Investment Policy and Performance

Introduction

The Fund's approach to its investment arrangements is set out in its Investment Strategy Statement, (ISS) as required by Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations") that requires the Fund to create and maintain an approach to investments that includes, amongst other things:

- a requirement to invest fund money in a wide variety of investments;
- the Fund's assessment of the suitability of different types of investments;
- the Fund's approach to risk, including the ways in which risks are assessed and managed;
- the Fund's approach to pooling investments;
- the Fund's policy on how social, environmental and corporate governance considerations are taken into account; and
- the Fund's policy on the exercise of the rights (including voting rights) attaching to investments.

The Pension Fund Committee (PFC) approves investment policies and strategy and an Investment Sub-Committee (ISC), which is supported by the Fund's Advisors, to implement these investment policies and strategy, which includes the appointment and dismissal of Investment Managers and monitoring of performance.

The Fund adopts a long-term perspective, focussing its investment strategy to generate sustainable returns on a risk adjusted basis to grow the Fund's assets to reflect its equally long-term future liabilities. The Pension Fund Committee, Local Pensions Board, Fund officers and professional advisors have worked hard to develop an enhanced responsible investment (RI) policy, which forms part of our overall investment strategy. The new RI policy sets out our approach to sustainable responsible investment and will help us manage the carbon and climate risks impacting our investments better.

The RI policy was agreed following a consultation that was open to scheme members and scheme employers. You can find a copy of the summary consultation responses and an updated investment strategy statement on our key documents page.

The revised RI policy will inevitably mean some changes to our underlying investments over time. In February 2022, the Investment Sub Committee approved decarbonisation targets to reduce the carbon emissions of listed equities by 23% by 2024 and by 57% by 2030 together with a climate action plan for 2022, 2023 and beyond.

The Fund intends decarbonising the portfolio at the same rate as the European Policy Curve (EPC) meaning the Funds decarbonisation pathway would align with the Paris Accord and achieve the ambitions target to reach net zero by 2050 or earlier.

Progress against these targets will be reviewed regularly via a climate dashboard setting out key carbon metrics which will be measured and tracked over time. Regular communication will be provided on how the Fund is progressing on its journey to achieve net zero.

You can find copies of the Funds climate action plan, decarbonisation pathway, and climate dashboard on the key documents page.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which is a voluntary association of LGPS funds that seeks to protect and enhance the value of its members' shareholdings by way of shareholder engagement, by action on corporate governance issues and by seeking to promote the highest standards of corporate social responsibility at the companies in which LAPFF members invest. Through LAPFF, the Fund exercises its belief that engagement with company management to promote improvements in SRI practices is more powerful than divesting from the company's shares.

The Fund will continue to support the principles of the UK Stewardship Code (the "Stewardship Code") in the following year.

Information about Investment Manager voting is available at Cambridgeshire Pension Fund Key Documents

Investment Policy and Performance (continued)

Role of Investment Managers

Each Investment Manager relationship is governed by an Investment Management Agreement, which sets out how much they can invest, the asset class in which the Fund has employed them to invest, the expected target return and how much the Fund will pay for this service.

Active focus

The Fund with the exception of the passive Global Equity mandate and passive index-linked bonds, favours "active" briefs to outperform agreed specific benchmarks.

Custodian

The Fund's Custodian is Northern Trust. The Custodian is responsible for ensuring that the Fund has good title to all investments, that all trades instructed by Investment Managers are settled on time and that all income due to the Fund is received and recorded accurately. Northern Trust also maintain the investment accounting records for the Fund.

Asset Pooling

The Fund is working with ten like-minded LGPS funds to implement the ACCESS asset pool in response to the Government's LGPS reform agenda. The main aim is to encouraged LGPS Funds to work together to form asset pools to "pool investments to significantly reduce costs, while maintaining investment performance." Individually, the participating funds have a strong performance history and potential for substantial benefits for a group of successful, like-minded authorities collaborating and sharing their collective expertise. Collectively as at 31st March 2022, the ACCESS Pool has significant scale with assets of £60bn (of which 58.5% has been pooled) serving 3,500 employers with 1.2 million members including 310,000 pensioners.

The roles and decision-making relationship between the eleven funds is informed by an Inter Authority Agreement. The ACCESS pool is governed by the ACCESS Joint Committee (AJC) comprising the Chair of the eleven constituent funds. The AJC have appointed Link Fund Solutions Ltd (Link) as operator of the pool and the LF ACCESS Authorised Contractual Scheme (ACS).

The Fund's passive equity investments are invested with UBS Asset Management under a collaborative arrangement with fellow ACCESS funds, which has generated significant fee savings for the Fund.

On 31 March 2022, the Cambridgeshire Fund had invested £1,709.7m in sub-funds of the ACCESS Authorised Contractual Scheme and £959.7m in the UBS passive arrangement resulting in £2,669.4m of assets under pool management representing 62.3% of the Fund's assets.

During 2022-23 the Fund expects further investment in fixed income sub-funds of the ACS when they become available. The focus for ACCESS in 2022-23 is to continue work performed in 2021-22 to develop a pooled solution for Alternative asset classes. In December 2021 MJ Hudson were appointed implementation advisor for the Pool's alternative assets.

The ACCESS Support Unit (ASU) has been created to manage the Operator contract against specified KPIs and provide technical and secretariat support services to the AJC and Officer Working Group (OWG).

In addition to the savings in Investment Management fees through joint investments, there are other tangible benefits from pooling including a governance dividend (potential for reduced risk due to manager diversification achieved at pool level) and tax savings.

More information about the ACCESS asset pool can be found on their website: ACCESS Pool. The ACCESS Annual Report can be found at Appendix A to the Annual Report.

Investment Policy and Performance (continued)

The Costs of Pooling

The costs of setting up the ACCESS pool and the operating costs of the pool are collected by a nominated ACCESS authority and re-charged in equal shares to the eleven ACCESS funds. Cambridgeshire's share of costs is reported within Oversight and Governance costs in Note 11 to the Statement of Accounts and comprises the following:

Operational Costs	2021-22 £000	2015-16 to 2021-22 Cumulative £000
Strategic & Technical	32.6	161.6
Legal	15.0	112.0
Project Management	0.0	81.1
ACCESS Support Unit	44.9	160.5
Other	2.7	29.4
Total Operational Costs	**95.2**	**544.6**

Cost Savings

The fee savings for the 2021-22 financial year resulting from the asset pooling agenda exceed £3.8m.

