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Warwickshire Pension Fund

AGM – Investment Strategy

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Definition

What is investment strategy…

"The approach and principles employed over the long-term to deliver an investor's objectives"

Takes into account:

- Current position – funding level and net cashflows
- Investment beliefs
- Risk appetite
- Affordability of contributions
- Market environment

Why does it matter…

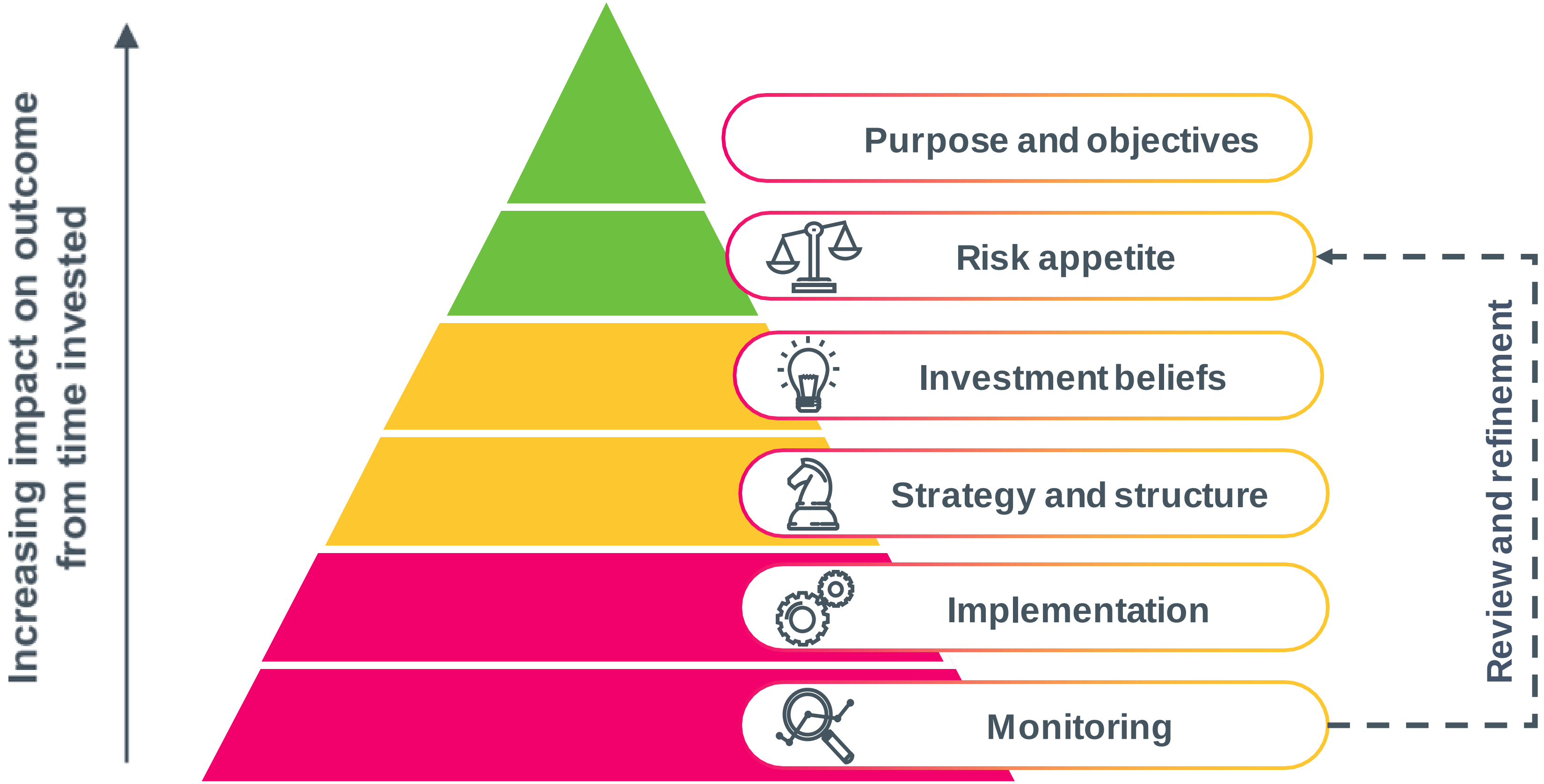
✓ Maximises the likelihood of the Fund being able to pay benefits when due

✓ Sets key trade-offs, eg between stable, affordable contribution and level of investment risk

