



London Borough of Enfield

Report Title	Update on Enfield Pension Fund Investments & Managers, Economic/market update and investment outlook.
Report to	Pension Policy & Investment Committee
Date of Meeting	04 October 2023
Cabinet Member	Cllr Tim Leaver
Executive Director / Director	Fay Hammond
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Classification	Part 1 Public and Part 2 Private
Reason for exemption	3 Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Purpose of Report

1. To provide the Pension, Policy & Investment committee (PPIC) with an update on the Enfield Pension Fund ("Fund") investments and their performance as at 30 June 2023.
2. To introduce a paper from the Fund's Investment advisors (Aon) presenting a market update and investment outlook. (Appendix 4)

(Disclaimer: No information contained in this report should be considered investment advice and is for the purposes of the Enfield Pension Fund only.)

Recommendations

- I. Members are asked to note the content of the report.
- II. Members are asked to agree a commitment of \$20million to the Adams Street Partners Private equity Fund.
- III. Do not Proceed with the £35m investment into the Aon Diversified liquid credit fund which was previously agreed.

Reason for Recommendation

- The Pension Fund Regulations require that the Council establishes arrangements for monitoring investments of the Fund and it considers the activities of the investment managers and ensure that proper advice is obtained on investment issues.
- Officers and Aon (the Fund's investment advisors) meet regularly with investment managers to discuss their strategy and performance and if considered necessary may recommend that investment managers are invited to PPIC to explain performance further.

Main Considerations for the committee

- The value of the fund as at 30 June 2023 was £1,451.5m which was a £5.4m decrease in the quarter.

Fund performance:

- The table below summaries the Fund's total performance over recent time periods :

	Quarter ending 30 June 2023	1 year	3 year	5 year
Fund Return	+0.17%	-0.25%	+4.43%	+4.71%
Strategic benchmark	-0.08%	+0.42%	+3.72%	+4.41%
Excess return	+0.24%	-0.67%	+0.71%	+0.3%

*Figures are on an annual basis

Asset Class and Manager performance (significant issues)

Performance of the Fund's managers over this time frame and since inception can be found in Appendix 1: (Northern Trust Enfield PF performance)

A quarterly investment dashboard and a comprehensive evaluation of manager performance is provided by the Fund's investment advisor's Aon and can be found in Appendix 2 and 3 respectively.

Equities

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return				
			One Month	Three Months	Year to Date	One Year	Three Years
Total Equities	591,333,074	40.74	2.92	3.40	7.29	12.44	9.34
<i>Enfield Equities BM</i>			2.54	3.59	7.35	10.61	9.50
<i>Excess Return</i>			0.38	-0.19	-0.06	1.83	-0.17
Blackrock Low Carbon	257,485,236	17.74	2.06	4.83	8.14	12.90	11.06
<i>LEFD02 MSCI Wld Lw CrbnTgtxFsl</i>			2.02	4.70	7.87	11.38	9.97
<i>Excess Return</i>			0.04	0.13	0.27	1.52	1.09
LCIV - JP Morgan (EM)	31,014,288	2.14	0.93	-2.64	0.12	3.74	2.99
<i>LEFD05018 MSCI EM Mrkts ND</i>			1.19	-1.87	-0.76	-2.80	1.35
<i>Excess Return</i>			-0.26	-0.77	0.88	6.54	1.64
LCIV - Longview (FOCUS GE)	115,753,238	7.97	4.91	4.47	8.77	16.07	14.62
<i>LEFD05019 MSCI ACWI ND</i>			3.15	3.26	7.80	11.31	9.94
<i>Excess Return</i>			1.76	1.21	0.97	4.76	4.68

