City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**27 October 2022**
Classification:	**General Release (Appendix 1 exempt)**
Title:	**London CIV Global Alpha Paris Aligned (PA) Fund**
Wards Affected:	**All**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no direct financial implications arising from this report.**
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1. EXECUTIVE SUMMARY

1.1 This report presents an analysis on estimated transition costs, stock overlap, performance and volatility for the London CIV (Baillie Gifford) Global Alpha Growth Paris Aligned Fund.

2. RECOMMENDATIONS

2.1 The Committee is recommended to:

- Note the expected Baillie Gifford Paris Aligned Fund transition costs, performance data and volatility, with a view to deciding whether to consider the transition of the Global Alpha mandate into the Paris Aligned version.

- Approve that Appendix 1 to this report is not for publication on the basis that they contain information relating to the financial or business affairs of any particular person, including the authority holding that information, as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).

3. LONDON CIV GLOBAL ALPHA PARIS ALIGNED FUND

Overview

3.1 During April 2021, the London CIV launched a Paris Aligned version of the Baillie Gifford Global Alpha Equity Fund. The Paris Aligned Fund is an exclusion-based version of the traditional Global Alpha Fund, which the Westminster pension fund currently holds, and both funds are managed by the same investment team with the same fees and similar investment objectives.

3.2 The key differentiator between the two strategies is that the Paris Aligned version also contains the following line in its investment objective:

'The Sub-fund also aims to have a weighted average greenhouse gas intensity that is lower than that of the MSCI ACWI Climate Paris Aligned Index'.

3.3 Please see Appendix 2 for the London CIV Global Alpha Paris Aligned factsheet.

Overlap and Performance

3.4 As at 30 September 2022, there was a sector and geographical overlap of circa 88% between both funds. In the year to 31 July 2022, the Global Alpha mandate returned -17.2% net of fees, whereas the Paris Aligned version returned -18.6% net of fees. Over the three-month period to 31 July 2022, the funds returned 1.6% and 2.9% net of fees respectively.

3.5 The two products are built on the same platform, using the same process and have the same return objectives. Therefore, a very high correlation of returns is expected. However, there is no guarantee that performance of the Paris Aligned version will track the performance of the Global Alpha Fund.

3.6 The London CIV continues to monitor the Global Alpha's below benchmark performance over the last 12 months and has observed that the performance gap is recoverable. London CIV remains confident in the investment process but acknowledges that there could have been better management of investment risk.

3.7 The Paris Aligned version has a quantitative assessment process to screen out companies with particular levels of exposure to the fossil fuels industry, plus a qualitative one to screen out companies that will not play a role in the future transition to a low carbon environment. The fund currently excludes six of the Alpha core portfolio. See Appendix 1 for a list of excluded companies.

Transition Costs

3.6 The London CIV consults with an external advisor to run analysis on transition costs, including explicit costs (taxes and commissions) and implicit costs (impact and opportunity costs). Given the large stock overlap between the current Global Alpha mandate and the Paris Aligned Fund, the transition would be facilitated by an in specie redemption and subscription. See Appendix 1 for an analysis of estimated transition costs.

Volatility

3.7 Both the Global Alpha and Paris Aligned mandates have a similar risk and volatility profile, with tracking errors of 4.8% and 5.5% respectively. A tracking error indicates how closely performance is aligned with the benchmark and risk undertaken due to active management. Larger deviations from the benchmark cause higher tracking errors, with most active managers having tracking errors in the region of 4% to 7%.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

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BACKGROUND PAPERS:

None

APPENDICES:

Appendix 1: London CIV Global Alpha Paris Aligned Analysis (exempt)
Appendix 2: London CIV Global Alpha Paris Aligned Fact Sheet June 2022