

Committee:

London Borough of Merton Pension Committee Date: 18 July 2019

London Borough of Merton Pension Board Date: 26 June 2019

Wards: All

Subject: Merton Pension Fund Performance – March 2019

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 March 2019, 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 March 2019. 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 March 2019 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 March 2019

The table overleaf shows the performance for the period ending 31 March 2019

Manager / Fund	3 months %		12 months %		3 years % p.a.	
	Fund	Bmark	Fund	Bmark	Fund	Bmark
UBS- Passive Equity Fund†	9.8	n/a	7.9	n/a	11.8	n/a
UBS – Alternative Beta	9.2	9.2	n/a	n/a	n/a	n/a
LCIV RBC Sustainable Equity Fund	13.4	9.9	n/a	n/a	n/a	n/a
LCIV Global Alpha Growth Fund	12.4	10.2	n/a	n/a	n/a	n/a
BlackRock World Low Carbon Equity Tracker Fund	9.5	9.8	n/a	n/a	n/a	n/a
Global Equities						
Aberdeen Global Emerging Market Equities Fund	7.3	7.5	n/a	n/a	n/a	n/a
UBS – HALO EM Fund	11.2	7.4	n/a	n/a	n/a	n/a
Emerging Market Equities						
LCIV Global Total Return Fund	2.7	1.1	n/a	n/a	n/a	n/a
LCIV Diversified Growth Fund	6.2	1.1	n/a	n/a	n/a	n/a
DGF						
UBS Triton Property Unit Trust	0.6	0.3	7.1	4.8	6.9	6.1
BlackRock UK Property Fund	0.1	0.3	4.9	4.8	6.1	6.1
Property						
MIRA Infrastructure Global Solution II, L.P.*	-6.5	0.2	n/a	n/a	n/a	n/a
Quinbrook Low Carbon Power LP*	-1.6	0.6	n/a	n/a	n/a	n/a
Infrastructure						
Churchill Middle Market Senior Loan Fund II*	-1.4	0.5	n/a	n/a	n/a	n/a
Private Credit						
Growth Assets						
Aberdeen Bonds Portfolio	4.7	4.7	6.3	5.9	7.5	7.4
Bonds						
LCIV MAC Fund	2.6	1.2	n/a	n/a	n/a	n/a
Multi-Asset Credit						
Stabilising Assets						
TOTAL MERTON PENSION FUND	8.0		7.7		10.6	
Strategic Target (5.5% p.a.)	1.3		5.5		5.5	

* Partial quarter performance shown. These funds were entered into in mid-January 2019 and hence the fund returns are not reflecting the entire of Q1 2018. Returns for private market managers are approximate, and may be low initially due to the J-curve effect.

† Benchmark suspended in Q2 2018 as a result of transition activity. This impacts 3 month, 12 month and 3 year benchmark returns.

2.2 Over the 3 months to 31 March 2019, total Fund assets returned 8.0% compared to the target of 1.3%. This equates to outperformance by 6.7%. The Fund's total market value increased by £58.6m over the quarter, from £662.1m to £720.7m. Over the last 12 months, the Fund performance is 7.7%, and 3 year annualised performance is 10.6%. The annual performance target is 5.5%.