LCIV-Baillie Gifford(ALPHA GE)	106,126,600	7.31	3.77	3.17	7.96	11.27	3.72
<i>LEFD05016 MSCI ACWI ND</i>			3.15	3.26	7.80	11.31	9.94
<i>Excess Return</i>			0.62	-0.09	0.16	-0.05	-6.22
MFS Global Equity	80,168,018	5.52	2.64	0.32	4.79	10.54	8.94
<i>LEFD05005 MSCI ACWI ND</i>			3.15	3.26	7.80	11.31	9.94
<i>Excess Return</i>			-0.51	-2.94	-3.01	-0.77	-1.00

7. Equity Markets continued their rally in Q2 2023 as inflation began to moderate in the majority of economies amidst signs now the global economy continued to be more resilient than previously anticipated.
8. Two broad themes have dominated markets over Q2, pushing equities higher. The first is the significant rally in Japanese stocks as seemingly entrenched inflation has been met with a commitment by the Bank of Japan not to tighten monetary policy. The second, and most important, is the huge rally in a small number of technology stocks that have benefitted from the theme of an artificial intelligence run. The latter has pushed already US valuations to even higher levels relative to other regions. European ex-UK equities have also performed well, especially in March. (A detailed breakdown of how different Overseas Equity markets have performed and the reason behind this can be found in appendix 3).
9. The equity fund's held by the Fund performed largely in line with benchmark over the quarter.
10. On a 1 year basis, the Emerging market (EM) equity fund run by JP Morgan has significantly outperformed the benchmark by 6.5%. An overweight to financials, led by Indian and Indonesian banks, and underweights in materials and consumer discretionary proved beneficial.
11. Baillie Gifford – Global Alpha Growth Fund - Recent developments in AI and the growth potential offered has seen the team allocate to a number of stocks in this space. For now, the team is cautious on making overly precise predictions about which applications of these technologies will win out, but are confident that the AI revolution will need a lot of data and computing power. As such, the semiconductor producers represent the “picks and shovels” of this industry and therefore a number of purchases were made in this sector.
12. Over 3 and 5 years the Fund's equity managers have performed in line with the benchmark.

Bonds

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return				
			One Month	Three Months	Year to Date	One Year	Three Years
Total Bonds and Index Linked	401,670,278	27.67	0.19	-1.47	0.90	-3.85	-4.01
<i>Enfield Bonds & IL BM</i>			0.22	-1.44	0.70	-3.16	-3.76
<i>Excess Return</i>			-0.03	-0.03	0.20	-0.69	-0.26
AON Diversified Liquid Credit	67,832,654	4.67	0.11	0.87	2.95	3.05	-
<i>LEFD07003 1 month SONIA + 1.5%</i>			0.50	1.46	2.80	4.78	-
<i>Excess Return</i>			-0.39	-0.58	0.15	-1.73	-
Blackrock IL Gilts	77,684,073	5.35	0.48	-3.98	-1.67	-9.06	-6.45
<i>LEFD01 Blended Benchmark</i>			0.57	-3.92	-1.76	-9.02	-6.47

<i>Excess Return</i>			-0.09	-0.06	0.09	-0.04	0.03
Insight Bonds	30,830,156	2.12	0.76	1.56	1.77	0.18	1.41
<i>LEFD05006 SONIA 3 Month GBP+2%</i>			0.56	1.63	3.14	6.45	5.01
<i>Excess Return</i>			0.20	-0.06	-1.38	-6.27	-3.60
LCIV - CQS (MAC)	54,578,667	3.76	0.81	1.91	4.00	5.71	3.49
<i>LEFD05020 3 Month GBP SONIA</i>			0.40	1.14	2.15	3.57	1.38
<i>Excess Return</i>			0.41	0.77	1.85	2.13	2.11
LCIV Global Bond Fund	77,433,392	5.33	0.09	0.09	3.15	-	-
<i>LEFD05021 Bloomberg Global Agg</i>			0.00	-0.21	2.42	-	-
<i>Excess Return</i>			0.09	0.29	0.74	-	-
Western	93,311,337	6.43	-0.43	-4.96	-2.01	-11.86	-10.98
<i>LEFD03 ML Stg Non-Gilts 10+</i>			-0.30	-4.76	-1.62	-12.41	-11.39
<i>Excess Return</i>			-0.13	-0.19	-0.39	0.55	0.42

