

# 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") with plans to subscribe to the Stewardship code during 2023-24.

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 encourage 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 2023, the ACCESS Pool has significant scale with assets of £59bn (of which 59% has been pooled) serving 3,459 employers with 1.192 million members including 339,058 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 2023, the Cambridgeshire Fund had invested £1,687.8m in sub-funds of the ACCESS Authorised Contractual Scheme and £884.7m in the UBS passive arrangement resulting in £2,572.5m of assets under pool management representing 61.0% of the Fund’s assets.

During 2023-24 the Fund expects further investment in fixed income sub-funds of the ACS when they become available. The focus for ACCESS in 2023-24 is to continue work performed in 2022-23 to develop a pooled solution for Alternative asset classes.

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	2022-23	2015-16 to 2022-23
	£000	Cumulative £000
Strategic & Technical	30.4	192.0
Legal	19.9	131.9
Project Management	0	81.1
ACCESS Support Unit	50.7	211.2
Other	5.9	35.3
<b>Total Operational Costs</b>	<b>106.9</b>	<b>651.5</b>

## 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	7,880	20	<b>7,860</b>	7,081	3,206	<b>10,287</b>	<b>18,147</b>
Performance Fee	0	0	<b>0</b>	3,527	66	<b>3,593</b>	<b>3,593</b>
Transaction Taxes	0	0	<b>0</b>	7	-2	<b>5</b>	<b>5</b>
Broker commissions	0	528	<b>528</b>	77	-18	<b>59</b>	<b>587</b>
Other explicit costs	0	400	<b>400</b>	156	1	<b>157</b>	<b>557</b>
Implicit/indirect transaction costs	0	995	<b>995</b>	295	1,405	<b>1,700</b>	<b>2,695</b>
Administration	183	0	<b>183</b>	932	1,745	<b>2,677</b>	<b>2,860</b>
Governance and Compliance	16	0	<b>16</b>	385	326	<b>711</b>	<b>727</b>
Other	102	105	<b>207</b>	327	2,359	<b>2,686</b>	<b>2,893</b>
<b>Total</b>	<b>8,181</b>	<b>2,008</b>	<b>10,189</b>	<b>12,787</b>	<b>9,088</b>	<b>21,875</b>	<b>32,064</b>

## Cost Savings

The fee savings for the 2022-23 financial year resulting from the asset pooling agenda exceed £3.59m.

## Cost Transparency

The analysis below shows the investment expenses incurred during financial year 2022-23 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.

# Investment Policy and Performance (continued)

## Investment Allocation and Performance

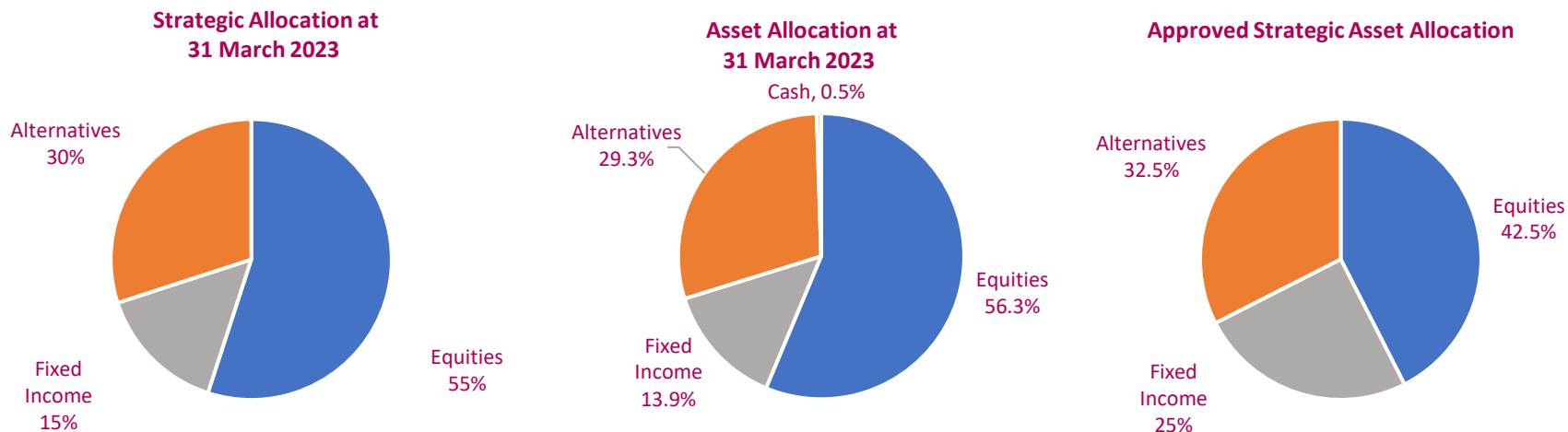
The Pension Fund Committee is responsible for approving the Strategic Asset Allocation proposed by the Investment Sub-Committee (ISC). The Pension Fund Committee performed a review of the Strategic Asset Allocation at the March 2023 meeting in conjunction with the Fund's Investment Consultants, Mercer Ltd and the 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 recommended changes to the strategy aims to manage the risk that asset returns are below those assumed by the actuary, whereby the funding position worsens. The following changes to the strategy were approved by Pension Fund Committee in March 2023:

