

Agenda Item 4

Committee:

London Borough of Merton Pension Committee Date: 21 July 2020

London Borough of Merton Pension Board Date: 29 June 2020

Wards: All

Subject: Merton Pension Fund Performance – December 2019 & March 2020

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 quarters ending 31 Dec 2019 and 31 March 2020, 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 quarters ending 31 Dec 2019 and 31 March 2020. 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 Dec 2019 and 31 March 2020. The report provides 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 quarters ending Dec 2019 and March 2020.

The table overleaf shows the performance for the two quarters.

March 2020									
3 months-December 2019 %		Manager / Fund	3 months %		12 months %		3 years % p.a.		
Fund	BMark		Bmark	Bmark	Fund	Bmark	Fund	Bmark	
1.3	n/a	UBS- Passive Equity Fund*	-15.6	n/a	-4.0	n/a	1.3	n/a	
0.7	0.6	UBS – Alternative Beta	-16.0	-16.1	-4.4	-4.7	n/a	n/a	
3.1	1.0	LCIV RBC Sustainable Equity Fund	-14.7	-15.7	-4.5	-5.8	n/a	n/a	
4.9	1.1	LCIV Global Alpha Growth Fund	-13.2	-15.8	-1.3	-6.5	n/a	n/a	
1.4	1.4	BlackRock World Low Carbon Equity Tracker Fund	-14.6	-14.6	-1.1	-1.5	n/a	n/a	
Global Equities									
1.7	4.1	Aberdeen Global Emerging Market							
6.2	4.0	UBS – HALO EM Fund	-18.1	-20.1	-0.3	-14.2	n/a	n/a	
5.1	5.8	LCIV Emerging Market Equity Fund	-17.7	-18.4	n/a	n/a	n/a	n/a	
Emerging Market Equities									
0.7	0.3	LCIV Global Total Return Fund	-4.8	1.5	-2.3	6.5	n/a	n/a	
2.8	1.1	LCIV Diversified Growth Fund	-14.1	1.0	-8.2	4.2	n/a	n/a	
Diversified Growth Fund									
0.2	0.3	UBS Triton Property Unit Trust	-0.7	-1.3	0.9	0.0	6.1	4.9	
0.7	0.3	BlackRock UK Property Fund	-2.5	-1.3	-1.2	0.0	4.4	4.9	
Property									
-0.3	1.8	MIRA Infrastructure Global Solution II, L.P.	6.7	1.8	1.6	7.3	n/a	n/a	
-7.3	1.8	Quinbrook Low Carbon Power LP	-13.0	1.8	-10.5	7.3	n/a	n/a	
n/a	n/a	JP Morgan Infrastructure Fund	6.5	2.4	n/a	n/a	n/a	n/a	
Infrastructure									
n/a	n/a	Parmira Credit Solutions IV	-5.0	1.7	n/a	n/a	n/a	n/a	
-0.4	1.0	Churchill Middle Market Senior Loan Fund II	4.9	1.7	7.7	7.0	n/a	n/a	
Private Credit									
Growth Assets									
-1.3	-1.3	Aberdeen Bonds Portfolio2							
n/a	n/a	Wells Fargo - RMF	-8.9	n/a	n/a	n/a	n/a	n/a	
Bonds									
1.3	1.2	LCIV MAC Fund	-16.9	1.2	-13.8	4.9	n/a	n/a	
Multi-Asset Credit									
Stabilising Assets									
1.6	TOTAL MERTON PENSION FUND		-12.5		-4.3		1.6		

- 2.2 Over the 3 months to 31 December 2019, total Fund assets returned 1.6% compared to the target of 1.3%. This equates to outperformance by 0.3%. The Fund's total market value increased by £17m over the quarter, from £69.7m to £786.7m. Over the last 12 months, the Fund performance was 18.0%, and 3 year annualised performance was 8.7%. The annual performance target is 5.5%.
- 2.3 Over the 3 months to 31 March 2020, total Fund assets returned a negative 12.5% compared to the target of 1.2%. This equates to underperformance by 13.5%. The Fund's total market value decreased by £98.7m over the quarter, from £787.2m to £688.5m. Over the last 12 months, the Fund performance was -4.3%, and 3 year annualised performance was 1.6%. The annual performance target is 4.8%.
- 2.4 The table below shows the total fund valuation and the movements in investments during the respective quarter.