- Global bond yields trended higher as major central banks indicated further interest rate rises to bring inflation down to target. The FTSE All Stocks Gilts Index and the FTSE All Stocks Index-Linked Gilts Index fell 5.4% and 6.6% respectively.
- On a 1 year basis, Bonds have contributed -3.9% on an absolute basis and -0.7% on a relative basis. However, performance over the year to date was +0.9%. The most significant negative performance within this asset class was the Western Bond fund at -11.9% for 1 year. However, it should be noted that it has marginally out performed its benchmark over this period. Negative annual performance was attributable to rising interest rates and increases in gilt yields globally causing a drop in the value of investment grade bonds. This has resulted in credit spreads widening and presenting opportunities for which the Fund has taken advantage of via a £20m investment in Western in April 2023.
- Over a 5 year period the asset class has produced close to nil returns for the fund. This is in line with the benchmark.

Inflation Protection Illiquids

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return				
			One Month	Three Months	Year to Date	One Year	Three Years
Inflation Protection Illiquids	98,063,993	6.76	-3.29	-3.69	-1.82	-20.10	-5.70
<i>Enfield Inflation Illiquids BM</i>			0.31	1.97	4.15	-0.57	5.88
<i>Excess Return</i>			-3.60	-5.66	-5.97	-19.53	-11.58
CBRE Long Income Fund	36,752,398	2.53	0.00	0.00	1.49	-19.13	-2.67
<i>LEFD06007 BMK</i>			0.00	0.00	1.49	-19.13	-2.67
<i>Excess Return</i>			0.00	0.00	0.00	0.00	0.00
M&G Inflation Opportunities Fd	61,311,595	4.22	-5.16	-5.77	-3.67	-20.65	-7.15
<i>LEFD05010 UK RPI +2.5%</i>			0.49	3.10	5.68	13.18	11.26
<i>Excess Return</i>			-5.65	-8.87	-9.35	-33.82	-18.41

- Over 1 year the M&G inflation opportunities fund within this asset class has returned -20.1% on an absolute basis and -33.8% on a relative basis which is a significant

underperformance of the benchmark. This manager has been invited to the October 2023 PPIC meeting to explain performance.

Private Equity

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return				
			One Month	Three Months	Year to Date	One Year	Three Years
Private Equity	105,603,901	7.28	-1.80	-2.10	-5.90	-14.41	23.37
<i>Enfield PE BM</i>			3.15	3.26	7.80	11.31	9.94
<i>Excess Return</i>			-4.94	-5.36	-13.70	-25.72	13.43
Adams Street	105,603,901	7.28	-1.80	-2.10	-5.90	-14.41	23.37
<i>LEFD06005 MSCI ACWI ND</i>			3.15	3.26	7.80	11.31	9.94
<i>Excess Return</i>			-4.94	-5.36	-13.70	-25.72	13.43

17. There is only 1 fund manager for private equity – Adams Street. On a one year time frame it has performed negatively on an absolute and relative basis. Rising interest rates across major economies will have contributed to private equity valuations reducing substantially. It should be noted however that the as the private equity fund has matured it has become cashflow positive over recent years (the fund is receiving more in distributions than is being called up through drawdown requests).
18. Over longer time periods (3 and 5 years) performance has produced positive returns significantly beating the benchmark. Over a 5 year period Adams Street has been the best performing asset for the fund producing returns of +19% p.a.
19. Currently, 7.3% of the Pension Fund is held in Private Equity. The forecasted rate of distributions and drawdowns would result in PE holdings falling under the strategic benchmark by 2025 to 4.1%. Furthermore, this trend is likely to continue with the allocation to Private Equity falling to under 2% by 2028 which would result in being underweight the benchmark by 3%.
20. **Recommendation:** It is therefore proposed that PPIC agree to a \$20 million ‘top-up’ commitment made to the 2023 vintage of the Adams Street Fund. This commitment will ensure that the PE allocation is keeping pace with the benchmark. (Although further investment would be required to get close to the 5% allocation). The cash flows associated with this manager can be found in appendix 5 (pages 10-13). Appendix 5 also contains further information on the Adams Street fund and the investments that are likely to be made.