- Reduce the equity allocation by 12.5%, maintaining the passive equity allocation at 20% and reduce active managers;
- Increase fixed income and alternative allocations by 10% and 2.5% respectively to provide greater exposure to inflation linked, cash flow generative assets while protecting the strong funding position; and
- Consider sustainable and impact opportunities across an expanded private markets portfolio – aligned with “levelling up” guidance.

The charts below show the Strategic Asset Allocation at the end of the financial year, the strategic asset allocation following Pension Fund Committee approval and the actual allocation of assets at 31 March 2023.



# Investment Policy and Performance (continued)

The value of the investments held by each of the Fund's Investment Managers on 31 March 2022 and 31 March 2023 is shown in the following table.

## Value of investments at the balance sheet date

Manager	31 March 2022		31 March 2023	
	£m	% of Total	£m	% of Total
UBS Passive UK Equity	91.3	2.0	81.5	1.9
Link Fund Solutions – ACCESS Global Equity (JO Hambro)	539.4	12.6	471.0	11.1
Link Fund Solutions - ACCESS Global Stock (Dodge and Cox)	562.5	13.1	575.4	13.7
Link Fund Solutions – ACCESS Global Equity (Longview)	414.8	9.7	438.6	10.4
Schroders	8.8	0.2	2.4	0.1
UBS Passive Global Equity	868.4	20.3	803.2	19.1
BlueBay Asset Management	197.8	4.6	186.2	4.4
Link Fund Solutions – M&G Alpha Opportunities	193.0	4.5	202.8	4.8
Schroders	210.8	4.9	197.3	4.7
Schroders Property	300.8	7.0	270.2	6.4
Adams Street	178.5	4.2	200.5	4.8
Allianz	19.2	0.4	14.1	0.3
Ares debt	41.7	1.0	43.1	1.0
Cambridge and Counties Bank	85.0	2.0	69.7	1.7
Cambridge Building Society	15.0	0.3	15.0	0.4
Foresight	28.4	0.7	31.1	0.7
Equitix	20.6	0.5	43.1	1.0
HarbourVest	159.3	3.7	191.9	4.6
IFM Infrastructure	76.1	1.8	88.1	2.1
JP Morgan	59.6	1.4	75.4	1.8
M&G	138.5	3.2	140.1	3.3
Partners Group	50.0	1.2	41.1	1.0
UBS Infrastructure	8.9	0.2	9.1	0.2
Cash	19.3	0.5	20.4	0.5
<b>TOTAL</b>	<b>4,287.7</b>	<b>100.0</b>	<b>4,211.30</b>	<b>100.0</b>

# Investment Policy and Performance (continued)

## Total Fund Performance

The total investment return for the Fund over the financial year was -2.8% net of fees compared with a weighted benchmark return of -2.5%. In the previous year the total investment return was 9.9% compared with a weighted benchmark of 11%. The Fund's total investment return was 11.1% p.a over the three years to 31 March 2023, 6.8% p.a over the five years to 31 March 2023, and 7.7% p.a over the ten years to 31 March 2023.