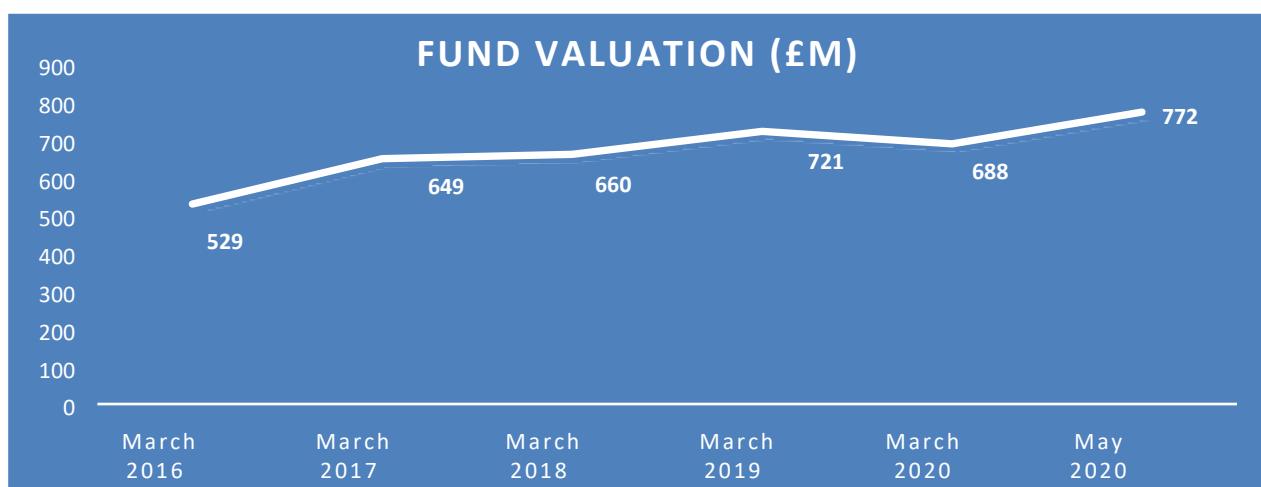
Manager / Fund	31-December-19			31-March-20		
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS - Passive Equity	64,569	8.2	-3,000	-9,453	52,116	7.6
UBS – Alternative Beta	78,983	10.0	-	-12,961	66,021	9.6
LCIV RBC Sustainable Equity Fund	83,638	10.6	-	-12,281	71,357	10.4
LCIV Global Alpha Growth Fund	80,803	10.3	-	-10,642	70,161	10.2
BlackRock World Low Carbon Equity Tracker Fund	80,237	10.2	-	-11,708	68,529	10.0
Global Equities	388,230	49.3			328,185	47.7
UBS – HALO EM Fund	50,340	6.4	-	-9,035	41,305	6.0
LCIV Emerging Market Equity Fund	31,226	4.0	-	-5,472	25,753	3.7
Emerging Market Equities	81,566	10.4			67,058	9.7
LCIV Global Total Return Fund	34,576	4.4	-	-1,667	32,909	4.8
LCIV Diversified Growth Fund	34,919	4.4	-	-4,900	30,019	4.4
Diversified Growth Fund	69,495	8.8			62,928	9.1
UBS Triton Property Unit Trust	16,821	2.1		13	16,834	2.4
BlackRock UK Property Fund	7,819	1.0	-	-265	7,553	1.1
Property	24,640	3.1			24,387	3.5
MIRA Infrastructure Global Solution II, L.P.*	12,236	1.6	-1,528	754	11,462	1.7
Quinbrook Low Carbon Power LP	7,503	1.0	770	-981	7,292	1.1
JP Morgan Infrastructure Fund	18,542	2.4	-878	1,199	18,863	2.7
Infrastructure	38,280	4.9			37,617	5.5
Permira Credit Solutions IV	4,872	0.6	-201	-240	4,431	0.6
Churchill Middle Market Senior Loan Fund II	8,188	1.0	2,872	475	11,536	1.7
Private Credit	13,060	1.7			15,967	2.3
Growth Assets	615,270	78.2			536,143	77.9
Wells Fargo – RMF	97,631	12.4	-	-8,671	88,960	12.9
Bonds	97,631	12.4			88,960	12.9
LCIV MAC Fund	71,962	9.1	-	-12,206	59,756	8.7
Multi Asset Credit	71,962	9.1			59,756	8.7
Stabilising Assets	169,593	21.5			148,716	21.6
Cash	2,332	0.3	1,264	-	3,598	0.5
TOTAL MERTON PENSION FUND	787,195	100.0			688,455	100.0

- 2.5 It is important to note following a 12% fall between December and March. (4% annual drop) the Global equities rose since April 2020. Prices were supported by hopes of recovery, both in terms of economic activity and the pandemic, and by the practical impact on markets of the huge flows of money being created by central banks. This is reflected in the increase in the asset value by £83m showing an asset value of £771m as at end of May 2020.
- 2.6 The Fund is an open fund and long term investment focused. The Fund will continue work on this basis and avoid crystallising any losses from the short term events.

Allocation by underlying asset class

Asset Class		Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities		328,185	47.7	40.0	7.7	15-85
Emerging Market Equities		67,058	9.7	10.0	-0.3	0-20
Diversified Growth Fund		62,928	9.1	10.0	-0.9	0-20
Property		24,387	3.5	5.0	-1.5	0-10
Private Credit		15,967	2.3	7.5	-5.2	0-10
Infrastructure		37,617	5.5	7.5	-2.0	0-15
Bonds		88,960	12.9	10.0	2.9	0-30
Multi Asset Credit		59,756	8.7	10.0	-1.3	0-20
Cash		3,596	0.5	0.0	0.5	-
TOTAL MERTON PENSION FUND		688,455	100.0	100.0	-	

- 2.7 The following graph illustrates the Fund's market value trend over the past 5 years and as at 31 March 2020. It shows that in this period the Fund value has appreciated by £159m or 23%. Also shown is the May 2020 value that shows an increase of £84m since March 2020.



3.0 Market Background/Outlook

- 3.1 Uncertain due to the COVID-19 Pandemic. The broad upward trend in markets for risky assets seen in recent years came to an abrupt end from late February, as it became clear that the COVID-19 virus was likely to spread worldwide.
- 3.2 COVID-19 and the resulting government actions have caused what is likely to be the sharpest contraction in economic growth in history. More update can be found in the Performance report.

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.