


<p style="text-align: center;">London Borough of Hammersmith & Fulham</p> <p style="text-align: center;">PENSIONS BOARD</p> <p style="text-align: center;">5 June 2019</p>	
<p>FIXED INCOME STRATEGY</p>	
<p>Report of the Strategic Director, Finance and Governance</p>	
<p>Open Report</p>	
<p>Classification - For Information</p> <p>Key Decision: No</p>	
<p>Wards Affected: None</p>	
<p>Accountable Director: Philip Triggs, Tri-Borough Director of Treasury and Pensions</p>	
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1. EXECUTIVE SUMMARY

1.1 This paper updates Pensions Board on:

- a. An overview of the current fixed income portfolio and its performance.
- b. New fixed income investment categories that the Fund may wish to consider in fixed income.

2. RECOMMENDATIONS

2.1 The Board is requested to note the currently approved composition of the fixed income portfolio.

3. CURRENT FIXED INCOME PORTFOLIO

3.1 As at 31 December 2018, the Pension Fund had a diverse fixed income portfolio containing two managers with dynamic asset allocation strategies, one manager specialising in loans and one specialising in private markets.

3.2 The Fund also held two infrastructure investments with different fund managers that complement this portfolio. The portfolio is discussed in detail in Appendix 1. The total allocations of the Fund as at 31 December 2018 are listed in the table below:

3.3 Asset Allocation

The table below shows the assets held by each manager as at 31 December 2018 alongside the Target Benchmark Allocation.

Manager	Asset Class	Actual Asset Allocation				Benchmark Allocation (%)
		30 Sept 2018 (£m)	31 Dec 2018 (£m)	30 Sept 2018 (%)	31 Dec 2018 (%)	
Majedie	UK Equity (Active)	168.9	117.7	16.0	11.9	15.0
LGIM	Global Equity (passive)	342.3	0.0	32.4	0.0	0.0
	Low Carbon Equity (passive)	0.0	339.9	0.0	34.4	30.0
	Total Equity	511.2	457.6	48.4	46.3	45.0
Ruffer	Absolute Return	130.9	123.8	12.4	12.5	10.0
Insight	Bonds Plus	87.0	86.3	8.2	8.7	10.0
	Total Dynamic Asset Allocation	217.9	210.1	20.6	21.3	20.0
Invesco	Private Equity	4.4	2.9	0.4	0.3	0.0
Unicapital	Private Equity	1.6	1.7	0.2	0.2	0.0
	Total Private Equity	6.0	4.6	0.6	0.5	0.0
Partners Group	Multi Asset Credit	38.3	28.2	3.6	2.9	5.0
Oak Hill Advisors	Diversified Credit Strategy	73.2	70.4	6.9	7.1	7.5
Partners Group	Direct Infrastructure	13.5	16.6	1.3	1.7	5.0
Aviva	Infrastructure Income	28.2	30.2	2.7	3.1	2.5
	Secure Income	153.2	145.4	14.5	14.7	20.0
M&G	Inflation Opportunities	102.3	103.0	9.7	10.4	10.0
Aberdeen Standard Investments	Long Lease Property	54.0	54.9	5.1	5.6	5.0
	Total Inflation Protection	156.3	157.9	14.8	16.0	15.0
LGIM	Liquidity Fund	10.9	10.9	1.0	1.1	0.0
	Total	1,055.6	986.6	100.0	100.0	100.0

Source: Northern Trust (Custodian) and have not been independently verified
 Figures may not sum to total due to rounding

4 PRIVATE CREDIT ALLOCATION

- 4.1 The Fund has a 5% allocation to private credit with Partners Group. The Fund invests in a range of different private markets, including real estate debt and infrastructure debt. This Fund is now in run off and as such is paying back its initial investment, with the value now standing at £25.3m as at 31 March 2019.
- 4.2 At the meeting held on 13 February 2019, the Pensions Sub-Committee agreed to defer its decision with regards to the future of its private credit allocation to later in the year. The options under consideration are:
- a. To reinvest with the next Partners Group Fund.
 - b. To conduct a manager search for a private market manager.
 - c. To transfer the private credit allocation to an alternative asset class as the allocation continues to distribute back to the Fund.
- 4.2 Private credit has served the Pension Fund well so far and provides diversification from other fixed income asset classes, with a higher yield than a conventional bond fund.

5 INSIGHT BONDS PLUS FUND

- 5.1 The Bonds Plus Fund invests in a range of fixed income securities and seeks to provide corporate bond like returns, but delivering an absolute performance in all market types, with a performance target of three-month LIBOR plus 2%.
- 5.2 The fund had underperformed over three years, achieving annualised negative absolute returns of -0.6% over the period, 3.1% below the target benchmark. This was mainly due to some macroeconomic calls that had not worked out well.
- 5.3 At the February meeting, the Sub-Committee decided to withdraw its entire holdings from the Insight Bonds Plus Fund and pursue a buy and maintain strategy instead. This allocation was invested in May 2019 with the LCIV Global Bonds strategy which is managed by PIMCO.
- 5.4 The Sub-Committee will continue to review its overall fixed income allocation in line with current market conditions.

6 CONSULTATION

- 6.1 Not Applicable

7 EQUALITY IMPLICATIONS

- 7.1 Not applicable

8 LEGAL IMPLICATIONS

- 8.1 None

9 FINANCE AND RESOURCES IMPLICATIONS

9.1 Finance risks are outlined within the report.

10 IMPLICATIONS FOR BUSINESS

10.1 Not applicable

11 RISK MANAGEMENT

11.1 Risks are outlined within the report.

12 PROCUREMENT IMPLICATIONS

12.1 None

13 IT STRATEGY IMPLICATIONS

13.1 None

LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	None		

LIST OF APPENDICES:

(EXEMPT) Appendix 1: Fixed Income Strategy