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DERBYSHIRE County Council

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PUBLIC

To: Members of Pensions and Investments Committee

Tuesday, 22 February 2022

Dear Councillor,

Please attend a meeting of the **Pensions and Investments Committee** to be held at **10.30 am** on **Wednesday, 2 March 2022** in the Council Chamber, County Hall, Matlock, the agenda for which is set out below.

Yours faithfully,

Helen E. Barrington

Helen Barrington
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 non-exempt minutes of the meeting held on 8 December 2021 (Pages 1 - 8)

To consider the following reports:

4 (a) Investment Report (Pages 9 - 82)

4 (b) Derbyshire Pension Fund Service Plan (Pages 83 - 100)

4 (c) Treasury Management Strategy 2022-23 (Pages 101 - 114)

4 (d) Recruitment of an External Advisor to Derbyshire Pension Fund (Pages 115 - 118)

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) 3 of Part 1 of Schedule 12A to the Local Government Act 1972"

PART II - EXEMPT ITEMS

6. To receive declarations of interest (if any)

7. To confirm the exempt minutes of the meeting held on 8 December 2021 (Pages 119 - 120)

PUBLIC

MINUTES of a meeting of the **PENSIONS AND INVESTMENT COMMITTEE** held on 8 December 2021 at County Hall, Matlock.

PRESENT

Councillor D Wilson (in the Chair)

Derbyshire County Council

Councillors B Bingham, M Foster, D Muller (substitute Member), G Musson and P Smith

Derby City Council

Councillors L Care and M Carr

Also in attendance – M Fairman, D Kinley, A Nelson and N Smith (representing Derbyshire County Council)

K Gurney and N Read (representing the Pension Board)

Apologies for absence were received on behalf of Councillors R Ashton, N Atkin and M Yates (Derbyshire County Council) and Mr M Wilson (Derbyshire County Unison)

Declarations of Interest

There were no declarations of interest.

46/21 **MINUTES** **RESOLVED** that the minutes of the meeting held on 20 October 2021 be confirmed as a correct record and signed by the Chairman, subject to the following addition requested by Councillor Lucy Care with regard to Minute No.41/21:

"does the risk register correctly reflect the risk of not insuring that ESG has been adequately considered by the managers now that we are in a pool?"

47/21 **CLIMATE RISK REPORT** The Committee were presented with Derbyshire Pension Fund's Climate Risk Report dated November 2021, which had been prepared by LGPS Central Limited.

The Climate Risk Report had been structured around the Taskforce for Climate-related Financial Disclosures' (TCFD) four thematic areas of: governance; strategy; risk management; and metrics and targets. It included the assessment of financially material climate-related risks within the Pension Fund's investment portfolio, highlighted climate-related opportunities and provided a base to set an annual Climate Stewardship Plan for the Pension Fund. This was the second Climate Risk Report that had been prepared by LGPSC, with the first report being presented to the Pensions and Investments Committee in March 2020.

Recognising that there was considerable uncertainty in the crystallisation pathway for climate risk, LGPSC believed that a suite of carbon risk metrics and climate scenario analysis currently provided the most appropriate method of analysing climate risk to support the development of a detailed strategy for integrating climate risk into investment decisions. LGPSC's contractual arrangements with the third-party provider of the carbon risk metrics data had prevented the publication of the full Climate Risk Report because the report contained some propriatary information in respect of individual investment manager and stock holding carbon metrics, which was subject to a non-disclosure clause. The full report would be presented in the restricted part of the meeting. However, a public version of the report, which provided largely the same degree of overall portfolio and asset class information but had omitted the propriatary information noted above, was attached as Appendix 2 to the report.

The Climate Risk Report noted that the Fund had made considerable progress in terms of its responsible investment and climate change practice in the last 16 months. In LGPSC's first Climate Risk Report, LGPSC had issued 12 governance recommendations, all with medium term horizons. The November 2021 LGPSC Climate Risk Report had noted that eleven of these recommendations had been completed.

The LGPSC Climate Risk Report included the climate scenario analysis included in LGPSC's first report, using data at 31 July 2019. The climate scenario analysis covered: (i) the actual asset allocation at 31 July 2019 (the reporting date used Fund's first Disclosures Report); (ii) the strategic asset allocation benchmark at 31 July 2019; and (iii) an alternative strategic asset allocation benchmark (the alternative allocation) which was a close proxy for the Fund's new final strategic asset allocation benchmark which would become effective on 1 January 2022. The key findings of the climate scenario analysis in relation to the alternative allocation were:

- A 2°C scenario would have a positive impact on the Fund's returns considering both a timeline to 2030 and to 2050. This positive impact was boosted by the 29% allocation to Global Sustainable Equities in the alternative allocation.
- A 3°C scenario (which was in line with the current greenhouse gas trajectory) had a mildly positive impact on the Fund's annual returns.
- A 4°C scenario would reduce the Fund's annual returns, with most asset classes expected to experience negative returns.

The scenario analysis produced more positive relative returns for the alternative allocation under a 2°C and a 3°C scenario than the actual allocation, and the benchmark allocation, at 31 July 2019. Under a 4°C scenario, returns across all three scenarios were negatively impacted. The scenario analysis supported the Fund's ongoing transition to the new final strategic asset allocation benchmark from 1 January 2022.

Climate stress testing analysis suggested that should a 2°C scenario suddenly be priced in by the market, the Fund could benefit in terms of financial returns, whereas the opposite was true should a 4°C scenario be priced in by the market.

The LGPSC Climate Risk Reports highlighted that the poor availability of data in respect of asset classes other than listed equities and investment grade bonds had prevented the preparation of carbon metrics in respect of these asset classes (e.g. private equity; infrastructure; fixed income; private debt & diversified multi-asset credit; property, etc). The IIMT had planned to carry-out a review of these asset classes in the next six to twelve months to better understand the climate related risks and opportunities of these investments.

The LGPSC Climate Risk Report set out a review of the progress made in respect of the Fund's inaugural Climate Stewardship Plan. Stewardship activities remained an important aspect of the Fund's approach to managing climate risk. The Fund expected all investee companies to manage material risks, including climate change, and the Fund believed that climate risk management could be meaningfully improved through focussed stewardship activities by investors. Existing fund managers were monitored on a regular basis to review the integration of climate risks into the portfolio management, and to understand their engagement activities. The IIMT noted that eight of the nine companies included in the Fund's current Climate Stewardship Plan were covered by the Transition Pathway Initiative (TPI). The TPI framework evaluated companies based on their climate risk management quality and carbon performance in terms of alignment with the Paris Agreement.

Since the preparation of the Fund's Climate Stewardship Plan, the Fund had sold several investments which were included in the inaugural Climate Stewardship Plan. Furthermore, the transition to the Fund's new final strategic asset allocation benchmark by 1 January 2022 would see further sales from investments included in the existing Climate Stewardship Plan. As a result, the Fund, in collaboration with LGPSC, had developed a forward Climate Stewardship Plan which would include targeted engagement with investee companies of particular significance to the Fund's portfolio following the transition to the Fund's new final strategic asset allocation benchmark. The forward Climate Stewardship Plan included: BP; CRH; Gazprom PA; Rio Tinto; Shell; and Taiwan Semiconductor Manufacturing.

Carbon risk metrics analysis on the Fund's listed equities and investment grade bond portfolios considered: portfolio carbon footprint (weighted average carbon intensity); fossil fuel exposure; thermal coal exposure; and clean technology (portfolio weight in companies whose products and services include clean technology). The key findings of the carbon risk metrics analysis were highlighted.

The Fund had developed a standalone Climate Strategy which was approved by Committee in November 2020. The Climate Strategy set out the Fund's approach to addressing the risks and opportunities related to climate change, including a statement that the Fund supported the ambitions of the Paris Agreement, and aimed to achieve a portfolio of assets with net zero carbon emissions by 2050. The Climate Strategy included two targets: (i) reduce the carbon footprint (Scope 1 & 2) of the Fund's listed equity portfolio by at least 30% relative to the weighted benchmark in 2020 by the end of 2025; and (ii) invest at least 30% of the Fund portfolio in low carbon and sustainable investments by the end of 2025. The progress to date in respect of the two targets was provided in detail.

The Fund had already achieved the first target and expected to make further progress on this measure and significant progress in respect of the second target in 2021-22 as part of the ongoing move to the new final strategic asset allocation benchmark. The targets would be reviewed in 2023, and at least every three years thereafter, and were expected to increase in line with the stated ambition of achieving a portfolio of assets with net zero carbon emissions by 2050. The impact of the significant ongoing transitions on performance and risk within the investment portfolio would be closely monitored and assessed.

In collaboration with LGPSC, the Fund had prepared a second Climate-related Disclosures Report for publication, which included the high level results of the climate scenario analysis, carbon risk metrics analysis and progress against the Fund's Climate Strategy targets. The Disclosures Report also included information on the Fund's governance of climate risk and on the Fund's climate-related stewardship activities. Publication of a Climate-related Disclosures Report represented best practice.

RESOLVED that the Committee notes the LGPSC Climate Risk Report attached as Appendix 2.

48/21 **CLIMATE-RELATED DISCLOSURES** The Disclosures Report, attached as Appendix 2 to the report, had been aligned with the recommendations of the TCFD. It described the way in which climate-related risks were currently managed by the Fund and included information on the Fund's governance of climate risk and on the climate-related stewardship activities of the Pension Fund which were an important part of the Fund's approach to managing climate risk. It also included the results of recent climate scenario analysis and carbon risk metrics analysis undertaken on the Fund's assets as part of LGPSC's preparation of an annual Climate Risk Report.

Councillor Foster wished to thank the officers for the work they had undertaken in line with the Fund's Climate Strategy and acknowledged the significant progress that had been made, particularly in relation to the benchmarks.

RESOLVED to note the Climate-Related Disclosures Report attached at Appendix 2.

49/21 **<u>INVESTMENT REPORT</u>** Mr Anthony Fletcher, the external adviser from MJHudson Allenbridge Investment Advisers Limited, attended the meeting and presented his report to the Committee. The report incorporated Mr Fletcher's view on the global economic position, factual information for global market returns, the performance of the Derbyshire Pension Fund, and his latest recommendations on investment strategy and asset allocation. Mr Fletcher also provided an update and a general overview of the current market situation.

The Fund's latest asset allocation as at 31 October 2021 and the recommendations of the Director of Finance & ICT and Mr Fletcher, in relation to the Fund's new final strategic asset allocation benchmark, which will come into effect on 1 January 2022, were set out in the report. The value of the Fund's investment assets had increased by £159m between 31 July 2021 and 31 October 2021 to £6.194bn

The recommendations of the Director of Finance & ICT adjusted to reflect the impact of future investment commitments, were highlighted. These commitments (existing plus any new commitments recommended in this report) related to Private Equity, Multi-Asset Credit, Property and Infrastructure and currently totalled around £365m. Whilst the timing of drawdowns would be lumpy and difficult to predict, the In-house Investment Management Team (IIMT) believed that these were likely to occur over the next 18 to 36 months.

The Fund's latest LGPSC Climate Risk Report had indicated that the Fund's Total Quoted Equities portfolio at 31 March 2021 was around 27% less carbon intensive than the benchmark, and 37% lower than the 2020 Benchmark. The IIMT expected that the transition to the new final benchmark would lead to a 'step-up' in the carbon footprint reduction of the Fund's Total Quoted Equities portfolio relative to the current benchmark and the 2020 Benchmark, and would update the Committee following the completion of the transition, including an internal IIMT assessment of the carbon reduction relative to the current benchmark and the 2020 Benchmark.

The Chairman thanked Mr Fletcher for his attendance and informative presentation.

RESOLVED that the Committee (1) note the report of the independent external advisor, Mr Fletcher;

(2) note the asset allocations, total assets and long-term performance analysis set out in the report of the Director of Finance & ICT;

(3) approves the IIMT recommendations outlined in the report of the Director of Finance & ICT; and

(4) approves the benchmarking of any allocation to the LGPSC Climate Factor Fund to the product specific benchmark.

50/21 **STEWARDSHIP REPORT** The Committee was provided 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 2021.

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

- Q3 2021 LGIM ESG Impact Report (Appendix 2 to the report)
- Q2 2021/22 LGPSC Quarterly Stewardship Update (Appendix 3 to the report).

These two reports provided an overview of the investment managers' current key stewardship themes and voting and engagement activity over the last quarter. They demonstrated the importance of engaging regularly on ESG matters.

RESOLVED that the Committee notes the stewardship activity of LGIM and LGPSC.

51/21 **EXCLUSION OF THE PUBLIC** **RESOLVED** to move that under Section 100(a)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following item of business on the grounds that in view of the nature of the business, that if members of the public were present exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 would be disclosed to them and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

SUMMARY OF PROCEEDINGS CONDUCTED AFTER THE PUBLIC HAD BEEN EXCLUDED FROM THE MEETING

1. To receive declarations of interest (if any)

2. To confirm the exempt minutes of the meeting held on 20 October 2021 (contains exempt information)

3. To consider the exempt report of the Director of Finance & ICT on Climate Risk (contains information relating to the financial or business affairs of any particular person (including the Authority holding that information)).

The meeting ended at 12.55pm

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FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

2 March 2022

Report of the Interim Director of Finance & ICT

Investment Report

1. Purpose

1.1 To note the report of the Fund's independent external advisor, to review the Fund's asset allocation, investment activity and long term performance analysis since the last meeting on 8 December 2021 and to seek approval for the investment strategy in the light of recommendations from the Interim Director of Finance & ICT and the Fund's independent external adviser.

2. Information and Analysis

2.1 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 2.

2.2 Asset Allocation and Recommendations Table

The Fund's latest asset allocation as at 31 January 2022 and the recommendations of the Director of Finance & ICT and Mr Fletcher, in relation to the Fund's new final strategic asset allocation benchmark (SAAB), which came into effect on 1 January 2022, are set out on page 3.

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 currently total around £330m. 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 (3)	Benchmark Sterling Return	Benchmark Sterling Return
	Intermediate (1)	Final (1)	31/10/21	31/1/22 (2)	Final (1)	AF 2/3/22	DPF 2/3/22	AF 2/3/22	DPF 2/3/22	DPF 2/3/22	3 Months to 31/12/21	3 Months to 31/1/22
Growth Assets	**56.0%**	**55.0%**	**57.2%**	**55.9%**	**+/- 8%**	**-**	**-**	**55.0%**	**55.0%**	**56.0%**	**n/a**	**n/a**
UK Equities	14.0%	12.0%	14.7%	13.2%	+/- 4%	-	+1.0%	12.0%	13.0%	13.0%	4.2%	2.0%
Overseas Equities:	38.0%	39.0%	38.1%	38.0%	+/- 8%	-	(0.9%)	39.0%	38.0%	38.0%	n/a	n/a
North America	6.0%	-	5.7%	1.6%	-	-	+1.6%	-	1.6%	1.6%	9.5%	(0.6%)
Europe	4.0%	-	3.7%	0.5%	-	-	+0.5%	-	0.5%	0.5%	5.1%	(3.7%)
Japan	5.0%	5.0%	4.8%	5.3%	+/- 2%	-	+0.3%	5.0%	5.3%	5.3%	(4.9%)	(3.7%)
Pacific ex-Japan	2.0%	-	1.9%	0.9%	-	-	+0.5%	-	0.5%	0.5%	(0.7%)	(3.7%)
Emerging Markets	5.0%	5.0%	5.0%	5.1%	+/- 2%	-	+0.1%	5.0%	5.1%	5.1%	(1.4%)	(0.4%)
Global Sustainable	16.0%	29.0%	17.0%	24.6%	+/- 8%	-	(4.0%)	29.0%	25.0%	25.0%	6.6%	(1.3%)
Private Equity	4.0%	4.0%	4.4%	4.7%	+/- 2%	-	-	4.0%	4.0%	5.0%	4.3%	2.4%
Income Assets	**24.0%**	**25.0%**	**20.5%**	**22.2%**	**+/- 6%**	**+2.0%**	**(2.0%)**	**27.0%**	**23.0%**	**27.4%**	**n/a**	**n/a**
Multi-Asset Credit	6.0%	6.0%	6.8%	7.0%	+/- 2%	+2.0%	+1.0%	8.0%	7.0%	8.2%	0.5%	(0.2%)
Infrastructure	9.0%	10.0%	6.3%	7.5%	+/- 3%	-	(2.0%)	10.0%	8.0%	11.1%	0.5%	0.5%
Direct Property (5)	5.0%	6.0%	4.3%	4.6%	+/- 2%	-	(1.1%)	6.0%	4.9%	4.9%	6.1%	6.1% (4)
Indirect Property (5)	4.0%	3.0%	3.1%	3.1%	+/- 2%	-	+0.1%	3.0%	3.1%	3.2%	7.9%	7.9% (4)
Protection Assets	**18.0%**	**18.0%**	**16.7%**	**16.8%**	**+/- 5%**	**(4.0%)**	**(1.0%)**	**14.0%**	**17.0%**	**17.0%**	**n/a**	**n/a**
Conventional Bonds	6.0%	6.0%	4.9%	4.8%	+/- 2%	(2.0%)	(1.0%)	4.0%	5.0%	5.0%	2.4%	(3.6%)
Index-Linked Bonds	6.0%	6.0%	5.5%	5.5%	+/- 2%	-	(0.5%)	6.0%	5.5%	5.5%	4.9%	(2.4%)
Corporate Bonds	6.0%	6.0%	6.3%	6.5%	+/- 2%	(2.0%)	+0.5%	4.0%	6.5%	6.5%	0.3%	(3.0%)
Cash	**2.0%**	**2.0%**	**5.6%**	**5.1%**	**0 – 8%**	**+2.0%**	**+3.0%**	**4.0%**	**5.0%**	**(0.4%)**	**0.0%**	**0.0%**

Investment Assets totaled £6,105m at 31 January 2022.
(1) Intermediate benchmark effective from 1 January 2021 to 31 December 2021. Final benchmark effective from 1 January 2022. Recommendations are relative to the Final benchmark
(2) Adjusted for completed trades in early Feb-22 – North American Equities -1.0%; European Equities -0.7%; Global Sustainable Equities +1.1%; and Cash +0.5%
(3) Adjusted for investment commitments at 31 January 2022, together with commitments placed post period-end. Presumes all commitments funded from cash.
(4) Benchmark Return for the three months to 31 December 2021.
(5) The maximum permitted range in respect of Property is +/- 3%.

The table above shows the intermediate benchmark, together with the new final benchmark approved by Committee in November 2020. The final benchmark came into effect on 1 January 2022. The table above reflects the following three categorisations:

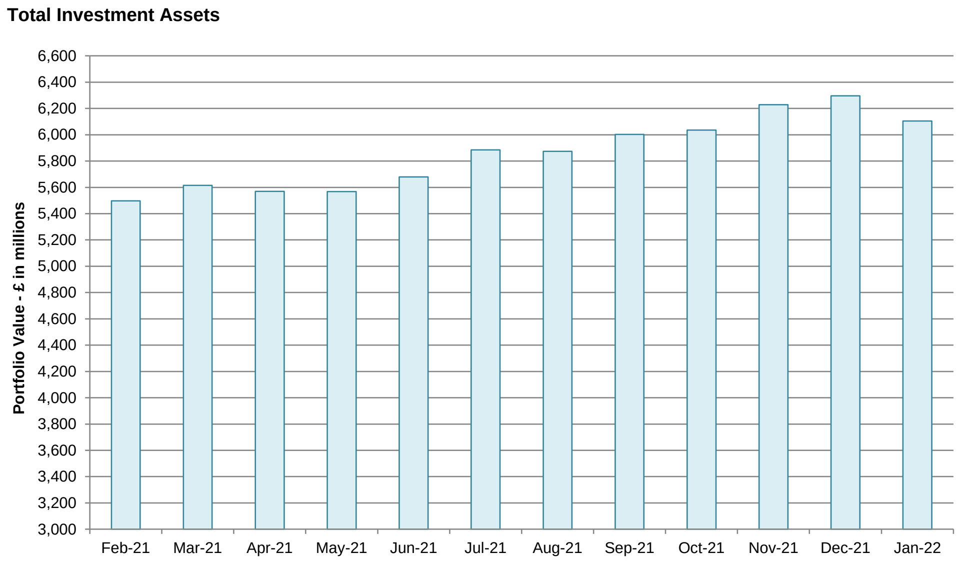
- **Growth Assets**: largely equities plus other volatile higher return assets such as private equity;
- **Income Assets**: assets which are designed to deliver an excess return, but with more stable return patterns than Growth Assets because income represents a large proportion of the total return of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

Relative to the final benchmark, the Fund as at 31 January 2022, was overweight Cash and Growth Assets and underweight in Protection Assets and Income Assets. However, should all the IIMT recommendations set out in this report be implemented, together with the expected level of commitment draw-downs, the cash balance would reduce by 5.5% to -0.4%. 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.

The IIMT recommendations in respect of North American Equities (1.6%), European Equities (0.5%) and Asia Pacific Ex-Japan Equities (0.5%) are outside of the final benchmark's permitted range, reflecting the fact that the investment vehicles required to support a full switch out of North American Equities, European Equities and Asia Pacific Ex-Japan Equities to Global Sustainable Equities are not yet in place. The IIMT estimates that the full transition will be completed in Q2-22. The proposed regional mix of the allocations is designed to broadly match the FTSE All World regional composition.

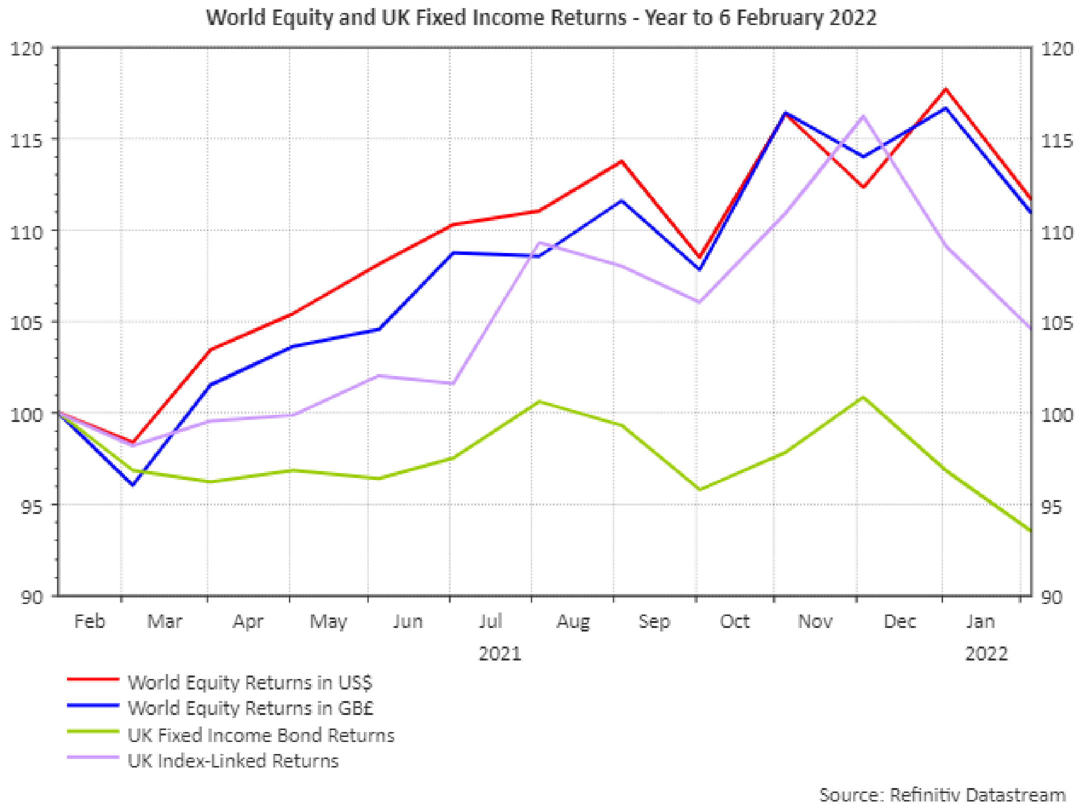
2.3 Total Investment Assets

The value of the Fund's investment assets increased by £70m (+1.2%) between 31 October 2021 and 31 January 2022 to £6.105bn, comprising a non-cash market gain of around £55m and cash inflows from dealing with members and investment income of around £15m. Over the twelve months to 31 January 2022, the value of the Fund's investment assets has increased by £893m (+17.1%), comprising a non-cash market gain of around £803m, and cash inflows from dealing with members & investment income of around £90m.



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. A copy of the Fund's valuation at 31 January 2022 is attached at Appendix 3.

2.4 Market returns over the last 12 months



The chart above shows market returns for Global Equities in Sterling and the US dollar, UK Fixed Income and UK Index Linked bonds for the twelve months to 6 February 2022.

Over the twelve-month period to 31 December 2021, Global Equities as measured by the FTSE All World Index, returned 21.2% for Sterling investors. In US dollar terms, the returns were slightly lower at 20.1%, as Sterling weakened by 1.0% against the US dollar over the period (from £1:US$1.367 to £1:US$1.353). Market returns in 2021 continued to be driven by the evolution of the Covid-19 pandemic. However, in comparison to the uncertainty which surrounded 2020, the global economy moved into the recovery stage in 2021, supported by high vaccination rates.

During 2020, financial market returns were underpinned by the unprecedented policy decisions by both national governments and central banks in response to the Covid-19 pandemic (i.e. doing whatever it takes to keep the economy and financial markets from collapsing). In return, investors looked through the uncertainty and focused on the assumed future recovery. The development of effective vaccines towards the end of 2020 marked a pivotal moment in the pandemic with investor sentiment moving to cautious optimism. Equity market returns were generally positive in Q1-21 and Q2-21 but were volatile in Q3-21 and Q4-21 (albeit up overall over H2-21) as worries about new variants (e.g. Omicron), supply chain problems, rising inflation and concerns about the Chinese property market weighed on investor confidence.

Equity market returns have fallen YTD-22[1], with the FTSE All-World returning minus 4.5% in Sterling terms. Whilst concerns about the impact of the Omicron variant have eased (as the variant has proved to be more transmissible but with lower hospitalisation rates), inflationary pressures have increased significantly. Markets have responded by pricing-in faster interest rate increases in the UK and US, with 10-year government bond yields rising over 65 and 50 basis points, respectively, since the start of December 2021.

The increase in yields has driven a rotation out of Growth stocks into Value stocks, with investors favouring tangible (‘real’) assets over intangible assets. On a global basis, Information Technology and Consumer Discretionary stocks have been the hardest hit, falling by -7.5% and -7.4%, respectively, in January 2022. Only two sectors posted positive returns: Energy (+13.9%) and Financials (+2.0%). Energy stocks benefited from the inflation outlook and there was a switch from green energy (i.e. renewables) to brown energy (i.e. fossil fuels); Financial stocks have benefited from the assumed accelerated pace of interest rate increases (i.e. flowing through to a higher net-interest margin).

Geopolitical tensions have also risen in YTD-22, as concerns about a potential Russian invasion of the Ukraine have increased.

Asset class weightings and recommendations are based on values at the end of January 2022. 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 more muted although it is now back close to the level reported immediately before the Covid-19 pandemic.

[1] 1 January 2022 and 6 February 2022

2.5 Longer Term Performance

Figures provided by Portfolio Evaluation Limited show the Fund's performance over 1, 3, 5 and 10 years to 31 December 2021.

Per annum	DPF	Benchmark Index
1 year	11.6%	10.9%
3 years	10.5%	9.8%
5 years	7.9%	7.2%
10 years	9.3%	8.7%

The Fund outperformed the benchmark over all time periods.

The IIMT notes that the one-year return of 11.6% to 31 December 2021 (benchmark 10.9%) reflected a catch-up following a sharp market sell-off in response to the outbreak of the Covid-19 pandemic. This has been supported by unprecedented levels of fiscal and monetary support provided by national governments and central banks. The IIMT does not believe that these levels of returns are sustainable in the long-term and going forward market returns are likely to be much lower. The Fund's Investment Strategy Statement is based on an assumed average market return of 3.6% per annum over the next 20 years.

2.6 Category Recommendations

	Intermediate Benchmark	Final Benchmark	Fund Allocation	Permitted Range	Recommendation (1)		Benchmark Relative Recommendation (1)	
			31 Jan-22		AF	DPF	AF	DPF
Growth Assets	56.0%	55.0%	55.9%	± 8%	55.0%	55.0%	-	-
Income Assets	24.0%	25.0%	22.2%	± 6%	27.0%	23.0%	+2.0%	(2.0%)
Protection Assets	18.0%	18.0%	16.8%	± 5%	14.0%	17.0%	(4.0%)	(1.0%)
Cash	2.0%	2.0%	5.1%	0 – 8%	4.0%	5.0%	+2.0%	+3.0%

(1) Recommendation relative to the Final benchmark effective 1 January 2022

At an overall level, the Fund was overweight Growth Assets and Cash at 31 January 2022, underweight Income Assets and Protection 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 3 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 benchmark exposure to Growth Assets into strength over the last three to five years, as equity valuations have become increasingly stretched, and increased the benchmark allocation to Income Assets.

