

Committee:

Merton Pension Committe

Date: 15 September 2022

Merton Pension Board

Date: TBD

Wards: All

Subject: Merton Pension Fund Performance – June 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 30 June 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 30 June 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 30 June 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 quarter ending June 2022.

The following table shows the total Fund valuation for the quarter ended June 2022.

VALUATION SUMMARY PERIOD ENDING 30 JUNE 2022

Mandate	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q1 22	Q2 22			
UBS Alternative Beta	52.3	44.8	5.3%	10.0%	-4.7%
LCIV RBC Sustainable Equity Fund	91.3	83.3	9.9%	10.0%	-0.1%
LCIV Baillie Gifford Global Alpha Growth Fund	79.5	69.9	8.3%	10.0%	-1.7%
BlackRock World Low Carbon Equity Tracker	109.3	97.4	11.6%	10.0%	1.6%
Global Equities	332.4	295.4	35.1%	40.0%	-4.9%
UBS GEM HALO	50.7	48.4	5.8%	5.0%	0.8%
LCIV JP Morgan Emerging Market Equity Fund	35.5	32.9	3.9%	5.0%	-1.1%
Emerging Market Equities	86.1	81.3	9.7%	10.0%	-0.3%
LCIV Ruffer Absolute Return Fund	89.9	58.3	6.9%	5.0%	1.9%
LCIV Baillie Gifford Diversified Growth Fund	85.8	50.2	6.0%	5.0%	1.0%
Diversified Growth	175.7	108.5	12.9%	10.0%	2.9%
UBS Triton Property Fund	20.4	20.7	2.5%	2.5%	0.0%
BlackRock UK Property Fund	9.0	9.2	1.1%	2.5%	-1.4%
Henley Secure Income Property Fund II	0.0	4.5	0.5%	0.0%	0.5%
Property	29.4	34.4	4.1%	5.0%	-0.9%
MIRA Infrastructure Global Solutions II L.P Fund	15.0	15.8	1.9%	3.0%	-1.1%
Quinbrook Low Carbon Power LP Fund	14.3	16.1	1.9%	1.5%	0.4%
Quinbrook Net Zero Power Fund	33.9	33.1	3.9%	0.0%	3.9%
JP Morgan Infrastructure Fund	17.3	18.1	2.1%	3.0%	-0.9%
Infrastructure	80.5	83.1	9.9%	7.5%	2.4%
Pemira Credit Solutions IV Fund	22.4	22.7	2.7%	4.5%	-1.8%
Churchill Middle Market Senior Loan II Fund	17.7	20.0	2.4%	3.0%	-0.6%
Private Credit	40.1	42.7	5.1%	7.5%	-2.4%
Allspring RMF Fund	101.3	73.8	8.8%	10.0%	-1.2%
Risk Management Framework	101.3	73.8	8.8%	10.0%	-1.2%
LCIV CQS / PIMCO MAC Fund	76.7	70.6	8.4%	10.0%	-1.6%
Multi Asset Credit	76.7	70.6	8.4%	10.0%	-1.6%
Cash	5.2	51.1	6.1%	0.0%	6.1%
Total Fund	927.3	840.9	100.0%	100.0%	

At the time of writing, latest quarterly information in respect of mandate held with MIRA and Pemira are unavailable. We have lagged reporting by 3 months, therefore the valuations shown are as at Q4 2021 and Q1 2022 respectively. The FX rate used is lagged and at each of these dates also.

- 2.2 The Fund's total market value decreased by £86m over the quarter, from £927m to £841m.
- 2.3 The second quarter of the year saw global markets contract as the impact of the Russia-Ukraine conflict was fully felt coupled with spiralling global inflation which saw central banks respond with a series of interest rate rises.
- 2.4 Over the 3 months to 30 June 2022, total Fund assets returned -9.1% compared to the benchmark of -5.9%. This equates to an underperformance of -3.2%. Over the last 12 months, the Fund performance was -9.4%, and 3 year annualised performance was 4.2%. The annual Actuarial performance target is 4.8%.

