0.66 | 0.69 | **0.03** | 1.69 | 0.89 |
| Germany | -0.46 | -0.53 | **-0.07** | -0.57 | -0.56 |
| Japan | 0.02 | 0.02 | **0.00** | -0.22 | 0.02 |
| **NON-GOVERNMENT BOND INDICES** | | | | | |
| UK corporates | 1.95 | 1.78 | **-0.17** | 2.05 | 1.70 |
| Global High yield | 6.61 | 5.74 | **-0.87** | 5.48 | 5.08 |
| Emerging markets | 4.38 | 3.76 | **-0.62** | 4.45 | 3.45 |

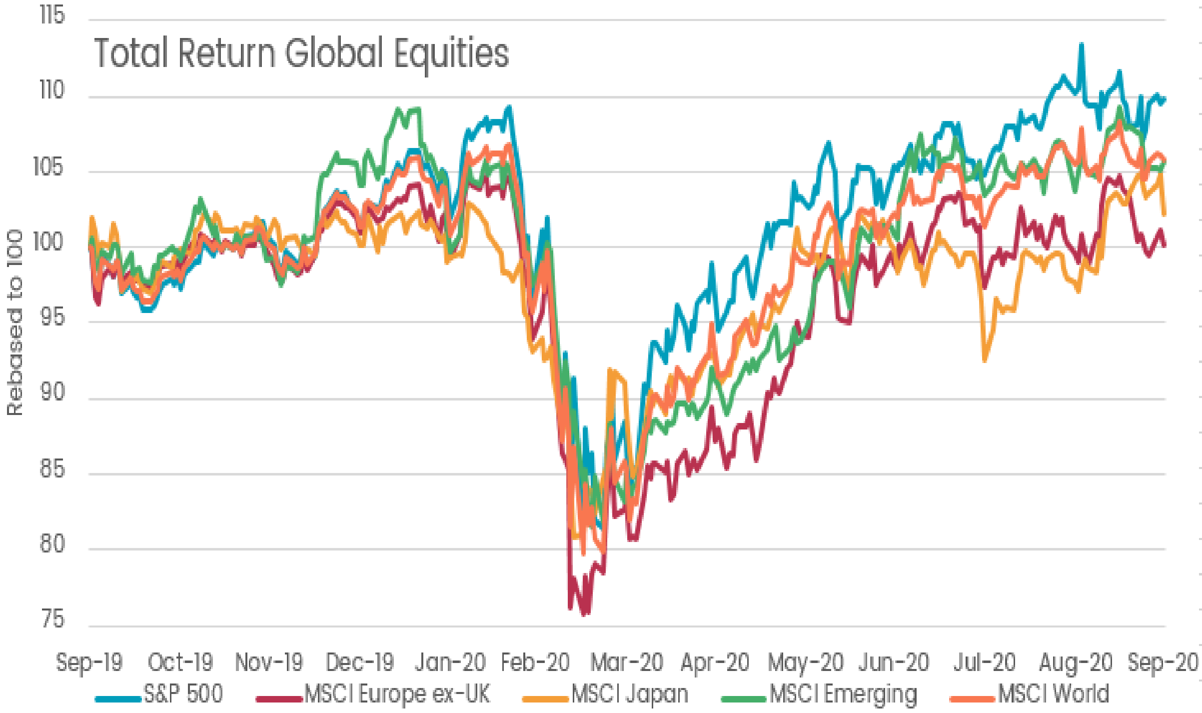
Source: - Bloomberg, G8LI, UC00, HW00, EMGB, ICE indices 14th November 2020.

**Chart 2:** - UK Bond index returns, 12 months to 30th September 2020.




Source: - Bloomberg

**Chart 3**: - Overseas equity markets returns in Sterling terms, 12 months to 30th September 2020.




Source: - Bloomberg

## Recent developments (October and November 2020)

As we headed into October markets were dominated by two topics: the resurgence of Covid 19 in the UK and Europe, and the upcoming US elections. Equity markets spent much of the month in wait-and-see mode, before the announcement of widespread restrictions across Europe in the final days of the month that caused prices to fall.

While the region has seen a marked up turn in the infection rate, this has not been accompanied to same extent by increased hospitalisations and deaths. This could be because more young people are being infected and because we know more about the virus now than we did in March and treatments have been found that can reduce the number of critical cases. The containment response was originally much more targeted, with governments imposing local restrictions in a bid to avoid national lockdowns. Unfortunately, in the UK this approach appears to have failed to limit the spread of the virus and we are now in national lockdown2.0. After some delay and much argument, the government decided to reinstate employment and income support measures.

Globally forward looking economic indicators were already softening in September and this trend continued in October, with the new lockdown measures it is possible that growth will again decline in the 4th quarter, further extending the period to recovery. As we get closer to the end of the year the UK-EU trade negotiations are intensifying, but the same issues remain, as a result the potential for no deal increases.

In the US the last month has been dominated by the US elections and for a while the increasing covid infection rate across the country was eclipsed by a breakout of infections in the White House and the hospitalisation of President Trump, followed by his miraculous recovery. Even so this was not enough for Mr Trump to beat Mr Biden for the role of President. At the time of writing Mr Biden has won 6 million more votes than Mr Trump and appears to have secured 306 electoral college votes 36 above the 270 votes needed to secure the presidency. As yet Mr Trump has not conceded that he lost and continues to make baseless accusations of widespread electoral fraud. Sadly, the behaviour of Mr Trump, while president and especially in the aftermath of the election result has possibly done even more permanent damage to the global reputation of US.

As the results were coming out the US equity market stabilised and then rallied as it became clearer that while Mr Biden had won the presidency, the Democratic party had not taken a controlling position in the Senate and was if anything slightly weaker in the house of representatives. This should have two benefits from the markets point of view, lower corporate tax hikes and less deficit funded infrastructure spending.

But the news that has supported the equity markets in November is the news from Pfizer / BioNtech on the 9th, then Moderna on the 16th and now today 23rd, Astra Zeneca / Oxford University; on the efficacy of their respect Covid 19 vaccines. While the overall indices have not made new highs on the news there has begun a rotation from "new" economy stock price performance to "old" economy stock price performance.

# 2. Investment Performance

Table 3 shows the performance of the Derbyshire Pension Fund versus the fund specific benchmark for the 3 months and year to the end of September 2020. The Fund's value continued to increase but at a more subdued rate after the sharp rebound in the second quarter of 2020. At the end of September 2020, relative performance was well ahead of the benchmark over 3 and 12 months, with all the broad asset class categories and most of Derbyshire's selected asset managers outperforming their respective benchmarks.

Over 10 years the Fund has achieved a total return of 7.8% per annum.

**Table 3**: - Derbyshire Pension Fund and Benchmark returns

| % TOTAL RETURN (NET) 30TH SEPTEMBER 2020 | 3 MONTHS | | 12 MONTHS | |
|---|---|---|---|---|
| | **Derbyshire Pension Fund** | **Benchmark** | **Derbyshire Pension Fund** | **Benchmark** |
| **Total Growth Assets** | **2.7** | **1.3** | **-1.1** | **-2.3** |
| UK Equity | -2.5 | -2.9 | -15.5 | -16.6 |
| **Total Overseas Equity** | **4.4** | **3.6** | **6.0** | **6.1** |
| North America | 4.6 | 4.5 | 11.5 | 10.5 |
| Europe | 1.6 | 1.5 | 0.6 | 0.5 |
| Japan | 5.3 | 2.4 | 6.0 | 2.6 |
| Pacific Basin | 6.1 | 4.6 | 5.7 | 8.4 |
| Emerging markets | 3.5 | 4.5 | -1.0 | 4.6 |
| Global Sustainable Equity | 12.8 | 3.4 | 32.8 | 5.7 |
| Global Private Equity | 8.2 | -2.6 | -0.6 | -15.6 |
| **Total Protection Assets** | **0.4** | **-0.6** | **3.3** | **2.2** |
| UK Gilts | -0.6 | -1.2 | 2.7 | 3.4 |
| UK & Overseas Inflation Linked | 0.0 | -2.2 | 2.5 | 0.4 |
| Global Corporate bonds | 1.7 | 1.6 | - | - |
| **Total Income Assets** | **1.4** | **1.1** | **2.0** | **0.2** |
| Multi-asset Credit | 3.5 | 2.7 | 1.2 | 1.4 |
| Infrastructure | 0.5 | 0.5 | 4.3 | 2.5 |
| Property (all sectors) | 0.6 | 0.5 | 0.7 | -2.6 |
| Internal Cash | 0.1 | 0.0 | 0.3 | 0.3 |
| **Total Fund** | **1.8** | **0.9** | **0.3** | **-0.6** |

**Total fund value at 30th September 2020 £5,252 million**

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As can be seen from the table asset class returns were lower and more mixed in the 3rd calendar quarter of 2020. Also as noted last quarter those country indices which were technology sector heavy like the US and South-east Asia had the strongest returns and those with high weights to cyclical, energy and financial sector stocks like the UK and Europe have lagged.

## Growth assets – Equity performance

Once again in the 3rd quarter most of the regional portfolios outperformed their indices, over 12 months the performance is more mixed but in aggregate growth assets outperformed the benchmark. The negative absolute performance of the UK over 12 month continues to dominate the overall performance contribution. Relative to benchmark all regions outperformed, with the exception of Pacific basin and Emerging equity.

North American equity performance was just ahead of the market performance in the quarter, and 1% ahead over 12 months, 3 and 5 year performance numbers are still behind benchmark but continue to improve. North American equity has delivered the highest annualised returns over 10 years at 17% p.a. and the highest outperformance of the benchmark index at +1.6% p.a.

The UK and continental European equity portfolios are passively managed by LGIM and UBS. The 3 and 12 month returns are in line with the benchmark. In the UK the investment trust portfolio managed by the in house team outperformed, improving the overall performance.

The other equity assets are invested in Japan, the Pacific Basin and Emerging Markets equities, via a number of pooled funds selected by the in-house team. All 3 regional portfolios continue to deliver mixed performance over shorter periods but over the long term they have in aggregate delivered reasonable returns and they have been an overall diversifier of risk, especially Japan.

Private equity continues to deliver strong positive absolute and relative returns that are significantly ahead of the benchmark over the more meaningful 3, 5 and 10 year periods, after US equity this is the second strongest performing equity allocation, but with the largest outperformance of the benchmark.

Over the quarter the allocation to global sustainable equity, increased from 1.7% to 3.1% compared to an index neutral allocation of 3%.

## Protection assets - Fixed Income Performance

Over the quarter the bond portfolio delivered a return of 0.4% compared to the benchmark of -0.6%, all components of the portfolio outperformed the benchmark, except gilts over 12 months which on their own only returned 2.7% whereas the benchmark returned 3.4%. The total return of the whole bond portfolio over 12 months was 3.3% compared to the benchmark return of 2.2%.

## Income assets – Property, Infrastructure and MAC

Over the year, the combined portfolio of income assets has outperformed the benchmark. Infrastructure and total property delivered another positive and above benchmark return. MAC continued to recover in the 3rd quarter and is now only slightly behind benchmark over 1 year, over 3 years returns are positive and better than benchmark.

Over 3 years the performance of Property and Infrastructure is well ahead of benchmark delivering 4.8% pa and 7.8% pa respectively.

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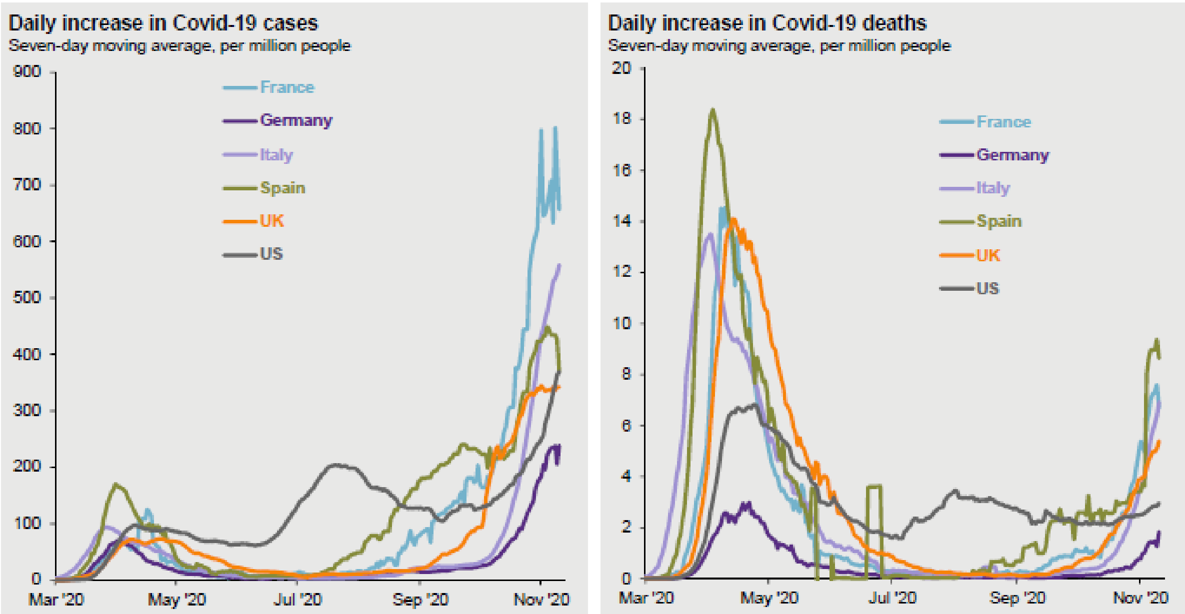
# 3. Economic and Market outlook

## Economic outlook

Covid 19, the support given by governments and the actions of central banks remain the primary driver of the economic outlook at least in the developed world. In the emerging economies the situation is much more diverse, China and South-east Asia, seem to have been able to move Covid to a secondary issue and get their economies back to pre-covid levels of activity without anything like the amount of fiscal and monetary stimulus. Whereas countries like India and some countries in Latin America it remains a primary concern. Another factor that may be driving outcomes is demographics, in general and in particular in Africa, the Middle East and South- east Asia, the average age of the population is very low compared to developed Europe for instance.

**Chart 4: -** LHS. Covid Infections per million 7dma. RHS. Reported deaths per million 7dma.




Source: Johns Hopkins CSSE, The World Bank, J.P. Morgan Asset Management. Cases include both laboratory confirmed and 'presumptive positive' cases. Data used is latest available as of 10 November 2020.

Chart 4 above shows the 7 day moving average (7dma) growth rates for infections and deaths in Europe and the US per million of population. The left hand chart of infections looks terrible but is slightly mis-leading because many more people are being tested now than in the 1st wave. Also, it would appear that the vast majority of people becoming infected are younger people better able to cope with the virus. This is probably because they are more socially active and older people have changed their social behaviour as well. The right hand chart shows the 7 day moving average death rate is more accurate as the data is at least consistent. This is clearly the good news fewer people are dying as the medical profession have improved practices and the treatment of patients.

Chart 5 below shows leading economic indicators such as, Manufacturing purchasing managers indices (PMI's) and mobility as a proxy for personal activity. After a sharp rebound, the pace of recovery had slowed even before the return of increased travel restrictions and Lockdown2.0 were imposed by European governments and US States.

**Chart 5: -** LHS. Global PMI's. RHS. Mobility data as a proxy economic activity


Source: - ICG

These charts only go to mid-October so it is likely that in the Europe and the US, where new restrictions are in place that these leading indicators have turned down. From our own personal observations, it would also be reasonable to suggest a weaker economic outlook in the 4q20 and a sluggish pace of recovery in the first half of 2021. The news on the efficacy and availability of vaccines is a positive but even with a rapid roll-out it is likely to be the middle 2021 before actual activity returns to near normal levels and it could still be 2022 before developed economies are above their pre-covid levels of activity.

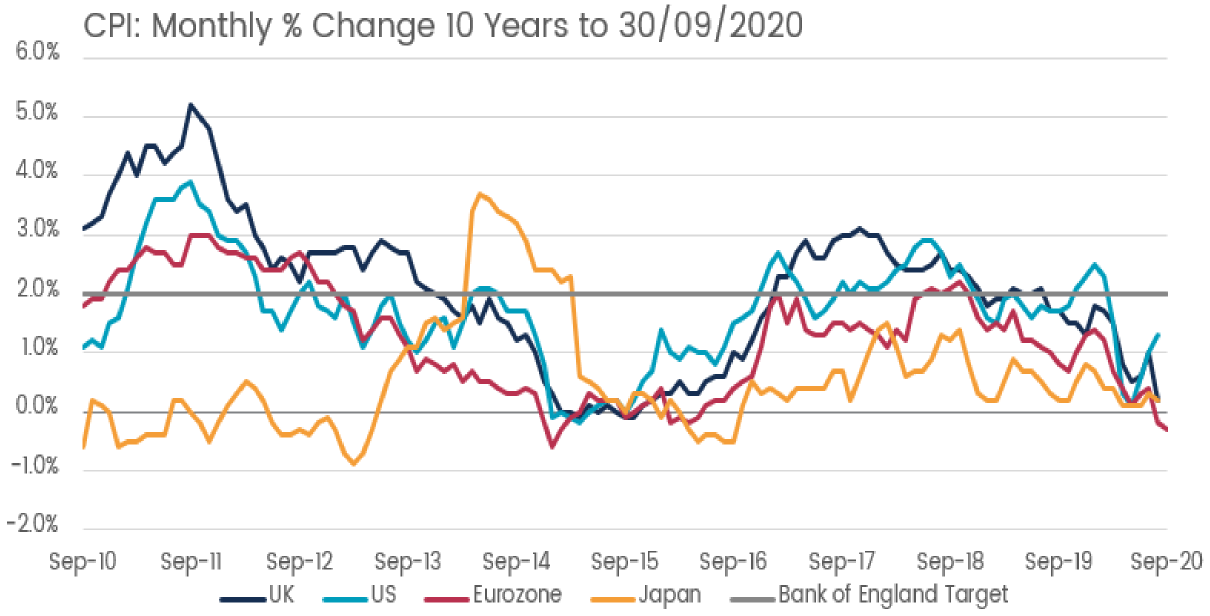
As mentioned above and in my last report, China and the South-east Asian economies appear largely unaffected by Covid compared to those of Europe and the USA where domestic consumption and leisure activities dominate the mix of economic activity. Technology and communications services which have been major beneficiaries of the pandemic and are at the core of future economic development. Aggregate demographics still favour emerging markets and I expect the "fulcrum" of global economic power will continue to shift east towards Asia. The time until China overtakes the US as the worlds largest economy is getting shorter.

While for the Developed world Covid is a short to medium term issue that needs to be dealt with the long term secular issues of debt and demographics, lower productivity and aggregate growth have been made worse by the virus. In general, Emerging markets should do better because of the development of their own domestic markets, creating consumption for themselves rather than for the developed countries, as a result trade in goods could become more regional. The new Asia-Pacific regional trade deal signed on the 11th November will only enhance this.

## Inflation

In the 3rd quarter the rate of inflation fell outside the US but as chart 6 below shows the trend for all developed countries remains down and below the central bank's target rate of 2% p.a.  In aggregate I expect it to remain low for a very long time, but there could be localised, short term hotspots resulting from supply issues and extra costs caused by the implementation of Covid protection measures.

**Chart 6**: **-** Inflation – Annual rate versus Central Bank Target




Source: - Bloomberg

## Central Banks

As observed in my last report central banks have been pretty quiet since they announced their unprecedented levels of support for markets in March, mainly because they have worked.  Since April the US Fed and the Bank of England (BoE) have bought most if not all of the new debt issued by their respective governments.

In the US, the Fed announced in August that it would adopt a more flexible approach to rate setting.  In future they will target an average rate for inflation of 2%, rather than seeking to stop it going above 2%.  This means they will allow inflation run above 2% before they begin to act and it suggests that if this policy had been in place in the last 30 years there would have only been 1 tightening cycle instead of 4!  They also emphasised that the Fed funds rate could remain unchanged until 2025, the vaccine may change that, but a rate hike would indicate good news on growth at least.

Andrew Bailey, governor of the BoE, expressed support for the Fed's policy on inflation, even suggesting the BoE could do something similar, but in the case of the BoE it is HM Treasury that set the target for inflation.  In November the BoE surprised the market by announcing an extra £150 billion of bond buying but it has gone very quiet on negative base rates.

## Politics

As of writing this report Mr Trump has still not conceded that he has lost the US Presidential Election. According to the Electoral College preliminary count, each state has its own ratification process for confirming those votes, Mr Biden has won 306 votes. Only 270 electoral college votes are needed to win the presidency, in terms of the popular vote Mr Biden got 6 million more votes than Mr Trump. In the past in any US presidential election the loser would have conceded by now. Mr Trump and his administration through the way they have behaved in this election and the way he behaved as president has seriously undermined, western democracy, the rule of law and the political capital of USA in the world, especially with authoritarian regimes and quasi-democracies.

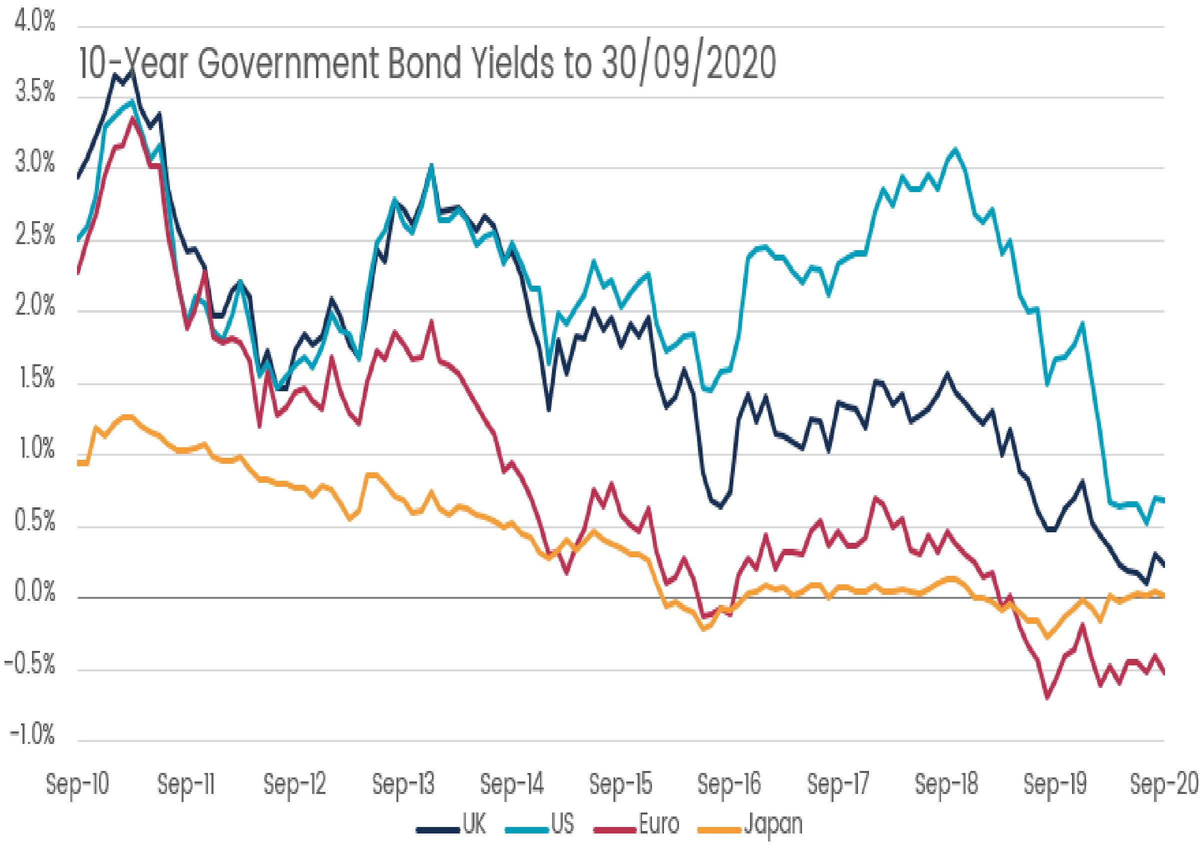
The election result did not deliver the landslide that the Democrats were hoping for. They lost ground in the House of Representatives and did not secure a majority in the Senate, which means that corporate taxes may not rise much and infrastructure spending may be lower. However, Biden can influence federal regulation and foreign policy, which means the US is highly likely to repair much of the damage the Trump administration has caused over the last 4 years. It is expected that the US will re-join the Paris accord on climate change and the nature of trade negotiations will be less belligerent.

In the UK the end game on a trade deal with the European Union is getting closer and the same issues remain unresolved; fishing rights in UK waters, a level playing field for state aid and the border with the Republic of Eire. At the same time with 6 only weeks to go for a trade deal with our largest and most integrated trading partner, PM Johnson has reorganised his team of special advisers in the Cabinet office.

## Government bonds

As can be seen in table 2 above and chart 7 below, Government bond yields have broadly tracked sideways close to their all-time lows since their dramatic falls in March and April. The good news on vaccines has pushed yields higher in the last few days (see left hand side of chart 10 below). I expect government bonds yields to remain low for some time, but ultimately, they will rise either because of higher inflation, the size of deficits or because the global economy is in recovery. At the moment the main objective of central banks is to keep government bond yields low.

**Chart 7**: - Government bond yields, last 10 years.



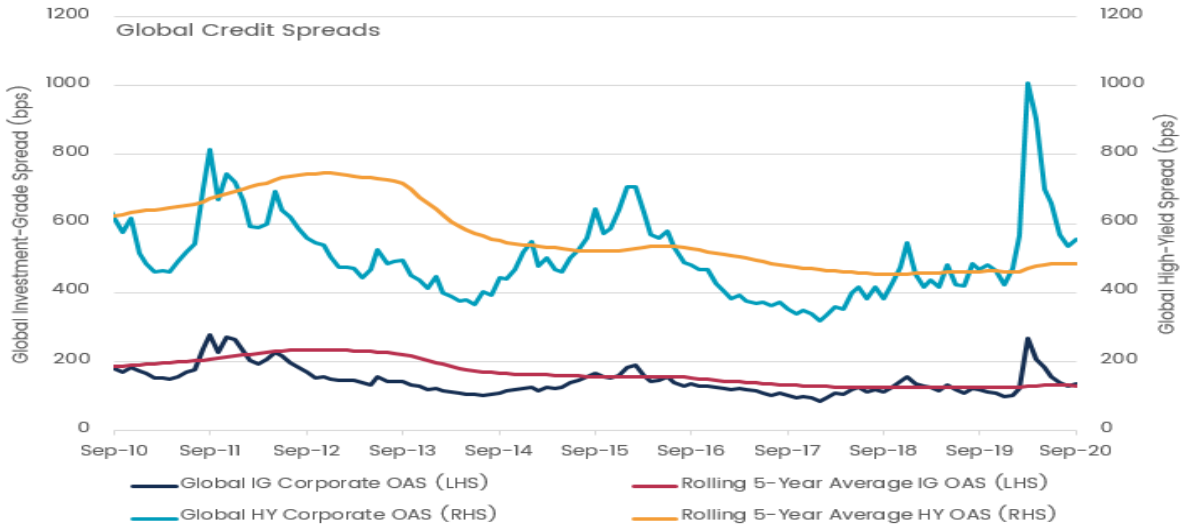

Source: - Bloomberg

## Non-government bonds

As can be seen in Chart 8 below, the excess yield spread for both investment grade non-government and high yield bonds continued to narrow in the 3rd quarter. Mainly because of the policy measures put in place by central banks, buying significant amounts of mostly investment grade corporate debt.

Yield spreads are now less attractive, there is still some scope for spread narrowing but the opportunity is now limited. If my comments above, about an extended period of low interest rates and government bond yields are correct then both investment grade and sub-investment grade bonds will deliver better returns because of their higher yield, than government bonds provided they have a lower default experience.