The IIMT recommendations reflected in this report: reduce Growth Assets by 0.9% to 55.0% (neutral) (UK Equities -0.2%; Asia Pacific Ex-Japan Equities -0.4%; Global Sustainable Equities +0.4%; and Private Equity -0.7%); increase Income Assets by 0.8% (Infrastructure +0.5%; and Direct Property +0.3%); increase Protection Assets by 0.2% (Conventional Bonds +0.2%), and reduce cash by 0.1%.

The IIMT notes that the recommendations are subject to market conditions, liquidity, and product availability. The IIMT continues to recommend a defensive cash allocation, reflecting both the general market uncertainty and cash held to fund existing commitment drawdowns.

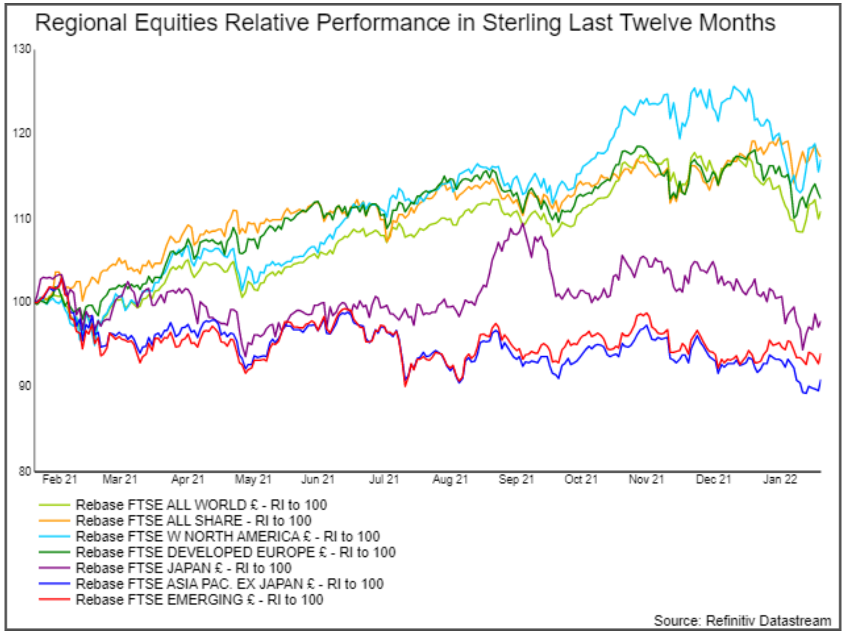
2.7 Growth Assets

At 31 January 2022, the overall Growth Asset weighting was 55.9%, down from 57.2% at 31 October 2021, principally reflecting net divestment of around £130m. During the three months to 31 January 2022, the Fund made significant progress in the transition to the new final SAAB, with £525m invested into Global Sustainable Equities, funded from divestments in respect of UK Equities (£155m); North American Equities (£255m); European Equities (£195m) and Asia Pacific Ex-Japan Equities (£53m). The Fund also increased its allocation to Japanese Equities by £50m, with the remainder being invested into other asset classes, including infrastructure (£64m), Multi-Asset Credit (£19m) and Corporate Bonds (£12m).

The IIMT recommends in this report reduce the weighting to a neutral weighting of 55.0%.

As was the case at the last reporting date, the near-term outlook for equities remains mixed. In December 2021, the accelerating spread of the Omicron variant eroded investor confidence. This concern has gradually eased (whilst more transmissible, the hospitalisation rate has proved to be lower) and the roll out of booster campaigns in the UK, US and Europe have also proven to be successful in increasing the overall protection from developing serious health complications. However, the threat from Covid-19 has not disappeared, and there is an inevitable risk that future mutations could pose a further threat to public health.

Other risk factors that were present at the last reporting date appear to



Benchmark Return	Currency	Q4-21(*)	Q3-21	CYTD (*)	1 Year (**)	3 Year (**)	5 Year (**)	Since Last Committee (*)	L3M 31-Jan-22
Sterling Returns									
FTSE All World (***)	GB£	(4.8%)	6.6%	16.6%	21.2%	18.8%	13.1%	(6.0%)	(1.3%)
FTSE UK	GB£	0.1%	4.2%	12.5%	18.3%	8.3%	5.4%	0.9%	2.0%
FTSE North America	GB£	(5.6%)	9.5%	22.2%	28.1%	23.6%	16.2%	(6.8%)	(0.6%)
FTSE Europe	GB£	(5.6%)	5.1%	14.4%	17.3%	15.3%	10.2%	(5.9%)	(3.7%)
FTSE Japan	GB£	(3.1%)	(4.9%)	1.3%	2.5%	9.3%	6.7%	(6.7%)	(3.7%)
FTSE Asia Pacific Ex-Japan	GB£	(2.1%)	(0.7%)	(2.1%)	(0.1%)	10.9%	9.0%	(4.7%)	(3.7%)
FTSE Emerging Markets	GB£	0.5%	(1.4%)	(1.0%)	0.9%	9.4%	7.9%	(2.3%)	(0.4%)
Local Currency Returns									
FTSE All World (***)	US$	(4.9%)	7.1%	14.5%	20.1%	21.4%	15.2%	(3.8%)	(3.4%)
FTSE UK	GB£	0.1%	4.2%	12.5%	18.3%	8.3%	5.4%	0.9%	2.0%
FTSE North America	US$	(5.7%)	10.0%	20.0%	27.0%	26.1%	18.3%	(4.5%)	(2.7%)
FTSE Europe	€	(6.3%)	7.2%	16.4%	25.4%	18.0%	10.7%	(4.6%)	(2.7%)
FTSE Japan	¥	(3.1%)	(1.4%)	3.6%	13.2%	13.4%	8.4%	(3.3%)	(4.8%)
FTSE Asia Pacific Ex-Japan	US$	(2.2%)	(0.3%)	(3.9%)	(1.0%)	13.2%	11.1%	(2.4%)	(5.7%)
FTSE Emerging Markets	US$	0.4%	(1.0%)	(2.7%)	0.1%	11.7%	9.9%	0.1%	(2.5%)

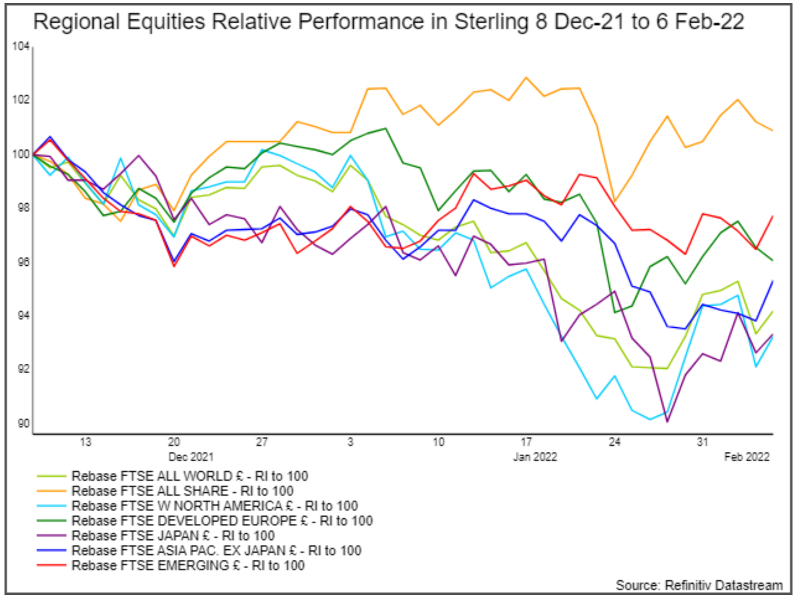
Source: Performance Evaluation Limited & DPF analysis
(*) To 6 Feb-22
(**) To 31 Dec-21
(***) 50% FTSE All World & 50% FTSE Developed
CYTD = Calendar Year To Date

have increased in significance and are now driving market returns, in particular, rising inflation. What was initially viewed as a short-term problem (i.e. transitory price increases) has developed into longer term inflationary concerns. Any expectations that interest rate increases would be slow and steady have faded, as markets have rapidly repriced their expectations for how quickly the Bank of England (BoE) and the US Federal Reserve (FED) will increase interest rates to reduce inflationary pressures.

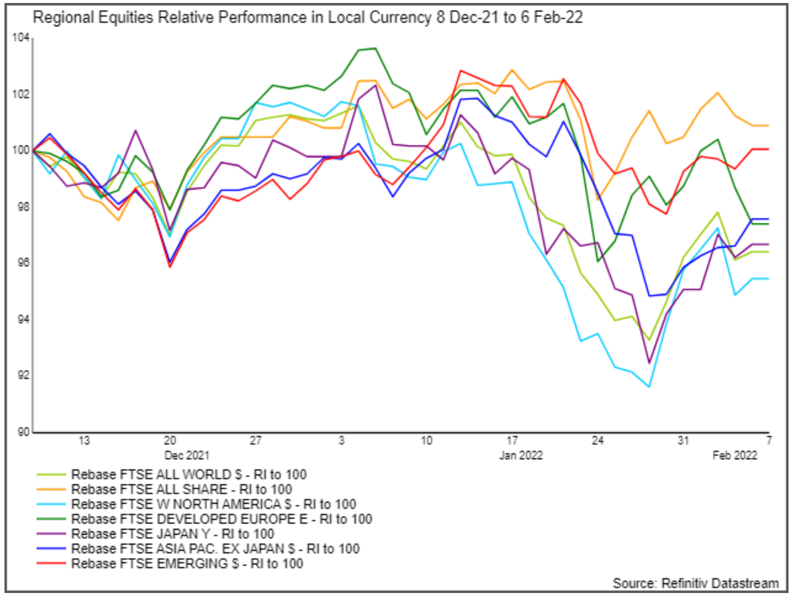
Notwithstanding the above, there are also some tailwinds which should support positive equity market returns in 2022. The global economic recovery is gathering pace, and GDP growth is forecast to grow at an above trend rate in 2022. As economic activity continues to normalise, the recovery in corporate earnings is also expected to broaden. The recovery in service sector consumption has lagged goods consumption so far, but this trend is expected to reverse as throughout' the year.

Equity market returns have fallen YTD-22, with the FTSE All-World returning minus 4.5% in Sterling terms, reflecting the inflationary pressures noted above. The expected rise in yields has driven a rotation out of Growth stocks into Value stocks, with investors favouring tangible (or 'real') assets over intangible assets.

Regional Equities Relative Performance in Sterling 8 Dec-21 to 6 Feb-22



Regional Equities Relative Performance in Local Currency 8 Dec-21 to 6 Feb-22



2.8 United Kingdom Equities

DPF Weightings	
Intermediate Neutral	14.0%
Final Neutral	12.0%
Actual 31.1.22	13.2%
AF Recommendation	12.0%
IIMT Recommendation	13.0%
Benchmark Returns (GB£)	
Q4 21/22 to 6 Feb-22	0.1%
Q3 21/22	4.2%
1 Year to Dec-21	18.3%
3 Years to Dec-21 (pa)	8.3%
5 Years to Dec-21 (pa)	5.4%

The Fund's UK Equity allocation reduced from 14.7% at 31 October 2021 to 13.2% at 31 January 2022 (1.2% overweight), largely reflecting net divestment of £155m as the Fund moved towards the final benchmark.

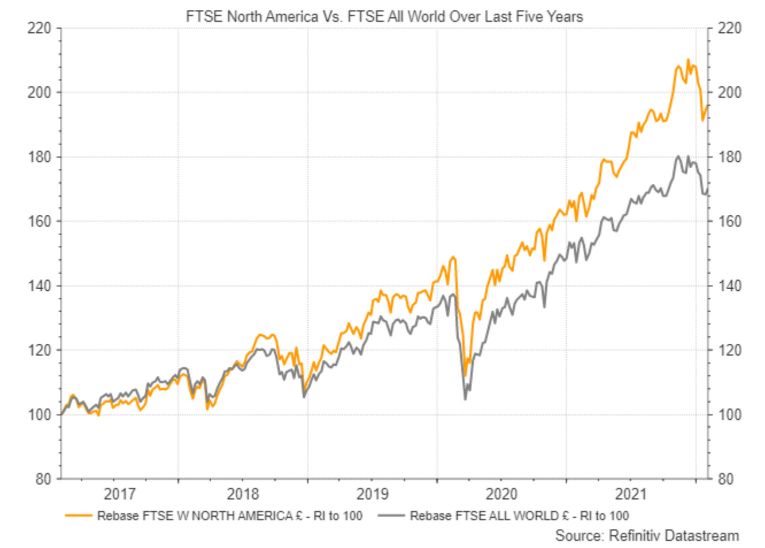
Mr Fletcher notes that given the ongoing transition to the final benchmark which came into effect on 1 January 2022, and given the quantum of the transition, Mr Fletcher does not recommend making any tactical or temporary changes in the regional equity allocations relative to the new benchmark.

In the three months to 31 January 2022, UK Equities were the only region to achieve positive returns (+2.0%), outperforming the FTSE All World 3.2% in Sterling terms. The UK index has benefited from the shift away from Growth stocks into Value stocks. The FTSE All Share is overweight Energy and Financial stocks and underweight Information Technology and Consumer Discretionary stocks relative to the FTSE All World index. The UK was also one of the first countries to start offering a third Covid-19 booster vaccine, and over 34 million doses had been administered by the end of 2021.g The booster campaign has already had early successes. Whilst Covid-19 hospital admissions rose significantly in the US and Europe in Q4-21, they were relatively flat in the UK, despite new cases reaching all-time highs.

The IIMT continues to believe that UK Equity valuations are attractive on a relative basis. The IIMT recommends a 1.0% overweight allocation of 13.0% relative to the final benchmark, with a modest tilt towards small and mid-cap stocks.

2.9 North American Equities

DPF Weightings	
Intermediate Neutral	6.0%
Final Neutral	-
Actual 31.1.22	1.6%
AF Recommendation	-
IIMT Recommendation	1.6%
Benchmark Returns (GB£)	
Q4 21/22 to 6 Feb-22	(5.6%)
Q3 21/22	9.5%
1 Year to Dec-21	28.1%
3 Years to Dec-21 (pa)	23.6%
5 Years to Dec-21 (pa)	16.2%



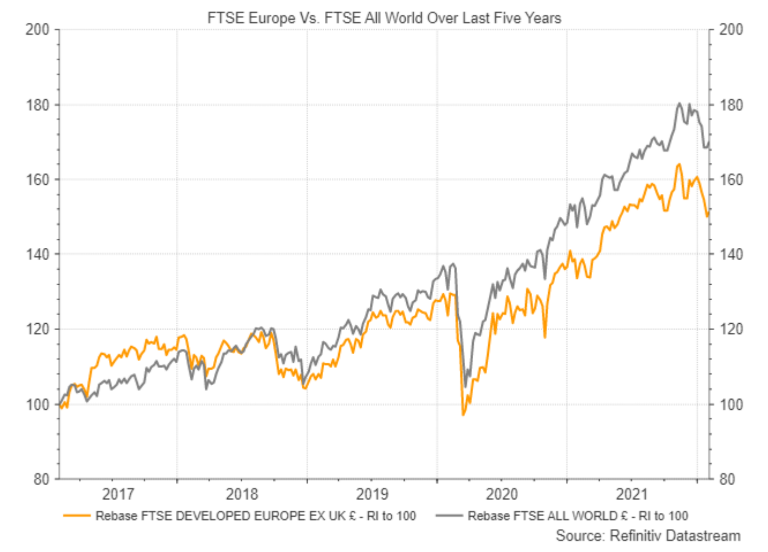
The Fund's North American Equity allocation reduced from 5.7% at 31 October 2021 to 1.6% at 31 January 2022 (1.6% overweight), largely reflecting net divestment of £255m as the Fund moved towards the final benchmark.

Mr Fletcher recommends a neutral weighting relative to the final benchmark across all of the Fund's regional equity allocations; 0% in respect of North American Equities.

The IIMT recommends that the current 1.6% allocation to North American Equities is retained reflecting the fact that the investment vehicles required to support a full switch out of North American Equities are not yet in place. The IIMT estimates that the full transition will be completed in Q2-22.

2.10 European Equities

DPF Weightings	
Intermediate Neutral	4.0%
Final Neutral	-
Actual 31.1.22	0.5%
AF Recommendation	-
IIMT Recommendation	0.5%
Benchmark Returns (GB£)	
Q4 21/22 to 6 Feb-22	(5.6)%
Q3 21/22	5.1%
1 Year to Dec-21	17.3%
3 Years to Dec-21 (pa)	15.3%
5 Years to Dec-21 (pa)	10.2%



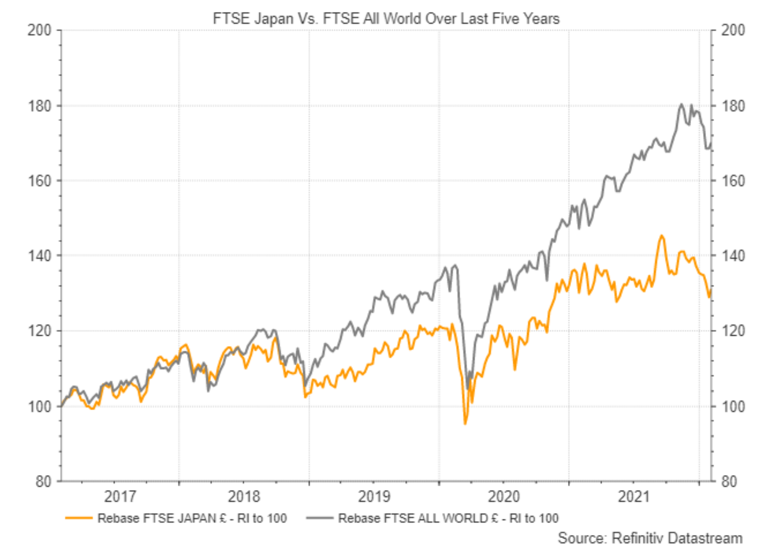
The Fund's European Equity allocation reduced from 3.7% at 31 October 2021 to 0.5% at 31 January 2022 (0.5% overweight), largely reflecting net divestment of £195m as the Fund moved towards the final benchmark.

Mr Fletcher recommends a neutral weighting relative to the final benchmark across all of the Fund's regional equity allocations; 0% in respect of European Equities.

The IIMT recommends that the current 0.5% allocation to European Equities is retained reflecting the fact that the investment vehicles required to support a full switch out of European Equities are not yet in place. The IIMT estimates that the full transition will be completed in Q2-22.

2.11 Japanese Equities

DPF Weightings	
Intermediate Neutral	5.0%
Final Neutral	5.0%
Actual 31.1.22	5.3%
AF Recommendation	5.0%
IIMT Recommendation	5.3%
Benchmark Returns (GB£)	
Q4 21/22 to 6 Feb-22	(3.1%)
Q3 21/22	(4.9%)
1 Year to Dec-21	2.5%
3 Years to Dec-21 (pa)	9.3%
5 Years to Dec-21 (pa)	6.7%



Net investment of £50m, partly offset by relative market weakness, increased the Fund's allocation to Japanese Equities to 5.3% at 31 January 2022 (0.3% overweight).

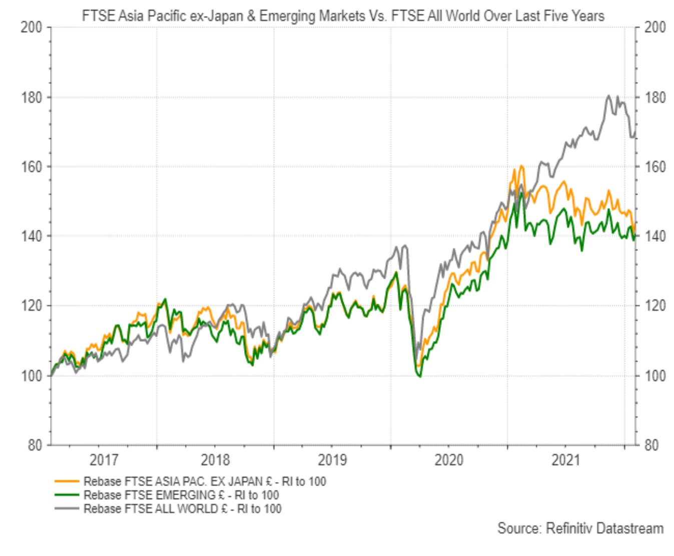
Mr Fletcher recommends a neutral weighting relative to the final benchmark across all of the Fund's regional equity allocations; 5% in respect of Japanese Equities.

Japanese equities underperformed the wider market in 2021, suffering from a slow response to the pandemic, with the domestic vaccination programme starting four months later than most other G7 countries. The economic recovery has been slower than expected, and there has also been political disruption following the Prime Minister Suga resignation in September 2021, which forced the ruling party into a leadership battle and subsequently a national election in October 2021. However, the IIMT believes that the outlook for Japan is now improving. Despite starting late, Japan now leads the G7 in vaccination rates (79% of eligible adults double vaccinated), and after winning a surprise majority in the parliamentary elections, Prime Minister Kishida had unveiled a new $490 billion stimulus package to kick-start growth as the economy recovers from the Covid-19 pandemic.

The IIMT believes that Japanese Equities are attractively valued relative to their global peers and recommends that the Fund's current 0.3% overweight allocation of 5.3% is maintained.

2.12 Asia Pacific Ex-Japan and Emerging Market Equities

DPF Weightings	Asia-Pac	EM
Intermediate Neutral	2.0%	5.0%
Final Neutral	-	5.0%
Actual 31.1.22	0.9%	5.1%
AF Recommendation	-	5.0%
IIMT Recommendation	0.5%	5.1%
Benchmark Returns (GB£)	**Asia-Pac**	**EM**
Q4 21/22 to 6 Feb-22	(2.1%)	0.5%
Q3 21/22	(0.7%)	(1.4%)
1 Year to Dec-21	(0.1%)	0.9%
3 Years to Dec-21 (pa)	10.9%	9.4%
5 Years to Dec-21 (pa)	9.0%	7.9%



The Fund's allocation to Asia Pacific Ex-Japan Equities fell to 0.9% at 31 January 2022 (0.9% overweight), largely reflecting net divestment of £53m as the Fund moved towards the final benchmark. Relative market strength increased the Fund's allocation to Emerging Market Equities from 5.0% at 31 October 2021 to 5.1% at 31 January 2022 (0.1% overweight).

Mr Fletcher recommends a neutral weighting relative to the final benchmark across all of the Fund's regional equity allocations; 0% in the case of Asia Pacific Ex-Japan Equities and 5% in Emerging Market Equities.

The IIMT recommends a 0.5% allocation to Asia Pacific Ex-Japan Equities, reflecting the fact that the investment vehicles required to support a full switch out of Asia Pacific Ex-Japan Equities are not yet in place. The IIMT estimates that the full transition will be completed in Q2-22.

Emerging Market Equities under-performed the wider market in 2021, posting negative returns of -1.0% in Sterling terms versus +21.0% from the FTSE All World. The under-performance largely related to Chinese equities (which make up around 35% of the emerging markets index) which returned -21%, whereas the emerging markets index, excluding China, returned +11%.

Under its 'Common Prosperity' policy, the Chinese government implemented increased regulatory intervention in the private sector, aiming to narrow the widening wealth gap and redistribute economic prosperity. Tough new regulations were imposed on the education, health care, property and technology sectors. The full extent of regulatory reforms is currently unknown, creating uncertainty which is weighing on investor sentiment.

In addition, the Covid-19 pandemic outlook appears more uncertain in Emerging Markets than Developed Markets. Vaccination rates are lower but are expected to pick up throughout 2022. Many Emerging Market countries, particularly in Asia, have been following a zero Covid-19 policy, which has led to economic disruptions as caseloads have fluctuated. These disruptions should ease as vaccination rates increase through 2022.

The IIMT continues to believe in the long-term growth potential of Emerging Markets, noting that these markets have accounted for well over half of global growth over the last ten years. The IIMT believes that Emerging Market Equities offer value relative to their global peers and recommends that the current 0.1% overweight allocation of 5.1% is maintained.

2.13 Global Sustainable Equities

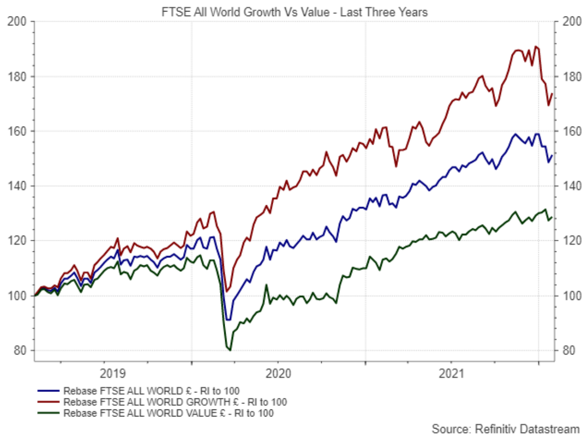
DPF Weightings	
Intermediate Neutral	16.0%
Final Neutral	29.0%
Actual 31.1.22	24.6%
AF Recommendation	29.0%
IIMT Recommendation	25.0%
Benchmark Returns (GB£)	
Q4 21/22 to 6 Feb-22	(4.8%)
Q3 21/22	6.6%
1 Year to Dec-21	21.2%
3 Years to Dec-21 (pa)	18.8%
5 Years to Dec-21 (pa)	13.1%

Net investment of £525m in the period increased the Fund's allocation to Global Sustainable Equites from 17.0% at 31 October 2021 to 24.6% at 31 January 2022.

Mr Fletcher recommends a neutral weighting relative to the final benchmark across all of the Fund's regional equity allocations; 29% in respect of Global Sustainable Equities.

The IIMT remains confident about the long-term investment case for the Fund's allocation to Global Sustainable Equities, which typically favour growth stocks relative to value stocks. A growth stock relates to a company that is forecast to grow at a rate significantly above the average growth rate for the market (e.g. high growth information technology stocks), whereas a value stock relates to a company that appears to trade at a lower price relative to its fundamentals (e.g. pro-cyclical stocks such as industrials).

The charts below shows that growth stocks have significantly out-performed value stocks over the last three years, particularly since the start of the Covid-19 pandemic, as investors favoured quality growth stocks over pro-cyclical stocks, in part supported by low forward interest rate expectations.



However, value stocks have rallied over the last twelve months as both economic activity, and in particular, forward interest rate expectations have increased. This trend has continued into early 2022, with investors favouring tangible (or ‘real’) assets over intangible assets. There has also been a shift from green energy (i.e. renewables) to brown energy (i.e. fossil fuels).

The IIMT notes that value stocks typically out-perform at the start of an economic cycle (as investors position portfolios for the uptick in economic activity) but the period of out-performance tends to be relatively short-lived (generally less than twelve to eighteen months), and investors start to rotate back into growth stocks.

Whilst the IIMT believes that the current value rally may continue for several more months to come (driven by rising forward rate expectations and increased geopolitical tensions), the IIMT remains confident that the Fund’s allocation to Global Sustainable Equities will out-perform over the long-term.

To reduce the performance risk of increasing allocations within a highly correlated asset class, the increase in the Fund’s Global Sustainable Equity allocation in January 2022 (£525m) was invested into highly diversified index products which are designed to significantly reduce the carbon footprint of the portfolio but also dampen-down performance volatility relative to the wider market.

The IIMT notes that the investment vehicles required to support a full switch out of North American Equities; European Equities and Asia Pacific Ex-Japan Equities to Global Sustainable Equities are not yet in place. As a result, the IIMT recommends a 25.0% allocation to Global Sustainable Equities (4.0% underweight relative to the final benchmark). The IIMT estimates that the full transition will be completed in Q2-22.

2.14 Private Equity

DPF Weighting					
Intermediate Netural	Final Neutral	Actual 31.1.22	Committed 31.1.22	AF Recommendation	IIMT Recommendation
4.0%	4.0%	4.7%	5.0%	4.0%	4.0%
Benchmark Returns (GB£)					
Q4 21/22 to 6 Feb-22	Q3 21/22	1 Year to Dec-21	3 Years to Dec-21 (pa)	5 Years to Dec-21 (pa)	
0.3%	4.3%	19.2%	9.3%	6.4%	

The Private Equity weighting increased from 4.4% at 31 October 2021 to 4.7% at 31 January 2022 (0.7% overweight relative to the final benchmark), reflecting relative market strength.

Mr Fletcher recommends a neutral weighting of 4.0% in Private Equity.

The IIMT notes that the Fund is overweight to Private Equity on a committed basis and is not reviewing further opportunities at this stage. The IIMT believes that the Fund's outstanding private equity commitments of around £60m are well positioned 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 Fund's listed (i.e. liquid) private equity investments (around 40% of the total private equity portfolio) have performed strongly over the last 12 months, and the IIMT recommends that the Fund 'locks-in' some of these profits and reduces the overall Private Equity allocation by 0.7% to 4.0% (neutral relative to the final benchmark) (5.0% on a committed basis).

2.15 Income Assets

At 31 January 2022, the overall weighting in Income Assets was 22.2%, 1.7% higher than that reported at 31 October 2021, reflecting net investment of £69m, together with relative market strength. The IIMT recommendations below would take the overall Income Asset weighting to 23.0%, and the committed weighting to 27.4%.

