Merton Council

Pension Fund Investment Advisory Panel Agenda

Membership

Distribution:

Cllr. Owen Pritchard (Chair), Cllr. Adam Bush (Vice Chair), Cllr. Mark Allison, Tina Pickard (Pensioner Rep), Gwyn Isaac (GMB Union Rep) Caroline Holland (LBM), Roger Kershaw (LBM), Nemashe Sivayogan (LBM) Gary Wells (LBM)

Date: Wednesday 28 November 2018

Time: 7.00 pm

Venue: Committee Rooms, 1st floor, Merton Civic Centre, London Road,

Morden, SM4 5DX

This is a public meeting and attendance by the public is encouraged and welcomed. For more information about the agenda please contact Merton.PensionFund@merton.gov.uk or telephone 020 8545 3458.

All Press contacts: communications@merton.gov.uk, 020 8545 3181

Pension Fund Investment Advisory Panel Agenda 28 November 2018

1	Apologies for absence	
2	Declarations of pecuniary interest	
3	Minutes of the previous meeting	1 - 2
4	Quarterly Performance Review	3 - 14
5	AOB	
6	Future meeting dates	
	Future Meeting Date: 27 th February 2019	
7	Exclusion of the Press and Public	
	RESOLVED: That the public were excluded from the meeting during consideration of item 8-12 on the grounds that it is exempt from disclosure for the reasons stated in the report.	
8	Part II minutes of last meeting	15 - 16
9	Quarterly Investment Managers Performance Review (Qtr 2)	17 - 56
10	UBS Presentation (For information)	
11	GAD Section 13 valuation briefing report	57 - 104
12	AOR	

Note on declarations of interest

Members are advised to declare any Disclosable Pecuniary Interest in any matter to be considered at the meeting. If a pecuniary interest is declared they should withdraw from the meeting room during the whole of the consideration of that mater and must not participate in any vote on that matter. If members consider they should not participate because of a non-pecuniary interest which may give rise to a perception of bias, they should declare this, .withdraw and not participate in consideration of the item. For further advice please speak with the Assistant Director of Corporate Governance.

Pension Fund Advisory Panel (Part 1)

02 Oct 2018

Attendance:

Cllr. Owen Pritchard (Chair), Cllr. Stephen Crowe (Vice Chair) Roger Kershaw (LBM), Nemashe Sivayogan (LBM) Gary Wells (LBM)

Additional Attendees:

Aniket Bhaduri (JLT), Adam Briggs (JLT), Merton TV

- 1.0 MEETING (Part 1)
- 1.1 Introductions made by Chair.
- 1.2 Apologies for Absence: Cllr Adam Bush, Tina Pickard (Pensioner Rep), Gwyn Isaac (GMB Union Rep), Caroline Holland (LBM), Cllr.Mark Alison
- 1.3 Members Declaration of Interest None
- **2.0** The Chair shared the factsheet on Merton Pension Fund's and LGPS exposure to fossil fuel
- 3.0 PRESENTATION OF MINUTES OF LAST MEETING (18th July 2018)
- 3.1 Agreed as true record.
- 4.0 QUARTERLY FUND PERFORMANCE (April to June 2018)
- 4.1 First new report produced by JLT that includes the new Funds and the legacy Funds.
- 4.2 The Chair remarked that the previous quarter was bad so we are now back on track.
- 4.3 SC queried the fact the Fund has increased by 48% in the past 5yrs and how this needs to be evidenced as a good or bad performance against other Funds.

FUTURE MEETING DATES:

28th November 2018

27th February 2019



London Borough of Merton Pension Fund Advisory Committee Date: 28 November 2018

Wards: All

Subject: Merton Pension Fund Performance - September 2018

Lead officer: Caroline Holland Director of Corporate Services

Lead member: Councillor Owen Pritchard.

Contact officer: Roger Kershaw

This is a Public Document

RECOMMENDATION

Members are asked to note the content of this report, in particular, the market values and performance of the total fund and component portfolios for the quarter ending 30 September 2018, attribution of the results and the market environment during the period.