Cost Transparency

The analysis below shows the investment expenses incurred during financial year 2021-22 between expenses incurred in respect of Pooled Assets held in the ACCESS Pool and those assets held outside of the pool. Direct costs include: invoiced costs and costs deducted from the value of fund, or from income generated, in accordance with the fee agreement in place with each manager and explicit transaction costs. Indirect costs include: implicit costs and third-party fees and charges. These are indicative estimates provided by Investment Managers as the reporting practices for the Cost of Transparency are still evolving.

Cost Transparency - Continued

	Asset Pool			Non- Asset Pool			Fund Total
	Direct £000	Indirect £000	Total £000	Direct £000	Indirect £000	Total £000	£000
Investment Management Fee	7,745	271	8,016	8,132	1,825	9,957	17,973
Performance Fee	0	5,288	5,288	4,137	2,464	6,601	11,889
Broker commissions	0	348	348	18	6	24	372
Other explicit costs	0	91	91	604	793	1,397	1,488
Implicit/indirect transaction costs	0	4,304	4,304	0	738	738	5,042
Administration	295	0	295	525	758	1,283	1,578
Governance and Compliance	34	0	34	464	148	612	646
Other	-24	37	13	200	1,937	2,137	2,150
Total	**8,050**	**10,339**	**18,389**	**14,080**	**8,669**	**22,749**	**41,138**

Investment Policy and Performance (continued)

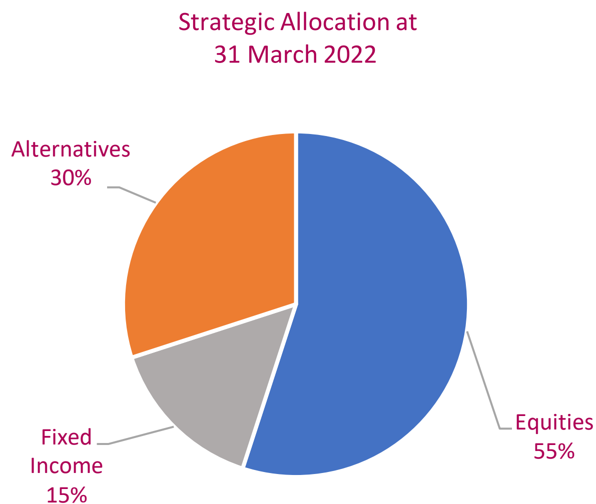
Investment Allocation and Performance

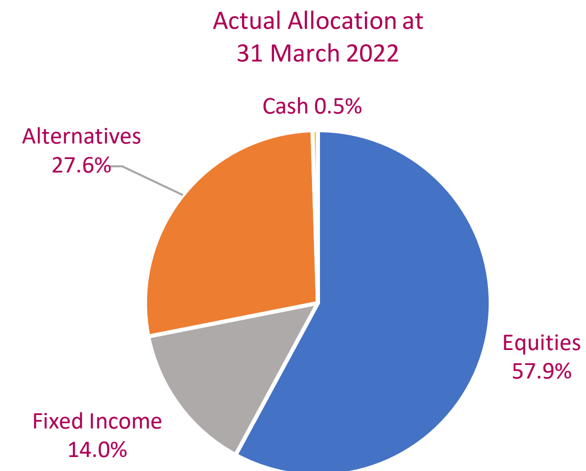
The Pension Fund Committee is responsible for approving the Strategic Asset Allocation proposed by the Investment Sub-Committee (ISC). The ISC performed a full review of the Strategic Asset Allocation during 2018-19 in conjunction with the Fund's Investment Consultants, Mercer Ltd and independent Investment Advisor. The review assessed the appropriateness of the current strategy and any changes necessary to increase the likelihood of meeting the Fund's objectives, namely:

- To reach full funding and be in a position to pay benefits as they fall due; and
- To ensure contributions remain affordable to employers

The strategy approved by the Pension Fund Committee in March 2019 aimed to reduce the Fund's reliance upon, and the associated risks, of a large allocation to equities whilst retaining sufficient exposure to growth assets. The strategy focused on a reduction in equities and an increase in Alternative assets (such as Private equity and Infrastructure) and a flexible allocation to fixed income. The ISC subsequently reviewed the regional mix within the equity allocation and as a result reduced the exposure to UK Equities in conjunction with the roll-out of sub-funds offered by the ACCESS pool ACS. The Fund has a risk management strategy in place managed by Schroders (formerly known as River & Mercantile) with the objective of reducing equity risk.

The charts below show the Strategic Asset Allocation at the start and close of the financial year compared to the actual allocation of assets at 31 March 2022.





Investment Policy and Performance (continued)

The value of the investments held by each of the Fund's Investment Managers on 31 March 2021 and 31 March 2022 is shown in the following table.

Value of investments at the balance sheet date

Manager	31 March 2021		31 March 2022	
	£m	% of Total	£m	% of Total
UBS Passive UK Equity	85.0	2.2	91.3	2.0
Link Fund Solutions – ACCESS Global Equity (JO Hambro)	509.5	13.2	539.4	12.6
Link Fund Solutions - ACCESS Global Stock (Dodge and Cox)	486.7	12.6	562.5	13.1
Link Fund Solutions – ACCESS Global Equity (Longview)	362.1	9.4	414.8	9.7
Schroders	-15.3	-0.4	8.8	0.2
UBS Passive Global Equity	872.0	22.6	868.4	20.3
BlueBay Asset Management	183.4	4.7	197.8	4.6
M&G Investments	182.5	4.7	0.0	0.0
Link Fund Solutions – M&G Alpha Opportunities	157.0	4.1	193.0	4.5
Schroders	0.0	0.0	210.8	4.9
Schroders Property	252.7	6.5	300.8	7.0
Adams Street	131.9	3.4	178.5	4.2
Allianz	19.7	0.5	19.2	0.4
AMP debt	45.5	1.2	41.7	1.0
Cambridge and Counties Bank	76.0	2.0	85.0	2.0
Cambridge Building Society	15.0	0.4	15.0	0.3
Foresight	15.2	0.4	28.4	0.7
Equitix	32.2	0.8	20.6	0.5
HarbourVest	123.9	3.2	159.3	3.7
IFM Infrastructure	62.8	1.6	76.1	1.8
JP Morgan	59.2	1.5	59.6	1.4
M&G	119.0	3.1	138.5	3.2
Partners Group	41.8	1.1	50.0	1.2
UBS Infrastructure	10.7	0.3	8.9	0.2
Cash	36.4	0.9	19.3	0.5
TOTAL	3,864.9	100.0	4287.7	100.0

Investment Policy and Performance (continued)

Total Fund Performance

The total investment return for the Fund over the financial year was 9.9% net of fees compared with a weighted benchmark return of 11.0%. In the previous year the total investment return was 26.5% compared with a weighted benchmark of 27.7%. The Fund's total investment return was 9.9% p.a over the three years to 31 March 2022, 7.9% p.a over the five years to 31 March 2022, and 9.5% p.a over the ten years to 31 March 2022.