## 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.

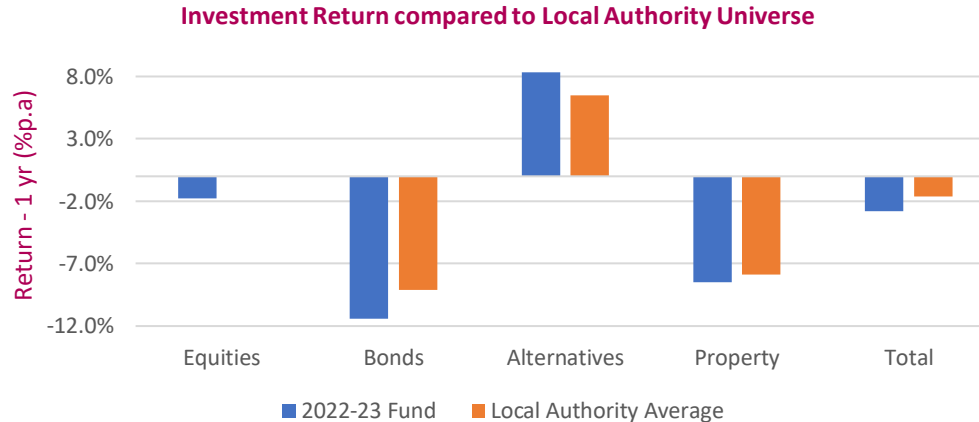
Asset Class /Manager	1 year (% p.a)			3 year (% p.a)			10 year (% p.a)		
	Return	Benchmark	Variance	Return	Benchmark	Variance	Return	Benchmark	Variance
UBS Passive	-0.9	-1.1	0.2	15.7	15.5	0.2	n/a	n/a	n/a
J O Hambro	-12.7	-1.4	-11.3	11.6	15.5	-3.9	n/a	n/a	n/a
Dodge & Cox	2.4	1.4	1.0	22.1	16.2	5.9	n/a	n/a	n/a
Longview	5.8	-1.4	7.2	18.1	15.5	2.6	n/a	n/a	n/a
Schroders	-28.6	-28.6	0.0	-9.8	-9.8	0.0	n/a	n/a	n/a
BlueBay Asset Management	-5.9	-1.7	-4.2	n/a	n/a	n/a	n/a	n/a	n/a
M&G Alpha Opportunities	1.9	-1.7	3.6	n/a	n/a	n/a	n/a	n/a	n/a
Adams Street	-3.0	8.9	-11.9	26.9	8.9	18.0	20.6	12.8	7.8
Allianz	-28.0	4.0	-32	-9.4	4.0	-13.4	n/a	n/a	n/a
Ares debt	14.4	10.0	4.4	7.7	10.0	-2.3	n/a	n/a	n/a
Equitix	2.7	10.0	-7.3	-0.3	10.0	-10.3	11.6	10.0	1.6
HarbourVest	27.6	8.9	18.7	35.5	8.9	26.6	19.9	12.8	7.1
Foresight	42.3	8.9	33.4	n/a	n/a	n/a	n/a	n/a	n/a
IFM Infrastructure	19.7	10.0	9.7	12.0	10.0	2.0	n/a	n/a	n/a
JP Morgan	17.1	10.0	7.1	n/a	n/a	n/a	n/a	n/a	n/a
M&G Residential Property	0.9	6.0	-5.1	1.8	6.0	-4.2	n/a	n/a	n/a
M&G Secured Loans	2.5	6.4	-3.9	6.7	5.0	1.7	3.7	4.8	-1.1
M&G Shared Ownership	1.6	6.0	-4.4	n/a	n/a	n/a	n/a	n/a	n/a
Partners Group	22.4	10.0	12.4	15.8	10.0	5.8	12.3	10.0	2.3
UBS Infrastructure	12.5	10.0	2.5	-8.0	10.0	-18.0	0.8	10.0	-9.2
Schroders Property	-10.7	-14.5	3.8	3.0	2.6	0.4	6.1	6.4	-0.3

# Investment Policy and Performance (continued)

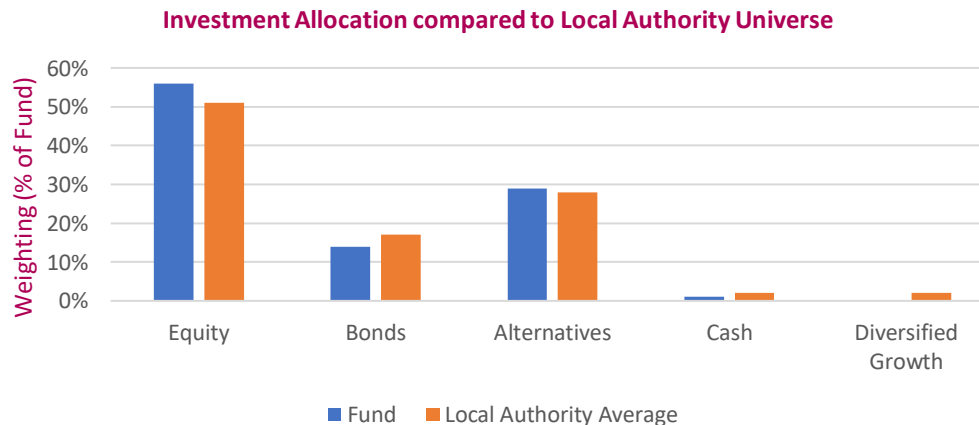
## Performance in Comparison with Local Authority Universe

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 2022-23 the Fund's performance of -2.8% net of fees over the financial year was ranked 43<sup>rd</sup> percentile out of the 63 Funds participating in the Universe.



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, in line with UK Government's targets.**

The Fund is working towards producing a climate change reports in future which comply with Task Force on Climate-Related Financial Disclosures ("TCFD") reporting recommendations, which are 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 ("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 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 developing and meeting the Fund's climate action plan, climate-change scenario analysis, reporting of metrics and monitoring of progress against agreed targets.

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 climate action plan and / or when the Fund's annual climate change 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

The Fund undertook climate scenario analysis on its investment strategy in 2021. 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 (**2°C 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 **3°C and 4°C scenarios**).