**Chart 8**: **-** Credit spreads, extra yield over government bonds, last 10 years.

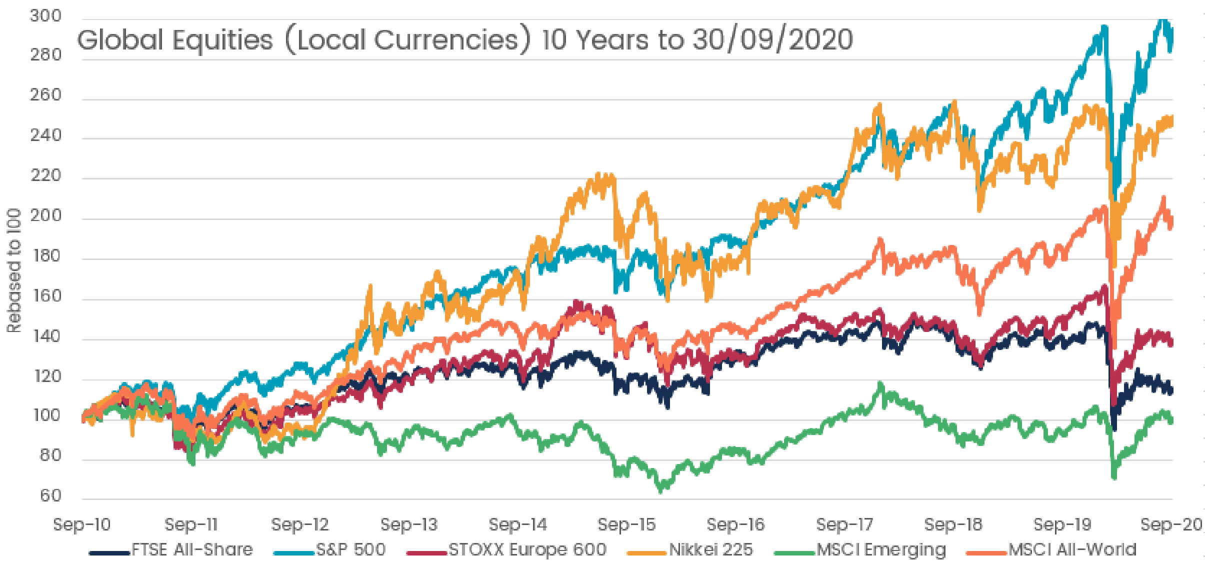



Source: - Bloomberg

## Equities

As can be seen in Chart 9 below and in table 1 above, after a very strong second quarter, returns have been more muted in the 3rd quarter and in October equity market returns were negative as it became clear that the developed economies were heading into new Covid restrictions due to the increased infection rate. This was reversed in November partly because of the US election result but mainly because of the announcements on 2 of the vaccine candidates. This good news has also had the effect of widening out the equity market rally into sectors outside of technology. If the optimism on the vaccines can be confirmed then this could be the beginning of a broader based recovery in equity markets as economic activity becomes closer to what we were used to in the past. It could possibly go some way to reversing the underperformance of the value versus growth style of investment. This could especially benefit markets indices like the FTSE 100 and All-Share, which have a very low sector exposure to technology and a high exposure to financials, energy and resource sectors.

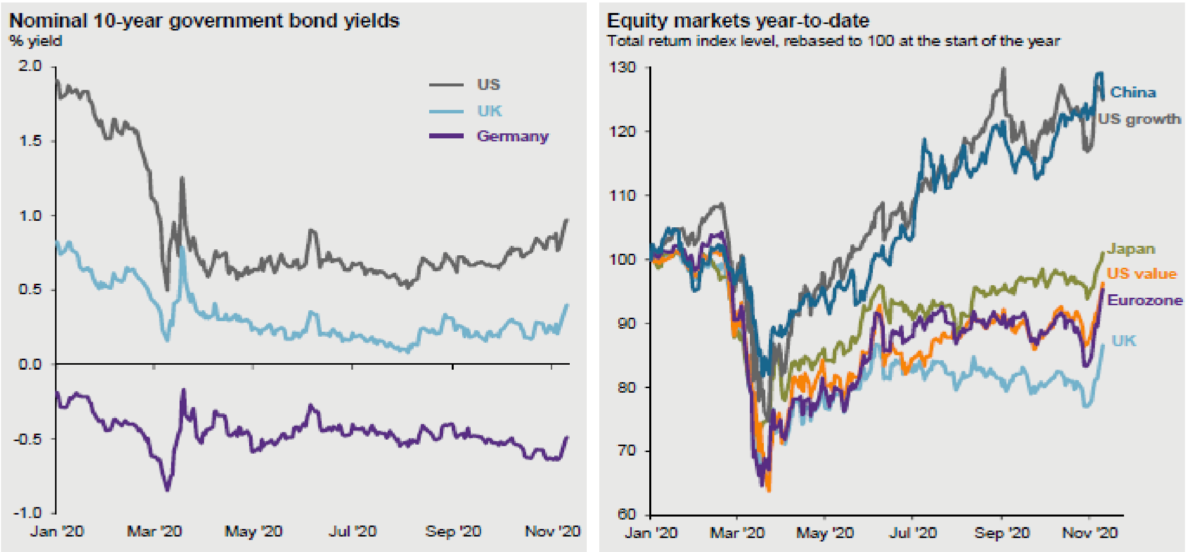
**Chart 9**: **-** Global equity indices, last 10 years.




Source: - Bloomberg

As chart 10 shows below the vaccine news has caused a reasonably significant swing the relative performance of government bonds and country equity indices with a lower weight to the technology sector.

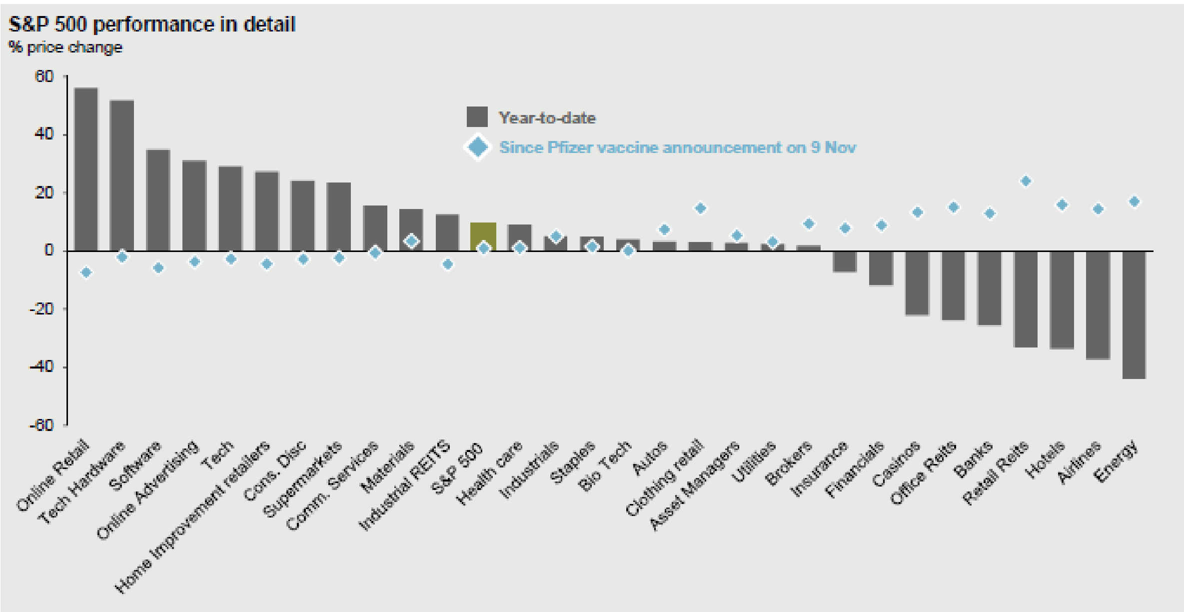
**Chart 10**: - Bond and equity market performance since the Pfizer announcement.




Source: (Left) Refinitiv Datastream, J.P. Morgan Asset Management. (Right) FTSE, IBES, MSCI, Refinitiv Datastream, Standard & Poor's, TOPIX, J.P. Morgan Asset Management. Indices used are; China: MSCI China eurozone: MSCI EMU; Japan: TOPIX; UK: FTSE 100; US growth: S&P 500 Growth; US value: S&P 500 Value. Past performance is not a reliable indicator of current and future results. *Guide to the Markets – UK.* Data as of 10 November 2020.

As mentioned last time the recovery in markets remains highly differentiated by sector. Chart 11 is for the US S&P 500, but it is a similar story for all other equity indices. While one swallow doesn't make a summer the rotation in performance since the Pfizer announcement has been significant, as shown by the blue diamond plots on chart 11.

**Chart 11**: - S&P 500 sector returns calendar year to date, and since the Pfizer announcement.




Source: Refinitiv Datastream, Standard & Poor's, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Data as of 10 November 2020.

## GDP

Table 4 shows the consensus forecasts for GDP growth in calendar 2020 and 2021 and my expectations in August and November 2020.

**Table 4**: - GDP forecasts - Consensus versus Advisor expectations.

| % CHANGE YOY | 2020 | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | AUGUST | | NOVEMBER | | AUGUST | | NOVEMBER | |
| | Consensus | AF | Consensus | AF | Consensus | AF | Consensus | AF |
| US | -5.2 | **-6.0** | -3.7 | **-4.0** | 4.0 | **4.0** | 3.8 | **4.0** |
| UK | -9.9 | **-10.0** | -11.0 | **-11.0** | 6.4 | **6.4** | 4.7 | **5.0** |
| Japan | -5.3 | **-6.0** | -5.5 | **-6.0** | 2.5 | **2.5** | 2.5 | **2.5** |
| EU 28 | -7.8 | **-8.0** | -7.3 | **-8.0** | 5.3 | **5.3** | 4.5 | **5.0** |
| China | 2.1 | **2.5** | 2.0 | **2.5** | 7.8 | **8.0** | 7.9 | **8.0** |
| SE Asia | -3.6 | **-3.2** | -4.4 | **-3.2** | 5.7 | **6.0** | 5.6 | **6.0** |

Source: - Consensus Economics November 2020

As we get closer to the year end with more actual data available the estimates for 2020 growth should be reasonably close to the actual outcome we will see. The weakening of the November expectations relative to August in the UK reflects increased uncertainty on the UK/EU trade negotiations and the re-imposition of lockdowns in the north of England and probably the national lockdown imposed in November, but not the optimism generated by the vaccine news from Pfizer. The main message remains the same, weakness in 2020 followed by a rebound in 2021, with most economies still weaker at the end of 2021 than they were at the beginning of 2020.

The news on the leading vaccine candidates is good, but there are a number of milestones still to be reached. In the meantime, the pace of economic activity and recovery from the pandemic will be dependent upon the measures required to slow the infection rate.

China continues to recover strongly from the pandemic induced -10% first quarter of 2020. In the second quarter growth was revised higher to 11.7%, while third quarter growth was below expectations at 2.7%, the growth recovery has broadened out from manufacturing into personal consumption.

In the US, first quarter growth was confirmed at -5%, second quarter was revised slightly to -31.4% but remains the worst ever recorded. The third quarter advance estimate was 33.1%, this huge rebound was driven by personal consumption. Unlike in the UK and Europe where most of the government cash to support the economies was channelled through companies in the USA it was given directly to the unemployed and furloughed workforce. Over 12 months the US economy is about 11% smaller.

In the UK, the growth rate in the first quarter was revised down to -2.5% and second quarter 2020 growth was -19.8%. Like the US third quarter growth was bolstered by personal consumption as we were encouraged to "eat out to help out" but the advance data only suggests a 15.5% growth rate. Over the year the UK economy is about 10% smaller.

The Japanese economy recovered by 5% in the third quarter, but second quarter growth was revised down to -8.2% leaving the economy nearly 6% smaller than it was 12 months ago.

In the Euro-area second quarter growth was revised slightly to -11.8%, but third quarter growth was a healthy 12.6%. This still leaves the economy about 4% smaller than it was 12 months ago.

## Consumer Price Inflation

Table 5 shows the consensus forecasts for Consumer Price Inflation in calendar 2020 and 2021 and my expectations in August and November 2020.

**Table 5**: - Consumer Price Inflation forecasts - Consensus versus Advisor expectations

| % CHANGE YOY | 2020 | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|
| | AUGUST | | NOVEMEBR | | AUGUST | | NOVEMBER | |
| | Consensus | AF | Consensus | AF | Consensus | AF | Consensus | AF |
| US | 0.8 | **0.7** | 1.2 | **0.7** | 1.7 | **1.6** | 2.0 | **1.8** |
| UK | 0.7 | **0.6** | 0.9 | **0.6** | 1.4 | **1.2** | 1.5 | **1.3** |
| Japan | -0.1 | **-0.2** | 0.0 | **-0.2** | 0.2 | **0.0** | 0.0 | **0.0** |
| EU 28 | 0.6 | **0.5** | 0.5 | **0.5** | 1.2 | **1.0** | 1.1 | **1.0** |
| China | 2.7 | **2.5** | 2.7 | **2.5** | 2.0 | **2.0** | 1.9 | **2.0** |
| SE Asia | 1.0 | **0.9** | 1.0 | **0.9** | 2.1 | **2.0** | 2.0 | **2.0** |

Source: - Consensus Economics November 2020

The consensus forecasts for inflation in calendar 2020 and 2021 have ticked up slightly, whereas most inflation prints have been lower than in the second quarter. Despite the recovery in activity energy prices have remained broadly unchanged. As I mention in my last report anecdotal evidence would suggest some service prices have been marked higher due to Covid induced capacity constraints but these are being more than offset elsewhere. I continue to expect inflation to be lower than the consensus forecasts for some time to come.

The annual rate of US headline inflation picked up to 1.4% in September, before falling back to 1.2% in October. Food, new vehicle and shelter prices were higher but energy prices along with most other goods were lower. Ex food and energy, core inflation also fell to an annual rate of 1.6%.

In September the UK headline inflation rate (CPIH) which includes housing costs was 0.7%, slightly higher than the 0.5% recorded in August, mainly due to the end of the "eat out to help out scheme". Since January the annual rate of inflation has fallen by 1%. Core inflation which excludes food, energy, alcohol and tobacco in the UK, was also higher at 1.3% p.a.

The October "flash" report of inflation in the Euro Area remained at -0.3% p.a. and the core rate, which had been rising is now at a record low 0.2% down from 1.2% in March.

The Japanese inflation rate was unchanged in September and the core rate that excludes fresh food was -0.3% p.a.

# 4. The outlook for the securities markets

The underlying influences of monetary and fiscal policy support to plug the gap caused by the restrictions put in place to combat the covid pandemic remain in place. Recently markets have been concerned about the increased rate of infections but had taken some solace form the fact that mortality rates had not picked up at the same pace. These factors had kept all markets broadly stable at the current level but increasingly vulnerable to bad news.

This appears to have changed in November: First, with the election of Mr Biden as President, but just as importantly the failure of the Democrats to take control of the Senate and no real change in the House of Representatives. Domestically this reduces the chance of big corporate tax hikes and reduces the size of deficit funded infrastructure spending. It probably means more regulatory impact on “big Tech”, which could lead to anti-trust legislation, more competition and an end to the avoidance of taxation. On healthcare it should see the end of pressure to roll-back the Affordable care act, which should reduce the excessive profits of the healthcare sector in general and pharmaceutical companies in particular. On energy and climate change there could be a tightening of regulations and an end to the squeeze on the Environmental Protection Agency. Internationally there will still be tension between China and the USA, especially as China becomes both more important economically and in terms of its influence regionally, but there is likely to be change in the tone of the negotiations. The US is likely to re-join the Paris accord on climate change. This will bring the US back into line with most of the rest of the world on the action that needs to be taken.

While the taxation and spending issues should be a consideration mainly for the US economy and markets. The changes on the international stage are major reasons for optimism on global growth, trade and in particular the possibility of a more sustainable future, they should also go some way to reducing the headwind on the development of emerging markets.

Secondly, in the last couple of weeks the news on the efficacy of 3 of the 6 leading Covid vaccines, holds out the possibility of a return to a more normal life. In terms of markets it has widened out the price recovery to those sectors that were more impaired by lower global demand, travel restrictions and lockdowns. However, “we are only at the end of the beginning”. The new vaccines need to be produced in sufficient quantities, at a price that is affordable and they need to be distributed. As a result, there is still scope for disappointment in terms of availability, efficacy in the actual population and how long the protection lasts.

Notwithstanding, my last comments about the scope for disappointment in the medium term the news in November should be good for global sustainable equity and emerging markets and bad ultimately for developed market government bonds. Mainly because as the economy recovers the time until inflation rises and / or interest rates have to rise has become shorter.

## Bond Markets

In table 6, below I have set out my expectations for 3 month LIBOR interest rates and benchmark 10 year government bond yields, over the next 3 and 12 months. They are not meant to be accurate point forecasts, more an indication of the possible direction of yields from November 2020.

**Table 6**: - Interest rate and Bond yield forecasts

| % | CURRENT | JUNE 2021 | DECEMBER 2021 |
|---|---|---|---|
| **UNITED STATES** | | | |
| 3month LIBOR | 0.22 | 0.25 | 0.25 |
| 10 year bond yield | 0.89 | 1.0 | 1.0 |
| **UNITED KINGDOM** | | | |
| 3month LIBOR | 0.04 | 0.10 | 0.10 |
| 10 year bond yield | 0.34 | 0.50 | 0.50 |
| **JAPAN** | | | |
| 3month LIBOR | -0.10 | -0.10 | -0.10 |
| 10 year bond yield | 0.03 | 0.10 | 0.10 |
| **GERMANY** | | | |
| 3month EURIBOR | -0.54 | -0.50 | -0.50 |
| 10 year bond yield | -0.55 | -0.25 | -0.25 |

Source: - Bloomberg, Trading Economics; 13th November 2020

In August government bond yields achieved new "All Time Lows" as markets responded to the economic slowdown and the amount of bond buying that central banks continued to carry out. Almost all the new supply of bonds from the developed world's governments have been bought by their respective central banks! However, since the end of the quarter yields have drifted higher and with the optimistic news on the efficacy of 2 of the potential vaccine candidates, UK and US 10 year government yields have increased by 50%. As can be seen in table 6 above they are still very low, but unless the optimism turns out to be misplaced, I believe we may have seen the nadir in government bond yields for this cycle. As I mentioned last time, I still expect interest rates and yields to remain low for 3 main reasons. Central banks are unlikely to increase rates until they are certain about the recovery, because inflation is likely to remain low and because they have given themselves more flexibility around the 2% target rate of Inflation. The vaccine may have shortened the period of near zero / zero rates, but I still do not expect central bank policy rates to change for the next 12 to 18 months. Over the long term I expect government bond yields to rise and there is the risk that yield curves could continue to steepen if inflation becomes more of a concern, but for now central banks will continue to do all they can to keep government yields around their current levels.

With a background of very low central bank policy rates and low refinancing costs, the extra yield spread for non-government bond and high yield bonds and loans remains attractive, but spreads have already narrowed significantly. As the global economy recovers, it is highly likely that the level of defaults in credit markets could increase, especially in those sectors of the economy that are more at risk from the pace of recovery. Active management, dynamic asset allocation and security selection skills will now, more than ever will be the key to success for investment in this asset class.

## Bond Market (Protection Assets) Recommendations

The total allocation to Protection assets in the strategic benchmark remains 18%. I continue to suggest that this is reduced to 16%, but whereas last quarter I would have used this money to increase the exposure to MAC in the Income asset portion of the Fund, I now believe it should be allocated to cash. MAC has had a good run and from here the spread may not compensate for the extra risk of default from high yield bonds and loans, equally UK gilt yields are negative out to around 5 years whereas cash yields are positive. Because non-government yield spreads have narrowed so much, I would also reduce the global corporate bond allocation from 1% overweight to neutral.

I believe this underweight recognises the value of owning protection assets against the risk of another sell off in growth assets, but it also reflects my view that government bonds will not provide as much protection as they have done in the past at these extremely low levels of yield and increasing the level of cash gives the Fund more flexibility.

As usual in table 7 below I have updated the data and recalculated my estimates of the total return impact of rising yields for government and non-government bond indices based on their yield and interest rate sensitivity (Duration) over 3 and 12 months. The estimates show that there very little income protection even for small increases in yield at current durations and spreads.

**Table 7**: - Total returns from representative bond indices

| INDEX | YIELD TO MATURITY % | DURATION | YIELD INCREASE % | % TOTAL RETURN, HOLDING PERIOD | |
|---|---|---|---|---|---|
| | | | | 3 MONTH | 12 MONTHS |
| **All Stock Gilts** | 0.49 | 13.2 | 0.5 | -6.5 | -6.1 |
| **All Stock Linkers** | -2.36 | 17.7 | 0.5 | -8.8 | -8.6 |
| **Global IG Corporate** | 1.51 | 7.3 | 0.5 | -3.3 | -2.1 |
| **Global High Yield** | 5.08 | 3.7 | 0.5 | -0.6 | +3.2 |

Source: - ICE Indices 14th November 2020

In terms of the allocation to index linked gilts I would prefer to remain 2% underweight UK linkers with a 2% allocation to US TIPS. TIPS have continued to outperform index linked gilts partly because of their higher yield but also because this market is not subject to the potential change of inflation indexation. UK Linkers remain overvalued relative to UK gilts and UK inflationary expectations. The consultation on the change to CPIH from RPI indexation closed in August and the chancellor is expected to announce what changes he wishes to make on 25th November 2020. At the moment the Linker market has only priced in about 50% of the change in the market valuation, but Linkers continue to underperform conventional gilts and the yield curve continues to steepen. As I mentioned last time, asset managers lobbied for compensation for the change, but Corporate Pension Fund trustees with RPI liabilities appear much more relaxed about the change. Broadly speaking there is an increasing consensus that the Chancellor will endorse the change without compensation to bond holders.

## Equity Markets

Table 8 below, shows the dividend yield for 2020 and the earnings growth and price / earnings ratio estimates, for 2020 and 2021 provided by Citi Research.

**Table 8**: **-** Dividend yield, Earnings growth and Price/Earnings Ratios

| COUNTRY | DIVIDEND YIELD % | EARNINGS GROWTH | | PRICE/EARNINGS RATIO | |
|---|---|---|---|---|---|
| FORECAST PERIOD | 2020 | 2020 | 2021 | 2020 | 2021 |
| **United Kingdom** | 3.9 | -38.3 | 39.3 | 17.6 | 13.1 |
| **United States** | 1.7 | -14.5 | 23.5 | 26.3 | 21.3 |
| **Europe ex UK** | 2.7 | -32.1 | 37.6 | 21.8 | 16.4 |
| **Japan** | 2.3 | -16.1 | 30.1 | 21.4 | 16.6 |

Source: - Citi Research, Global Equity Strategist, October 2020

Citi research have again tweaked their expectations for dividends and earnings. Despite high profile announcements of passed and lower dividends, the dividend yield in the UK has not changed. Whereas yields have fallen in other regions, probably because of the better performance of the respective indices. Dividends are an important source of return and while not guaranteed like coupons on bonds, at these levels they are multiples higher than the yield on government bonds.

Earnings growth has been revised higher in the USA and lower elsewhere. If these growth rates are realised then earnings will be 5% higher in the US and 9% higher in Japan at the end of 2021 than they were at the start of 2020 but in UK and Europe earnings will be 14% and 6% lower. This seems a bit pessimistic for the UK and Europe and would suggest a continuation of the tech/growth rally and dispersion with value/old economy stocks. It also takes no account in my opinion of the fundamental valuation characteristics of companies.

In the last couple of weeks, the US election result with its potential for lower increases (if any) in US corporate taxes and the optimism around efficient vaccines has reignited a market that was looking a bit detached from reality. The news on the vaccines has also triggered interest in those sectors that have lagged the rally since April, causing a rotation in the performance of growth and value sectors of the market. This could prove to be short lived but if the vaccines do work as efficiently as the latest trial results suggest the main beneficiaries could be the country indices and sectors of the market that have been left behind.

## Equity Market (Growth Assets), Recommendations

The new Investment Strategy Statement which along with the Climate Strategy and the Responsible Investment Framework were adopted by the PFC in November, will lead to some significant changes in the way in which the Fund's Growth Assets are managed. Because the changes are so significant it has been agreed that the new strategic benchmark should be phased in over time, with an interim benchmark coming into effect 1st January 2021. The final change to the new strategic benchmark is expected to take place on 1st January 2022. I have used the interim benchmark as set out in table 9 below when making my recommendations on the allocation of growth assets.

Overall Growth assets are being reduced by 1% and this asset class change is being used to increase exposure to income assets and will be allocated to infrastructure. Within the growth asset class, the main changes are to move from a regional country based allocation to a global sustainable based allocation. The in-house team have been keen to enhance the growth, performance and diversification characteristics of the new benchmark and to incorporate the climate strategy and the responsible investment framework without sacrificing potential risk adjusted returns.

The quanta of the changes are so large that I would not suggest trying to overweight or underweight any particular country versus another. The capacity and speed of entry into global sustainable will probably be the governor on the pace of the reallocation. Having said that I would start by selling the most expensive country allocations 1st, which for me would be a phased and executed in this order; North America, Europe, Asia Pac and finally the UK. This fits with my opinions expressed above about fundamental valuations and the possibility of a rotation from tech heavy indices to the rest of the economy as the activity broadens with the rollout of vaccination.

## Income Assets

The allocation to income assets has been increased from 23% to 24%, funded by a reduction in the growth assets. The extra money will be used to increase the exposure to Infrastructure. Because of the nature of the investment process and the time taken to get invested I would recommend that commitment to new fund or increasing the current commitments if possible, should be considered as soon as reasonably possible.

In my last report I suggested being overweight MAC funded from Gilts. However, the spread available from high yield bonds and loans is not as attractive as it was before so I would recommend a neutral allocation at this current time.

I continue to believe Property should remain neutral overall, but over the next couple of years, I believe the uncertainty over the future use of buildings created by Covid has increased the potential volatility of the returns from this asset class. Certain types of building may need to be re-purposed, at a minimum property could see a medium term downward re-rating and the lower income generated by rents that could have an impact beyond the short term. As a long term investor, the Fund can afford to "look through" the volatility and in a low yield environment, property probably remains an attractive income asset class.

As noted above in "protection assets" I would suggest a 2% overweight to cash from Gilts because of the extremely low yield and high duration risk currently attached to the asset class. At the end of October, the Fund was holding 6.1% in cash, however more than 3% of this figure is already promised for future private market investments. Given the amount of change the Fund is about to transact a higher cash balance is probably a good idea.

The asset allocation set out in table 9 below, shows the old strategic benchmark allocations for the Derbyshire Pension Fund and my suggested relative weights as of 17th August 2020. The Interim Benchmark and my suggested asset allocation weights relative to this benchmark as of the 13th November 2020. These allocations represent an ideal objective for the Fund based on my expectations for economic growth and market performance, but they do not take into consideration the difficulty in reallocating between asset classes and the time needed by the In-house Team and their investment managers to find correctly priced assets for inclusion in the Fund.