1.0 PURPOSE OF REPORT

- 1.1 To report the investment performance at total fund level, and of the individual fund managers, for the quarter to 30 Sept 2018. The report highlights the performance of the total Fund by asset class compared to the customised benchmark..
- 1.2 The report gives the Committee a consistent basis on which to review the performance of the Fund as at 30 Sept 2018 and provide information to support future actions including periodic rebalancing and review of investment strategy and investment management arrangement.

2.0 FUND PERFORMANCE

- 2.1 The attached Fund Analysis & Performance Report (**Appendix 1**) produced by the Fund's investment and perforance consultants JLT Employee Benefits provides useful analysis and insights of the Pension Fund activities and results for the quarter to 30 Sept 2018.
- Over the 3 months to 30 Sept 2018, total Fund assets returned 1.9% and outperformed its target by 0.6%. Over one year the returned 7.1% and over three years 13.1%.

The Fund's total market value increased by £13m in the quarter, from £695.6m to £708.6m.

Manager / Fund	3 monti	ns %	12 mo	nths %	3 years	% p.a.	3yr Performance
manager / Fund	Fund	Bmark	Fund	Bmark	Fund	Bmark	vs Bmark
UBS - Passive Equity Fund	3.0	n/a	9.7	n/a	15.4	n/a	n/a
UBS - Active Equity Fund	-0.9	-0.5	4.5	4.8	12.1	12.4	Benchmark not met
LCIV RBC Sustainable Equity Fund	5.3	6.3	n/a	n/a	n/a	n/a	n/a
LCIV Global Alpha Growth Fund	3.1	5.6	n/a	n/a	n/a	n/a	n/a
Global Equities							
Aberdeen Global Emerging Market Equities Fund ¹⁸²	0.0	-1.0	n/a	n/a	n/a	n/a	n/a
Emerging Market Equities							
LCIV Global Total Return Fund	0.8	2.2	n/a	n/a	n/a	n/a	n/a
LCIV Diversified Growth Fund	0.1	1.0	n/a	n/a	n/a	n/a	n/a
DGF							
UBS Triton Property Unit Trust	1.9	1.6	10.0	8.8	7.7	7.1	Benchmark met
BlackRock UK Property Fund	1.9	1.6	9.9	8.8	8.0	7.1	Benchmark met
Property							
Growth Assets							
Aberdeen Bonds Portfolio ¹	-1.1	-1.2	1.9	1.3	7.2	6.9	Benchmark met
Bonds							
LCIV MAC Fund	1.5	1.2	n/a	n/a	n/a	n/a	n/a
Multi-Asset Credit							
Stabilising Assets		<u>, </u>					
TOTAL MERTON PENSION FUND	1.9		7.1		13.1		
Strategic Target (5.5% p.a.)	1.3		5.5		5.5		

2.3 The chart below shows the total fund valuation and the movements in investments during quarter ending 30 Sept 2018.

	30-June	-18			30-September-18		
Manager / Fund	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight	
UBS - Passive Equity	236,670	34.0	-	7,513	244,183	34.5	
UBS - Active Equity Fund	45,156	6.5	-	-442	44,714	6.3	
LCIV RBC Sustainable Equity Fund	71,138	10.2	-	3,741	74,879	10.6	
LCIV Global Alpha Growth Fund	70,112	10.1	-	2,132	72,244	10.2	
Aberdeen Equity	-	-	-	-	-	0.0	
Global Equities	423,076	60.8	•		436,020	61.5	
Aberdeen Emerging Market Equities Fund	27,584	4.0	-	192	27,777	3.9	
Emerging Market Equities	27,584	4.0			27,777	3.9	
LCIV Global Total Return Fund	33,210	4.8	-	251	33,461	4.7	
LCIV Diversified Growth Fund	32,470	4.7	-	23	32,493	4.6	
Diversified Growth Fund	65,680	9.4			65,954	9.3	
UBS Triton Property Unit Trust	16,631	2.4	-	200	16,831	2.4	
BlackRock UK Property Fund	7,758	1.1	-	117	7,875	1.1	
Property	24,389	3.5			24,706	3.5	
Growth Assets	540,729	77.7			554,457	78.2	
Aberdeen Bonds	82,864	11.9	-	-968	81,895	11.6	
Bonds	82,864	11.9			81,895	11.6	
LCIV MAC Fund	67,884	9.8	-	1,068	68,952	9.7	
Multi Asset Credit	67,884	9.8			68,952	9.7	
Stabilising Assets	150,748	21.7			150,847	21.3	
Cash	4,123	0.6	-804	-	3,319	0.5	
TOTAL MERTON PENSION FUND	695,600	100.0			708,623	100.0	