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

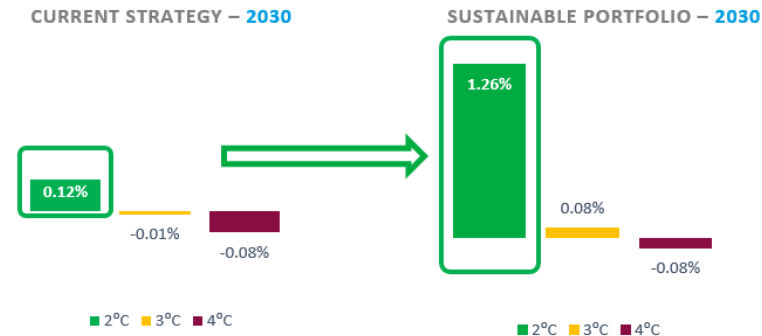
## Resilience of the Fund's investment strategy

The table below shows how a 2°C scenario leads to enhanced projected returns for the Fund's investment strategy versus 3°C or 4°C 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 2°C 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).



Climate change impact on return (% p.a.)

As at 30 June 2021. Source: Mercer/Investment Managers

Under the 2°C 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 2°C scenario is both an imperative and an opportunity the Fund should address.

- An imperative, since, for nearly all asset classes and timeframes, a 2°C scenario leads to enhanced projected returns versus 3°C or 4°C and a better investment outcome.
- An opportunity, since, although incumbents can suffer losses in a 2°C 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	<p>The Fund recognises the systemic risk associated with climate change and the views and aspirations of other scheme employers and scheme members.</p> <p>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.”</p> <p>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.</p>
Strategy	<p>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.</p>

Reporting	<p>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.</p> <p>The ISC receives a biannual stewardship monitoring report which summarises how the investment managers choose to vote and engage on climate-related issues (among other key engagement priorities).</p>
Manager selection and retention	<p>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.</p>

### 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°C' objective - i.e. net zero by 2050, with an aspiration of achieving a net zero position by 2045.

Targets were set on an absolute emissions basis in 2021, but also monitored on an intensity basis (using two intensity metrics: carbon footprint and weighted average carbon intensity (WACI)). However, the Fund has switched to a carbon footprint metric as the base line measure for a de-carbonisation pathway as it:

# Investment Policy and Performance (continued)

- a) It is not impacted by changes in strategy, unlike absolute emissions. For example, the Fund’s strategic target equity allocation was reduced as part of the investment strategy review undertaken during the Fund year which, all else equal, would lead to a reduction in the level of absolute emissions.
- b) If the Fund widens the scope of its climate reporting in future to include additional asset classes, as it intends to do, this would naturally increase absolute emissions. Carbon footprint is not impacted in the same way.

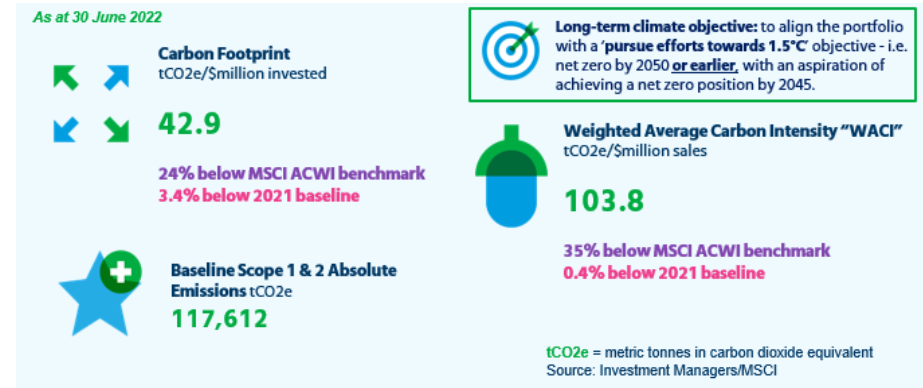
The carbon footprint metric instead normalises absolute emissions by the amount of assets invested. The Fund will continue to track both absolute emissions and WACI too as each metric provides a slightly different insight as to the nature of the companies held within portfolios.

## Carbon reporting dashboard

The Fund’s metrics were initially measured as at 30 June 2021, providing a baseline for future targets, and were recalculated as at 30 June 2022 in order to monitor progress against these targets. The metrics are set out in a publicly available carbon reporting dashboard:

The 2021 and 2022 metrics are based on Scope 1 and 2 emissions data for the listed equity portfolio.

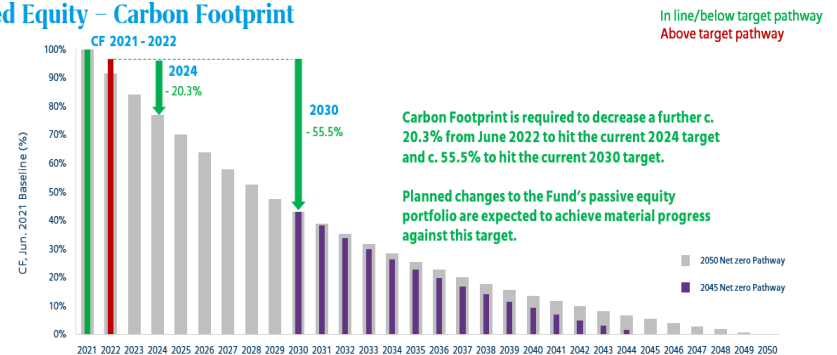
The dashboard will be updated on an annual basis.