✓ Provides a consistent and coherent framework for investment decision making

✓ Single most important driver of investment outcomes

Investment strategy framework



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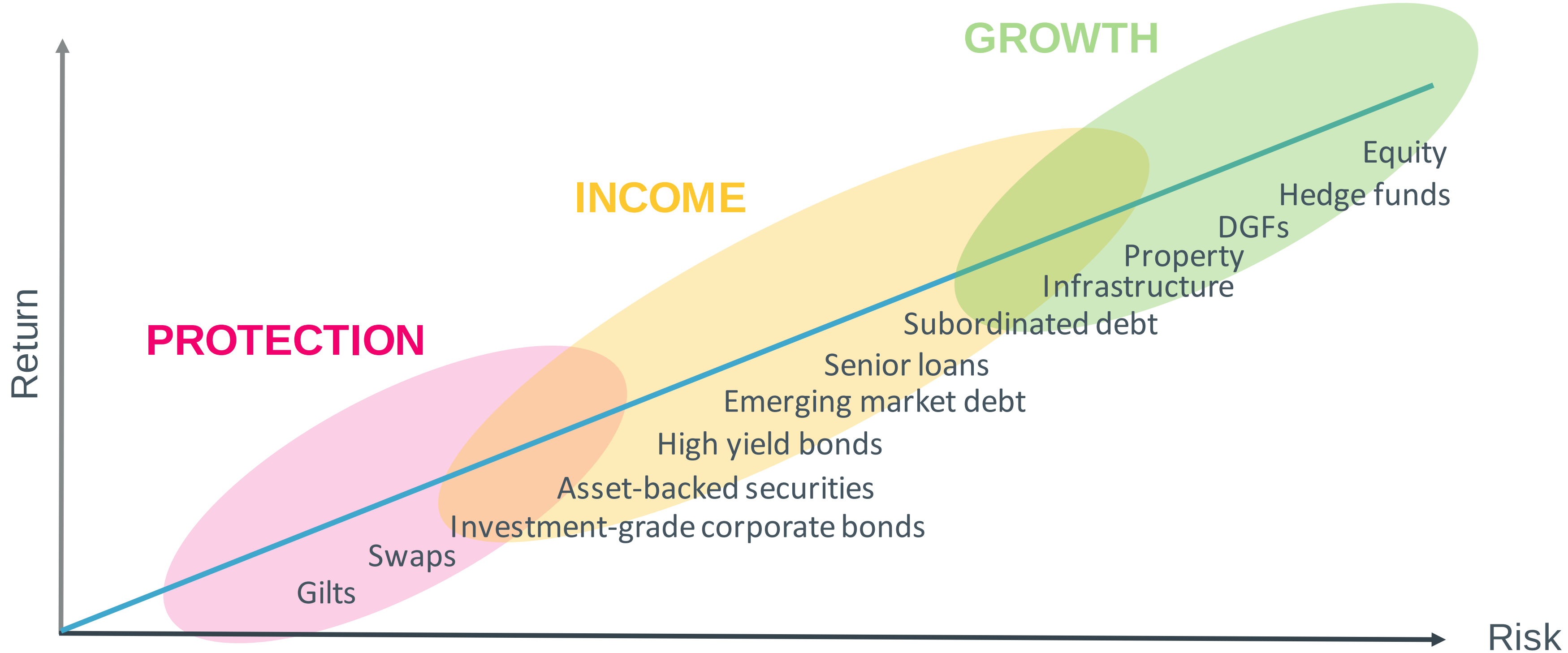
High-level investment strategy – the "What"



Protection

- Manage the overall level of investment risk
- Good match to the Fund's liabilities

Income

- Stabilise and diversify returns
- Income generated used to pay benefits
- Avoids untimely divestment of assets

Growth

- Deliver long-term real returns
- Keep contributions affordable and close any deficits
- Higher level of investment risk

The mix of growth, income and protection assets is key

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Investment structure – the “How”

Asset specification

- Regional/sectoral allocation, e.g.
  - Regional vs global equities
  - Commercial vs residential property
- Benchmark
- Target return/risk budget

Management style

- Active vs passive management
- Management style, e.g. growth vs value
- Risk profile, e.g. concentrated vs diversified

Carbon footprint

- Emissions intensity
- Green revenues
- Alignment with transition pathways

Management structure

- Single vs multi-manager
- Pooled fund vs segregated account
- BCPP vs third-party manager

Fund structure

- Domicile
- Legal entity
- Regulatory framework

Investment policies

- Responsible Investment – capital allocation/stewardship
- Currency hedging
- Portfolio rebalancing

