

Committee: London Borough of Merton Pension Committee

Date: 28 March 2019

Wards: All

Subject: Merton Pension Fund Performance - December 2018

Lead officer: Caroline Holland - Director of Corporate Services

Lead member: Councillor. Mark Allison.

Contact officer: Roger Kershaw- AD Resources

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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 31 December 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 31 December 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 31 December 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 performance consultants JLT Employee Benefits provides useful analysis and insights of the Pension Fund activities and results for the quarter to 31 December 2018.
- 2.2 Over the 3 months to 31 December 2018, total Fund assets returned -6.5% and underperformed its target by 7.8%. The Fund's total market value decreased by £46.3m in the quarter, from £708.3m to £662.1m.












2.3 The table below shows the total fund valuation and the movements in investments during the December quarter.

Manager / Fund	30-September-18				31-December-18	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS - Passive Equity	243,888	34.4	-134,609	-19,916	89,363	13.5
UBS – Alternative Beta	-	-	68,000	-3,357	64,643	9.8
UBS - Active Equity Fund	44,734	6.3	-41,391	-3,343	-	0.0
LCIV RBC Sustainable Equity Fund	74,879	10.6	-	-9,025	65,854	9.9
LCIV Global Alpha Growth Fund	72,244	10.2	-	-9,009	63,235	9.6
BlackRock World Low Carbon Equity Tracker Fund	-	-	68,000	-3,718	64,282	9.7
Global Equities	435,745	61.5			347,378	52.5
Aberdeen Emerging Market Equities Fund	27,777	3.9	-	-474	27,302	4.1
UBS – HALO EM Fund	-	-	40,000	1,304	41,304	6.2
Emerging Market Equities	27,777	3.9			68,606	10.4
LCIV Global Total Return Fund	33,461	4.7	-	-675	32,786	5.0
LCIV Diversified Growth Fund	32,493	4.6	-	-1,473	31,020	4.7
Diversified Growth Fund	65,954	9.3			63,806	9.6
UBS Triton Property Unit Trust	16,831	2.4	-	177	17,008	2.6
BlackRock UK Property Fund	7,875	1.1	-	98	7,973	1.2
Property	24,706	3.5			24,981	3.8
Growth Assets	554,182	78.2			504,772	76.2
Aberdeen Bonds	81,895	11.6	-	1,766	83,661	12.6
Bonds	81,895	11.6			83,661	12.6
LCIV MAC Fund	68,952	9.7	-	-1,380	67,572	10.2
Multi Asset Credit	68,952	9.7			67,572	10.2
Stabilising Assets	150,847	21.3			151,233	22.8
Cash	3,319	0.5	2,759	-	6,078	0.9
TOTAL MERTON PENSION FUND	708,349	100.0			662,083	100.0

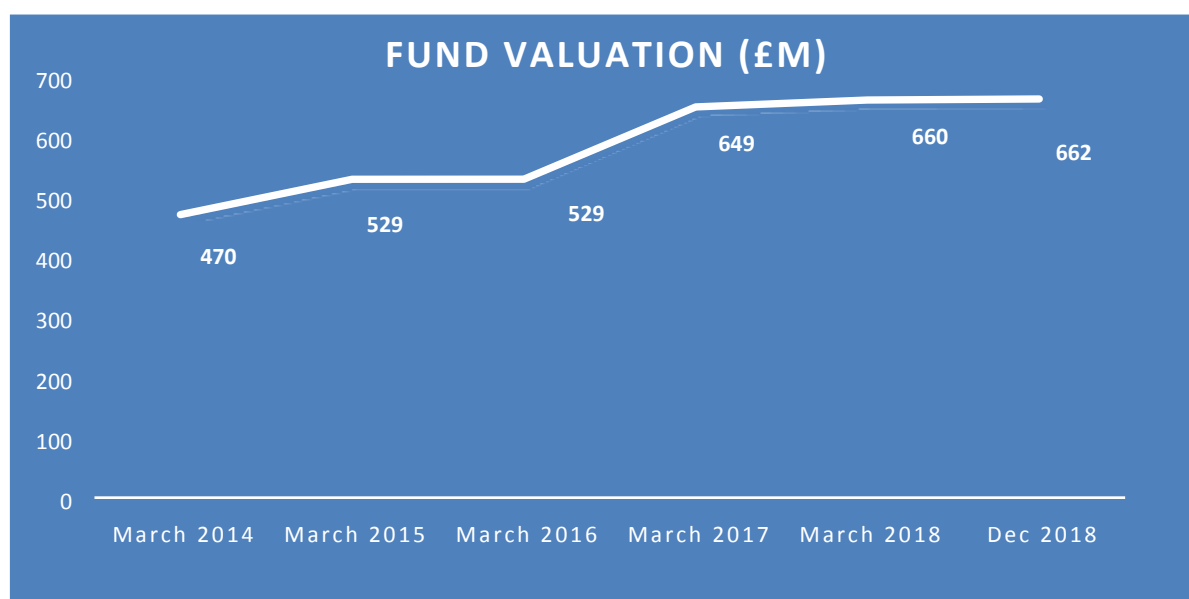
NOTE: INCOME REINVESTED BY LCIV FUNDS IN THE QUARTER AMOUNTED TO £0.9M.

2.3 During the quarter the fund continued implementing its new investment strategy and the chart below details the Fund's strategic asset allocation and the actual allocation to date.

Allocation by underlying asset class

Asset Class		Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities		347,378	52.5	40.0	12.5	15-85
Emerging Market Equities		68,608	10.4	10.0	0.4	0-20
Diversified Growth Fund		63,808	9.6	10.0	-0.4	0-20
Property		24,981	3.8	5.0	-1.2	0-10
Private Credit		-	0.0	7.5	-7.5	0-10
Infrastructure		-	0.0	7.5	-7.5	0-15
Long Gilts		14,009	2.1	-	2.1	0-5
Long Index Linked Gilts		41,600	6.3	10.0	-3.7	0-30
Corporate Bonds		28,051	4.2	-	4.2	0-10
Multi Asset Credit		67,572	10.2	10.0	0.2	0-20
Cash		6,078	0.9	-	0.9	-
TOTAL MERTON PENSION FUND		662,083	100.0	100.0	-	

2.4 The following graph illustrates the Fund's market value trend over the past 5 years and as at 31 December 2018. It shows that in this period the Fund value has appreciated by £192m or 41% .



3.0 Market Background/Outlook

- 3.1 The rate of acceleration in global economic growth has moderated as financial conditions tighten and trade tensions impact business sentiment and overall demand. Regional differences remain pronounced with the relative strength of the US and the continued weakness in Chinese demand data most noteworthy. Meanwhile, developed world consumption growth and investment remains healthy and is supported by robust labour markets and continued wage growth.
- 3.2 Equity markets worldwide saw sharp falls in both October and December as 2018 proved to be the worst year since the global financial crisis for many markets. Major developed bourses such as the US and Japan were amongst the biggest fallers for the quarter. Meanwhile, in contrast to the pattern earlier in the year, emerging markets performed relatively well, although Chinese stocks continued to lag.
- 3.3 Appendix 1 provides more detail on the market statistics and the assets classes the fund is invested in for 3 months, 1 year and 3 years.

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.