- 2.3 The below table reflects the strategy in process of implemention following the 2017 Investment Strategy Review; as such a number of asset classes will be under or overweight for an interim period until the portfolio is fully constructed.
- 2.4 Total allocation to Global Equities increased to 61.5% over the quarter, thereby 21.5% overweight relative to its strategic allocation is. However, this allocation will fall over time as the Fund transitions to other asset classes .

Allocation by underlying asset class

Asset Class	Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	436,020	61.5	40.0	21.5	15-85
Emerging Market Equities	27,777	3.9	10.0	-6.1	0-20
Diversified Growth Fund	65,954	9.3	10.0	-0.7	0-20
Property	24,706	3.5	5.0	-1.5	0-10
Private Credit		0.0	7.5	-7.5	0-10
Infrastructure		0.0	7.5	-7.5	0-15
Long Gilts	13,660	1.9	-	1.9	0-5
Long Index Linked Gilts	40,962	5.8	10.0	-4.2	0-30
Corporate Bonds	27,273	3.8	-	3.8	0-10
Multi Asset Credit	68,952	9.7	10.0	-0.3	0-20
Cash	3,319	0.5	-	0.5	-
TOTAL MERTON PENSION FUND	708,623	100.0	100.0	-	

3.0 Market Background/Outlook

- 3.1 According to the Office for National Statistics, labour productivity in the UK rose 0.5% in Q2, a rebound from the -0.6% fall in Q1. The Bank of England's Monetary Policy Committee, at its August meeting, voted unanimously to increase the Base Rate by 25 bps to 0.75%, taking rates to the highest level since March 2009.
- 3.2 The Purchasing Managers' Index (PMI) for the services sector, which accounts for three-quarters of the UK economy, slowed in September. The UK Services PMI dipped to 53.9 in September from 54.3 in August, although it was above the lows seen in July
- 3.3 The Eurozone continued to post encouraging economic growth with Q2 2018 GDP growing by 2.2% YoY. While the growth rate has moderated slightly, it remains healthy and is expected to remain so over the rest of the year. In a show of confidence in the strength of the Eurozone, the ECB has committed to stopping its asset purchase programme at the end of the year. It has also left the door open to rate hikes in 2019.
- 3.4 Inflation in the Eurozone showed signs of picking up over the quarter. The annual headline inflation rate touched a multi-year high of 2.1% in September. However, core inflation remains stubbornly low at 0.9%, significantly below the European Central Bank's (ECB) target of 2.0%.
- 3.5 The Appendix 1 provides more detail on the market statistics and on the assets classes the fund is invested in...

4. OTHER ISSUES AFFECTING THE FUND

4.1 none

5. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

5.1 All relevant implications are included in the report.

6. LEGAL AND STATUTORY IMPLICATIONS

6.1 All relevant implications are included in the report.

7. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

7.1 N/A

8. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

8.1 Risk management is an integral part of designing the investment portfolio of the fund particularly in the current volatile economic environment.