Performance of Managers

The ISC continue to monitor the Investment Managers' performance against their benchmark at their quarterly meetings. All managers are measured against market-based performance benchmarks with bespoke outperformance targets set for active managers which are expected to be met over a three to five year period. Net of fees performance of each manager compared to benchmark over one, three and ten years is shown in the table below.

Asset Class /Manager	1 year (% p.a)			3 year (% p.a)			10 year (% p.a)		
	Return	Benchmark	Variance	Return	Benchmark	Variance	Return	Benchmark	Variance
UBS Passive	10.4	10.3	0.1	13.3	13.2	0.1	n/a	n/a	n/a
J O Hambro	5.9	12.4	-6.5	15.2	13.4	1.8	n/a	n/a	n/a
Dodge & Cox	14.7	14.8	-0.1	12.8	9.4	3.4	n/a	n/a	n/a
Longview	14.6	12.4	2.2	n/a	n/a	n/a	n/a	n/a	n/a
Schroders (formally know as River & Mercantile)	1.9	1.9	0.0	n/a	n/a	n/a	n/a	n/a	n/a
BlueBay Asset Management	-0.8	0.1	-0.9	n/a	n/a	n/a	n/a	n/a	n/a
M&G Alpha Opportunities	0.3	4.1	-3.8	n/a	n/a	n/a	n/a	n/a	n/a
Adams Street	53.4	19.8	33.6	35.5	19.8	15.7	n/a	n/a	n/a
Allianz	-6.9	4.0	-10.9	3.2	4.0	-0.8	n/a	n/a	n/a
AMP debt	11.1	10.0	1.1	5.6	10.0	-4.4	n/a	n/a	n/a
Equitix	-13.2	10.0	-23.2	2.4	10.0	-7.6	n/a	n/a	n/a
HarbourVest	70.3	19.8	50.5	33.1	19.8	13.3	n/a	n/a	n/a
Foresight	1.8	19.8	-18.0	n/a	n/a	n/a	n/a	n/a	n/a
IFM Infrastructure	21.2	10.0	11.2	n/a	n/a	n/a	n/a	n/a	n/a
JP Morgan	3.9	10.0	-6.1	n/a	n/a	n/a	n/a	n/a	n/a
M&G Residential Property	4.4	6.0	-1.6	2.4	6.0	-3.6	n/a	n/a	n/a
M&G Secured Loans	2.0	4.2	-2.2	2.9	4.5	-1.6	4.1	4.6	-0.5
M&G Shared Ownership	4.4	6.0	-1.6	n/a	n/a	n/a	n/a	n/a	n/a
Partners Group	17.9	10.0	7.9	11.8	10.0	1.8	n/a	n/a	n/a
UBS Infrastructure	-19.1	10.0	-29.1	-9.8	10.0	-19.8	n/a	n/a	n/a
Schroders Property	17.9	13.1	4.8	6.8	8.1	-1.3	7	8.1	-1.1

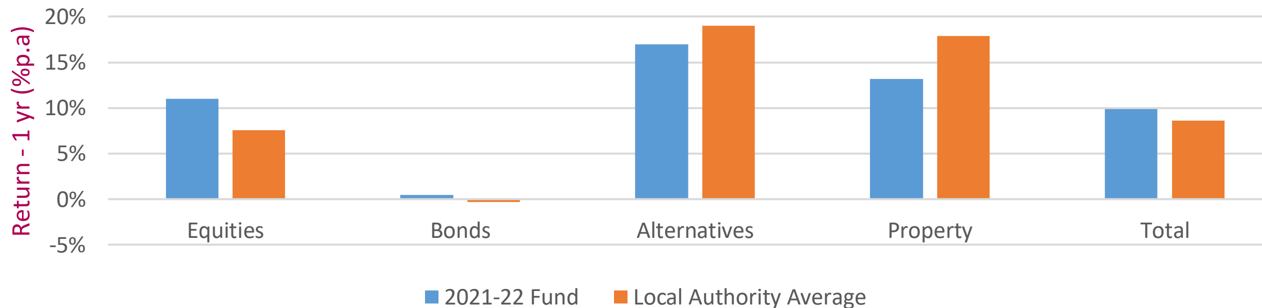
n/a = Not invested for the full period therefore no meaningful performance measure is available

Investment Policy and Performance (continued)

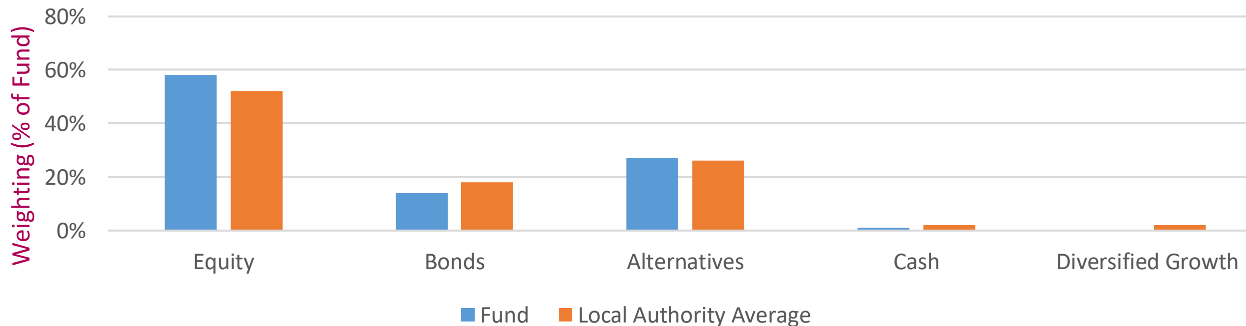
Performance in Comparison with Local Authority Universe

The Local Authority Universe is a national scheme consisting of 63 pension funds collated by PIRC Ltd that provides benchmarking of local authority pension funds investment performance.

