

Committee:
Merton Pension Committee
Merton Pension Board

Date: 30 November 2023
Date: 28 November 2023

Wards: All

**Subject: Merton Pension Fund Performance –
Quarter ending September 2023**

Lead Officer: Roger Kershaw – Assistant Director – Finance and Digital

Lead Member: Councillor Billy Christie - Cabinet Member - Corporate Services

Contact Officer: Nemashe Sivayogan – Head of Treasury and Pensions

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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 September 2023, 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 September 2023. The report highlights the performance of the total Fund by asset class compared to the customised benchmark for the quarter, one year and since inception.
- 1.2 The report gives the Committee a consistent basis on which to review the performance of the Fund as at 30 September 2023. 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 Robertson provides useful analysis and insights of the Pension Fund activities and results for the quarter ending 30 September 2023.

The following table shows the total Fund valuation as at 30 September 2023.

VALUATION SUMMARY

Mandate	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q2 23	Q3 23			
LCIV RBC Sustainable Equity Fund	84.2	61.0	7.2%	7.0%	0.2%
LCIV Baillie Gifford Global Alpha Growth Paris Aligned Fund	77.1	57.6	6.8%	7.0%	-0.2%
BlackRock World Low Carbon Equity Tracker	109.9	65.2	7.7%	7.0%	0.7%
BlackRock ACS World Multifactor ESG Equity Tracker Fund	0.0	50.4	6.0%	7.0%	-1.0%
Global Equities	271.2	234.1	27.7%	28.0%	-0.3%
UBS GEM HALO	46.6	34.6	4.1%	5.0%	-0.9%
LCIV JP Morgan Emerging Market Equity Fund	34.1	33.5	4.0%	5.0%	-1.0%
Emerging Market Equities	80.7	68.1	8.0%	10.0%	-2.0%
LCIV Ruffer Absolute Return Fund	57.6	57.2	6.8%	5.0%	1.8%
LCIV Baillie Gifford Diversified Growth Fund	11.3	0.0	0.0%	0.0%	0.0%
Diversified Growth	69.0	57.2	6.8%	5.0%	1.8%
UBS Triton Property Fund	16.8	16.6	2.0%	2.5%	-0.5%
BlackRock UK Property Fund	7.3	7.2	0.8%	2.5%	-1.7%
Property	24.1	23.8	2.8%	5.0%	-2.2%
Henley Secure Income Property Fund II	42.4	46.3	5.5%	5.0%	0.5%
Social Impact	42.4	46.3	5.5%	5.0%	0.5%
MIRA Infrastructure Global Solutions II L.P Fund	20.9	20.7	2.4%	2.0%	0.4%
Quinbrook Low Carbon Power LP Fund	11.3	9.6	1.1%	1.5%	-0.4%
Quinbrook Net Zero Power Fund	16.4	17.1	2.0%	3.0%	-1.0%
JP Morgan Infrastructure Fund	62.8	63.7	7.5%	5.0%	2.5%
Infrastructure	111.4	111.1	13.1%	11.5%	1.6%
Pemira Credit Solutions IV Fund	26.3	26.3	3.1%	2.5%	0.6%
Pemira Credit Solutions V Fund	6.2	6.8	0.8%	2.0%	-1.2%
Churchill Middle Market Senior Loan II Fund	18.7	18.0	2.1%	2.0%	0.1%
Private Credit	61.3	51.2	6.0%	6.5%	-0.5%
Allspring RMF Fund	68.3	60.9	7.2%	10.0%	-2.8%
Allspring Climate Transition Buy and Maintain Fund	0.0	95.6	11.3%	10.0%	1.3%
Risk Management Framework	68.3	156.5	18.5%	20.0%	-1.5%
LCIV CQS/PIMCO MAC Fund	74.7	75.4	8.9%	9.0%	-0.1%
Multi Asset Credit	74.7	75.4	8.9%	9.0%	-0.1%
Cash	71.1	22.6	2.7%	0.0%	2.7%
Total Fund	864.2	846.2	100.0%	100.0%	

At the time of writing, latest quarterly information in respect of mandates held with MIRA, Quinbrook, Pemira and Churchill are unavailable. We have lagged reporting by 3 months, therefore the valuations shown are as at Q2 2023 respectively. The FX rate used is lagged and at each of these dates also.