9. BACKGROUND PAPERS

9.1 JLT Employee Benefits performance report and LCIV performance report.



MERTON PENSION FUND INVESTMENT PERFORMANCE REVIEW QUARTER ENDING 30 SEPTEMBER 2018

1 STRATEGIC ASSET ALLOCATION

30 SEPTEMBER 2018

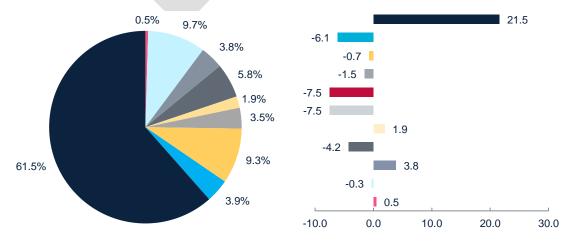
Allocation by underlying asset class

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Property	24,706	3.5	5.0	-1.5	0-10
Private Credit	-	0.0	7.5	-7.5	0-10
Infrastructure		0.0	7.5	-7.5	0-15
Long Gilts	13,660	1.9	-	1.9	0-5
Long Index Linked Gilts	40,962	5.8	10.0	-4.2	0-30
Corporate Bonds	27,273	3.8	-	3.8	0-10
Multi Asset Credit	68,952	9.7	10.0	-0.3	0-20
Cash	3,319	0.5	-	0.5	-
TOTAL MERTON PENSION FUND	708,623	100.0	100.0	-	

Points to note

- Asset allocation reflects the strategy to be implemented as part of the 2017 Investment Strategy
 Review; as such a number of asset classes will be under or overweight for an interim period until the
 portfolio is fully constructed.
- Total allocation to Global Equities increased to 61.5% over the quarter, thereby 21.5% overweight
 relative to its strategic allocation is. However, this allocation will fall over time as the Fund transitions
 to other asset classes.

Actual Asset Allocation as at 30 September 2018 Deviation from Strategic Allocation



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2 VALUATION SUMMARY

30 JUNE 2018 TO 30 SEPTEMBER 2018

	30-June-18				30-Septen	nber-18
Manager / Fund	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS - Passive Equity	236,670	34.0	-	7,513	244,183	34.5
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3 PERFORMANCE SUMMARY

PERIOD ENDING 30 SEPTEMBER 2018

Manager / Fund	3 mont	ths %	12 mc	onths %	3 years % p.a.		3yr Performance	
Manager / Fund	Fund	Bmark	Fund	Bmark	Fund	Bmark	vs Bmark	
UBS - Passive Equity Fund	3.0	n/a	9.7	n/a	15.4	n/a	n/a	
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LCIV RBC Sustainable Equity Fund	5.3	6.3	n/a	n/a	n/a	n/a	n/a	
LCIV Global Alpha Growth Fund	3.1	5.6	n/a	n/a	n/a	n/a	n/a	
Global Equities								
Aberdeen Global Emerging Market Equities Fund ^{1&2}	0.0	-1.0	n/a	n/a	n/a	n/a	n/a	
Emerging Market Equities								
LCIV Global Total Return Fund	0.8	2.2	n/a	n/a	n/a	n/a	n/a	
LCIV Diversified Growth Fund	0.1	1.0	n/a	n/a	n/a	n/a	n/a	
DGF								
UBS Triton Property Unit Trust	1.9	1.6	10.0	8.8	7.7	7.1	Benchmark met	
BlackRock UK Property Fund	1.9	1.6	9.9	8.8	8.0	7.1	Benchmark met	
Property		•				·		
Growth Assets								
Aberdeen Bonds Portfolio ¹	-1.1	-1.2	1.9	1.3	7.2	6.9	Benchmark met	
Bonds								
LCIV MAC Fund	1.5	1.2	n/a	n/a	n/a	n/a	n/a	
Multi-Asset Credit								
Stabilising Assets								
TOTAL MERTON PENSION FUND	1.9		7.1		13.1			

Strategic Target (5.5% p.a.) 5.5 5.5

^{1:} ABERDEEN GLOBAL BOND FUND AND ABERDEEN GLOBAL EMERGING MARKET EQUITIES FUND PRESENTED GROSS OF FEES. ALL OTHERS ARE NET.

