

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Pension Fund Committee

Date: 31 July 2023

Subject: Renewable Infrastructure and Fixed Income Managers

Report author: Siân Cogley, Pension Fund Manager

Responsible Director: Phil Triggs, Tri-Borough Director of Treasury and Pensions

SUMMARY

This report presents an overview of the background to the decisions to be made following the Pension Fund committee meeting 13 June 2023.

RECOMMENDATIONS

1. The committee is requested to note and apply the principles of the renewable energy infrastructure, and buy and maintain bonds, training to the manager selection exercise.
2. The committee is requested to consider one of the three options presented for a renewable infrastructure product.
3. The committee is requested to consider one of the three options presented for a Buy and Maintain bonds product.

Wards Affected: None

Our Values	Summary of how this report aligns to the H&F Values
Being ruthlessly financially efficient	Manager selection for the Pension Fund should ultimately lead to better financial performance in the long run for the Council and the council taxpayer.

Financial Impact

None.

Legal Implications

None.

DETAILED ANALYSIS

Background

At the 28 February 2023 Pension Fund committee meeting, the committee agreed to progress the following actions:

- 1) Inflation protection: invest an additional 2.5% in commercial ground rents as part of the inflation protection portfolio, to be funded from Ruffer.
- 2) Renewable infrastructure: select the replacement for the Aviva infrastructure income mandate and increase the strategic asset allocation to 3.5%.
- 3) De-risk: transfer 5% from the Fund's strategic global equity allocation to bonds.

The first action was applied in May 2023, with an additional £37m invested into the Alpha Real Capital Index Linked Income Fund.

With regard to the second item, Isio provided a report on renewable infrastructure managers to the committee at the 13 June 2023 meeting. Based on the information provided in this paper, the Committee decided that a shortlist would be considered for the renewable infrastructure income mandate, to be decided at an extraordinary meeting of the Pension Fund committee on 25 July 2023. This meeting was then rescheduled to 31 July 2023.

At the 13 June 2023 committee meeting, it was agreed that the 5% de-risking transition would be funded from the equity portfolio such that the new 40% strategic global equity allocation maintains the current 1/3rd:2/3rd split, i.e., 13% allocation to LCIV Global Equity Quality and 27% allocation to LGIM MSCI World Low Carbon Target Index.

In addition, the committee agreed that the bonds mandate should be moved into a typical buy and maintain credit strategy.

Renewable Infrastructure

1. The proposed strategic allocation to renewable infrastructure is 3.5% of the Fund's total assets (circa £45m based on the Fund's total assets as at 31 May 2023).
2. Appendix 2 provides a summary of the shortlisted managers and strategies that were considered as part of the renewable energy infrastructure manager selection exercise. These managers are summarised against eight key factors: complexity, team and process, fund structure, liquidity and timing, cashflows, green field/brown field, regional focus, fees, and leverage.

Fixed Income

1. The proposed strategic allocation to buy and maintain credit is 15% of the Fund's total assets (circa £191m based on the Fund's total assets as at 31 May 2023).
2. Appendix 2 provides a summary of the shortlisted managers and strategies that were considered as part of the buy and maintain manager selection exercise. These managers are summarised against nine key criteria: fund

inception, fund size / seed capital, liquidity, modified duration, number of issuers, yield, default rate, weighted average carbon intensity metrics, and fees.

LIST OF APPENDICES

Appendix 1: (EXEMPT) Report on Renewable Infrastructure and Fixed Income Managers

Appendix 2: (EXEMPT) Renewable Infrastructure and Buy and Maintain Training

Appendix 3: (EXEMPT) Renewable Infrastructure and Buy and Maintain Selection