



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 (PPIC)
Date of Meeting	20 March 2024
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 31 December 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.

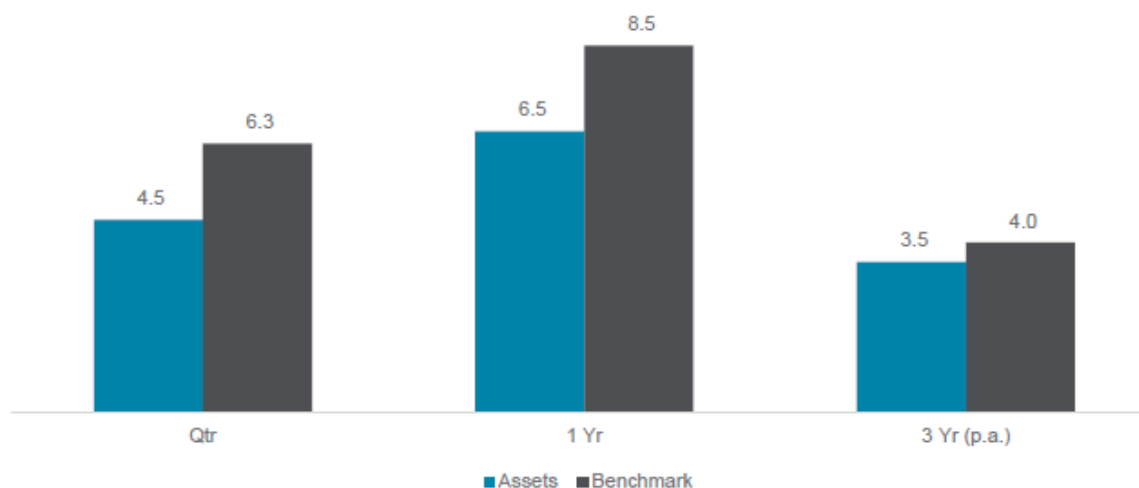
Main Considerations for the committee

6. The value of the fund as at 31 December 2023 was £1,521m which was a £67.6m increase in the quarter.

Fund performance:

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

Performance summary (%)



8. *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	623,648,146	40.99	4.32	6.99	13.14	13.14	6.46
<i>Enfield Equities BM</i>			4.36	6.71	15.33	15.33	7.90
<i>Excess Return</i>			-0.03	0.28	-2.19	-2.19	-1.44
Blackrock Low Carbon	279,382,762	18.36	4.89	7.71	17.33	17.33	9.96
<i>LEFD02 MSCI Wld Lw CrbnTgtxFsl</i>			4.80	7.55	16.83	16.83	8.87
<i>Excess Return</i>			0.09	0.16	0.50	0.50	1.08
LCIV - JP Morgan (EM)	31,115,064	2.05	2.67	2.08	0.45	0.45	-4.73
<i>LEFD05018 MSCI EM Mrkts ND</i>			3.19	3.27	3.63	3.63	-2.84
<i>Excess Return</i>			-0.52	-1.19	-3.19	-3.19	-1.89
LCIV - Longview (FOCUS GE)	119,840,265	7.88	2.87	6.19	12.62	12.62	11.83
<i>LEFD05019 MSCI ACWI ND</i>			4.08	6.31	15.31	15.31	8.24
<i>Excess Return</i>			-1.20	-0.12	-2.69	-2.69	3.59
LCIV-Baillie Gifford(ALPHA GE)	109,717,109	7.21	5.00	8.06	11.61	11.61	-1.18
<i>LEFD05016 MSCI ACWI ND</i>			4.08	6.31	15.31	15.31	8.24
<i>Excess Return</i>			0.93	1.75	-3.70	-3.70	-9.42
MFS Global Equity	82,761,731	5.44	4.32	6.30	8.09	8.09	5.75
<i>LEFD05005 MSCI ACWI ND</i>			4.08	6.31	15.31	15.31	8.24
<i>Excess Return</i>			0.25	-0.01	-7.22	-7.22	-2.49