## Progress against targets

The chart below demonstrates the Fund’s progress (Green and Red bars) against the pre-defined pathway (Grey bars) required in order to achieve the Net Zero objective by 2050. The purple bars demonstrate the pathway to achieve Net Zero by 2045 for information.

## Listed Equity – Carbon Footprint



While the listed equity portfolio’s Carbon Footprint in 2022 was above the pre-defined pathway, changes to the Fund’s passive equity portfolio were implemented in early 2023 with the objective of improving the portfolio’s climate characteristics. This will be captured in the Fund’s updated metrics at 30 June 2023 and will demonstrate meaningful progress against the targets set.

# Investment Policy and Performance (continued)

## Independent Adviser's annual review – Twelve months to 31<sup>st</sup> March 2023

Sam Gervaise-Jones, CFA

May 2023

It has been quite a year! A new-born delivered into the world as I wrote last year's review would have seen in its first year three British Prime Ministers, war in Europe, escalating tensions in Asia, a former US president being indicted, meltdown in the UK Gilt markets and rampant inflation in developed markets. Interesting times indeed.

I wrote about the need to maintain resilience in the portfolio, to weather inflation, ongoing Covid and Brexit challenges, and do so while meeting commitments made to address environmental and social concerns.

Good progress has been made on implementing the Fund's Responsible Investment and net-zero policy. Unfortunately, progress has been less pronounced on private markets propositions from the ACCESS Pool but we take comfort in the 2022 valuation showing a very healthy funding position, benefiting from the knock on effect of rising interest rates reducing our liabilities, while keeping asset values broadly flat.

Here I take the opportunity to provide an investment review covering the financial year 2023/23, in addition to providing some thoughts for the future.

### Market Activity

#### Equities

Inflation was the prevailing theme in Q2 2022 as rising prices, fuelled by increasing energy costs and supply chain disruptions, dented consumer confidence. Although economic data from the corporate sector, as measured by the Purchasing Managers' Indices (PMIs), pointed towards expansion, growth figures for key regions, such as the US and Eurozone, showed signs of slowdown. Market losses were widespread.

In Developed Equity markets, the MSCI World Index returned -16.2% in USD terms. The most economically sensitive parts of the market, such as consumer discretionary (-23.8%) and information technology (-21.8%), fell into bear market territory. In contrast, traditionally defensive sectors, such as consumer staples and healthcare, fared relatively better, dropping by -6.4% and -7.2% respectively.

In a bid to cool inflation, the US Federal Reserve and the Bank of England continued to raise interest rates. The European Central Bank also expressed a similarly hawkish message, signalling the likelihood (now a fact) of an interest rate rise in Q2—the first since 2011. In turn, tighter Fed monetary policies helped drive the US dollar upwards as the currency outperformed other key regions during the second quarter, notably gaining close to parity with the Euro and breaking the psychologically important 130 yen to the dollar barrier. This US dollar strengthening was a particular headwind for EM stocks. China's continued outperformance, however, helped soften the blow as partial lockdown easing spurred optimism. This meant the MSCI Emerging Markets Index declined 11.5% in USD terms. In the UK, the pound fell relative to the US dollar—but having a depreciating currency was a beneficial factor for many UK FTSE 100 companies because the market is skewed to multinationals with overseas revenue exposure (which benefitted from the dollar's strength).

Relative to other markets, the UK index proved to be one of the best performers during Q2, returning -3.7% in local GBP terms.

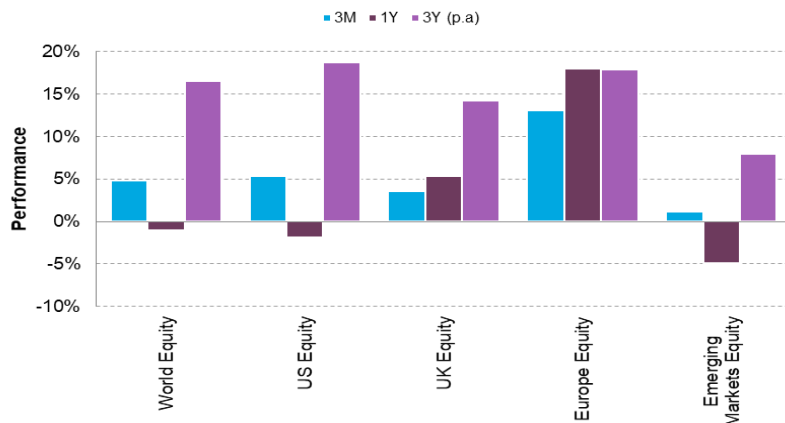
As Summer progressed, Global equity markets declined for the third consecutive quarter with concerns surrounding inflation and interest rate hikes, coupled with growing fears of recession, continued to dominate headlines. Despite an initial rally through July, the MSCI World closed Q3 down 6.2% (in USD terms), extending its year-to-date decline to more than 25%, and the MSCI ACWI was down by almost -7%.