In 2021-22 the Fund's performance of 9.9% net of fees over the financial year was ranked 26th percentile out of the 63 Funds participating in the Universe. The investment return achieved was influenced by the Fund's holding of a higher proportion of Global Equities.



The Fund's current strategy has a slightly higher allocation to Equities and Alternatives and a lower allocation to Bonds when compared to the Local Authority Universe.



Investment Policy and Performance (continued)

Climate Change Report

Executive summary

The Fund recognises the systemic risk associated with climate change as well as the County Council's targets in this regard and the views and aspirations of other scheme employers and scheme members.

In order to manage this systemic risk and to align with its support of the Paris Agreement and a "just transition", the Fund currently expects that its investment portfolio will be net carbon neutral by 2050 at the latest, in line with UK Government's targets.

The Fund is working to produce climate change reporting that complies with the Task Force on Climate-Related Financial Disclosures (TCFD) framework, expected to become mandatory for LGPS Funds in the coming years.This report provides a summary of the Fund's position as it relates to climate change, assessed across the four pillars under the TCFD Framework:

- **Governance**: How the Pension Fund Committee maintains oversight and incorporates climate change into its decision making;
- **Strategy**: How potential future climate warming scenarios could impact the Fund;
- **Risk Management**: How climate-related risk is incorporated in the Fund's broader risk management processes; and
- **Metrics and Targets**: How the Committee measures, and monitors progress against different climate related indicators known as metrics and targets.

Governance

The Administering Authority has delegated to the Pension Fund Committee ("Committee") the power to determine and maintain the Fund's strategies, policies and procedures. Implementation of the strategy and the monitoring of performance is delegated to the Investment Sub-Committee ("ISC"), for which the membership is drawn from the Committee.

Research into how climate-related risks and opportunities impact financial markets is constantly evolving and expanding. The Committee or its ISC receives training on a regular basis to keep up-to-date with developments and will allocate time on meeting agendas to cover items such as climate-change scenario analysis or reporting of metrics.

During the Fund year, the Committee or ISC received various training sessions covering climate-related investment risks and reporting requirements in line with the TCFD recommendations. The Committee acknowledges that the reporting of climate-related risk is relatively new and the collective experience of the Committee and ISC will grow over time.

Climate change will form an explicit agenda item at least annually for the Committee or ISC when the Fund's annual climate change / TCFD report is updated. It will also be covered as part of other agenda items as part of a wider discussion of funding or investment strategy, or as part of the investment manager appointment and review discussions.

Strategy

Given the uncertainty around the timing and impact of climate-related transition and physical risks, the ISC considered three climate scenarios or 'warming pathways' i.e. the expected degrees of warming of the atmosphere by the end of the century relative to pre-industrial levels, to help test the resiliency of the Fund's investment strategies at the strategic level.

Investment Policy and Performance (continued)

Whilst a lower warming pathway (2ºC scenario) is one in which governments, businesses and society should aim for as a minimum, there is a possibility that a failure to reduce GHG emissions quickly enough could set off irreversible feedback loops that significantly warms the planet (as modelled by 3ºC and 4ºC scenarios).

The Fund will be impacted by climate change, regardless of the scenario that unfolds.

Resilience of the Fund's investment strategy

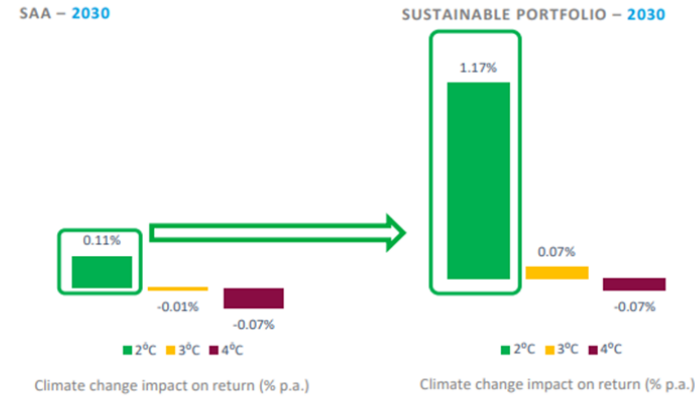
The table below shows how a 2⁰C scenario leads to enhanced projected returns for the Fund's investment strategy versus 3⁰C or 4⁰C scenarios, with the greatest Impact over the period to 2030.

Warming pathway scenario	Year	Climate change impact on return (% per year)
2°C	2030	0.12%
2°C	2050	-0.06%
2°C	2100	-0.08%
3°C	2030	-0.01%
3°C	2050	-0.06%
3°C	2100	-0.10%
4°C	2030	-0.08%
4°C	2050	-0.14%
4°C	2100	-0.18%

Transition opportunities emerge from a 2⁰C scenario

The graphic to the right illustrates the benefits of investing sustainably (i.e. in a portfolio broadly aligned with the Fund's investment strategy but where asset class exposures are mapped to sustainable equivalents).

Under the 2⁰C scenario, to 2030, the Sustainable Portfolio is expected to benefit by up to +16.2% on a cumulative basis, compared with the Fund's current investment strategy.



Key findings of the analysis

Investing for a 2⁰C scenario is both an imperative and an opportunity the Fund should address.

- An imperative, since, for nearly all asset classes and timeframes, a 2⁰C scenario leads to enhanced projected returns versus 3⁰C or 4⁰C and a better investment outcome.
- An opportunity, since, although incumbents can suffer losses in a 2⁰C scenario, there are many notable investment opportunities enabled in a low-carbon transition, including sustainability themed investments in listed and private equities to infrastructure and fixed income.

Climate scenario analysis is an ever evolving space and, as such, the scenarios modelled and reported may be subject to review in future periods. It is important to note that the modelling may understate the true level of risk due to the uncertainty around the future economic impacts of climate change.

Investment Policy and Performance (continued)

Risk Management

This section summarises the primary climate-related risk management processes and activities carried out for the Fund. These assist with understanding the materiality of climate-related risks, both in absolute terms and relative to other risks that the Fund is exposed to.