9. In Q4 2023, global equity markets rose due to a strong rally in November and December as market participants expected a greater chance of interest rate cuts in 2024. The MSCI AC World index rose 9.5% in local currency terms. However, sterling appreciation against the US dollar pushed down returns in sterling terms to 6.4%
10. An important factor to consider is the strong leadership of a handful of US technology stocks that have been boosted by the Artificial Intelligence theme. Not only has this driven the performance of the US market, but it also skewed results for the MSCI World index. Furthermore, it has pushed US valuations into expensive territory. Once these companies are adjusted for, however, valuations and performance are less eye-catching. At the same time, valuations relative to bonds will likely continue to present a challenge for equities this year.
11. Most equity managers performed in line with their benchmarks with the exception of Baillie Gifford and JP Morgan emerging market equities.
12. Baillie Gifford – Global Alpha Growth Fund – (London CIV) -outperformed benchmark by 1.75%. The strategy outperformed in Q4 2023, narrowing underperformance for the year. Longer periods of performance remain highly influenced by the weak returns in 2021 and 2022. A pause in performance of large US tech related stocks, or the “Magnificent Seven”, and peaking US interest rates set a favourable backdrop for a diversified growth strategy such as this.
13. LCIV – JP Morgan Emerging market equity fund - The Sub-fund dropped in value by 1.7% over the last quarter and underperformed its benchmark, MSCI

Emerging Market Index, by 2.8%. The portfolio's exposure to China was a key detractor where value stocks outperformance weighed heavily on the Sub-fund on a relative basis, and the continued muted reopening of the Chinese economy also impacted the portfolio on an absolute basis. Stock selection in India, the portfolio's second largest geographical exposure (aggregating China and Hong Kong), was a detractor due to HDFC bank, which had a lacklustre performance after its merger with HDFC.

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	465,180,161	30.58	3.93	6.83	7.88	7.88	-3.25
<i>Enfield Bonds & IL BM</i>			3.48	5.97	6.69	6.69	-2.68
<i>Excess Return</i>			0.45	0.86	1.20	1.20	-0.57
AON Diversified Liquid Credit	69,324,186	4.56	0.95	2.36	7.57	7.57	-
<i>LEFD07003 1 month SONIA + 1.5%</i>			0.52	1.62	6.17	6.17	-
<i>Excess Return</i>			0.43	0.74	1.40	1.40	-
Blackrock IL Gilts	118,049,569	7.76	3.62	5.29	3.15	3.15	-4.84
<i>LEFD01 Blended Benchmark</i>			3.67	5.36	3.03	3.03	-4.87
<i>Excess Return</i>			-0.05	-0.07	0.12	0.12	0.03
Insight Bonds	32,166,374	2.11	0.74	2.32	6.18	6.18	1.58
<i>LEFD05006 SONIA 3 Month GBP+2%</i>			0.56	1.74	6.82	6.82	5.54
<i>Excess Return</i>			0.18	0.57	-0.65	-0.65	-3.96
LCIV - CQS (MAC)	58,373,012	3.84	3.00	5.90	11.23	11.23	2.89
<i>LEFD05020 3 Month GBP SONIA</i>			0.41	1.28	4.82	4.82	2.24
<i>Excess Return</i>			2.59	4.62	6.41	6.41	0.65
LCIV Global Bond Fund	81,863,414	5.38	3.89	7.50	9.06	9.06	-
<i>LEFD05021 Bloomberg Global Agg</i>			3.68	6.99	7.64	7.64	-
<i>Excess Return</i>			0.21	0.51	1.42	1.42	-
Western	105,403,606	6.93	8.03	13.46	10.69	10.69	-9.28
<i>LEFD03 ML Stg Non-Gilts 10+</i>			7.93	13.26	10.57	10.57	-9.74
<i>Excess Return</i>			0.10	0.20	0.12	0.12	0.45