- 2.2 The Fund's total market value decreased by £18m over the quarter, from £864.2 to £846.2m.
- 2.3 Over the 3 months to 30 September 2023, total Fund assets returned -1.0% compared to the benchmark of 0.0%. This equates to an underperformance of -1.0%.
- 2.4 Over the last 12 months, the Fund performance was 6.1% (benchmark 10.9%) and 3 year annualised performance was 2.9% (benchmark 5.8%). These again underperformed the benchmark.
- 2.5 The annual Actuarial performance target is 4.2%.

PERFORMANCE summary 30 September 2023

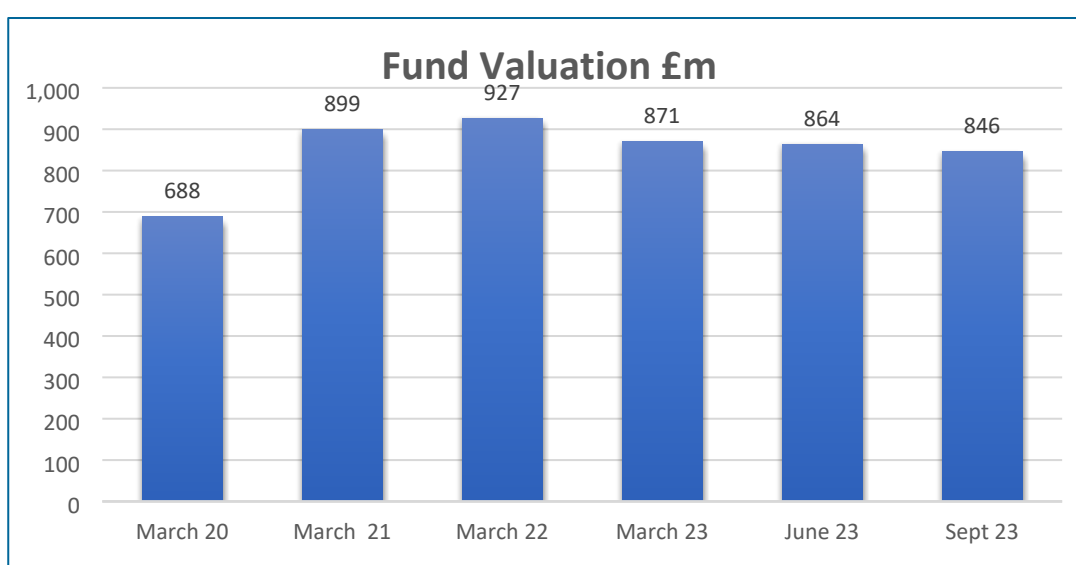
Mandate	Last 3 Months (%)			Last 12 Months (%)			Last 3 Years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
LCIV RBC Sustainable Equity Fund	-1.0	0.6	-1.5	-1.4	12.6	-12.5	3.7	11.3	-6.8	7.2	8.5	-1.2
LCIV Baillie Gifford Global Alpha Growth Paris Aligned Fund	-4.3	0.7	-5.0	4.5	11.8	-6.6	-	-	-	-4.0	4.8	-8.4
BlackRock World Low Carbon Equity Tracker	0.7	0.7	0.0	9.5	9.1	0.4	9.5	9.2	0.3	11.6	11.3	0.3
BlackRock ACS World Multifactor ESG Equity Tracker Fund	1.4	1.4	-0.0	-	-	-	-	-	-	1.4	1.4	-0.0
Global Equities												
UBS GEM HALO	0.7	1.1	-0.4	-1.7	2.1	-3.7	-4.1	0.1	-4.2	2.1	3.0	-0.9
LCIV JP Morgan Emerging Market Equity Fund	-1.7	1.1	-2.8	0.6	3.4	-2.7	-0.2	1.4	-1.6	1.9	1.5	0.4
Emerging Market Equities												
LCIV Ruffer Absolute Return Fund	-0.8	2.0	-2.7	-3.7	7.2	-10.2	-	-	-	2.0	4.8	-2.7
Diversified Growth												
UBS Triton Property Fund	-0.9	-0.4	-0.5	-14.0	-14.3	0.4	3.6	3.2	0.4	0.8	0.6	0.2
BlackRock UK Property Fund	-0.8	-0.4	-0.4	-15.1	-14.3	-0.9	1.9	3.2	-1.2	0.9	1.3	-0.4
Property												
Henley Secure Income Property Fund II	-0.5	1.5	-2.0	-1.6	6.1	-7.3	-	-	-	-2.7	5.9	-8.1
Social Impact												
MIRA Infrastructure Global Solutions II L.P Fund	1.7	1.8	-0.1	6.3	7.4	-1.0	7.2	7.4	-0.1	5.6	6.0	-0.4
Quinbrook Low Carbon Power LP Fund	-2.7	1.8	-4.4	-0.6	7.4	-7.5	6.4	7.4	-0.9	5.1	6.8	-1.5
Quinbrook Net Zero Power Fund	1.4	1.5	-0.1	-	-	-	-	-	-	1.3	6.0	-4.5
JP Morgan Infrastructure Fund	2.6	2.5	0.1	16.2	10.4	5.3	9.9	10.4	-0.5	8.1	9.7	-1.5
Infrastructure												
Permira Credit Solutions IV Fund	1.9	1.7	0.2	7.4	7.0	0.4	6.6	7.0	-0.4	4.9	5.6	-0.7
