

Committee:

Merton Pension Committe

Date: 30 June 2022

Merton Pension Board

Date: 28 June 2022

Wards: All

Subject: Merton Pension Fund Performance – March 2022

Lead Officer: Caroline Holland - Director of Corporate Services

Lead Member: Councillor Billy Christie

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 March 2022, 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 March 2022. 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 2022. 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 March 2022.

The table below shows the total fund valuation for the quarter ended March 2022.

VALUATION SUMMARY PERIOD ENDING 31 MARCH 2022

Mandate	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q4 21	Q1 22			
UBS Alternative Beta	52.3	52.3	5.6%	10.0%	-4.4%
LCIV RBC Sustainable Equity Fund	99.7	91.3	9.8%	10.0%	-0.2%
LCIV Baillie Gifford Global Alpha Growth Fund	90.8	79.5	8.6%	10.0%	-1.4%
BlackRock World Low Carbon Equity Tracker	112.2	109.3	11.8%	10.0%	1.8%
Global Equities	354.9	332.4	35.8%	40.0%	-4.2%
UBS GEM HALO	55.9	50.7	5.5%	5.0%	0.5%
LCIV JP Morgan Emerging Market Equity Fund	37.8	35.5	3.8%	5.0%	-1.2%
Emerging Market Equities	93.7	86.1	9.3%	10.0%	-0.7%
LCIV Ruffer Absolute Return Fund	86.0	89.9	9.7%	5.0%	4.7%
LCIV Baillie Gifford Diversified Growth Fund	91.4	85.8	9.2%	5.0%	4.2%
Diversified Growth	177.4	175.7	18.9%	10.0%	8.9%
UBS Triton Property Fund	18.9	20.4	2.2%	2.5%	-0.3%
BlackRock UK Property Fund	8.5	9.0	1.0%	2.5%	-1.5%
Property	27.4	29.4	3.2%	5.0%	-1.8%
MIRA Infrastructure Global Solutions II L.P Fund	15.0	15.4	1.7%	3.0%	-1.3%
Quinbrook Low Carbon Power LP Fund	13.4	14.3	1.5%	1.5%	0.0%
Quinbrook Net Zero Power Fund	34.1	33.9	3.7%	0.0%	3.7%
JP Morgan Infrastructure Fund	16.9	17.3	1.9%	3.0%	-1.1%
Infrastructure	79.4	81.0	8.7%	7.5%	1.2%
Permira Credit Solutions IV Fund	22.4	22.7	2.4%	4.5%	-2.1%
Churchill Middle Market Senior Loan II Fund	15.8	17.7	1.9%	3.0%	-1.1%
Private Credit	38.2	40.3	4.3%	7.5%	-3.2%
Wells Fargo RMF Fund	110.7	101.3	10.9%	10.0%	0.9%
Risk Management Framework	110.7	101.3	10.9%	10.0%	0.9%
LCIV CQS / PIMCO MAC Fund	78.0	76.7	8.3%	10.0%	-1.7%
Multi Asset Credit	78.0	76.7	8.3%	10.0%	-1.7%
Cash	8.4	5.2	0.6%	0.0%	0.6%
Total Fund	968.1	928.0	100.0%	100.0%	

At the time of writing, latest quarterly information in respect of mandate held with MIRA is unavailable. The Q1 2022 valuation shown mirrors the Q4 2021 valuation and includes an allowance for FX movements during the period.

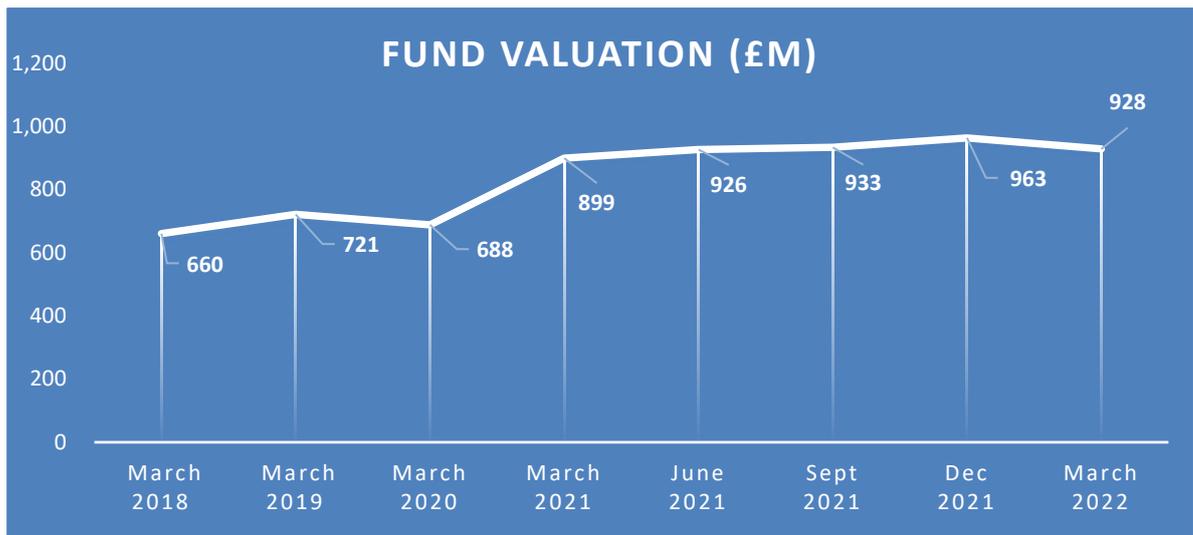
- 2.2 The Fund's total market value decreased by £40m over the quarter, from £968m to £928.0m. This decrease in value is mainly due to the Russia Ukraine war and how the markets continue to react to it.
- 2.3 The Fund made an equity rebalancing in Q4 2021 and Q1 2022 and this helped to reduce the over-weight to equity and lock in the gains made up to Jan 2022. However equity remains the Fund's largest net contributor, but performed below the benchmark.
- 2.4 Over the 3 months to 31 March 2022, total Fund assets returned -4.2% compared to the benchmark of -1.1%. This equates to an underperformance of -3.1%. Over the last 12 months, the Fund performance was 4.5%, and 3 year annualised performance was 9.2%. The annual Actuarial performance target is 4.8%.