14. Global bond yields moved lower as major central banks around the world kept their interest rates unchanged. The FTSE All Stocks Gilts Index and the FTSE All Stocks Index-Linked Gilts Index rose 8.1% and 8.7% respectively. Investment grade (corporate) bond credit spreads narrowed over the quarter
15. Most Bond fund managers performed in line with their benchmarks with the exception of the London -CQS- Multi asset credit (MAC) fund.
16. London -CQS- Multi asset credit (MAC) fund- In the fourth quarter, the CQS sub-fund returned 5.8%, ending the year strongly with an outperformance of 2.4%, against its objective. Over one year, the portfolio gained 11.3% and outperformed the target by 1.9%. In the period since inception of this Sub-fund, it has gained 2.9% on an annualised basis, 3.1% less than its absolute return target. In a change of fortune from the previous two quarters, investment grade credit outperformed high yield debt in Q4, benefitting from both falling yields and lower spreads. The Sub-fund particularly benefitted from a timely increase in exposure to U.S. duration ahead of Q4.

17. PPIC carried out a deep dive on the Bond/Fixed income portfolio in early 2024. This resulted in a number of proposed changes to the portfolio subject to clarity on exit costs being obtained. These changes will be bought to a later PPIC meeting for agreement once further information has been obtained by officers.

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	100,264,701	6.59	1.55	2.08	1.04	1.04	-5.65
<i>Enfield Inflation Illiquids BM</i>			0.39	1.60	7.18	7.18	5.98
<i>Excess Return</i>			1.15	0.49	-6.15	-6.15	-11.63
CBRE Long Income Fund	37,796,989	2.48	0.00	3.02	6.19	6.19	-2.45
<i>LEFD06007 BMK</i>			0.00	3.02	6.19	6.19	-2.45
<i>Excess Return</i>			0.00	0.00	0.00	0.00	0.00
M&G Inflation Opportunities Fd	62,467,711	4.11	2.51	1.52	-1.86	-1.86	-7.27
<i>LEFD05010 UK RPI +2.5%</i>			0.64	0.75	7.66	7.66	11.16
<i>Excess Return</i>			1.87	0.77	-9.52	-9.52	-18.44

18. 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.
19. M&G inflation opportunities Fund - Continuing challenging market conditions have meant the fund has significantly underperformed over the 12-month period by -9.5%.

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	102,437,197	6.73	-3.08	-6.61	-8.10	-8.10	17.61
<i>Enfield PE BM</i>			4.08	6.31	15.31	15.31	8.24
<i>Excess Return</i>			-7.15	-12.92	-23.41	-23.41	9.38
Adams Street	102,437,197	6.73	-3.08	-6.61	-8.10	-8.10	17.61
<i>LEFD06005 MSCI ACWI ND</i>			4.08	6.31	15.31	15.31	8.24
<i>Excess Return</i>			-7.15	-12.92	-23.41	-23.41	9.38

20. 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).

21. 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 +14% 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	61,730,355	4.06	4.64	6.13	-4.73	-4.73	1.46
<i>Enfield Infrastructure BM</i>			6.90	10.74	-3.96	-3.96	-2.13
<i>Excess Return</i>			-2.26	-4.61	-0.77	-0.77	3.59
Antin Infrastructure	20,405,939	1.34	0.54	-1.95	-6.18	-6.18	8.94
INPP	39,698,791	2.61	7.01	11.00	-3.73	-3.73	-2.06
<i>LEFD05015 Fund returns</i>			7.01	11.00	-3.73	-3.73	-2.06
<i>Excess Return</i>			0.00	0.00	0.00	0.00	0.00
LCIV Renewable Infra	1,625,625	0.11	0.00	0.00	-	-	-
<i>LEFD05022 8.5% BMK</i>			0.68	2.06	-	-	-
<i>Excess Return</i>			-0.68	-2.06	-	-	-

22. On a one-year basis, performance is negative for the infrastructure asset class (-4.7%). Relative performance to the benchmark is -0.77%. 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.