MJ HUDSON
Allenbridge

**Table 9**: - Recommended asset allocation against the Strategic Benchmark.

The 2 righthand columns set out the interim benchmark allocations that comes into effect on the 1st January 2021 and my recommended allocations.

| % ASSET CATEGORY | DERBYSHIRE STRATEGIC WEIGHT 1ST JANUARY 2019 | ANTHONY FLETCHER 17TH AUGUST 2020 | DERBYSHIRE STRATEGIC WEIGHT 1ST JANUARY 2021 | ANTHONY FLETCHER 13TH NOVEMBER 2020 |
|---|---|---|---|---|
| **Growth Assets** | **57** | **0** | **56** | **0** |
| **UK Equity** | **16** | **0** | **14** | **0** |
| **Overseas Equity** | **41** | **0** | **42** | **0** |
| North America | 12 | **0** | 6 | **0** |
| Europe ex UK | 8 | **0** | 4 | **0** |
| Japan | 5 | **0** | 5 | **0** |
| Pacific ex Japan | 4 | **0** | 2 | **0** |
| Emerging markets | 5 | **0** | 5 | **0** |
| Global Sustainable | 3 | **0** | 16 | **0** |
| Private Equity | 4 | **0** | 4 | **0** |
| **Income Assets** | **23** | **+2** | **24** | **0** |
| Property | 9 | **0** | 9 | **0** |
| Infrastructure | 8 | **0** | 9 | **0** |
| Multi-asset Credit | 6 | **+2** | 6 | **0** |
| **Protection Assets** | **18** | **-2** | **18** | **-2** |
| Conventional Gilts | 6 | **-3** | 6 | **-2** |
| UK index Linked | 6 | **-2** | 6 | **-2** |
| US TIPS | 0 | **+2** | 0 | **+2** |
| UK corporate bond | 6 | **+1** | 6 | **0** |
| **Cash** | **2** | **0** | **2** | **+2** |

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# Appendix

## References

Source material was provided by, including but not limited to, the following suppliers: -

- Derbyshire Pension Fund, PEL performance services
- Citi Research,
- FTSE, Citigroup, IPD, Barclay's Global and ICE Indices
- Kames, Blackrock, M&G and JP Morgan, Asset Management
- Bank of England, UK Debt Management Office, UK OBR, UK Treasury, ONS
- US Bureau of Labour Statistics, US Commerce Dept. Executive office of the President of the United States.
- Bank of Japan, Japan MITI
- ECB, Eurostat
- Bloomberg, Markit, Trading Economics, DataStream and S&P
- Financial Times, Daily Telegraph, Wall Street Journal, New York Times, Washington Post

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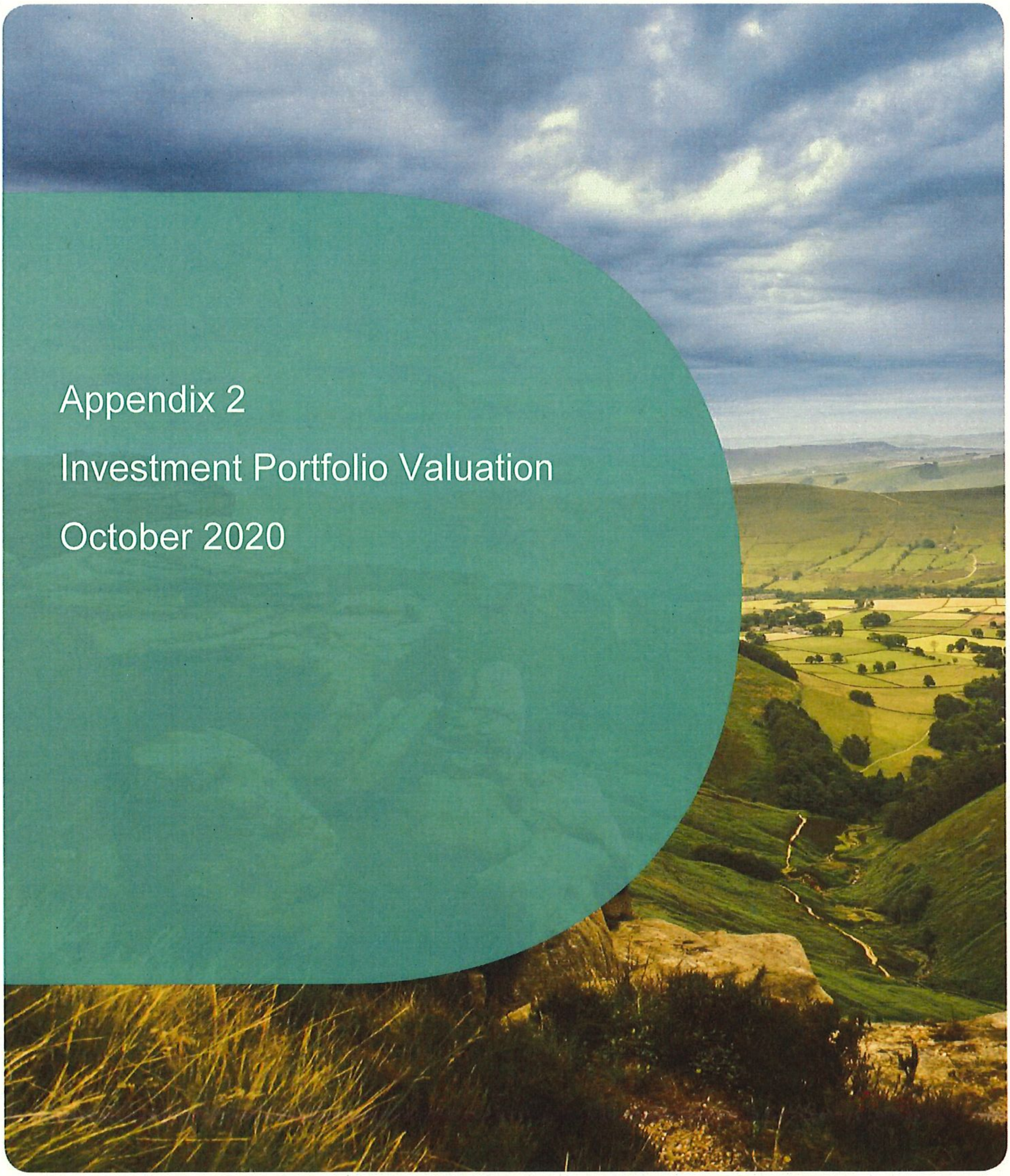
# Appendix 2

# Investment Portfolio Valuation

# October 2020



County Hall, Matlock, Derbyshire, DE4 3AH
Administered by Derbyshire County Council



lgps

## DERBYSHIRE PENSION FUND

| | Neutral | Permitted Range | DCC 31/10/2020 £m | DCC 31/10/2020 % |
|---|---|---|---|---|
| **Growth Assets** | **57.0%** | **+/- 8%** | **2905.4** | **55.7%** |
| UK | 16.0% | **+/- 4%** | 800.1 | 15.4% |
| US | 12.0% | **+/- 4%** | 590.7 | 11.3% |
| Europe | 8.0% | **+/- 3%** | 383.2 | 7.4% |
| Japan | 5.0% | **+/- 2%** | 309.3 | 5.9% |
| Pacific (ex Japan) | 4.0% | **+/- 2%** | 203.5 | 3.9% |
| Emerging Markets | 5.0% | **+/- 2%** | 258.1 | 5.0% |
| Global Sustainable | 3.0% | **+/- 2%** | 180.3 | 3.5% |
| Private Equity | 4.0% | **+/- 2%** | 180.2 | 3.5% |
| | | | | |
| **Income Assets** | **23.0%** | **+/- 6%** | **1080.1** | **20.7%** |
| Infrastructure | 8.0% | **+/- 3%** | 351.3 | 6.7% |
| Property | 9.0% | **+/- 3%** | 407.7 | 7.8% |
| Direct | 5.0% | | 233.0 | 4.5% |
| Indirect | 4.0% | | 174.8 | 3.4% |
| Multi-Asset Credit | 6.0% | **+/- 2%** | 321.2 | 6.2% |
| | | | | |
| **Protection Assets** | **18.0%** | **+/- 5%** | **905.8** | **17.4%** |
| Government | 6.0% | **+/- 2%** | 266.6 | ***5.1%*** |
| UK | | | 219.9 | |
| Overseas | | | 46.7 | |
| Index Linked | 6.0% | **+/- 2%** | 312.5 | ***6.0%*** |
| UK | | | | |
| Overseas | | | | |
| Non Government | 6.0% | **+/- 2%** | 326.7 | ***6.3%*** |
| | | | | |
| **Cash** | **2.0%** | **+/- 8%** | **318.5** | **6.1%** |
| | | | | |
| **LGPSC Regulatory Capital** | **0.0%** | | **2.0** | **0.0%** |
| | | | | |
| **Total** | **100.0%** | | **5211.9** | **100.0%** |

DERBYSHIRE PENSION FUND
OCTOBER 2020 PORTFOLIO VALUATION - BID

| UK EQUITIES | Company name | Number held | Mkt price in local currency | Mkt Price GBP | Value in Sterling £ |
|---|---|---|---|---|---|
| **UK EQUITIES FUND** | | | | | |
| **LGIM UK EQUITY INDEX FUND** | | | | | |
| UK EQUITIES FUND | LGIM UK EQUITY INDEX FUND | 66,892,287.10 | **11.10** | **11.10** | 742,531,144 |
| **UK EQUITIES TOTAL** | | | | | **742,531,144** |

**DERBYSHIRE PENSION FUND**
**OCTOBER 2020 PORTFOLIO VALUATION - BID**
**NEW SECTORS**
**UK EQUITIES**

| Sector | Company Name | Number held | Mkt Price Pence | Total £ |
|---|---|---|---|---|
| **EQUITY INVESTMENT COMPANIES** | | | | |
| UK Investment Co's | ABERFORTH SML 1P | 939,000 | 866.00 | 8,131,740 |
| UK Investment Co's | BLACKROCK SMALLER COMPANIES TRUST PLC | 830,000 | 1292.00 | 10,723,600 |
| UK Investment Co's | MONTANARO UK SMALLER CO'S 10P | 11,996,285 | 120.50 | 14,455,523 |
| UK Investment Co's | RIVER & MERCANTILE UK MICRO | 2,902,170 | 157.00 | 4,556,407 |
| UK Investment Co's | STRATHDON INVESTMENTS PLC | 20 | 1000.00 | 20,000 |
| **UK Equity Investment Companies Total** | | | | **37,887,270** |
| | | | | |
| **UNIT TRUSTS & OEICs** | | | | |
| UK Unit Trusts | LIONTRUST UK SMALLER COMPANIES FUND1 | 1,201,544.47 | 1634.50 | 19,639,244 |
| **UK Unit Trusts & OEICs Total** | | | | **19,639,244** |
| | | | | |
| **TOTAL UNITED KINGDOM** | | | | **57,526,515** |

| | | | | | |
|---|---|---|---|---|---|
| **DERBYSHIRE PENSION FUND** | | | | | |
| **OCTOBER 2020 PORTFOLIO VALUATION - BID** | | | | | |
| | | | | | |
| **US EQUITIES** | | | | | |
| | | | | | |
| **Sector** | **Company Name** | **Number held** | **Mkt price USD/ CAN$** | **Mkt Price GBP** | **Value in Sterling £** |
| **OIL & GAS PRODUCERS** | | | | | |
| US Oil & Gas | BP PLC-SPONS ADR | 57145 | 15.47 | 11.95 | 682,650 |
| US Oil & Gas | CHEVRON CORP | 32814 | 69.52 | 53.68 | 1,761,565 |
| US Oil & Gas | CONCHO RESOURCES INC | 14114 | 41.48 | 32.03 | 452,084 |
| US Oil & Gas | DIAMONDBACK ENERGY INC | 16685 | 25.96 | 20.05 | 334,473 |
| US Oil & Gas | EOG RESOURCES INC | 64191 | 34.23 | 26.43 | 1,696,723 |
| US Oil & Gas | EXXON MOBILE CORP | 68225 | 32.66 | 25.22 | 1,720,638 |
| US Oil & Gas | MARATHON PETROLEUM CORP | 59498 | 29.48 | 22.76 | 1,354,440 |
| US Oil & Gas | PIONEER NATURAL RESOURCES CO | 8691 | 79.55 | 61.43 | 533,875 |
| US Oil & Gas | ROYAL DUTCH SHELL ADR-A | 69475 | 25.55 | 19.73 | 1,370,722 |
| US Oil & Gas | ROYAL DUTCH SHELL ADR-B | 36512 | 24.15 | 18.65 | 680,899 |
| | | | | | |
| **US Oil & Gas Producers Total** | | | | | **10,588,068** |
| | | | | | |
| **OIL & GAS SERVICES** | | | | | |
| US Oil & Gas Services | SCHLUMBERGER LTD | 72724 | 14.93 | 11.53 | 838,431 |
| **US Forestry & Paper Total** | | | | | **838,431** |
| | | | | | |
| **CHEMICALS** | | | | | |
| US Chemicals | CABOT CORP | 52645 | 38.01 | 29.35 | 1,545,200 |
| US Chemicals | CELANESE CORP | 23009 | 113.51 | 87.65 | 2,016,795 |
| US Chemicals | FMC CORP | 29242 | 102.74 | 79.34 | 2,319,938 |
| US Chemicals | INGEVITY CORP | 22124 | 54.88 | 42.38 | 937,578 |
| US Chemicals | LINDE PLC | 22724 | 220.20 | 170.04 | 3,863,954 |
| US Chemicals | PPG INDUSTRIES INC | 32379 | 129.68 | 100.14 | 3,242,397 |
| **US Chemicals Total** | | | | | **13,925,862** |
| | | | | | |
| **INDUSTRIAL METALS** | | | | | |
| US Industrial Metals | LIVENT CORP | 42162 | 10.75 | 8.30 | 349,993 |
| **US Industrial Metals Total** | | | | | **349,993** |
| | | | | | |
| **AEROSPACE** | | | | | |
| US Aero defence | BOEING CO/THE | 13557 | 144.30 | 111.43 | 1,510,636 |
| US Aero defence | LOCKHEED MARTIN CORP COM | 22024 | 350.13 | 270.37 | 5,954,637 |
| US Aero defence | RAYTHEON TECHNOLOGIES CORP | 88007 | 54.32 | 41.95 | 3,691,533 |
| **US Aerospace Total** | | | | | **11,156,806** |
| | | | | | |
| **GENERAL INDUSTRIAL** | | | | | |
| US Div Ind | BALL CORP | 42521 | 89.00 | 68.73 | 2,922,290 |
| US.Div Ind | CURTISS-WRIGHT CORP | 14045 | 84.36 | 65.14 | 914,931 |
| US Div Ind | DANAHER CORP | 34047 | 229.31 | 177.07 | 6,028,811 |
| US Div Ind | DYCOM INDUSTRIES INC | 26688 | 64.96 | 50.16 | 1,338,726 |
| US Div Ind | HONEYWELL INTERNATIONAL INC | 39784 | 165.03 | 127.44 | 5,069,920 |
| US Div Ind | INGERSOLL-RAND PLC | 126286 | 34.93 | 26.97 | 3,406,305 |
| US Div Ind | INGERSOLL-RAND PLC | 126286 | 34.93 | 26.97 | 3,406,305 |
| US Div Ind | KENNAMETAL INC | 49780 | 30.97 | 23.92 | 1,190,490 |
| US Div Ind | MERITOR INC | 14689 | 24.33 | 18.79 | 275,971 |
| US Div Ind | REXNORD CORP | 61186 | 32.08 | 24.77 | 1,515,710 |
| US Div Ind | STANLEY BLACK & DECKER INC | 8108 | 166.27 | 128.39 | 1,041,016 |
| US Div Ind | TRANE TECHNOLOGIES PLC | 26134 | 132.75 | 102.51 | 2,678,985 |
| US Div Ind | TRITON INTERNATIONAL LTD/BER | 28181 | 36.88 | 28.48 | 802,559 |
| US Div Ind | WABTEC CORP | 35503 | 59.29 | 45.78 | 1,625,460 |
| **US General Industrial Total** | | | | | **32,217,481** |
| | | | | | |
| **ELECTRONIC EQUIPMENT** | | | | | |
| US Electricity | 3M CO | 7876 | 159.95 | 123.51 | 972,791 |

| | | | | | |
|---|---|---|---|---|---|
| US Electricity | FORTIVE CORP | 72977 | 61.57 | 47.54 | 3,469,644 |
| US Electricity | GENERAL ELECTRIC CO | 184636 | 7.42 | 5.73 | 1,057,913 |
| US Electricity | NVENT ELECTRIC PLC | 68639 | 18.07 | 13.95 | 957,765 |
| **US Electronic Equipment Total** | | | | | **6,458,114** |
| | | | | | |
| **INDUSTRIAL TRANSPORT** | | | | | |
| US Transportation | FEDEX CORP | 22228 | 259.39 | 200.30 | 4,452,290 |
| US Transportation . | HUNT (JB) TRANSPORT SERVICES | 8006 | 121.57 | 93.88 | 751,574 |
| US Transportation | KNIGHT-SWIFT TRANSPORTATION | 23135 | 37.99 | 29.34 | 678,686 |
| US Transportation | UBER TECHNOLOGIES INC | 63230 | 33.41 | 25.80 | 1,631,284 |
| **US Industrial Transport Total** | | | | | **7,513,833** |
| | | | | | |
| **SUPPORT SERVICES** | | | | | |
| US Support Services | GENPACT LTD | 58709 | 34.37 | 26.54 | 1,558,167 |
| US Support Services | TRANSUNION | 5159 | 79.66 | 61.51 | 317,348 |
| US Support Services | TRINET GROUP INC | 38219 | 68.91 | 53.21 | 2,033,721 |
| **US Support Services Total** | | | | | **3,909,236** |
| | | | | | |
| **FOOD PRODUCTION/PROCESS** | | | | | |
| US Food Prod & Proce | LAMB WESTON HOLDINGS INC | 22224 | 63.47 | 49.01 | 1,089,232 |
| US Food Prod & Proce | MONDELEZ INTERNATIONAL INC-A | 177446 | 53.20 | 41.08 | 7,289,666 |
| **US Food Production & Processing Total** | | | | | **8,378,899** |
| | | | | | |
| **PERSONAL GOODS** | | | | | |
| US Personal Care / Hc | DR HORTON INC | 37029 | 66.81 | 51.59 | 1,910,351 |
| US Personal Care / Hc | ESTEE LAUDER COMPANIES-CL A | 24740 | 219.65 | 169.61 | 4,196,244 |
| US Personal Care / Hc | LENNAR CORP-A | 29568 | 70.23 | 54.23 | 1,603,520 |
| US Personal Care / Hc | PROCTOR & GAMBLE CO/THE | 124708 | 137.07 | 105.85 | 13,199,775 |
| **US Personal Goods Total** | | | | | **20,909,890** |
| | | | | | |
| **HEALTHCARE EQUIPMENT & SERVICES** | | | | | |
| US Healthcare Equipm | ANTHEM INC | 15459 | 272.80 | 210.66 | 3,256,534 |
| US Healthcare Equipm | BOSTON SCIENTIFIC CORP | 155899 | 34.25 | 26.45 | 4,123,193 |
| US Healthcare Equipm | CENTENE CORP | 36192 | 59.00 | 45.56 | 1,648,900 |
| US Healthcare Equipm | EDWARDS LIFESCIENCES CORP | 43977 | 71.69 | 55.36 | 2,434,524 |
| US Healthcare Equipm | HCA HOLDINGS INC | 19079 | 123.97 | 95.73 | 1,826,426 |
| US Healthcare Equipm | INTUITIVE SURGICAL INC | 6055 | 667.45 | 515.40 | 3,120,777 |
| US Healthcare Equipm | LABORATORY CRP OF AMER HLDGS | 8428 | 199.77 | 154.26 | 1,300,123 |
| US Healthcare Equipm | MCKESSON CORP | 12780 | 147.49 | 113.89 | 1,455,537 |
| US Healthcare Equipm | QUEST DIAGNOSTICS INC | 12432 | 122.10 | 94.29 | 1,172,159 |
| **US Healthcare Equipment & ServicesTotal** | | | | | **20,338,172** |
| | | | | | |
| **PHARMACEUTICAL, BIOTECH** | | | | | |
| US Pharm, Biotech | 89BIO INC | 14400 | 23.16 | 17.88 | 257,532 |
| US Healthcare | AGILIENT TECHNOLOGIES INC | 39709 | 102.08 | 78.83 | 3,130,109 |
| US Healthcare | AKERO THERAPEUTICS INC | 11544 | 26.46 | 20.43 | 235,872 |
| US Healthcare | AKOUOS INC | 14500 | 19.49 | 15.05 | 218,228 |
| US Healthcare | ALNYLAM PHARMACEUTICALS INC | 2766 | 122.97 | 94.96 | 262,652 |
| US Healthcare | APELLIS PHARMACEUTICALS INC | 11936 | 31.90 | 24.63 | 294,022 |
| US Pharm, Biotech | ASSEMBLY BIOSCIENCES INC | 7199 | 14.74 | 11.38 | 81,941 |
| US Pharm, Biotech | ATRECA INC-A | 14307 | 13.36 | 10.32 | 147,599 |
| US Pharm, Biotech | ASTRAZENECA PLC-SPONS ADR | 109168 | 50.16 | 38.73 | 4,228,464 |
| US Pharm, Biotech | AVIDITY BIOSCIENCES INC | 23400 | 24.54 | 18.95 | 443,425 |
| US Healthcare | BAXTER INTERNATIONAL INC | 65287 | 77.57 | 59.90 | 3,910,662 |
| US Healthcare | BIOHAVEN PHARMACEUTICAL HOLD | 29879 | 77.46 | 59.81 | 1,787,201 |
| US Healthcare | BLACK DIAMOND THERAPEUTICS I | 19600 | 31.51 | 24.33 | 476,908 |
| US Healthcare | BLUEBIRD BIO INC | 3300 | 51.71 | 39.93 | 131,771 |
| US Healthcare | BRISTOL-MYERS SQUIBB CO | 102671 | 58.46 | 45.14 | 4,634,858 |
| US Healthcare | CONSTELLATION PHARMACEUTICAL | 8700 | 19.61 | 15.14 | 131,743 |
| US Pharm, Biotech | ELI LILLY & CO | 53360 | 130.44 | 100.73 | 5,374,727 |
| US Pharm, Biotech | EXACT SCIENCES CORP | 14778 | 123.74 | 95.55 | 1,412,068 |
| US Pharm, Biotech | FORMA THERAPEUTICS HOLDINGS | 24400 | 43.09 | 33.27 | 811,888 |
| US Pharm, Biotech | GENERATION BIO US | 20500 | 25.72 | 19.86 | 407,150 |
| US Pharm, Biotech | GLOBAL BLOOD THERAPEUTICS IN | 7301 | 52.88 | 40.83 | 298,129 |

| | | | | | |
|---|---|---|---|---|---|
| US Pharm, Biotech | GLYCOMIMETICS INC | 27466 | 2.81 | 2.17 | 59,598 |
| US Pharm, Biotech | G1 THERAPEUTICS INC | 16294 | 10.99 | 8.49 | 138,279 |
| US Pharm, Biotech | ILLUMINA INC | 6772 | 292.69 | 226.02 | 1,530,575 |
| US Pharm, Biotech | IMMUNOGEN INC | 56400 | 5.65 | 4.36 | 246,069 |
| US Pharm, Biotech | INCYTE CORP | 5144 | 86.77 | 67.00 | 344,668 |
| US Pharm, Biotech | KODIAK SCIENCES INC | 5300 | 90.81 | 70.12 | 371,654 |
| US Healthcare | LEGEND BIOTECH CORP-ADR | 16100 | 25.86 | 19.97 | 321,502 |
| US Healthcare | MADRIGAL PHARMACEUTICALS INC | 3519 | 127.17 | 98.20 | 345,568 |
| US Healthcare | MERCK & CO. INC. | 85137 | 75.20 | 58.07 | 4,943,858 |
| US Healthcare | MIRATI THERAPEUTICS INC | 2611 | 216.47 | 167.16 | 436,450 |
| US Healthcare | ODONATE THERAPEUTICS INC | 19063 | 14.35 | 11.08 | 211,238 |
| US Healthcare | OYSTER POINT PHARMA INC | 10107 | 19.69 | 15.20 | 153,673 |
| US Pharm, Biotech | PFIZER INC | 270619 | 35.48 | 27.40 | 7,414,326 |
| US Pharm, Biotech | PPD INC | 87307 | 32.82 | 25.34 | 2,212,674 |
| US Pharm, Biotech | REATA PHARMACEUTICALS INC-A | 1782 | 116.85 | 90.23 | 160,793 |
| US Pharm, Biotech | REGENERON PHARMACEUTICALS | 1967 | 543.69 | 419.84 | 825,820 |
| US Pharm, Biotech | REVOLUTION MEDICINES INC | 10100 | 30.19 | 23.31 | 235,458 |
| US Pharm, Biotech | RIGEL PHARMACEUTICALS INC | 37337 | 2.48 | 1.92 | 71,502 |
| US Pharm, Biotech | ROYALTY PHARMA PLC-CL A | 22525 | 36.69 | 28.33 | 638,179 |
| US Pharm, Biotech | SEATTLE GENETICS INC | 5698 | 166.79 | 128.80 | 733,875 |
| US Pharm, Biotech | SYNDAX PHARMACEUTICALS | 28834 | 17.41 | 13.44 | 387,644 |
| US Pharm, Biotech | TCR2 THERAPEUTICS INC | 15600 | 19.67 | 15.19 | 236,951 |
| US Pharm, Biotech | TRICIDA INC | 15035 | 5.62 | 4.34 | 65,248 |
| US Pharm, Biotech | TURNING POINT THERAPEUTICS I | 5160 | 92.18 | 71.18 | 367,296 |
| US Pharm, Biotech | UROGEN PHARMA LTD | 10204 | 22.52 | 17.39 | 177,447 |
| US Healthcare | VERTEX PHARMACEUTICALS INC | 4591 | 208.36 | 160.90 | 738,672 |
| US Healthcare | WAVE LIFE SCIENCES LTD | 11951 | 7.08 | 5.47 | 65,338 |
| US Healthcare | UNITEDHEALTH GROUP INC | 27172 | 305.14 | 235.63 | 6,402,514 |
| **US Pharmaceutical, Biotech Total** | | | | | **58,513,818** |
| | | | | | |
| **FOOD RETAIL** | | | | | |
| US Retail Food & Drug | HOUGHTON MIFFLIN HARCOURT CO | 102894 | 2.60 | 2.01 | 206,582 |
| US Retail Food & Drug | HYATT HOTELS CORP-CL A | 36302 | 55.13 | 42.57 | 1,545,426 |
| US Retail Food & Drug | LAS VEGAS SANDS CORP | 50320 | 48.07 | 37.12 | 1,867,861 |
| US Retail Food & Drug | MCDONALD'S CORP | 87354 | 212.94 | 164.43 | 14,363,816 |
| US Retail Food & Drug | PERFORMANCE FOOD GROUP CORP | 79188 | 33.56 | 25.92 | 2,052,160 |
| US Retail Food & Drug | SYSCO CORP | 70478 | 55.31 | 42.71 | 3,010,142 |
| **US Food Retail Total** | | | | | **23,045,988** |
| | | | | | |
| **RETAILERS - GENERAL** | | | | | |
| US Retailers Gen | AMAZON.COM INC | 13487 | 3,036.14 | 2,344.51 | 31,620,370 |
| US Retailers Gen | AUTOZONE INC | 1666 | 1,128.98 | 871.80 | 1,452,416 |
| US Retailers Gen | BOOKING HOLDINGS INC | 1899 | 1,622.50 | 1,252.89 | 2,379,247 |
| US Retailers Gen | DOLLAR GENERAL CORP | 27103 | 208.74 | 161.19 | 4,368,706 |
| US Retailers Gen | LOWE'S COS INC | 50573 | 157.98 | 121.99 | 6,169,509 |
| US Retailers Gen | TJX COMPANIES INC | 146970 | 50.78 | 39.21 | 5,763,034 |
| **US Retailers - General Total** | | | | | **51,753,282** |
| | | | | | |
| **MEDIA** | | | | | |
| US Media & Photo | CHARTER COMMUNICATIONS INC-A | 23152 | 603.81 | 466.26 | 10,794,900 |
| US Media & Photo | ELECTRONIC ARTS INC | 35491 | 119.69 | 92.42 | 3,280,242 |
| US Media & Photo | FACEBOOK INC | 64843 | 263.50 | 203.47 | 13,193,910 |
| US Media & Photo | MATCH GROUP INC | 32712 | 116.86 | 90.24 | 2,951,908 |
| US Media & Photo | NETFLIX INC | 19941 | 475.79 | 367.41 | 7,326,424 |
| US Media & Photo | NEW YORK TIMES CO-A | 27067 | 39.66 | 30.63 | 828,939 |
| US Media & Photo | OMNICOM GROUP | 100428 | 47.20 | 36.45 | 3,660,384 |
| US Media & Photo | SNAP INC-A | 148580 | 39.37 | 30.40 | 4,517,057 |
| US Media & Photo | TWITTER INC | 65972 | 41.35 | 31.93 | 2,106,517 |
| US Media & Photo | WALT DISNEY COMPANY | 8392 | 121.21 | 93.60 | 785,477 |
| **US Media Total** | | | | | **49,445,758** |
| | | | | | |
| **TRAVEL & LEISURE** | | | | | |
| US Hotels Leisure | JETBLUE AIRWAYS CORP | 85165 | 11.97 | 9.24 | 787,200 |

