

## Committee:

**London Borough of Merton Pension Committee Date: 09 Jan 2020**

**London Borough of Merton Pension Board Date: 09 Jan 2020**

Wards: All

**Subject: Merton Pension Fund Performance – September 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 Sept 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 Sept 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 Sept 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 Sept 2019.

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

Manager / Fund	3 months %		12 months %		3 years % p.a.	
	Fund	Bmark	Fund	Bmark	Fund	Bmark
UBS- Passive Equity Fund*	3.9	n/a	7.6	n/a	10.3	n/a
UBS – Alternative Beta	4.7	4.6	n/a	n/a	n/a	n/a
LCIV RBC Sustainable Equity Fund	1.2	3.8	8.4	7.8	n/a	n/a
LCIV Global Alpha Growth Fund	0.7	3.4	6.7	8.2	n/a	n/a
BlackRock World Low Carbon Equity Tracker Fund	4.3	4.1	n/a	n/a	n/a	n/a
<b>Global Equities</b>						
Aberdeen Global Emerging Market Equities Fund	-1.4	-1.0	9.7	4.1	n/a	n/a
UBS – HALO EM Fund	-0.2	-1.1	n/a	n/a	n/a	n/a
<b>Emerging Market Equities</b>						
LCIV Global Total Return Fund	0.9	1.7	2.6	7.6	n/a	n/a
LCIV Diversified Growth Fund	2.2	1.1	4.5	4.3	n/a	n/a
<b>Diversified Growth Fund</b>						
UBS Triton Property Unit Trust	0.9	0.4	4.1	2.2	7.7	6.7
BlackRock UK Property Fund	0.2	0.4	1.9	2.2	6.5	6.7
<b>Property</b>						
MIRA Infrastructure Global Solution II, L.P.	1.6	1.8	n/a	n/a	n/a	n/a
Quinbrook Low Carbon Power LP	6.0	1.8	n/a	n/a	n/a	n/a
<b>Infrastructure</b>						
Permira Credit Solutions IV**	n/a	n/a	n/a	n/a	n/a	n/a
Churchill Middle Market Senior Loan Fund II	4.9	1.8	n/a	n/a	n/a	n/a
<b>Private Credit</b>						
<b>Growth Assets</b>						
Aberdeen Bonds Portfolio	8.0	7.8	19.1	18.9	5.1	4.8
<b>Bonds</b>						
LCIV MAC Fund	0.6	1.2	3.0	4.9	n/a	n/a
<b>Multi-Asset Credit</b>						
<b>Stabilising Assets</b>						
<b>TOTAL MERTON PENSION FUND</b>	<b>2.7</b>		<b>8.4</b>		<b>8.9</b>	
<b>Strategic Target (5.5% p.a.)</b>	<b>1.3</b>		<b>5.5</b>		<b>5.5</b>	

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.

\*\*The Fund invested into the Permira Credit Solutions IV on 28<sup>th</sup> September 2019. Insufficient data to provide performance figures at this time.

- 2.2 Over the 3 months to 30 Sept 2019, total Fund assets returned 2.7% compared to the target of 1.3%. This equates to outperformance by 1.4%. The Fund's total market value increased by £6.7m over the quarter, from £763.0m to £769.7m. Over the last 12 months, the Fund performance is 8.4%, and 3 year annualised performance is 8.9%. 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	30-June-19				30-September-19	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS - Passive Equity	95,451	12.5	-15,000	3,706	84,157	10.9
UBS – Alternative Beta	75,004	9.8	-	3,482	78,486	10.2
LCIV RBC Sustainable Equity Fund	80,238	10.5	-	924	81,162	10.5
LCIV Global Alpha Growth Fund	76,537	10.0	-	506	77,043	10.0
BlackRock World Low Carbon Equity Tracker Fund	75,872	9.9	-	3,241	79,113	10.3
<b>Global Equities</b>	<b>403,102</b>	<b>52.8</b>			<b>399,962</b>	<b>52.0</b>
Aberdeen Emerging Market Equities Fund	30,910	4.1	-	-517	30,393	3.9
UBS – HALO EM Fund	47,339	6.2	-	-25	47,314	6.1
<b>Emerging Market Equities</b>	<b>78,249</b>	<b>10.3</b>			<b>77,707</b>	<b>10.1</b>
LCIV Global Total Return Fund	34,041	4.5	-	300	34,341	4.5
LCIV Diversified Growth Fund	33,266	4.4	-	724	33,989	4.4
<b>Diversified Growth Fund</b>	<b>67,306</b>	<b>8.8</b>			<b>68,330</b>	<b>8.9</b>
UBS Triton Property Unit Trust	17,077	2.2	-	143	17,220	2.2
BlackRock UK Property Fund	7,884	1.0	-	-44	7,840	1.0
<b>Property</b>	<b>24,961</b>	<b>3.3</b>			<b>25,060</b>	<b>3.3</b>
MIRA Infrastructure Global Solution II, L.P.*	4,746	0.6	3,319	102	8,167	1.1
Quinbrook Low Carbon Power LP	5,492	0.7	1,947	402	7,840	1.0
<b>Infrastructure</b>	<b>10,238</b>	<b>1.3</b>			<b>16,007</b>	<b>2.1</b>
Pemira Credit Solutions IV	237	0.0	2,391	398	2,789	0.4
Churchill Middle Market Senior Loan Fund II	4,580	0.6	-	222	4,802	0.6
<b>Private Credit</b>	<b>4,816</b>	<b>0.6</b>			<b>7,591</b>	<b>1.0</b>
<b>Growth Assets</b>	<b>588,673</b>	<b>77.2</b>			<b>594,657</b>	<b>77.3</b>
Aberdeen Bonds	90,005	11.8	-	7,103	97,108	12.6
<b>Bonds</b>	<b>90,005</b>	<b>11.8</b>			<b>97,108</b>	<b>12.6</b>
LCIV MAC Fund	70,584	9.3	-	340	70,924	9.2
<b>Multi Asset Credit</b>	<b>70,584</b>	<b>9.3</b>			<b>70,924</b>	<b>9.2</b>
<b>Stabilising Assets</b>	<b>160,589</b>	<b>21.1</b>			<b>168,032</b>	<b>21.8</b>
Cash	13,704	1.8	-8,681	-	7,024	0.9
<b>TOTAL MERTON PENSION FUND</b>	<b>762,967</b>	<b>100.0</b>			<b>769,713</b>	<b>100.0</b>

