



## London Borough of Enfield

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<b>Report Title</b>	Update on Enfield Pension Fund Investments & Managers, Economic/market update and investment outlook.
<b>Report to</b>	Pension Policy & Investment Committee (PPIC)
<b>Date of Meeting</b>	17 January 2023
<b>Cabinet Member</b>	Cllr Tim Leaver
<b>Executive Director / Director</b>	Fay Hammond
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<b>Classification</b>	Part 1 Public and Part 2 Private
<b>Reason for exemption</b>	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 September 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 contents of this report.

### Reason for Recommendation

3. 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.
4. 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.
5. All investment managers will be reviewed over the next 12-24 months, as part of the Strategic Asset Allocation (SAA) review exercise, to ensure their mandates and performance align with the objectives of the Enfield Pension Fund.

### Main Considerations for the committee

6. The value of the fund as at 30 September 2023 was £1,453.8m which was a £2.2m increase in the quarter.

### Fund performance:

7. The table below summaries the Fund's annual performance over recent time periods :

	Quarter ending 30 September 2023	1 year	3 year	5 year
Fund Return	+0.2%	+0.8%	+3.7%	+4.0%
Strategic benchmark	+0.2%	+1.4%	+3.4%	+4.0%
Excess return	0%	-0.6%	+0.3%	0%

\*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	582,893,450	40.09	-1.63	-1.43	5.75	8.53	7.33
Enfield Equities BM			-0.61	0.68	8.08	9.54	8.55
Excess Return			-1.01	-2.12	-2.33	-1.01	-1.22
Blackrock Low Carbon	259,377,887	17.84	-0.96	0.74	8.93	9.50	10.16
LEFD02 MSCI Wld Lw			-0.97	0.70	8.63	9.08	9.10
CrbnTgtxFsl			0.01	0.03	0.30	0.42	1.07
Excess Return							
LCIV - JP Morgan (EM)	30,480,450	2.10	-0.18	-1.72	-1.60	0.61	-0.25
LEFD05018 MSCI EM Mrkts ND			1.10	1.12	0.35	2.16	0.18
Excess Return			-1.28	-2.84	-1.95	-1.55	-0.42
LCIV - Longview (FOCUS GE)	112,851,616	7.76	-1.84	-2.51	6.05	11.72	13.04
LEFD05019 MSCI ACWI ND			-0.48	0.62	8.47	10.48	8.96
Excess Return			-1.36	-3.12	-2.42	1.24	4.08

LCIV-Baillie Gifford(ALPHA GE)	101,535,138	6.98	-2.84	-4.33	3.29	4.49	-0.26
LEFD05016 MSCI ACWI ND			-0.48	0.62	8.47	10.48	8.96
Excess Return			-2.36	-4.94	-5.18	-6.00	-9.22
MFS Global Equity	77,823,961	5.35	-2.55	-2.97	1.68	7.04	6.52
LEFD05005 MSCI ACWI ND			-0.48	0.62	8.47	10.48	8.96
Excess Return			-2.08	-3.58	-6.78	-3.45	-2.45

8. Equity Markets fell marginally in Q3 2023. Equity markets remain in fragile territory, as the pressure from high interest rates and the gradual deterioration in the economic and corporate profits environment make themselves felt.
9. After gaining for first half of the year, index heavyweight sectors like Information Technology (-5.5%) and Consumer Discretionary (-4.3%) underperformed in Q3. On a YTD basis, Information Technology and Consumer Discretionary gained 32.9% and 26.3% respectively. Other heavy-weight sectors like Health Care and Financials fell 2.5% and 0.9% over the quarter.
10. All active Equity managers underperformed their benchmark in Q3.
11. Baillie Gifford – Global Alpha Growth Fund – The manager continues to underperform the benchmark over medium term time horizons 3 and 5 year. The Global Alpha growth fund is invested in through the Enfield Pension Funds pooling partners, London CIV. Aon continue to buy rate the Global Alpha Growth fund, following a review in 2023, citing the skills, research and talent of the management team built on harvesting the best research ideas from the broader analyst resource at Baillie Gifford. However, Aon stress that growth strategies such as these will remain the spotlight in world no longer characterised by low interest rates.
12. MFS continue to underperform the benchmark over 3 and 5 year periods.