| | | | | | |
|---|---|---|---|---|---|
| **US Travel & Leisure Total** | | | | | **787,200** |
| | | | | | |
| **TELECOMS** | | | | | |
| Telecoms | T-MOBILE US INC | 19417 | 109.58 | 84.62 | 1,643,021 |
| **US Telecoms Total** | | | | | **1,643,021** |
| | | | | | |
| | | | | | |
| **ELECTRICITY** | | | | | |
| US Electricity | DUKE ENERGY CORP | 86344 | 92.11 | 71.13 | 6,141,419 |
| US Electricity | EDISON INTERNATIONAL | 85199 | 56.05 | 43.28 | 3,687,567 |
| US Electricity | EXELON CORP | 139027 | 39.93 | 30.83 | 4,286,751 |
| US Electricity | FIRSTENERGY CORP | 206086 | 29.72 | 22.95 | 4,729,629 |
| US Electricity | SOUTHERN CO/THE | 17186 | 57.45 | 44.36 | 762,421 |
| **US Electricity Total** | | | | | **19,607,787** |
| | | | | | |
| | | | | | |
| **BANKS, RETAIL** | | | | | |
| US Banks Retail | JPMORGAN CHASE & CO | 153905 | 98.00 | 75.68 | 11,646,853 |
| | | | | | |
| **US Banks - Retail Total** | | | | | **11,646,853** |
| | | | | | |
| **NON-LIFE INSURANCE** | | | | | |
| US Insurance | AMERICAN INTERNATIONAL GROUP | 104351 | 31.48 | 24.31 | 2,536,653 |
| US Insurance | ASSURANT INC | 33645 | 124.35 | 96.02 | 3,230,696 |
| US Insurance | ASSURED GUARANTY LTD | 79000 | 25.52 | 19.71 | 1,556,817 |
| US Insurance | ATHENE HOLDING LTD-CLASS A | 63511 | 32.07 | 24.76 | 1,572,815 |
| US Insurance | CHUBB LTD | 26406 | 129.96 | 100.36 | 2,649,977 |
| US Insurance | HARTFORD FINANCIAL SVCS GRP | 77491 | 38.50 | 29.73 | 2,303,784 |
| US Insurance | MARSH & MCLENNAN COS INC COM | 13624 | 103.43 | 79.87 | 1,088,130 |
| US Insurance | PROGRESSIVE CORP | 27751 | 91.86 | 70.93 | 1,968,498 |
| US Insurance | RENAISSANCERE HOLDINGS LTD | 6354 | 161.69 | 124.86 | 793,341 |
| US Insurance | TRUPANION INC | 38534 | 71.54 | 55.24 | 2,128,741 |
| **US Non-Life Insurance Total** | | | | | **19,829,454** |
| | | | | | |
| | | | | | |
| **REAL ESTATE** | | | | | |
| US Real Estate | AMERICAN TOWER CORP | 31691 | 229.71 | 177.38 | 5,621,415 |
| US Real Estate | ALEXANDRIA REAL ESTATE EQUIT | 24890 | 151.52 | 117.00 | 2,912,223 |
| US Real Estate | DOUGLAS EMMETT INC | 73570 | 23.59 | 18.22 | 1,340,166 |
| US Real Estate | EQUINIX INC | 10303 | 729.71 | 563.48 | 5,805,556 |
| US Real Estate | SUN COMMUNITIES INC | 6563 | 137.75 | 106.37 | 698,110 |
| **US Real Estate Total** | | | | | **16,377,469** |
| | | | | | |
| **GENERAL FINANCIAL** | | | | | |
| US Special Finance | AMERICAN EXPRESS CO | 22392 | 91.25 | 70.46 | 1,577,813 |
| US Special Finance | ARES MANAGEMENT CORP - A | 98817 | 42.27 | 32.64 | 3,225,475 |
| US Special Finance | CHARLES SCHWAB CORP | 203634 | 41.12 | 31.75 | 6,465,963 |
| US Special Finance | EQUITABLE HOLDINGS INC | 153133 | 21.48 | 16.59 | 2,539,995 |
| US Special Finance | THE BLACKSTONE GROUP INC-A | 65944 | 50.41 | 38.93 | 2,566,976 |
| US Special Finance | EQUIFAX INC | 3391 | 136.59 | 105.47 | 357,665 |
| US Special Finance | FLEETCOR TECHNOLOGIES INC | 16591 | 220.92 | 170.59 | 2,830,332 |
| US Special Finance | GLOBAL PAYMENTS INC | 64736 | 157.74 | 121.81 | 7,885,287 |
| US Special Finance | HAMILTON LANE INC-CLASS A | 38398 | 69.71 | 53.83 | 2,066,967 |
| US Special Finance | IHS MARKIT LTD | 105477 | 80.87 | 62.45 | 6,586,808 |
| US Special Finance | LPL FINANCIAL HOLDINGS | 41520 | 79.99 | 61.77 | 2,564,619 |
| US Special Finance | ONEMAIN HOLDINGS INC | 49153 | 34.89 | 26.94 | 1,324,283 |
| US Special Finance | PAYPAL HOLDINGS INC | 34020 | 186.20 | 143.78 | 4,891,519 |
| US Special Finance | REINVENT TECHNOLOGY PARTNERS | 60430 | 10.74 | 8.29 | 501,172 |
| US Special Finance | S&P GLOBAL INC | 15951 | 322.73 | 249.21 | 3,975,182 |
| US Special Finance | STEPSTONE GROUP INC-CLASS A | 69446 | 25.70 | 19.85 | 1,378,193 |
| US Special Finance | THERAPEUTICS ACQUISITION-A | 37100 | 12.60 | 9.73 | 360,973 |
| US Special Finance | VISA INC CL A SHS | 36250 | 181.83 | 140.41 | 5,089,831 |
| US Special Finance | VOYA FINANCIAL INC | 39509 | 47.93 | 37.01 | 1,462,289 |
| US Special Finance | WEX INC | 10373 | 126.57 | 97.74 | 1,013,830 |

| | | | | | |
|---|---|---|---|---|---|
| **US General Financial Total** | | | | | **58,665,172** |
| | | | | | |
| **SOFTWARE** | | | | | |
| US Software & Comp $ | ADOBE SYSTEMS INC | 7371 | 447.10 | 345.25 | 2,544,842 |
| US Software & Comp $ | ALPHABET INC - CL A SHARES | 22238 | 1,616.26 | 1,248.08 | 27,754,713 |
| US Software & Comp $ | GODADDY INC - CLASS A | 49700 | 70.71 | 54.60 | 2,713,732 |
| US Software & Comp $ | GUIDEWIRE SOFTWARE INC | 12436 | 96.11 | 74.22 | 922,952 |
| US Software & Comp $ | MICROSOFT CORP | 197957 | 202.52 | 156.39 | 30,957,692 |
| US Software & Comp $ | Q2 HOLDINGS INC | 20223 | 91.23 | 70.45 | 1,424,666 |
| US Software & Comp $ | SALESFORCE.COM INC | 33030 | 232.29 | 179.37 | 5,924,734 |
| US Software & Comp $ | SCIENCE APPLICATIONS INTERNATIONA | 16797 | 76.35 | 58.96 | 990,309 |
| US Software & Comp $ | SERVICENOW INC | 6041 | 498.06 | 384.60 | 2,323,380 |
| US Software & Comp $ | SHOPIFY INC-CLASS A | 3517 | 925.43 | 714.62 | 2,513,308 |
| US Software & Comp $ | SLACK TECHNOLOGIES INC-CL A | 19727 | 25.57 | 19.75 | 389,513 |
| US Software & Comp $ | SNOWFLAKE INC-CLASS A | 903 | 249.82 | 192.91 | 174,199 |
| US Software & Comp $ | SPLUNK INC | 7199 | 198.04 | 152.93 | 1,100,918 |
| US Software & Comp $ | SPOTIFY TECHNOLOGY SA | 10200 | 239.87 | 185.23 | 1,889,322 |
| US Software & Comp $ | WORKDAY INC-CLASS A | 12479 | 210.15 | 162.28 | 2,025,065 |
| **US Software Total** | | | | | **83,649,346** |
| | | | | | |
| **TECHNOLOGY HARDWARE** | | | | | |
| US IT Hardware | ADVANCED MICRO DEVICES | 93743 | 75.29 | 58.14 | 5,450,118 |
| US IT Hardware | APPLE INC | 352032 | 108.89 | 84.08 | 29,600,561 |
| US IT Hardware | KLA-TENCOR CORP | 12591 | 197.17 | 152.25 | 1,917,039 |
| US IT Hardware | LATTICE SEMICONDUCTOR CORP | 125127 | 34.89 | 26.94 | 3,371,179 |
| US IT Hardware | MARVELL TECHNOLOGY GROUP LTD | 145947 | 37.50 | 28.96 | 4,226,260 |
| US IT Hardware | MICRON TECHNOLOGY INC | 110878 | 50.37 | 38.90 | 4,312,679 |
| US IT Hardware | TAIWAN SEMICONDUCTOR-SP ADR | 44023 | 83.87 | 64.76 | 2,851,124 |
| US IT Hardware | TERADYNE INC | 32189 | 87.86 | 67.85 | 2,183,879 |
| US IT Hardware | TEXAS INSTRUMENTS INC | 40393 | 144.62 | 111.68 | 4,510,911 |
| US IT Hardware | VONTIER CORP | 33445 | 28.74 | 22.19 | 742,246 |
| **US Technology Hardware Total** | | | | | **59,165,995** |
| | | | | | |
| | | | | | |
| **TOTAL UNITED STATES** | | | | | **590,715,928** |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

DERBYSHIRE PENSION FUND
OCTOBER 2020 PORTFOLIO VALUATION - BID

| EUROPEAN EQUITIES | Company name | Number held | Mkt price in local currency | Mkt Price GBP | Value in Sterling £ |
|---|---|---|---|---|---|
| EUROPEAN PASSIVE TRACKER FUND | | | | | |
| EUROPEAN | UBS LIFE EUROPE EX-UK EQUITY TRACKER | 117,081,248 | **327.31** | **3.27** | 383,218,632 |
| **EUROPEAN EQUITIES TOTAL** | | | | | **383,218,632** |

DERBYSHIRE PENSION FUND
OCTOBER 2020 PORTFOLIO VALUATION - BID

| OTHER EQUITIES | Company name | Number held | Mkt price in local currency | Mkt Price GBP | Value in Sterling £ |
|---|---|---|---|---|---|
| **JAPAN** | | | | | |
| **Investment Companies** | | | | | |
| Japan | CC Japan Income & Growth Trust | 5,000,000 | **117.00** | **117.00** | 5,850,000 |
| Japan | JPMF japs smoc | 2,109,500 | **516.00** | **516.00** | 10,885,020 |
| **J Investment Companies Total** | | | | | **16,735,020** |
| | | | | | |
| **Unit Trusts & OEICs** | | | | | |
| Japan | Baillie Gifford OGF - Japanese B Acc Shares | 4,525,748.64 | **1,867.00** | **1,867.00** | 84,495,727 |
| Japan | Barings Jap Growth Trst-IGBA | 5,282,832.62 | **257.90** | **257.90** | 13,624,425 |
| Japan | Invesco Japan FD-UKNTACC | 4,585,235.50 | **174.66** | **174.66** | 8,008,572 |
| Japan | JPMorgan Jap Fd A Acc | 3,000,000.00 | **643.10** | **643.10** | 19,293,000 |
| Japan | Schroder UT Tokyo Ac | 11,000,000.00 | **341.80** | **341.80** | 37,598,000 |
| **J Unit Trusts Total** | | | | | **163,019,725** |
| | | | | | |
| **Life Policies** | | | | | |
| Internatioı | LGIM Japan Equity Index Fund | 37,099,421.500 | **2.06** | **2.06** | 76,299,041 |
| **International Life Policies** | | | | | **76,299,041** |
| | | | | | |
| **Investment Entities** | | | | | |
| Japan | Aberdeen Global - JAP Smaller Cos Fund D£ | 1,662,639.78 | **12.62** | **12.62** | 20,979,355 |
| Japan | JO Hambro - Japan Fd GBP-A | 15,000,000.00 | **2.15** | **2.15** | 32,250,000 |
| **J Investment Entities Total** | | | | | **53,229,355** |
| | | | | | |
| **JAPAN TOTAL** | | | | | **309,283,141** |
| | | | | | |
| **OTHER ASIA** | | | | | |
| **Investment Companies** | | | | | |
| Asian | ABERDEEN ASIAN INCOME FUND ORDS | 2,810,000 | **189.50** | **189.50** | 5,324,950 |
| Asian | ASIA DRAGON TRUST 20P | 3,192,800 | **450.00** | **450.00** | 14,367,600 |
| **OA Investment Companies Total** | | | | | **19,692,550** |
| | | | | | |
| **Unit Trusts & OEICs** | | | | | |
| Asian | Stewart Investors Asia Pacific & Japan Sustainabil | 5,250,000 | **1,593.94** | **1,593.94** | 83,681,850 |
| Asian | JPMorgan Asia Fund A Ac | 20,000,000 | **286.50** | **286.50** | 57,300,000 |
| Asian | Schroder Instl PAC Fd Ac | 2,000,000 | **1,563.00** | **1,563.00** | 31,260,000 |
| **OA Unit Trusts Total** | | | | | **172,241,850** |
| | | | | | |
| **Investment Entities** | | | | | |
| Asian | Barings Australia Fund-IUSDA $ | 109,543.282 | **137.31** | **106.03** | 11,614,960 |
| **OA Investment Entities Total** | | | | | **11,614,960** |
| | | | | | |
| **OTHER ASIA TOTAL** | | | | | **203,549,360** |
| | | | | | |
| **EMERGING MARKETS** | | | | | |
| **Investment Companies** | | | | | |
| Internatioı | BLACKROCK FRONTIERS INV TRUST | 2,950,000 | **96.40** | **96.40** | 2,843,800 |
| Internatioı | JP Morgan EMER IT25P | 1,033,000 | **1,156.00** | **1,156.00** | 11,941,480 |
| **Int'l Investment Companies Total** | | | | | **14,785,280** |
| | | | | | |
| **Unit Trusts & OEICs** | | | | | |
| Internatioı | Stewart Investors Global Emerging Markets Funf | 3,000,000 | **768.81** | **768.81** | 23,064,300 |
| Latin Ame | Thd ndle Lnamer Gwth | 3,500,000 | **212.27** | **212.27** | 7,429,450 |
| **Int'l Unit Trusts Total** | | | | | **30,493,750** |
| | | | | | |
| **Life Policies** | | | | | |
| Internatioı | LGIM World Emerging Markets Index Fund | 45,612,908.500 | **3.77** | **3.77** | 171,881,299 |
| **International Life Policies** | | | | | **171,881,299** |
| | | | | | |
| **Investment Entities** | | | | | |
| Latin Ame | JPMorgan LNAMER A U$ | 86,085.904 | **36.51** | **28.19** | 2,427,022 |
| Internatioı | POLUNIN FUNDS-DEVEL CNTY-B | 47,502.659 | **1,050.99** | **811.57** | 38,551,946 |
| **LatAm Investment Entities Total** | | | | | **40,978,968** |
| | | | | | |
| **EMERGING MARKETS TOTAL** | | | | | **258,139,296** |
| | | | | | |
| **OTHER EQUITIES TOTAL** | | | | | **770,971,797** |

DERBYSHIRE PENSION FUND
OCTOBER 2020 PORTFOLIO VALUATION - BID

| GLOBAL SUSTAINABLE FUNDS | Company name | Number held | Mkt price in local currency | Mkt Price GBP | Value in Sterling £ |
|---|---|---|---|---|---|
| **GLOBAL SUSTAINABLE FUNDS** | | | | | |
| GLOBAL SUSTAINABLE FUND | Baillie Gifford positive Change Fund B Acc | 29,358,197.01 | **294.70** | **2.95** | 86,518,607 |
| GLOBAL SUSTAINABLE FUND | RBC Global Equity Focus Fund | 690,845.08 | **135.74** | **135.74** | 93,775,311 |
| **UK EQUITIES FUND TOTAL** | | | | | **180,293,917** |
| | | | | | |
| **UK EQUITIES TOTAL** | | | | | **180,293,917** |

**DERBYSHIRE PENSION FUND**
**OCTOBER 2020 PORTFOLIO VALUATION - BID**

| OTHER EQUITIES<br>Company name | Number held | Mkt price in local currency | Value in Sterling £ |
|---|---|---|---|
| **PRIVATE EQUITY** | | | |
| **Quoted Private Equity** | | | |
| UK Invesl APAX GLOBAL ALPHA LTD | 3,000,000 | 158.60 | 4,758,000 |
| UK Invesl HARBOURVEST GLOBAL PRIVATE | 925,000 | 1712.00 | 15,836,000 |
| UK Invesl HGCAPITAL TRUST PLC | 7,053,150 | 295.50 | 20,842,058 |
| UK Invesl ICG ENTERPRISE TRUST PLC | 181,795 | 816.00 | 1,483,447 |
| UK Invesl NB PRIVATE EQUITY PARTNERS Ltd (A) | 1,500,000 | 12.90 | 14,942,070 |
| UK Invesl PANTHEON INTERNATIONAL PLC | 345,000 | 2170.00 | 7,486,500 |
| UK Invesl PRINCESS PRIVATE EQUITY HOLDING LTD | 500,000 | 9.80 | 4,408,040 |
| UK Invesl STANDARD LIFE PRIVATE EQUUITY | 900,000 | 311.00 | 2,799,000 |
| UK Invesl SCHRODER UK PUBLIC PRIVATE | 5,000,000 | 27.50 | 1,375,000 |
| **UK Quoted Private Equity Total** | | | **73,930,115** |
| | | | |
| **Unquoted Private Equity** | | | |
| UK Uncla ADAM STREET PARTNERS (FEEDER) 2017 FI | 30,000,000 | 0.65 | 14,957,026 |
| UK Uncla BAIRD CAPITAL PARTNERS EUROPE FUND L | 4,300,000 | 0.03 | 118,709 |
| UK Uncla CAPITAL DYNAMICS GLOBAL SECONDARIES | 20,000,000 | 0.69 | 10,588,139 |
| UK Uncla CAPITAL DYNAMICS MID-MARKET DIRECT FI | 25,000,000 | 1.05 | 23,623,217 |
| UK Uncla CAPITAL DYNAMICS LGPS COLLECTIVE PE V | 20,000,000 | 0.61 | 12,154,867 |
| UK Uncla CAPITAL DYNAMICS CPEP LGPS | 25,000,000 | 0.15 | 3,849,550 |
| UK Uncla CATAPULT GROWTH FUND UNITS | 3,000,000 | 0.20 | 589,345 |
| UK Uncla EAST MIDLANDS VENTURE | 3,000,000 | 0.04 | 106,709 |
| UK Uncla EPIRIS FUND II | 25,000,000 | 0.31 | 7,765,300 |
| UK Uncla GRAPHITE CAPITAL PARTNERS FUND 1X A | 11,250,000 | 0.26 | 2,937,455 |
| UK Uncla GRAPHITE CAPITAL PARTNERS FUND 1X C | 11,250,000 | 0.26 | 2,937,461 |
| UK Uncla MOBEUS EQUITY PARTNERS IV LP | 10,000,000 | 0.51 | 5,063,748 |
| UK Invesl PANORAMIC ENTERPRISE CAPITAL UNITS | 1,428,486 | 1.02 | 1,455,813 |
| UK Invesl PANORAMIC GROWTH FUND 2 LP | 10,000,000 | 0.40 | 3,997,075 |
| UK Invesl PARTNERS GROUP GLOBAL VALUE 2008 | 7,500,000 | 0.34 | 2,319,214 |
| UK Invesl STAR CAPITAL STRATEGIC ASSETS III LP | 12,500,000 | 0.48 | 5,347,483 |
| UK Uncla VESPA CAPITAL II LLP | 10,000,000 | 0.84 | 8,443,185 |
| **UK Unquoted Private Equity Total** | | | **106,254,297** |
| | | | |
| **PRIVATE EQUITY TOTAL** | | | **180,184,413** |
| | | | |
| **INFRASTRUCTURE** | | | |
| **UK Infrastructure Quoted** | | | |
| Closed-er FORESIGHT SOLAR FUND LTD | 4,000,000 | 101.50 | 4,060,000 |
| Closed-er GREENCOAT UK WIND PLC | 13,835,000 | 134.60 | 18,621,910 |
| Closed-er HICL INFRASTRUCUTRE CO LTD | 6,060,872 | 175.60 | 10,642,891 |
| Closed-e INTERNATIONAL PUBLIC PARTNERSHIP LTD | 20,462,823.00 | 167.80 | 34,336,616.99 |
| Closed-e 3I INFRASTRUCTURE PLC | 2,249,999.00 | 295.00 | 6,637,497.05 |
| Closed-e RENEWABLES INFRASTRUCTURE GR | 8,111,111.00 | 135.20 | 10,966,222.07 |
| **UK Infrastructure Quoted Total** | | | **85,265,137** |
| | | | |
| **UK Infrastructure Unquoted** | | | |
| UK Uncla DALMORE CAPITAL 3 LP | 25,000,000 | 0.97 | 24,280,280 |
| UK Uncla EQUITIX FUND 1 LTD P'SHIP | 7,500,000 | 1.76 | 13,177,536 |
| UK Uncla Equitix Fund IV Ltd P'ship | 25,000,000 | 1.30 | 32,569,681 |
| UK Uncla First Sentier Investors EDIF II | 20,000,000 | 1.01 | 18,212,848 |
| UK Uncla IMPAX NEW ENERGY INVESTORS II UNITS | 10,000,000 | 0.01 | 128,559 |
| UK Uncla JP Morgan Infrastructure Investment Fund UK L | 110,000,000 | 0.96 | 81,767,672 |
| UK Uncla MEIF 5 Co-Invest LP | 12,600,000 | 0.59 | 6,632,326 |
| UK Uncla MEIF 6 Co-Invest LP | 28,000,000 | 0.00 | 252 |
| UK Uncla Macquarie European Infrastructure Fund 5 LP | 14,400,000 | 1.08 | 13,979,122 |
| UK Uncla Macquarie European Infrastructure Fund 6 SCS\| | 56,000,000 | 0.33 | 16,730,337 |
| UK Uncla Macquarie Green Infrastructure Fund (Euro) | 59,000,000 | 0.09 | 4,768,947 |
| UK Uncla PIP Multi Strategy Infrastructure LP | 25,000,000 | 0.79 | 19,782,728 |
| UK Uncla SL CAPITAL INFRASTRUCTURE 1LP | 15,000,000 | 1.15 | 17,309,837 |
| UK Uncla SL Capital Infratructure II SCSP | 25,000,000 | 0.74 | 16,688,021 |
| **UK Infrastructure Total** | | | **266,028,145** |
| | | | |
| **INFRASTRUCTURE TOTAL** | | | **351,293,282** |
| | | | |
| **ALTERNATIVES TOTAL** | | | **531,477,695** |

DERBYSHIRE PENSION FUND
OCTOBER 2020 PORTFOLIO VALUATION - BID

| | Number held | Mkt Price in local currenc (Clean) use for Hedge Calc & IL Valuation | Mkt Price in local currenc (Dirty) use for Non IL Valuation | Mkt Price pence GBP | Total £ GBP |
|---|---|---|---|---|---|
| **UK GILTS** | | | | | |
| TSY 1.75% 7/9/2022 | 13,490,000 | 103.29 | 103.56 | 103.56 | 13,970,341 |
| TSY 4% 7/3/2022 | 10,995,000 | 105.41 | 106.03 | 106.03 | 11,658,305 |
| TSY 2.25% 7/9/2023 | 15,400,000 | 106.61 | 106.96 | 106.96 | 16,472,158 |
| TSY 5% 7/3/2025 | 5,500,000 | 122.02 | 122.80 | 122.80 | 6,753,751 |
| TSY 2% 7/9/2025 | 7,000,000 | 109.92 | 110.23 | 110.23 | 7,715,777 |
| TSY 1.5% 7/22/2026 | 5,650,000 | 108.64 | 109.06 | 109.06 | 6,162,107 |
| TSY 4.25% 7/12/2027 | 18,000,000 | 129.67 | 131.39 | 131.39 | 23,650,304 |
| TSY 4.75% 7/12/2030 | 13,162,000 | 144.68 | 146.60 | 146.60 | 19,295,988 |
| TSY 4.25% 7/6/2032 | 12,370,000 | 143.89 | 145.61 | 145.61 | 18,012,276 |
| TSY 4.5% 7/9/2034 | 16,373,000 | 153.46 | 154.15 | 154.15 | 25,239,165 |
| TSY 4.25% 7/3/2036 | 11,400,000 | 153.75 | 154.41 | 154.41 | 17,602,222 |
| TSY 1.75% 7/9/2037 | 11,800,000 | 117.11 | 117.38 | 117.38 | 13,850,925 |
| TSY 4.75% 7/12/2038 | 7,934,000 | 169.80 | 171.72 | 171.72 | 13,624,087 |
| TSY 4.25% 7/9/2039 | 4,050,000 | 162.70 | 163.35 | 163.35 | 6,615,815 |
| TSY 3.25% 1/22/2044 | 8,000,000 | 151.73 | 152.64 | 152.64 | 12,210,932 |
| TSY 4.25% 7/12/2046 | 3,900,000 | 180.54 | 182.26 | 182.26 | 7,108,124 |
| **001 UKGB Total** | | | | | **219,942,277** |
| | | | | | |
| **US GOVERNMENT BONDS** | | | | | |
| T 2.75% 31/8/2023 | 26,191,000 | 107.17 | 107.65 | 83.13 | 21,771,973 |
| T 2.25% 15/11/2024 | 21,000,000 | 107.80 | 108.84 | 84.05 | 17,650,100 |
| T 2.75% 15/11/2042 | 7,500,000 | 123.86 | 125.14 | 96.63 | 7,247,323 |
| **004 USGB Total** | | | | | **46,669,395.71** |
| | | | | | |
| **NON GOVERNMENT BONDS** | | | | | |
| LGPS Central Global Active Corp B | 3,223,092 | 101.37 | 101.37 | 101.37 | 326,724,845 |
| **Non Govt Bonds Total** | | | | | **326,724,845** |
| | | | | | |
| **MULTI ASSET CREDIT** | | | | | |
| AMP Capital Infrastructure Debt Fu | 17,000,000 | 0.71 | 0.71 | 0.71 | 10,893,423 |
| Barings Global Private Loan Fund | 40,000,000 | 0.51 | 0.51 | 0.51 | 20,506,524 |
| Barings Global Private Loan Fund 2 | 40,000,000 | 0.93 | 0.93 | 0.93 | 37,191,694 |
| Barings Global Private Loan Fund 3 | 50,000,000 | 0.42 | 0.42 | 0.42 | 20,971,207 |
| CQS Credit Multi Asset Fund Class | 105,489 | 1,038.30 | 1,038.30 | 1,038.30 | 109,529,667 |
| CVC Credit PARTNERS European I | 76,000,000 | 0.22 | 0.22 | 0.22 | 14,705,652 |
| Janus Henderson Multi Asset Credi | 98,543,686 | 1.09 | 1.09 | 1.09 | 107,356,053 |
| **Multi Asset Credit Total** | | | | | **321,154,220** |
| | | | | | |
| **UK INDEX LINKED** | | | | | |
| TREAS 4.125% IL STK 22/7/2030 | 6,510,000 | 385.77 | 388.27 | 388.27 | 25,276,122 |
| TREAS 2% IL STK 26/1/2035 | 8,000,000 | 304.33 | 305.24 | 305.24 | 24,419,170 |
| **002 UKGIL Total** | | | | | **49,695,292** |

