

Legal & General Investment Management

Fixed Interest

Note of virtual meeting held on 3rd November 2021

LGIM: Simon Bell (Fixed Income Fund Manager)
Chris Lyons (Client Director)

Oxfordshire: Sean Collins and Greg Ley

Following the transition of assets to the Brunel Fixed Income portfolios in summer of this year a residual portfolio was retained with LGIM of c.£130m. This represents a current overweight position in fixed income against the Pension Fund's strategic asset allocation targets while funding of the private market investments to which the Fund has committed are called down. As such, the portfolio will eventually be wound down and officers have had discussions with LGIM about the most efficient way to manage this process.

The portfolio combines a segregated element which invests globally in government bonds and a pooled fund holding in the LGIM Core Plus Fund through which the portfolio achieves exposure to corporate bonds.

LGIM continue to be one of the largest investment managers in the LGPS space managing £67bn across 62 LGPS clients.

Performance

Portfolio value at 30/09/21 was £133.4m

Periods to 30/09/21 (in % net of fees):

	Fund	B'mark	Difference	Target
3 months	+ 0.0	+ 0.2	- 0.2	+ 0.15
12 months	- 0.8	- 2.2	+ 1.4	+ 0.6
3 years (p.a.)	+ 5.6	+ 4.7	+ 0.9	+ 0.6
10 years (p.a.)	+ 5.8	+ 5.5	+ 0.3	+ 0.6

Four factors which contributed positively to year-to-date performance were:

- Sectoral exposure, in particular compression themes (Cyclicals, Covid-exposed Sectors, Sub-financials);
- Being long credit exposure;
- Credit exposure outside Sterling Credit (USD Credit);
- Short Treasuries in February

The main detractor from performance was being long Gilts versus Bunds and Treasuries.

Officers questioned the positions in airlines, which had been given as examples of holdings in the Core Plus Fund, in the context of climate concerns. LGIM advised that the investment thesis behind the holdings was not a long-term bet on airlines performance but rather an expected short-term bounce from the COVID recovery.

Officers discussed green bonds with LGIM who, although they did not participate in the recent UK green Gilt issuance due to pricing concerns, do expect to participate in the market in future.

Conclusion

LGIM continue to deliver steady performance on the portfolio with longer term performance above benchmark and only marginally below target. Officers will continue to liaise with LGIM as to the most efficient way to manage the portfolio as funds are withdrawn to fund private market commitments.