

Committee:

Merton Pension Committe

Date: 24 March 2022

Merton Pension Board

Date: 28 March 2022

Wards: All

Subject: Merton Pension Fund Performance – December 2021

Lead officer: Caroline Holland - Director of Corporate Services

Lead member: Councillor. Owen Pritchard- Cabinet Member for Finance

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 December 2021, 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 ending 31 December 2021. 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 2021. 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 Hymans provides useful analysis and insights of the Pension Fund activities and results for the quarters ending December 2021.

The table below shows the total fund valuation for the quarter ended December 2021.

VALUATION SUMMARY

PERIOD ENDING 31 DECEMBER 2021

Mandate	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q3 21	Q4 21			
UBS World Equity Tracker Fund	32.3	0.0	0.0%	0.0%	0.0%
UBS Alternative Beta	96.1	52.4	5.4%	10.0%	-4.6%
LCIV RBC Sustainable Equity Fund	116.7	99.7	10.4%	10.0%	0.4%
LCIV Baillie Gifford Global Alpha Growth Fund	116.8	90.8	9.4%	10.0%	-0.6%
BlackRock World Low Carbon Equity Tracker	105.0	112.2	11.6%	10.0%	1.6%
Global Equities	466.9	355.1	36.9%	40.0%	-3.1%
UBS GEM HALO	57.6	56.0	5.8%	5.0%	0.8%
LCIV JP Morgan Emerging Market Equity Fund	39.5	37.8	3.9%	5.0%	-1.1%
Emerging Market Equities	97.1	93.7	9.7%	10.0%	-0.3%
LCIV Ruffer Absolute Return Fund	37.9	86.0	8.9%	5.0%	3.9%
LCIV Baillie Gifford Diversified Growth Fund	37.5	91.4	9.5%	5.0%	4.5%
Diversified Growth	75.4	177.4	18.4%	10.0%	8.4%
UBS Triton Property Fund	18.1	19.2	2.0%	2.5%	-0.5%
BlackRock UK Property Fund	8.0	8.5	0.9%	2.5%	-1.6%
Property	26.1	27.7	2.9%	5.0%	-2.1%
MIRA Infrastructure Global Solutions II L.P Fund	13.2	14.6	1.5%	3.0%	-1.5%
Quinbrook Low Carbon Power LP Fund	12.0	12.0	1.3%	1.5%	-0.2%
Quinbrook Net Zero Power Fund	0.0	30.3	3.1%	0.0%	3.1%
JP Morgan Infrastructure Fund	16.9	16.9	1.8%	3.0%	-1.2%
Infrastructure	42.2	73.8	7.7%	7.5%	0.2%
Pemira Credit Solutions IV Fund	20.4	22.4	2.3%	4.5%	-2.2%
Churchill Middle Market Senior Loan II Fund	17.1	15.8	1.6%	3.0%	-1.4%
Private Credit	37.5	38.2	4.0%	7.5%	-3.5%
Wells Fargo RMF Fund	104.3	110.7	11.5%	10.0%	1.5%
Risk Management Framework	104.3	110.7	11.5%	10.0%	1.5%
LCIV CQS MAC Fund	77.2	78.0	8.1%	10.0%	-1.9%
Multi Asset Credit	77.2	78.0	8.1%	10.0%	-1.9%
Cash	6.6	8.4	0.9%	0.0%	0.9%
Total Fund	933.3	963.0	100.0%	100.0%	

At the time of writing, latest quarterly information in respect of mandate held with MIRA, Pemira and Quinbrook Low Carbon Power Fund is unavailable. The Q4 2021 valuation shown mirrors the Q3 2021 valuations and includes an allowance for FX movements and for MIRA a capital call completed during the period.

- 2.2 The Fund's total market value increased by £29.7m over the quarter, from £933.3m to £963.0m. The allocation for global equities was reduced as part of the equity rebalancing in the quarter but despite this they remained the Fund's largest net contributor, but performed below the benchmark.
- 2.3 Over the 3 months to 31 December 2021, total Fund assets returned 3.4% compared to the benchmark of 4.2%. This equates to an underperformance of 0.8%. Over the last 12 months, the Fund performance was 11.0%, and 3 year annualised performance was 13.9%. The annual Actuarial performance target is 4.8%.