Governance	The Fund recognises the systemic risk associated with climate change as well as the County Council's targets in this regard and the views and aspirations of other scheme employers and scheme members. The Fund has acknowledged the risk to the Fund of climate change in its Risk Register: "As long-term investors, the Fund believes climate risk has the potential to significantly alter the value of the Fund's investments." The Officers maintain a Climate Action Plan which is reviewed and updated on a regular basis. This document forms part of the ISC's wider business plan and summarises the progress, actions and outcomes of scheduled climate-related investment projects and tasks.
Strategy	The Fund's advisers will take climate-related risks and opportunities into account as part of the wider strategic investment advice provided to the Committee and ISC. This includes highlighting the expected change in climate-risk exposure through proposed asset allocation changes, both from the top-down level (via climate scenario analysis) and bottom-up (via climate-related metrics). Climate scenario analysis for the investments of the Fund will be reviewed periodically.
Reporting	The ISC will receive an annual climate dashboard providing an update on climate-related metrics and progress against targets in respect of the assets held in the Fund. The ISC may use the information to engage with the Fund's investment managers. A quarterly stewardship monitoring report is being introduced in 2022-23 which summarises how the investment managers choose to vote and engage on climate-related issues (among other key engagement priorities).
Manager selection and retention	The ISC, with advice from its advisers, will consider an investment manager's firm-wide and strategy-specific approach to managing climate-related risks and opportunities when either appointing a new manager, in the ongoing review of a manager's appointment, or as a factor when considering the termination of a manager's appointment.

What are the climate-related risks and opportunities?

The Fund has considered two types of climate-related risks and opportunities in its climate scenario analysis:

1. Transition risks and opportunities

This covers the potential financial and economic risks and opportunities from the transition to a low-carbon economy (i.e. one that has a low or no reliance on fossil fuels), in areas such as:

- Policy and legislation
- Market
- Technology
- Reputation

Investment Policy and Performance (continued)

Risks include the possibility of future restrictions, or increased costs, associated with high carbon activities and products.

There are also opportunities, which may come from the development of low-carbon technologies. In order to make a meaningful impact on reducing the extent of global warming, most transition activities need to take place over the next decade and certainly in the first half of this century.

2. Physical risks and opportunities

The higher the future level of global warming, the greater physical risks will be in frequency and magnitude. Physical risks cover:

- Physical damage (storms; wildfires; droughts; floods)
- Resource scarcity (water; food; materials; biodiversity loss)

Physical risks are expected to be felt more as the century progresses though the extent of the risks is highly dependent on whether global net zero greenhouse gas emissions are achieved by 2050.

There are investment opportunities, for example, in newly constructed infrastructure and real estate that are designed to be resilient to the physical impacts of climate change, as well as being constructed and operated in a way that have low or no net carbon emissions. There are also opportunities for investment in those companies or industries that focus on energy conservation and resource efficiency.

Metrics and targets

Metrics

The primary metrics that are used by the Fund to measure climate-related impact are:

- Absolute emissions. This is the total emissions of seven major GHGs associated with the investments held (carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, sulphur hexafluoride and nitrogen trifluoride).
- Carbon footprint. This is the total emissions per million pounds invested.
- Weighted average carbon intensity (WACI). This is the total emissions per million pounds of sales

Limitations of emissions data

The Fund is aware of issues around data quality, in particular carbon data for many private companies, governments and asset classes is not currently sufficiently robust to set targets against. The Fund has therefore focused on the listed equity portfolio initially, given data quality is more robust within this asset class and it comprises a majority of the Fund's strategic investment portfolio. The Fund will seek to include other asset classes in its carbon reporting as this data quality improves over time.

The Fund is also aware that Scope 3 emissions data, i.e. covering indirect emissions from the value chain such as those embedded in material inputs or freight, is an area that needs development and as such it is not included in the Fund's target-setting process. However, the Fund will continue to collect this data to inform its engagement with investment managers.

Targets

The Fund's overall climate-related objective is to align its portfolio with a 'pursue efforts towards 1.5^{o}C' objective - i.e. net zero by 2050 or earlier, with an aspiration of achieving a net zero position by 2045.

The Fund uses absolute emissions as the base line measure for a de-carbonisation pathway as it:

- Gives a 'real world' measure of the amount of carbon the Fund's portfolio is responsible for emitting
- Less likely to be susceptible to skews from carbon offsetting
- Less impacted by other external factors such as corporate sales due to changes in wholesale prices e.g. oil and gas prices

Investment Policy and Performance (continued)

On this basis, the Fund has also set interim targets for the listed equity portfolio in order to make progress towards the Fund's overall climate objective:

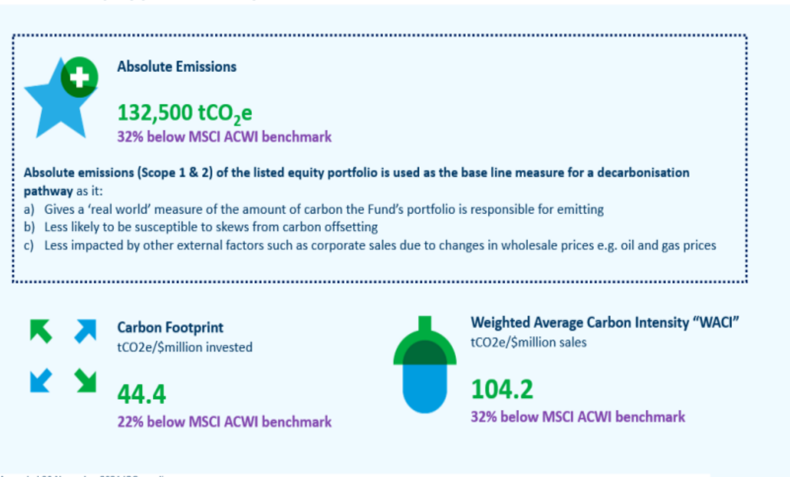
1. Emissions reductions of 23% (from the 2021 baseline) by 2024
2. Emissions reductions of 57% (from the 2021 baseline) by 2030

Carbon reporting dashboard

The Fund's metrics, initially measured in 2021 and to be used as a baseline for future targets, are set out in a publicly available carbon reporting dashboard[1] :

The 2021 metrics are based on Scope 1 and 2 emissions data for the listed equity portfolio.

The dashboard will be updated on an annual basis.



1 https://pensions.northamptonshire.gov.uk/app/uploads/2022/04/CarbonReportingDashboardCPF.pdf

Independent Adviser's annual review – Twelve months to 31st March 2022

Sam Gervaise-Jones, CFA

May 2022

Twelve months ago, in my first investment review after taking on the role of independent adviser to the Cambridgeshire Pension Fund, we had been wrestling with the impact of COVID-19, Brexit, a change of US President, global climate disruption and continued social upheaval.