Decisions guided by investment beliefs

Your objectives

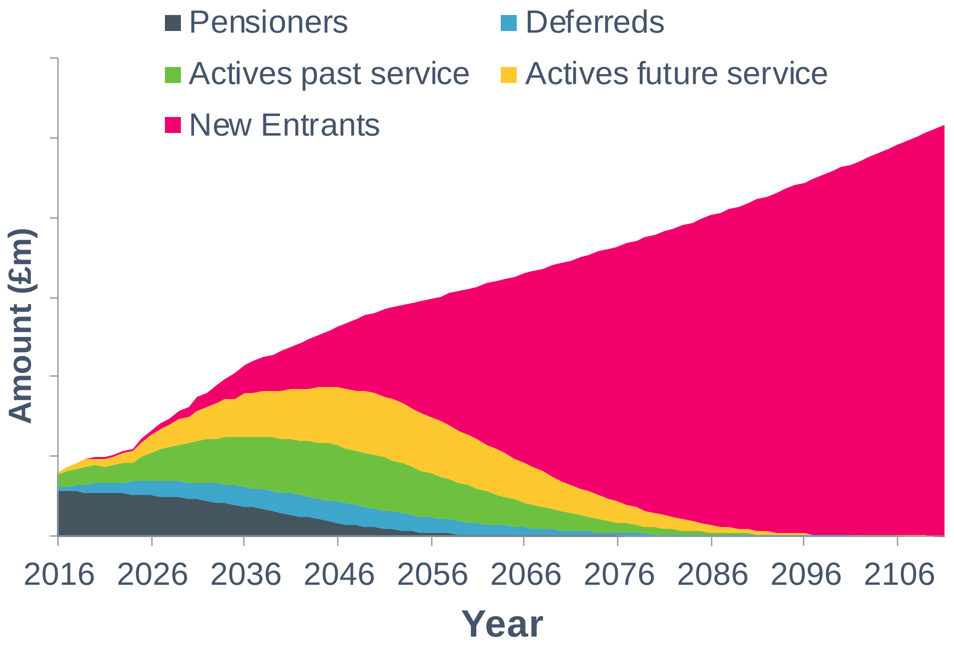
Primary objective: pay benefits as they fall due

Supporting objectives:

- Ensure accrued benefits are fully funded (on a 20yr view)
- Set an appropriate level of contributions to fund future service benefits (stable, affordable/cost-effective, and employer-specific)
- Maintain sufficient liquidity to meet obligations (without being forced to sell assets)

Key implications:

- Action required when a material surplus/deficit arises – adjust contribution rates and/or investment risk
- Portfolio must generate a long-term, real return and cannot be fully de-risked



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High-level investment strategy

	Old Strategy	New Strategy
Total Growth	**53%**	**48%**
UK Equities	16%	8%
Overseas Equities	30%	28%
Emerging Markets Equities	3%	6%
Private Equity	4%	6%
Total Income	**32%**	**37%**
UK Property	10%	7%
Global Property	-	3%
Infrastructure	7%	10%
Private Debt	5%	7%
Multi Asset Credit	10%	10%
Total Protection	**15%**	**15%**
UK Corporate Bonds	10%	10%
Index Linked Gilts	5%	5%
Total	**100%**	**100%**

Review conclusions

- Old strategy is robust, ie high likelihood of achieving funding objectives and acceptable downside risk
- Further reallocation from Growth to Income assets expected to deliver modest improvement in funding outcomes, ie fine-tuning
- Continues the process of diversification into Income assets

Investment structure-1

- Review of investment structure is being conducted in phases throughout FY22/23
- Recommendations for listed equities:
  - Retain core portfolio of market capitalisation-weighted global equities
  - Maintain overweight exposure to UK equities but reduce level of exposure (to c15% listed equities)
  - Retain a mix of active and passive management, but reduce proportion managed actively (to 50%)
  - Continue to access active equity strategies via Border to Coast
  - Maintain exposure to factor-based equity strategies, but replace the current solution as better alternatives now exist
  - Consider an allocation to ESG-tilted passive equity strategies once decarbonisation and other ESG objectives/priorities have been set
  - Adopt phased approach to implementation, taking into consideration market conditions

Investment structure-2

- Recommendations for private markets – private equity, private debt, infrastructure:
  - Private markets remain attractive for long-term investors not requiring daily liquidity
  - Maintain/increase target allocations to 6% (private equity), 7% (private debt) and 10% (infrastructure)
  - Focus on lower risk, income-producing segments where possible:
    - Private equity – growth capital/buy-out
    - Private debt – senior, secured loans
    - Infrastructure – core/core-plus operational infrastructure
  - Achieving target will require material ongoing commitments; the Fund made commitments to the Border to Coast Series 2 alternatives programme during 2022
  - Continue accessing private markets via a combination of Border to Coast and third-party solutions
- Preliminary recommendations for property (review ongoing):
  - Maintain target allocation of 10%
  - Retain focus on UK core commercial property, but further diversify the portfolio by:
    - Geography – global property
    - Asset type – residential property
    - Risk profile – modest allocation to higher-risk, value add property
- Review of protection assets brought forward to consider the opportunity to “lock-in” additional protection given attractive market pricing levels

Market outlook

Persistently high inflation	• Increases nominal value of liabilities • Erodes the real value of fixed income investments
Rising interest rates	• Reduces the value of most assets • Creates opportunity to acquire assets which were previously over-valued
Increased likelihood of recession	• Reduces the expected return on equities • Increases the risk of default
Elevated macroeconomic risks	• Increases market volatility • Increases the return required by investors
Climate change	• Increases likelihood of further government intervention to accelerate decarbonisation

Thank you