PERFORMANCE SUMMARY

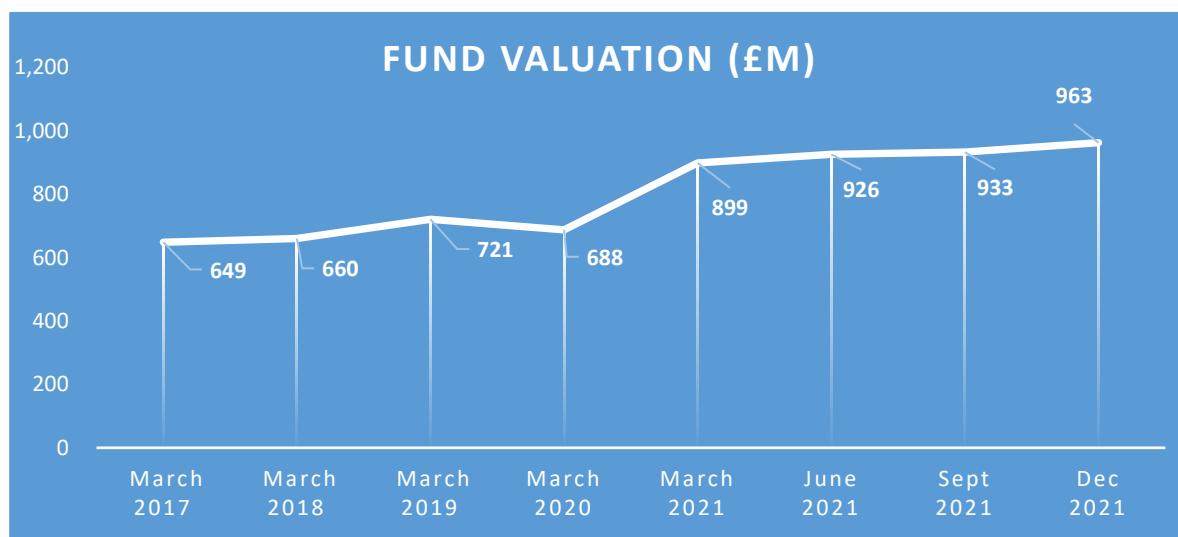
1 OCTOBER 2021 TO 31 DECEMBER 2021

Mandate	Last 3 Months (%)			Last 12 Months (%)			Last 3 Years (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
UBS World Equity Tracker Fund	6.5	6.5	-0.0	21.7	21.8	-0.1	19.1	19.2	-0.1
UBS Alternative Beta	7.3	7.3	0.0	23.6	23.5	0.1	10.3	10.3	-0.0
LCIV RBC Sustainable Equity Fund	6.6	7.8	-1.2	19.3	23.6	-3.4	23.6	19.4	3.5
LCIV Baillie Gifford Global Alpha Growth Fund	0.0	6.7	-6.3	8.9	20.7	-9.7	22.8	18.8	3.3
BlackRock World Low Carbon Equity Tracker	6.8	7.4	-0.5	23.5	23.2	0.2	20.4	20.2	0.1
Global Equities									
UBS GEM HALO	-3.1	-1.8	-1.3	-8.2	-1.7	-6.6	10.0	8.6	1.3
LCIV JP Morgan Emerging Market Equity Fund	-4.4	-1.1	-3.2	-4.7	-1.0	-3.7	-	-	-
Emerging Market Equities									
LCIV Ruffer Absolute Return Fund	1.4	0.8	0.6	7.6	3.1	4.4	-	-	-
LCIV Baillie Gifford Diversified Growth Fund	3.8	0.9	2.9	9.3	3.6	5.5	7.9	3.9	3.8
Diversified Growth									
UBS Triton Property Fund	6.9	7.5	-0.5	18.8	19.2	-0.3	6.4	6.2	0.2
BlackRock UK Property Fund	6.6	7.5	-0.8	16.1	19.2	-2.5	5.3	6.2	-0.8
Property									
MIRA Infrastructure Global Solutions II L.P Fund	0.0	1.8	-1.8	4.1	7.4	-3.1	-	-	-
Quinbrook Low Carbon Power LP Fund	0.0	1.8	-1.8	5.4	7.4	-1.9	-	-	-
JP Morgan Infrastructure Fund	2.1	2.5	-0.4	5.7	10.4	-4.2	-	-	-
Infrastructure									
Permira Credit Solutions IV Fund	1.9	1.7	0.2	7.1	7.0	0.1	-	-	-
Churchill Middle Market Senior Loan II Fund	1.4	1.7	-0.3	5.7	7.0	-1.2	-	-	-
Private Credit									
Wells Fargo RMF Fund	6.0	6.0	0.0	3.9	3.9	0.0	-	-	-
Risk Management Framework									
LCIV CQS MAC Fund	1.0	1.2	-0.2	6.4	4.6	1.7	4.9	4.6	0.2
Multi Asset Credit									
Cash	-	-	-	-	-	-	-	-	-
Total Fund	3.4	4.2	-0.7	11.0	12.0	-0.9	13.9	10.2	3.4

- 2.4 The Fund is an open fund and long-term investment focused. The Fund will continue to work on this basis with the key focus to ESG and maintain a stable contribution rate.
- 2.5 The Strategic Asset Allocation (SAA) has been updated to reflect the recommendations of the 2020 Investment Strategy Review.
- 2.6 The Fund continues to remain underweight to Property, Private Credit, Infrastructure, and Multi Asset Credit and overweight to Global and Emerging Markets Equity, which will remain until the private markets portfolio is fully drawn down. The 5% allocation to Social Impact is yet to be implemented.
- 2.7 In Q2 2022, we aim to appointment a manager and allocate funds on our Social impact allocation. The property allocation will be reviewed as part of the 2022

investment strategy review and based on the 2022 triennial valuation the allocation will be amended.

- 2.8 The Fund moved to its diversified portfolio in 2018 and since then the Fund value has increased steadily. Over this period the Fund value has appreciated by £314m or 33%.



3.0 Market Background/Outlook

- 3.1 Since the beginning of the Russian Ukraine conflict the financial market started to see the impact and the value of the investments started to decline. More detail provided on the performance report on the impact to the Merton investments. In general we can see the below impacts due to the conflict and military actions.
- 3.2 Surging energy prices fuel inflation: Oil and gas prices have increased by 49% and 120% respectively since the start of the year, pushing up the global inflation forecast by +1.5%.
- 3.3 Central banks are faced with combating spiralling inflation while growth lags: Rate increases from the Fed and BoE are still likely, but a more conservative approach can now be expected.
- 3.4 Fallout from commodity-driven inflation will likely have a more direct impact on traditional manufacturing industries, in which businesses may not be able to pass on all additional costs.
- 3.5 Global real GDP growth for 2022 is forecast to be 0.5% lower than was expected in January, with the Eurozone likely to feel the most economic pain outside of Russia and Ukraine.
- 3.6 The impact of the COVID-19 pandemic continues to be uneven across economies depending on geography, the timing of outbreaks, the composition of activity, magnitude and quality of vaccinations and boosters, and mobility restrictions imposed by authorities.

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 Hymans Robertson LLP – quarterly performance report.

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