My outlook noted plenty of positives, mainly concerning the roll out of vaccines and the prospect of a return to economic growth, but also no shortage of uncertainty, particularly around the prospect of inflation brought on by years of unprecedented stimulus.

Tragically 2021 did not see the end of COVID-19, with a continued toll across both lives and livelihoods. The emergence of new strains, together with continued divergence in different countries' approaches to managing the pandemic, has contributed to continuing uncertainty. While in some ways life appears to be getting back to normal, in others we are more restricted than ever.

A year ago the geopolitics were dominated by the rise of China and a shift of direction in the Whitehouse. Now we face war in Europe, a cost of living crisis, supply chain challenges, rising inflation, the list goes on! Political and economic uncertainty is not going away, and so resilience in the Cambridgeshire Pension Fund continues to be highly desirable.

Here I take the opportunity to provide an investment review covering the financial year 2021/22, in addition to providing some thoughts for the future.

Market Activity

Equities

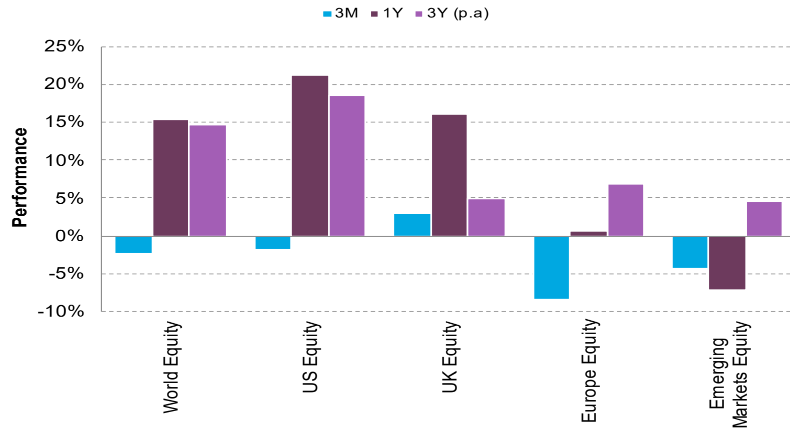
The year started well globally, with equity markets continuing their upward trajectory during Q2 2021: Gains in most regions were supported by ongoing Covid-19 vaccine programs and increasing economic activity as countries gradually reopened, which helped boost corporate earnings. US equity markets indices reached record highs. Growth in GDP, consumption, and industrial activity continued to strengthen; contributing to a significant jump in headline inflation risk as the US Consumer Price Index for All Urban Consumers rose to +5.4% year over year as of 30 June. With that risk firmly in view, investors watched markets wobble around the expected timing of interest rate increases and bond buybacks, or tapering, by the US Federal Reserve (the Fed).

European and UK equities gained although mixed economic and market results told a slightly different story at ain individual country level. Supply chain disruptions, such as the semiconductor shortages that weighed on the automobile sector, affected production in a variety of industries. Emerging Markets were also varied: the MSCI EM Latin America Index rose +15.0% while emerging Asia was more muted, rising by +3.8%. Concerns over inflation, US dollar strength, and the Delta variant weighed somewhat on investor sentiment

Q3 saw developed markets equities broadly flat, as modest gains in July and August were erased in September. The threat of rising inflation, increasing global supply chain disruptions and the looming prospect of the US Federal Reserve (the Fed) tapering its bond purchases caused significant concern towards the end of the quarter. The recovery of European stocks slowed despite the significant progress made in rolling out vaccines: by the end Q3, most major European economies had fully vaccinated approximately 75% of their adult populations, enabling many restrictions to be lifted. However, worries emerged over increased inflation due to rising energy prices and supply-chain disruptions. Emerging market equities declined, losing -8.1% during Q3 amid a significant sell-off in Chinese stocks. Regulatory activity in China became a major concern during the quarter, which negatively affected the technology and property sectors and caused fears of potential contagion. Power shortages and supply-chain issues also negatively impacted the wider economy in Asia. In contrast, net energy exporters (Russia and the countries of the Gulf Cooperation Council (GCC), outperformed as energy prices continued to rise.

Investment Policy and Performance (continued)

Performance of Equity Markets to 31 March 2022



Indices Used

World Equity: MSCI World NR (GBP),US Equity: S&P 500 TR (GBP), UK Equity: FTSE 100 TR (GBP), Europe Equity: Euro STOXX 50 NR (GBP), Emerging Markets Equity: MSCI EM NR (GBP)

Global developed equity markets gained ground in Q4 2021 ensuring that—for a third consecutive calendar year—the index reported double-digit gains, closing out the year +21.8% (in USD terms) higher than at the start. In the first half of 2021, the gradual reopening of the global economy, which was supported by loose fiscal and monetary policies, helped elevate earnings growth—particularly for cyclical sectors struggling to recover from 2020 pandemic-related lows

However, this upward trajectory was not without volatility: as the Omicron variant surged, collective fears about a potential return to rolling lockdowns triggered a sharp market decline in November. Rising inflation prompted concerns throughout the year as higher-than-expected input prices heightened pressures on central banks to normalise interest rates. The UK, which has seen resurgent inflation, surprised markets by hiking rates in December and the US Federal Reserve also hardened its stance, initiating and then accelerating its tapering program to reduce the volume of US government bond purchases.

Rising geopolitical risk pushed developed equity markets into risk-off mode in Q1 2022 and the MSCI World Index was down 5.2% (in USD terms) for the quarter. Negative sentiment drove deratings with volatility rising in January and February before interest rate hikes in developed markets helped dampen market noise in March, allowing developed equity markets to claw back some losses. Foreign sanctions levied on key commodities players in Russia led to increasingly constrained supply chains, especially in Europe, as well as a strong uplift in gas and energy prices. The Continent, with its close energy ties to Russia, was hit particularly hard as the Stoxx 50 closed down 11.4%. Higher commodities prices also contributed to a strong increase in inflation rates in the US, where inflation hit 8.5% for the 12 months ended 31 March 2022—the highest 12-month rate in more than four decades. Emerging markets fell during Q1 as the MSCI Emerging Markets returned -7.0%. Returns across constituent countries were broadly negative; in Asia, China had to contend with resurgent Covid-19 infections and fresh lockdowns. The only bright spot? Markets in Brazil performed strongly, where the MSCI Brazil Index closed Q1 up 36% on the strength of rising commodity prices and highlighting the volatile nature of some of these markets.

Bonds

US Treasury yields declined in Q2, with further fiscal stimulus becoming less likely and the market coming around to the idea that inflation may have peaked. The 10-year Treasury fell but was still up YTD after its dramatic Q1 rise.