**INDEX LINKED (3 monthers)**

| | Number held | Clean Price | Index Ratio | Gross | Accrued Interest | Total |
|---|---|---|---|---|---|---|
| **UK INDEX LINKED (3monthers)** | | | | | | |
| TREAS 0.125% IL STK 22/3/2024 | 9,230,000 | 110.8870 | 1.210020 | 12,384,397.52 | 1,306.73 | 12,385,704 |
| TREAS 1.25% IL STK 22/11/2027 | 7,400,000 | 133.8600 | 1.511510 | 14,972,473.92 | 41,222.83 | 15,013,697 |
| TREAS 0.125% IL STK 22/3/2029 | 5,325,000 | 129.5940 | 1.235500 | 8,526,037.86 | 753.88 | 8,526,792 |
| TREAS 1.25% IL STK 22/11/2032 | 2,777,000 | 160.3490 | 1.350940 | 6,015,589.55 | 15,469.70 | 6,031,059 |
| TREAS 0.75% IL STK 22/3/2034 | 11,465,000 | 157.6490 | 1.263120 | 22,830,209.20 | 9,738.92 | 22,839,948 |
| TREAS 1.125% IL STK 22/11/2037 | 5,580,000 | 182.3630 | 1.450400 | 14,759,060.67 | 27,975.82 | 14,787,036 |
| TREAS 0.625% IL STK 22/3/2040 | 5,600,000 | 177.8610 | 1.354750 | 13,493,602.63 | 3,964.09 | 13,497,567 |
| TREAS 0.625% IL STK 22/11/2042 | 5,950,000 | 188.4500 | 1.380620 | 15,480,581.42 | 16,572.69 | 15,497,154 |
| TREAS 0.125% IL STK 22/3/2044 | 11,470,000 | 176.4990 | 1.210010 | 24,495,969.16 | 1,623.86 | 24,497,593 |
| TREAS 0.125% IL STK 22/3/2046 | 8,730,000 | 182.9750 | 1.137880 | 18,176,173.67 | 1,235.95 | 18,177,410 |
| TREAS 0.75% IL STK 22/11/2047 | 6,500,000 | 213.7260 | 1.411840 | 19,613,549.53 | 21,725.54 | 19,635,275 |
| TREAS 0.125% IL STK 10/08/2048 | 5,300,000 | 191.8020 | 1.067470 | 10,851,372.69 | 1,512.23 | 10,852,885 |
| TREAS 0.5% IL STK 22/3/2050 | 5,000,000 | 213.2210 | 1.374570 | 14,654,359.50 | 2,831.49 | 14,657,191 |
| **UK INDEX LINKED (3monthers) TOTAL** | | | | | | **196,399,311** |

| **US INDEX LINKED** | Number held | Clean Price | Index Ratio | Gross $ | Accrued Interest $ | Total $ | Total £ |
|---|---|---|---|---|---|---|---|
| TII0.125% 15/1/2023 | 7,000,000 | 102.546875 | 1.126110 | 8,083,534.30 | 2,615.49 | 8,086,150 | 6,244,124.87 |
| TII3.625% 15/4/2028 | 4,045,000 | 135.398438 | 1.607090 | 8,801,817.86 | 7,251.00 | 8,809,069 | 6,802,362.97 |
| TII1.750% 15/1/2028 | 5,550,000 | 120.445313 | 1.240740 | 8,293,993.10 | 29,031.93 | 8,323,025 | 6,427,039.92 |
| TII2.5% 15/1/2029 | 7,000,000 | 129.000000 | 1.210670 | 10,932,350.10 | 52,309.78 | 10,984,660 | 8,482,354.36 |
| TII2.125% 15/2/2040 | 4,095,000 | 150.398438 | 1.202600 | 7,406,592.14 | 18,680.66 | 7,425,273 | 5,733,795.65 |
| TII0.75% 15/2/2042 | 20,300,000 | 122.960938 | 1.150330 | 28,713,468.01 | 32,684.10 | 28,746,152 | 22,197,778.66 |
| TII0.625% 15/2/2043 | 10,000,000 | 120.265625 | 1.130570 | 13,596,870.77 | 13,417.12 | 13,610,288 | 10,509,864.30 |
| **0045 USGB IL Total** | | | | | | | **66,397,321** |

DERBYSHIRE PENSION FUND
OCTOBER 2020 PORTFOLIO VALUATION - BID

| | Number held | Mkt Price in local currenc (Clean) use | Mkt Price in local currency (Dirty) | Mkt Price pence GBP | Total £ GBP |
|---|---|---|---|---|---|
| TOTAL BONDS | | | | | 1,226,982,662 |
| | | | | | |
| Index linked-total | | | | | 312,491,923 |
| Conventional-total | | | | | 266,611,673 |
| Non gov-total | | | | | 647,879,066 |

**DERBYSHIRE PENSION FUND**
**OCTOBER 2020 PORTFOLIO VALUATION - BID**

| **Real Property** | | **30/10/2020 Valuation £** |
|---|---|---|
| Property | Southampton Property | 7,300,000 |
| Property | Retail Unit Tamworth | 7,800,000 |
| Property | 15-17 Jockeys Field London | 11,900,000 |
| Property | D'Arblay House, London | 15,500,000 |
| Property | Bristol Odeon Development | 5,000,000 |
| Property | Quintins Centre, Hailsham | 6,300,000 |
| Property | Caledonia House, London | 24,400,000 |
| Property | Chelsea Fields Ind Est, London | 13,900,000 |
| Property | Planet Centre, Feltham | 14,400,000 |
| Property | Hill St, Mayfair | 15,550,000 |
| Property | Birmingham - Travelodge developm't | 13,500,000 |
| Property | Saxmundham, Tesco developm't | 9,650,000 |
| Property | Roundhay Road, Leeds | 6,050,000 |
| Property | Premier Inn, Rubery, Birmingham | 5,800,000 |
| Property | South Normanton Warehouse, Alfreton | 16,000,000 |
| Property | Loddon Centre, Basingstoke | 14,450,000 |
| Property | Parkway, Bury St Edmunds | 8,650,000 |
| Property | Waitrose, York | 13,550,000 |
| Property | Link 95, Haywood Manchester | 10,350,000 |
| Property | Car Park, Welford Rd Leicester | 12,900,000 |
| **Total Real Property** | | **232,950,000** |

| **Property Managed Funds** | | | **Number held** | **Mkt price** | |
|---|---|---|---|---|---|
| Property | **Pence** | Assura PLC | 6,000,000 | 76.1000 | 4,566,000 |
| Property | **GBP** | Aviva Pooled Property Fund - cla | 630,049 | 15.8718 | 9,999,993 |
| Property | **GBP** | Aviva Pooled Property Fund - cla | 509,037 | 15.9951 | 8,142,095 |
| Property | **GBP** | Bridges Property Alternatives Fu | 10,000,000 | 0.6127 | 6,127,153 |
| Property | **GBP** | Bridges Property Alternatives Fu | 10,000,000 | 0.3097 | 3,097,400 |
| Property | **EUR** | Fidelity Eurozone Select Real Es | 4,486 | 5970.7094 | 24,096,986 |
| Property | **GBP** | Hearthstone Residential Fund 1 I | 25,000,000 | 0.8548 | 21,370,921 |
| Property | **GBP** | Igloo Regeneration P'ship Propei | 4,644,493 | 0.0316 | 146,817 |
| Property | **EUR** | Invesco Real Estate-European F | 44,569 | 110.8650 | 4,445,036 |
| Property | **Pence** | Target Healthcare REIT Ltd | 4,085,000 | 106.8000 | 4,362,780 |
| Property | **GBP** | M&G PP UK Property Fund (Inc) | 27,124 | 685.0100 | 18,580,211 |
| Property | **EUR** | M&G European Property Fund S | 25,000,000 | 1.0251 | 23,054,333 |
| Property | **GBP** | Threadneedle Pensions Property | 1,647,730 | 5.9653 | 9,829,207 |
| Property | **Pence** | Tritax Big Box Indirect Pooled Fu | 10,000,000 | 156.6000 | 15,660,000 |
| Property | **GBP** | Unite UK Student Accommodatic | 15,584,567 | 1.3650 | 21,272,934 |
| **Total Property Funds** | | | | | **174,751,865** |

| | | | | | |
|---|---|---|---|---|---|
| **Regulatory Capital** | LGPS Central | | **0.00** | | 2,000,000 |
| | | | | | |
| **Cash** | ***Updated to 30 October 2020*** | | **Mellon USD** | **Exch rate** | |
| Cash | Northern Trust | *UK* | | | 24,491,547 |
| Cash | | *Euro* | | | 0 |
| Cash | | *Wellington* | | | 2,140,382 |
| Cash | Cash - Lloyds bank Superfund | | | | 12,933,000 |
| | Adjustments for timing differences | | | | 0 |
| | | | | | 919,425 |
| Cash | Cash Temporary Loans | | 168,000,000 | | |
| | *Santander 95 Day Notice* | | 20,000,000 | | |
| | *Lloyds Monthly Bonus Account* | | 30,000,000 | | |
| | *Aberdeen Standard Life* | | 30,000,000 | | |
| | *Insight MMF* | | 30,000,000 | | |
| | *Certs of Deposit* | | 0 | | |
| | *Treasury Bills* | | 0 | | 278,000,000 |
| **Total Cash** | | | | Total Cash | **318,484,354** |

**Agenda Item No. 4 (b)**

**DERBYSHIRE COUNTY COUNCIL**

**PENSIONS AND INVESTMENTS COMMITTEE**

**9 December 2020**

**Report of the Director of Finance & ICT**

**STEWARDSHIP REPORT**

## 1 Purpose of the Report

To provide the Pensions & Investments Committee with an overview of the stewardship activity carried out by Derbyshire Pension Fund's (the Fund) external investment managers in the quarter ended 30 September 2020.

## 2 Information and Analysis

This report attaches the following two reports to ensure that the Pensions & Investments Committee is aware of the engagement activity being carried out by Legal & General Investment Management (LGIM) and by LGPS Central Limited (the Fund's pooling company):

- Q3 2020 LGIM ESG Impact Report (Appendix 1)
- Q2 2020/21 LGPS Central Limited Quarterly Stewardship Report (Appendix 2).

LGIM manages around £1bn of assets on behalf of the Fund through passive products covering: UK Equities; Japanese Equities; and Emerging Market Equities. LGPS Central Limited currently manages around £0.3bn of assets on behalf of the Fund through its Global Investment Grade Bonds Sub-Fund. It is expected that LGPS Central Limited will manage a growing proportion of the Fund's assets going forward as part of the LGPS pooling project.

These two reports provide an overview of the investment managers' current key stewardship themes and voting and engagement activity over the last quarter.

## 3 Other Considerations

In preparing this report the relevance of the following factors has been considered: financial, legal and human rights, human resources, equality and diversity, health, environmental, transport, property and prevention of crime and disorder considerations.

## 4 Officer's Recommendation

That Committee notes the stewardship activity of LGIM & LGPS Central Limited.

PETER HANDFORD

Director of Finance & ICT

**For professional clients only.**
**Not to be distributed to retail clients.**

# ESG Impact Report

## Q3 2020

Active ownership means using our scale and influence to bring about real, positive change to create sustainable investor value



Legal & General
INVESTMENT MANAGEMENT

# Our mission

To use our influence to ensure that:

1. Companies integrate environmental, social and governance (ESG) factors into their culture and everyday thinking

Page 100

2. Markets and regulators create an environment in which good management of ESG factors is valued and supported

# Our focus

### Holding boards to account

To be successful, companies need to have people at the helm who are well equipped to create resilient long-term growth. By voting and engaging directly with companies, we encourage management to control risks when seeking to benefit from emerging opportunities.

We aim to protect and enhance our clients' assets by engaging with companies and holding management to account for their decisions. Voting is an important tool in this process, and one which we use extensively.

### Creating sustainable value

We believe it is in the interest of all stakeholders for companies to build sustainable business models that are also beneficial to society. We work to prevent market behaviour that destroys long-term value creation.

LGIM wants to safeguard and grow our clients' assets by ensuring that companies are well positioned for sustainable growth. Our investment process includes an assessment of how well companies incorporate relevant ESG factors into their everyday thinking.

We engage directly and collaboratively with companies to highlight key challenges and opportunities, and to support strategies that can deliver long-term success.

### Promoting market resilience

As a long-term investor for our clients, it is essential that markets are able to generate sustainable value. In doing so, we believe companies should become more resilient to change and therefore seek to benefit the whole market.

We use our scale and influence to ensure that issues impacting the value of our clients' investments are recognised and appropriately managed. This includes working with key decision-makers such as governments and regulators, and collaborating with asset owners to bring about positive change.

Q3 2020 | ESG Impact Report

# Action and impact

Page 101

In the third quarter, executive pay and climate change remained in focus, while we highlighted that the pandemic and racial injustice have brought other societal inequalities to the fore.

During the third quarter of 2020, the COVID-19 crisis kept the need to ensure pharmaceutical companies were ensuring providing fair access to medical treatments and future vaccines top-of-mind. We also adopted a stronger stance with boards on inclusion and increasing minority representation. But we didn't let up on climate engagement, either, as we continued to apply pressure to some of the world's largest companies to meet the targets set out in the Paris Agreement. And, amid economic and employment uncertainty, we put executive pay versus the interests of employees, shareholders and the business at large under the spotlight. Below is our quarterly summary of Legal & General Investment Management's (LGIM) stewardship and responsible investment initiatives.

## Improving our transparency on ESG issues

In light of evolving regulation and our commitment to transparent environmental, social and governance (ESG) practices, we have refreshed some of our policy documents. Our intention is to provide clarity to our clients on the processes we have in place to exercise good stewardship on their behalf, including:

- An engagement policy that describes how we integrate shareholder engagement into our investment strategy and collaborate with other investors
- An updated conflicts of interest policy
- How we use the services of proxy advisers

LGIM has had cause to vote against the pay practices adopted by North American companies for many years. We have now decided that it may be helpful for investee companies to have clear guidelines on investors' views that both encourage more transparency and request that pay practices align with corporate strategy and shareholder expectations. Therefore, we have published a stand-alone document entitled 'Principles of Executive Compensation for the North American Market'.

LGIM has spoken publicly about diversity since 2011 and started sanctioning the boards of UK companies with all-male boards in 2015. With our expectations on gender diversity in our investee companies now well established, and given recent social events, we felt the time was right to embark on efforts to improve ethnic diversity within the boardroom and at executive leadership level.

To kick-start this campaign, we produced an article on the topic that outlines LGIM's expectations of companies. We also engaged on the topic this quarter with 44 S&P 500 firms and the 36 FTSE 100 companies whose board membership shows a total lack of ethnic diversity. We asked companies to have at least one director from a minority background on their board by the end of 2021, and from 2022 we will start voting against the chair of the board or of the nomination committee if there is still no ethnic diversity at board level.

**Cybercrime** is a global issue and the failure to implement safeguards for data security can be costly from a financial and reputational point of view. LGIM published an article to ensure the matter continues to be a regular board agenda item at companies, with sufficient resources being allocated to the issue. Cybercrime is a key business risk that we monitor as part of our investment stewardship activities and investment-research process.

**Corporate transparency** is increasingly important, given the growing efforts the investment community is making to integrate ESG within their decision-making processes. We set out our expectations as a long-term investor: regarding what ESG information our listed-investee companies should report on and how to communicate this information effectively to stakeholders.

LGIM has updated its controversial weapons policy. This sets out which types of weapons LGIM considers to be controversial, our approach to ensuring these companies are excluded from as many of our funds as possible and a list of the funds whose investment strategy excludes any company known to be involved in these activities. To encourage companies to move away from such activities, LGIM may write to the companies on the exclusion list.

As a strong supporter of the Japan Stewardship Code since its inception in 2014, we have updated our approach to stewardship in the 2020 Japan Stewardship Code Statement to reflect the Japanese Financial Service Agency's amendments made to the code earlier this year. This statement outlines how LGIM's stewardship responsibilities extend beyond equities to all assets globally including equities, fixed income and real assets.

## Fighting for fair access to COVID-19-related medical treatments and future vaccines

The COVID-19 pandemic has strained the world's social and financial systems. The pharmaceutical industry will play a vital role in any recovery. Improved medical treatments and the discovery of one or more vaccines will form a critical part of fighting the resurgence of infections, and preventing or limiting future lockdowns. It is questionable, however, whether current research and manufacturing efforts can deliver these medical breakthroughs in the short term and on a global scale.

In this context, LGIM was pleased to become a co-signatory of a letter campaign targeting pharmaceutical companies. Furthermore, we have also written an open letter together with AXA Investment Management and the Access to Medicine Foundation on global access to COVID-19 medical treatments and future vaccines.

**Q3 2020 |** ESG Impact Report

Page 102

LGIM recently became a member of the US-based ICCR (Interfaith Center on Corporate Responsibility). Under this umbrella, we joined the efforts of investors collectively representing more than $2.4 trillion in assets under management (AUM). We co-signed engagement letters addressed to the world's leading pharmaceutical companies asking for disclosure and commitments on their pandemic preparedness, public investment and 'commitment to the public good' (e.g. fair taxes and lobbying disclosures). The objectives of this engagement are to:

- Ensure equitable access to therapeutics and COVID-19 vaccines, given many of the companies involved are receiving public funding
- Encourage maximum transparency over the funding received by individual pharmaceutical companies (and any terms attached to this funding)
- Encourage boards to take active steps to avoid any reputational risks in using tax havens/inappropriate tax strategies, while receiving public funding

We will monitor the responses we receive from the contacted companies.

## Pushing to improve German board governance

In Germany, members of supervisory boards are elected for a period of five years. This weakens shareholders' ability to hold directors accountable for their actions at the annual general meeting (AGM). LGIM advocates for annual board elections instead.

In its public consultation document, the commission in charge of reforming the German Corporate Governance Code in 2019 planned to limit supervisory board members' tenure to three years, which we supported, with the expectation the market would progress towards annual elections over time. However, the commission failed to adopt this recommendation.This quarter, LGIM escalated its stance on board elections in Germany by signing a public collaborative letter along with other institutional investors to formally and directly ask DAX30 companies to limit supervisory board members' terms to three years. Collectively, the signatories represented a total of $8.3 trillion in AUM, and the national press covered this campaign.[1]

1. https://www.handelsblatt.com/finanzen/anlagestrategie/trends/vermoegensmanager-investoren-plaedieren-fuer-kuerzere-amtszeiten-der-dax-aufsichtsraete/26104434.html?ticket=ST-2720483-XtEYNv7fLU2NMYzYVfR1-ap5



## Limiting the risk of antimicrobial resistance

As part of LGIM's Investment Stewardship team's five-year strategic plan and our commitment to engage on health, Maria Ortino, ESG Manager, joined the Expert Committee for the 2021 Antimicrobial Resistance (AMR) Benchmark methodology (a research programme by the Access to Medicine Foundation). This is an important engagement topic for LGIM, as the development of AMR can have a serious impact on the effectiveness of treatments of infections. The goal of the AMR Benchmark we are taking part in is to guide and incentivise pharmaceutical companies to limit this key risk.

## Scrutinising climate-pollution practices in Texas

Alongside Alliance Bernstein and the California State Teachers' Retirement System (CalSTRS), we called on the influential Texas Railroad Commission (TRC) to ban the routine burning of natural gas from the Permian basin, which it regulates.

We support eliminating natural gas flaring by 2025: a global ESG issue which is currently under consideration by the commission. We believe it wastes natural resources, increases emissions, and means we fail to monetise a product that would otherwise add value to the oil-and-gas-producing companies in our portfolios.

The actions of leading operators demonstrate the financial and technical viability of ending routine flaring. It is clear, however, that voluntary action alone has been insufficient to eliminate it across the industry. Strong and effective regulatory action – beyond taking the initial steps to improve data gathering and transparency – is essential in order to build stakeholder confidence and solve this challenge.

Flaring is an area of particular focus for us, because the ability of oil and gas companies to get emissions under control directly relates to the role these companies will play in the broader energy transition.

## Collaborating on the Modern Slavery Act

We worked with Rathbones, as part of a collaborative engagement of managers with a total of £3.2 trillion in AUM (December 2019), to challenge FTSE 350 companies that had failed to meet the reporting requirements of Section 54 of the Modern Slavery Act, 2015.

Not only did we want to highlight the importance of eradicating modern slavery throughout the supply chains of FTSE 350 companies, we also sought to raise the importance of eradicating modern slavery across global business. The initiative provided an opportunity for investors to better understand the nature of the companies they invest in, and how the board views the issue of modern slavery. A secondary objective was to encourage a greater degree of challenge on social issues, specifically using shareholder rights, as we feel that responsible investment currently does not focus enough on these concerns.

## LGIM's first virtual NED Event

LGIM held its fifth annual, and first virtual, non-executive director (NED) event in September, convening 236 NEDs from around the world.

The event was an opportunity for LGIM's Investment Stewardship team to present on key ESG themes directly to the board members of our investee companies. This included, for instance, the evolution of investment stewardship, our expectations on the topics of income inequality, transparency, ethnic diversity and how to approach the target of reaching net-zero carbon emissions by 2050.

We highlighted how each of these themes has become a key focus area for investor engagement, and we gave suggestions on how to address them effectively so as to ensure boards are adequately equipped to deal with current and future challenges. A summary of the event is available here.

# Significant votes

As mentioned in last quarter's ESG Impact Report, owing to evolving regulation, we have adapted our approach so as to provide detailed information to our clients on significant votes on a quarterly basis.

**Company name:** International Consolidated Airlines Group*

**Sector:** Transport | **Market cap:** £6.6 billion (Source: Eikon, as at 16/9/2020)

| | |
|---|---|
| **Issue identified here:** | The COVID-19 crisis and its consequences for international transport have negatively impacted this airline company's financial performance and business model.<br>At the end of March 2020, LGIM addressed a private letter to the company to state our support during the pandemic. We also encouraged the board to demonstrate restraint and discretion with its executive remuneration.<br>As a result of the crisis, the company took up support under various government schemes. The company also announced a 30% cut to its workforce.[2] On the capital allocation front, the company decided to withdraw its dividend for 2020 and sought shareholder approval for a rights issue of €2.75 billion at its 2020 AGM in order to strengthen its balance sheet. The remuneration report for the financial year to 31 December 2019 was also submitted to a shareholder vote. We were concerned about the level of bonus payments, which are 80% to 90% of their salary for current executives and 100% of their salary for the departing CEO. |
| **Summary of the resolution:** | 'Resolution 8: Approve Remuneration Report' was proposed at the company's annual shareholder meeting held on 7 September 2020. |
| **How LGIM voted:** | We voted against the resolution. |
| **Rationale for the decision:** | We noted that the executive directors took a 20% reduction to their basic salary from 1 April 2020. However, whilst the bonuses were determined at the end of February 2020 and paid in respect of the financial year to December 2019, LGIM would have expected the remuneration committee to exercise greater discretion in light of the financial situation of the company, and also to reflect the stakeholder experience (employees and shareholders).<br>Over the past few years, we have been closely engaging with the company, including on the topic of the succession of the CEO and the board chair, who were long-tenured. This engagement took place privately in meetings with the board chair and the senior independent director. This eventually led to a success, as the appointment of a new CEO to replace the long-standing CEO was announced in January 2020. A new board chair, an independent non-executive director, was also recently appointed by the board. He will be starting his new role in January 2021. |
| **Outcome:** | 28.4% of shareholders opposed the remuneration report. LGIM will continue to engage closely with the renewed board. |
| **Why is this vote significant?** | LGIM considers this vote significant as it illustrates the importance for investors of monitoring our investee companies' responses to the COVID-19 crisis. |

Page 103

2.https://www.bloomberg.com/news/articles/2020-04-28/british-airways-to-slash-up-to-12-000-jobs-after-hedging-losses

*Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.





**Company name:** Luckin Coffee inc.*

**Sector:** Travel and leisure | **Market cap:** $595.7 million (Source: Eikon, as at 16/9/2020)

| | |
|---|---|
| **Issue identified here:** | Shortly after its public listing in May 2019, the Chinese coffee start-up, which holds the ambition of disrupting the traditional coffee-shop model and competing with Starbucks in China, was accused by an anonymous report of potential fraudulent behaviour. This was initially denied by the board, and the company later opened an internal investigation with the formation of a special board committee and advice from outside law and forensic firms.<br>The investigation revealed fabricated sales of approximately $300 million, which represented almost half of the company's 2019 sales. As a result, the CEO and chief operating officer were dismissed, and the company was delisted from Nasdaq in June 2020. Two Chinese regulators are investigating the issue.<br>As a result of these findings, Haode Investment inc., a significant shareholder of the company (holding at the time approximately 37% of unequal voting rights), beneficially owned by the chair and founder, requested a special meeting to ask for the removal of three board directors including the director leading the internal investigation, and proposed the election of two outside directors.<br>The company board proposed a resolution at the meeting to seek shareholder approval to remove the board chair from the board. This resolution was put forward by the majority of the board as a result of the findings of the internal investigation. |
| **Summary of the resolution:** | 'Resolution 4: Remove Director Charles Zhengyao Lu' proposed at the company's special shareholder meeting held on 5 July 2020 |
| **How LGIM voted:** | We voted in favour of this resolution. |
| **Rationale for the decision:** | Given the findings of the investigation, LGIM decided to sanction the board for its lack of oversight. We supported the removal of the board chair, and also voted in favour of the removal of two outside non-independent directors of the board. LGIM opposed the election of the two outside directors proposed by the board chair himself, as we had concerns about their independence. |
| **Outcome:** | A majority of investors** supported the removal of the board chair. Three other board directors were also removed, and two new outside directors were appointed to the board.<br>The company subsequently appointed a new combined chair and CEO, who is a co-founder of the company. LGIM will continue to monitor developments. |
| **Why is this vote significant?** | LGIM identified this vote as significant given the size of the scandal and the proposal by the board to remove the company's chair. We also note that this scandal has triggered important media coverage. The company is incorporated in China and was listed in the US; The Financial Times reported that this scandal triggered the US Congress passing bills in May to strengthen disclosure requirements for foreign groups.[3] |

3.https://www.ft.com/content/7bb80406-a0c6-11ea-ba68-3d5500196c30

*Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security. **% not available.

**Company name:** SIG plc.*

**Sector:** Trading companies and distributors | **Market cap:** £302.9 million (Source: Eikon, as at 2/10/2020)

| | |
|---|---|
| **Issue identified here:** | The company wanted to grant its interim CEO a one-off award of £375,000 for work carried out over a two-month period (February - April). The CEO agreed to invest £150,000 of this payment in acquiring shares in the business, and the remaining £225,000 would be a cash payment. The additional payment was subject to successfully completing a capital-raising exercise to improve the liquidity of the business.<br>The one-off payment was outside the scope of the company's remuneration policy and on top of his existing remuneration, and therefore needed shareholder support for its payment. |
| **Summary of the resolution:** | 'Resolution 5: Approve one-off payment to Steve Francis' proposed at the company's special shareholder meeting held on 9 July 2020. |
| **How LGIM voted:** | We voted against the resolution. |
| **Rationale for the decision:** | LGIM does not generally support one-off payments. We believe that the remuneration committee should ensure that executive directors have a remuneration policy in place that is appropriate for their role and level of responsibility. This should negate the need for additional one-off payments.<br>In this instance, there were other factors that were taken into consideration. The size of the additional payment was a concern because it was for work carried over a two-month period, yet was equivalent to 65% of his full-time annual salary. £225,000 was to be paid in cash at a time when the company's liquidity position was so poor that it risked breaching covenants of a revolving credit facility and therefore needed to raise additional funding through a highly dilutive share issue. |
| **Outcome:** | The resolution passed. However, 44% of shareholders did not support it. We believe that with this level of dissent the company should not go ahead with the payment.<br>We intend to engage with the company over the coming year to find out why this payment was deemed appropriate and whether it made the payment despite the significant opposition. |
| **Why is this vote significant?** | The vote is high-profile and controversial. |

Page 104

*Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.