2.16 Multi Asset Credit

DPF Weighting				
Intermediate Neutral	Final Neutral	Actual 31.1.22	AF Recommendation	IIMT Recommendation
6.0%	6.0%	7.0%	8.0%	7.0%
Benchmark Returns (GB£)				
Q4 21/22 to 6 Feb-22	Q3 21/22	1 Year to Dec-21	3 Years to Dec-21 (pa)	5 Years to Dec-21 (pa)
(0.1%)	0.5%	4.0%	3.9%	3.7%

The Fund's allocation to Multi-Asset Credit increased from 6.8% at 31 October 2021 to 7.0% at 31 January 2022, largely reflecting net investment of £19m; 1.0% overweight relative to the final benchmark.

Mr Fletcher recommends a 2.0% overweight allocation of 8.0% to Multi-Asset Credit, funded from a 2.0% underweight allocation to investment grade bonds (see Protection Assets). Mr Fletcher notes that whilst credit spreads are low, corporate fundamentals remain strong and default rates are likely to remain low. Furthermore, because many of the securities with a Multi-Asset Credit portfolio have floating rather than fixed interest rates, they are less interest rate sensitive, which is preferable in a rising rate environment.

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 maintaining the current allocation of 7.0% (1.0% overweight); 8.2% on a committed basis.

2.17 Property

DPF Weighting				
Intermediate Neutral	Final Neutral	Actual 31.1.22	AF Recommendation	IIMT Recommendation
9.0%	9.0%	7.7%	9.0%	8.0%
Benchmark Returns (GB£)				
Q3 21/22 to 6 Feb-22	Q3 21/22	1 Year to Dec-21	3 Years to Dec-21 (pa)	5 Years to Dec-21 (pa)
Not Available	6.7%	17.5%	5.5%	6.5%

The Fund's allocation to Property increased by 0.3% to 7.7% at 31 January 2022, reflecting relative market strength. Direct Property accounted for 4.6% (1.4% underweight against the final benchmark) and Indirect Property accounted for 3.1% (0.1% overweight against the final benchmark).

Mr Fletcher notes that the performance of the Fund's property allocation has proved to be resilient over the last 12 to 18 months despite the impact of the Covid-19 pandemic. Mr Fletcher recommends a neutral overall allocation of 9.0% to property but notes that the Direct Property allocation has outperformed the Indirect Property allocation. Mr Fletcher would like to see the Direct Property allocation increased, funded from realisations out of the Indirect Property allocation, but acknowledges that this should be done with caution as it is a very long-term investment decision, and property transactions tend to be quite expensive.

The Fund's Direct Property Manager notes that in terms of the wider economy, following almost two years of pandemic related economic challenges, the biggest threat now appears to be a resurgence in the inflation rate. This is starting to impact on consumer spending levels and is also likely to result in further rises in interest rates.

Against this backdrop, UK commercial property total returns had a very strong end to 2021. The total return from all UK commercial property as measured by the MSCI Quarterly Index (the Fund's performance benchmark) was +6.1% for the three months to 31 December 2021, comprising an income return of +1.0% plus capital value growth of +5.1%. The total return for the year to 31 December 2021 was +16.3%, comprising an income return of +4.3% combined with capital value growth of +11.5%. In comparison, the Fund's property portfolio returned +5.7% in Q4-21 and +16.6% for the year to 31 December 2021. The focus remains to seek to invest further in the industrial, retail warehouse and alternatives sectors. Investment in the retail and office sectors remains less likely for the time being, whilst the impact of the Covid-19 pandemic on consumers' shopping habits (on the retail sector) and working from home (on the office sector) is monitored.

The Direct Property Manager has recently agreed Heads of Terms to two properties. The cost of these two purchases (around £30m) will be partly offset by the sale of an existing property for around £7.0m.

The IIMT recommends that the Fund's allocation to Direct Property is increased to 4.9% to reflect the net impact of the purchases noted above (1.1% underweight), whereas the allocation to Indirect Property is maintained at 3.1% (0.1% overweight). It is also recommended that further liquidity of up to £75m is made available to the Direct Property manager to make incremental investments at the right time should suitable investment opportunities be identified.

The IIMT continues to believe that Indirect Property increases the options available to the Fund to deploy capital into a relatively illiquid asset class and increases portfolio diversification, including exposure to overseas assets, private rented accommodation, student accommodation, development capital and medical centres.

2.18 Infrastructure

DPF Weighting					
Intermedidate Neutral	Final Neutral	Actual 31.1.22	Committed 31.1.22	AF Recommendation	IIMT Recommendation
9.0%	10.0%	7.5%	11.1%	10.0%	8.0%
Benchmark Returns (GB£)					
Q4 21/22 to 6 Feb-22	Q3 21/22	1 Year to Dec-21	3 Years to Dec-21 (pa)	5 Years to Dec-21 (pa)	
0.3%	0.5%	2.1%	2.4%	2.5%	

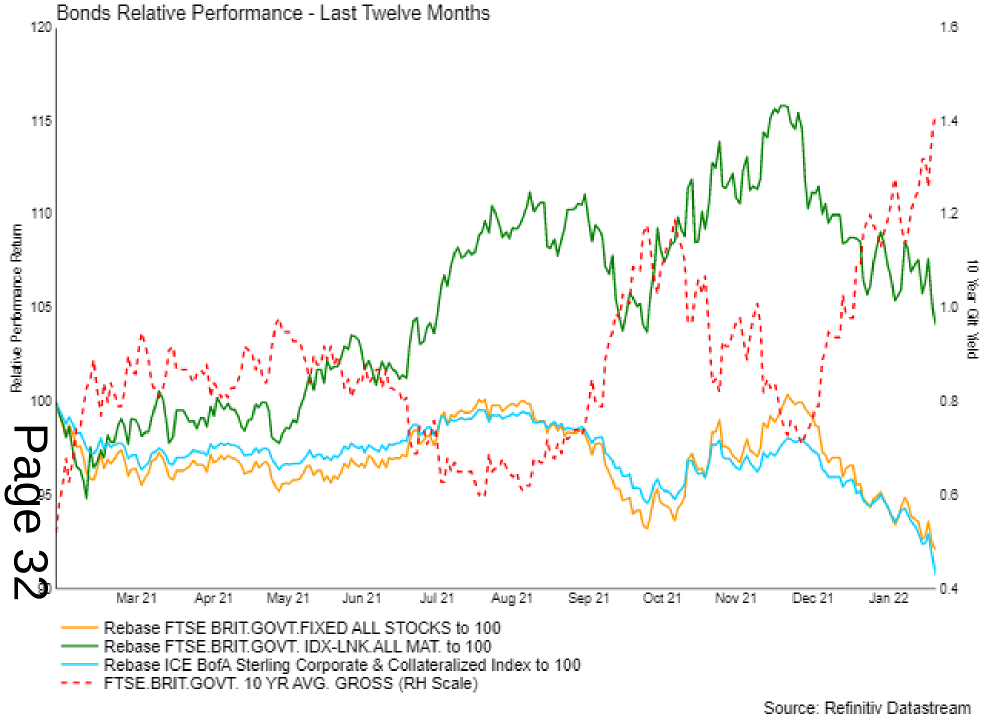
The Fund's allocation to Infrastructure increased from 6.3% at 31 October 2021 to 7.5% at 31 January 2022 principally reflecting net investment of around £64m.

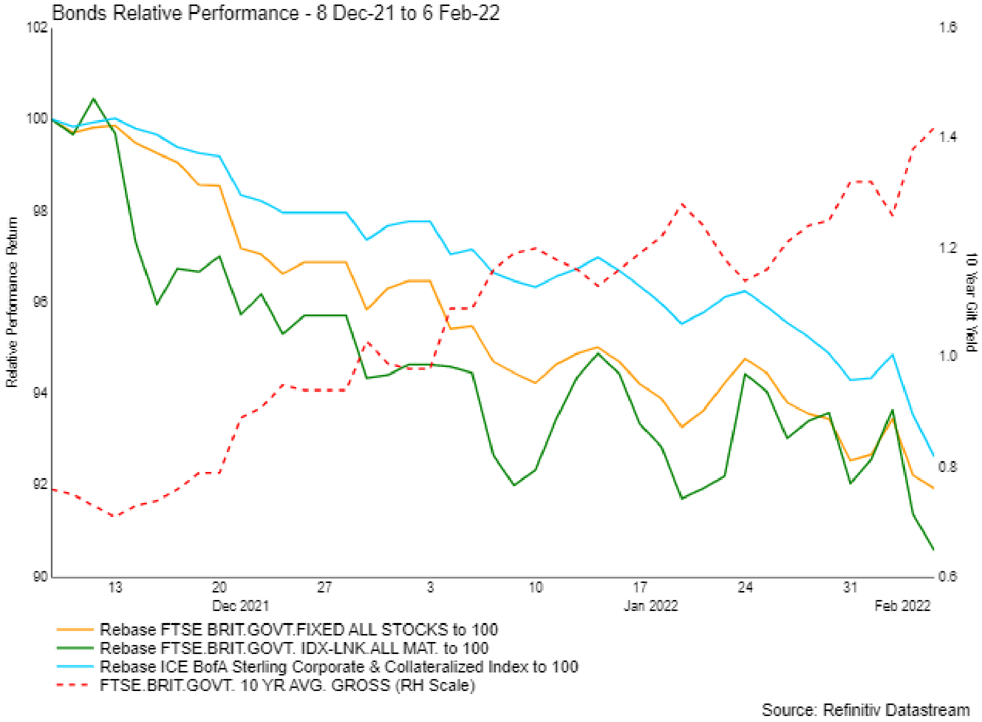
Mr Fletcher recommends a neutral weighting relative to the final benchmark of 10.0% allocation, although Mr Fletcher acknowledges that because of the nature of the infrastructure investment process, it takes time to deploy capital to the asset class.

The IIMT continues to view Infrastructure as an attractive long-term asset class and favours a bias towards core infrastructure assets or renewable energy assets. These assets can offer low volatility; low correlation to equity and fixed income; and reliable long-term cash flows. Notwithstanding the noted favourable long-term 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. It should also be noted that the current market valuation of some infrastructure assets, particularly renewable infrastructure assets, are becoming increasingly stretched driven by strong investor demand.

The IIMT recommends that the invested weighting is increased by 0.5% to 8.0% in the next quarter, reflecting continued investment into listed infrastructure; 11.1% on a committed basis.

2.19 Protection Assets



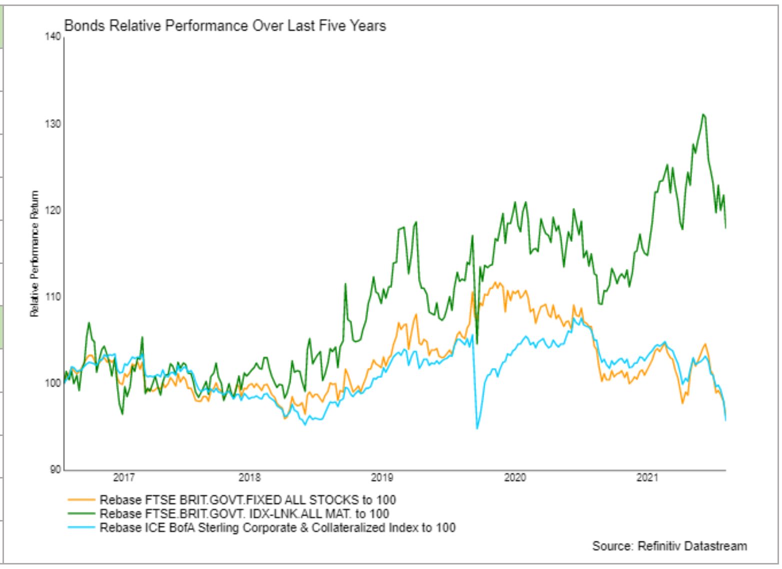


The weighting in Protection Assets at 31 January 2022 was 16.8%, 0.1% higher than that reported at 31 October 2021 reflecting net investment of £12m, partly offset by market weakness. The IIMT recommendations below increase the weighting by 0.2% to 17.0%.

UK Government bond yields have increased since the last Committee meeting (i.e. lower prices), reflecting increasing concerns about the inflation outlook. At the Monetary Policy Committee (MPC) meeting in December 2021, the UK Base Rate was increased from 10 basis points to 25 basis points, and at the meeting in February 2022, it was increased further to 50 basis points, with a number of the MPC members voting for an increase to 75 basis points. Outside of the UK, government yields have also risen and yield curves in the US, Europe and Japan have flattened significantly implying that global bond markets expect the world's major central banks to increase short term interest rates.

2.20 Conventional Bonds

DPF Weightings	
Intermediate Neutral	6.0%
Final Neutral	6.0%
Actual 31.1.22	4.8%
AF Recommendation	4.0%
IIMT Recommendation	5.0%
Benchmark Returns (GB£)	
Q4 21/22 to 6 Feb-22	(4.5%)
Q3 21/22	2.4%
1 Year to Dec-21	(5.2%)
3 Years to Dec-21 (pa)	3.2%
5 Years to Dec-21 (pa)	2.4%



The Fund's allocation to Conventional Bonds reduced by 0.1% to 4.8% between 31 October 2021 and 31 January 2022, reflecting relative market weakness; 1.2% underweight relative to the final benchmark.

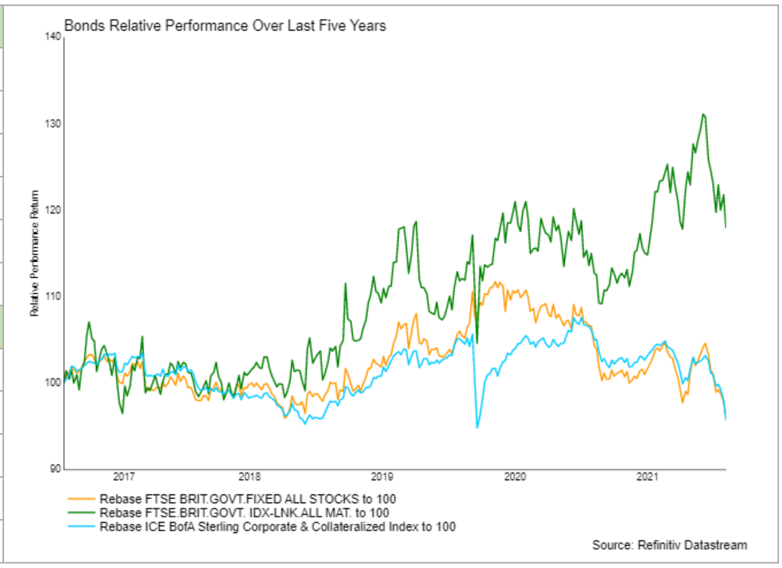
Mr Fletcher has increased his recommended underweight allocation to the asset class from 1.0% to 2.0%, with the 2.0% being allocated to an increase in the Cash weighting.

Mr Fletcher notes that in the short-term inflation is likely to be higher than expected and economic growth while moderating is also likely to remain strong. Central banks are likely to use this opportunity to end super-easy monetary policy and begin the process of normalising interest rates. Mr Fletcher believes that government bond yields are likely to rise further and given their long duration, deliver sizeable negative returns. As a result, Mr Fletcher recommends a 2.0% underweight allocation to Conventional Bonds.

The IIMT continues to believe that whilst conventional sovereign bonds do not appear to offer particularly attractive value at current levels, yields have risen sharply from recent historic lows and sovereign bonds are diversifying assets which continue to afford greater protection than other asset classes in periods of market uncertainty, as evidenced during the Covid-19 pandemic. The IIMT recommends increasing the weighting slightly by 0.2% to 5.0%; 1.0% underweight relative to the final benchmark.

2.21 Index-Linked Bonds

DPF Weightings	
Intermediate Neutral	6.0%
Final Neutral	6.0%
Actual 31.1.22	5.5%
AF Recommendation	6.0%
IIMT Recommendation	5.5%
Benchmark Returns (GB£)	
Q4 21/22 to 6 Feb-22	(4.2%)
Q4 21/22	4.9%
1 Year to Dec-21	4.2%
3 Years to Dec-21 (pa)	7.2%
5 Years to Dec-21 (pa)	4.7%



There were no transactions in the period and the Fund's allocation to Index-Linked Bonds remained flat at 5.5% (0.5% underweight relative to the final benchmark). The Fund's allocation at 31 January 2022 comprised 80% UK Index-Linked Bonds (UK Linkers) and 20% US Treasury Inflation Protected Bonds (US TIPS).

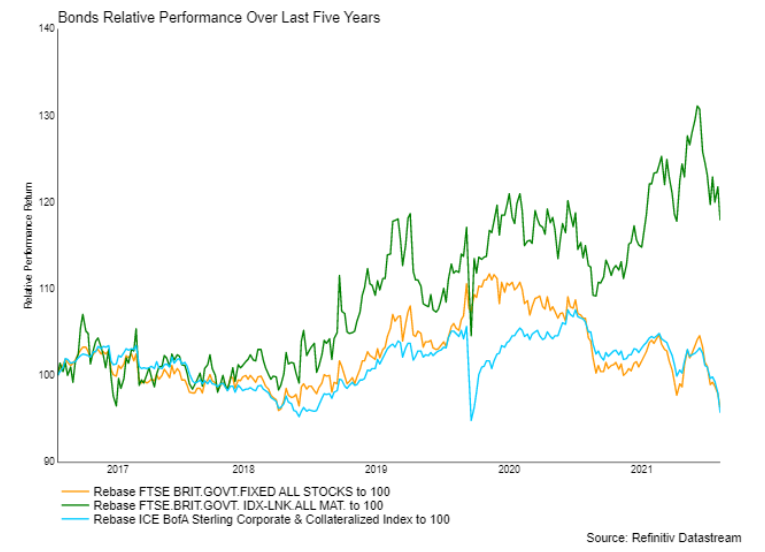
Mr Fletcher has increased his recommended allocation to UK Linkers from 5.0% to 6.0% (neutral). Mr Fletcher notes that whilst he remains uncomfortable with the extremely high duration, negative yield and over-valuation of index-linked gilts, and has consistently recommended an underweight allocation in the past, in the current period of rising inflation, Mr Fletcher now recommends at neutral position.

The IIMT notes that markets and the major central banks have become increasingly concerned about higher inflation over the last few months' driven by the 'post Covid-19' economic recovery; supply constraints; high-savings rates (which could reverse and lead to a spending surge), and US policy stimulus. However, it is unclear whether this will be a short-term increase or lead to longer term inflation pressures.

The IIMT believes that the potential for higher inflation, either in the short or longer term, supports the Fund's current Index-Linked bonds allocation, and therefore recommends that the weighting is maintained at 5.5%. The IIMT recommends maintaining the Fund's current exposure to US TIPS, noting that these offer diversification and protection against rising US inflation expectations.

2.22 Corporate Bonds

DPF Weightings	
Intermediate Neutral	6.0%
Final Neutral	6.0%
Actual 31.1.22	6.5%
AF Recommendation	4.0%
IIMT Recommendation	6.5%
Benchmark Returns (GB£)	
Q4 21/22 to 6 Feb-22	(4.5%)
Q3 21/22	0.3%
1 Year to Dec-21	(2.1%)
3 Years to Dec-21 (pa) (1)	n/a
5 Years to Dec-21 (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

Net investment of £12m in January 2022 increased the Fund's allocation to Global Investment Grade bonds from 6.3% at 31 October 2021 to 6.5% at 31 January 2022; 0.5% overweight relative to the final benchmark.

Mr Fletcher has reduced his recommended allocation to Global Investment Grade Bonds from 6.0% (neutral) to 4.0% (2.0% underweight), with the reduction used to fund a 2.0% overweight allocation to Multi-Asset Credit (see Income Assets). Mr Fletcher favours Multi-Asset Credit because of the lower interest rate sensitivity, and the current narrow spread on investment grade bonds. Mr Fletcher notes that while it would seem counter intuitive to make this switch, the reason bond yields are rising is because, interest rates are rising, not because the credit outlook is deteriorating. The fundamentals of improving growth and low default rates remain positive especially for sub-investment grade credits. Furthermore, Multi-Asset Credit managers have the ability to invest in floating rate debt which is a positive in a rising interest rate environment.

The IIMT notes that whilst investment grade bond spreads are low, investment grade bonds are likely to be more defensively positioned relative to risk-on assets (e.g. equities, high yield bonds, etc), should markets experience any period of weakness. As a result, the IIMT recommends maintaining the current allocation to the asset class at 6.5%; 0.5% overweight.

2.23 Cash

The Cash weighting at 31 January 2022 was 5.1% (3.1% overweight relative to the final benchmark), down from 5.6% at 31 October 2021.

Mr Fletcher has maintained his 4% weighting in Cash (2% overweight) funded from underweight positions in Conventional Bonds, reflecting the 'extremely low yield and high duration risk' currently attached to the asset class. Mr Fletcher notes that given the current valuation of all investment markets, together with the Fund's upcoming contractual commitments, he is not in a hurry to reduce the cash allocation.

The IIMT notes that whilst global markets have recovered strongly following the sharp sell-off in Q1-20, the recovery has been heavily dependent on substantial and unprecedented central bank monetary support and national government fiscal support. The recent change of tone from the central banks, largely in response to higher inflation expectations, has started to erode investor confidence and equity markets have come under increasing pressure since the start of 2022. 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; continuing high levels of coronavirus cases in some countries, the risk of new variants; rising inflationary pressures; tight global supply chains; and rising geopolitical uncertainty.

The IIMT recommends a defensive cash allocation of 5.0% (3.0% overweight relative to the final benchmark) due to the uncertain economic outlook, and the current rich valuations across most asset classes. 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 £180m over the course of 2022-23).

3 Implications

3.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

4 Background Papers

4.1 Papers held in the Investment Section.

5 Appendices

5.1 Appendix 1 – Implications.
5.2 Appendix 2 – Report of independent external adviser.
5.2 Appendix 3 – Portfolio Valuation Report at 31 January 2022.

6 Recommendation(s)

That Committee:

a) note the report of the independent external advisor, Mr Fletcher.
b) note the asset allocations, total assets and long-term performance analysis set out in the report.
c) approve the IIMT recommendations outlined in the report.

7 Reasons for Recommendation(s)

7.1 Both Mr Fletcher's report and the analysis set out in this report in respect of asset allocation, total assets and long-term performance provide an overview of the Fund's investment strategy and performance track-record on which to assess the asset allocation positioning for the Fund for the upcoming quarter.

7.2 The rationale for each of the IIMT asset allocation recommendations included in this report is set out in Section 2.

Report Author: Neil Smith
Investments Manager

Appendix 1

<u>Implications</u>

Financial

1.1 As set out in the above report.

Legal

2.1 None

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None

Appendix 2

Fourth Quarter 2021 Investment Report

PREPARED FOR:

Derbyshire County Council Pension Fund: Pensions and Investment Committee Meeting

MARCH 2022

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. To the extent this report contains advice it is intended as strategic advice to inform the investment strategy statement rather than investment advice.

Meeting date 2nd March 2022
Date of paper 11th February 2022

1. Market Background (Fourth quarter 2022)

The fourth quarter saw a continuation of the same themes which dampened third quarter growth. This quarter's less positive factors were inflation shifting from "transitory" to "persistent in the short term" and as the Asia-pacific region continued to deal with the Delta variant, South Africa and Europe had to deal with the new much more infectious Omicron variant. Inflation and Omicron dominated sentiment throughout the period. However, by December a mass booster campaign and the realisation that while Omicron was more infectious than Delta, it is much less potent, producing only a mild infection especially in the vaccinated population, calmed the markets.

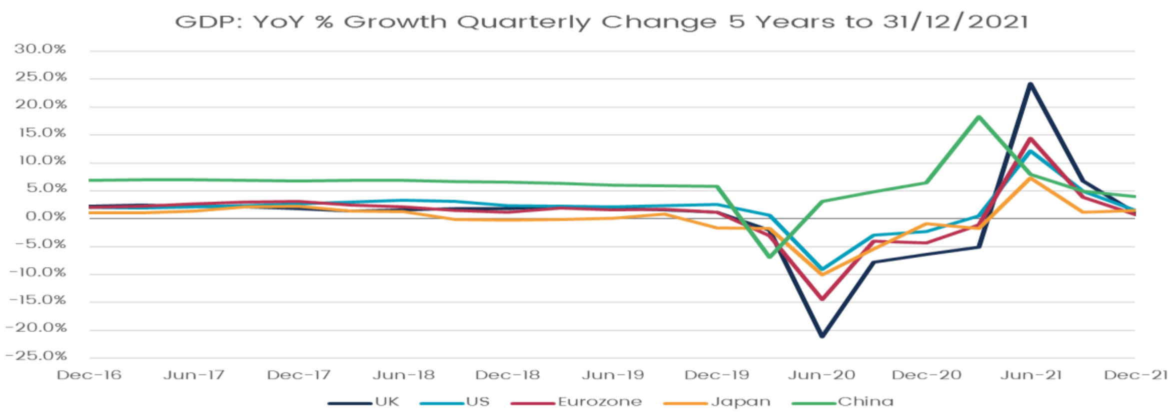
In December the Central Banks response to Inflation was about to become the markets main concern and this has impacted returns and generated volatility in the early part of 2022. In December the Bank of England raised the base rate from 0.1% to 0.25%. But more importantly from the markets perspective the US Fed "pivoted" from promoting easy to neutral monetary policy by openly talking about higher inflation leading to a sooner than expected tightening of monetary policy. Bond yields increased on this news but finished the quarter broadly unchanged, equity markets dipped but finished the quarter higher.

Developed market equity performance was reasonably strong, US markets made new highs and global equities delivered good returns. Emerging Market returns were disappointing, with China's government interventions on covid, in the equity market and the pressure on the property sector finally having an impact, leading to the default of Evergrande. China's weight in emerging market equity indices and its economic importance in the region, led to a wider contagion effect holding back the performance of Asia Pacific in general.

Despite higher inflation data, concerns around Omicron caused long dated UK gilts yields to reverse their sell off in the third quarter, leading to positive returns in the fourth quarter. Global government and non-government bonds produced modest returns with spreads for non-government bonds widening slightly over the quarter.

The rate of global GDP growth continues to slow, but annualised growth rates remain well above the rates seen prior to the pandemic. Higher energy prices and generalised pressure on household spending, compounded by the withdrawal of government support packages and higher taxes are likely to have an impact on discretionary spending over the rest of the year.

Chart 1: - Annualised rates of quarter on quarter GDP growth.



Source: - Bloomberg

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 January 2022 and the 3 and 12 months to the end of December 2021.