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

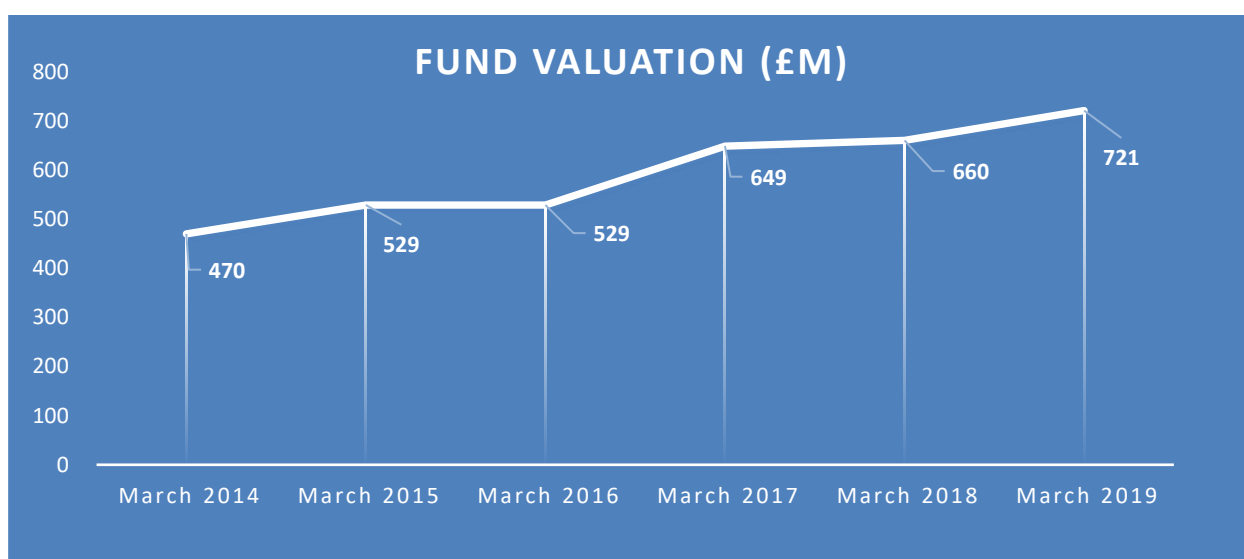
Manager / Fund	31-December-18				31-March-19	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS - Passive Equity	89,363	13.5	-7,917	8,213	89,659	12.4
UBS – Alternative Beta	64,643	9.8	-	5,963	70,606	9.8
LCIV RBC Sustainable Equity Fund	65,854	9.9	-	8,840	74,694	10.4
LCIV Global Alpha Growth Fund	63,235	9.6	-	7,832	71,067	9.9
BlackRock World Low Carbon Equity Tracker Fund	64,282	9.7	-	6,099	70,381	9.8
Global Equities	347,378	52.5			376,408	52.2
Aberdeen Emerging Market Equities Fund	27,302	4.1	-	1,748	29,050	4.0
UBS – HALO EM Fund	41,304	6.2	-	1,904	45,916	6.4
Emerging Market Equities	68,606	10.4			74,966	10.4
LCIV Global Total Return Fund	32,786	5.0	-	885	33,671	4.7
LCIV Diversified Growth Fund	31,020	4.7	-	1,904	32,924	4.6
Diversified Growth Fund	63,806	9.6			66,595	9.2
UBS Triton Property Unit Trust	17,008	2.6	-	-41	16,967	2.4
BlackRock UK Property Fund	7,973	1.2	-	-55	7,918	1.1
Property	24,981	3.8			24,885	3.5
MIRA Infrastructure Global Solution II, L.P.	-	-	1,235	-80	1,156	0.2
Quinbrook Low Carbon Power LP	-	-	4,457	-72	4,385	0.6
Infrastructure	-	-			5,541	0.8
Churchill Middle Market Senior Loan Fund II	-	-	2,567	-36	2,532	0.4
Private Credit	-	-			2,532	0.4
Growth Assets	504,772	76.2			550,925	76.4
Aberdeen Bonds	83,661	12.6	-	3,905	87,567	12.2
Bonds	83,661	12.6			87,567	12.2
LCIV MAC Fund	67,572	10.2	-	1,788	69,360	9.6
Multi Asset Credit	67,572	10.2			69,360	9.6
Stabilising Assets	151,233	22.8			156,927	21.8
Cash	6,078	0.9	6,741	-	12,819	1.8
TOTAL MERTON PENSION FUND	662,083	100.0			720,673	100.0

2.4 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.

2.5 In the quarter the Fund moved assets on to the private market investments. £5.6m was investemtn in infrastructure and £2.5m on Pricate debt. The full capital commitments will be drawn in stages as capital callsover 3-5 years.

Asset Class	Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	376,408	52.2	40.0	12.2	15-85
Emerging Market Equities	74,966	10.4	10.0	0.4	0-20
Diversified Growth Fund	66,595	9.2	10.0	-0.8	0-20
Property	24,885	3.5	5.0	-1.5	0-10
Private Credit	2,531	0.4	7.5	-7.1	0-10
Infrastructure	5,541	0.8	7.5	-6.7	0-15
Long Index Linked Gilts	51,067	7.1	10.0	-2.9	0-30
Corporate Bonds	36,500	5.1	-	5.1	0-10
Multi Asset Credit	69,360	9.6	10.0	-0.4	0-20
Cash	12,819	1.8	-	1.8	-
TOTAL MERTON PENSION FUND	720,673	100.0	100.0	-	

2.6 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.

9. BACKGROUND PAPERS

9.1 JLT Employee Benefits performance report and LCIV performance report.

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