Infrastructure

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return				
			One Month	Three Months	Year to Date	One Year	Three Years
Infrastructure	57,469,327	3.96	-4.66	-6.51	-10.67	-11.26	0.18
<i>Enfield Infrastructure BM</i>			-6.86	-8.10	-12.23	-16.16	-3.93
<i>Excess Return</i>			2.20	1.59	1.55	4.90	4.11
Antin Infrastructure	20,081,965	1.38	-0.24	-3.40	-7.67	-1.80	8.75

INPP	37,387,362	2.58	-6.86	-8.10	-12.23	-16.16	-3.93
LEFD05015 Fund returns			-6.86	-8.10	-12.23	-16.16	-3.93
Excess Return			0.00	0.00	0.00	0.00	0.00

21. On a one year basis performance is negative for the infrastructure asset class (-11.3%). Relative performance is +4.9%. The negative return is partly attributable to all Pension funds needing greater liquidity thereby creating a fall in demand and therefore values in illiquid funds such as infrastructure. For those less liquidity constrained, the weaker demand for illiquid assets could, in fact, present an eventual buying opportunity. (The committee are currently exploring investments in infrastructure as the Fund is underweight in this asset class)
22. Over longer time periods (3 and 5 years) the managers have produced positive returns beating the benchmark.

Property

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return				
			One Month	Three Months	Year to Date	One Year	Three Years
Property	80,312,334	5.53	-0.27	-0.04	-1.39	-16.18	2.97
<i>Enfield Property BM</i>			-0.55	0.38	0.18	-17.39	3.39
<i>Excess Return</i>			0.28	-0.42	-1.57	1.21	-0.42
Blackrock UK FD	34,308,095	2.36	-0.32	-0.23	-0.02	-18.13	2.39
<i>LEFD05012 IPD All Balncd Prpty</i>			-0.55	0.38	0.18	-17.39	3.39
<i>Excess Return</i>			0.23	-0.61	-0.20	-0.74	-1.00
Brockton Capital Fund	9,295,429	0.64	0.00	0.00	-4.72	-4.26	2.70
<i>LEFD06001 IPD All Balncd Prpty</i>			-0.55	0.38	0.18	-17.39	3.39
<i>Excess Return</i>			0.55	-0.38	-4.91	13.13	-0.69
Legal & General Property	36,708,810	2.53	-0.29	0.13	-1.79	-16.91	3.57
<i>LEFD05013 IPD All Balncd Prpty</i>			-0.55	0.38	0.18	-17.39	3.39
<i>Excess Return</i>			0.26	-0.25	-1.97	0.48	0.18

23. The property asset class produced flat returns over the quarter. On a 1 year basis the asset class for the Fund has shown -16.2% performance which is marginally better than the benchmark. Over 5 years the return has been 2.3% p.a. in line with benchmark.
24. UK property capital values continued to fall over the second quarter of 2023 but were offset by the increase in income return, recording a total return of 1.0%. Vacancy rates rose from 10.3% to 10.4%. The Office sector was the worst performer, returning -2.8% while the Industrial sector was the best performer returning 2.4%. The Retail sector returned 2.0%.