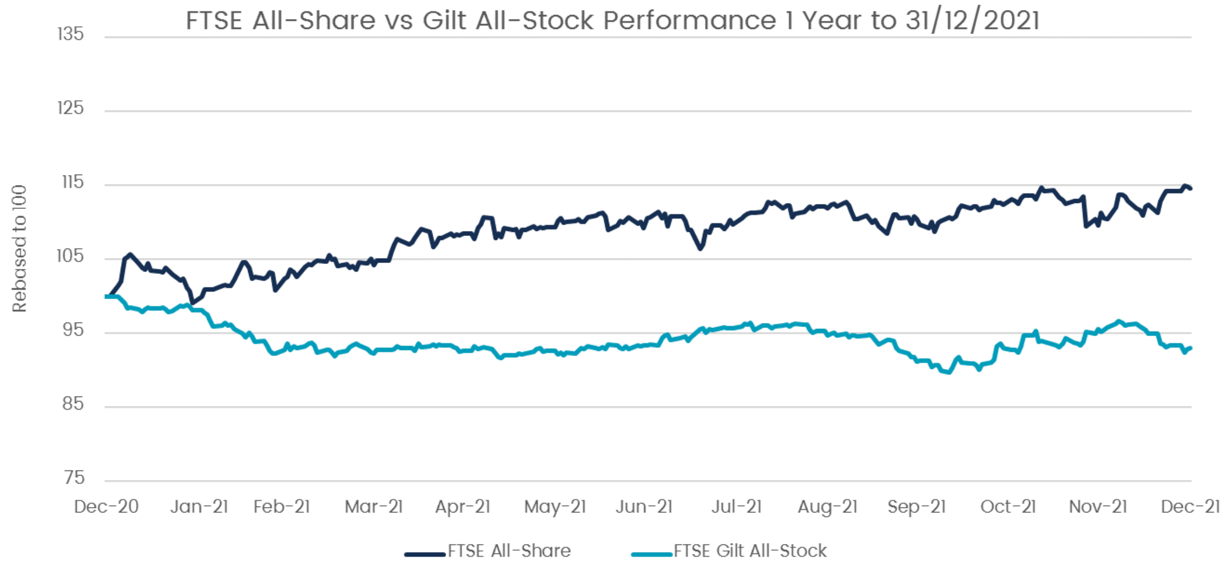
% TOTAL RETURN DIVIDENDS REINVESTED

MARKET RETURNS

		Period end 31st December 2021	
	January 2022	3 months	12 months
Global equity FTSE All-World	-3.9	6.6	21.2
Regional indices			
UK All Share	-0.3	4.2	18.3
North America	-4.5	9.5	28.1
Europe ex UK	-5.2	5.1	17.3
Japan	-5.0	-4.9	2.5
Pacific Basin	-3.3	-0.7	-0.1
Emerging Equity Markets	0.6	-1.4	0.9
UK Gilts - Conventional All Stocks	-4.0	2.5	-5.3
UK Gilts - Index Linked All Stocks	-2.7	4.7	3.9
UK Corporate bonds*	-3.3	0.6	-3.0
Overseas Bonds**	-1.4	0.0	-2.1
UK Property quarterly^	-	6.1	16.3
Sterling 7 day LIBOR	0.0	0.0	0.0

^ MSCI indices * ICE £ Corporate Bond; **ICE global government ex UK LOC

Chart 1: - UK bond and equity market returns - 12 months to 31st December 2021



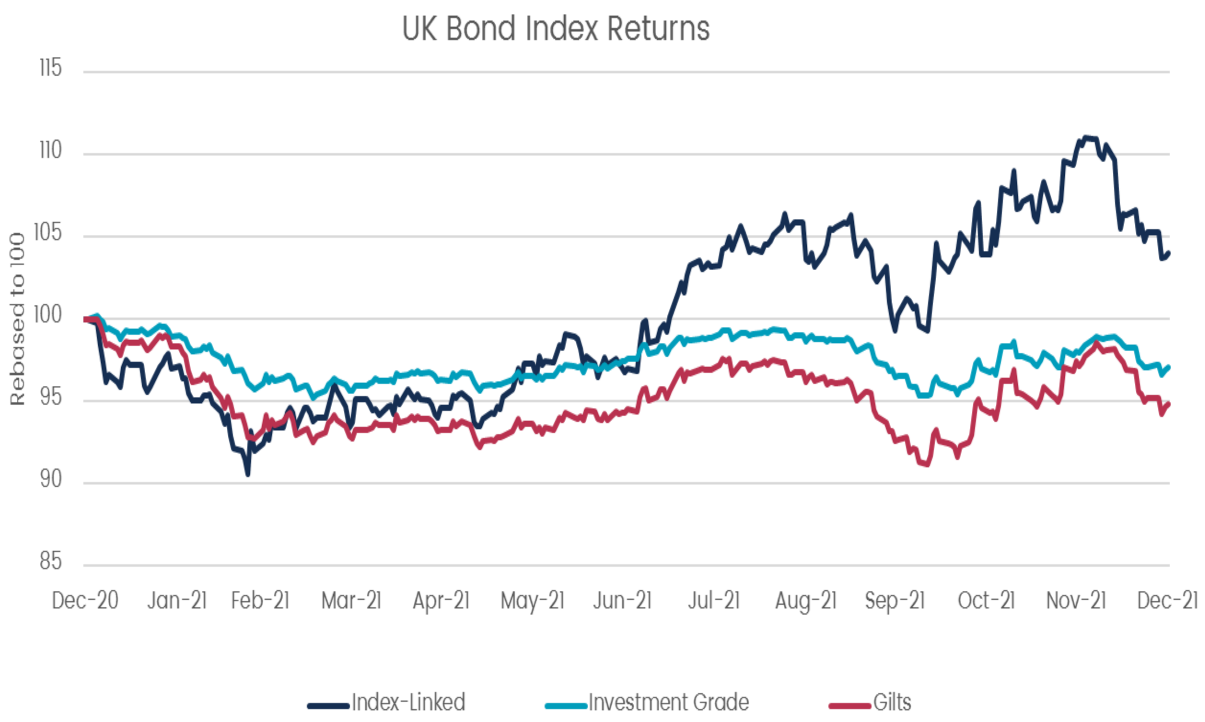
Source: - Bloomberg

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

BOND MARKET % YIELD TO MATURITY	30th September 2021	31st December 2021	Quarterly Change %	31st December 2020	Current 11th February 2022
UK GOVERNMENT BONDS (GILTS)					
10 year	1.02	0.97	**-0.05**	0.20	**1.55**
30 year	1.37	1.12	**-0.25**	0.76	**1.62**
All Stocks ILG	-2.54	-2.59	**-0.04**	-2.53	**-2.27**
OVERSEAS 10 YEAR GOVERNMENT BONDS					
US Treasury	1.49	1.52	**0.03**	0.91	**1.93**
Germany	-0.19	-0.18	**0.01**	-0.58	**0.29**
Japan	0.07	0.07	**0.00**	0.02	**0.22**
NON-GOVERNMENT BOND INDICES					
Global corporates	1.66	1.86	**0.20**	1.35	**2.50**
Global High yield	4.43	4.60	**0.17**	4.32	**5.63**
Emerging markets	3.77	4.05	**0.28**	3.20	**4.67**

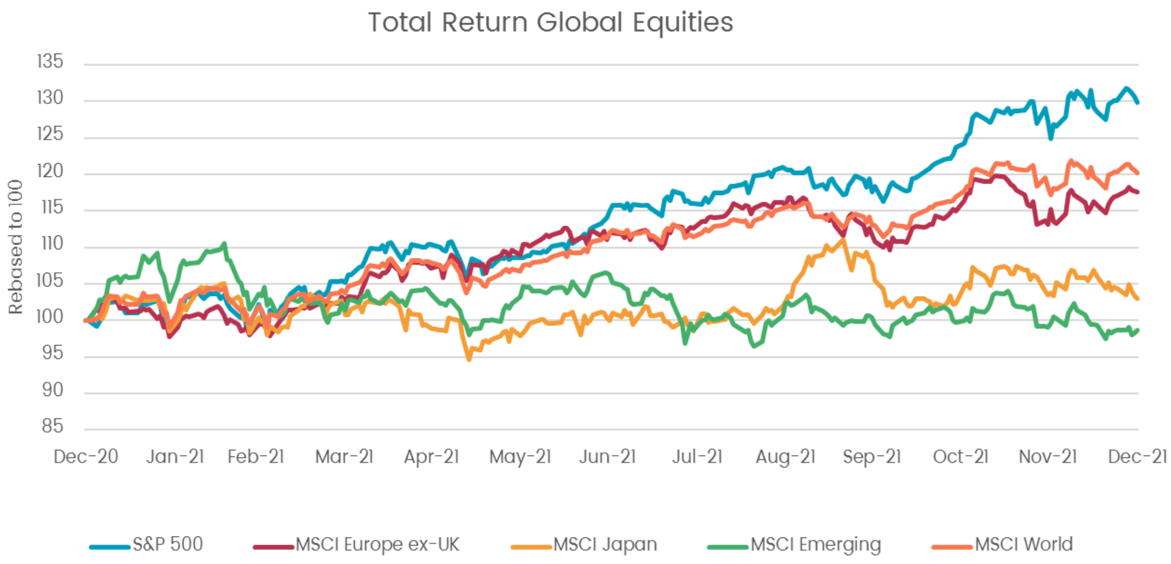
Source: - Trading economics and ICE Indices G0LI, G0BC, HW00, EMGB, 11th February 2022.

Chart 2: - UK Bond index returns, 12 months to 31st December 2021.



Source: - Bloomberg

Chart 3: - Overseas equity markets returns in Sterling terms, 12 months to 31st December 2021



Source: - Bloomberg

Recent developments (January and early February 2022)

After a strong 2021, equity markets were faced with the reality of higher inflation, real concerns about central bank tightening and increased tensions in eastern Europe all of which led to a sharp increase in volatility. Global equity market indices ended January down 3.9%, although emerging markets outperformed, ending the month up 0.6%. Higher oil and gas prices and increased government bond yields saw energy and financial stocks significantly outperform the rest of the market. All bond markets produced negative returns in January with the highest duration sectors delivering the worst returns. As can be see in Table 2 above as of the 11th February, bond yields have continued to rise.

Economic data in developed markets remains strong with activity rebounding from the Omicron induced dip in December. The recovery in Labour markets has been rapid with many economies seeing unemployment rates back to pre-pandemic levels and Job vacancies remaining high.

While Natural gas prices have fallen from their peak in December 2021, Oil prices continue to rise reaching $90 a barrel for the first time since October 2014, driven by falling oil stockpiles in the US and rising political tensions with Russia.

A strong economy, an easing but persistent supply/demand imbalance for goods, a tightening labour market and higher energy prices have all played their part in keeping inflation high.

2. Investment Performance

Table 3 shows the performance of the Derbyshire Pension Fund versus the Fund specific benchmark for the quarter and year to 31st December 2021. Over 12 months all the broad asset class categories outperformed, but individual manager performance was much more mixed when compared to their respective benchmarks.

Over 10 years the Fund has achieved a total return of 9.3% per annum, net of fees.

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

% TOTAL RETURN (NET) 31ST DECEMBER 2021	3 MONTHS		12 MONTHS	
	Derbyshire Pension Fund	**Benchmark**	**Derbyshire Pension Fund**	**Benchmark**
Total Growth Assets	**3.9**	**4.0**	**17.4**	**16.5**
UK Equity	3.8	4.2	19.5	18.3
Total Overseas Equity	**3.2**	**3.9**	**13.6**	**15.4**
North America	8.4	9.5	25.6	28.1
Europe	5.3	5.1	17.4	17.3
Japan	-4.6	-4.9	0.7	2.5
Pacific Basin	-1.9	-0.7	0.0	-0.1
Emerging markets	-0.9	-1.4	2.2	0.9
Global Sustainable Equity	5.1	6.6	15.6	21.2
Global Private Equity	9.9	4.5	48.7	19.3
Total Protection Assets	**1.8**	**2.6**	**-0.6**	**-1.0**
UK & Overseas Government	1.3	2.4	-4.1	-5.2
UK & Overseas Inflation Linked	4.1	4.9	4.4	4.2
Global Corporate bonds	0.2	0.3	-2.1	-2.1
Total Income Assets	**3.2**	**2.8**	**9.9**	**8.2**
Multi-asset Credit	0.9	0.5	5.9	4.0
Infrastructure	3.1	0.5	7.1	2.1
Property (all sectors)	5.5	6.7	16.2	17.5
Internal Cash	0.0	0.0	0.1	0.0
Total Fund	**3.2**	**3.4**	**11.6**	**10.9**

Total fund value on 31st December 2021 £6,293 million

The Fund remains overweight growth assets and underweight protection assets relative to the strategic benchmark. Over the fourth quarter of 2021, the Fund slightly underperformed due to a better performance from Government bonds and a sector rotation in equities which had a negative impact mainly on growth stocks. Over 12 months the Fund is 1.7% ahead of benchmark, all asset classes outperformed but regional equity performance was mixed.

Growth assets – Equity performance

In the 4th quarter of 2021, at the aggregate level, the equity portfolio slightly underperformed its benchmark. Returns were again generally lower and more mixed over 3 months as market returns decelerate after the dramatic rebound as economies re-opened. The underperformance was fairly broad with only the European, Japanese and emerging market portfolios outperforming their benchmarks. Over 12 months the marked underperformers were the US and Global sustainable portfolios with the UK and Private equity portfolios making the largest positive contributions. In absolute terms Japan, Asia Pacific and Emerging equity portfolios delivered very small positive returns. Japan can be explained by the very slow recovery from covid and Asia Pacific and Emerging by the impact of a changed regulatory environment in China and its zero covid policy, and the contagion these policies have caused in the region.

Over 3 years growth assets have delivered an aggregate return of 14.6% p.a., 0.9% more each year than the strategic benchmark, net of fees. While the Asia Pacific and Emerging market equity portfolios delivered solid absolute returns, they underperformed their respective benchmarks. Over 10 years growth assets have returned on average 11.8% p.a. compared to 10.8% p.a. for the benchmark.

Protection assets - Fixed Income Performance

Rising covid infection rates due to the emergence of the Omicron variant and a more relaxed view on inflation from central banks caused bond yields to fall delivering positive returns. This runs against the trend over the year where bond markets sought to price in the strong economic recovery leading to negative returns from the most interest rate sensitive long maturity sectors. The Fund remains underweight its allocation to UK government bonds and has less interest rate sensitivity than the benchmark. As a result, the government bond portfolio underperformed over 3 months but outperformed the benchmark over 12 months. Over 3 years protection assets have delivered 5.1% p.a. 0.2% p.a. more than the benchmark.

Income assets – Property, Infrastructure and MAC

Over the quarter and the year, the combined portfolio of income assets has outperformed the benchmark, mainly due to the strong performance of Infrastructure and MAC. The direct property portfolio underperformed in the short term, mainly due to its underweight allocation. Over 3 years Income assets have on average delivered 6.4% p.a. 1.4% p.a. more than the benchmark.

3. Economic and Market outlook

Economic outlook

The global economy continues to recover from the dislocations caused by the impact of covid and its variants as they migrate around the world. The various responses by governments in different regions are also leading to volatility in output and trade, on balance the expectation is that growth will be lower but stronger in 2022 than it was prior to the pandemic. While fiscal and monetary stimulus is being reduced the positive tailwind of its impact will continue to be felt for some time. Again, while stimulus has not been evenly distributed throughout the economy there is plenty of money available to maintain a higher level of spending and investment from households and industry.

Table 4 below is a "heat map" for the US economy which suggests that the US economy and by extrapolation the developed economies are only "mid cycle" in terms of the potential economic expansion.

Table 4: **-** Economic cycle indicators – a historical comparison

We Are in the Mid-Stage of the Economic Expansion

	Current	Feb 20	Dec 07	Mar 01
Output Gap	59%	71%	82%	91%
Unemployment Rate	90%	99%	84%	95%
Employment-Population Ratio	52%	85%	83%	100%
Unit Labor Costs	75%	46%	65%	63%
Capacity Utilization	73%	83%	96%	100%
Capex to GDP	61%	86%	77%	99%
Housing Investment to GDP	55%	21%	85%	63%
Nonfinancial Corp Profit Margin	13%	52%	41%	100%
Househld Debt to Income	69%	72%	100%	68%
Household Financial Obligations Ratio	2%	9%	100%	79%
Nonfinancial Corp Debt to Profits	29%	90%	27%	98%
Nonfinancial Corp Interest Coverage	1%	10%	61%	93%
Average	48%	60%	75%	87%

Sources: MacKay Shields, CBO, BLS, BEA, Federal Reserve. Percentile rankings based on historical data since 1960 for most series. Higher percentile rankings associated with late cycle. For three prior recession starts, table displays highest rank for each indicator during year prior to peak.

With the unemployment rate and unit labour costs being the only indicators suggesting possible causes for concern.

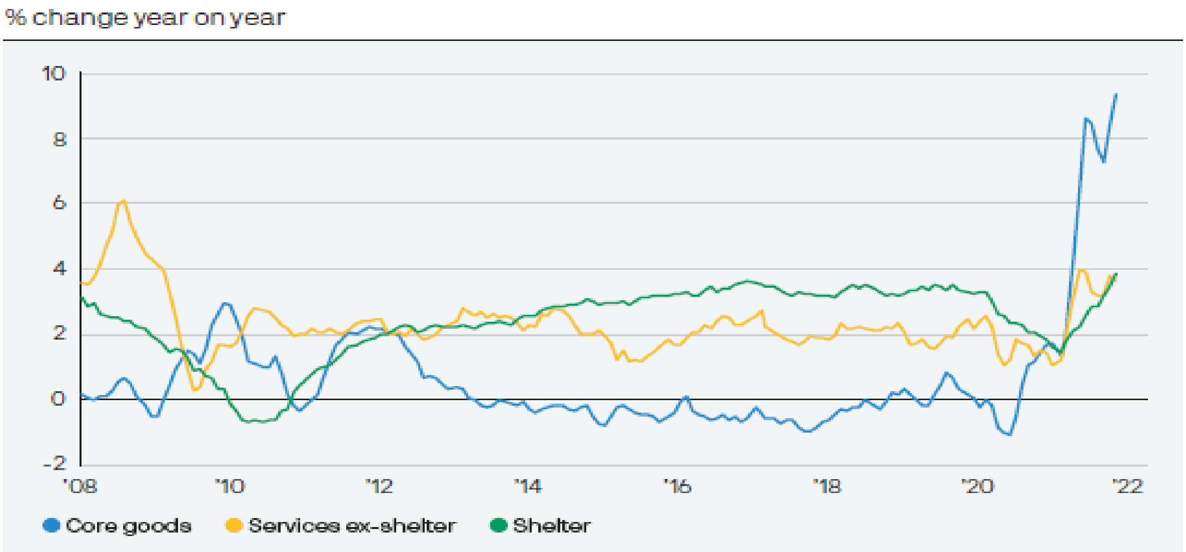
The pandemic has caused major changes in the world of work, many employees and employers have decided that they like benefits of a mixed working environment in terms of flexibility and higher productivity. This flexibility may help keep unit labour costs under control and I would suggest that workers who have decided at the moment not to return to work, may prove to be a potential source of labour, that could return to the workforce if an employer appears flexible enough or if their concern over the risk of covid decreases.

The global economy is still repairing itself after a major exogenous shock which was not the result of systemic or economic crisis. I believe that the inflation and dislocations we are seeing at the moment are likely to be short term rather than persistent in the medium to long term. Covid remains a risk to the recovery just as much as a policy error on the part of the central banks.

Inflation

Developed economies have entered a period of bad news on inflation. I don't want to describe this as "peak inflation" as I do not think we are there yet; I believe that will come between now and the end of the 3rd quarter of 2022. After that I anticipate that inflation could remain higher than we have become used to in the last 10 years but the trend should start to fall. As I have been suggesting for some time the higher inflation, we are experiencing is directly linked to the disruption to global economy caused by the pandemic and the unexpected strength of the recovery in demand for goods as economies re-opened. This has been compounded by the decision by many workers to either temporarily or permanently not return to the workforce and, since last summer, by the large cumulative increases in natural gas prices and more recently oil prices, partly because of demand but also because of the increase in geopolitical tensions in eastern Europe.

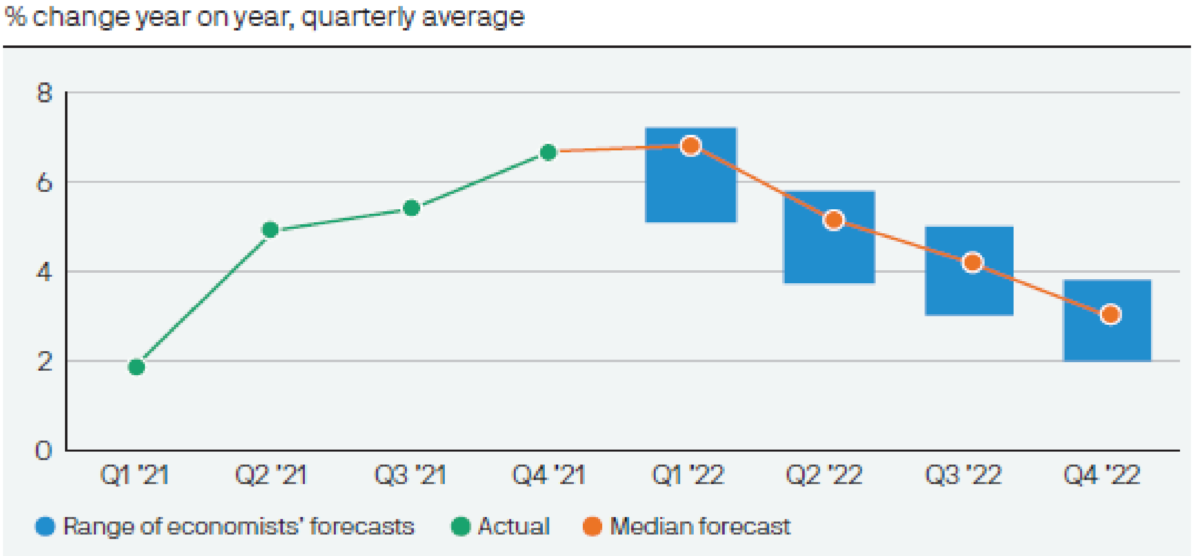
Chart 4: **-** Inflation – year over year change in selected components of US headline inflation.



Source: - JPMAM December 2021

I anticipate that these factors will be fading later in 2022, see chart 5 below which shows expectations for US headline inflation. If I am wrong on this it will be because wages rise inline or above the rate of inflation. The US is most at risk of this because of its very flexible labour market where workers can be hired and fired at the will of the employer, which is what happened during the pandemic. In the UK many more workers were furloughed but many in leisure and hospitality and those on zero hours contracts are now able to shop around for the best rates of pay. In Europe, because of tighter employment legislation most workers were retained by their employers so the disruption and pressure on wages is less likely to be lower.

Chart 5: - US headline CPI Inflation expectations.



Source: - JPMAM December 2021

On balance the experience of the last 20 years is that higher inflation reduces discretionary consumption and reduces economic growth. Even if this turns out not to be the case this time round, central banks have made it clear that they intend to tighten monetary conditions and this will likely have the same effect reducing both growth and inflation.

Central Banks

In December the Bank of England raised rates to 0.25% and while the US Fed did not actually increase rates their policy has clearly "pivoted" from easy to tighter monetary policy. In February the BoE raised rates again to 0.5%. The US Fed announced plans to end QE and raise rates in March, and began openly talking about "balance sheet reduction" or QT. While this was readily accepted by the markets as an appropriate response to higher inflation. It has led to a marked increase in short term and to a lesser extent long term bond yields, and the pricing in by the market of as many as seven 0.25% rate increases over the next 12 months. Even the ECB has recognised that the recent inflation data is a concern with Christine Lagarde suggesting at the February ECB press conference that QE in Europe may come to an end sooner than expected. Only the BoJ has stuck to its easy money policy stepping in to keep 10 year government bond yields down when they breeched 0.25% as a result of the global increase in bond yields.

Central banks have been clear that they would not respond to higher growth and inflation until employment had returned to pre-pandemic levels and until December the US Fed had stuck to this message. The US and The UK's central banks now accept that their economies may be approaching full employment. Not because all workers have returned to work but because the number of people willing to re-join the workforce has fallen by personal choice and this is leading to wage cost pressures, which the central banks are keen should not become entrenched.

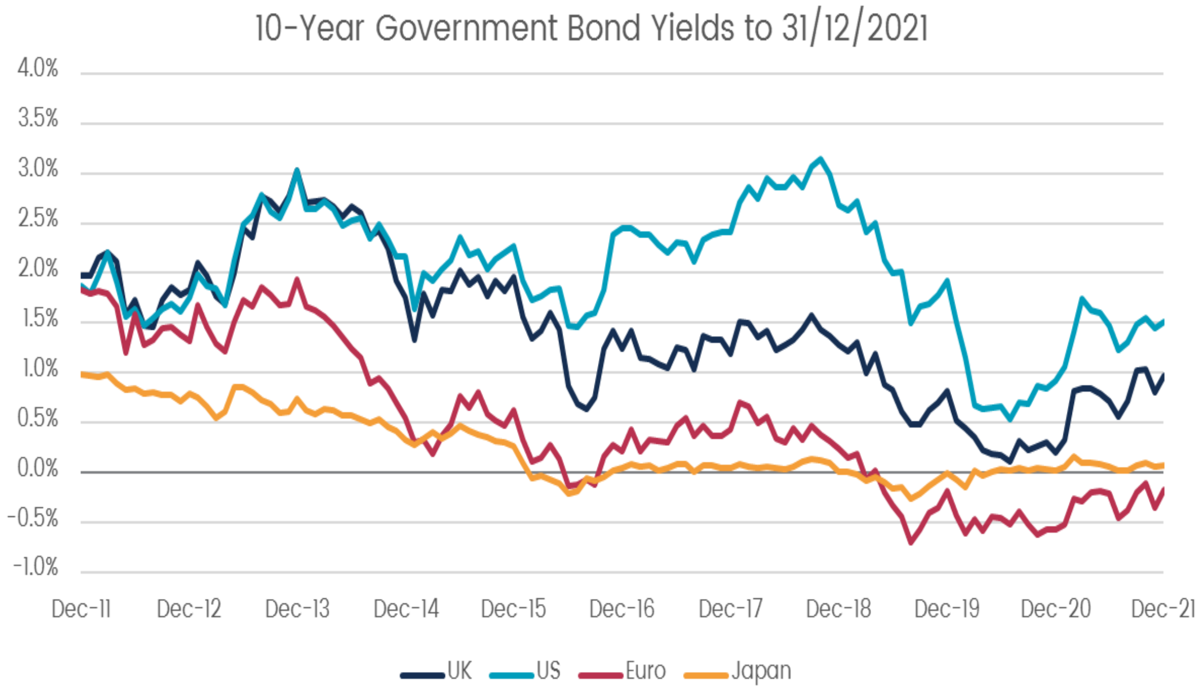
Because I have a more sanguine view of inflation based on longer term expectations, I am concerned that central banks may commit a policy error by raising rates too aggressively and at the same time reducing the size of their balance sheets. If this involves selling bonds back to the market as suggested by the BoE then QT is effectively doubling the monetary tightening impact.

Government bonds

Government bond yields ended the quarter lower or unchanged due to restrictions introduced to tackle Omicron. However, January provided a stark warning to investors that in times of heightened inflationary risks, long duration government bonds may provide less protection to portfolios than in times of recessionary risk. This news should not come as a surprise to readers of this report as I have been predicting a medium term trend to higher government bond yields for some time. As can be seen in Table 2 above, all bond yields have increased since the beginning of the year, but it is the longer duration government and investment grade non-government bonds that have delivered the worst returns.

I have not changed my view that it is highly likely that government bonds could continue to deliver a near zero or even negative returns in the next 12 months. While this is not good news for asset returns, because of the way in which Scheme liabilities are calculated, increases in government bond yields are likely to lead to a reduction in Scheme liabilities, hence improving the funding position.

Chart 6: **-** Government bond yields, last 10 years.



Source: - Bloomberg

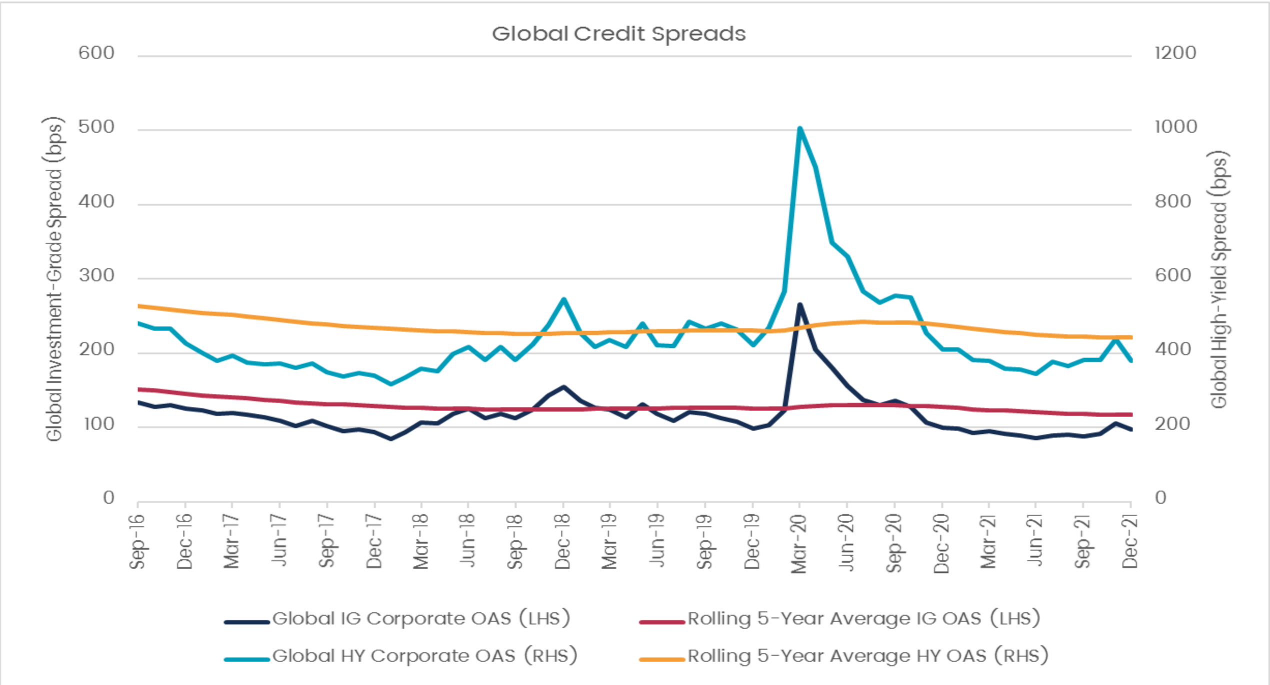
Non-government bonds

Chart 7 below, shows the excess yield spread for both investment grade non-government and high yield bonds. As can be seen from the chart over the fourth quarter of 2021 yield spreads widened compared to earlier in the year but narrowed compared to government bonds in December as government bonds were sold in response to the change in central bank messaging.

As can be seen in Table 2 above, calendar year to date spreads have continued to widen. While longer duration investment grade non-government bonds have matched the negative returns of government bonds, high yield bonds and loans have, because of their lower interest rate sensitivity and higher yields, produced smaller negative returns, outperforming both government and investment grade non-government bonds.

High yield bonds are more sensitive to the economy, so provided the economic growth remains strong these bonds are likely to continue to outperform. Over the next 12 months I expect Multi-asset Credit funds with their mix of low duration bonds and floating rate loans to outperform both government and investment grade non-government bonds. Provided the pace of downgrades and defaults does not increase significantly, as the key to success with this asset class is avoiding defaults.

Chart 7: - Credit spreads, extra yield over government bonds, last 5 years.