**Q3 2020 |** ESG Impact Report

**Company name:** Pearson*

**Sector:** Media and publishing | **Market cap:** £4.2 billion (Source: Eikon, as at 5/10/2020)

| | |
|---|---|
| **Issue identified here:** | Pearson issued a series of profit warnings under its previous CEO. Yet shareholders have been continuously supportive of the company, believing that there is much value to be gained from new leadership and a fresh approach to their strategy.<br>However, the company decided to put forward an all-or-nothing proposal in the form of an amendment to the company's remuneration policy. This resolution at the extraordinary general meeting (EGM) was seeking shareholder approval for the grant of a co-investment award, an unusual step for a UK company, but yet if this resolution was not passed the company confirmed that the proposed new CEO would not take up the CEO role.<br>This is an unusual approach and many shareholders felt backed into a corner, whereby they were keen for the company to appoint a new CEO, but were not happy with the plan being proposed. However, shareholders were not able to vote separately on the two distinctly different items, and felt forced to accept a less-than-ideal remuneration structure for the new CEO. |
| **Summary of the resolution:** | 'Resolution 1: Amend remuneration policy' was proposed at the company's special shareholder meeting, held on 18 September 2020. |
| **How LGIM voted:** | We voted against the amendment to the remuneration policy. |
| **Rationale for the decision:** | LGIM spoke with the chair of the board earlier this year, on the board's succession plans and progress for the new CEO. We also discussed the shortcomings of the company's current remuneration policy.<br>We also spoke with the chair directly before the EGM, and relayed our concerns that the performance conditions were weak and should be re-visited, to strengthen the financial underpinning of the new CEO's award. We also asked that the post-exit shareholding requirements were reviewed to be brought into line with our expectations for UK companies. In the absence of any changes, LGIM took the decision to vote against the amendment to the remuneration policy. |
| **Outcome:** | At the EGM, 33% of shareholders voted against the co-investment plan and therefore, by default, the appointment of the new CEO. Such significant dissent clearly demonstrates the scale of investor concern with the company's approach. It is important that the company has a new CEO, a crucial step in the journey to recover value; but key governance questions remain which will now need to be addressed through continuous engagement. |
| **Why is this vote significant?** | Pearson has had strategy difficulties in recent years and is a large and well-known UK company. Given the unusual approach taken by the company and our outstanding concerns, we deem this vote to be significant. |

*Case study shown for illustrative purposes only. The above information does not constitute a recommendation to buy or sell any security.

| **Company name:** Plus500 ltd.* | |
|---|---|
| **Sector:** Financials – Diversified financials | **Market cap:** £1.6 billion (Source: LSE, as at 21/9/2020) |

| | |
|---|---|
| **Issue identified here:** | At its AGM on 16 September 2020, Plus500 proposed a number of pay-related proposals for shareholder approval. Amongst these, the board recommended the approval of a substantial discretionary bonus offered to the CFO of around ₪4.2 million (around $1.2 million) for his successful work with Israeli tax authorities over a number of years, resulting in a significant tax-saving for the shareholders. The bonus is in addition to his annual variable pay and outside the normal bonus structure. |
| **Summary of the resolution:** | 'Resolution 17: Approve Special Bonus Payment to CFO Elad Even-Chen' at the company's special shareholder meeting held on 16 September 2020. |
| **How LGIM voted:** | We voted against the special bonus based on the belief that such transaction bonuses do not align with the achievement of pre-set targets.<br>Separately, LGIM also voted against an amendment to the company's remuneration policy, which continues to allow for the flexibility to make one-off awards and offers long-term incentives that remain outside best market practice in terms of long-term performance alignment. |
| **Rationale for the decision:** | LGIM does not support one-off discretionary bonuses (or transaction bonuses) as these are not within the approved policy to reward the achievement of pre-set targets.<br>Moreover, discussions with tax authorities and the obtaining of preferential tax structures for the company are seen as part of a CFO's day-to-day job and should not be remunerated separately. Instead, a preferential tax treatment will benefit future performance and will therefore be rewarded within annual bonus and long-term incentives in future performance years.<br>LGIM directly notified the company of its vote intentions before the shareholder meeting. |
| **Outcome:** | Given the level of shareholder dissent, Resolution 17 was withdrawn ahead of the AGM, while all the other resolutions were passed.<br>The company stated that: 'The board and the remuneration committee consider that a bonus is appropriate given the outstanding efforts of [the CFO]. As such, Plus500 intends to again propose the resolution for shareholder approval at the EGM to cover 2021 director pay (as is required under Israeli law). |
| **Why is this vote significant?** | There was a level of media interest regarding the withdrawal of the resolution. This, combined with the other shortcomings of this company in relation to the expectations of a company listed in London, make this a significant vote. Shareholder dissent to the resolution was sufficiently high that the proposal was withdrawn ahead of the AGM; this will result in the company being included in the UK Investment Association's Public Register. |

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**Q3 2020** | ESG Impact Report

| **Company name:** Olympus Corporation* | |
|---|---|
| **Sector:** Consumer, non-cyclical, medical instruments | **Market cap:** £22 billion (Source: Eikon as at 2/10/2020) |

| | |
|---|---|
| **Issue identified here:** | Japanese companies in general have trailed behind European and US companies, as well as companies in other countries, in ensuring more women are appointed to their boards. The lack of women is also a concern below board level.<br>LGIM has for many years promoted and supported an increase of appointing more women on boards, at the executive level and below. On a global level we consider that every board should have at least one female director. We deem this a de minimis standard. Globally, we aspire to all boards comprising 30% women. Last year in February we sent letters to the largest companies in the MSCI Japan which did not have any women on their boards or at executive level, indicating that we expect to see at least one woman on the board. One of the companies targeted was Olympus Corporation.<br>In the beginning of 2020, we announced that we would commence voting against the chair of the nomination committee or the most senior board member (depending on the type of board structure in place) for companies included in the TOPIX100. |
| **Summary of the resolution:** | 'Resolution 3.1: Elect Director Takeuchi, Yasuo' at the company's annual shareholder meeting held on 30 July 2020. |
| **How LGIM voted:** | We voted against the resolution. |
| **Rationale for the decision:** | We opposed the election of this director in his capacity as a member of the nomination committee and the most senior member of the board, in order to signal that the company needed to take action on this issue. |
| **Outcome:** | 94.90% of shareholders supported the election of the director.<br>LGIM will continue to engage with and require increased diversity on all Japanese company boards. |
| **Why is this vote significant?** | This vote is deemed significant as LGIM considers it imperative that the boards of Japanese companies increase their diversity. |

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Without urgently tackling and reversing deforestation, meeting the aim of the Paris Agreement regarding net-zero emissions by mid-century will be impossible to achieve.

**Q3 2020 |** ESG Impact Report

# Sustainability engagements

We continue to engage with companies, policy-makers and other investors to promote sustainability.



## Tackling deforestation

Without urgently tackling and reversing deforestation, meeting the aim of the Paris Agreement regarding net-zero emissions by mid-century will be impossible to achieve. The Intergovernmental Panel on Climate Change (IPCC) land-use report highlights that to limit global warming to 1.5°C, reforesting an area the size of India may be necessary.[4] As such, halting deforestation in biodiversity hotspots and systemically important biomes such as the rainforests in the Amazon and Southeast Asia is a key component of global decarbonisation efforts.

This summer, following steps by the Brazilian government to loosen environmental protections, LGIM joined a new investor coalition to lobby the government directly to take steps to halt deforestation in the country. The investor coalition sent letters to a number of Brazilian embassies in Europe, outlining our concerns. Subsequently, a video conference with the vice president, the governor of the central bank, the foreign minister, the minister for the environment and minister for agriculture was scheduled. During this conversation, the investor group called on the government to commit to achieving a significant reduction in deforestation, and to ensure that existing environmental legislation is indeed enforced.

In response, the Brazilian government announced a moratorium on setting fires in the Amazon, and the investor group had a follow-up conversation with several members of Congress. New data[5] released in July shows that the rate of deforestation in the Amazon is sadly continuing to increase. LGIM will be watching developments closely, and will continue to engage with the food companies in our portfolio with exposure to soy and cattle in Brazil, to encourage them to root out deforestation from supply chains.

Going forward, the remit of the investor group will expand to focus lobbying efforts in Southeast Asia too.

## Sustainability in the Asia-Pacific region

Coal use remains a contentious issue in the Asia-Pacific region. In 2019, we announced that we will be removing Korean utility KEPCO* from our Future World Fund range, due to the company's lack of ambitious climate strategies. Since then, we have been working with other investors and stakeholders to put pressure on the company to halt plans for new coal projects in Vietnam and Indonesia. Not only are new coal plants fundamentally at odds with the necessary global climate trajectories, independent feasibility studies had questioned the profitability of the projects. We spoke out publicly against the plans in interviews with *The Korea Times*, a leading local newspaper.

Whilst burning and mining coal often receive the most scrutiny, other forms of mining can have detrimental impacts on communities and the environment. In our previous report, we mentioned mining giant Rio Tinto* faced a media backlash following the destruction of an aboriginal heritage site during a mine expansion in Western Australia. We have expressed our disappointment at Rio Tinto's handling of the incident – both publicly, in the press, and privately, during a call with the company's chair.

We believed that the initial measures announced by the company in response – the forfeiting of executive bonuses – were insufficient, and engaged with UK and overseas investors to press for more accountability. The company has now announced that its CEO and two other executives will step down.

4. https://www.ipcc.ch/srccl/download/
5. https://wwf.panda.org/wwf_news/?584271/Annual-deforestation-rate-in-the-Brazilian-Amazon-increases-by-33&_sm_byp=iVV0prDRQVNVt5s6

*For illustrative purposes only. Reference to a particular security is on a historic basis and does not mean that the security is currently held or will be held within an LGIM portfolio. The above information does not constitute a recommendation to buy or sell any security.



## Pushing for net zero

The race towards net-zero emissions continues apace. As Glasgow prepares to host the landmark COP26 conference next year, Michelle Scrimgeour, LGIM's CEO, and Meryam Omi, our Head of Sustainability and Responsible Investment Strategy, have been working with the UK government to build momentum for climate action in the private sector.

Indeed, the past few months have seen a range of notable announcements: as part of its strategy to reach net-zero emissions, oil major BP* has pledged to substantially reduce its oil and gas production (40% by 2030), broadly in line with global climate targets. LGIM has been co-leading climate engagement efforts with BP under the Climate Action 100+ investor network, and has engaged with its senior executives regularly as they develop their strategy.

In September, French oil major Total* also set new targets for reductions in the absolute emissions associated with the use of oil products by its customers (the largest source of emissions for the sector). This shift is all the more notable in an industry that even a few years ago was reluctant to set absolute emission targets for its own operations, let alone its products.

Mining company BHP* has also announced new partnerships to reduce emissions from steelmaking and shipping, as part of its efforts to set carbon goals for its customers, and set new expectations on climate issues from the trade groups it is a part of. LGIM has been a supporter of shareholder proposals calling on greater lobbying transparency from BHP and other heavy-emitting companies.

## Climate in the boardroom

LGIM received recognition for its strong voting stance in a new report from non-governmental organisation Majority Action, looking at the voting records of the world's 12 largest asset managers.

The report looked at how asset managers sanction directors and their pay, as well as support sustainability-related resolutions at US S&P 500 companies.

In 2020, LGIM was a top supporter of 'climate-critical' shareholder proposals among the world's top 12 asset managers. Reflecting our strengthened principles on executive pay and director appointments – for example, our opposition to combined chair/CEO roles – the report also found LGIM was more likely to oppose the election of directors or their pay in the sectors analysed.

## A strong voting stance in the industry

| | Votes in favour of 'climate-critical' shareholder proposals: | Votes in favour of management-proposed directors: | Votes in favour of 'say-on-pay' resolutions: |
|---|---|---|---|
| LGIM | 100% | 82% | 76% |
| Average across top 11 largest asset managers: | 44% | 96% | 91% |

Source: LGIM adapted from Majority Action – Climate in the Boardroom (2020),[6] analysis of support for management recommendations at large-cap energy, utility, financial services, and automotive manufacturing companies, and support for shareholder proposals on climate issues at S&P 500 companies.

6. Full report available at: https://www.majorityaction.us/asset-manager-report-2020

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**Q3 2020** | ESG Impact Report

# Public policy update

Over the past quarter LGIM has actively engaged with, and closely followed, a wide variety of policy and regulatory developments around the world.

### United Kingdom

In advance of the G7 presidency and COP26 next year, we have seen a flurry of activity from the government with regards to putting the UK economy on the correct path to meet its 2050 net-zero commitment. Policymakers have listened to calls from the industry (including from LGIM), and launched a 'green and resilient' COVID-19 recovery package.

We have also seen progress on a long-term policy engagement topic, which is to mandate high-quality climate-related disclosures from across the investment chain in line with the framework set out by the Task Force on Climate-related Financial Disclosures (TCFD). We have been very supportive, and engaged with both the Financial Conduct Authority (FCA) and the Department for Work and Pensions (DWP) on this topic over the past year. We recently submitted our response to the formal FCA consultation paper 20/03, recommending that the FCA be bolder with its proposed 'comply and explain' rule for premium-listed issuers.



Specifically, we are encouraging that the FCA make TCFD reporting mandatory for premium-listed issuers and expand the rule to include standard-listed issuers too (with a view to see mandatory reporting by 2022, as outlined by the government's 2019 green finance strategy). At present, we are preparing our formal response to the DWP consultation that is mandating TCFD for pension schemes (supported by the Pension Scheme Bill that is still going through Parliament). We will prepare an update once it is finalised.

### European Union

At a European Union level, we continue to engage with the Commission's European Green Deal and Sustainable Finance Action Plan. In July, we responded to a key consultation that will drive the Commission's future work on sustainability, the Renewed Sustainable Finance Strategy. We provided feedback on pertinent issues, including: strengthening stewardship and corporate governance policy across Europe; the necessity to harmonise European sustainable finance regulation (internally and externally); building on existing non-financial disclosures standards; setting clear low-carbon sector transition roadmaps; removing fossil fuel subsidies; and harmonising the ability to file shareholder resolutions across Europe.

Another key engagement for LGIM has been with the European Supervisory Authorities (ESA) regarding the development of the regulatory technical standards of the 'Sustainable Finance Disclosure' Regulation. This regulation is seeking to harmonise sustainability related disclosures at both an entity and product level for financial-market participants across the EU. Whilst we are supportive of the direction of travel from the EU and the ESA, we felt that there was not strong alignment or sequencing with other sustainable finance regulation (e.g. 'EU Taxonomy' and the 'Non-Financial Reporting Directive'), and that in its current format it could have unintended and misleading consequences.

LGIM has also been working with other investors and through the Institutional Investors Group on Climate Change (IIGCC), called on the European Commission and EU member states to raise Europe's greenhouse gas emissions (GHG) target to ensure 'at least' a 55% reduction in emissions by 2030.

### United States

Throughout 2020, the Department of Labor (DOL) has issued multiple proposals (A new 'investment duties' rule for ESG and one regarding proxy voting and shareholder rights) that we believe are not in the best interest of long-term savers. In the past quarter, we have submitted public comments to make our position clear that intentional ESG analysis and active participation in proxy voting are completely aligned with fiduciary duties, and, in fact, necessary.

The 'investment duties' proposal seeks to clarify guidance to Employee Retirement Income Security Act (ERISA) plan fiduciaries on their duties and the requirements for evaluating and selecting investments based on ESG factors. Our belief is that the proposed guidance reflects a misunderstanding of how ESG analysis is used in the market and fails to recognise that ESG integration is not a new or innovative approach to investing, but a tried-and-true approach to ensuring long-term portfolio success.

The 'Proposal Regarding Proxy Voting and Shareholder Rights' seeks to provide guidance to ERISA plan fiduciaries on their exercise of shareholder rights, particularly on designing and executing a proxy-voting strategy. Our biggest concern with the proposed rule is that its practical effect will likely be to chill all or most shareholder proxy voting and engagement by pension plans, effectively stripping pension plans (and, indirectly, beneficiaries) of their private rights as equity holders, to the long-term detriment of investment portfolios.

We have been encouraged by the interest and volume of comments the DOL has received on these important proposals. For example, 1,300 comments were received for the ESG proposal and it was estimated that 95% were opposed to the rule. Our viewpoint was highlighted by industry commentators.

We will be concerned if the DOL chooses to go against the groundswell of market feedback and proceed. We will continue to monitor the outcome of these proposals and to engage with regulators wherever we believe it is directly relevant to the best long-term interests of our clients.

Page 109

## Engagement with consequences

Going forward, we will continue to engage with policymakers across the world to ensure that policies and regulations are designed effectively, are robust, and are focusing on the most pertinent issues for our stakeholders. One present example is the proliferation of initiatives that seek to 'standardise' sustainability-related disclosures. This is an important area for us and we are engaging with the standard setters, international frameworks, regulators, etc., to ensure we have consistent, comparable and verified disclosures across the market.

# Regional updates

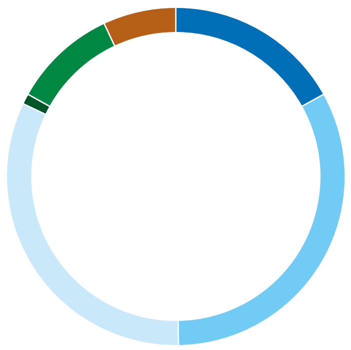
Page 110

## UK - Q3 2020 voting summary

| Proposal category | For | Against | Abstain |
|---|---|---|---|
| Antitakeover-related | 98 | 0 | 0 |
| Capitalisation | 542 | 34 | 0 |
| Directors-related | 1018 | 66 | 0 |
| Remuneration-related | 255 | 65 | 0 |
| Reorganisation and Mergers | 21 | 2 | 0 |
| Routine/Business | 655 | 20 | 0 |
| Shareholder Proposal - Compensation | 0 | 0 | 0 |
| Shareholder Proposal - Corporate Governance | 0 | 0 | 0 |
| Shareholder Proposal - Director-related | 11 | 14 | 0 |
| Shareholder Proposal - General Economic Issues | 0 | 0 | 0 |
| Shareholder Proposal - Health/Environment | 0 | 0 | 0 |
| Shareholder Proposal - Other/Miscellaneous | 0 | 0 | 0 |
| Shareholder Proposal - Routine/Business | 0 | 1 | 0 |
| Shareholder Proposal - Social/Human Rights | 0 | 0 | 0 |
| Shareholder Proposal - Social | 0 | 0 | 0 |
| Total | 2600 | 202 | 0 |
| Total resolutions | 2802 | | |
| No. AGMs | 156 | | |
| No. EGMs | 42 | | |
| No. of companies voted on | 188 | | |
| No. of companies where voted against management on at least one resolution | 88 | | |
| % of companies with at least one vote against | 47% | | |

Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

### Votes against management



- Antitakeover-related - 0
- Capitalisation - 34
- Directors-related - 66
- Remuneration-related - 65
- Reorganisation and Mergers - 2
- Routine/Business - 20
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 0
- Shareholder Proposal - Director-related - 14
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 1
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

### Number of companies voted for/against


- No. of companies where supported management
- No. of companies where voted against management

LGIM voted against at least one resolution at **47%** of UK companies over the quarter



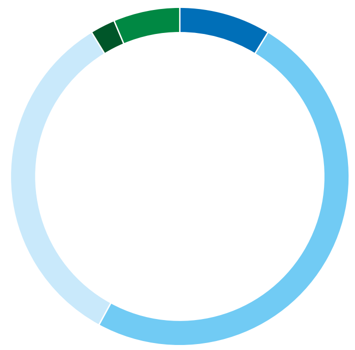
**Q3 2020** | ESG Impact Report

## Europe - Q3 2020 voting summary

| Proposal category | For | Against | Abstain |
|---|---|---|---|
| Antitakeover-related | 0 | 0 | 0 |
| Capitalisation | 70 | 11 | 0 |
| Directors-related | 207 | 62 | 0 |
| Remuneration-related | 47 | 42 | 0 |
| Reorganisation and Mergers | 10 | 3 | 0 |
| Routine/Business | 190 | 8 | 0 |
| Shareholder Proposal - Compensation | 0 | 0 | 0 |
| Shareholder Proposal - Corporate Governance | 0 | 0 | 0 |
| Shareholder Proposal - Director-related | 0 | 0 | 0 |
| Shareholder Proposal - General Economic Issues | 0 | 0 | 0 |
| Shareholder Proposal - Health/Environment | 0 | 0 | 0 |
| Shareholder Proposal - Other/Miscellaneous | 0 | 0 | 0 |
| Shareholder Proposal - Routine/Business | 0 | 0 | 0 |
| Shareholder Proposal - Social/Human Rights | 0 | 0 | 0 |
| Shareholder Proposal - Social | 0 | 0 | 0 |
| Total | 524 | 126 | 0 |
| Total resolutions | 650 | | |
| No. AGMs | 34 | | |
| No. EGMs | 12 | | |
| No. of companies voted on | 46 | | |
| No. of companies where voted against management on at least one resolution | 28 | | |
| % of companies with at least one vote against | 61% | | |

Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

### Votes against management



- Antitakeover-related - 0
- Capitalisation - 11
- Directors-related - 62
- Remuneration-related - 42
- Reorganisation and Mergers - 3
- Routine/Business - 8
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 0
- Shareholder Proposal - Directors-related - 0
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 0
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

### Number of companies voted for/against


- No. of companies where supported management
- No. of companies where voted against management

LGIM voted against at least one resolution at **61%** of European companies over the quarter

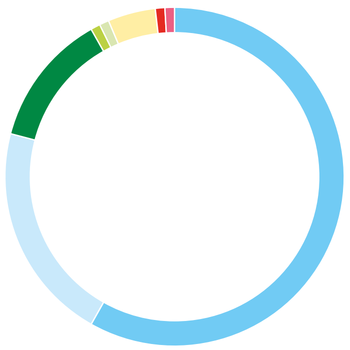
Page 111

## North America - Q3 2020 voting summary

| Proposal category | For | Against | Abstain |
|---|---|---|---|
| Antitakeover-related | 4 | 0 | 0 |
| Capitalisation | 5 | 0 | 0 |
| Directors-related | 216 | 64 | 0 |
| Remuneration-related | 24 | 23 | 0 |
| Reorganisation and Mergers | 5 | 0 | 0 |
| Routine/Business | 24 | 14 | 0 |
| Shareholder Proposal - Compensation | 2 | 1 | 0 |
| Shareholder Proposal - Corporate Governance | 2 | 1 | 0 |
| Shareholder Proposal - Director-related | 5 | 0 | 0 |
| Shareholder Proposal - General Economic Issues | 0 | 0 | 0 |
| Shareholder Proposal - Health/Environment | 0 | 0 | 0 |
| Shareholder Proposal - Other/Miscellaneous | 1 | 5 | 0 |
| Shareholder Proposal - Routine/Business | 0 | 0 | 0 |
| Shareholder Proposal - Social/Human Rights | 0 | 1 | 0 |
| Shareholder Proposal - Social | 1 | 1 | 0 |
| Total | 289 | 110 | 0 |
| Total resolutions | 399 | | |
| No. AGMs | 34 | | |
| No. EGMs | 6 | | |
| No. of companies voted on | 39 | | |
| No. of companies where voted against management on at least one resolution | 33 | | |
| % of companies with at least one vote against | 85% | | |

Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

### Votes against management



- Antitakeover-related - 0
- Capitalisation - 0
- Directors-related - 64
- Remuneration-related - 23
- Reorganisation and Mergers - 0
- Routine/Business - 14
- Shareholder Proposal - Compensation - 1
- Shareholder Proposal - Corporate Governance - 1
- Shareholder Proposal - Directors-related - 0
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 5
- Shareholder Proposal - Routine/Business - 0
- Shareholder Proposal - Social/Human Rights - 1
- Shareholder Proposal - Social - 1

### Number of companies voted for/against


- No. of companies where supported management
- No. of companies where voted against management

LGIM voted against at least one resolution at **85%** of North American companies over the quarter



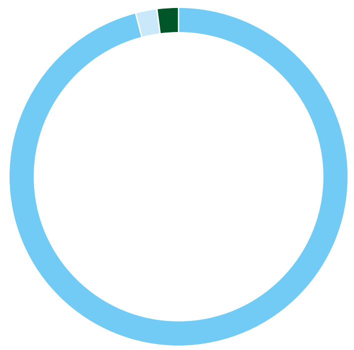
**Q3 2020** | ESG Impact Report

## Japan - Q3 2020 voting summary

| Proposal category | For | Against | Abstain |
|---|---|---|---|
| Antitakeover-related | 0 | 0 | 0 |
| Capitalisation | 0 | 0 | 0 |
| Directors-related | 215 | 47 | 0 |
| Remuneration-related | 3 | 1 | 0 |
| Reorganisation and Mergers | 4 | 1 | 0 |
| Routine/Business | 13 | 0 | 0 |
| Shareholder Proposal - Compensation | 0 | 0 | 0 |
| Shareholder Proposal - Corporate Governance | 0 | 0 | 0 |
| Shareholder Proposal - Director-related | 5 | 0 | 0 |
| Shareholder Proposal - General Economic Issues | 0 | 0 | 0 |
| Shareholder Proposal - Health/Environment | 0 | 0 | 0 |
| Shareholder Proposal - Other/Miscellaneous | 0 | 0 | 0 |
| Shareholder Proposal - Routine/Business | 0 | 0 | 0 |
| Shareholder Proposal - Social/Human Rights | 0 | 0 | 0 |
| Shareholder Proposal - Social | 0 | 0 | 0 |
| Total | 240 | 49 | 0 |
| Total resolutions | 289 | | |
| No. AGMs | 23 | | |
| No. EGMs | 0 | | |
| No. of companies voted on | 23 | | |
| No. of companies where voted against management on at least one resolution | 21 | | |
| % of companies with at least one vote against | 91% | | |

Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

### Votes against management



- Antitakeover-related - 0
- Capitalisation - 0
- Directors-related - 47
- Remuneration-related - 1
- Reorganisation and Mergers - 1
- Routine/Business - 0
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 0
- Shareholder Proposal - Directors-related - 0
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 0
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

### Number of companies voted for/against


- No. of companies where supported management
- No. of companies where voted against management

LGIM voted against at least one resolution at **91%** of Japanese companies over the quarter

**Q3 2020** | ESG Impact Report

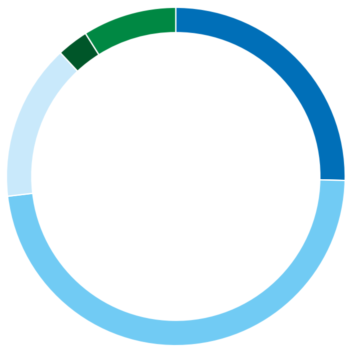
Page 112

## Asia Pacific - Q3 2020 voting summary

| Proposal category | For | Against | Abstain |
|---|---|---|---|
| Antitakeover-related | 1 | 0 | 0 |
| Capitalisation | 37 | 17 | 0 |
| Directors-related | 108 | 32 | 0 |
| Remuneration-related | 12 | 10 | 0 |
| Reorganisation and Mergers | 11 | 2 | 0 |
| Routine/Business | 67 | 6 | 0 |
| Shareholder Proposal - Compensation | 0 | 0 | 0 |
| Shareholder Proposal - Corporate Governance | 0 | 0 | 0 |
| Shareholder Proposal - Director-related | 1 | 0 | 0 |
| Shareholder Proposal - General Economic Issues | 0 | 0 | 0 |
| Shareholder Proposal - Health/Environment | 0 | 0 | 0 |
| Shareholder Proposal - Other/Miscellaneous | 0 | 0 | 0 |
| Shareholder Proposal - Routine/Business | 0 | 0 | 0 |
| Shareholder Proposal - Social/Human Rights | 0 | 0 | 0 |
| Shareholder Proposal - Social | 0 | 0 | 0 |
| Total | 237 | 67 | 0 |
| Total resolutions | 304 | | |
| No. AGMs | 32 | | |
| No. EGMs | 16 | | |
| No. of companies voted on | 46 | | |
| No. of companies where voted against management on at least one resolution | 24 | | |
| % of companies with at least one vote against | 52% | | |

Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

### Votes against management



- Antitakeover-related - 0
- Capitalisation - 17
- Directors-related - 32
- Remuneration-related - 10
- Reorganisation and Mergers - 2
- Routine/Business - 6
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 0
- Shareholder Proposal - Directors-related - 0
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 0
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 0

### Number of companies voted for/against


- No. of companies where supported management
- No. of companies where voted against management

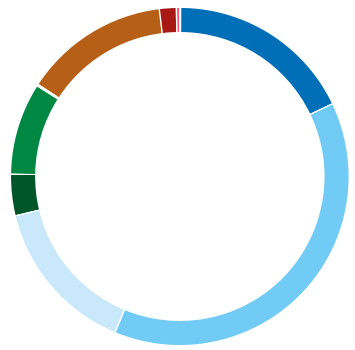
LGIM voted against at least one resolution at **52%** of Asia Pacific companies over the quarter

## Emerging markets - Q3 2020 voting summary

| Proposal category | For | Against | Abstain |
|---|---|---|---|
| Antitakeover-related | 1 | 1 | 0 |
| Capitalisation | 1159 | 221 | 0 |
| Directors-related | 1460 | 359 | 116 |
| Remuneration-related | 128 | 186 | 0 |
| Reorganisation and Mergers | 610 | 49 | 0 |
| Routine/Business | 1086 | 109 | 0 |
| Shareholder Proposal - Compensation | 0 | 0 | 0 |
| Shareholder Proposal - Corporate Governance | 0 | 2 | 0 |
| Shareholder Proposal - Director-related | 14 | 172 | 0 |
| Shareholder Proposal - General Economic Issues | 0 | 0 | 0 |
| Shareholder Proposal - Health/Environment | 0 | 0 | 0 |
| Shareholder Proposal - Other/Miscellaneous | 0 | 0 | 0 |
| Shareholder Proposal - Routine/Business | 1 | 20 | 0 |
| Shareholder Proposal - Social/Human Rights | 0 | 0 | 0 |
| Shareholder Proposal - Social | 0 | 4 | 0 |
| Total | 4459 | 1123 | 116 |
| Total resolutions | 5698 | | |
| No. AGMs | 264 | | |
| No. EGMs | 354 | | |
| No. of companies voted on | 578 | | |
| No. of companies where voted against management on at least one resolution | 283 | | |
| % of companies with at least one vote against | 49% | | |

Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds. The abstentions were due to technical reasons which prevented us from voting. Where we have the option to vote, it is our policy to not abstain.