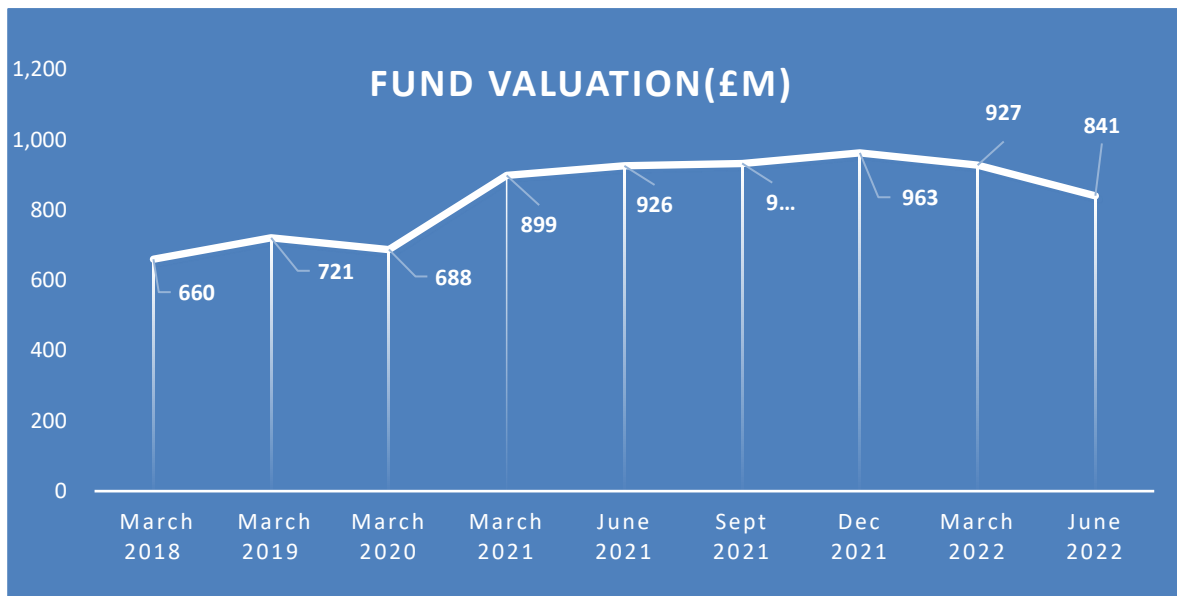
PERFORMANCE SUMMARY

1 APRIL 2022 TO 30 JUNE 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	-6.1	-6.2	0.0	2.8	2.7	0.2	5.1	5.1	0.0	1.1	1.1	0.0
LCIV RBC Sustainable Equity Fund	-8.8	-8.7	-0.1	-8.7	-1.1	-7.7	9.0	9.2	-0.2	9.4	7.4	1.9
LCIV Baillie Gifford Global Alpha Growth Fund	-12.1	-8.4	-4.0	-23.4	-2.7	-21.3	5.6	8.8	-2.9	6.2	7.3	-1.1
BlackRock World Low Carbon Equity Tracker	-11.0	-10.4	-0.7	-3.7	-3.9	0.3	8.6	8.8	-0.1	11.8	11.9	-0.1
Global Equities												
UBS GEM HALO	-4.6	-4.0	-0.6	-22.1	-15.0	-8.3	0.1	2.1	-1.9	3.8	4.5	-0.7
LCIV JP Morgan Emerging Market Equity Fund	-7.0	-3.4	-3.7	-19.2	-13.4	-6.7	-	-	-	2.1	2.1	-0.1
Emerging Market Equities												
LCIV Ruffer Absolute Return Fund	-4.2	1.0	-5.1	2.1	3.3	-1.2	-	-	-	5.2	3.3	1.8
LCIV Baillie Gifford Diversified Growth Fund	-8.8	1.1	-9.8	-10.1	3.9	-13.5	0.1	3.9	-3.6	0.7	3.5	-2.8
Diversified Growth												
UBS Triton Property Fund	3.0	3.9	-0.9	23.4	23.3	0.2	10.1	9.2	0.8	2.0	1.8	0.2
BlackRock UK Property Fund	2.9	3.9	-1.0	21.4	23.3	-1.5	8.5	9.2	-0.7	3.7	4.0	-0.3
Henley Secure Income Property Fund II	-	-	-	-	-	-	-	-	-	0.0	0.0	0.0
Property												
MIRA Infrastructure Global Solutions II L.P Fund	2.7	1.8	0.9	10.6	7.4	3.0	-	-	-	5.4	6.0	-0.5
Quinbrook Low Carbon Power LP Fund	3.8	1.8	1.9	15.2	7.4	7.2	7.3	7.4	-0.1	7.7	6.9	0.8
Quinbrook Net Zero Power Fund	-10.0	1.5	-11.3	-	-	-	-	-	-	0.5	4.6	-3.9
JP Morgan Infrastructure Fund	1.6	2.5	-0.9	6.9	10.4	-3.2	-	-	-	5.8	9.4	-3.3
Infrastructure												
Permira Credit Solutions IV Fund	1.5	1.7	-0.2	7.3	7.0	0.3	-	-	-	5.1	5.6	-0.5
Churchill Middle Market Senior Loan II Fund	0.4	1.7	-1.3	4.0	7.0	-2.7	2.8	6.8	-3.7	3.9	6.4	-2.4
Private Credit												
Allspring RMF Fund	-28.6	-28.6	0.0	-32.7	-32.7	0.0	-	-	-	-5.9	-5.9	0.0
Risk Management Framework												
LCIV CQS / PIMCO MAC Fund	-7.8	1.3	-9.0	-7.5	4.8	-11.8	0.0	4.7	-4.4	1.0	4.3	-3.2
Multi Asset Credit												
Cash	-	-	-	-	-	-	-	-	-	-	-	-
Total Fund	-9.1	-5.9	-3.5	-9.4	-2.3	-7.2	4.2	5.4	-1.2	6.0	5.2	0.8

Note: Q2 2022 performance figures for MIRA and Permira are lagged by 3-months due to lack of manager information at the time of writing (see comment on left). As such, the performance shown is reflective of Q1 2022.

- 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 made its first investment to the newly appointed Henley Secure Income Property Fund II which focuses on social housing projects.
- 2.8 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 £181m or 29%.



3.0 Market Background/Outlook

- 3.1 Equities and fixed income fell in tandem in June, capping the end to a challenging second quarter and one of the worst first halves of a year in decades for investors.
- 3.2 The main reason for the weak global sentiment has been concerns that persistently high inflation will lead to aggressive central bank tightening and undermine consumer spending.
- 3.3 The MSCI All Country World index lost 8.4% on the month, and 15.7% on the quarter.
- 3.4 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.