PERFORMANCE SUMMARY

1 JANUARY 2022 TO 31 MARCH 2022

Mandate	Last 3 Months (%)			Last 12 Months (%)			Last 3 Years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
UBS Alternative Beta	0.1	0.0	0.1	17.3	17.0	0.2	9.2	9.1	0.0	-	-	-
LCIV RBC Sustainable Equity Fund	-8.5	-2.0	-6.7	9.0	16.5	-6.4	15.1	15.0	0.1	12.7	10.4	2.0
LCIV Baillie Gifford Global Alpha Growth Fund	-12.4	-1.9	-10.7	-6.7	14.3	-18.3	13.0	14.3	-1.1	10.1	10.3	-0.1
BlackRock World Low Carbon Equity Tracker	-2.5	-2.6	0.1	16.1	15.5	0.4	15.8	15.4	0.4	16.6	16.4	0.1
Global Equities												
UBS GEM HALO	-9.6	-4.3	-5.5	-16.9	-7.1	-10.5	2.7	4.5	-1.8	5.5	6.1	-0.5
LCIV JP Morgan Emerging Market Equity Fund	-6.1	-3.7	-2.5	-10.4	-6.0	-4.7	-	-	-	5.6	3.9	1.6
Emerging Market Equities												
LCIV Ruffer Absolute Return Fund	4.5	0.8	3.7	7.3	3.1	4.0	-	-	-	10.1	3.2	6.7
LCIV Baillie Gifford Diversified Growth Fund	-6.1	1.0	-7.0	3.4	3.7	-0.3	3.6	3.9	-0.3	3.1	3.5	-0.4
Diversified Growth												
UBS Triton Property Fund	8.6	5.6	2.9	24.1	23.1	0.8	9.2	8.1	1.1	1.9	1.6	0.3
BlackRock UK Property Fund	6.7	5.6	1.0	21.3	23.1	-1.5	7.6	8.0	-0.4	3.4	3.6	-0.1
Property												
MIRA Infrastructure Global Solutions II L.P Fund	0.0	1.8	-1.8	7.7	7.4	0.3	-	-	-	5.0	6.4	-1.4
Quinbrook Low Carbon Power LP Fund	4.4	1.8	2.5	15.9	7.4	8.0	7.7	7.4	0.2	7.1	6.9	0.2
Quinbrook Net Zero Power Fund	-3.4	1.5	-4.8	-	-	-	-	-	-	11.7	3.0	8.4
JP Morgan Infrastructure Fund	1.8	2.5	-0.7	6.2	10.4	-3.8	-	-	-	5.7	9.3	-3.3
Infrastructure												
Permira Credit Solutions IV Fund	1.5	1.7	-0.2	7.3	7.0	0.3	-	-	-	5.6	5.5	0.1
Churchill Middle Market Senior Loan II Fund	1.0	1.7	-0.7	5.2	7.0	-1.7	4.4	6.8	-2.3	5.6	6.5	-0.9
Private Credit												
Wells Fargo RMF Fund	-8.6	-8.6	0.0	-4.2	-4.2	0.0	-	-	-	8.2	8.2	0.0
Risk Management Framework												
LCIV CQS / PIMCO MAC Fund	-1.8	1.1	-2.9	2.4	4.6	-2.1	3.4	4.6	-1.2	3.2	4.2	-1.0
Multi Asset Credit												
Cash	-	-	-	-	-	-	-	-	-	-	-	-
Total Fund	-4.2	-1.1	-3.1	4.5	8.2	-3.4	9.2	8.7	0.5	9.0	7.2	1.7

- 2.5 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.
- 2.6 The Strategic Asset Allocation (SAA) has been updated to reflect the recommendations of the 2020 Investment Strategy Review.
- 2.7 The Fund continues to move towards its target allocation and to draw down commitments for infrastructure and private credit. The fund recently made an allocation to the 5% social impact asset class and the capital will be called in the coming quarters.
- 2.8 For the Social Impact allocation, Henley have been appointed and funds will be allocated to the Henley Secure Income Property Unit Trust II. 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 revised.
- 2.9 The Fund moved to a diversified portfolio in 2018 and since then the Fund value has increased steadily. Over this period the Fund value has appreciated by £268m or 29%.



3.0 Market Background/Outlook

- 3.1 Global economic activity was in the midst of rebounding from a brief Omicron-induced soft patch in activity in the quarter when Russia invaded Ukraine, raising risks for the global growth outlook in general, and Europe in particular.
- 3.2 Global inflation remained uncomfortably high, well above most central banks' targets, prompting monetary policymakers to telegraph a more aggressive withdrawal of policy support.
- 3.3 More market background information and LGPS updates can be found in the Hymans Quarterly 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 Hymans Robertson LLP – quarterly performance report.