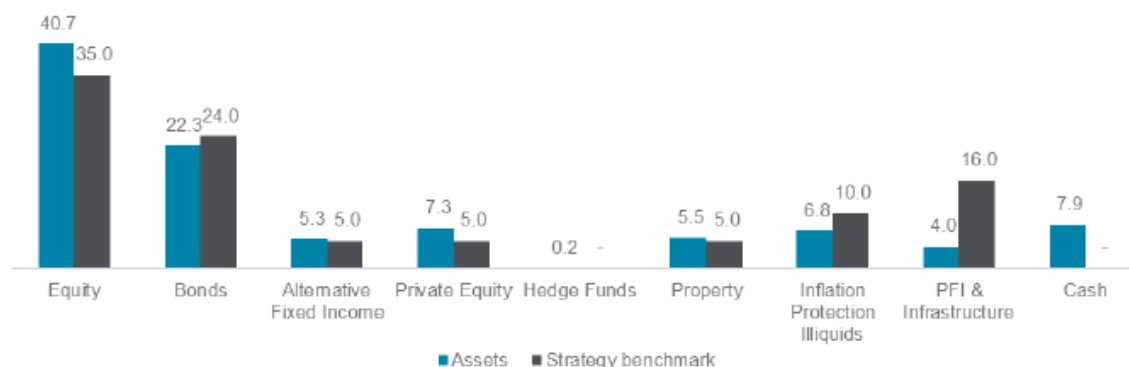
Hedge Fund

25. It should be noted that in line with previous decisions, Hedge funds have been or are in the process of being liquidated. As at 30 June 2023, only a small holding remained, York Capital, and this fund is the process of being closed down.

Strategic Allocations

26. Asset allocation when compared to benchmark can be seen below:

30 June 2023 strategic allocation & benchmark (%)



27. The fund is significantly underweight infrastructure. The committee is in the process of carrying out due diligence with respect to prospective infrastructure investments and has already made significant commitments in this regard.

28. Changes in funds in line with previous Committee decisions (for quarter 2 -as at 30 June 2023)

Additions/Investments -Bonds- **£20m** Western, **£20m** Aon Diversified Liquid credit
Disposals/redemptions – Hedge Funds (Davidson Kempner **£34.7m**)

29. Changes coming up in Q3 in line with previous Committee decisions
Additions/Investments – Bonds -£35m Blackrock Passive Gilts Fund
Disposals/redemptions – none

30. **Recommendation** -It was recommended at the July 2023 PPIC meeting that a further £35 million is invested from the cash balance into the Aon Diversified liquid credit fund subject to resolution of further due diligence. Although this due diligence is now satisfactorily completed, officers deem it prudent not to proceed with investment due to expected cash requirements over the short term. A short term investment will incur transaction costs and negate any benefit versus being invested in short term money market funds (in addition to carrying some risk of a drop in value). It is therefore recommended that the committee do proceed with £35m investment agreed at July PPIC.

Cash Position

31. The cash position as at 30 June 2023 was £114.5m. This will be impacted in Q3 by the above investments and redemptions.

32. The cash balance is currently invested in short term Money Market funds in line with the treasury management strategy. These funds offer an overnight rate of rate return, offer instant liquidity, are heavily diversified and are only invested with the highest quality credit rated instruments. At the end of the quarter they were yielding approx. 4-5%.

Economic & Market performance

33. A market update and investment outlook is covered in Appendix 4 provided by Aon covering Inflation, Recession and interest rates, Economic highlights and market outlook.

Relevance to Council Plans and Strategies

34. An economy that works for everyone.

Financial Implications

35. The Pension fund is invested in a mix of assets in order to generate a return to ensure that it can meet its liabilities (pension payments) when they fall due. Higher investment returns will ensure that employers in the fund (including Enfield Council) have a lower level of contributions thereby enabling budgets to be utilised on other service areas.

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Appendices

- Appendix 1 – Northern Trust – Enfield PF performance -Part 1
Appendix 2 - Quarterly Investment dashboard -Part 1
Appendix 3 – Manager Monitoring report – **Part 2 – Exempt Confidential**
Appendix 4 – Market update & Investment outlook – **Part 2 – Exempt Confidential**
Appendix 5 – Adams Street Partners – Private Equity Investment- **Part 2 – Exempt Confidential**