

Committee:
Merton Pension Committee
Merton Pension Board

Date: 20 March 2024
Date: TBC

Wards: All

**Subject: Merton Pension Fund Performance –
Quarter ending December 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 31 December 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 31 December 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 31 December 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 31 December 2023.

The following table shows the total Fund valuation as at 31 December 2023.

VALUATION SUMMARY

Mandate	Valuation (£m)		Actual Proportion	Benchmark	Relative
	30-Sep-23	31-Dec-23			
LCIV RBC Sustainable Equity Fund	61.0	64.3	7.1%	7.0%	0.1%
LCIV Baillie Gifford Global Alpha Growth Paris Aligned Fund	57.6	62.2	6.9%	7.0%	-0.1%
BlackRock ACS World Low Carbon Equity Tracker	65.2	70.2	7.7%	7.0%	0.7%
BlackRock ACS World Multifactor ESG Equity Tracker Fund	50.4	53.6	5.9%	7.0%	-1.1%
Global Equities	234.1	250.4	27.6%	28.0%	-0.4%
UBS GEM HALO	34.6	36.0	4.0%	5.0%	-1.0%
LCIV JP Morgan Emerging Market Equity Fund	33.5	34.2	3.8%	5.0%	-1.2%
Emerging Market Equities	68.1	70.2	7.7%	10.0%	-2.3%
LCIV Ruffer Absolute Return Fund	57.2	58.4	6.4%	5.0%	1.4%
Diversified Growth	57.2	58.4	6.4%	5.0%	1.4%
UBS Triton Property Fund	16.6	16.5	1.8%	2.5%	-0.7%
BlackRock UK Property Fund	7.2	7.1	0.8%	2.5%	-1.7%
Property	23.8	23.6	2.6%	5.0%	-2.4%
Henley Secure Income Property Fund II	46.3	55.6	6.1%	5.0%	1.1%
Social Impact	46.3	55.6	6.1%	5.0%	1.1%
MIRA Infrastructure Global Solutions II L.P. Fund	20.7	21.1	2.3%	2.0%	0.3%
Quinbrook Low Carbon Power LP Fund	9.6	9.7	1.1%	1.5%	-0.4%
Quinbrook Net Zero Power Fund	17.1	20.2	2.2%	3.0%	-0.8%
JP Morgan Infrastructure Fund	63.7	63.9	7.1%	5.0%	2.1%
Infrastructure	111.1	114.9	12.7%	11.5%	1.2%
Permira Credit Solutions IV Fund	26.3	26.1	2.9%	2.5%	0.4%
Permira Credit Solutions V Fund	6.8	8.3	0.9%	2.0%	-1.1%
Churchill Middle Market Senior Loan II Fund	18.0	18.5	2.0%	2.0%	0.0%
Private Credit	51.2	52.9	5.8%	6.5%	-0.7%
Allspring RMF Fund	60.9	69.8	7.7%	10.0%	-2.3%
Allspring Climate Transition Buy and Maintain Fund	95.6	102.2	11.3%	10.0%	1.3%
Risk Management Framework	156.5	172.0	19.0%	20.0%	-1.0%
LCIV CQS / PIMCO MAC Fund	75.4	79.9	8.8%	9.0%	-0.2%
Multi Asset Credit	75.4	79.9	8.8%	9.0%	-0.2%
Cash	22.6	28.9	3.2%	0.0%	3.2%
Total Fund	846.2	906.8	100.0%	100.0%	

At the time of writing, latest quarterly information in respect of mandates held with MIRA, Quinbrook, Permira and Churchill are unavailable. We have lagged reporting by 3 months, therefore the valuations shown are as at Q3 2023 respectively. The FX rate used is lagged and at each of these dates also.

