

Committee:

London Borough of Merton Pension Committee Date: 26 Sept 2019

London Borough of Merton Pension Board Date: 26 Sept 2019

Wards: All

Subject: Merton Pension Fund Performance – June 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 30 June 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 30 June 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 30 June 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 30 June 2019.

The table overleaf shows the performance for the period 30 June 2019.

Manager / Fund	3 months %		12 months %		3 years % p.a.	
	Fund	Bmark	Fund	Bmark	Fund	Bmark
UBS- Passive Equity Fund*	6.5	n/a	6.6	n/a	11.8	n/a
UBS – Alternative Beta	6.2	6.1	n/a	n/a	n/a	n/a
LCIV RBC Sustainable Equity Fund	7.4	6.5	12.8	10.3	n/a	n/a
LCIV Global Alpha Growth Fund	7.7	6.2	9.2	10.5	n/a	n/a
BlackRock World Low Carbon Equity Tracker Fund	7.8	7.6	n/a	n/a	n/a	n/a
Global Equities						
Aberdeen Global Emerging Market Equities Fund	5.2	3.1	12.1	5.4	n/a	n/a
UBS – HALO EM Fund	2.9	3.0	n/a	n/a	n/a	n/a
Emerging Market Equities						
LCIV Global Total Return Fund	1.1	2.8	2.5	8.0	n/a	n/a
LCIV Diversified Growth Fund	1.0	1.1	2.4	4.3	n/a	n/a
DGF						
UBS Triton Property Unit Trust	0.7	0.6	4.7	3.4	6.8	6.3
BlackRock UK Property Fund	0.4	0.6	3.4	3.4	5.7	6.3
Property						
MIRA Infrastructure Global Solution II, L.P.**	n/a	n/a	n/a	n/a	n/a	n/a
Quinbrook Low Carbon Power LP	4.7	1.8	n/a	n/a	n/a	n/a
Infrastructure						
Churchill Middle Market Senior Loan Fund II	4.6	1.8	n/a	n/a	n/a	n/a
Private Credit						
Growth Assets						
Aberdeen Bonds Portfolio	2.9	3.0	9.0	9.0	5.0	4.8
Bonds						
LCIV MAC Fund	1.7	1.2	3.9	4.8	n/a	n/a
Multi-Asset Credit						
Stabilising Assets						
TOTAL MERTON PENSION FUND						
	4.8		7.9		9.7	
Strategic Target (5.5% p.a.)	1.3		5.5		5.5	

Returns for private market managers are approximate, and may be low initially due to the J-curve effect. Private market investment performance is calculated on an IRR basis. All other manager performance is calculated using time-weighted rate of return.

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

** Performance is not shown as June data is only available 120 days after quarter end. In future reports, returns for this manager will be included on a 1 quarter lagged basis

2.2 Over the 3 months to 30 June 2019, total Fund assets returned 4.8% compared to the target of 1.3%. This equates to outperformance by 3.5%. The Fund's total market value increased by £42m over the quarter, from £720.7m to £762.7m. Over the last 12 months, the Fund performance is 7.9%, and 3 year annualised performance is 9.7%. The annual performance target is 5.5%.

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

Manager / Fund	31-March-19				30-June-19	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS - Passive Equity	89,659	12.4	-	5,792	95,451	12.5
UBS – Alternative Beta	70,606	9.8	-	4,398	75,004	9.8
LCIV RBC Sustainable Equity Fund	74,694	10.4	-	5,543	80,238	10.5
LCIV Global Alpha Growth Fund	71,067	9.9	-	5,470	76,537	10.0
BlackRock World Low Carbon Equity Tracker Fund	70,381	9.8	-	5,490	75,872	9.9
Global Equities	376,408	52.2			403,102	52.8
Aberdeen Emerging Market Equities Fund	29,050	4.0	-	1,859	30,910	4.1
UBS – HALO EM Fund	45,916	6.4	-	1,423	47,339	6.2
Emerging Market Equities	74,966	10.4			78,249	10.3
LCIV Global Total Return Fund	33,671	4.7	-	369	34,041	4.5
LCIV Diversified Growth Fund	32,924	4.6	-	342	33,266	4.4
Diversified Growth Fund	66,595	9.2			67,306	8.8
UBS Triton Property Unit Trust	16,967	2.4	-	110	17,077	2.2
BlackRock UK Property Fund	7,918	1.1	-	-	7,884	1.0
Property	24,885	3.5			24,961	3.3
MIRA Infrastructure Global Solution II, L.P.*	1,156	0.2	3,474	117	4,746	0.6
Quinbrook Low Carbon Power LP	4,385	0.6	887	220	5,492	0.7
Infrastructure	5,541	0.8			10,238	1.3
Churchill Middle Market Senior Loan Fund II	2,532	0.4	1,930	118	4,580	0.6
Private Credit	2,532	0.4			4,580	0.6
Growth Assets	550,925	76.4			588,436	77.1
Aberdeen Bonds	87,567	12.2	-	2,438	90,005	11.8
Bonds	87,567	12.2			90,005	11.8
LCIV MAC Fund	69,360	9.6	-	1,224	70,584	9.3
Multi Asset Credit	69,360	9.6			70,584	9.3
Stabilising Assets	156,927	21.8			160,589	21.1
Cash	12,819	1.8	885	-	13,704	1.8
TOTAL MERTON PENSION FUND	720,673	100.0			762,729	100.0

NOTE: INCOME REINVESTED BY LCIV FUNDS IN THE QUARTER AMOUNTED TO £0.5M.