### Votes against management



- Antitakeover-related - 1
- Capitalisation - 221
- Directors-related - 475
- Remuneration-related - 186
- Reorganisation and Mergers - 49
- Routine/Business - 109
- Shareholder Proposal - Compensation - 0
- Shareholder Proposal - Corporate Governance - 2
- Shareholder Proposal - Directors-related - 172
- Shareholder Proposal - General Economic Issues - 0
- Shareholder Proposal - Health/Environment - 0
- Shareholder Proposal - Other/Miscellaneous - 0
- Shareholder Proposal - Routine/Business - 20
- Shareholder Proposal - Social/Human Rights - 0
- Shareholder Proposal - Social - 4

### Number of companies voted for/against abstentions


- No. of companies where supported management
- No. of companies where voted against management (including abstentions)

LGIM voted against at least one resolution at **49%** of emerging markets companies over the quarter

# Global voting summary

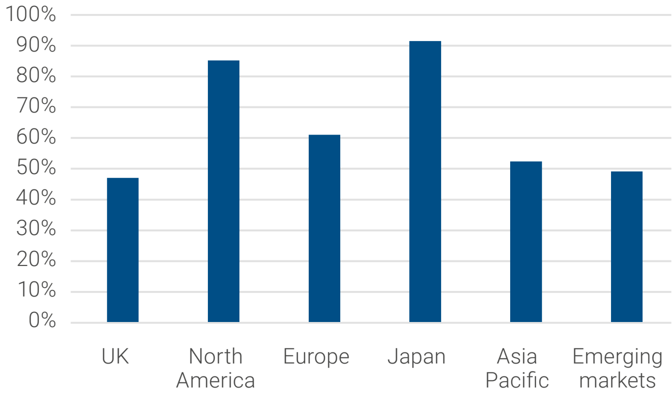
## Voting totals

| Proposal category | For | Against | Abstain | Total |
|---|---|---|---|---|
| Antitakeover-related | 104 | 1 | 0 | 105 |
| Capitalisation | 1813 | 283 | 0 | 2096 |
| Directors-related | 3224 | 630 | 116 | 3970 |
| Remuneration-related | 469 | 327 | 0 | 796 |
| Reorganisation and Mergers | 661 | 57 | 0 | 718 |
| Routine/Business | 2035 | 157 | 0 | 2192 |
| Shareholder Proposal - Compensation | 2 | 1 | 0 | 3 |
| Shareholder Proposal - Corporate Governance | 2 | 3 | 0 | 5 |
| Shareholder Proposal - Directors-related | 36 | 186 | 0 | 222 |
| Shareholder Proposal - General Economic Issues | 0 | 0 | 0 | 0 |
| Shareholder Proposal - Health/Environment | 0 | 0 | 0 | 0 |
| Shareholder Proposal - Other/Miscellaneous | 1 | 5 | 0 | 6 |
| Shareholder Proposal - Routine/Business | 1 | 21 | 0 | 22 |
| Shareholder Proposal - Social/Human Rights | 0 | 1 | 0 | 1 |
| Shareholder Proposal - Social | 1 | 5 | 0 | 6 |
| Total | 8349 | 1677 | 116 | 10142 |
| No. AGMs | 543 | | | |
| No. EGMs | 430 | | | |
| No. of companies voted on | 920 | | | |
| No. of companies where voted against management on at least one resolution | 477 | | | |
| % of companies with at least one vote against | 52% | | | |

### Number of companies voted for/against abstentions


- No. of companies where supported management
- No. of companies where voted against management (including abstentions)

### % of companies with at least one vote against (includes abstentions)




Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

**Q3 2020** | ESG Impact Report

# Global engagement summary

### Engagement stats

**168**
Total number of engagements during the quarter

**158**
Number of companies engaged with

### Number of engagements on

Page 114

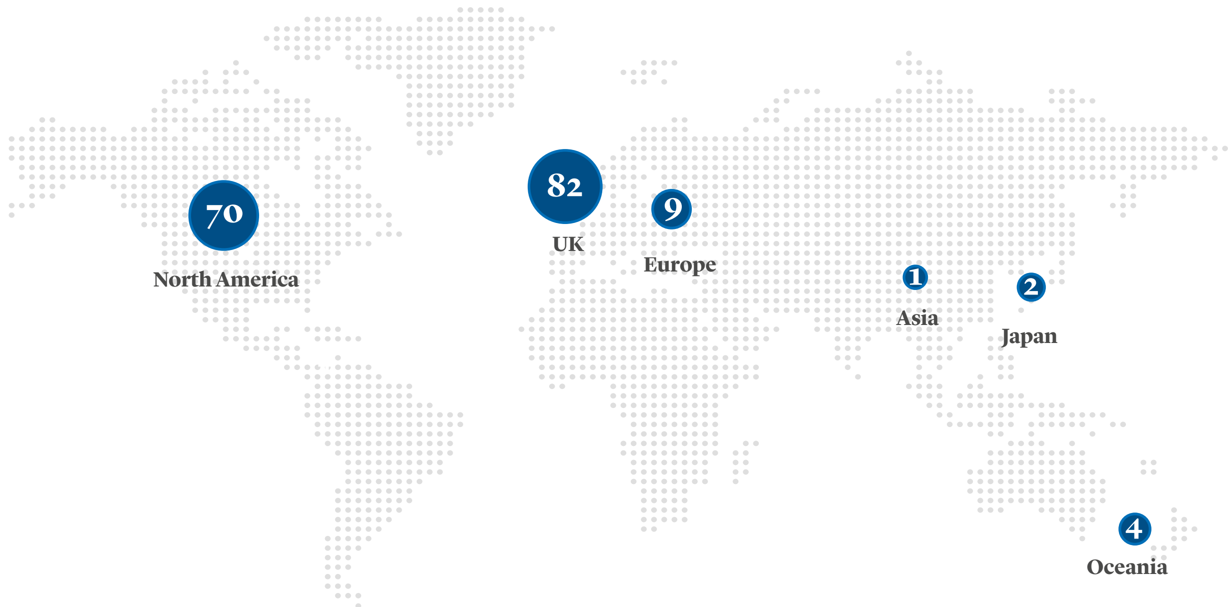
**10**
Environmental topics

**30**
Other topics (e.g. financial and strategy)

**68**
Governance topics

**114**
Social topics

### Breakdown of our engagements by market




### Engagement type

**2**
Face-to-face

**35**
Conference call

**131**
Email/letter

### Top five engagement topics

1. Gender and ethnic diversity — **92** engagements
2. Remuneration — **50** engagements
3. COVID-19 — **20** engagements
4. Disclosures — **15** engagements
5. Public health — **13** engagements

# Contact us

For further information about LGIM, please visit lgim.com or contact your usual LGIM representative

LGIM talks

The LGIM blog

**Important information**

Past performance is not a guide to future performance. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

Views expressed are of Legal & General Investment Management Limited as at October 2020.

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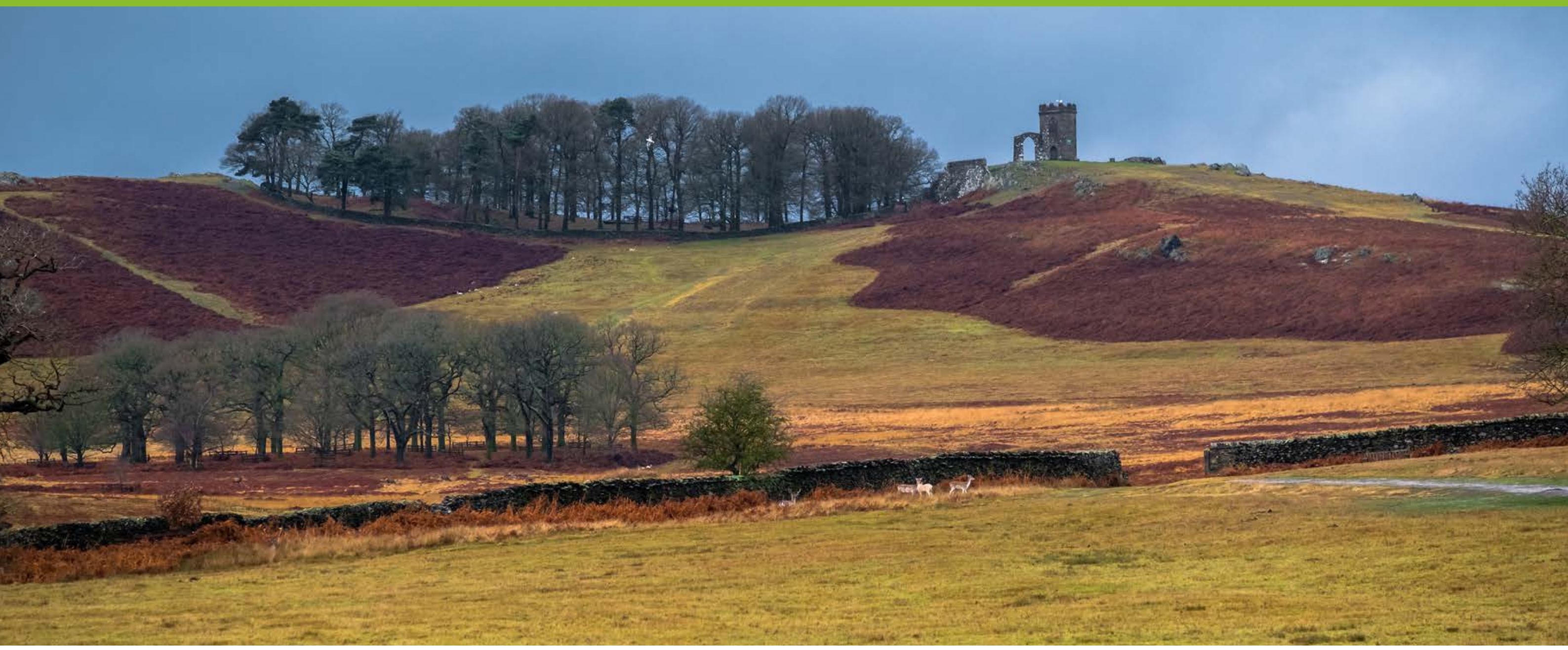
Legal & General
INVESTMENT MANAGEMENT

# Quarterly Stewardship Update

**SECOND QUARTER, 2020-21** (JULY - SEPTEMBER 2020)



# Responsible Investment & Engagement

***LGPS Central's approach***

LGPS Central's approach to Responsible Investment & Engagement carries two objectives:

***OBJECTIVE #1***

*Support investment objectives*

***OBJECTIVE #2***

*Be an exemplar for RI within the financial services industry, promote collaboration, and raise standards across the marketplace*

## These objectives are met through three pillars:

*Our **Selection** of assets*

*Our **Stewardship** of assets*

*Our commitment to **Transparency and Disclosure***

This update covers LGPS Central's stewardship activity. Our stewardship efforts are supplemented by global engagement and voting services provided by EOS at Federated Hermes (EOS). For more information please refer to LGPS Central's Responsible Investment & Engagement Framework and UK Stewardship Code Compliance Statement.

### *ADDITIONAL DISCLOSURES*

- *Responsible Investment & Engagement Framework*
- *Stewardship Code*
- *Voting Principles*
- *Voting Disclosure*
- *Voting Statistics*

*Signatory of:*

PRI Principles for Responsible Investment

LGPS ADVISORY BOARD CODE OF TRANSPARENCY

# 01 Engagement and Stewardship Themes

***While the COVID 19 health pandemic continues and disruption is becoming the new normal, climate change is a pressing twin crisis that manifests in various ways including, for instance, through the increased number of wildfires that we have seen across various regions globally.***

Governments, industries and individual companies' ability to take drastic measures in light of the health pandemic seems unprecedented. Whether we are equally able to take necessary action against the longer-term climate threat is yet unclear. What seems clear, however, is that environmental and social sustainability are increasingly accepted as necessary catalysts for sustainable economic and financial outcomes over the long horizon. The EU is on track to establish a "sustainable investment taxonomy" as part of their Sustainable Finance Action Plan. During the last quarter, EU and China have agreed to co-chair an international taskforce on sustainable finance taxonomies which aims to set out commonalities of existing taxonomies by mid-2021. We very much welcome these developments, which will aid companies in what they should report on and investors in having access to robust, material information.

Below, we give examples of ongoing or new engagements which relate to the four Stewardship Themes that have been identified in collaboration with our Partner Funds. The bulk of our engagement effort is centred around these themes which allows us the opportunity to build knowledge, relationships (with peer investors and companies) and to help influence and build best practice industry standards relevant to each theme. We regularly cover issues that fall outside of the stewardship themes, such as fair remuneration, board composition, diversity, and human rights, and have included two examples in this update.

Our Stewardship Themes over the current three-year period (2020 – 23) are:

- Climate change
- Plastic
- Fair tax payment and tax transparency
- Technology and disruptive industries

This quarter our engagement set[1] comprised 390 companies with 866 engagement issues[2]. There was engagement activity on 779 engagement issues and objectives[3], and achievement of some or all specific engagement objectives on 180 occasions. Most engagements were conducted through letter issuance or remote company meetings, where we, our partners or our stewardship provider in a majority of cases met or wrote to the Chair, a Board member or a member of senior management.

[1] This includes engagements undertaken directly, in collaboration, and via our contracted Stewardship Provider.

[2] There can be more than one engagement issue per company, for example board diversity and climate change.

[3] Multiple issues are often raised in dialogue with a company that may fall outside of core engagement objectives.

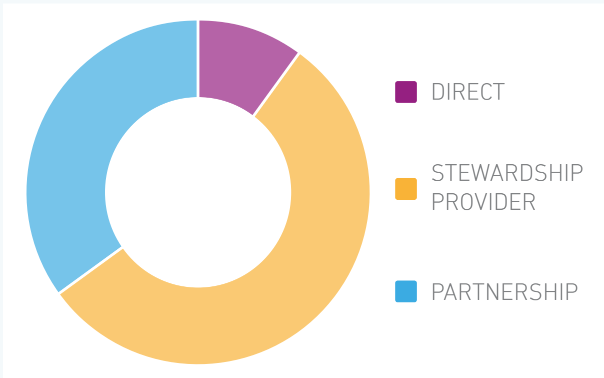
## CLIMATE CHANGE ENGAGEMENTS

This quarter, our climate change engagement set comprised 148 companies with 183 engagements issues[4]. There was engagement activity on 157 engagement issues and achievement of some or all specific engagement objectives on 73 occasions.

In September, letters went out to all Climate Action 100+ (CA100+) companies asking them to commit to a net-zero carbon emissions target by 2050 for their operations, products and services to end users. It is a challenging order, yet it is an order commensurate to the risks that we face as a global economy and community. Climate action failure is the stand-out, long-term risk the world faces in likelihood and impact according to the latest Global Risks Report from the World Economic Forum. If 'business as usual' continues, the world could heat up by about 5 degrees by 2100 which would cause profound societal damages and significant human harm. The letter from CA100+ investor members marks the start of a Benchmark Framework project that will allow evaluation of company progress on short-medium-and long-term trajectories to 2050, as well as scoring of companies within and across sectors.

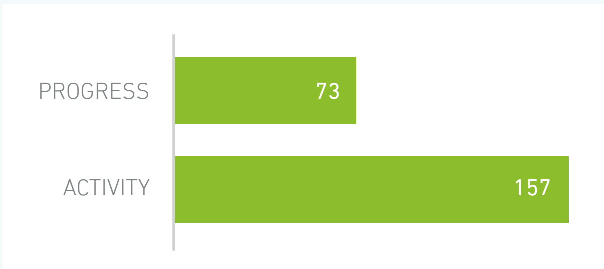
LGPS Central is co-leading or in the focus group of engagements with nine CA100+ companies, the majority of which are oil & gas and mining companies. During the last quarter we continued engagement with a **diversified mining company** that is part of the Climate Action 100+ (CA100+) engagement project. Together with CA100+ peer investors we met the Chair of the Board alongside senior management representatives to discuss how the Company is progressing its climate commitment across several key parameters. These include emissions reduction targets for the Company's operations (Scope 1 and 2)[5]; emissions reduction for its products (Scope 3); scenario testing; governance and remuneration to reflect climate ambitions, as well as climate policy advocacy. We were encouraged to hear that the Company is doing work to test its business resilience against various temperature scenarios, including 1.5C. In connection with this, the Company is going through an annual process of "life of mines" planning to capture emissions data from each operation and consider what emissions reductions can be delivered. The Company has previously announced a projected 30% decline in its Scope 3 carbon emissions by 2035. This will be achieved by managed decline of its coal assets. We were informed that this projection is being tested against a 1.5C and the details of methodology and results will be made public before the end of 2020. We expressed expectations that the Company use direct and indirect lobbying to proactively advocate Paris-aligned policy interventions. We also touched on the need for investors to gain insight into the motivation of executives with regard to carbon reduction targets. We were assured that climate targets will be a material part of executive compensation and that further details will be disclosed in the near term. The Company has hired a Climate Change Policy Director in recognition of the increasing relevance of climate change across the business and to help tackle this issue in a structured way. We will continue dialogue with the Company in a manner that reflects the step-change in expectation from investors through the CA100+ Benchmark Framework project.

### ENGAGEMENT VOLUME BY TYPE




- 183 engagements in progress
- Majority of engagements undertaken via CA100+
- Step-change in investor expectations for net-zero ambition from all CA100+ companies through new Benchmark Framework

### ENGAGEMENT VOLUME BY OUTCOME




[4] There can be more than one climate-related engagement issue per company.

[5] Scope 1 are direct GHG emissions that occur from sources that are owned or controlled by the company, Scope 2 are indirect GHG emissions from the generation of purchased electricity consumed by a company, Scope 3 are other indirect GHG emissions that occur as a consequence of the use of products and services provided by the company (e.g. combustion of fossil fuels for a vehicle).

## PLASTIC ENGAGEMENTS

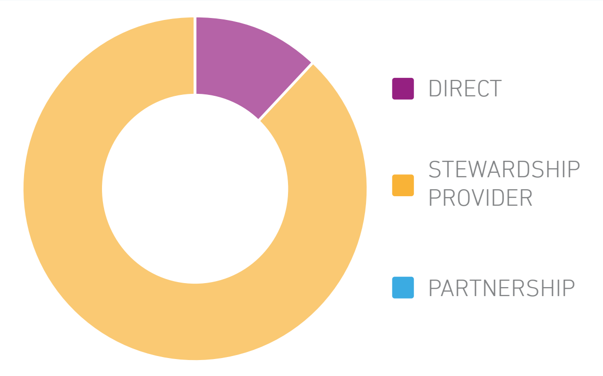
This quarter our single-use plastics engagement set comprised 14 companies with 16 engagement issues[6]. There was engagement activity on 15 engagements and achievement of some or all engagement objectives on seven occasions.

During the last quarter, we joined a sub-group of the PRI plastics working group and led by Dutch investors Achmea Investment Management and Actiam, that has set out to engage **packaging companies**. The objective is to engage and support progress for companies in a 'Plastics transition' - to reduce, re-use and replace fossil-fuel based plastics. With increasing attention from governments to the negative impacts of plastic use and consumers calling for less harmful alternatives, investee companies in the plastic value chain are exposed to increasing regulatory risks, environmental risks, reputational risks and the risk of missing out to market developments.

We engaged a **US-based industrial packaging company** which is seeing greater interest from its customer base for sustainability in the last 4-5 years and as a result, is expanding its post-consumer resin (PCR) products, capabilities and technologies. PCR plastics are recycled materials from existing polyethylene terephthalate (considered safe and is represented on water bottles as a safe option) and other plastics. Demand for PCR is greater among customers in Europe than in North America and the Company is actively educating its customers both on the quality and safety of recycled products and on emissions impacts for specific products. In all these engagements, the investor group would like to see ambitious targets for reduction, re-use and replacement of plastic and clear Key Performance Indicators (KPIs) and timelines for how targets can be achieved. The aforementioned Company is currently going through a KPI setting procedure and we encouraged them to integrate relevant KPIs on sustainability progress in executive remuneration. The Company seems to welcome further investor input to the KPI setting process, and we will continue dialogue to discuss the development of targets and what progress is being made against those.

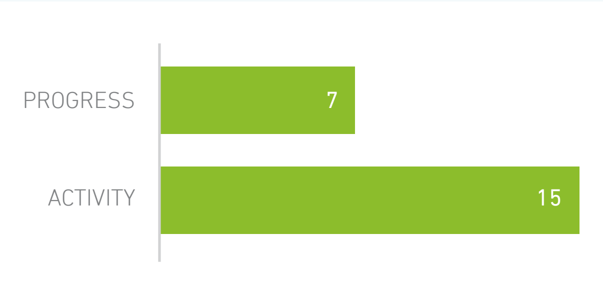
Together with four other investors, we continued our engagement with a **multinational food manufacturing company** headquartered in the US to discuss their global sustainable packaging targets. The Company is working towards a goal of having 100% reusable, recyclable or compostable packaging by the end of 2025. Good progress has already been made and as at the end of 2019 plastic packaging amounted to 62,488 MT with 15% of total plastic packaging not yet recyclable. The gaps that need to be closed are on multi-material packaging, cereal liners and flow-wrap. The Company is establishing regional action plans to test and learn how different solutions can help meet targets, but also to discover and discard what might not be working. These include pilot projects to use alternative packaging (e.g. all paper or metal), reduction of packaging volumes, incorporation of recycled materials, and potentially exclusion of certain materials that cannot be recycled or reused. The Company is also encouraging end-of-life plastic collection and recycling infrastructure in collaboration with waste management companies. Certain markets are further behind in terms of facilitating a circular economy. Work to partner across the Company's value chain is ongoing, with a focus on addressing industry barriers to sustainable packaging both among plastic suppliers and users. We were assured that the Company board has strong ESG performance oversight. Performance against sustainability metrics is reported to a Board sub-committee on Social Responsibility and Public Policy several times a year. The investor group has asked to continue engagement with the Company and to discuss further progress against the sustainable packaging targets with a board representative at the next iteration.

### ENGAGEMENT VOLUME BY TYPE




- 16 engagements during the quarter
- Sub-group of PRI Plastics Working Group engages packaging producers to support and encourage "Plastic transition" in the form of reduction, re-use and replacement of fossil-fuel based plastics
- Engagement with US-based food manufacturing company on their global sustainable packaging targets continues

### ENGAGEMENT VOLUME BY OUTCOME




[6] There can be more than one plastics-related engagement issue per company.

## *FAIR TAX PAYMENT AND TAX TRANSPARENCY ACTIVITY/ENGAGEMENT*

This quarter, our tax transparency engagement set comprised 10 companies with 11 engagements issues[7]. There was engagement activity on 6 engagements and achievement of some or all engagement objectives on two occasions.

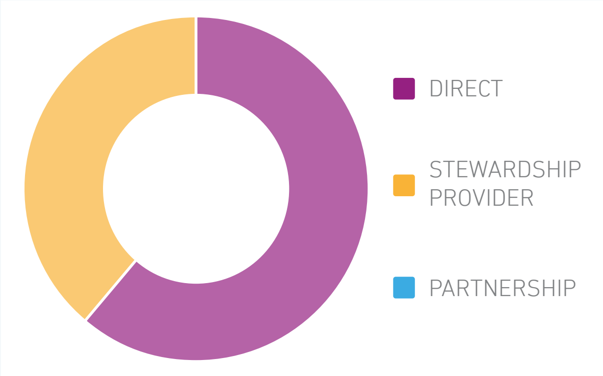
Governments continue to provide tax relief to businessess during this ongoing health pandemic and we anticipate pressure from the public to ensure that businesses that benefit from government support contribute more responsibly to society. This is likely to translate into more scrutiny of tax arrangements, employment law, worker health and safety, and executive pay against a backdrop of high unemployment and inequality. In tandem, we think investor interest and scrutiny on companies' responsible tax behaviour and their willingness to pay ther fair share of tax will increase.

We have continued collaboration with five fellow European investors to engage a selection of companies across technology, telecommunication, finance and mining sectors. In conversation with a **US-domiciled software and services company** we discussed the Company's approach to tax and how it defines and manages tax related risks. The Company established a Global Corporate Income Tax Matter Policy in 2019 and we were told that the Board stays closely involved and asks questions around tax risk through its Audit Committee. We probed the Company on its tax strategy for digital products and the use of foreign jurisdictions with lower tax rates. We are generally concerned if companies appear to utilise aggressive tax planning strategies. While the company we engaged assured us that it is not seeking tax havens, we would like to see that more clearly articulated in both policy and practice. The Company has a subsidiary incorporated in Ireland but which is tax resident in another jurisdiction paying zero tax. This raises some 'red flags' from the outset and does not appear to be in line with OECD's Base Erosion and Profit Shifting Framework. We will seek further clarification from the Company on the underlying realities and whether we might expect a change in tax practices under the newly established tax policy.

On our behalf, EOS at Federated Hermes engaged a **European banking services company** on various ESG issue including tax transparency and responsible tax behaviour. The Company has previously taken on board EOS' tax expectation and shown a willingness to go beyond standard tax policy and financial reporting, in particular: 1. Framing the bank's approach to tax within its commitment to be a responsible bank, including staff conduct; 2. Including in its approach safeguards and controls related to subsidiaries and front office staff. EOS requested a meeting with the Chair of the Board Sustainability Committee and agreed to provide views on a sustainable banking impact scorecard and the Company's latest tax transparency.