2.2 The Fund's total market value increased by £60.6m over the quarter, from £864.2 to £906.8m.

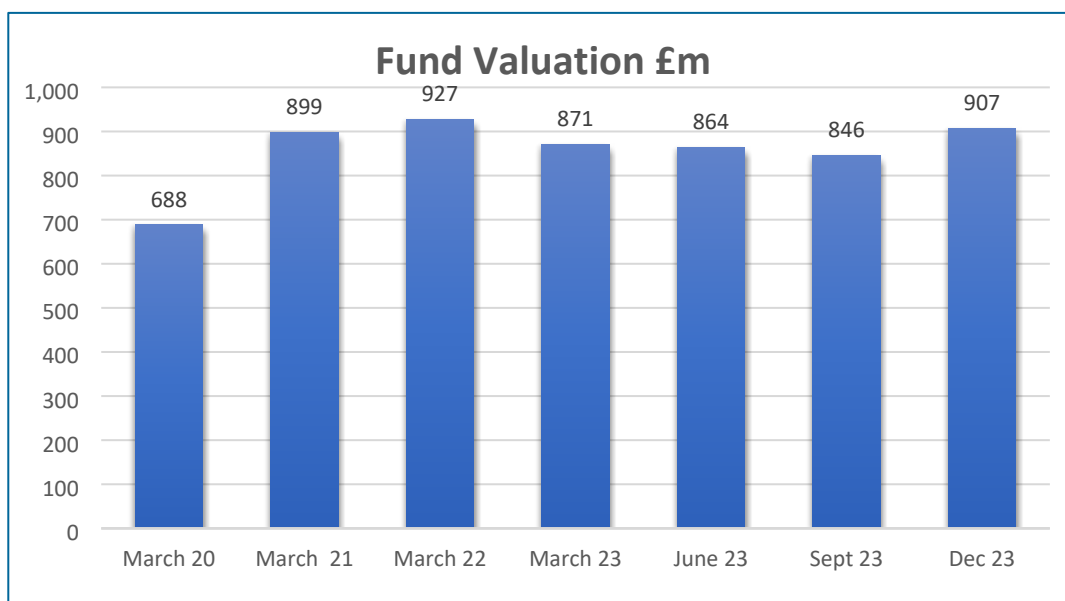
PERFORMANCE SUMMARY

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	5.5	6.7	-1.1	4.5	17.4	-10.9	1.7	10.9	-8.3	7.9	9.4	-1.3
LCIV Baillie Gifford Global Alpha Growth Paris Aligned Fund	8.1	6.3	1.7	11.6	17.0	-4.6	-	-	-	2.3	8.6	-5.8
BlackRock ACS World Low Carbon Equity Tracker	7.7	7.5	0.1	17.3	16.8	0.4	9.5	9.1	0.4	12.6	12.3	0.3
BlackRock ACS World Multifactor ESG Equity Tracker Fund	6.4	6.1	0.3	-	-	-	-	-	-	7.8	7.5	0.3
Global Equities												
UBS GEM HALO	0.7	3.3	-2.5	-1.1	3.6	-4.5	-8.4	-2.9	-5.7	2.1	3.5	-1.3
LCIV JP Morgan Emerging Market Equity Fund	2.1	3.3	-1.2	0.4	4.3	-3.7	-4.7	-1.6	-3.1	2.3	2.2	0.1
Emerging Market Equities												
LCIV Ruffer Absolute Return Fund	2.2	2.1	0.1	-6.3	7.8	-13.1	-	-	-	2.6	5.1	-2.4
Diversified Growth												
UBS Triton Property Fund	-1.2	-1.2	-0.1	0.2	-1.4	1.6	2.7	2.1	0.6	0.8	0.6	0.2
BlackRock UK Property Fund	-2.1	-1.2	-0.9	-3.1	-1.4	-1.7	0.4	2.1	-1.6	0.7	1.1	-0.5
Property												
Henley Secure Income Property Fund II	-0.4	1.5	-1.9	-5.6	6.1	-11.1	-	-	-	-2.5	5.9	-8.0
Social Impact												
MIRA Infrastructure Global Solutions II L.P Fund	1.1	1.8	-0.7	9.9	7.4	2.3	7.6	7.4	0.2	5.5	6.0	-0.5
Quinbrook Low Carbon Power LP Fund	-2.3	1.8	-4.0	-4.3	7.4	-10.9	10.6	7.4	3.0	4.4	6.8	-2.3
Quinbrook Net Zero Power Fund	-0.4	1.5	-1.9	-	-	-	-	-	-	0.9	6.0	-4.8
JP Morgan Infrastructure Fund	3.4	2.5	0.9	11.2	10.4	0.8	10.6	10.4	0.2	8.4	9.8	-1.2
Infrastructure												
Permira Credit Solutions IV Fund	2.3	1.7	0.5	9.0	7.0	1.9	6.3	7.0	-0.7	5.1	5.7	-0.5
Permira Credit Solutions V Fund	2.5	1.7	0.8	8.6	7.0	1.5	-	-	-	6.4	5.2	1.1
Churchill Middle Market Senior Loan II Fund	2.9	1.7	1.2	10.7	7.0	3.5	6.9	7.0	-0.0	5.1	6.2	-1.0
Private Credit												
Allspring RMF Fund	13.8	13.8	0.0	17.2	17.2	0.0	-11.4	-11.4	0.0	-3.1	-3.1	0.0
Allspring Climate Transition Buy and Maintain Fund	8.5	8.5	-0.0	-	-	-	-	-	-	9.2	9.2	-0.0
Risk Management Framework												
LCIV CQS / PIMCO MAC Fund	5.8	2.4	3.3	11.3	9.4	1.7	2.9	6.6	-3.5	2.9	5.4	-2.4
Multi Asset Credit												
Cash	-	-	-	-	-	-	-	-	-	-	-	-
Total Fund	5.0	5.1	-0.1	7.7	11.4	-3.4	1.8	5.4	-3.4	6.0	5.9	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 Q3 2023.

- 2.3 Over the 3 months to 31 December 2023, total Fund assets returned 5.0% compared to the benchmark of 5.1%. This equates to an underperformance of -0.1%.
- 2.4 Over the last 12 months, the Fund performance was 7.7% (benchmark 11.4%) and 3 year annualised performance was 1.8% (benchmark 5.4%). These again underperformed the benchmark.
- 2.5 The Fund remains 0.1% above its benchmark since inception.
- 2.6 The annual Actuarial performance target is 4.2%.
- 2.7 From an asset class perspective:
- Global Equities contributed positively to overall returns. Sustainable Equity was the outlier – underperforming during the quarter.
 - Both EM Equity mandates were positive absolute contributors, however underperformed relative to their benchmarks.
 - Property and Social Impact detracted from overall Fund performance.
 - All Debt and Bond mandates recorded positive returns.

The chart below shows the Funds's net asset movement for the past 4 ¾ years.



3.0 Market Background/Outlook

- 3.1 Signs that cooling inflation would allow central banks to begin lowering interest rates in 2024 without deterioration in economic growth fuelled another month of strong gains in financial markets during December.
- 3.2 The US economy remained resilient as inflation continued to cool in November.
- 3.3 Price pressures in the UK eased by much more than expected in November, with core CPI dipping to 5.1 percent year-on-year versus 5.6 percent expected and 5.7 percent in the prior print. Consumer spending also surprised positively, with retail sales excluding auto fuel rising 1.3 percent month-on-month in November, and October's small decline revised to a modest increase.
- 3.4 The European Central Bank deposit rate was unchanged at 4 percent in December but indicated that interest rate cuts were not discussed at this meeting (in contrast to the Federal Reserve). Officials acknowledged the progress in getting inflation lower but noted that the near-term inflation outlook and wage growth remain as concerns.
- 3.5 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.

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