



## Pension Fund Committee

**21 November 2019**

<b>Title</b>	<b>Investment Performance for the Quarter to 30 September 2019</b>
<b>Report of</b>	Director of Finance
<b>Wards</b>	N/A
<b>Status</b>	Public except for exempt Appendix D
<b>Urgent</b>	No
<b>Key</b>	No
<b>Enclosures</b>	<p>Appendix A – Pension Fund Market Value of Investments as at 30 September 2019</p> <p>Appendix B - Asset Allocation as at 30 September 2019</p> <p>Appendix C - Review of Investment Managers Performance for 3<sup>rd</sup> quarter of 2019 (Hymans Robertson)</p> <p>Appendix D - Review of Fund Managers (Hymans Robertson) (exempt)</p> <p><b>Exempt enclosure - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of any particular person (including the authority holding that information)).</b></p>
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<b>Summary</b>	
This report summarises the Pension Fund investment managers' activity during the three months to 30 September 2019 together with fund manager performance in the quarter.	
<b>Officers Recommendations</b>	
<b>That the Pension Fund Committee note the performance of the Pension Fund for the quarter to 30 September 2019.</b>	

## 1. WHY THIS REPORT IS NEEDED

- 1.1 To ensure that the Pension Fund is being invested prudently and in accordance with the Pension Fund investment strategy.

### Fund Valuation

- 1.2 The valuation of the fund as at 30 September 2019 was £1,210.9 million, an increase of £26.3 million (2.2%) compared with the 30 June 2019's valuation of £1,184.6 million as detailed on appendix B. The chart on appendix A indicates a mostly steady increase in valuations over the last six years.

### Performance Summary

- 1.3 The Fund returned 2.1 % in the quarter with all mandates (other than the new Partners fund) recording positive returns. The fund underperformed the benchmark by 0.1% in the quarter with most of the newer credit mandates failing to achieve their benchmark return. Hymans will be asked to comment at the meeting.
- 1.4 For the 12 months to September, the total fund return was 5.3% (0.7% below benchmark). Newton, Schrodgers Corporate bonds and IFM exceeded benchmark, with a mixed picture for other credit mandates. The illiquid credit had high absolute returns while the liquid credit returns were both low and below benchmark. Schroder DGF was the major negative contributor compared with benchmark returns.
- 1.5 The three year returns of 6.5% p.a. was also 0.7% p.a. below benchmark with only Schrodgers Corporate Bonds meaningfully exceeding the benchmark. The two DGF's continue to underperform over long time periods.

### Investment Manager Ratings

- 1.6 Hymans provide ratings for all the investment managers. There have been no changes since the last meeting. Most of the mandates are rated at Hymans' highest level of conviction (preferred). The exceptions are the two DGF's funds rated as suitable and the Schrodgers' Corporate Bonds mandate rated as positive.

### Fund Manager Transactions

- 1.7 During the quarter £55 million was withdrawn from Schrodgers DGF (£20 million) and Newton (£35 million). This was used to repay the loan from the Council (£15 million) taken in June, to fund the initial commitment to Partners 2019 fund (£9.2 million) and a drawdown from IFM (\$2.2 million), with the balance in cash to fund the expected drawdowns from CBRE (\$16m), Adam Street and emerging market equities.
- 1.8 Outstanding commitments at the quarter end are:

Alcentra European Direct Lending	£4.4 million
CBRE Global Alpha	\$16 million
IFM	\$6.7 million
Partners 2019 MAC	£20.7 million
Adam Street	\$67.5 million

## **Allocations v Strategy**

- 1.9 Appendix B highlights the portfolio positions compared with benchmark. The target allocations have been amended to include the unfunded mandates for property and equity and to reduce the DGF weighting to nil. The other significant difference is the underweighting for illiquid alternatives, partly due to capital being returned by Partners and Alcentra and the unfunded commitments to the European Direct Lending Fund. The recently agreed commitment to Partner 2019 fund will add to this allocation. Cash will be taken from the two diversified growth funds as required to fund other mandates.

## **2. REASONS FOR RECOMMENDATIONS**

- 2.1 The terms of reference of the Pension Fund Committee require the Committee to review and challenge the fund managers' quarterly investment performance against benchmarks and targets.

## **3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

- 3.1 None

## **4. POST DECISION IMPLEMENTATION**

- 4.1 The Chief Financial Officer will carry out any actions considered necessary.

## **5. IMPLICATIONS OF DECISION**

### **5.1 Corporate Priorities and Performance**

- 5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage to achieve the required funding level. Effective monitoring of the Pension Fund will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities.

### **5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

- 5.2.1 The Pension Fund appoints external fund managers to maximise Pension Fund assets in accordance with the Fund investment strategy. The Pension Fund is a long-term investor and short-term volatility of investment return is expected. In the longer term, the appointed fund managers are expected to deliver positive returns in accordance with the Fund benchmarks. The global diversification of the Pension Fund portfolio gives some protection against the market volatility. The funding level of the Scheme uses a valuation of the future liabilities discounted using gilt yields. The mismatch between assets held and the method of valuing future liabilities will also result in volatility of funding levels.