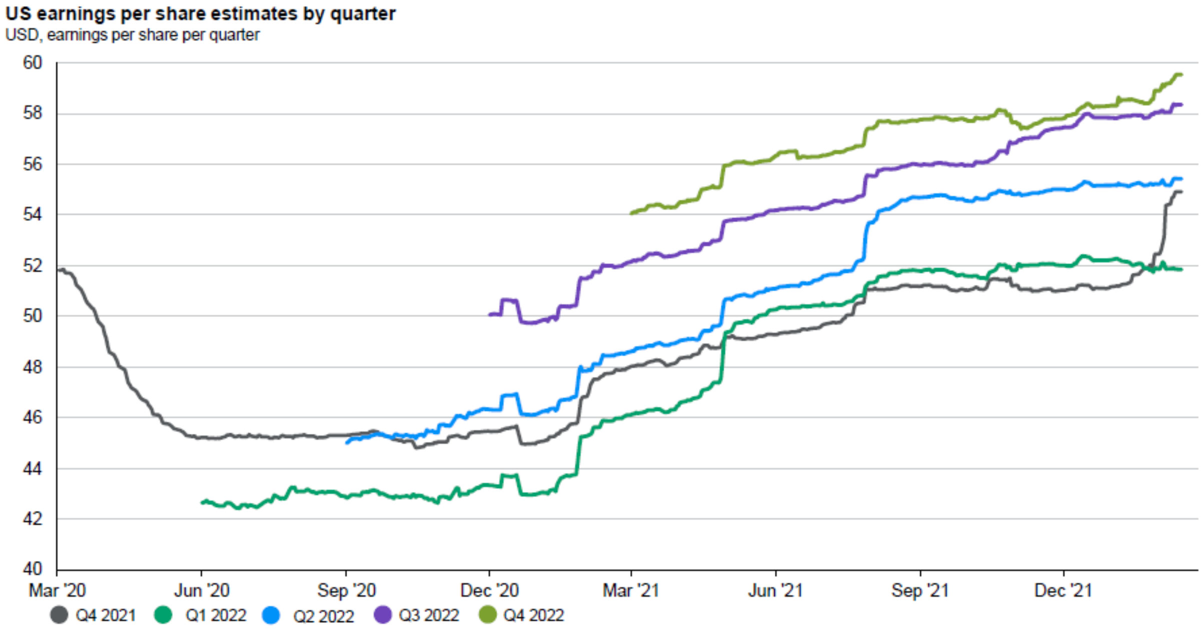


Source: - Bloomberg

Equities

Market returns in the fourth quarter remained mixed as they have done over the year. Developed markets producing solid positive returns but Japan and Emerging equities only small positive and in some cases negative returns. Yet as reported before, despite the supply side issues and the resurgence of covid infection rates, corporate profits have been very strong in 2021. Once again US companies have reported higher than expected earnings and analysts remain positive for the year ahead, see chart 8 below.

Chart 8: **-** US S&P 500 earnings estimates, continue to be revised higher.

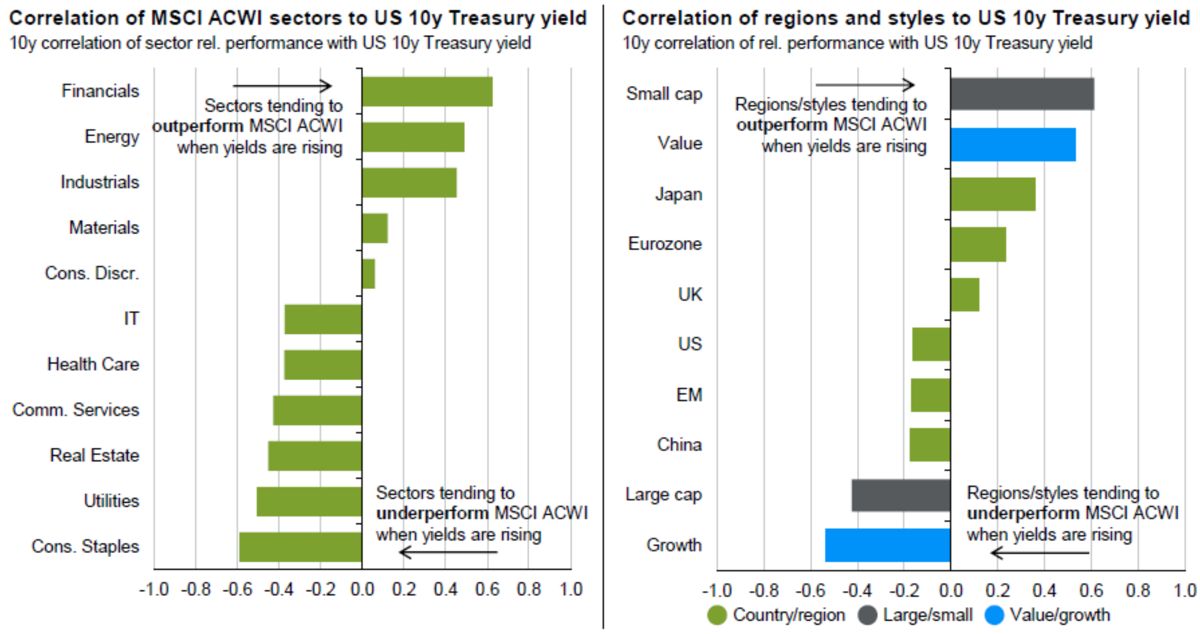


Source: - JP Morgan Asset Management

In January the change in central bank messaging caused a widespread sell off in equity markets and a sharp rotation in sector performance leadership. Just as we saw 12 months ago, growth stocks trading on stretched valuations have come under increased selling pressure, particularly in those sectors that had benefited from changing consumer patterns during the pandemic. Market participants have rotated out of “stay-at-home” stocks, where the revenue growth of the pandemic years is unlikely to be repeated in the future. Equally harmful for sentiment towards growth stocks is the fear of tighter monetary conditions as central banks increase rates. Value stocks are benefiting from the growing conviction that central banks will be able to raise rates materially over the coming year. Financials have done particularly well as they tend to benefit from rising government bond yields. Commodity heavy equity markets like the UK, Latin America and the Middle East outperformed significantly as oil prices have increased significantly on a combination of higher demand and rising geopolitical tensions as Russia continues its “military training exercises” close the Ukrainian border.

While higher inflation and central bank interest rates are clearly bad news for government bond markets, provided inflation is not too high it can be good news for certain equity sectors and country indices and can drive relative performance. Chart 9 below show the correlation between higher bond yields and sector, style and regional equity indices.

Chart 9: **-** Global Equity Sector, Regional and Investment Style performance variation in a rising US bond yield environment.



Source: - JP Morgan Asset Management January 2022

Looking forward over the next 12 months, I expect to see more general equity market volatility due to macro factors like inflation and interest rates and more stock specific risk as investors focus on stock selection rather than just buying the market.

GDP

Table 5 shows the consensus forecasts for GDP growth in calendar 2021 and 2022 and my expectations in November 2021 and January 2022.

Table 5: - GDP forecasts - Consensus versus Advisor expectations.

% CHANGE YOY	2022				2023	
	NOVEMBER 2021		JANUARY		JANUARY	
	Consensus	**AF**	Consensus	**AF**	Consensus	**AF**
US	4.0	**4.4**	3.9	**3.6**	2.6	**2.6**
UK	4.7	**5.0**	4.3	**4.0**	2.2	**2.2**
Japan	3.0	**3.0**	3.1	**2.7**	1.5	**1.5**
EU	4.2	**4.5**	4.0	**3.7**	2.6	**2.6**
China	5.1	**5.6**	5.0	**4.7**	5.3	**5.6**
SE Asia	5.3	**5.5**	5.4	**5.0**	5.2	**5.5**

Source: - Consensus Economics January 2022

Between November and January consensus forecasts for GDP growth in 2022 have been revised lower in all regions. Growth is likely to remain stronger than before the pandemic because as mentioned last time economies still have some capacity to grow in aggregate: As we learn to live with covid the more service driven sectors of the economy will continue to expand. The goods sector is experiencing shorter "supplier delivery times" as global trade flows become less disrupted. Households still have excess savings and at the moment a willingness to consume. And governments have only just started to roll out their longer term plans for economic recovery, infrastructure and carbon transition spending.

On the other hand, monetary policy and financial conditions are being tightened by central banks, governments are reducing covid income support programmes and in some cases increasing taxes. And on top of this energy prices are just the latest pressure increasing the cost of living and real incomes are failing to keep pace with inflation. It is these factors that I believe will have a greater influence in 2022 and this is why I anticipate growth while still stronger than before the pandemic could be lower than the consensus forecast. Like the consensus I believe that rate of growth in 2023 will slow to the long term trend in developed markets and will be lower than it was in emerging economies before the pandemic.

The Chinese economy expanded 4.0% year-on-year in the fourth quarter of 2021, slower than the 4.9% seen in the third quarter. It was the slowest quarterly pace of expansion since Q2 2020, amid multiple headwinds including a property downturn, supply chain issues, and covid outbreaks. The economy grew 8.1% over the calendar year, exceeding the government's target of above 6%. Consumption expenditures contributed 65.4% to the 2021 GDP growth, compared with 54.3% in 2020, surpassing the average level of 60% from 2013 to 2019 providing further evidence of the migration from an export led to a domestic consumption led economy.

The US economy expanded by 5.7% in 2021, the strongest growth rate since 1984, reflecting increases in all major subcomponents, led by personal consumption, non-residential fixed investment, exports, residential fixed investment, and private inventory. Personal consumption was pushed higher by a 4.7% surge in services spending, namely health care, recreation, and transportation as covid restrictions have been removed.

Preliminary estimates showed that the UK economy advanced 6.5% year-on-year in the fourth quarter of 2021, following an upwardly revised 7% annualised growth in the third quarter. Government spending recorded the biggest increase (11.6%), followed by household expenditure (8.9%) and gross fixed capital formation (2.3%). However, business investment declined 0.8%, exports fell 0.6% and imports 5.3%. Over the 2021 calendar year, the economy grew by 7.5%, the highest pace since 1941, despite this the UK's economy was still 0.4% smaller than it was before the pandemic.

The Japanese economy grew 5.4% on an annualised basis in Q4 of 2021, following -3.6% contraction in the third quarter advanced data showed. The sharp rebound marked the strongest pace of expansion since Q4 2020, as Japan's government finally got covid infection rates under control and the rate of vaccination significantly increased. Household consumption and business investment rebounded sharply, quarter on quarter and the balance of trade also improved. In the calendar year the economy grew by 1.9%, but this was still 1% smaller than it was prior to the pandemic.

The Euro Area economy advanced 0.3% in the last three months of 2021, the is the slowest growth in three quarters as the Omicron variant spread across the European continent and restrictions hurt the services sector and labour shortages persisted due to illness or quarantine rules. The German economy was the main laggard, contracting by 0.7%. In Calendar 2021, Eurozone GDP advanced at a record 5.2%, following a 6.4% contraction in 2020. As a result of the fourth quarter's weak growth at the end of December 2021, the Euro-area economy was only 0.2% larger than before the pandemic.

Consumer Price Inflation

Table 6 shows the consensus forecasts for Consumer Price Inflation in calendar 2021 and 2022 and my expectations in November 2021 and January 2022.

Table 6: - Consumer Price Inflation forecasts - Consensus versus Advisor expectations

% CHANGE YOY						
	2022				2023	
	NOVEMBER 2021		JANUARY		JANUARY	
	Consensus	AF	Consensus	AF	Consensus	AF
US	3.7	**4.0**	4.8	**5.0**	2.6	**2.5**
UK	3.7	**3.7**	4.6	**5.0**	2.5	**2.4**
Japan	0.7	**0.8**	0.8	**1.0**	0.7	**0.5**
EU	2.3	**2.5**	2.9	**3.5**	1.8	**1.5**
China	2.1	**2.5**	2.2	**2.5**	2.3	**2.3**
SE Asia	2.5	**2.5**	2.6	**2.8**	2.6	**2.6**

Source: - Consensus Economics January 2022

Once again, the consensus forecasts for inflation in calendar 2022 have been revised higher. I have not changed my view that I expect inflation reports over the next few months will be worryingly high. Due to the economic recovery, base effects from 12 months ago, global supply chain disruption, regional increases in covid infection rates and restrictions “upstream”, all of which are extending the period of shortages in the supply of goods, services and workers. Although there is some evidence emerging that “supplier lead times” are shortening as global trade and supplier substitution picks up. Currently it is the sharp increase in global energy prices that is driving inflation higher.

I still believe higher energy costs are more likely to have a negative impact on discretionary consumption, ie lead to lower growth, as incomes fail to keep up with prices. Once we are past the next 12 months, I continue to expect inflation to fall back to a level of 2% to 3% over the medium term somewhat higher than the 1% to 2% we have become accustomed to over the last 10 years, but still low.

The annual inflation rate in the US accelerated to 7.5% in January 2022, the highest since February 1982, due to soaring energy costs, labour shortages, and supply disruptions coupled with strong demand. Energy remained the biggest contributor, with fuel prices surging 40%. Inflation elsewhere was much more muted with shelter up only 4.4% and food 7%. Although prices for new vehicles were 12.2% higher and prices for used cars and trucks remain persistently high +40%, due to supply shortages of new vehicles and covid induced demand for private vehicles over public transport. Excluding volatile energy and food categories, the core inflation rate increased 6%, the highest since August of 1982.

In the UK the annual inflation rate increased to 5.4% in December 2021 (and is expected to be similar in January 2022). It is the highest reading since March 1992 as inflationary pressures persist, namely rising energy prices, supply chain disruptions and a low base effect from last year. After energy costs the biggest upward contribution came from cost of food and non-alcoholic beverages, restaurants and hotels. Core inflation which in the UK excludes energy, food, alcohol and tobacco prices increased 4.2% year-on-year in December, this is the highest reading since at least 1997.

Annual inflation in the Euro Area edged higher to a fresh record high of 5.1% in January 2022 from 5% in December. Energy prices dominate inflation with an increase of 28.6%. Other sources of inflation were much lower food, alcohol and tobacco 3.6%, services 2.4% and non-energy industrial goods only 2.3%. Core inflation which excludes prices of energy, food, alcohol and tobacco, eased to a 3-month low of 2.3%. The inflation rate remains well above the ECB's target of 2% amid a power crisis in Europe which sent cost of natural gas, coal and electricity sharply higher.

After a long period of deflation in Japan consumer prices rose at an annual rate of 0.8% in December 2021, accelerating from a 0.6% gain a month earlier the 4th straight monthly increase. Just as elsewhere the largest contributions come from energy prices +11% and after that food prices +2.1%. Core consumer prices gained 0.5% year over year, the same as in November, staying at their highest levels in almost 2 years.

4. The outlook for the securities markets

The global economic recovery remains on track but it is slowing from the sharp rebound we saw as lock down measures were eased and economic growth especially in the goods sector started its stuttering recovery. In recent months the leisure and hospitality sectors have also started to recover. But the dislocations in terms of global trade and the availability of workers has led to an uptick in inflation. At the same time the strong demand for oil and gas against a backdrop of poor energy transition planning, the intermittency of renewables, the lack of investment and increased geo-political tensions have compounded the near term outlook for inflation. I believe we are right in the middle of the bad news for inflation. As a result, it is entirely likely that over the next 6 to 12 months, the year over year inflation reports will be higher and this will make equity and bond markets more volatile as they see the inflation data and worry about how the central banks will respond on monetary policy.

In my last report I said that I believed “we are approaching the end of the period of super easy monetary policy in the US and in the UK”. Since then, the BoE has raised the base rate twice to 0.5% and the US Fed has announced; that it will bring QE to an end sooner than expected, start increasing interest rates and reducing the size of its balance sheet (QT). Even the ECB has started talking about the early removal of QE. In the space of 3 months the world’s most important central banks have moved from an easy monetary policy stance to telling the markets to expect tighter monetary policy in order to tackle inflation. As a result, bond markets are now expecting as many as seven, 0.25% interest rate increases from the US and UK central banks over the next 12 months. Government bond yields have risen and the more interest rate sensitive sectors of the corporate bond and equity markets have been sold and volatility is generally higher.

While the pace of economic growth is expected to moderate it is likely to remain strong due to lingering effects of easy monetary and fiscal policy as well as the recovery from the covid dip. Inflation is increasingly the main concern of markets, with the current inflation scare being caused by dislocations in global goods supply chains, changes in the availability of workers and higher energy prices. All of which are likely to get factored into the reported inflation data over the next 12 to 18 months.

However, I still believe higher inflation is a “tax on growth”. The transmission mechanism is the reduction of discretionary spending caused by earnings not keeping up with higher prices. As a result, I expect the higher inflation prints we are likely to see over the next 12 months could be falling back closer to 3% by the end of the year. While this is higher than the 1% to 2% we have become accustomed to over the last 10 years, this is not a cause for concern. If I and long term market inflation expectations are wrong, it will be because earnings manage to keep pace or outpace the rate of inflation.

Higher interest rates and inflation are not necessarily a bad outcome for equity markets, but it could lead to a rotation in those sectors which lead performance, with the more interest rate sensitive “growth” sectors, underperforming the quality and value sectors. Going forward, I expect more subdued returns and greater volatility from equity markets.

Bond Markets

In table 7, below I have set out my expectations for 3 month SONIA interest rates and benchmark 10 year government bond yields, over the next 6 and 12 months. They are not meant to be accurate point forecasts, more an indication of the possible direction of yields from February 2022.

Table 7: - Interest rate and Bond yield forecasts

%	CURRENT	SEPTEMBER 2022	MARCH 2023
UNITED STATES			
3month SONIA	0.25	1.25	2.0
10 year bond yield	1.92	2.25	2.5
UNITED KINGDOM			
3month SONIA	0.60	1.0	1.50
10 year bond yield	1.41	1.75	2.00
JAPAN			
3month SONIA	-0.09	-0.10	-0.10
10 year bond yield	0.19	0.25	0.25
GERMANY			
3month SONIA	-0.64	-0.50	-0.25
10 year bond yield	0.21	0.30	0.50

Source: - Trading Economics; 11th February 2022

As a result of the mixed messaging of the BoE in the fourth quarter of 2021, and despite rising inflation, UK Government bond yields fell, until the MPC meeting in December when the BoE unexpectedly raised the base rate from 0.1% to 0.25%.

Since then, Government bond yields have been rising leading to negative returns. At their February 2022 meeting the BoE increased the base rate to 0.5% with a number of MPC members voting for an increase to 0.75%. The BoE also announced a new policy of Quantitative Tightening (QT). This involves selling back to the market the £20 billion of corporate bonds it has purchased since March 2020, as part of its covid action plan. After redemptions have been taken into consideration this is a net supply to the market from the BoE of £18 billion, or about £850 million a month until December 2023, on top of the net new issuance of corporates and the government. While corporate net supply is expected to be moderate, the same cannot be said for the government.

Outside of the UK, government yields have also risen and curves in US, Europe and Japan have flattened significantly implying that global bond markets expect all the world's major central banks to increase interest rates.

In my last report I said that I expected longer dated government yields to increase and suggested that yield curves could steepen as central bank interest rates would remain anchored until QE programmes were completely ended. However recent evidence has overturned this view and yield curves have flattened significantly as they try to price in as many as seven, 0.25% rate hikes over the next 12 months.

There are 2 inferences to be taken from this outcome, the 1st is that central banks especially the US Fed and the BoE have pivoted from not being worried about inflation to being very worried about inflation. Hence the markets expectations of a 1.25% increase in base rates over the next 12 months and the rapid increase in short term bond yields. But the 2nd suggests that bond markets still believe that the central bank response will keep longer term inflation under control, hence long term bond yields have risen much less and implied inflation expectations have not changed significantly.

I have not changed my forecasts I still expect government bond yields to rise and interest rate sensitive assets classes to underperform over the medium term.

Bond Market (Protection Assets) Recommendations

In the short term my prediction is that inflation is likely to be higher than expected and economic growth, while moderating. is also likely to remain strong. Central banks are likely to use this opportunity to end super easy monetary policy and begin the process of normalisation of interest rates. This suggests to me that government bond yields can continue to rise and given their long duration, deliver significant negative returns. As a result, I am happy to be underweight protection assets, last quarter I suggested a 2% underweight of conventional gilts, in favour of holding a higher weight in cash. This quarter I would go further and suggest an additional underweight of 2% to investment grade corporates reducing the allocation from 6% to 4% in recognition of the higher interest rate sensitivity and very low spread to governments. I would allocate this to Multi-asset Credit because while high yield spreads are also low, corporate fundamentals remain strong and default rates are likely to remain low. Also, because many of these securities have floating rather than fixed interest rates, they are less interest rate sensitive, which is ideal in a rising yield environment.

I recognise the benefit of holding government bonds as protection against a selloff in equity markets and to match the Scheme's liabilities but at their current low level of yield government bonds neither provide the income they did in the past whilst protection against falling markets is less of a benefit when yields are so low.

I remain uncomfortable with the extremely high duration, negative yield and over-valuation of index linked gilts, and while I have consistently recommended an underweight allocation in the past in the current period of rising inflation, I would not seek to reduce the position further.

As usual in table 8 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 is very little income protection even for small increases in yield at current durations and spreads.

Table 8: - Total returns from representative bond indices

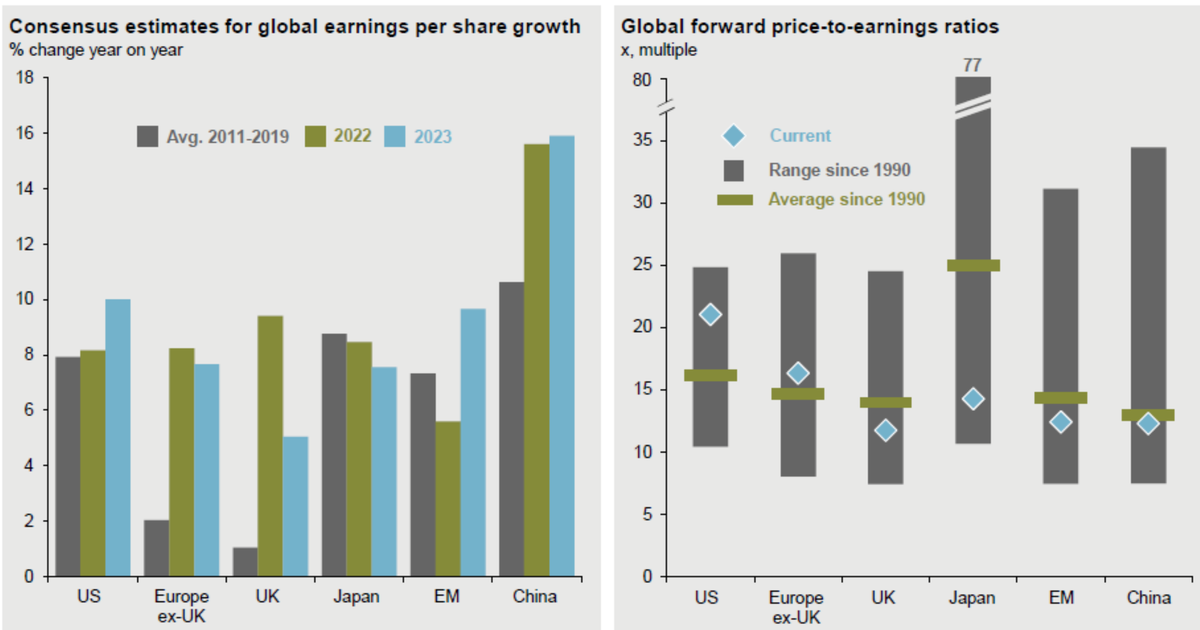
INDEX	YIELD TO MATURITY %	DURATION	YIELD INCREASE %	% TOTAL RETURN, HOLDING PERIOD	
				3 MONTHS	12 MONTHS
All Stock Gilts	1.38	12.3	0.5	-5.8	-4.8
All Stocks Linkers	-2.33	17.3	0.5	-8.6	-8.0
Global IG Corporate	2.72	8.1	0.5	-3.4	-1.3
Global High Yield	5.31	4.1	0.5	-0.7	+3.3

Source: - ICE Indices 4th February 2022

Equity Markets

Chart 9 below, left hand side, shows the consensus earnings per share growth estimates, for 2022 and 2023 compared to the annual average between 2011 and 2019. The right hand side shows, the current forward looking estimates of price / earnings ratio of the same market indices compared to the range and the average since 1990, except for China where the data only goes back to 1996, provided by JP Morgan Asset Management.

Chart 9: - LHS - Earnings per Share estimates, RHS - Price/Earnings Ratios, since 1990, China 1996



Source: - JPM Asset Management., December 2021

Despite the changes in the macro-economic outlook earnings per share forecasts have not changed and analysts are still expecting earnings to be stronger or in-line with the average between 2011 and

2019 despite covid. As has been noted here for some time equity valuations based on the price earnings ratios remain high in the US and low in the UK, Japan and Emerging markets. However, the recent sell-off in China has moved the relative valuation from above to below average.

According to the equity analysts the expansion in the business cycle is currently described as "mid-cycle". If this is the case then earnings can continue to grow and the equity markets can continue to perform well especially those which are pro-cyclical and / or cheap on p/e, valuation basis.

At the moment it is very early in the US earnings reporting season, but once again, many of those companies that have already reported. are outperforming analyst expectations. While the outperformance is more muted than in the 2nd and 3rd quarters, revenues remain well ahead of the 5 year average suggesting that there are strong fundamentals underpinning the outlook for earnings.

On balance I still believe there is upside in equity markets, but the returns will be harder won, with more volatility and lower aggregate returns to those we have seen over the last year. I believe it pays to look at valuations and earnings, both of which suggest to me there are easier gains to be had outside the US. As suggested in my last report, sector leadership has already started to shift with the more interest rate sensitive sectors underperforming less leveraged sectors of the equity markets.

Equity Market (Growth Assets), Recommendations

The first quarter of 2022 is a transition period for the strategic allocation to Growth Assets from the interim benchmark allocation to the new strategic asset allocation. From 1st January 2022 the Fund's Strategic Asset Allocation Benchmark will be as set out in column 2 of Table 8 below. This change will see the complete disinvestment from the direct USA, European and Pacific Basin ex Japan portfolios and a further reduction in the allocation to UK equity, with an increased investment in Global Sustainable Equity. Once the transition is complete the combination of remaining regional and the new global funds will better match the Funds overall desired Strategic Asset Allocation to growth assets. The total allocation to Growth Assets will also fall by 1% in favour of increasing the exposure to Infrastructure in the Fund's Income Asset allocation.

The size of the transition required is so significant that I would not propose making any tactical or temporary changes in the asset allocation. The only suggestion I would make is that if the transition needed to be phased over the quarter, that sales and purchases should be executed in a proportional way. Rather than selling completely out of one region or fund before another.

Income Assets

As mentioned above in protection assets I propose that the allocation to Investment grade corporate bonds should be reduced by 2% and the allocation to MAC be increased by 2%. I suggest this because of the much higher interest rate sensitivity and narrow spread of the asset class. While it would seem counter intuitive to do this, the reason bond yields are rising is because, interest rates are rising, not because the outlook for credit is worsening. The fundamentals of improving growth and low default rates remain positive especially for sub-investment grade credits. Also, MAC Fund managers have the ability to invest in floating rate debt which is a good place to be in a rising interest rate environment.

Looking at the current allocations Infrastructure remains the main underweight and this has slightly increased in January 2022, due the changes in the Fund's strategic allocations. Building the allocation to Infrastructure takes time and at the moment this asset class is attracting strong demand from investors, so I am happy that the IHT is not rushing to increase exposure, the appropriate returns are being sought and investment due diligence is being done.

The performance of the property allocation has proved to be resilient over the last 12 to 18 months despite the impact of covid. As could have been expected the direct property allocation has out-performed the indirect allocation. I would like to see the direct allocation increase funded using net sales from the in-direct exposure, but again as with infrastructure this needs to be done with caution as it is a very long term investment decision, and in the case of property transactions quite expensive.

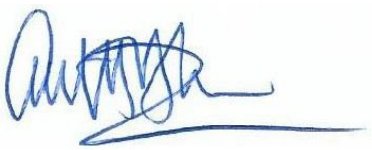
As noted above in "protection assets" I would suggest a 2% overweight to cash from Gilts because of the extremely low yield and the high duration risk currently attached to the asset class. At the end of January, the Fund was holding over 5% in cash, but more than 3% of this figure is already promised for future private market investments. Given the current valuation of all investment markets I am not in hurry to reduce the cash allocation.

The asset allocation set out in table 9 below, shows the new Interim and New Benchmark and my suggested asset allocation weights relative to this benchmark as of the 12th November 2021 and the 11th February 2022. 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 and costs 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.

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

The 2 righthand columns show my suggested allocations relative to the interim benchmark that came into effect on the 1st January 2021. I have also included the new strategic benchmark that comes into effect on the 1st January 2022. This change completes for benchmarking purposes the migration to the new allocations of growth assets. Given the magnitude of the changes I do not propose taking a tactical position, other than to note the US remains expensive and the UK cheap on a relative valuation basis.