* Valuation as at 30.06.2019 for MIRA Infrastructure Global Solution II, L.P. is based on the March valuation plus cashflows in Q2 2019. The growth in the quarter is therefore solely due to currency movements. Up to date manager data is not available until 120 days after quarter end.

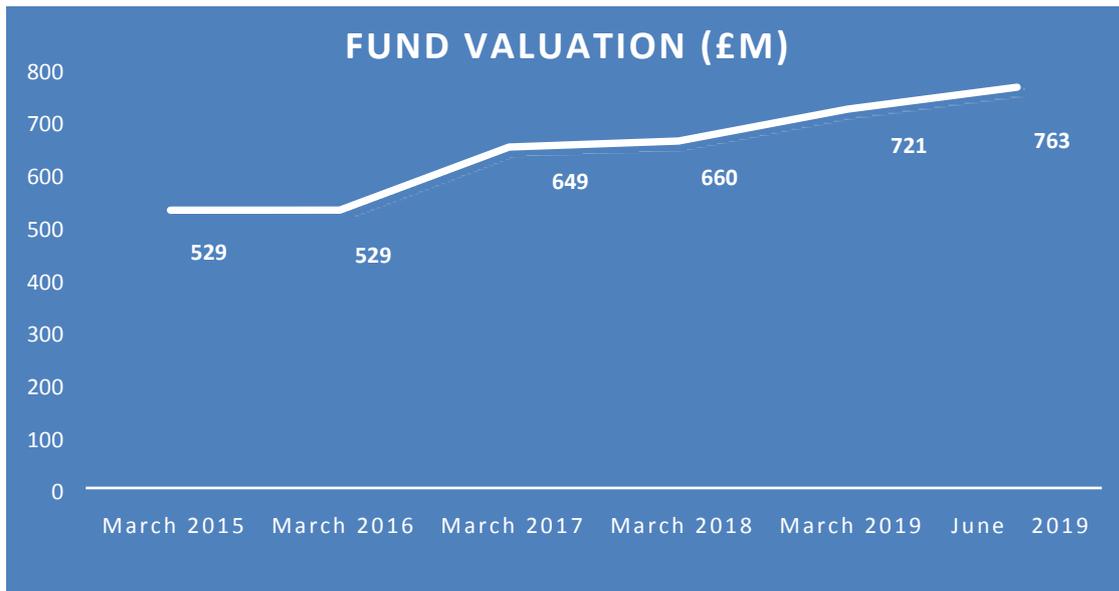
2.4 During the quarter the Fund continued implementing its new investment strategy and the chart below details the Fund's strategic asset allocation and the actual allocation to date.

2.5 In the quarter the Fund moved assets on to the private market investments. £4.4m was invested in infrastructure and £1.9m in Private debt. The full capital commitments will be drawn in stages as capital calls over 3-5 years.

Allocation by underlying asset class

Asset Class		Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities		403,102	52.8	40.0	12.8	15-85
Emerging Market Equities		78,249	10.3	10.0	0.3	0-20
Diversified Growth Fund		87,308	8.8	10.0	-1.2	0-20
Property		24,961	3.3	5.0	-1.7	0-10
Private Credit		4,580	0.6	7.5	-6.9	0-10
Infrastructure		10,238	1.3	7.5	-6.2	0-15
Long Index Linked Gilts		51,974	6.8	10.0	-3.2	0-30
Corporate Bonds		38,031	5.0	-	5.0	0-10
Multi Asset Credit		70,584	9.3	10.0	-0.7	0-20
Cash		13,704	1.8	-	1.8	-
TOTAL MERTON PENSION FUND		762,729	100.0	100.0	-	

2.6 The following graph illustrates the Fund’s market value trend over the past 5 years and as at 30 June 2019. It shows that in this period the Fund value has appreciated by £234m or 31%.



3.0 Market Background/Outlook

3.1 Global economic growth has continued to decelerate amid the uncertainty associated with trade and technology conflicts. The presence of ongoing geopolitical risks suggests the world economy is more likely to stabilise below trend in the second half of 2019 than above it. While we still expect the global economy to ultimately steady without a hard landing, it now looks to be slipping below trend over coming quarters.

3.2 The quarter saw repeated sharp reversals in the mood towards riskier assets. While the breakneck start to 2019 (enjoyed by equity markets especially) continued into April; the mood changed on a darkening outlook for international trade and economic growth. More positive developments in these arenas as the quarter drew to a close, however, has meant positive returns for most asset classes for the second quarter and indeed the first half of 2019 as a whole.

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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