² PERFORMANCE QUOTED IN USD

4 MARKET BACKGROUND

PERIOD ENDING 30 SEPTEMBER 2018

MARKET STATISTICS

Market Returns Growth Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	-0.8	5.9	11.5
Overseas Developed	6.7	14.7	20.6
North America	8.5	20.3	22.8
Europe (ex UK)	3.2	2.5	15.1
Japan	5.0	13.9	18.6
Asia Pacific (ex Japan)	0.9	6.5	19.7
Emerging Markets	0.6	2.0	17.5
Frontier Markets	-3.2	-6.7	6.3
Property	1.6	9.1	7.5
Hedge Funds**	0.2	2.3	4.3
Commodities**	0.9	20.9	1.8
High Yield**	1.9	0.5	7.1
Emerging Market Debt	-0.6	-4.7	10.6
Senior Secured Loans**	1.7	3.3	4.1
Cash	0.2	0.5	0.4

Market Returns Bond Assets	3 Mths %	1 Year %	3 Years % p.a.
UK Gilts (>15 yrs)	-3.3	1.3	5.3
Index-Linked Gilts (>5 yrs)	-1.4	1.4	7.2
Corporate Bonds (>15 yrs AA)	-0.7	-0.4	6.6
Non-Gilts (>15 yrs)	-0.9	-0.7	6.7

Exchange Rates: Change in Sterling	3 Mths %	1 Year %	3 Years % p.a.
Against US Dollar	-1.2	-2.8	-4.9
Against Euro	-0.7	-1.1	-6.1
Against Yen	1.3	-1.9	-6.5

Inflation Indices	3 Mths %	1 Year %	3 Years % p.a.
Price Inflation – RPI	1.2	3.5	3.0
Price Inflation – CPI	0.7	2.7	2.0
Earnings Inflation*	0.9	3.2	2.5

Yields as at 30 September 2018	% p.a.
UK Equities	3.80
UK Gilts (>15 yrs)	1.86
Real Yield (>5 yrs ILG)	-1.50
Corporate Bonds (>15 yrs AA)	2.81
Non-Gilts (>15 yrs)	3.28

Absolute Change in Yields	3 Mths %	1 Year %	3 Years % p.a.
UK Equities	0.16	0.12	0.09
UK Gilts (>15 yrs)	0.19	0.02	-0.52
Real Yield (>5 yrs ILG)	0.09	0.02	-0.66
Corporate Bonds (>15 yrs AA)	0.09	0.17	-0.82
Non-Gilts (>15 yrs)	0.12	0.23	-0.68

Source: Thomson Reuters. **Note:** * Subject to 1 month lag ** GBP Hedged

MARKET SUMMARY CHARTS

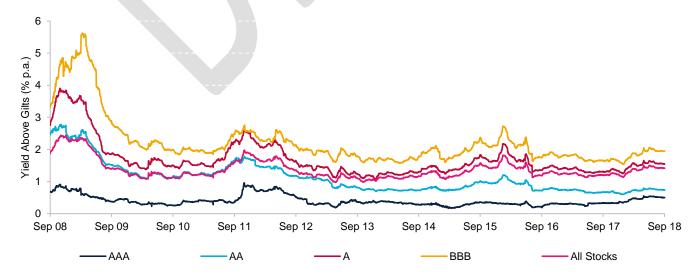
Market performance – 3 years to 30 September 2018



UK government bond yields - 10 years to 30 September 2018



Corporate bond spreads above government bonds – 10 years to 30 June 2018



Source: Thomson Reuters

CONTACT

ANIKET BHADURI **Head of Client Management** +44 (0)207 895 7773 Aniket Bhaduri@JLTGroup.com

ADAM BRIGGS Consultant +44 (0)203 465 4986 Adam_Briggs@JLTGroup.com

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Agenda Item 8

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.



Agenda Item 9

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.



Agenda Item 11

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.



By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