% ASSET CATEGORY	INTERIM DERBYSHIRE STRATEGIC WEIGHT 1ST JANUARY 2021	NEW DERBYSHIRE STRATEGIC WEIGHT 1ST JANUARY 2022	ANTHONY FLETCHER 12TH NOVEMBER 2021	ANTHONY FLETCHER 11TH FEBRUARY 2022
Growth Assets	**56**	**55**	**0**	**0**
UK Equity	**14**	**12**	**0**	**0**
Overseas Equity	**42**	**43**	**0**	**0**
North America	6	**0**	**0**	**0**
Europe ex UK	4	**0**	**0**	**0**
Japan	5	5	**0**	**0**
Pacific ex Japan	2	**0**	**0**	**0**
Emerging markets	5	5	**0**	**0**
Global Sustainable	16	**29**	**0**	**0**
Private Equity	4	4	**0**	**0**
Income Assets	**24**	**25**	**0**	**+2**
Property	9	9	**0**	**0**
Infrastructure	9	**10**	**0**	**0**
Multi-asset Credit	6	6	**0**	**+2**
Protection Assets	**18**	**18**	**-2**	**-4**
Conventional Gilts	6	6	**-1**	**-2**
UK index Linked	6	6	**-1**	**0**
US TIPS	0	0	**0**	**0**
UK corporate bond	6	6	**0**	**-2**
Cash	2	2	+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
- FTSE and ICE Indices
- JP Morgan, Asset Management
- Bank of England, UK Debt Management Office, UK OBR, UK Treasury, ONS
- US Bureau of Labour Statistics, US Commerce Dept. The US Federal Reserve.
- Bank of Japan, Japan MITI
- ECB, Eurostat
- Bloomberg, FactSet, Markit and Trading Economics
- Financial Times, Daily Telegraph, Wall Street Journal, New York Times, Washington Post

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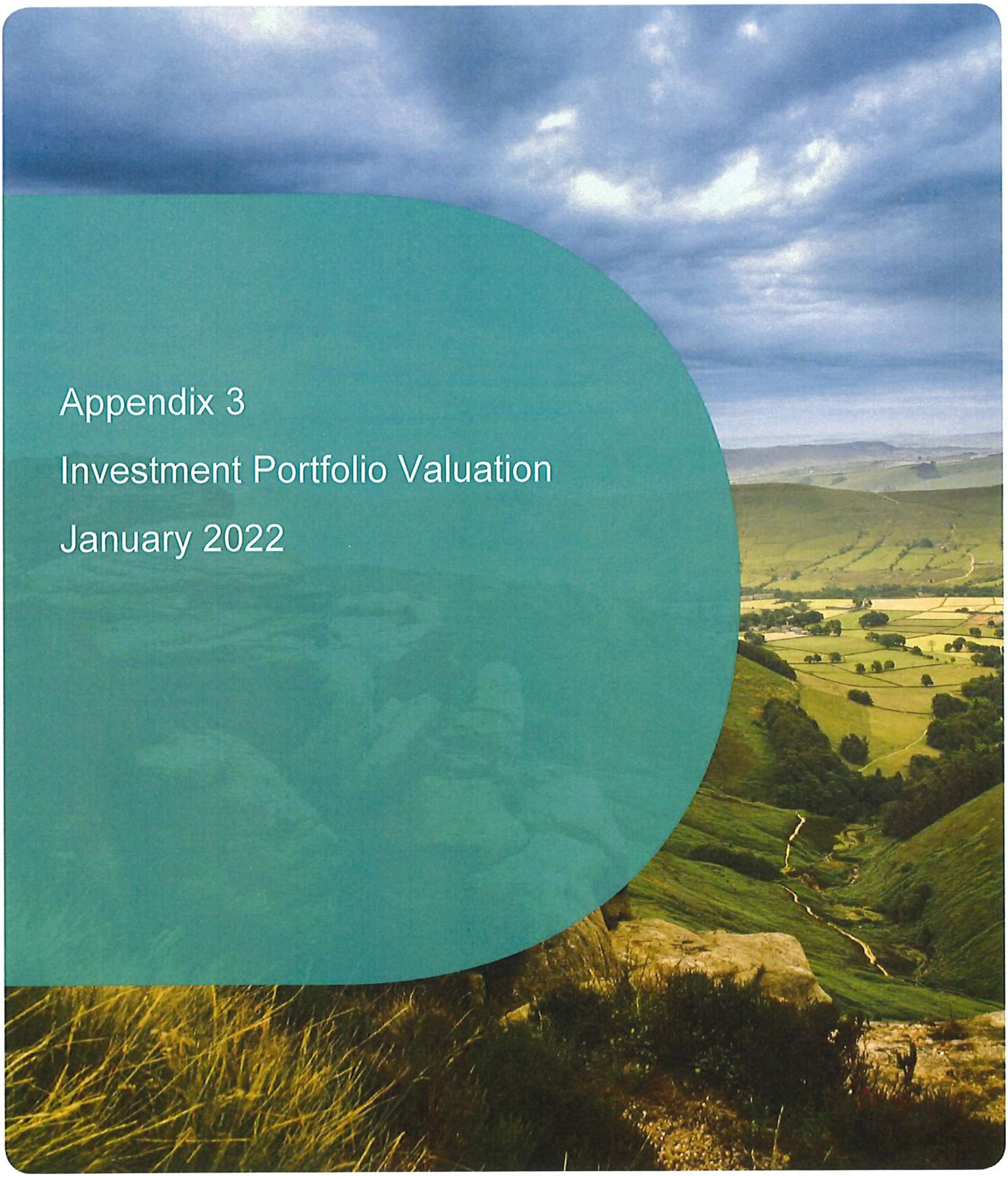

Appendix 3

Investment Portfolio Valuation

January 2022

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

lgps

DERBYSHIRE PENSION FUND **From 1.1.22**

	Intermediate Benchmark	Final Benchmark	Permitted Range	DCC 31/01/2022 £m	DCC 31/01/2022 %
Growth Assets	**57.0%**	**55.0%**	**+/- 8%**	**3441.6**	**56.4%**
UK Equities	16.0%	12.0%	**+/- 6%**	804.6	13.2%
US Equities	12.0%	0.0%	**+/- 6%**	156.4	2.6%
European Equities	8.0%	0.0%	**+/- 4%**	71.1	1.2%
Japanese Equities	5.0%	5.0%	**+/- 2%**	322.9	5.3%
Pacific (ex Japan) Equities	4.0%	0.0%	**+/- 2%**	57.3	0.9%
Emerging Market Equities	5.0%	5.0%	**+/- 2%**	308.4	5.1%
Global Sustainable Equities	3.0%	29.0%	**+/- 16%**	1432.8	23.5%
Private Equity	4.0%	4.0%	**+/- 2%**	288.3	4.7%
Income Assets	**23.0%**	**25.0%**	**+/- 6%**	**1352.0**	**22.1%**
Infrastructure	8.0%	10.0%	**+/- 3%**	460.1	7.5%
Property	9.0%	9.0%	**+/- 3%**	466.1	7.6%
Direct	5.0%	6.0%		278.6	4.6%
Indirect	4.0%	3.0%		187.5	3.1%
Multi-Asset Credit	6.0%	6.0%	**+/- 2%**	425.9	7.0%
Protection Assets	**18.0%**	**18.0%**	**+/- 5%**	**1021.9**	**16.7%**
Government	6.0%	6.0%	**+/- 2%**	293.1	***4.8%***
UK				250.7	4.1%
Overseas				42.4	0.7%
Index Linked	6.0%	6.0%	**+/- 2%**	334.8	***5.5%***
UK				268.3	4.4%
Overseas				66.4	1.1%
Non Government	6.0%	6.0%	**+/- 2%**	394.0	***6.5%***
Cash	**2.0%**	**2.0%**	**+/- 8%**	**287.7**	**4.7%**
LGPSC Regulatory Capital	**0.0%**	**0.0%**		**2.0**	**0.0%**
Total	**100.0%**	**100.0%**		**6105.2**	**100.0%**

DERBYSHIRE PENSION FUND
JANUARY 2022 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	48,471,407.81	**15.38**	**15.38**	745,286,672
UK EQUITIES FUND TOTAL					**745,286,672**

DERBYSHIRE PENSION FUND
JANUARY 2022 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	789,000	1432.00	11,298,480
UK Investment Co's	MONTANARO UK SMALLER CO'S 10P	11,996,285	140.00	16,794,799
UK Investment Co's	STRATHDON INVESTMENTS PLC	20	1000.00	20,000
UK Equity Investment Companies Total				**28,113,279**
UNIT TRUSTS & OEICs				
UK Unit Trusts	LIONTRUST UK SMALLER COMPANIES FUND1	1,456,480.02	2139.26	31,157,895
UK Unit Trusts & OEICs Total				**31,157,895**
TOTAL UNITED KINGDOM				59,271,174

DERBYSHIRE PENSION FUND					
JANUARY 2022 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	CONOCOPHILLIPS	18695	88.61	65.90	1,231,987
US Oil & Gas	MARATHON PETROLEUM CORP	10013	71.72	53.34	534,075
US Oil & Gas	PIONEER NATURAL RESOURCES CO	3239	218.88	162.78	527,248
US Oil & Gas	ROYAL DUTCH SHELL ADR-A	35019	51.04	37.96	1,329,267
US Oil & Gas	ROYAL DUTCH SHELL ADR-B	58601	51.04	37.96	2,224,403
US Oil & Gas Producers Total					**5,846,979**
OIL & GAS SERVICES					
US Oil & Gas Services	SCHLUMBERGER LTD	19787	39.06	29.05	574,791
US Forestry & Paper Total					**574,791**
CHEMICALS					
US Chemicals	CABOT CORP	12279	54.97	40.88	501,980
US Chemicals	CELANESE CORP	5732	155.64	115.75	663,476
US Chemicals	FMC CORP	8409	110.46	82.15	690,792
US Chemicals	INGEVITY CORP	4606	65.90	49.01	225,739
US Chemicals	LINDE PLC	4730	318.68	237.00	1,121,021
US Chemicals	PPG INDUSTRIES INC	6815	156.12	116.11	791,265
US Chemicals Total					**3,994,274**
INDUSTRIAL METALS					
US Industrial Metals	LIVENT CORP	11140	22.99	17.10	190,468
US Industrial Metals Total					**190,468**
AEROSPACE					
US Aero defence	BOEING CO/THE	3173	200.23	148.91	472,495
US Aero defence	GENERAL DYNAMICS	4640	211.93	157.61	731,321
US Aero defence	LOCKHEED MARTIN CORP	3026	389.23	289.47	875,937
US Aero defence	RAYTHEON TECHNOLOGIES CORP	16381	90.17	67.06	1,098,501
US Aerospace Total					**3,178,254**
GENERAL INDUSTRIAL					
US Div Ind	BALL CORP	4349	97.10	72.21	314,056
US Div Ind	DANAHER CORP	6132	285.64	212.43	1,302,624
US Div Ind	DYCOM INDUSTRIES INC	481	84.28	62.68	30,149
US Div Ind	HONEYWELL INTERNATIONAL INC	3949	204.34	151.97	600,120
US Div Ind	INGERSOLL-RAND PLC	19971	56.21	41.80	834,855
US Div Ind	JOHNSON CONTROLS INTERNATIONAL	17716	72.65	54.03	957,192
US Div Ind	KENNAMETAL INC	9842	34.56	25.70	252,962
US Div Ind	PACCAR INC	4370	92.92	69.10	301,987
US Div Ind	PARKER HANNIFIN CORP	3259	309.84	230.43	750,965
US Div Ind	REGAL REXNORD CORP	640	158.61	117.96	75,493
US Div Ind	TRANE TECHNOLOGIES PLC	4342	172.94	128.62	558,448
US Div Ind	WABTEC CORP	12791	88.84	66.07	845,105
US Div Ind	ZURN WATER SOLUTIONS CORP	13299	30.50	22.68	301,659
US General Industrial Total					**7,125,615**
ELECTRONIC EQUIPMENT					
US Electricity	FORTIVE CORP	14620	70.54	52.46	766,974
US Electronic Equipment Total					**766,974**
INDUSTRIAL TRANSPORT					
US Transportation	CANADIAN PACIFIC RAILWAY LTD	4009	71.38	53.09	212,819
US Transportation	FEDEX CORP	3920	246.04	182.98	717,281

US Transportation	HUNT (JB) TRANSPORT SERVICES	702	192.38	143.07	100,437
US Transportation	UBER TECHNOLOGIES INC	25116	37.40	27.81	698,586
US Industrial Transport Total					**1,729,124**
SUPPORT SERVICES					
US Support Services	CERIDIAN HCM HOLDING INC	2984	75.78	56.36	168,171
US Support Services	GENPACT LTD	14047	49.74	36.99	519,622
US Support Services	TRINET GROUP INC	9666	85.19	63.36	612,397
US Support Services	WASTE MANAGEMENT	6473	150.41	111.86	724,069
US Support Services Total					**2,024,259**
AUTOMOBILES & PARTS					
US Automobiles & Par	TESLA INC	2599	936.00	696.10	1,809,172
US Automobiles & Parts Total					**1,809,172**
BEVERAGES					
US Beverages	CONSTELLATION BRANDS INC-A	10558	237.73	176.80	1,866,652
US Beverages	MONSTER BEVERAGE	11973	86.68	64.46	771,826
US Beverages Total					**2,638,479**
FOOD PRODUCTION/PROCESS					
US Food Prod & Proce	MONDELEZ INTERNATIONAL INC-A	38211	67.01	49.84	1,904,258
US Food Production & Processing Total					**1,904,258**
HOUSEHOLD GOODS					
US Household Goods Total					**-**
PERSONAL GOODS					
US Personal Care / Ho	DR HORTON INC	10190	89.23	66.36	676,212
US Personal Care / Ho	PVH CORP	5066	94.99	70.64	357,883
US Personal Goods Total					**1,034,095**
TOBACCO					
US Food Prod & Proce	PHILIP MORRIS INTERNATIONAL	19982	102.85	76.49	1,528,414
US Tobacco Total					**1,528,414**
HEALTHCARE EQUIPMENT & SERVICES					
US Healthcare Equipm	AGILON HEALTH INC	28913	16.58	12.33	356,513
US Healthcare Equipm	ALIGN TECHNOLOGY INC	1109	494.41	367.69	407,771
US Healthcare Equipm	ANTHEM INC	2689	440.89	327.89	881,696
US Healthcare Equipm	BOSTON SCIENTIFIC CORP	30935	42.90	31.90	986,973
US Healthcare Equipm	CENTENE CORP	13373	77.75	57.82	773,263
US Healthcare Equipm	EDWARDS LIFESCIENCES CORP	10836	109.16	81.18	879,691
US Healthcare Equipm	ELANCO ANIMAL HEALTH INC	17334	26.03	19.36	335,560
US Healthcare Equipm	HCA HOLDINGS INC	2338	240.04	178.52	417,374
US Healthcare Equipm	HUMANA INC	4334	392.63	292.00	1,265,523
US Healthcare Equipm	INARI MEDICAL INC	3936	73.39	54.58	214,827
US Healthcare Equipm	INSULET CORP	2459	247.48	184.05	452,581
US Healthcare Equipm	LABORATORY CRP OF AMER HLDGS	1180	271.31	201.77	238,092
US Healthcare Equipm	MCKESSON CORP	1911	256.74	190.94	364,882
US Healthcare Equipm	STRYKER CORP	5182	247.95	184.40	955,563
US Healthcare Equipm	TELEFLEX INC	2836	310.11	230.63	654,063
US Healthcare Equipment & ServicesTotal					**9,184,374**
PHARMACEUTICAL, BIOTECH					
US Healthcare	ACLARIS THERAPEUTICS INC	4901	10.90	8.11	39,729
US Healthcare	AGILIENT TECHNOLOGIES INC	6681	139.31	103.60	692,184
US Healthcare	ALNYLAM PHARMACEUTICALS INC	969	137.51	102.27	99,096
US Healthcare	AMICUS THERAPEUTICS INC	8361	9.40	6.99	58,450
US Healthcare	APELLIS PHARMACEUTICALS INC	1767	40.23	29.92	52,867
US Healthcare	ASCENDIS PHARMA A/S - ADR	947	121.25	90.17	85,394
US Pharm, Biotech	ASTRAZENECA PLC-SPONS ADR	18648	58.16	43.25	806,593
US Healthcare	BAXTER INTERNATIONAL INC	11257	85.43	63.53	715,206
US Healthcare	BIOATLA INC	2762	9.54	7.09	19,596

US Healthcare	BIOGEN INC	1268	225.65	167.82	212,791
US Healthcare	BLUEPRINT MEDICINES CORP	1296	77.02	57.28	74,235
US Healthcare	BRISTOL-MYERS SQUIBB CO	24541	64.88	48.25	1,184,134
US Healthcare	CELLDEX THERAPEUTICS INC	2379	30.91	22.99	54,688
US Pharm, Biotech	ELI LILLY & CO	10440	245.26	182.40	1,904,255
US Pharm, Biotech	EXACT SCIENCES CORP	5978	76.29	56.74	339,173
US Pharm, Biotech	HORIZON THERAPEUTICS PLC COM	674	93.33	69.41	46,782
US Pharm, Biotech	ICON PLC	1109	265.20	197.23	218,727
US Pharm, Biotech	IMMUNOCORE HOLDINGS PLC-ADR	2370	22.41	16.67	39,499
US Pharm, Biotech	INCYTE CORP	1943	74.30	55.26	107,364
US Pharm, Biotech	INTRA-CELLULAR THERAPIES INC	4924	47.41	35.26	173,614
US Pharm, Biotech	KODIAK SCIENCES INC	1110	58.47	43.48	48,267
US Pharm, Biotech	KYMERA THERAPEUTICS INC	1502	41.97	31.21	46,882
US Healthcare	MIRATI THERAPEUTICS INC	542	118.97	88.48	47,955
US Healthcare	MODERNA INC	657	169.17	125.81	82,658
US Healthcare	MYOVANT SCIENCES LTD	17782	13.05	9.71	172,579
US Healthcare	NANOSTRING TECHNOLOGIES INC	10117	34.72	25.82	261,234
US Healthcare	NOVARTIS AG-SPONSORED ADR	7431	86.90	64.63	480,247
US Pharm, Biotech	PFIZER INC	49550	52.70	39.19	1,942,013
US Pharm, Biotech	REGENERON PHARMACEUTICALS	824	608.24	452.35	372,735
US Pharm, Biotech	REVOLUTION MEDICINES INC	2184	21.48	15.97	34,889
US Pharm, Biotech	SAREPTA THERAPEUTICS INC	995	71.47	53.15	52,886
US Pharm, Biotech	SEATTLE GENETICS INC	1554	134.39	99.95	155,316
US Pharm, Biotech	SYNEOS HEALTH INC	4718	90.51	67.31	317,579
US Healthcare	VERACYTE INC	7502	30.33	22.56	169,218
US Healthcare	VERTEX PHARMACEUTICALS INC	2575	242.87	180.62	465,103
US Healthcare	VERVE THERAPEUTICS INC	488	28.74	21.37	10,430
US Healthcare	WATERS CORP	1577	320.14	238.09	375,465
US Healthcare	UNITEDHEALTH GROUP INC	2759	472.45	351.36	969,405
US Healthcare	UNITED THERAPEUTICS CORP	446	201.58	149.92	66,862
US Healthcare	ZOETIS INC	5550	199.80	148.59	824,681
US Pharmaceutical, Biotech Total					**13,820,783**
FOOD RETAIL					
US Retail Food & Drug	AIRBNB INC-CLASS A	9999	153.80	114.38	1,143,696
US Retail Food & Drug	CHIPOTLE MEXICAN GRILL INC	318	1,484.50	1,104.02	351,079
US Retail Food & Drug	HOUGHTON MIFFLIN HARCOURT CO	24464	18.00	13.39	327,490
US Retail Food & Drug	HYATT HOTELS CORP-CL A	5998	91.61	68.13	408,646
US Retail Food & Drug	PERFORMANCE FOOD GROUP CORP	46685	42.19	31.38	1,464,821
US Retail Food & Drug	STARBUCKS CORP	18885	98.30	73.11	1,380,601
US Retail Food & Drug	SYSCO CORP	17474	78.14	58.11	1,015,462
US Food Retail Total					**6,091,795**
RETAILERS - GENERAL					
US Retailers Gen	AMAZON.COM INC	3076	2,989.53	2,223.31	6,838,912
US Retailers Gen	ETSY INC	9986	157.05	116.80	1,166,346
US Retailers Gen	FIVE BELOW	2838	163.99	121.96	346,121
US Retailers Gen	ROSS STORES INC	3788	97.70	72.66	275,234
US Retailers Gen	TJX COMPANIES INC	30373	71.98	53.53	1,625,913
US Retailers Gen	ULTA BEAUTY INC	3774	363.43	270.28	1,020,048
US Retailers - General Total					**11,272,573**
MEDIA					
US Media & Photo	BUMBLE INC	11204	29.44	21.89	245,306
US Media & Photo	CARGURUS INC	20148	31.88	23.71	477,692
US Media & Photo	CHARTER COMMUNICATIONS INC-A	3272	592.98	441.00	1,442,949
US Media & Photo	DISH NETWORK CORP-A	20932	31.37	23.33	488,341
US Media & Photo	ELECTRONIC ARTS INC	6745	132.65	98.65	665,406
US Media & Photo	META PLATFORMS INC-CLASS A	11885	313.25	232.96	2,768,777
US Media & Photo	MATCH GROUP INC	6458	112.52	83.68	540,413
US Media & Photo	NETFLIX INC	575	427.01	317.57	182,601
US Media & Photo	NEW YORK TIMES CO-A	13646	40.02	29.76	406,144
US Media & Photo	OMNICOM GROUP	39048	75.34	56.03	2,187,873

US Media & Photo	ROBLOX CORP-CLASS A	3717	65.79	48.93	181,865
US Media & Photo	ROKU INC	6761	163.89	121.88	824,064
US Media & Photo	SNAP INC-A	8001	32.54	24.20	193,624
US Media Total					**10,605,058**
TRAVEL & LEISURE					
US Hotels Leisure	JETBLUE AIRWAYS CORP	38410	14.63	10.88	417,914
US Travel & Leisure Total					**417,914**
TELECOMS					
Telecoms	T-MOBILE US INC	12679	108.09	80.39	1,019,221
US Telecoms Total					**1,019,221**
ELECTRICITY					
US Electricity	DUKE ENERGY CORP	17327	105.08	78.15	1,354,070
US Electricity	EDISON INTERNATIONAL	19442	62.80	46.70	908,026
US Electricity	EXELON CORP	28385	57.94	43.09	1,223,109
US Electricity	FIRSTENERGY CORP	35885	41.95	31.20	1,119,548
US Electricity Total					**4,604,753**
BANKS, RETAIL					
US Banks Retail	PNC FINANCIAL SERVICES GROUP	5807	205.96	153.17	889,472
US Banks - Retail Total					**889,472**
NON-LIFE INSURANCE					
US Insurance	AMERICAN INTERNATIONAL GROUP	19973	57.76	42.96	857,962
US Insurance	ASSURANT INC	2488	152.47	113.39	282,119
US Insurance	ASSURED GUARANTY LTD	10757	53.26	39.61	426,079
US Insurance	CHUBB LTD	6891	197.17	146.64	1,010,464
US Insurance	HARTFORD FINANCIAL SVCS GRP	9959	71.85	53.43	532,158
US Insurance	MARSH & MCLENNAN COS INC COM	6125	153.64	114.26	699,855
US Insurance	OSCAR HEALTH-CLASS-A	15951	6.70	4.98	79,480
US Insurance	TRUPANION INC	6815	95.12	70.74	482,098
US Non-Life Insurance Total					**4,370,216**
LIFE INSURANCE					
US Insurance	METLIFE INC	8613	67.06	49.87	429,552
US Life Insurance Total					**429,552**
REAL ESTATE					
US Real Estate	AMERICAN TOWER CORP	3074	251.34	186.92	574,597
US Real Estate	AVALONBAY COMMUNITIES INC	3438	244.22	181.63	624,432
US Real Estate	REXFORD INDUSTRIAL REALTY IN	15176	73.15	54.40	825,600
US Real Estate	RYMAN HOSPITALITY PROPERTIES	8193	88.35	65.71	538,328
US Real Estate	WELLTOWER INC	12783	86.58	64.39	823,092
US Real Estate Total					**3,386,048**
GENERAL FINANCIAL					
US Special Finance	AMERICAN EXPRESS CO	14081	179.87	133.77	1,883,606
US Special Finance	ARES MANAGEMENT CORP - A	16445	79.69	59.27	974,620
US Special Finance	CHARLES SCHWAB CORP	61742	87.68	65.21	4,026,049
US Special Finance	EQUITABLE HOLDINGS INC	39107	33.64	25.02	978,382
US Special Finance	FLEETCOR TECHNOLOGIES INC	2671	237.97	176.98	472,709
US Special Finance	GLOBAL PAYMENTS INC	13771	149.84	111.44	1,534,585
US Special Finance	HAMILTON LANE INC-CLASS A	5438	90.32	67.17	365,276
US Special Finance	IHS MARKIT LTD	17072	116.83	86.89	1,483,326
US Special Finance	MORGAN STANLEY	35284	102.52	76.24	2,690,198
US Special Finance	ONEMAIN HOLDINGS INC	6730	51.66	38.42	258,564
US Special Finance	PAYPAL HOLDINGS INC	4788	171.90	127.84	612,108
US Special Finance	S&P GLOBAL INC	2268	414.91	308.57	699,834
US Special Finance	VISA INC CL A SHS	6075	225.99	168.07	1,021,018
US Special Finance	VOYA FINANCIAL INC	4330	67.91	50.50	218,685

US Special Finance	WEX INC	2617	160.99	119.73	313,329
US General Financial	**Total**				**17,532,286**
SOFTWARE					
US Software & Comp {	ADOBE SYSTEMS INC	1887	534.25	397.32	749,746
US Software & Comp {	ALPHABET INC - CL A SHARES	4092	2,704.74	2,011.52	8,231,120
US Software & Comp {	AVALARA INC	1473	109.62	81.52	120,085
US Software & Comp {	CONFLUENT INC-CLASS A	1321	65.28	48.55	64,133
US Software & Comp {	GITLAB INC-CL A	1079	64.02	47.61	51,373
US Software & Comp {	GODADDY INC - CLASS A	7643	75.75	56.34	430,571
US Software & Comp {	GUIDEWIRE SOFTWARE INC	2983	100.82	74.98	223,665
US Software & Comp {	HASHICORP INC-CL A	1832	66.39	49.37	90,454
US Software & Comp {	MICROSOFT CORP	45575	310.73	231.09	10,531,922
US Software & Comp {	NUVEI CORP-SUBORDINATE VTG	6729	60.89	45.28	304,715
US Software & Comp {	PALO ALTO NETWORKS INC	312	516.85	384.38	119,927
US Software & Comp {	QUALTRICS INTERNATIONAL-CL A	5819	29.24	21.75	126,539
US Software & Comp {	RAPID7 INC	1690	96.33	71.64	121,073
US Software & Comp {	SALESFORCE.COM INC	8380	232.70	173.06	1,450,234
US Software & Comp {	SENTINELONE INC-CLASS A	3156	44.75	33.28	105,033
US Software & Comp {	SERVICENOW INC	1356	585.57	435.49	590,522
US Software & Comp {	SHOPIFY INC-CLASS A	405	964.24	717.11	290,428
US Software & Comp {	SNOWFLAKE INC-CLASS A	400	275.86	205.16	82,063
US Software & Comp {	UIPATH INC-CLASS A	4327	36.55	27.18	117,618
US Software & Comp {	VARONIS SYSTEMS INC	3969	37.23	27.69	109,893
US Software & Comp {	WORKDAY INC-CLASS A	2699	252.55	187.82	506,930
US Software Total					**24,418,044**
TECHNOLOGY HARDWARE					
US IT Hardware	ADVANCED MICRO DEVICES	16881	114.21	84.94	1,433,838
US IT Hardware	APPLE INC	43852	174.58	129.84	5,693,531
US IT Hardware	ARISTA NETWORKS INC	5804	124.27	92.42	536,403
US IT Hardware	KLA-TENCOR CORP	2695	389.15	289.41	779,962
US IT Hardware	MARVELL TECHNOLOGY GROUP LTD	15748	71.41	53.11	836,339
US IT Hardware	MICRON TECHNOLOGY INC	18182	82.26	61.18	1,112,316
US IT Hardware	NVIDIA CORP	3911	244.71	181.99	711,766
US IT Hardware	TERADYNE INC	8710	117.30	87.24	759,826
US IT Hardware	TEXAS INSTRUMENTS INC	13142	179.48	133.48	1,754,185
US IT Hardware	XILINX INC	2695	193.51	143.91	387,847
US Technology Hardware Total					**14,006,012**
TOTAL UNITED STATES					**156,393,258**

DERBYSHIRE PENSION FUND
JANUARY 2022 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	16,796,391	**4.23**	**4.23**	71,053,774
EUROPEAN EQUITIES TOTAL					**71,053,774**