# Investment Policy and Performance (continued)

The quarter bore witness to several interest rate hikes in the major developed markets, including the Federal Reserve (to 3.25%), the European Central Bank (to 0.75%) and the Bank of England (to 2.25%) – the highest rates we’ve seen since the Global Financial Crisis. Yet, the rises generally affirmed a commitment to try to rein in inflation, despite the dampening effect on growth and equity markets. In September, annual inflation reached double digits in the UK (CPI measure) and EU, driven particularly by escalating energy and food costs. UK equities and market sentiment suffered as the new government’s fiscal policy announcements were poorly received by markets, driving the value of sterling to an all-time low vs. the US dollar, and ultimately leading to the eventual resignation of Liz Truss as Prime Minister after just 45 days in office.

Emerging markets similarly declined over Q3 (MSCI EM -11.6%). In addition to the general economic weakness, rising rates and inflationary pressures, Eastern European countries were particularly affected by the inflationary and energy effects of the Russian war in Ukraine. Despite positive returns in Q2, China fell sharply in Q3 (MSCI China -22.5%), with the ongoing strict lockdown policy suppressing economic activity alongside other challenges, such as the continued geopolitical tensions with Taiwan.

## Performance of Equity Markets to 31 March 2023



Source: bfinance

### 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)

Reaching the close of 2022 confirmed that after three consecutive calendar years of double-digit positive returns, the MSCI World index declined sharply for the period (-18.1% in USD terms). Inflation once again proved the dominant theme, albeit with materially different drivers compared to 2021: geopolitical conflict, rather than monetary policy tightening, was the primary driving force as the Russian war on Ukraine impacted supply chains and commodity prices. Energy proved to be a key beneficiary (+46% over the 12 months), while traditional defensives such as consumer staples, healthcare and utilities fared relatively well. Those equity markets with strong links to commodities (e.g. UK, Australia, Canada, Latin America) performed particularly well during the year. However, the US—with its high weighting to IT stocks—struggled somewhat: the S&P 500 was down -19.4% in 2022, its worst year in terms of performance since 2008. While 2022 proved to be a disappointing year for equities, Q4 offered some respite, with the MSCI World gaining close to +10% over the three-month period. Investors appeared to take comfort from signs that the pace of monetary policy tightening (across the developed world) might be slowing, with inflation also softening from multi-decade highs. Alongside energy, economically sensitive sectors such as industrials and financials led the way as all sectors other than consumer discretionary generated positive absolute returns. China abruptly relaxed its ‘zero-Covid’ policy, pushing the MSCI China index higher (+13.5% in USD terms) and helping to spur the broader global emerging markets index where returns were almost on par with those in developed equity markets.

# Investment Policy and Performance (continued)

Despite the broad market drawdown over 2022, the first quarter of 2023 saw a continued equity market recovery with positive returns over the period (+8%). This masked some volatile market activity, particularly in the banking sector in March with the collapse of regional US banks SVB and Signature Bank, followed by Credit Suisse. Overall, however, there was some positivity with some (albeit mixed) signs of inflation levelling off. This positive sentiment was reflected in partial performance rebounds for IT, consumer discretionary and communications services—the three worst performing sectors of the market over 2022. The first quarter saw further rate rises by the Fed and European Central Bank. Combined with continued easing of recession fears and a reduction in wholesale energy prices, markets were reasonably well supported for partial return bounce backs, particularly in growth and economically sensitive segments which had been the worst hit in recent months. This particularly supported European markets (MSCI Europe +11%) and the US (S&P 500 +7%). Global developed markets outperformed China (+6% MSCI China All Shares) and global emerging markets generally (+4% MSCI EM). This positive performance was still a sharp contrast to the broad market drawdowns experienced in 2022. China's final major Covid restrictions were lifted abruptly at the turn of 2023 and although there was some ongoing political tension with the US during the quarter, the optimism around reopening and economic growth combined with more positivity on the property market and internet companies combined for overall gains. In other emerging economies, performance was more mixed, with weakness in Brazil amid civil unrest and growth concerns in India; and pockets of strength such as Taiwan.

## Bonds

In many ways, the second quarter of 2022 continued as last financial year ended: as central banks in developed markets continued to raise interest rates in attempts to curb inflation, investors' appetite for investment grade (IG) fixed income strategies fell.