On the other side of the Atlantic, European government bonds underperformed US counterparts, driven by a growing optimism about recovery. US investment grade (IG) bonds posted positive performance of 3.4% in Q2—a dramatic change versus Q1—as rates rallied and earnings exceeded expectations, but remained in negative territory

Lower-rated bonds outperformed higher quality peers, with BBB-rated bonds gaining 0.44%. US high yield (HY) bonds posted a positive return of 2.8% in Q2 while yields fell to a record low in June (4.3% at end-Q2) and spreads rallied to their lowest levels since October 2018 as equities and Treasuries rallied.

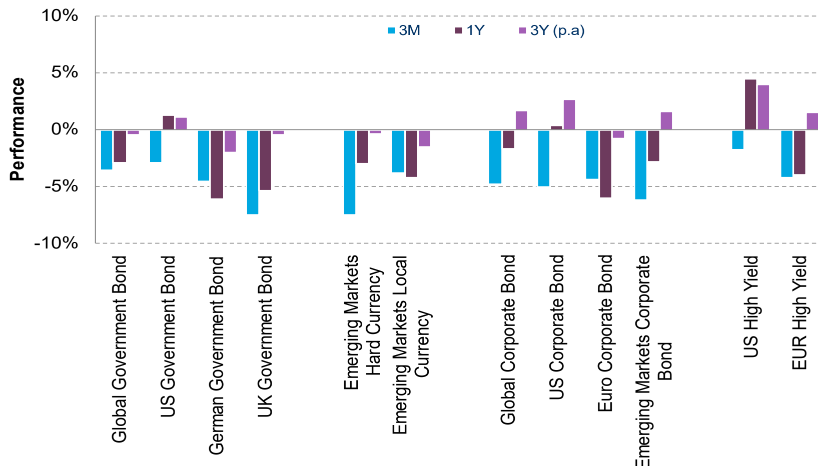
Investment Policy and Performance (continued)

After a rough Q1 for Emerging Market Debt, Q2 saw a significant—if not complete—reversal of losses. Hard Currency bonds were up 4.1% after falling 4.5% in Q1, despite concerns about Chinese growth and a rise in Covid-19 cases in Asia; IG and HY sectors were both positive. African and Latin American countries delivered stronger results, led by Venezuela (+46.8%). EM Corporate debt gained 2.1%, bringing YTD performance to 1.3%, with further spread compression and high-yield issuers outperforming investment grade. Oil and gas (+4.3%) was the top performer.

At the beginning of Q3, US Treasury yields continued their decline: The US 10-year Treasury yield hit a nine month low in early August before rising towards the end of the quarter, propelled by renewed concerns about inflation. In Europe, government bond yields followed the same path: With yields making a circular trip during the quarter, global credit saw little change. Returns were muted across geographies.

Headwinds in hard currency Emerging Markets (EM) came from China, with partial shutdowns of ports in reaction to rising Covid-19 cases. EM corporate debt generated a modestly positive performance of 0.25% during Q3. Investment grade issuers slightly outperformed their high-yield peers. Most sectors contributed, led by Transportation, Financials (0.9%), and Infrastructure (1.0%), while Real Estate (-2.8%) lost ground on the news about the potential default risk of China's second-largest property developer, Evergrande.

Performance of Bond Markets to 31 March 2022



Indices Used

World Equity: Barclays GlobalAgg Treasury TR (GBP Unhedged), ICE BofA ML US Treasury (GBP Unhedged), ICE BofA ML German Government (GBP Unhedged), ICE BofA ML UK Gilt (GBP Unhedged), JPM EMBI GLOBAL DIVERSIFIED TR (GBP Unhedged), JPM GBI-EM Global Div TR (GBP Unhedged), Barclays Global Agg Corporate TR (GBP Unhedged), Barclays US Agg Corporate TR (GBP Unhedged), Barclays Euro Agg Corporate TR (GBP Unhedged), JPM CEMBI BROAD DIVERSIFIED TR (GBP Unhedged), ICE BofA ML US High Yield (GBP Unhedged), ICE BofA ML Euro High Yield (GBP Unhedged)

The final quarter of 2021 brought an eventful end to a tumultuous year. The Omicron variant put pressure on the global economic recovery, policymakers turned hawkish, the US Federal Reserve began tapering bond purchases and the US Treasury yield curve flattened as short-dated yields rose almost 0.5% (while the long end of the curve declined). European interest rates remained broadly unchanged. Short-end rates increased marginally against a slight decline in long-dated yields. In December, the European Central Bank reiterated its position that supportive monetary policy was still needed to stabilise inflation at the desired 2%—even as tapering began. December also saw the Bank of England increase rates for the first time in more than three years, raising rates from 0.1% to 0.25%.

US investment grade bonds posted marginal positive returns. European investment grade strategies experienced a challenging quarter, losing -0.67%. European high yield bonds fared worse than their US counterparts,

Hard Currency EM Debt lost -0.4% in the final quarter and finished 2021 in negative territory at -1.8%. Performance in Q4 was mainly the result of spreads widening as concerns grew about the sustainability of the global economic recovery. Sovereign bonds, which account for 75% of the market, were a source of weakness while lower-quality high yield issuers underperformed their IG counterparts. Sovereign debt issued by Ukraine and Turkey performed worst among emerging markets; Mexico and Indonesia performed best.

Investment Policy and Performance (continued)

During Q1 2022, fixed income markets were affected by two negative macroeconomic risk factors: Russia's invasion of Ukraine and rising rates across yield curves. The US Fed has grown increasingly hawkish in recent months, causing US Treasury yields to rise and the curve to flatten dramatically. Currently, markets are pricing in a high probability of an additional rate hike of 50bps in June — and more increases may follow in the months to come. In Europe, interest rates have followed a similar trajectory: the German 2-year rate (Schatz) has risen the 0% mark for the first time in seven years, while the German 10- year rate (Bund) has jumped 73bps to reach 0.55%. US investment grade corporate bonds took the worst hit amongst global credit markets in Q1. Relatively long in duration, the market took the full blow of rising rates and declined by -7.7% in Q1. Although all industry sectors posted negative returns, Leisure, Retail and Transportation benefited from the Covid-19 economic recovery and limited their losses relative to other sectors.

European investment grade corporate bonds have fared slightly better than their US peers due to lower interest rate duration—despite war erupting in the region. As the Covid-19 recovery played out in Europe, Hospitality and Airlines provided the best relative performance by industry sector.