DERBYSHIRE PENSION FUND
JANUARY 2022 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-RIGHTS	1,000,000	**2.00**	**2.00**	20,000
Japan	JPMF japs smoc	718,000	**380.00**	**380.00**	2,728,400
J Investment Companies Total					**2,748,400**
Unit Trusts & OEICs					
Japan	Baillie Gifford OGF - Japanese B Acc Shares	4,532,343.75	**1,918.00**	**1,918.00**	86,930,353
Japan	JPMorgan Jap Fd A Acc	3,000,000.00	**570.50**	**570.50**	17,115,000
J Unit Trusts Total					**104,045,353**
Life Policies					
International	LGIM Japan Equity Index Fund	96,585,129.370	**2.24**	**2.24**	216,070,593
International Life Policies					**216,070,593**
JAPAN TOTAL					**322,864,346**
OTHER ASIA					
Unit Trusts & OEICs					
Asian	JPMorgan Asia Fund A Ac	20,000,000	**286.40**	**286.40**	57,280,000
OA Unit Trusts Total					**57,280,000**
OTHER ASIA TOTAL					**57,280,000**
EMERGING MARKETS					
Listed Pooled Vehicles					
International	LGPS Central Emerging Mkt Equity Active Multi Manager Fund A AC	1,745,534.150	**11,333.00**	**113.33**	197,821,385
Listed Pooled Vehicles					**197,821,385**
Life Policies					
International	LGIM World Emerging Markets Index Fund	26,676,062.500	**4.14**	**4.14**	110,546,403
International Life Policies					**110,546,403**
EMERGING MARKETS TOTAL					**308,367,788**
OTHER EQUITIES TOTAL					**688,512,135**

DERBYSHIRE PENSION FUND
JANUARY 2022 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 Sustanable Unit Trusts-Quoted					
GLOBAL SUSTAINABLE FUND	Baillie Gifford positive Change Fund B Acc	34,653,192.38	312.50	3.13	108,291,226
GLOBAL SUSTAINABLE FUND	RBC Global Equity Focus Fund	2,504,732.34	164.95	164.95	413,155,600
GLOBAL SUSTAINABLE FUND	LGPS Central All World Equity Climate Multi Factor Fu	1,808,568.17	13187.00	131.87	238,495,885
Global Sustanable Unit Trusts					**759,942,711**
Life Policies					
GLOBAL SUSTAINABLE FUND	LGIM MSCI World Low Carbon Target Index Fund	287,671,097.72	2.34	2.34	672,825,300
International Life Policies					**672,825,300**
GLOBAL SUSTAINABLE FUNDS TOTAL					**1,432,768,011**

DERBYSHIRE PENSION FUND
JANUARY 2022 PORTFOLIO VALUATION - BID

OTHER EQUITIES	Company name	Number held	Mkt price in local currency	Value in Sterling £
PRIVATE EQUITY				
Quoted Private Equity				
UK Investment Co's	APAX GLOBAL ALPHA LTD	3,000,000	209.00	6,270,000
UK Investment Co's	HARBOURVEST GLOBAL PRIVATE	925,000	2765.00	25,576,250
UK Investment Co's	HGCAPITAL TRUST PLC	7,053,150	417.00	29,411,636
UK Investment Co's	ICG ENTERPRISE TRUST PLC	181,795	1194.00	2,170,632
UK Investment Co's	NB PRIVATE EQUITY PARTNERS Ltd (A)	1,500,000	23.00	25,657,650
UK Investment Co's	PANTHEON INTERNATIONAL PLC	3,450,000	317.00	10,936,500
UK Investment Co's	PRINCESS PRIVATE EQUITY HOLDING LTD	500,000	12.95	5,408,438
UK Investment Co's	STANDARD LIFE PRIVATE EQUUITY	900,000	534.00	4,806,000
UK Investment Co's	SCHRODER UK PUBLIC PRIVATE	5,000,000	28.40	1,420,000
UK Quoted Private Equity Total				**111,657,106**
Unquoted Private Equity				
UK Unclassified	ADAM STREET PARTNERS (FEEDER) 2017 FUND	30,000,000	1.32	29,444,633
UK Unclassified	BAIRD CAPITAL PARTNERS EUROPE FUND LP	4,300,000	0.01	47,323
UK Unclassified	CAPITAL DYNAMICS GLOBAL SECONDARIES IV	20,000,000	0.68	10,113,439
UK Unclassified	CAPITAL DYNAMICS MID-MARKET DIRECT FEEDER LP	25,000,000	1.52	31,683,244
UK Unclassified	CAPITAL DYNAMICS LGPS COLLECTIVE PE VEHICLE 2017/18	20,000,000	0.99	19,897,081
UK Unclassified	CAPITAL DYNAMICS CPEP LGPS	25,000,000	0.60	15,064,969
UK Unclassified	CATAPULT GROWTH FUND UNITS	3,000,000	0.21	628,467
UK Unclassified	EAST MIDLANDS VENTURE	3,000,000	0.05	135,080
UK Unclassified	EPIRIS FUND II	25,000,000	0.89	22,135,760
UK Unclassified	GRAPHITE CAPITAL PARTNERS FUND 1X A	11,250,000	0.48	5,355,402
UK Unclassified	GRAPHITE CAPITAL PARTNERS FUND 1X C	11,250,000	0.48	5,355,247
UK Unclassified	MOBEUS EQUITY PARTNERS IV LP	10,000,000	0.54	5,442,647
UK Investment Co's	PANORAMIC ENTERPRISE CAPITAL UNITS	1,428,486	0.45	648,120
UK Investment Co's	PANORAMIC GROWTH FUND 2 LP	10,000,000	0.95	9,521,139
UK Investment Co's	PARTNERS GROUP GLOBAL VALUE 2008	7,500,000	0.28	1,731,040
UK Investment Co's	STAR CAPITAL STRATEGIC ASSETS III LP	12,500,000	0.83	8,633,271
UK Unclassified	VESPA CAPITAL II LLP	10,000,000	1.08	10,794,528
UK Unquoted Private Equity Total				**176,631,391**
PRIVATE EQUITY TOTAL				**288,288,497**
INFRASTRUCTURE				
UK Infrastructure Quoted				
Closed-end Funds	FORESIGHT SOLAR FUND LTD	4,000,000	100.40	4,016,000
Closed-end Funds	GREENCOAT UK WIND PLC	13,835,000	141.80	19,618,030
Closed-end Funds	HICL INFRASTRUCUTRE CO LTD	10,472,044	174.00	18,221,357
Closed-end Funds	INTERNATIONAL PUBLIC PARTNERSHIP LTD	29,551,460.00	167.60	49,528,246.96
Closed-end Funds	3I INFRASTRUCTURE PLC	2,249,999.00	345.50	7,773,746.55
Closed-end Funds	RENEWABLES INFRASTRUCTURE GR	8,391,878.00	133.00	11,161,197.74
UK Infrastructure Quoted Total				**110,318,578**
UK Infrastructure Unquoted				
UK Unclassified	BlackRock Global Renewable Power Fund III LP	65,000,000	0.19	9,101,867
UK Unclassified	DALMORE CAPITAL 3 LP	25,000,000	1.09	27,252,293
UK Unclassified	EQUITIX FUND 1 LTD P'SHIP	7,500,000	1.63	12,254,265
UK Unclassified	Equitix Fund IV Ltd P'ship	25,000,000	1.16	28,891,215
UK Unclassified	First Sentier Investors EDIF II	20,000,000	1.23	20,497,315
UK Unclassified	Greencoat Renewable Income Fund	75,000,000	0.21	15,667,215
UK Unclassified	IMPAX NEW ENERGY INVESTORS II UNITS	10,000,000	0.01	95,979
UK Unclassified	JP Morgan Infrastructure Investment Fund UK LP	185,000,000	0.64	118,666,675
UK Unclassified	MEIF 5 Co-Invest LP	12,600,000	0.60	6,351,640
UK Unclassified	MEIF 6 Co-Invest LP	28,000,000	0.29	6,806,142
UK Unclassified	Macquarie European Infrastructure Fund 5 LP	14,400,000	1.14	13,758,456
UK Unclassified	Macquarie European Infrastructure Fund 6 SCSp	56,000,000	0.73	34,242,656
UK Unclassified	Macquarie Green Infrastructure Fund (Euro)	59,000,000	0.12	6,151,645
UK Unclassified	PIP Multi Strategy Infrastructure LP	25,000,000	0.73	18,360,030
UK Unclassified	SL CAPITAL INFRASTRUCTURE 1LP	15,000,000	1.18	17,749,127
UK Unclassified	SL Capital Infratructure II SCSP	25,000,000	0.67	13,908,377
UK Infrastructure Total				**349,754,895**
INFRASTRUCTURE TOTAL				**460,073,473**
ALTERNATIVES TOTAL				**748,361,970**

DERBYSHIRE PENSION FUND
JANUARY 2022 PORTFOLIO VALUATION - BID

				31/01/2022 Valuation £
Real Property				
Property	Southampton Property			8,600,000
Property	Retail Unit Tamworth			8,800,000
Property	15-17 Jockeys Field London			11,950,000
Property	D'Arblay House, London			14,450,000
Property	Bristol Odeon Development			6,800,000
Property	Quintins Centre, Hailsham			6,700,000
Property	Caledonia House, London			24,000,000
Property	Chelsea Fields Ind Est, London			21,700,000
Property	Planet Centre, Feltham			22,150,000
Property	Hill St, Mayfair			15,250,000
Property	Birmingham - Travelodge developm't			13,600,000
Property	Saxmundham, Tesco developm't			10,550,000
Property	Roundhay Road, Leeds			7,450,000
Property	Premier Inn, Rubery, Birmingham			5,650,000
Property	South Normanton Warehouse, Alfreton			20,100,000
Property	Loddon Centre, Basingstoke			18,400,000
Property	Parkway, Bury St Edmunds			8,550,000
Property	Waitrose, York			13,550,000
Property	Link 95, Haywood Manchester			12,100,000
Property	Car Park, Welford Rd Leicester			12,000,000
Property	Leamington Spa, Heathcote Industrial Estate			16,200,000
Total Real Property				**278,550,000**
Property Managed Funds		**Number held**	**Mkt price**	**£**
Property	Assura PLC	6,000,000	66.8500	4,011,000
Property	Aviva Pooled Property Fund - class A	294,002	21.3280	6,270,451
Property	Aviva Pooled Property Fund - class B	268,004	21.5077	5,764,144
Property	Bridges Property Alternatives Fund III LP	10,000,000	0.7741	7,741,415
Property	Bridges Property Alternatives Fund IV LP	10,000,000	0.5552	5,551,906
Property	Fidelity Eurozone Select Real Estat Fund - price in Euro's	4,486	6542.5113	24,516,807
Property	Hearthstone Residential Fund 1 LP	25,000,000	0.9395	23,487,766
Property	Igloo Regeneration P'ship Property Unit Trust	4,644,493	0.0284	131,936
Property	Invesco Real Estate-European Fund FCP - SIF	44,569	112.8690	4,201,826
Property	Target Healthcare REIT Ltd	4,085,000	114.8000	4,689,580
Property	M&G PP UK Property Fund (Inc)	25,460	817.8000	20,821,429
Property	M&G European Property Fund SICAV-FIS (Class X)	25,000,000	1.0786	22,523,737
Property	Threadneedle Pensions Property Fund	1,647,730	7.3765	12,154,484
Property	Tritax Big Box Indirect Pooled Fund	10,000,000	237.4000	23,740,000
Property	Unite UK Student Accommodation Fund	15,584,567	1.4060	21,911,901
Total Property Funds				**187,518,383**
				£
Regulatory Capital	LGPS Central Limited	**0.00**		2,000,000
		Mellon USD		
Cash				
Cash	Northern Trust	*UK*		22,696,245
Cash		*Euro*		0
Cash		*Wellington*		1,433,097
	Colliers Property Managers Cash			2,781,222
Cash	Cash - Lloyds bank Superfund			88,168,000
		Units	**Price**	
	Aegon Short Dated Investment Grade Bond Fund S Acc GBP	1,988,693.12	9.97	19,820,907
	Royal London Inv Grade Short Dated-Z Accum GBP	30,223,655.05	98.53	29,779,367
		£		
Cash	Cash Temporary Loans	40,000,000		
	Slough Borough Council- 7 D/N	13,000,000		
	Thurrock Council 7 D/N	10,000,000		
	DWS	30,000,000		
	Insight MMF	30,000,000		
	Certs of Deposit	0		
	Treasury Bills	0		123,000,000
Total Cash				**287,678,838**

DERBYSHIRE PENSION FUND
JANUARY 2022 PORTFOLIO VALUATION - BID

	Number held	Mkt Price in local currency (Clean) use for Hedge Calc & IL Valuation	Mkt Price in local currency (Dirty) use for Non IL Valuation	Mkt Price pence GBP	Total £ GBP
UK GILTS					
TSY 1.75% 7/9/2022	13,490,000	100.62	101.33	101.33	13,670,042
TSY 4% 7/3/2022	10,995,000	100.33	101.96	101.96	11,210,316
TSY 2.25% 7/9/2023	15,400,000	101.97	102.89	102.89	15,844,702
TSY 5% 7/3/2025	5,500,000	111.93	113.96	113.96	6,267,821
TSY 2% 7/9/2025	7,000,000	103.34	104.15	104.15	7,290,651
TSY 1.5% 7/22/2026	5,650,000	101.93	101.97	101.97	5,761,556
TSY 4.25% 7/12/2027	18,000,000	117.59	118.24	118.24	21,282,992
TSY 4.75% 7/12/2030	13,162,000	129.40	130.13	130.13	17,127,285
TSY 4.25% 7/6/2032	12,370,000	128.12	128.77	128.77	15,928,706
TSY 4.5% 7/9/2034	16,373,000	135.58	137.40	137.40	22,497,214
TSY 4.25% 7/3/2036	11,400,000	135.96	137.68	137.68	15,696,070
TSY 1.75% 7/9/2037	11,800,000	103.76	104.47	104.47	12,327,181
TSY 4.75% 7/12/2038	7,934,000	149.36	150.09	150.09	11,908,122
TSY 4.25% 7/9/2039	4,050,000	143.17	144.89	144.89	5,868,119
TSY 1.25% 22/10/2041	18,000,000	95.52	95.87	95.87	17,257,369
TSY 3.25% 1/22/2044	8,000,000	132.39	132.48	132.48	10,598,062
TSY 0.875% 31/1/2046	20,000,000	87.19	87.20	87.20	17,439,083
TSY 4.25% 7/12/2046	3,900,000	156.70	157.36	157.36	6,136,917
TSY 0.625% 22/10/2050	20,500,000	80.72	80.90	80.90	16,583,503
001 UKGB Total					**250,695,714**
US GOVERNMENT BONDS					
T 2.75% 31/8/2023	26,191,000	102.62	103.79	77.19	20,215,903
T 2.25% 15/11/2024	21,000,000	102.45	102.94	76.55	16,076,537
T 2.75% 15/11/2042	7,500,000	109.47	110.06	81.85	6,138,944
004 USGB Total					**42,431,383.93**
NON GOVERNMENT BONDS					
LGPS Central Global Active Corp Bond Fund A (Acc)	3,957,714	9,955.00	9,955.00	9,955.00	393,990,410
Non Govt Bonds Total					**393,990,410**
MULTI ASSET CREDIT					
AMP Capital Infrastructure Debt Fund III (EUR) LP	17,000,000	0.55	0.55	0.55	7,867,215
Barings Global Private Loan Fund	40,000,000	0.23	0.23	0.23	9,212,973
Barings Global Private Loan Fund 2	40,000,000	0.56	0.56	0.56	22,344,629
Barings Global Private Loan Fund 3	50,000,000	0.90	0.90	0.90	44,752,866
CQS Credit Multi Asset Fund Class E1 GBP Shares	132,737	1,155.26	1,155.26	1,155.26	153,345,611
CVC Credit PARTNERS European Direct Lending Fund II	76,000,000	0.83	0.83	0.83	52,945,766
CVC (Co Inv) Credit Ptnrs European Direct Lending Feeder Fund II Co Inv	30,000,000	0.78	0.78	0.78	19,519,983
Janus Henderson Multi Asset Credit Fund L Acc Gross Hedged Unit Trust	99,124,914	1.16	1.16	1.16	114,692,383
LGPS Central Credit Partnership II LP(PD LR Fund Investments).	50,000,000	0.02	0.02	0.02	1,213,162
Multi Asset Credit Total					**425,894,590**
UK INDEX LINKED					
TREAS 4.125% IL STK 22/7/2030	6,510,000	385.04	385.30	385.30	25,083,297
TREAS 2% IL STK 26/1/2035	8,000,000	306.17	306.23	306.23	24,498,401
002 UKGIL Total					**49,581,698**

INDEX LINKED (3 monthers)

UK INDEX LINKED (3monthers)	Number held	Clean Price	Index Ratio	Gross	Accrued Interest	Total
TREAS 0.125% IL STK 22/3/2024	9,230,000	109.2270	1.296510	13,070,962.76	4,207.04	13,075,170
TREAS 1.25% IL STK 22/11/2027	7,400,000	128.3210	1.619550	15,378,848.39	18,142.27	15,396,991
TREAS 0.125% IL STK 22/3/2029	5,325,000	124.8880	1.323810	8,803,715.11	2,427.14	8,806,142
TREAS 1.25% IL STK 22/11/2032	2,777,000	150.9080	1.447500	6,066,060.19	6,808.25	6,072,868
TREAS 0.75% IL STK 22/3/2034	11,465,000	148.9240	1.353410	23,108,307.22	31,354.56	23,139,662
TREAS 1.125% IL STK 22/11/2037	5,580,000	171.5130	1.554070	14,873,111.00	12,312.22	14,885,423
TREAS 0.625% IL STK 22/3/2040	5,600,000	169.3630	1.451580	13,767,260.84	12,762.43	13,780,023
TREAS 0.625% IL STK 22/11/2042	5,950,000	179.6720	1.479310	15,814,539.89	7,293.68	15,821,834
TREAS 0.125% IL STK 22/3/2044	11,470,000	168.3340	1.296500	25,032,705.06	5,228.04	25,037,933
TREAS 0.125% IL STK 22/3/2046	8,730,000	174.2370	1.219210	18,545,269.32	3,979.14	18,549,248
TREAS 0.75% IL STK 22/11/2047	6,500,000	202.6260	1.512750	19,923,961.30	9,561.46	19,933,523
TREAS 0.125% IL STK 10/08/2048	5,300,000	182.9700	1.143770	11,091,606.64	3,150.48	11,094,757
TREAS 0.5% IL STK 22/3/2050	5,000,000	203.4100	1.472820	14,979,315.81	9,116.02	14,988,432
TREAS 1.25% IL STK 22/11/2055	4,200,000	264.4680	1.635280	18,164,127.70	10,296.96	18,174,425
UK INDEX LINKED (3monthers) TOTAL						**218,756,431**

US INDEX LINKED	Number held	Clean Price $	Index Ratio	Gross $	Accrued Interest $	Total $	Total £
TII0.125% 15/1/2023	7,000,000	102.718750	1.204170	8,658,358.60	410.91	8,658,770	6,439,526.89
TII3.625% 15/4/2028	4,045,000	129.945313	1.718490	9,032,878.18	43,908.81	9,076,787	6,750,406.48
TII1.750% 15/1/2028	5,550,000	117.210938	1.326740	8,630,718.38	4,561.12	8,635,279	6,422,057.36
TII2.5% 15/1/2029	7,000,000	124.859375	1.294590	11,314,918.88	8,218.23	11,323,137	8,421,017.07
TII2.125% 15/2/2040	4,095,000	145.546875	1.285970	7,664,567.06	40,198.88	7,704,766	5,730,034.43
TII0.75% 15/2/2042	20,300,000	119.054688	1.230070	29,728,456.69	70,332.88	29,798,790	22,161,359.80
TII0.625% 15/2/2043	10,000,000	116.726563	1.208940	14,111,541.05	28,872.28	14,140,413	10,516,225.39
0045 USGB IL Total							**66,440,627**

TOTAL BONDS	**1,447,790,854**
Index linked-total	**334,778,756**
Conventional-total	**293,127,098**
Non gov-total	**819,885,000**

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FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

WEDNESDAY, 2 MARCH 2022

Report of the Interim Director of Finance and ICT

Derbyshire Pension Fund Service Plan

1. Purpose

1.1 To seek approval for Derbyshire Pension Fund's Service Plan for 2022-23, including the annual budget for the year of £35.200m.

2. Information and Analysis

2.1 The Service Plan, attached as Appendix 2 sets out:

- The objectives of Derbyshire Pension Fund (the Fund)
- Details of the Pension Fund Team
- Key services of the Fund
- Key achievements in 2021-22
- Review of 2021-22 performance indicators
- Forward plan of Pension Fund procurements to 31 March 2024
- The Fund's medium-term priorities
- The 2022-23 budget required to deliver the Fund's services
- 2022-23 key performance indicators

2.2 A forecast budget has been presented to Committee for the last two years to improve transparency and to provide assurance regarding the business planning process and the use of the Fund's resources.

The forecast budget requirement for 2021-22 was £33.796m, made up of operational costs of £5.425m and investment management expenses (IMEs) of £28.371m. The current expected outturn for 2021-22 is

£35.062m, made up of operational costs of £5.324m and IMEs of £29.738m.

The forecast overspend of £1.266m largely reflects a £1.441m higher than forecast increase in IMEs (ex-property expenses) which was driven by an additional £2.544m of costs associated with higher assets under management, partially offset by a reduction of £1.102m in costs due to a lower total expense ratio i.e. lower investment management fees as a proportion of AUM.

The reduction in the total expense ratio reflects an increased use of passive management and differences in the asset allocation mix. The higher than forecast IMEs (ex-property expenses) are partly offset by the expectation that property expenses will be £0.073m lower than forecast and that operational costs will be £0.101m lower than forecast.

2.3 IMEs are largely ad-valorem in nature (i.e. they relate to the value of assets under management). The forecast IME costs for 2021-22 were based on the assets under management at 31 January 2021 (£5.6bn) and on assumptions at the time the budget was prepared in respect of the future asset class mix. The actual level of assets has been, on average, around £500m higher throughout the year, and there have been small differences in the asset class mix against the original assumptions.

The report presented to Committee on the Fund's Service Plan for 2021-22, noted that the forecast 2021-22 budget would be adjusted to take into account the actual level of AUM and the actual asset class mix throughout the year at the time of the budget outturn review.

Adjusting the forecast 2021-22 budget to take into account the additional costs related to the increase in assets under management, gives a restated 2021-22 forecast of £36.314m. The forecast outturn for 2021-22 of £35.062m is 3.7% above the unadjusted budget forecast, and 3.4% below the adjusted forecast.

2.4 For 2022-23, a budget of £35.200m is sought to deliver the services of the Pension Fund, made up of operational costs of £5.657m and total IME costs of £29.542m. This represents a 0.4% increase on the 2021-22 forecast outturn, and a decrease of 3.1% compared to the 2021-22 adjusted budget.

The forecast IME costs are based on forecast assets under management of £6.3bn during 2022-23 and on the current assumed asset class mix for the year ahead. When the expected budget outturn is reviewed next year, the forecast budget for 2022-23 will be adjusted to take into account the actual level of AUM and the actual asset class mix throughout the year.

Further details on 2021-22 budget outturns by category of expenditure and on the requested budgets by category for 2022-23, are set out in the attached Service Plan.

3. Implications

3.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

4. Background Papers

4.1 Background papers are held by the Head of Pension Fund.

5. Appendices

5.1 Appendix 1 – Implications
5.2 Appendix 2 – Derbyshire Pension Fund Service Plan 2022-23

6 Recommendation(s)

That Committee approves the 2022-23 Service Plan for Derbyshire Pension Fund, attached as Appendix 2, including the annual budget of £35.200m

7 Reasons for Recommendation(s)

7.1 An annual Service Plan clearly sets out the objectives of the Pension Fund for its stakeholders, improving transparency and providing assurance regarding the direction of the Fund, the business planning process and the use of the Fund's resources.

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Appendix 1

Implications

Financial

1.1 As set out in Section 2 of the report.

Legal

2.1 None

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

Other (for example, Health and Safety, Environmental, Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None

INTRODUCTION

Derbyshire County Council (DCC) is the administering authority for Derbyshire Pension Fund (the Fund/Pension Fund); one of 86 regional Local Government Pension Scheme (LGPS) administering authorities in England and Wales. There are over 330 employers in the Fund, including Derbyshire County Council, Derby City Council, all the district and borough councils in Derbyshire, Peak District National Park Authority, Derbyshire Police Authority, Derbyshire Fire Authority, Derby College, Chesterfield College, University of Derby, a host of town and parish councils and a large group of smaller employers via admission agreements. There are currently around 105,000 Derbyshire Pension Fund membership records; 38,000 membership records in respect of active contributing members who are currently employed by one of the Fund's employers, 33,000 membership records in respect of deferred members who worked for a scheme employer in the past and are entitled to receive a pension from the Fund in the future and 34,000 membership records in respect of members in receipt of pension. The membership records relate to around 90,000 individual members. Key stakeholders of the Fund include: pension fund members; employers; and local tax payers.

Pension Fund Objectives

- to ensure sound governance arrangements for the Fund
- to ensure that sufficient assets are available to meet benefit payments
- to deliver a high quality service to scheme members and employers
- to enable employer contribution rates to be kept as constant as possible and at reasonable cost to the taxpayer
- to deliver clear, timely and relevant communications to all stakeholders

Pension Fund Team

The Pension Fund Team, headed by Dawn Kinley, is part of the Finance & ICT Division of Derbyshire County Council's Corporate Services and Transformation Department, and is comprised of an Investment Team and a Pension Administration Team. Both teams contribute to the governance of the Pension Fund.

The Pension Fund establishment is made up of 66 posts equating to 61.04 full time equivalent posts. There are currently 58 members of staff in post and 8 vacancies, 7 full-time vacancies and 1 part-time vacancy.

The Investment Team actively manages a proportion of the Fund's investments assets in-house, and oversees the external management of the remaining assets; the investment assets were valued at £6.1bn at 31 January 2022. The Investment Team is currently comprised of an Investment Manager, an Assistant Fund Manager, a Pension Fund Accountant and 3 Business Services Officers.

The Pension Administration Team manages the day to day activities associated with members of the Fund and their employers and is currently comprised of 4 Team Leaders, 1 Project Lead, 45 Pensions Officers across three levels and 1 Business Services Assistant. A recruitment process is underway to fill 4 out of the 7 vacant posts in the Pension Administration Team.

Key services include:

- Managing and monitoring the Fund's governance obligations, including supporting the Local Pension Board, formulating and reviewing the Fund's statements, strategies and policies and preparing the Fund's Annual Report.
- Reporting to, and providing support to, the Pensions and Investments Committee (PIC).
- Managing the employer admissions and cessations process.
- Maintaining 105,000 membership records.
- Calculating and arranging payment of pension benefits.
- Managing the Fund's investment assets.
- Managing the transition of investment assets into investment vehicles offered by LGPS Central Ltd (LGPSC).
- Selecting, managing and monitoring the performance of the Fund's other external investment managers.
- Ensuring the security of the Fund's assets in conjunction with the external custodian.
- Managing the Penion Fund's stewardship responsibilities in conjunction with the Fund's external fund managers.
- Communicating with members and employers (e.g. supporting employing authorities with their responsibilities under LGPS regulations), including maintaining and developing the Fund's website.
- Managing and monitoring costs; seeking value for money and seeking to reduce average costs per member.

- Monitoring and managing the Fund's cash flows.
- Maintaining the Fund's accounting records, including monthly valuations and preparation of supporting control accounts and reconciliations; reconciling and accounting for employee and employer contributions received, and benefits paid out.
- Providing investment settlement services (i.e. processing cash payments and receipts) in respect of the Fund's investment portfolio.

KEY ACHIEVEMENTS IN 2021-22

Key achievements over the last 12 months include:

Governance:

- Continued implementation of hybrid working arrangements, ensuring that the critical activities of the Pension Fund continued to be delivered whilst a large part of the team worked remotely.
- Induction of six new members of PIC and seven other DCC councillors, including potential substitute members of PIC.
- Utilisation of the Pension Fund's performance dashboard to monitor the key performance indicators of the Fund.
- Formulation and Committee approval of: an updated Communications Policy; an updated Governance Policy and Compliance Statement; and an updated TCFD (Task Force on Climate-related Financial Disclosures) Report.
- Oversight by a project board of the implementation and launch of My Pension Online, a member self service system which allows members to view certain parts of their pension information, undertake a restricted number of data amendments and to carry out benefit projections on-line.
- Continued oversight by a project board of the legislative developments related to, and the Fund's preparations for, the implementation of DLUHC's remedy in respect of the McCloud and Sargeant judgements.
- Formulation and Committee approval of policies relating to new employer flexibilities (included in the Funding Strategy Statement).
- Development, and subsequent rollout to the Team, of detailed Data Management Procedures for the Pension Fund which set out: Why is it necessary to protect members' data; How the Fund protects members' data; and What to do when things go wrong.
- Recruitment of a new Employer Representative for Derbyshire Pension Board.