Permira Credit Solutions V Fund	1.6	1.7	-0.1	-	-	-	-	-	-	5.5	4.8	0.7
Churchill Middle Market Senior Loan II Fund	2.7	1.7	1.0	9.0	7.0	1.9	4.6	7.0	-2.3	4.7	6.2	-1.3
Private Credit												
Allspring RMF Fund	-11.6	-11.6	0.0	40.7	40.7	0.0	-12.4	-12.4	0.0	-6.6	-6.6	0.0
Allspring Climate Transition Buy and Maintain Fund	0.6	0.6	0.0	-	-	-	-	-	-	0.6	0.6	0.0
Risk Management Framework												
LCIV CQS / PIMCO MAC Fund	1.1	2.4	-1.3	9.5	8.7	0.7	2.7	6.1	-3.2	2.0	5.2	-3.1
Multi Asset Credit												
Cash	-	-	-	-	-	-	-	-	-	-	-	-
Total Fund	-1.0	-0.0	-1.0	6.1	10.9	-4.3	2.9	5.8	-2.7	5.3	5.3	0.1

Note: Performance figures for MIRA, Quinbrook LCP & NZPF, Permira IV & V and Churchill 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 Q2 2023.

2.4 From an asset class perspective:

- Nearly all asset classes detracted from overall performance. With any positive contributions being negligible.

The chart below shows the Funds's net asset movement for the past 4 ½ years.



3.0 Market Background/Outlook

- 3.1 As the year headed into Q3 2023, the macroeconomic outlook for the remainder of the year has improved but remained uncertain. While the first half of the year saw a decrease in investor confidence due to US banking crisis, we have observed a tendency in economic momentum shifting towards the US market. Since its economic performance has been relatively strong, GDP estimates have increased globally, more than offsetting a significant lower revision in China's growth outlook and a loss of stimulus in Europe.
- 3.2 In the UK's landscape, headline inflation is still high, however, we anticipate that it will gradually decline back toward the target during the second half of 2024. Although there was no base rate hike from BoE in September, it might take a few months until it feels more at ease with the peak rate of 5.25% before lowering the rates for the first time since 2020.
- 3.3 More market background information and LGPS updates can be found in the Hymans Quarterly performance report – Appendix 1

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.