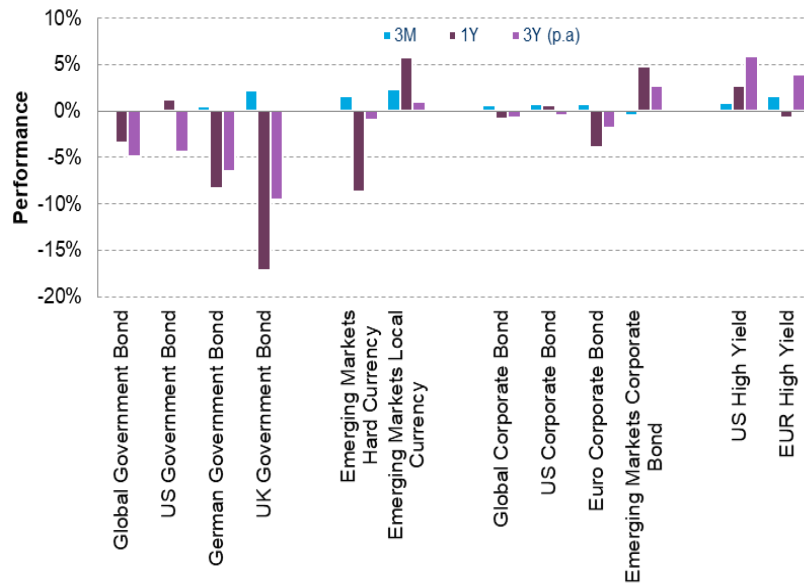
Across the range of fixed income securities, asset-backed securities and floating rate assets continued to benefit from this trend—or at least sustained less damage from prevailing market headwinds. In the US, central bank actions in Q2 followed the anticipated schedule of rate hikes broadcast in Q1—most of which had already been priced into bond markets. In Europe, we observed a similar trend as longer-dated yields moved sharply higher than the equivalent shifts seen in shorter-dated yields. The 20-year interest rate, for example, increased from 0.58% at the end of March to 1.59% at the end of June. The benchmark 10-year yield rose to a lesser degree, although it still rose by a 79 basis points, from 0.54% to 1.33% by the end of the period.

Following the adverse global backdrop in the first half of 2022, the respite offered to market participants at the beginning of Q3 proved to be short-lived. Views emerging in the midst of the summer that the Fed's tightening cycle would pivot by mid-2023 were dashed in September by higher-than-expected US inflation numbers. The Fed agreed a third consecutive 75bps hike, with hawkish projections, shrugging off risks of a recession. Meanwhile, far from abating, geopolitical tensions escalated (Ukraine) and multiplied (Taiwan). As a result, volatility rose again during the quarter and markets resumed their losing streak. In the US, the hike pushed the Fed fund rate to 3.25%, its highest level since 2008.



# Investment Policy and Performance (continued)

## Performance of Bond Markets to 31 March 2023



Source: bfinance

### 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)

Fixed income closed 2022 on a positive note thanks to a welcome (and much needed!) rally in Q4. Both the Fed and the ECB dialled down on their number of rate hikes on the back of an improved outlook for inflation. In the US, two successive 75bp and 50bp hikes pushed the Fed fund rate to 4.5% by the end the year, its highest level since 2008.

US investment grade corporate bond posted a positive return in Q4 (+3.53%), topping off a challenging 2022 (-15.44%). Bonds of all ratings generated positive returns, led by the riskier BBB-rated group as well as commodity-related sectors.

The first quarter of 2023 started as 2022 ended, with risk-friendly sentiment supported by China reopening and a general expectation of easing inflation and a resilient global economy. However, later in the quarter, strong US labour and retail sales data dampened optimism. Finally, the collapse of Silicon Valley Bank and Credit Suisse raised fresh concerns about the global financial system and made for a turbulent end to the quarter. The Fed made two 25bps hikes to take its federal funds rate range to 4.75–5%. Similarly in Europe, the ECB carried out two 50bps hikes, bringing the rate on its Deposit facility to 3%.

### Fund Activity

#### Valuation and Strategic Asset Allocation review

The 2022 valuation results showed continued improvement in funding levels, to such a healthy position that the Pension Committee has been able to agree to de-risking some of the investment portfolio, focusing on securing the position the fund is in to meet its existing and future liabilities. Confidence in the fundamental funding position is also empowering when it comes to taking decisions regarding the fund's social and environmental impact, decisions that could be more complicated should the requirement for financial growth by substantially more urgent.

#### Responsible Investment

Keen followers of the fund's activities will recall a new Responsible Investment Policy was approved and adopted in 2021, along with a revised Investment Strategy Statement and net zero investment commitments. Attention has since turned to implementation, with initial actions focusing on the fund's passive equity investments.



# Investment Policy and Performance (continued)

This year has seen significant education and investigation of implementation options and I'm pleased to see changes currently being made that will move us along our net zero pathway nicely.