EM debt suffered its second-worst quarterly performance on record, clearly impacted by the war in Ukraine and ensuing sanctions against Russia. Both Ukraine and Russia were prominent EM debt index constituents before the conflict and the value of their debt was significantly marked down. JPMorgan removed Russia (and Belarus) from its suite of EM debt indices on 31 March 2022.

Fund Activity

Responsible Investment

Having consulted with stakeholders last summer, the Pensions Committee approved and adopted a new Responsible Investment policy, along with a revised Investment Strategy Statement. Since then, we have seen continued work looking at how best to implement the commitments made in the policy, in particular how to tackle the challenging topic of defining and monitoring progress towards a net zero carbon position, with all the implications that has for the investment portfolio and resourcing the management of the fund.

With a consultation expected from government imminently concerning mandatory reporting of investment portfolio carbon intensity this work will only get more important.

As ever, requirements will continue to evolve. Thankfully, having a modern, fit for purpose policy in place should put us in a strong position to meet these challenges as they arise.

Fund Performance

The fund continues to perform well, seeing a significant increase in its funding ratio as well as asset value in the past year.

Our equity investments are in aggregate up 11%, slightly ahead of the passive benchmark and highly beneficial as the largest single asset class in the portfolio. Fixed income investments haven't fared quite as well, trailing the benchmark somewhat, which the fund's monitoring governance is managing. The growing alternatives portfolio has shown strong performance, comfortably ahead of benchmark.

As I have mentioned previously, the Fund has seen significant asset allocation change over the past couple of years with a substantial uplift in the target allocation to alternatives, funded by a reduction in equity investments.

Investment Policy and Performance (continued)

These alternative investments, particularly those focused on infrastructure, are designed to enhance portfolio diversification – providing a return stream meaningfully different to that provided by the equity investments and also have potentially useful inflation proofing characteristics. Some, more exposed to economic activity such as ports and transport have seen challenges but the post-covid rebound in activity will be positive for them. Irrespective, these investments take time to build up, committing to managers who then go out and source appropriate assets over an investment period that can run to several years.

Taking all this into account, together with a fall in the estimated net value of pension liabilities, a robust improvement in funding level has been seen.

Outlook

Inflation is here. Debate has raged for some time over potential catalysts for a rise in inflation. Whether its low interest rates, quantitative easing, other forms of stimulus, supply line interruptions, energy cost rises, covid, immigration changes or anything else, developed economies are facing inflation figures they have not seen in many years. While the fund has many asset investments that should keep up with inflation, any major shift in the investment environment can pose challenges for performance.

It's also important to note that Environmental concerns have not magically disappeared. The long-term risks to the fund, its beneficiaries, and wider society remain. Indeed, they are potentially enhanced should social inequality and financial stress reduce the world's ability to address the climate situation.

More positively, the next 12 months should see a number of substantial changes for the fund that will give us tools to face these challenges. I expect the ACCESS Pool private markets propositions to start to take shape, opening a series of avenues to invest in alternative asset classes in a more efficient and effective manner. In addition, we will make progress on implementing the fund's RI policy and net-zero commitments.

We await results of the triennial valuation but expect a healthy funding position that leaves us in a good place, with strong governance and a resilient portfolio, to face the future with confidence.

Actuarial Information

Cambridgeshire Pension Fund ("the Fund") Actuarial Statement for 2021-22

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2020. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years.

Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 70% likelihood that the Fund will achieve the funding target over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £3,193 million, were sufficient to meet 100% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £11 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date; and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Actuarial Information (continued)

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value. The key financial assumptions adopted for the 2019 valuation were as follows:

Financial Assumptions	31 March 2019
Discount Rate	4.1%
Salary increase assumption	2.8%
Benefit increase assumption(CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's Vita Curves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long-term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.0 years	24.0 years
Future Pensioners*	22.7 years	25.5 years

*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were severely disrupted by COVID 19 in March 2020, but over most of 2020-21 and 2021-22 they recovered strongly. However, due to the war in Ukraine, March 2022 markets were particularly volatile, which affects values as at the accounting date. All other things being equal, the funding level of the Fund as at 31 March 2022 is likely to be better than that reported at previous formal valuation as at 31 March 2019.

It is important to note that the formal triennial funding valuation exercise is as at 31 March 2022 and this may show a different picture when the finalised position is disclosed in next year’s annual report. In particular, changes in Fund membership, changes in anticipated real investment returns, and changes in demographic assumptions will affect the valuation results. The Funding Strategy Statement will also be reviewed as part of the triennial funding valuation exercise.

Douglas Green FFA
19 April 2022
For and on behalf of Hymans Robertson LLP

Actuarial Information (continued)

Extract from the Actuarial Valuation Report

Executive Summary

We have carried out an actuarial valuation of the Cambridgeshire Pension Fund ("the Fund") as at 31 March 2019. The results are presented in this report and are briefly summarized below.

Funding Position

The table below summarizes the financial position of the Fund at 31 March 2019 in respect of benefits earned by members up to this date (along with a comparison at the last formal valuation at 31 March 2016).

Valuation Date	31 March 2016 (£m)	31 March 2019 (£m)
Past Service Liabilities	2,902	3,204
Market Value of Assets	2,277	3,193
Surplus/(Deficit)	(625)	(11)
Funding Level	78%	100%

The improvement in funding position between 2016 and 2019 is mainly due to strong investment performance over the inter-valuation period, coupled with the positive impact on the liabilities of actual pay and benefit growth being lower than expected.

Contribution Rates

The table below summarizes the whole fund Primary and Secondary Contribution rates at this triennial valuation. The Primary rate is the payroll weighted average of the underlying individual employer primary rates and the Secondary rate is the total of the underlying individual employer secondary rates (before any pre-payment or capitalization of future contributions), calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate (% of pay)	Secondary Rate (£)		
1 April 20 – 31 March 23	2020-21	2021-22	2022-23
18.4%	£19,425,000	£19,061,000	£19,082,000

The Primary rate also includes an allowance of 0.6% of pensionable pay for the Fund's expenses. The average employee contribution rate is 6.3% of pensionable pay.

The minimum contributions to be paid by each employer from 1 April 2020 to 31 March 2023 are shown in the Rates and Adjustment Certificate.

Douglas Green FFA

Robert Mclnroy FFA

15 March 2020
For and on behalf of Hymans Robertson LLP