### **5.3 Social Value**

- 5.3.1 Membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

## **5.4 Legal and Constitutional References**

- 5.4.1 Constitution – Under article 7 one of the responsibilities of the Pension Fund Committee is ‘To review and challenge at least quarterly the Pension Fund investment managers’ performance against the Statement of Investment Principles [now Investment Strategy Statement] in general and investment performance benchmarks and targets in particular.’
- 5.4.2 Regulation 9 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 provides the power to appoint investment managers. The regulations no longer have a specific reference to monitoring investment managers but state “the authority must reasonably believe that the investment manager’s ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it.” Only through periodic monitoring can the Committee achieve this requirement.

## **5.5 Risk Management**

- 5.5.1 A key risk is that of poor investment performance. The performance of the fund managers is monitored by the Pension Fund Committee every quarter with reference to reports from Hymans Robertson, the Pension Fund investment adviser. If a fund manager’s performance is considered inadequate, the fund manager can be replaced.

## **5.6 Equalities and Diversity**

- 5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant ‘protected characteristic’ and those who do not share it; and 3) fostering good relations between persons who share a relevant ‘protected characteristic’ and persons who do not share it. The ‘protected characteristics’ are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.
- 5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The public sector equality duty requires public authorities in carrying out their functions to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund’s managers will benefit everyone who contributes to the fund.

## **5.7 Corporate Parenting**

- 5.7.1 Not applicable in the context of this report.

## **5.8 Consultation and Engagement**

5.8.1 Not applicable

5.9 **Insight**

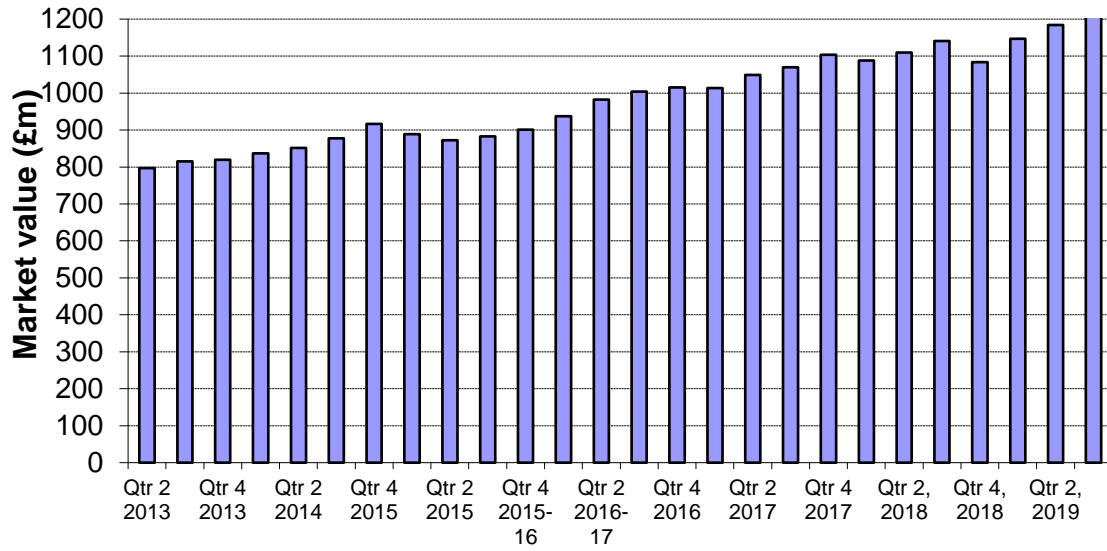
5.8.1 Not applicable

**6. BACKGROUND PAPERS**

6.1 None

## Appendix A – Market Value of Investments as at 30 September 2019

Market value of Pension Fund



## Appendix B - Asset Allocation as at 30 September 2019

	Allocation as at 30.9.2019			Target Allocation	
	£	%	%	%	%
<b>Equities</b>			<b>39.83</b>		<b>50.00</b>
LGIM Global	255,630,691	21.11		20.00	
LGIM RAFI	226,592,596	18.71		20.00	
Emerging Markets	0	0.00		5.00	
Private Equity	0	0.00		5.00	
<b>Property</b>			<b>3.39</b>		<b>10.00</b>
Core UK Commercial	0	0.00		5.00	
Aberdeen Standard Long Lease	28,025,000	2.31		2.50	
CBRE Global	13,019,200	1.08		2.50	
<b>Diversified Growth</b>			<b>16.99</b>		<b>0.00</b>
Schroder	126,860,052	10.48		0.00	
BNY Mellon (Newton)	78,865,444	6.51		0.00	
<b>Multi Credit Liquid</b>			<b>9.76</b>		<b>11.00</b>
Baring Global High Yield	38,863,852	3.21		3.50	
Alcentra	35,972,070	2.97		3.50	
Insight Secured Finance	43,373,653	3.58		4.00	
<b>Corporate Bonds</b>			<b>10.77</b>		<b>10.00</b>
Schroder	130,364,736	10.77		10.00	
<b>Illiquid Alternatives</b>			<b>15.81</b>		<b>19.00</b>
Alcentra	31,740,619	2.62		4.00	
Partners Group	64,702,070	5.34		7.00	
M&G Lion Credit Opport	30,965,099	2.56		3.00	
IFM Global Infrastruct	64,014,778	5.29		5.00	
<b>Cash</b>	41,863,987	3.46	<b>3.46</b>	0.00	<b>0.00</b>
<b>Total</b>	<b>1,210,853,847</b>	<b>100.00</b>		<b>100.00</b>	<b>100.00</b>