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

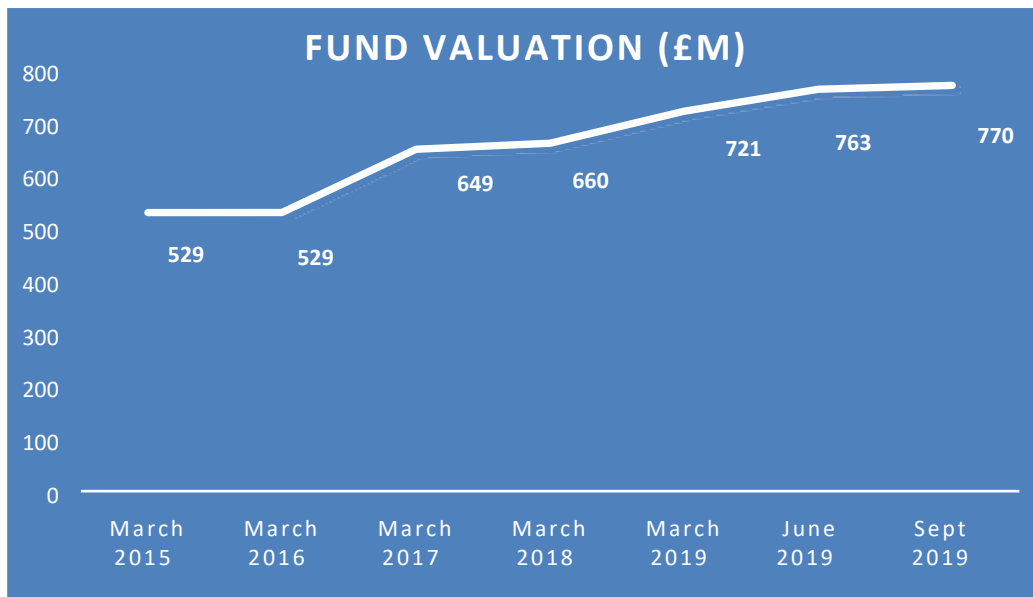
\* Valuation as at 30.09.2019 for MIRA Infrastructure Global Solution II, L.P. is based on the March valuation plus cashflows in Q3 2019. The growth in the quarter is therefore solely due to currency movements. Up to date manager data is not available until 120 days after quarter end.

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. £5.3m was invested in infrastructure and £2.4m in Private debt. The full capital commitments will be drawn in stages as capital calls over 3-5 years.

Asset Class	Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	399,962	52.0	40.0	12.0	15-85
Emerging Market Equities	77,707	10.1	10.0	0.1	0-20
Diversified Growth Fund	68,330	8.9	10.0	-1.1	0-20
Property	25,060	3.3	5.0	-1.7	0-10
Private Credit	7,591	1.0	7.5	-6.5	0-10
Infrastructure	16,007	2.1	7.5	-5.4	0-15
Long Index Linked Gilts	56,572	7.4	10.0	-2.6	0-30
Corporate Bonds	40,538	5.3	-	5.3	0-10
Multi Asset Credit	70,924	9.2	10.0	-0.8	0-20
Cash	7,024	0.9	-	0.9	-
<b>TOTAL MERTON PENSION FUND</b>	<b>769,713</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>	

2.6 The following graph illustrates the Fund’s market value trend over the past 5 years and as at 30 Sept 2019. It shows that in this period the Fund value has appreciated by £241m or 31%.



### 3.0 Market Background/Outlook

3.1 Global economic growth has continued to decelerate amid the uncertainty associated with global trade and technology conflicts, although sharply lower bond yields should provide some cushion for consumers and businesses against other headwinds. The range of potential growth and inflation outcomes has risen as this historically long economic cycle extends.

- 3.2 There was a notable shift to a focus on the outlook for monetary policy and economic growth earlier in the quarter, as investors positioned themselves for a turn towards easing from major central banks such as the Fed and the ECB given continued mixed economic news. Although equity and bond markets advanced in tandem earlier in the summer, this pattern diverged in August as many government bond yields hit record lows while equity markets struggled, before a further reversal in September.
- 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.

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