## 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	436,263,679	30.01	-0.83	0.08	0.99	3.88	-4.30
Enfield Bonds & IL BM			-0.73	-0.02	0.68	3.51	-3.83
Excess Return			-0.10	0.11	0.31	0.37	-0.47
AON Diversified Liquid Credit	68,543,160	4.71	0.61	2.08	5.09	6.96	-
LEFD07003 1 month SONIA + 1.5%			0.53	1.63	4.48	5.62	-
Excess Return			0.08	0.45	0.61	1.33	-
Blackrock IL Gilts	112,114,936	7.71	-0.75	-0.37	-2.04	-2.89	-6.29
LEFD01 Blended Benchmark			-0.78	-0.45	-2.21	-2.99	-6.34
Excess Return			0.03	0.08	0.17	0.09	0.05
Insight Bonds	31,438,142	2.16	0.90	1.97	3.77	0.65	1.34
LEFD05006 SONIA 3 Month GBP+2%			0.57	1.79	4.99	6.74	5.28
Excess Return			0.33	0.18	-1.22	-6.08	-3.94
LCIV - CQS (MAC)	55,119,903	3.79	-0.61	0.99	5.03	9.39	2.68
LEFD05020 3 Month GBP SONIA			0.42	1.32	3.49	4.37	1.81
Excess Return			-1.03	-0.33	1.54	5.02	0.87
LCIV Global Bond Fund	76,152,043	5.24	-2.14	-1.65	1.45	-	-
LEFD05021 Bloomberg Global Agg			-1.95	-1.77	0.60	-	-
Excess Return			-0.19	0.11	0.84	-	-
Western	92,895,496	6.39	-1.60	-0.45	-2.45	6.48	-11.45

LEFD03 ML Stg Non-Gilts 10+	-1.70	-0.78	-2.38	5.72	-11.92
Excess Return	0.10	0.33	-0.06	0.76	0.47

13. Global bond yields trended higher as major central banks continued to move forward with tighter monetary policy but a slower pace.
14. On a 1 year basis, Bonds have contributed +3.9% on an absolute basis and +0.4% on a relative basis.
15. Over a 3 year period, Insight have produced the lowest absolute return and highest negative relative performance figures out of all the Bond managers.
16. Over a 5 year period the asset class has produced close to nil returns for the fund. This is 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	98,510,870	6.78	-1.09	0.81	-1.02	-12.00	-5.47
<i>Enfield Inflation Illiquids BM</i>			0.42	1.30	5.50	-1.05	6.03
<i>Excess Return</i>			-1.51	-0.49	-6.52	-10.95	-11.50
CBRE Long Income Fund	36,977,157	2.54	0.00	1.57	3.08	-17.97	-2.18
<i>LEFD06007 BMK</i>			0.00	1.57	3.08	-17.97	-2.18
<i>Excess Return</i>			0.00	0.00	0.00	0.00	0.00
M&G Inflation Opportunities Fd	61,533,713	4.23	-1.73	0.36	-3.32	-7.75	-7.06
<i>LEFD05010 UK RPI +2.5%</i>			0.67	1.12	6.86	11.34	11.25
<i>Excess Return</i>			-2.39	-0.76	-10.19	-19.09	-18.31

17. Over 1 year the asset class and managers within it have continued to produce negative returns. The allocation to the asset class will be reviewed by the investment committee, over the next 12 months as part of the Strategic Asset Allocation (SAA) review to ensure that an allocation still meets the needs of the Enfield Pension Fund.

### **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	109,862,752	7.56	4.25	4.57	-1.60	-11.07	22.45
<i>Enfield PE BM</i>			-0.48	0.62	8.47	10.48	8.96
<i>Excess Return</i>			4.73	3.95	-10.07	-21.55	13.49
Adams Street	109,862,752	7.56	4.25	4.57	-1.60	-11.07	22.45
<i>LEFD06005 MSCI ACWI ND</i>			-0.48	0.62	8.47	10.48	8.96
<i>Excess Return</i>			4.73	3.95	-10.07	-21.55	13.49

18. 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 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).

19. Over longer time periods (3 and 5 years) Adams Street 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 +18% p.a.

## Infrastructure

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return				
			One Month	Three Months	Year to Date	One Year	Three Years
Infrastructure	57,855,618	3.98	-1.59	0.49	-10.23	-9.15	0.77
<i>Enfield Infrastructure BM</i>			-3.14	-1.19	-13.27	-13.36	-3.75
<i>Excess Return</i>			1.54	1.68	3.04	4.21	4.52
Antin Infrastructure	20,810,906	1.43	1.27	3.63	-4.32	-1.06	10.13
INPP	36,942,412	2.54	-3.14	-1.19	-13.27	-13.36	-3.75
<i>LEFD05015 Fund returns</i>			-3.14	-1.19	-13.27	-13.36	-3.75
<i>Excess Return</i>			0.00	0.00	0.00	0.00	0.00
LCIV Renewable Infra	102,300	0.01	-	-	-	-	-
<i>LEFD05022 8.5% BMK</i>			-	-	-	-	-
<i>Excess Return</i>			-	-	-	-	-

20. On a one year basis performance is negative for the infrastructure asset class (-9.15%). Relative performance is +4.21%. 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.