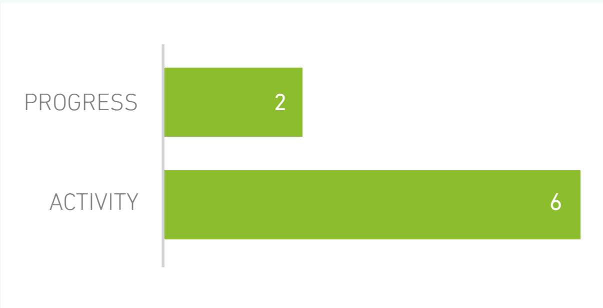
[7] There can be more than one tax-related engagement issue per company

### *ENGAGEMENT VOLUME BY* ***TYPE***




- 11 engagements during the quarter
- Collaboration with peer European investors to engage a selection of companies across vulnerable sectors continues
- We expect continued scrutiny from investors and other stakeholders on responsible tax behaviour in a situation of prolonged COVID 19 pandemic

### *ENGAGEMENT VOLUME BY* ***OUTCOME***



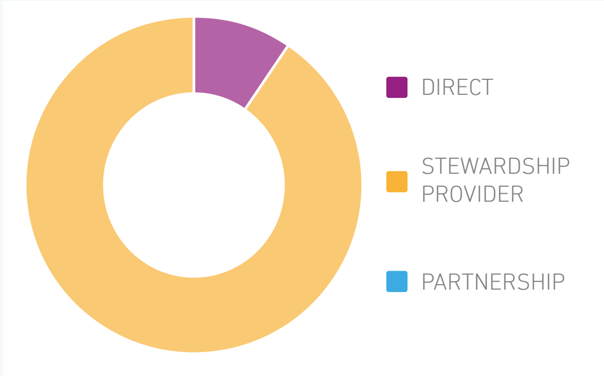

## *TECHNOLOGY AND DISRUPTIVE INDUSTRIES*

This quarter our technology and disruptive industries engagement set comprised 16 companies with 27 engagements issues. There was engagement activity on all engagement issues and achievement of some or all engagement objectives on four occasions.

Our attention to social media companies through engagement on social media content control continues and has been amplified by other stakeholders voicing concern about disinformation and harmful content on social media platforms. In the face of COVID 19 and a highly polarised US presidential election, it is all the more welcome that the World Federation of Advertisers has negotiated a deal with Facebook, YouTube and Twitter on harmful content including hate speech and aggression. The aim is to establish harmonised reporting standards across platforms and empower external auditors to oversee the system, which will launch in the second half of 2021.

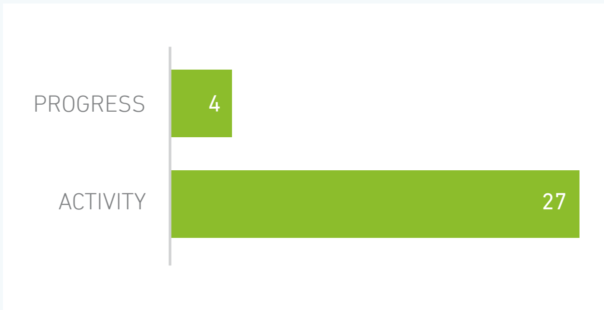
Over the last quarter, we took part in collaborative investor engagement, led by the New Zealand Crown-owned investors, with **Facebook** and **Twitter** to discuss their governance and operations to ensure appropriate social media content control. Both companies are taking encouraging steps to efficiently assess content and to remove objectionable content from their platforms. Technology is developing rapidly and with the help of AI the companies appear more effective at capturing contextual content such as hate speech. Facebook has established an Oversight Board to ensure fair decision-making in situations where free speech is at odds with authenticity, safety, privacy and dignity, and that will assist in hearing difficult and important content removal decisions. The Board may overrule management and may comment on policies in order to ensure that these are aligned with the Company's core values. Rebuilding trust with advertisers and users should be a focus for Facebook going forward. We expect them to move the discussion from a focus on risk management and mitigation to prevention. Twitter provides a public biannual transparency report which describes how content is managed in relation to issues like elections integrity, cyber security, data protection and harmful content amongst others. Twitter actively seeks collaboration with peers and other stakeholders in order to discuss the challenges and how they can best be tackled. The investor coalition has signalled to the companies the importance of board oversight and has requested to meet board directors at both companies in the next engagement.

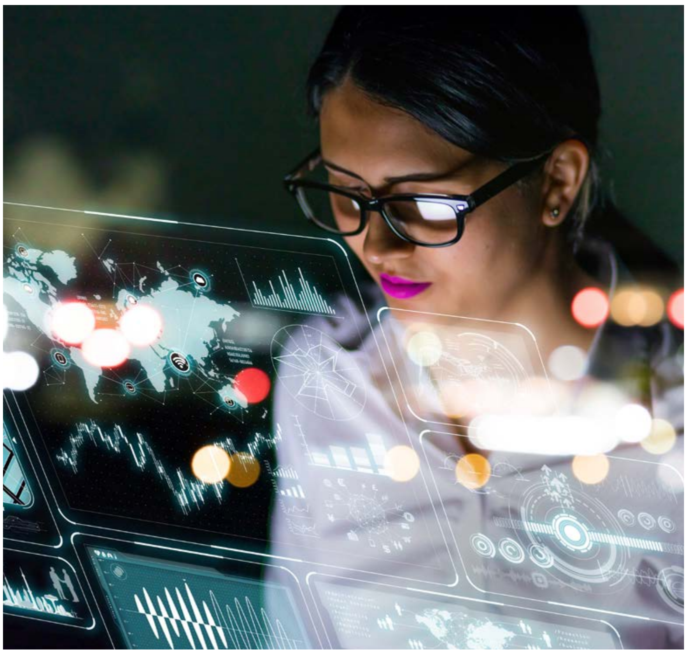
### *ENGAGEMENT VOLUME BY **TYPE***




- 27 engagements in progress
- Broader stakeholder concern over hate speech and misinformation amplify ongoing engagements
- Facebook and Twitter taking clear steps to increase oversight and collaborate on social media content control

### *ENGAGEMENT VOLUME BY **OUTCOME***



## *Examples of engagement outside of stewardship themes*

### *BROADER SUSTAINABILITY, INCLUDING BIODIVERSITY, LAND-USE AND RIGHTS OF INDIGENOUS PEOPLES*

Our engagement on the long-term investments risks inherent in deforestation continues, both at policy and company levels. We recognise the crucial role that tropical forests play in tackling climate change, protecting biodiversity and ensuring ecosystem services, which again has an impact on economic development and the stability and well-functioning of capital markets. During the last quarter, investors led by Storebrand (Norway) and BlueBay Asset Management (UK), has formed an Investors Policy Dialogue on Deforestation (IPDD) initiative. LGPS Central is on the Advisory Committee of IPDD which during the last quarter met with the Ambassador of the EU delegation in Brazil to discuss IPDD's core expectations. We expect Brazilian authorities to halt and reverse deforestation while allowing investors access to data to monitor progress. This message has been communicated from investors over the last 4-5 months to the highest political levels, including to the Brazilian Vice President, the Governor of the Brazilian Central Bank and members of the Brazilian Congress. IPDD will be a two-year project that also aims to span other regions of the world that face deforestation risk. Alongside the policy engagement project, 80 investors including LGPS Central have sent letters to three Brazilian meat processors calling on the companies to better manage deforestation risks and to provide full traceability across their entire cattle supply chain. Two of the companies have made subsequent public commitments to traceability. One is committing to achieving full traceability in the Amazon by 2025 and the Cerrado by 2030, thus aiming to have a deforestation free supply chain by 2030. The other pledges to full traceability of its supply chain, including indirect suppliers, by 2025 (Amazon biome).

### *DIVERSITY*

LGPS Central has been a member of the 30% Investor Club since inception of the Company. Diversity continues to be on our radar as a key element of good governance, though we see varying degrees of uptake across markets of a more balanced representation of gender, culture, ethnicity etc. at board and management levels of companies. Japanese boards have one of the lowest proportions of female representation in major markets and therefore it is highly welcome that the 30% Investor Club opened a 30% Investor Club Chapter in Japan in May 2019. Together with fellow 30% Investor Club members, and led by Royal London Asset Management, we engaged a Japanese financial services company on the issue of diversity and inclusion during the last quarter. Interestingly, the Company had not been approached by investors to discuss diversity previously, so this was the first dialogue on the issue. The Company explained that it views diversity of people, not just on gender but more broadly on ethnicity, age and nationality, as its greatest asset. A Diversity Promotion Committee has been established to ensure that measures such as child-care leave, flexible and shortened workhours, flexibility to change work location, support of women's empowerment (e.g. through leadership seminars) are offered to employees across the organisation. A general hurdle to achieving greater diversity at board level is the fact that historically, Japanese women in their 40ies and 50ies gave up their carrier to raise a family. During the investor meeting, we found the company had no targets for gender representation on the Board and deemed 30% Club aims unrealistic. Its only gender diversity goal is to increase female senior executives, which currently represent 4%, from 10 people to 20 people by 2025. We encouraged the Company to set and/or increase targets for diversity at all levels of the organisation and to provide more information to investors on how these targets will be met going forward.

# 02 Voting

### POLICY

For UK listed companies, we vote our shares in accordance with a set of bespoke UK Voting Principles. For other markets, we consider the recommendations and advice of our third-party proxy advisor, EOS at Federated Hermes.

### COMMENTARY

Between July - September 2020, we:

- Voted at 354 meetings (4,197 resolutions) globally
- Opposed one or more resolutions at 170 meetings
- Voted with management by exception at 25 meetings and abstained at three meetings.
- Supported management on all resolutions at the remaining 156 meetings.

A full overview of voting decisions for securities held in portfolios within the Company's Authorised Contractual Scheme (ACS) – broken down by market, issues and reflecting number of votes against and abstentions – can be found here.

LAPFF issued alerts for four companies on five resolutions during this quarter. We voted in alignment with LAPFF recommendations in all of these cases.

### EXAMPLES OF VOTING DECISIONS

At the AGM of **Alibaba Group (Alibaba)**, we voted against the re-election of Kabir Misra. Misra is a representative of a major shareholder (Softbank) in Alibaba and the Company has not determined him as independent. His election would take the overall board independence to 45% and below the majority. As a consequence, and in order to send a clear signal to the company about the importance of majority independence on the board, we also voted against non-independent director Maggie Wei. Wei is one of two female directors on the Alibaba board. While we would like to see a more gender diverse board, establishing a board that is majority independent is a necessary building block in order to foster that diversity going forward. Near 20% of shareholders opposed the election of these two directors at the AGM. Alibaba has put in place the "Alibaba Partnership" and related voting agreements, which limit the ability of shareholders to nominate and elect directors. The Alibaba Partnership currently comprises 36 members and has the right to nominate and appoint up to a simple majority of the directors of Alibaba. Our stewardship provider is seeking dialogue with Alibaba to discuss the nomination committee and the Alibaba Partnership. Alibaba founder Jack Ma is stepping down from the board which currently leaves the nomination committee without a chair.

At the **AGM of Vodafone Group Plc**, we voted against the re-election of a board member, David Thodey (member of the audit committee) due to concerns around over-boarding. David Thodey has three other non-executive appointments in addition to Vodafone. These include two chairmanship positions at Xero Limited and Tyro Payments, and Thodey is also a member of the audit and nomination committee at Ramsey Health Care Limited. Overall, this means significant commitment especially during the ongoing Covid 19 pandemic which could undermine his ability to serve effectively as a non-executive director of Vodafone. As stated in LGPS Central's voting principles, we expect board members to devote sufficient time to their directorships, to refrain from becoming "over-boarded" and to attend all relevant meetings including committee meetings (audit, nomination, remuneration or other). This is in line with the UK Corporate Governance Code which recommends that non-executive directors should have sufficient time to meet their board responsibilities. The day before Vodafone's AGM, the Company announced that it had received notice from David Thodey of his resignation from the Vodafone Board, which means he did not seek re-election at the AGM.

At the AGM of **Tesla**, we opposed the ratification of Named Executive Officers' Compensation. Tesla focuses remuneration around salary and equity awards. The focus is exclusively on equity awards for the CEO which the company argues aligns his interest with those of shareholders. We are concerned that the scale of potential awards is too high. In 2018, CEO Elon Musk was awarded $2.3 bn by the company, largely in stock options. We are also concerned about the fact that share options for the CEO can vest already this year, only one year since setting the award scheme, which in our view is not long term. On our behalf, EOS has expressed concern to Tesla over excessive award options capable of vesting in a short time frame to boost low executive base pay. More than 15% of shareholders voted against the executive pay which is a notable dissent that the company should heed. Further to this, we supported a shareholder proposal put to the AGM asking Tesla to embed respect for human rights within operations and through business relationships. Tesla is exposed to significant human rights risks in its operations and supply chain which may have a material impact on the Company. Existing disclosures to provide evidence of effective human rights due diligence is underwhelming. The requested report would describe (1) board oversight of human rights and (2) human rights due diligence processes, including systems for providing meaningful remedy when adverse human rights impacts occur. The Company appears to lack a clear "tone from the top" on these issues, including on labour relations issues, worker health and safety violations, and discrimination and harassment. Looking at the voting result, this concern is shared by approximately one quarter of the shareholder base.

At the AGM of **Diageo**, we voted against the Remuneration Policy on the grounds that it allows for excessive pay. Near 7% of shareholders opposed the Policy. Through our stewardship provider, EOS, we have engaged Diageo on the design of the remuneration policy and on actions taken in light of the health pandemic impacting the remuneration report. The primary concerns which have been voiced to the Remuneration Committee Chair are variable pay opportunity at 700% of base salary (and a high base salary); continued use of options; poor malus and clawback provisions. As stated in LGPS Central's Voting Principles, we hold the view that remuneration should be no more than is necessary and sufficient to attract and retain talent. Levels of executive remuneration that are, or are perceived to be, excessive and unfair can be demotivating to staff and reputationally damaging to the company. The main reason for Diageo's approach to executive remuneration is the extent to which they are competing with US companies for talent. However, we remain generally concerned about pay practices in the US (opposing c. 80% of pay proposals in the US) hence this argument did not overturn our opposition to the remuneration policy. The Company decided to award the 2020 LTIP at normal levels, despite share price decline although there is a commitment to revise downwards at vesting if there have been disproportionate gains as a result of a rally in the market. On a positive note, the Company has signalled that it will introduce ESG measures into the LTIP, which will likely bring a more rounded approach to the remuneration scheme and align to long-term value

*LGPS CENTRAL LIMITED'S*

# Partner Organisations

***LGPS Central currently contributes to the following investor groups:***

30% Club
GROWTH THROUGH DIVERSITY

BVCA
British Private Equity & Venture Capital Association

CDP
DISCLOSURE INSIGHT ACTION

Climate Action 100+
Global Investors Driving Business Transition

Federated Hermes

IIGCC
Institutional Investors Group on Climate Change

ICGN
International Corporate Governance Network

Local Authority Pension Fund Forum

PENSIONS FOR PURPOSE

PRI
Principles for Responsible Investment

Transition Pathway Initiative

THE INVESTOR FORUM



All information is prepared as of **11.11.2020**.

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

LGPS Central Limited is authorised and regulated by the Financial Conduct Authority.

Registered in England. Registered No: 10425159.

Registered Office: Mander House, Mander Centre, Wolverhampton, WV1 3NB

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**Agenda Item No. 4 (c)**

**DERBYSHIRE COUNTY COUNCIL**

**PENSIONS AND INVESTMENTS COMMITTEE**

**9 December 2020**

**Report of the Director of Finance & ICT**

**LOCAL GOVERNMENT PENSION SCHEME INVESTMENT POOLING**

## 1 Purpose of the Report

To update the Committee on progress in respect of Local Government Pension Scheme (LGPS) investment pooling, the development of LGPS Central Limited (LGPSC/the Company), and the plan for the transition of Derbyshire Pension Fund (the Fund) assets into LGPSC pooled products.

## 2 Information and Analysis

At a meeting of Council in February 2017, it was agreed that Derbyshire County Council would enter into an Inter-Authority agreement with Cheshire West and Chester Council, Leicestershire County Council, Nottinghamshire County Council, Shropshire County Council, Staffordshire County Council, Wolverhampton City Council and Worcestershire County Council to establish a joint pension fund investment pool, in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016; to be overseen by a Joint Committee established under s102 of the Local Government Act 1972 and a Shareholders' Forum made up of representatives from all the Shareholding Councils.

LGPS Central Limited (LGPSC/the Company) has been established to manage the investments on behalf of the pool (the Pool) of the eight LGPS funds across the Midlands, administered by the authorities listed above, with combined assets under management of around £50bn at 30 June 2020. These eight LGPS funds are referred to in this report as the Partner Funds.

### 2.1 Joint Committee

The Joint Committee is a public forum for the Councils within the Pool to provide oversight of the delivery of the objectives of the Pool, the delivery of client service, the delivery against the Pool's business case and to deal with common investor issues. The Joint Committee provides assistance, guidance and recommendations to the individual Councils within the Pool and last met virtually on 14 November 2020. The Vice-Chair of the Pensions &

Investments Committee represented the Fund, and the Director of Finance & ICT and the Head of Pension Fund attended as observers.

This meeting included an update from the Practitioners Advisory Forum, presentation of a summary of the Pool's Risk Register and an LGPS Central Performance Update from the Company.

A large number of public questions were submitted to the Joint Committee. Questions were asked about: the LGPS Central Ltd All-World Equity Climate Multi-Factor Fund; investments in fossil fuel stocks; investments in sustainable assets; the LGPS Central Ltd Climate Risk Reports; Environmental, Social and Human Rights issues; reporting of engagement activities; and ethical investment. The public questions and the answers provided will be included with the minutes of the meeting.

A link to the Joint Committee papers can be found on the Fund's website: www.derbyshirepensionfund.org.uk/about-the-fund/investments/lgps-central-pool.aspx

**2.2 Shareholders' Forum & Company Shareholders' Meetings**

The primary role of the Shareholders' Forum is to oversee the operation and performance of LGPSC and to represent the ownership rights and interests of the Shareholding Councils within the Pool. The Shareholders' Forum is independent of the Company and its meetings are distinct from Company meetings, however members of the Shareholders' Forum also represent the Councils at Company meetings. The Fund's representative on the Shareholders' Forum is Peter Handford, the County Council's Director of Finance & ICT who has delegated authority to make decisions on any matter which requires a decision by the shareholders of LGPSC.

The last Shareholders' Forum meeting was on 8 September 2020 and focused on briefing the members ahead of the Company's Annual General Meeting (AGM) on the same day. At the Company's AGM the following resolutions were put forward by the Company:

| | Resolution | Fund Vote |
|---|---|---|
| 1 | To approve the adoption of Company Report and Accounts for the year ended 31 March 2020. | For |
| 2 | To approve the reappointment of Deloitte LLP as external auditor of the Company | For |
| 3 | Authorisation of the Board to agree the external Auditor's remuneration. | For |
| 4 | To approve the re-election of Joanne Segars as a Director of the Company. | For |
| 5 | To approve the re-election of Eithne McManus as a Director of the Company. | For |
| 6 | To approve the re-election of Susan Martin as a Director of the Company. | For |

| | | |
|---|---|---|
| 7 | To approve the re-election of John Nestor as a Director of the Company. | For |
| 8 | To approve the re-election of Mike Weston as a Director of the Company | For |
| 9 | To approve the re-election of John Burns as a Director of the Company. | For |

The Director of Finance & ICT voted for each of the resolutions, and each resolution was unanimously passed by the Company's shareholders.

**2.3 2020 Cost Savings Model**

The Partner Funds, in collaboration with LGPSC, have recently updated the Pool's Cost Savings Model. The Cost Savings Model forecasts the expected net savings from LGPS investment pooling between 1 April 2018 and 31 March 2034.

The 2020 Cost Savings Model was prepared by updating the assumptions used in the 2017 Cost Savings Model (the cost savings model developed before the launch of the Company on 1 April 2018) to reflect the latest position, including:

- actual assets under management at 30 June 2020
- forecast asset allocation changes to 31 March 2024
- actual baseline 2017/18 investment management fees
- updated expectations in respect of the Company product offering
- actual transition cost to date and updated forecasts thereafter
- updated operating cost forecasts for the Company

The 2020 Cost Savings Model forecasts total cumulative net cost savings of £269m between 2018-19 and 2033-34, £21m higher than the £248m forecast by the 2017 Cost Savings Model. The higher net savings reflect a combination of greater investment manager fee savings (some of which are generated by the Partner Funds using their collective purchasing power as the investment management community has responded to pooling), partly offset by higher than forecast Company operating costs.

A bridge showing the high-level movements between the 2017 and 2020 Cost Savings Model is set out at Appendix 1.

Whilst the overall Pool savings have increased by £21m, there were several sizeable changes at a Partner Fund level. The Fund's forecast net cost savings fell from £56m in the 2017 Cost Savings Model to £38m in the 2020 Cost Savings Model. The forecast reduction largely reflects the impact of strategic asset allocation changes.

### 2.4 Taking Pooling Forward

Recognising it is around four years since the initial proposals for the Pool were agreed and that the Company has been in operation for over two years, the Partner Funds and LGPSC agreed that it was an appropriate time to take stock of progress to date. Three joint working groups were established over the summer to discuss:

- the future asset roadmap for the Pool
- to reflect on the operation of existing governance arrangements
- to further enhance relationships

The working groups were made up of Partner Fund S151 officers/Director of Pensions along with senior pension fund officers. LGPSC was represented on each group by members of the Company's Board. The working group discussions are coming to fruition and initial outcomes include:

- Reaffirmation that all eight Partner Funds have a common vision to invest assets through the Company and work through a roadmap of how this is delivered reflecting changing strategic investment priorities
- Creation of a decision tree to aid synergies and cost benefits delivered through the investment product development process in supporting Partner Fund Strategic Asset Allocations
- Consensus that Partner Funds' roles and responsibilities as client and shareholder could be more clearly articulated in the way pooling business is governed and managed
- Recognition that good relationship management is key to successful working and the delivery of investment pooling. With the initial focus understandably on setting up the legal and technical structures needed to launch the Company, going forwards the way Partner Funds and the Company work together will be increasingly important to deliver pooling

Any working group recommendations will be taken forward jointly with updates provided to the Joint Committee and the Shareholders' Forum. These will also be reported to this Committee through ongoing Investment Pooling Update reports.

### 2.5 Fund Transitions and LGPSC Investment Performance

Following the completion of successful due diligence, the Fund transitioned its legacy UK corporate bond portfolio of around £300m into LGPSC's Global Active Investment Grade Bonds Multi-Manager Sub-Fund in February 2020.

Since inception to 31 October 2020 the Sub-Fund has outperformed, returning 15.8%, 82 basis points higher than its Target (benchmark plus 70 basis points). This has partially reversed the underperformance experienced during the transition period.

The In-house Investment Management Team (IIMT) is currently carrying out due diligence on several other LGPSC products.

**2.6 LGPSC Product Launches**
Since the last pooling update report to Committee in July 2020, there have been no new LGPSC product launches. LGPSC expects to launch several new products over the next three to six months, including products to cover Multi-Asset Credit; Emerging Market Debt; Targeted Return; Infrastructure; and Direct Property. The IIMT continues to actively engage with LGPSC and other Partner Funds about product development and is assessing the suitability of these products for future use.

**2.7 LGPSC Staffing and Retention**
Since the last pooling update report, LGPSC has now successfully recruited two key vacant positions in respect of a Head of Private Markets and a Director of Responsible Investment & Engagement. Ian Brown, the new Head of Private Markets joined the Company in September 2020 and is scheduled to meet the IIMT in December 2020. Patrick O'Hara, the new Director of Responsible Investment & Engagement is scheduled to join the Company in January 2021.

## 3 Financial Considerations

As noted above, the Pool's Cost Savings Model has recently been updated to reflect current transition plans, current fee assumptions and forecast LGPSC costs. It is likely that the cost sharing arrangements will be reviewed at some stage in the future to ensure that they are equitable in practice. The 2020 Cost Savings Model indicates that the Fund will generate total cost savings of £38m between 1 April 2018 and 31 March 2034. The forecast cost savings are extremely sensitive to changes in relative performance, either positive or negative, and it remains critical that the focus on achieving savings in managers' fees does not have a detrimental impact on relative performance.

## 4 Other Considerations

In preparing this report the relevance of the following further factors have been considered: legal and human rights, human resources, equality and diversity, health, environmental, transport, property, and prevention of crime and disorder.

## 5 Officer's Recommendation

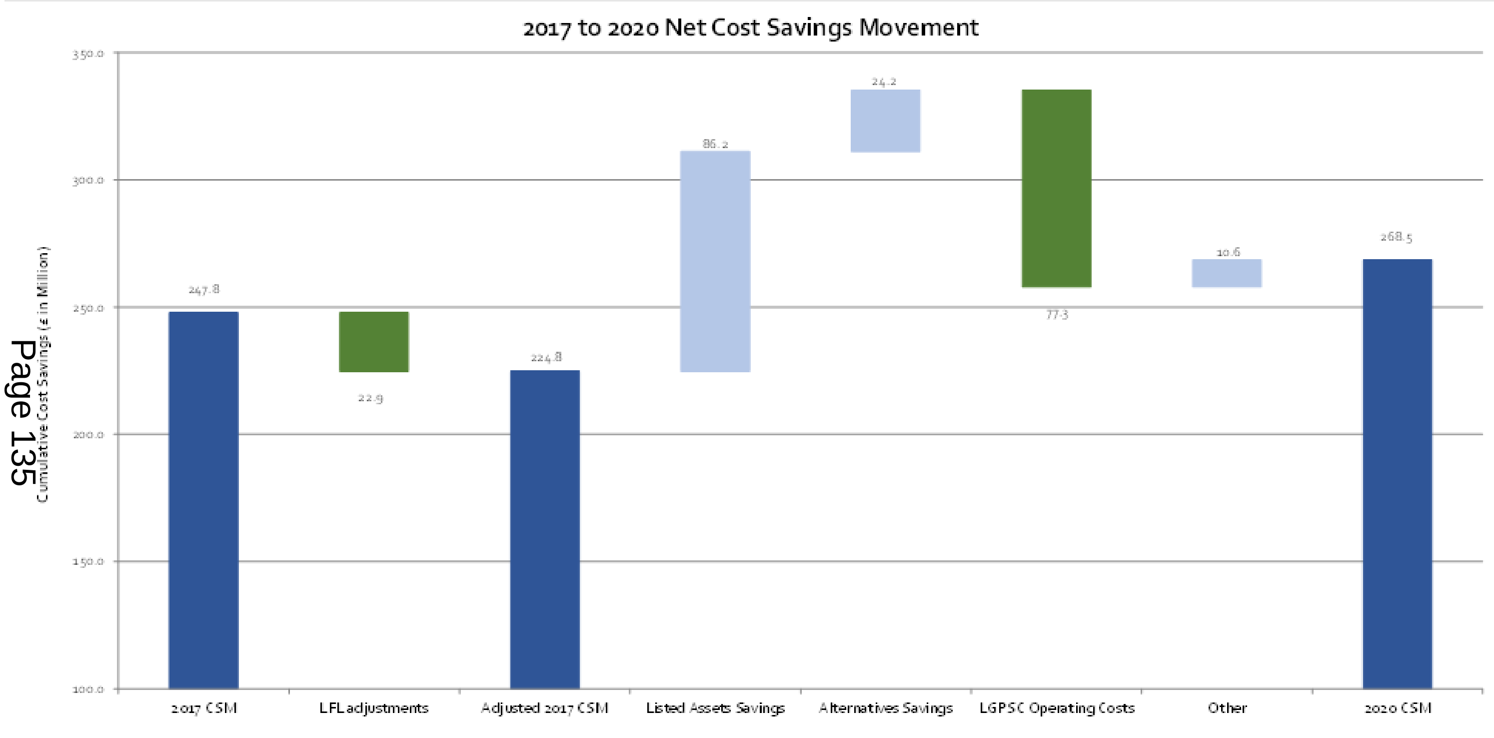
That Members note the contents of the report.

PETER HANDFORD

Director of Finance & ICT

## Appendix 1: 2017 to 2020 Cost Savings Model Net Savings Bridge

The bridge below shows the high level movements in net cumulative costs savings between the 2017 Cost Savings Model (£248m) and 2020 Cost Savings Model (£269m).




Several Like-for-Like (LFL) adjustments have been made to the 2017 Cost Savings Model to ensure consistent treatment between the 2017 and 2020 Cost Savings Models. After taking account of these LFL adjustments, which reduce the forecast level of savings in the 2017 Cost Savings Model by £23m to £225m, the 2020 Cost Savings Model forecasts that cumulative cost savings between 2018/19 and 2033/34 will be £44m higher than those forecast by the 2017 Cost Savings Model.

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of the Local Government Act 1972.



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