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

24. 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 2-4 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	78,682,683	5.17	-0.62	-1.17	-2.70	-2.70	1.87
<i>Enfield Property BM</i>			-0.34	-1.16	-1.40	-1.40	2.06
<i>Excess Return</i>			-0.28	-0.01	-1.30	-1.30	-0.19
Blackrock UK FD	32,758,802	2.15	-1.24	-2.07	-2.91	-2.91	0.44
<i>LEFD05012 IPD All Balncd Prpty</i>			-0.34	-1.16	-1.40	-1.40	2.06
<i>Excess Return</i>			-0.90	-0.91	-1.51	-1.51	-1.62
Brockton Capital Fund	8,922,197	0.59	0.00	-4.32	-8.55	-8.55	3.13
<i>LEFD06001 IPD All Balncd</i>			-0.34	-1.16	-1.40	-1.40	2.06

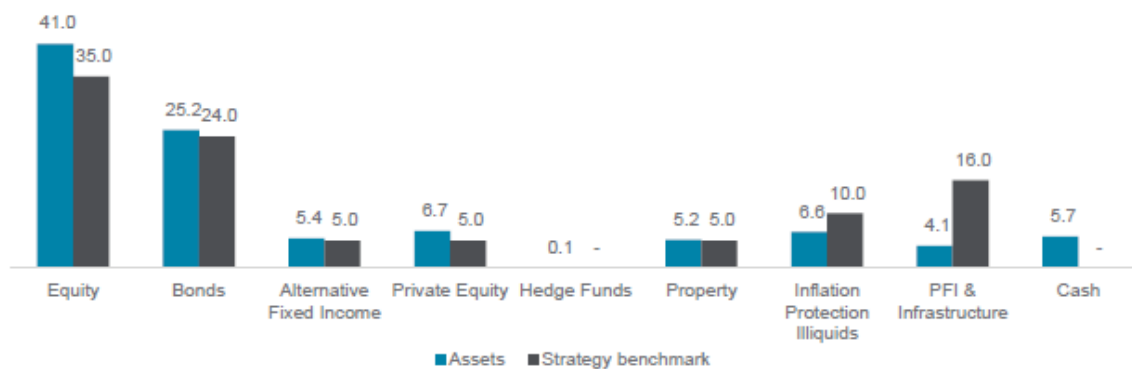
Prpty								
Excess Return				0.34	-3.15	-7.15	-7.15	1.06
Legal & General Property	37,001,684	2.43		-0.22	0.45	-1.01	-1.01	3.07
LEFD05013 IPD All Balncd				-0.34	-1.16	-1.40	-1.40	2.06
Prpty				0.12	1.61	0.39	0.39	1.01
Excess Return								

25. The property asset class produced a negative return of -1.17% over the quarter. On a 1 year basis the asset class for the Fund has shown -2.7% performance which is 1.3% below the benchmark. Over 5 years the return has been 1.45% p.a. in line with benchmark.

Strategic Allocations

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

31 December 2023 strategic allocation & benchmark (%)



*Note – this chart refers to the 2023 strategic asset allocation and not the strategic asset allocation agreed in 2024.

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 4 - as at 31 December 2023)

Additions/Investments - none
Disposals/redemptions – none

29. Changes coming up in Q1 2024 in line with previous Committee decisions
Additions/Investments – none
Disposals/redemptions – none
Changes in the Bond Portfolio may occur in Q2 dependent on PPIC decisions

Cash Position

30. The cash position as at 31 December was £87.3m.
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 approximately 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 30th 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
- Appendix 3 – Manager Monitoring report – **Part 2 – Exempt Confidential**
- Appendix 4 – Market update & Investment outlook – **Part 2 – Exempt Confidential**