- Implementation of the Fund’s Conflicts of Interest Policy, including the establishment of a Register of Potential and Actual Conflicts of Interest, to aid good governance, encourage transparency and minimise the risk of any matter predjudicing decision making or management of the Fund.
- Continued development of the Fund’s bespoke website, including its utilisation in the launch of My Pension Online, the development of fillable pdf forms and online response forms, and ongoing improvements in accessibility of site content and functionality.
- Continuation of significant contribution to the LGPS Central Pool’s governance arrangements.
- Further development of the Fund’s Risk Register to show trend risk scores to provide additional context.

Investments:
- Outperformance against the Fund specific benchmark over 1, 3, 5 and 10 years.
- Provision of asset allocation advice and support to the Director of Finance & ICT and the Pensions and Investments Committee.
- Implementation of the Fund’s new final Strategic Asset Allocation Benchmark (SAAB).
- Significant progress towards achieving the targets set out in the Fund’s Climate Strategy with a 37% reduction in the carbon footprint of the Fund’s listed equity portfolio and an invested allocation of 19% in low carbon and sustainable investments against targets of 30% for both measures by 2025.
- Active participation in the development of the LGPS Central investment offer.
- Completion of due diligence on the LGPS Central All World Equity Climate Multi Factor Fund and the LGPS Central Credit Partnership II LP and initial investment/commitment made.
- Increased allocations made to Global Sustainable Equities, with the weighting building to around 25% of the portfolio by mid-February 2022.
- Continued internal management of a proportion of the Fund’s investments.

Pension Administration:
- Continued efficient adjustment to largely remote working; the commitment and flexibility of the team enabling queries to the telephone Pension Helpline and to the online Pension Inbox to be answered throughout the period of remote working.
- On boarding of at least 14 new employers (academies, admission bodies and Town/Parish Councils).

- Successful onboarding of a further 129 employers to the i-Connect system, which enables employers to automate the submission and validation of their data, increasing the proportion of the Fund's membership on the system from around 52% to 81%.
- Successful launch of My Pension Online, with the registration of over 22% of the Fund's active membership, and over 18% of the Fund's combined active and deferred membership, achieved within 8 months of launch.
- Further improvement in the Fund's common and conditional data scores which are reported to the Pensions Regulator.
- Successful utilisation of an external provider to verify the identity of overseas members using an efficient and secure verification app.
- Collaboration with Nottinghamshire Pension Fund towards achieving the efficient transfer in administering authority of seven Fund employers.
- Publication of active and deferred member newsletters in co-operation with other LGPS pension funds on the Joint Communication Working Group.
- Continued support to all employing authorities with their LGPS responsibilities via regular newsletters and bulletins.
- Continued development of the performance management regime and the performance report to the Pensions and Investments Committee and to the Pension Board.
- Continued collaboration with other LGPS funds including membership of the LGPS Central Administration Group and an LGA Communications Group, in addition to membership of the East Midlands Pension Officers Group.

REVIEW OF 2021-2022 PERFORMANCE INDICATORS

Indicators	Definition and Success Measure	Owner	2020-21 Performance
Investment Performance	Target outperformance against the Fund’s Strategic Asset Allocation Benchmark over the long term – performance is measured externally on a quarterly basis and reported to the Pensions and Investments Committee on a quarterly basis.	DKK/NS	The Fund outperformed its Strategic Asset Allocation Benchmark (SAAB) over 1, 3, 5 and 10 years to 31 December 2021.
i-Connect	Achieve onboarding of employers representing 95% of the membership by 31 March 2022.	DKK/EW/SW	By mid-February 2022, the Fund had successfully onboarded employers representing 81% of the membership. When employers who are currently in test go live, this number will rise to 85%. The appointment of a new payroll provider at two of the Fund’s larger employers and resource constraints at a number of other Fund employers has delayed the implementation of i-Connect for employers representing a further 11% of the membership.
Member Self Service (MSS)	Achieve registration of 15% of active members by 31 March 2022.	DKK/EW/SW	The number of active members who had registered on My Pension Online, the Fund’s MSS system, by mid-February 2022 was just over 22%.
‘Employer Flexibilities’ Policy	Develop and obtain Committee approval for an ‘Employer Flexibilities’ Policy following receipt of guidance from MHCLG and the LGPS Scheme Advisory Board on the implementation of The Local	DKK/SW	Employer flexibilities policies were approved by Committee as part of an updated Funding Strategy Statement in September 2021.

	Government Pension Scheme (Amendment) Regulations 2020.		
Review the Fund's AVC provision	Review the Fund's provision of AVCs, evaluating whether it provides an efficient, effective and value for money service for members.	DKK/WS	The review of the Fund's provision of AVCs has been delayed by the well documented administration problems experienced by Prudential (part of M&G plc), the Fund's current AVC provider. The review will now take place during 2022-23.

FORWARD PLAN OF PENSION FUND PROCUREMENTS TO 31 MARCH 2024

Address Tracing	May 22
External Investment Advisor	Jul 22
Portfolio Performance Measurement	Jun 22
Pension Board Chair	Sept 22
Tax Advisory Service	Jan 23
Sustainable Global Equities Portfolio Managers	Jan 23
Strategic Investment Research	Jan 23
Actuarial Services	Jun 23
Property Valuation	Jul 23
Custodian	23/24

MEDIUM TERM PRIORITIES

Priority	Timeline	Owner
Ensure sound governance arrangements for the Fund.		
Continue to review the Fund's governance arrangements, including the Fund's statements, strategies and policies, taking into consideration the emerging expectations from The Pensions Regulator & the Scheme Advisory Board.	Ongoing	DKK
Continue to identify the training requirements of members of the Committee, members of the Pension Board and members of staff and update training plans accordingly.	Ongoing	DKK
Review the structure of the Pension Fund Team to enable it to support an agile, customer focussed operating model and to provide development opportunities which will build the skills and resilience required for the future.	2022/23	DKK
Ensure that sufficient assets are available to meet benefit payments & Enable employer contribution rates to be kept as constant as possible and at a reasonable cost to the taxpayer.		
Continue to develop and implement employer covenant analysis, carrying out another employer health check exercise before the next triennial actuarial valuation.	2022/23	DKK/SW
Support the Fund's actuary in carrying out the actuarial valuation via the appropriate consideration of assumptions and the provision of timely and accurate data.	2022-23	DKK/RJ/SW
Manage the Fund's investments with the aim of outperforming the Fund specific benchmark over the longer term.	Measured and reported on a quarterly basis – to be assessed annually	DKK/NS
Continue to deliver the Fund's new SAAB on an invested basis.	Ongoing	NS
Deliver the targets included in the Fund's Climate Strategy (to be reviewed in 2023).	End 2025	DKK/NS
Continue to develop a sustainable working relationship with LGPS	Ongoing	DKK/NS

Central Ltd and the Partner Funds within the Central Pool and ensure, where possible, that the Pool develops appropriate products to support the delivery of the Fund's investment strategy.		
Deliver a high quality service to scheme members and employers & Deliver clear, timely and relevant communications to all stakeholders.		
Continue to improve the efficiency of the pension administration service with the support of the new system and develop administration performance targets in line with best practice.	2022/23	DKK/Pension Admin Team Leaders
Complete the roll out of i-Connect the employer automated data submission and validation service to the employing authorities.	2022/23	DKK/EW/SW
Develop digital interaction and communication with members via My Pension Online.	2022/23	DKK/EW/SW
Implement the remedy in respect of the McCloud and Sargeant judgements.	Ongoing	DKK/Pension Admin Team Leaders
Enhance the Fund's employer onboarding and exit processes.	2022/23	SW/RJ
Review the Fund's AVC provision, ensuring it provides an efficient, effective, and value for money service for members.	2022/23	DKK/WS
Develop the provision of online training materials for employers.	Ongoing	SW
Seek feedback on the delivery of the Fund's services to improve the customer experience, utilising the Fund's website and via the formation of a Member Forum.	2022/23	DKK/SW
Continue the project to review letters and documentation to ensure that the information is clear for members and enables them to engage effectively with the Fund.	Ongoing	SW

RESOURCES

Investment management expenses (IMEs), including property expenses, are external investment manager costs incurred in the management of the Fund's assets, and account for the bulk of the Fund's costs, representing around 85% of total costs. IMEs are largely ad-valorem in nature (i.e. they relate to the value of the asset under management (AUM)) and are impacted by changes in the asset allocation mix of the Fund as well as the value of assets under management, making this part of the budget difficult to forecast in advance.

The remaining approximately 15% of the Fund's budget relates to operational costs including: oversight & governance costs; the direct costs of providing internal services (employee costs; system costs); and other non-IME costs (actuarial fees; custody fees; subscriptions; DCC exchequer and treasury management recharges; together with other miscellaneous expenses). Operational costs also include LGPS Central Ltd governance, operator and product development charges. Year on year changes in operational costs are largely driven by inflationary pressures and service delivery changes.

2021-22 Forecast Budget Outturn

A forecast budget has been presented to Committee for approval for the last two years to improve transparency and to provide assurance regarding the business planning process and the use of the Fund's resources.

The forecast budget requirement for 2021-22 was £33.796m, made up of operational costs of £5.425m and IMEs of £28.371m.

The current expected outturn for 2021-22 is £35.062m, made up of operational costs of £5.324m and IMEs of £29.738m. The forecast overspend of £1.266m largely reflects a £1.441m higher than forecast increase in IMEs (ex property expenses) which was driven by an additional £2.544m of costs associated with higher AUM (assets under management were, on average, approximately £500m higher than forecast during the year) partially offset by a reduction of £1.102m in costs due to a lower total expense ratio i.e. lower investment management fees as a proportion of AUM.

The reduction in the total expense ratio reflects an increased use of passive management and differences in the asset allocation mix. The higher than forecast IMEs (ex property expenses) are partly offset by the expectation that property expenses will be £0.073m lower than forecast and that operational costs will be £0.101m lower than forecast.

Within operational costs: the 2021-22 forecast outturn for employee costs is 5.1% lower than the 2021-22 budget due to the level of unfilled vacancies; the forecast outturn for LGPS Central Ltd is 6.2% lower than the budget due to the agreement of a lower level of mark-up during the year; and the forecast outturn for 'other' operational costs is 7.9% higher than the budget due to higher than expected net actuarial charges and higher than expected printing, packaging and posting costs.

Adjusting the forecast 2021-22 budget to take into account the additional costs related to the increase in assets under management, gives a restated 2021-22 forecast of £36.314m. The forecast outturn for 2021-22 of £35.062m is 3.7% above the unadjusted budget forecast, and 3.4% below the adjusted forecast.

2022-23 Budget

In order to deliver the services of the Pension Fund, the forecast budget requirement for 2022-23 is £35.200m, made up of operational costs of £5.657m and total IME costs of £29.542m. This represents a 0.4% increase on the 2021-22 forecast outturn, and a decrease of 3.1% compared to the 2021-22 adjusted budget.

	2021-22 Budget £	2021-22 Adjusted Budget £	2021-22 Forecast Outturn £	2021-22 Forecast Outturn v Adj 2021-22 Budget %	2022-23 Forecast Budget £	2022-23 Budget v 2021-22 Adj Budget %	2022-23 Budget v 2021-22 Forecast Outturn %
Oversight & Governance	422,580	422,580	428,540	1.4	448,290	6.1	4.6
Employee Costs	2,464,820	2,464,820	2,339,186	(5.1)	2,549,079	3.4	9.0
Systems	502,358	502,358	512,135	1.9	555,234	10.5	8.4
LGPS Central Ltd	1,080,000	1,080,000	1,013,000	(6.2)	983,136	(9.0)	(2.9)
Other	955,351	955,351	1,030,972	7.9	1,121,681	17.4	8.8
Operational Costs	**5,425,109**	**5,425,109**	**5,323,833**	**(1.9)**	**5,657,420**	**4.3**	**6.3**
Investment Management Expenses (ex property expenses)	27,090,549	29,609,250	28,531,155	(3.6)	28,198,395	(4.8)	(1.2)
Property Expenses	1,280,000	1,280,000	1,207,132	(5.7)	1,344,000	5.0	11.3
Total IMEs	**28,370,549**	**30,889,250**	**29,738,287**	**(3.7)**	**29,542,395**	**(4.4)**	**(0.7)**
Total	**33,795,658**	**36,314,359**	**35,062,120**	**(3.4)**	**35,199,815**	**(3.1)**	**0.4**

Oversight & Governance: includes professional and legal fees; investment performance management; independent external advisor fees; and costs associated with the Pensions and Investments Committee and Pensions Board. A provision for possible Covid-19 related expenditure has been maintained in the 2022-23 budget for prudence.

Employee Costs: relate to the employee costs of the Pension Administration Team, the Investment Team and the Head of Pension Fund. The forecast increase in the 2022-23 budget against the 2021-22 forecast outturn reflects: the impact of budgeting for all vacancies; changes in pay grades; and an assumed 2% inflationary increase in pay. The provision for the additional staffing resource that is likely to be required to implement the remedy for the McCloud case is maintained in the 2022-23 budget forecast.

Systems: includes the cost of the pension administration system (including add-on services) and the investment price and information systems. The underlying systems' costs for 2022-23 are assumed to be relatively in line with the 2021-22 forecast outturn. In addition, a provision has been included for system development costs related to the implementation of the McCloud remedy and for potential system related costs in respect of Pensions Dashboards.

LGPS Central Ltd: includes LGPS Central Ltd governance, operator and product development recharges. LGPSC investment management and monitoring costs (IMMC) are included in the Fund's budget under Investment Management Expenses together with forecast LGPSC external manager charges.

Governance costs are split between the Partner Funds on a 1/8th basis and operator and product development recharges are calculated on the level of Partner Fund AUM. The 2022-23 forecast is based on the Fund's expected share of LGPSC's forecast expenditure budget for the year with the following expected post profit mark-up recharges by category: governance £251,000; operator £650,000; and product development £82,000. The forecast IMMC recharge is currently £181,000 before profit mark-up. The actual level of IMMC will be driven by the products and services used by the Fund during the year.

Other Operational Costs: include actuarial fees; custody fees; subscriptions; Derbyshire County Council exchequer & treasury management recharges; together with other miscellaneous expenses. The forecast increase in the 2022-23 budget against the 2021-22 forecast outturn largely reflects the expected increase in actuarial costs related to the March 2022 triennial actuarial valuation.

IMEs: the investment management expenses (ex property) for 2022-23 have been built up on an asset class basis (i.e. asset class AUM multiplied by asset class basis point charge). Average AUM is budgeted to increase to £6.3bn in 2022-23, from £6.1bn in 2021-22, increasing budgeted costs by £0.902m. However, the impact of increased AUM is more than offset by a forecast change in the asset class mix to lower cost products (e.g passive products) which reduces forecast costs by £2.313m, resulting in a net decrease in IME (ex property) costs of £1.411m (a 4.8% decrease against the 2021-22 adjusted budget, and a 1.2% decrease against the expected outturn for 2021-22).

Property expenses largely relate to unrecoverable costs driven by voids and refurbishments. As a result, property costs are difficult to forecast; they tend to be relatively lumpy and can fluctuate significantly year on year. The 2022-23 Budget is based on the 2021-22 budget with a 5% inflationary increase.

2022-23 KEY PERFORMANCE INDICATORS

Indicators	Definition and Success Measure	Timeline	Owner
Investment Performance	Target outperformance against the Fund's Strategic Asset Allocation Benchmark over the long term – performance is measured externally on a quarterly basis and reported to the Pensions and Investments Committee on a quarterly basis.	Ongoing	DKK/NS
i-Connect	Achieve onboarding of employers representing 95% of the membership by 31 March 2023.	March 23	DKK/EW/SW
Member Self Service	Achieve registration of 30% of the combined active and deferred membership by 31 March 2023.	March 23	DKK/EW/SW
Funding Strategy Statement	Obtain Committee approval for an updated Funding Strategy Statement as part of the actuarial valuation process.	March 23	DKK/SW
Review the Fund's AVC Provision	Review the Fund's AVC provision, evaluating whether it provides an efficient, effective and value for money service for members.	March 23	DKK/WS

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

2 March 2022

Report of the Interim Director of Finance & ICT

Derbyshire Pension Fund Treasury Management Strategy 2022-23

1. Purpose

1.1 To seek approval for Derbyshire Pension Fund's proposed Treasury Management Strategy for Derbyshire Pension Fund for 2022-23, attached as Appendix 2.

2. Information and Analysis

2.1 Derbyshire Pension Fund's (the Fund) Treasury Management Strategy has historically formed part of the County Council's Treasury Management Strategy. However, from 2021-22, the Fund has prepared a standalone Treasury Management Strategy to better reflect the characteristics and requirements of the Fund. In line with the County Council's Treasury Management Strategy, the Fund places security of capital and liquidity ahead of investment return.

2.2 The Fund's current benchmark allocation to cash is 2% (about £125m at current asset values). However, it is often the Fund's strategy to hold a higher defensive cash allocation because market valuations have become stretched or cash is held in order to meet future commitment drawdowns. Furthermore, the Fund also occasionally receives employers' contributions in advance, which has the potential to substantially increase the Fund's cash balances, pending the identification, and drawdown, of suitable investment opportunities.

2.3 The Fund generally needs to retain a higher level of instant access funds than the County Council. A major buying opportunity in the market could require immediate access to significant sums of cash for investment. The Fund’s actual cash allocation at 31 January 2022 was 4.7%, equating to £288m. Future commitments at 31 January 2022 totalled around £328m.

2.4 The proposed Treasury Management Strategy for 2022-23 includes the following requirements and comments:

- The Fund’s objective when investing money is to strike a balance between risk and return, minimizing the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- The Fund prioritises liquidity for cash investments over investment return.
- The maximum amount and duration of cash investments by counterparty should be according to the limits set out in Table 1 on page 4 of the Treasury Management Strategy.
- An increase in the overnight limit for the Fund’s main operational bank account from £30m to £60m and an increase in the limit for the in house account of the Fund’s custodian from £30m to £60m to minimise transaction risk; this reflects the material increase in transaction size as a result of the rise in the value of the portfolio in recent years.
- Investments should be limited by type in accordance with Table 2 on page 7 of the Treasury Management Strategy.

2.5 Borrowings are permitted only in exceptional circumstances and in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Borrowings are limited to the maximum amount required to meet the Fund’s obligations and should not exceed 90 days in duration.

3. Implications

3.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

4. Background Papers

4.1 Working papers held by the Pension Fund Team.

5. Appendices

5.1 Appendix 1 – Implications.

6. Recommendation(s)

6.1 That Committee approves the Treasury Management Strategy for Derbyshire Pension Fund for 2022-23 attached as Appendix 2.

7. Reasons for Recommendation(s)

7.1 As set out in the Council's Financial Regulations, Treasury Management at the Council is conducted within the framework of the CIPFA Code of Practice on Treasury Management. A standalone Treasury Management Strategy for the Pension Fund is prepared to better reflect the characteristics and requirements of the Fund.

Report Author: Neil Smith
Investments Manager

Appendix 1

Implications

Financial

1.1 None

Legal

2.1 None

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None

Derbyshire Pension Fund

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Appendix 2

DRAFT
Treasury Management Strategy 2022-23

March 2022

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

Introduction

Treasury Management is the management of Derbyshire Pension Fund's (the Fund) cash flows and associated risks. The Fund invests substantial sums of money and is therefore exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk is therefore central to the Fund's prudent financial management.

Treasury Risk Management at Derbyshire County Council (the County Council), as the administering authority of Derbyshire Pension Fund, is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's "*Treasury Management in the Public Services: Code of Practice 2017 Edition"* (the CIPFA Code).

This report fulfils the County Council's legal obligation, as the administering authority of Derbyshire Pension Fund, under the Local Government Act 2003 to have regard to the CIPFA Code.

The Fund's Pensions and Investments Committee is required to approve the Fund's Treasury Management Strategy before the start of each financial year.

1. External Context

Economic background: The ongoing impact on the UK of the Covid-19 pandemic, together with higher inflation, higher interest rates, and the country's trade position post-Brexit, will be major influences on the Fund's Treasury Management Strategy for 2022-23.

Credit outlook: The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessments of the outlook for UK Sovereign as well as several financial institutions, revising them from negative to stable, and even making a handful of rating upgrades.

Interest rate forecast: The Council's Treasury Management Adviser, Arlingclose, is forecasting that the Bank of England (BoE) will continue to increase Bank Rate in the first calendar quarter of 2022 to subdue inflationary pressures and to continue the move away from emergency levels of interest rates.

Investors continue to price in multiple rises in BoE Bank Rate over the next forecast horizon; the Council's Treasury Management Adviser believes that although interest rates will rise again, the increases will not be to the extent predicted by financial markets.

2. Local Context

On 31 January 2022, the Fund held £288m of cash. This is set out in further detail at Appendix A.

Derbyshire Pension Fund
County Hall, Matlock, DE4 3AH
pensions@derbyshire.gov.uk

3. Borrowing Strategy

Borrowings are permitted only in exceptional circumstances and in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Borrowings are limited to the maximum amount required to meet the Fund's obligations, and should not exceed 90 days in duration.

4. Sources of Borrowing

Any UK public sector body (except for Derbyshire County Council).

The Fund's main bank (currently Lloyds).

5. Treasury Investment Strategy

The Fund holds significant cash balances. In the past 12 months these balances have ranged from £288m to £422m and similar levels are expected to be maintained in the forthcoming year.

The CIPFA Code requires the Fund to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Fund's primary strategy for cash is liquidity in order to take advantage of any market opportunities that may arise. The Fund's objective when investing money is to strike an appropriate balance between risk and return.

Negative interest rates: The Fund believes that the risk of negative interest rates is minimal at present based on the current inflationary outlook and forward interest rate expectations.

Strategy: The Fund's objective when investing money is to strike a balance between risk and return, minimizing the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. The majority of the Fund's surplus cash is currently invested in Money Market Funds and Local Authority loans.

Business models: Under the IFRS 9 standard, the accounting for certain investments depends on the Fund's 'business model' for managing them. The Fund aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Fund may invest its surplus funds with any of the counterparty types in the table set out below, subject to the cash limits (per counterparty) and the time limits shown.

Table 1: Approved investment counterparties and limits

Sector	Time Limit	Counterparty Limit	Sector Limit
UK Government	Unlimited	Unlimited	Unlimited
Local Authorities & Other Government Bodies	13 months	£30m	Unlimited
Banks (unsecured) *	13 months	£30m	£100m
Building Societies (unsecured) *	13 months	£30m	£50m
Money Market Funds (MMF) *	n/a	£30m	Unlimited
Short Term Pooled Bond Funds	n/a	£50m	£100m

Pension Fund Main Operation Bank Account: It is requested that the additional overnight limit for the Fund's main operational bank account is increased from £30m to £60m to minimise transaction risk.

Pension Fund Currency Accounts US$/€: It is requested that additional limits of US$1,000,000 and €1,000,000 are maintained for lower value currency receipts.

Pension Fund Custodian Accounts:

A custotodian is a financial institution that holds a customer's securities (e.g. directly held shares) for safekeeping so as to minimise the risk of theft or loss. The Fund's current custodian is Northern Trust.

Northern Trust (In House Account): It is requested the existing limit of £30m is increased to £60m to minimise transaction risk.

Northern Trust (Wellington – US equities): It is requested the existing limit of 5% of assets under management (approximately £10m US$ equivalent) is maintained until such time as this account is wound-down in line with the approved Investment Strategy Statement.

BNP Paribas: It is requested a limit of £1m for the previous custodian is retained for receipt of outstanding tax claim rebates.

BNY Mellon: It is requested a limit of £1m for the former custodian is retained for the receipt of outstanding tax claim rebates.

Derbyshire Pension Fund
County Hall, Matlock, DE4 3AH
pensions@derbyshire.gov.uk

Minimum Credit rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in (i.e. cancellation of debt owed to creditors in order to provide relief to the borrower) and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for unlimited duration.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access.

Short Dated Pooled Bond Funds: Pooled funds that offer same-day or short notice liquidity and comprise government or investment grade bonds with a short duration (typically less than five years). These bonds are typically held to maturity. These investments are subject to the risk of credit loss.

Operational bank accounts: These are not classed as investments, but are still subject to the risk of a bank bail-in. BoE has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the County Council’s Treasury Management Adviser, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the minimum approved investment criteria then:

- no new investments will be made;
- any existing investments that can be recalled or sold at no cost will be; and

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- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “negative watch”) so that it may fall below the minimum approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Fund understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council’s Treasury Management Adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Fund will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Fund’s cash balances, then the surplus will be deposited with the UK Government or with other Local Authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits: The Fund’s cash balance is forecast to be around £350m, at 31 March 2022. In order to minimise risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government, Northern Trust (custodian), short dated Pooled Bond funds or Lloyds Bank operational bank accounts as previously detailed) will be £30m and capitalised interest. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

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Table 2: Additional investment limits

	Cash limit
Negotiable instruments held in a broker's nominee account	£200m per broker
Foreign countries	£30m per country

Liquidity management: The fund uses purpose-built cash flow forecasting software and Excel spreadsheets to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis.

6. Treasury Management Indicators

The Fund measures and manages its exposures to Treasury Management risks using the following indicators:

Security: The Fund has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit rating	A

Liquidity: – The Fund has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period.

Liquidity risk indicator	Target
Total cash available within 1 month	£100m

Related Matters

The CIPFA Code requires the Fund to include the following information in its Treasury Management Strategy:

Financial Derivatives: The Fund only uses financial derivatives for currency hedging of the Fund's Overseas Income Assets (e.g. property, private debt and infrastructure) and Overseas Protection Assets (e.g. sovereign bonds) (US$ and €).

Markets in Financial Instruments Directive: The Fund has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater

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regulatory protections afforded to individuals and small companies. Given the size and range of the Fund's Treasury Management activities, the Interim Director of Finance & ICT believes this to be the most appropriate status.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Fund believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of a counterparty defaulting (i.e. because there are fewer counterparties) but any such losses are likely to be greater because there is less diversification
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller

Appendix A – Existing Investment Position

	31/01/2022 Actual Portfolio £m	31/01/2022 Average Rate %
Treasury Investments:		
Local authorities	63	0.25
Fund's Main Bank (unsecured)	88	0.00
Money market funds	60	0.01
Custodian	23	0.00
Wellington (custody)	1	0.00
Short Dated Bond Funds	50	0.75
Timing Differences / Other	3	0.00
Total Treasury Investments	**288**	**0.19**

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FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

PENSIONS AND INVESTMENTS COMMITTEE

2 March 2022

Report of the Interim Director of Finance & ICT

Recruitment of an External Advisor to the Derbyshire Pension Fund

1. Purpose

1.1 To update the Committee on the proposed process for the recruitment of an external advisor to Derbyshire Pension Fund to provide advice to the Pensions and Investments Committee and to the In-House Investment Management Team and for the Committee to confirm the attendance of the Chair (or nominee) at the presentation stage.

2. Information and Analysis

2.1 The Consultancy Agreement with the Fund's current external advisor, Mr Anthony Fletcher of MJ Hudson, expires on 30 June 2022. This report sets out an overview of the proposed process for the recruitment of an external advisor which is being co-ordinated by the Fund's In-house Investment Management Team (IIMT) with support from the Council's Corporate Procurement Team (Procurement Team).

2.2 The role is currently being advertised on Source Derbyshire. The closing date for written applications is 18 March 2022. The recruitment will be for an initial term of three years with an option for the County Council to extend for a further two years on an annual basis.

2.3 The role will include liaising with the IIMT and providing the Pensions and Investments Committee with an independent quarterly report, covering market returns, the Fund’s performance, the economic and market outlook and recommended asset class weightings.

2.4 Applicants will be required to submit a tender response and attend a presentation to establish their investment knowledge and experience and assess their written and oral communications skills. The County Council’s procurement guidelines require the expected content of the presentation to be disclosed to potential suppliers in advance as part of the tender documentation.

2.5 The screening of the tender responses will be carried out by the Head of the Pension Fund and the Fund’s Investments Manager with support from the Procurement Team.

2.6 The Head of the Pension Fund and the Fund’s Investments Manager, together with a representative from the Procurement Team, will attend the presentations of those candidates taken forward to that stage. These presentations are scheduled to take place week commencing 11 April 2022. It is proposed that the Chair of the Pensions and Investments Committee (or nominee) is invited to attend the presentations and confirm the final preferred candidate.

2.7 It is anticipated that a report seeking approval to appoint the preferred candidate will be presented to the Pensions and Investments Committee in June 2022.

3. Implications

3.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

4. Background Papers

4.1 Working papers held by the Pension Fund Team.

5. Appendices

5.1 Appendix 1 – Implications.

6. Recommendation(s)

6.1 That Committee notes the proposed process for the recruitment of an external advisor as set out in this report; and

6.2 That Committee confirms the attendance of the Chair (or nominee) at the presentation stage.

7. Reasons for Recommendation(s)

7.1 This report is being presented to provide assurance that a robust and transparent process is being adopted for the recruitment of an external advisor for Derbyshire Pension Fund.

Report Author: **Neil Smith**
Investments Manager

Appendix 1

<u>Implications</u>

Financial

1.1 A maximum quarterly budget of up to £6,250, together with up to £250 per quarter to cover reasonable out of pocket expenses, has been set for the services of the external adviser. The Instructions to Tender will make it clear to applicants that any bids in excess of this amount will be non-compliant. All costs in respect of the external advisor, including the costs of the recruitment process, will be met by Derbyshire Pension Fund.

Legal

2.1 None

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 None

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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