21. The Fund is currently underweight the asset class when compared to the strategic allocation. (4% actual allocation v 16% strategic allocation)

22. The committee has recently made a number of commitments to infrastructure managers as follows:

- LCIV Renewable Infrastructure Fund - £75m
- Copenhagen Infrastructure Partners -£50m
- Blackrock Global Infrastructure Fund - £41m

These commitments are expected to be called in stages over the next 4 years.

## Property

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return				
			One Month	Three Months	Year to Date	One Year	Three Years
Property	79,902,749	5.50	-0.29	-0.16	-1.54	-13.23	2.80
<i>Enfield Property BM</i>			-0.42	-0.42	-0.24	-14.31	3.17
<i>Excess Return</i>			0.13	0.26	-1.30	1.08	-0.38
Blackrock UK FD	33,740,772	2.32	-0.49	-0.84	-0.86	-15.05	1.87
<i>LEFD05012 IPD All Balncd Prpty</i>			-0.42	-0.42	-0.24	-14.31	3.17
<i>Excess Return</i>			-0.07	-0.41	-0.61	-0.74	-1.30
Brockton Capital Fund	9,324,566	0.64	0.00	0.31	-4.43	-2.11	2.81
<i>LEFD06001 IPD All Balncd Prpty</i>			-0.42	-0.42	-0.24	-14.31	3.17
<i>Excess Return</i>			0.42	0.73	-4.18	12.19	-0.37
Legal & General Property	36,837,410	2.53	-0.18	0.35	-1.45	-13.98	3.67
<i>LEFD05013 IPD All Balncd Prpty</i>			-0.42	-0.42	-0.24	-14.31	3.17
<i>Excess Return</i>			0.24	0.77	-1.20	0.33	0.50

23. The property asset class produced a negative return of -0.2% over the quarter. On a 1 year basis the asset class for the Fund has shown -13.2% performance which is marginally better than the benchmark. Over 5 years the return has been 1.8% p.a. in line with benchmark.
24. UK property capital values continued to fall over the third quarter and weighed over the increase in income return, recording a total return of -0.2%. Capital values fell by 1.6% whilst the income return was 1.4%. Vacancy rates rose from 10.4% to 10.6%. The Office sector was the worst performer, returning -3.7% while the Industrial sector was the best performer returning 1.7%. The Retail sector fell 0.5%.

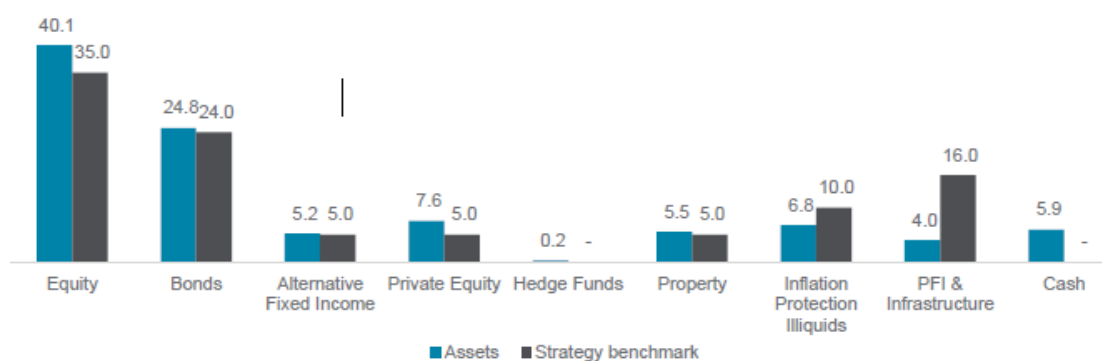
### **Hedge Funds**

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 September 2023, only a small holding remained, York Distressed Securities, and this fund is the process of being wound down.

### **Strategic Allocations**

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

## 30 September 2023 strategic allocation & benchmark (%)



27. The fund is significantly underweight infrastructure. As mentioned above the committee has recently made a number of commitments to the asset class. However, due to the nature of these funds it will take between for 2-4 years for all the funds to be called/drawdown.

28. Changes in funds in line with previous Committee decisions (for quarter 3 - as at 30 September 2023)

Additions/Investments - Bonds -£35m Blackrock Passive Gilts Fund  
Disposals/redemptions – none

29. Changes coming up in Q4 in line with previous Committee decisions  
Additions/Investments – none  
Disposals/redemptions – none

### Cash Position

30. The cash position as at 30 September 2023 was £85.7m.

31. 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 approximatley 4-5%.

### Economic & Market performance

32. 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

33. An economy that works for everyone.

### Financial Implications

34. 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.

35. The Fund is 104.9% funded as at 30<sup>th</sup> September 2023. This means that there are more assets in the Fund than the liabilities (i.e. pension payments to members as they fall due). This is based on a number of assumptions and will constantly change due to investment returns, inflation, changes in membership etc.

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## **Appendices**

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