With the results of a consultation expected from government imminently concerning mandatory reporting of investment portfolio carbon intensity this work will only get more important, and the likelihood is similar requirements will be coming down the road on reporting the funds impact on "natural capital" in the coming years.

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 substantial increase in its funding ratio in the past year (by more than 25%) as the value of the liabilities fell significantly (down c. £1bn) while asset values remained broadly flat (down -2.8%).

For the past 12 months our equity investments are in aggregate down 1.6%, slightly behind the passive benchmark. Fixed income investments haven't fared quite as well, down 11.4%, though much closer to the benchmark of -11.12%. The growing alternatives portfolio also struggled, returning c.-0.1% but beating the benchmark of -0.5%.

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, and this continues to be the trend.

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.

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.

The ACCESS Pool is developing solutions to help us implement these alternatives investment more efficiently, with new Real Estate investment options under development that should form a core part of the Cambridgeshire Fund's property investment strategy for years to come.

## **Outlook**

The past year has been all about inflation and it is set to be a dominant theme for the year ahead. Low interest rates, quantitative easing, other forms of stimulus, supply line interruptions, energy cost rises have all played their part in creating it, as yet central bank intervention has failed to curtail it. Looking positively, the fund has many asset investments that should keep up with inflation, and the higher interest rate environment certainly means fixed income investments can look a lot more attractive than they have done for many years. Of course, any major shift in the investment environment can pose challenges for performance.

We will continue making progress against our responsible investment and environmental impact commitments. As data quality continues to get better and better we are increasingly well equipped to understand the nuances of the impacts our investments are having and we can look to shape these to meet our objectives.

While progress has been slow this past year, I expect the ACCESS Pool private markets propositions to get back on track, opening a series of avenues to invest in alternative asset classes in a more efficient and effective manner.

With the fund in a healthy funding position we are in a good place, with strong governance and a resilient portfolio, to continue to face the future with confidence.

# Actuarial Information

## Cambridgeshire Pension Fund (“the Fund”) Actuarial Statement for 2022-23

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 2023. In summary, the key funding principles are as follows:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to meet the regulatory requirement for long-term cost efficiency (where efficiency in this context means to minimise cash contributions from employers in the long term)
- where appropriate, ensure stable employer contribution rates
- reflect different employers’ characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations
- manage the fund in line with the stated ESG policies.

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 2022. This valuation revealed that the Fund’s assets, which at 31 March 2022 were valued at £4,305 million, were sufficient to meet 125% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2022 valuation was £860 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and likelihood measure as per the FSS. Individual employers’ contributions for the period 1 April 2023 to 31 March 2026 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 2022 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 2022 valuation were as follows:

Financial Assumptions	31 March 2022
Discount Rate	4.9%
Salary increase assumption	3.2%
Benefit increase assumption(CPI)	2.7%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.0 years	24.6 years
Future Pensioners*	22.8 years	26.1 years

\*Aged 45 at the 2022 Valuation.

Copies of the 2022 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund to the Fund and on the Fund's website.

## Experience over the period since 31 March 2022

Markets continued to be disrupted by the ongoing war in Ukraine and inflationary pressures, impacting on investment returns achieved by the Fund's assets. High levels of inflation in the UK (compared to recent experience), have resulted in a higher than expected LGPS benefit increase of 10.1% in April 2023. Despite this, the funding level of the Fund is likely to be higher than reported at the 31 March 2022 funding valuation due to the significant rise in interest rates which reduces the value placed on the Fund's liabilities.

The next actuarial valuation will be carried out as at 31 March 2025. The Funding Strategy Statement will also be reviewed at that time.

Douglas Green FFA

30 May 2023

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 2022. 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 2022 in respect of benefits earned by members up to this date (along with a comparison at the last formal valuation at 31 March 2019).

Valuation Date	31 March 2019 (£m)	31 March 2022 (£m)
Past Service Liabilities	3,204	3,446
Market Value of Assets	3,193	4,305
Surplus/(Deficit)	-11	860
Funding Level	100%	125%

The most significant external event to occur since the last valuation has been the Covid-19 pandemic. The impact on the funding position has been small, likely due to the age profile of the excess deaths and the level of pension.

Other significant factors occurring which affect the funding strategy of the Fund have been the better than expected investment returns. This has had a material positive impact on the funding position and employers’ secondary contribution rates.

### 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 23 – 31 March 26	2023-24	2024-25	2025-26
18.4%	£16,449,000	£14,485,000	£13,144,000

The Primary rate also includes an allowance of 0.8% of pensionable pay for the Fund’s expenses. The average employee contribution rate is 6.4% of pensionable pay.

The minimum contributions to be paid by each employer from 1 April 2023 to 31 March 2026 are shown in the Rates and Adjustment Certificate.

Douglas Green FFA

Robert McInroy FFA

31 March 2023

For and on behalf of Hymans Robertson LLP