



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	31 July 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 March 2024.
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 March 2024 was £1,578m which was a £59m increase in the quarter.

Fund performance:

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

Performance summary (%)



*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 (which should be read for further detail) 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
London Borough of Enfield	1,577,459,076	100.00	1.40	3.60	3.60	8.60	3.90
<i>Enfield Strategic BM</i>			1.38	2.08	2.08	8.59	4.48
<i>Excess Return</i>			0.02	1.52	1.52	0.00	-0.58
Total Equities	675,126,894	42.80	2.22	8.39	8.39	18.19	8.12
<i>Enfield Equities BM</i>			3.36	8.98	8.98	21.29	9.86
<i>Excess Return</i>			-1.14	-0.59	-0.59	-3.10	-1.74
Blackrock Low Carbon	305,592,382	19.37	1.65	9.38	9.38	24.42	11.45
<i>LEFD02 MSCI Wld Lw CrbnTgtxFsl</i>			3.53	9.41	9.41	24.08	11.03
<i>Excess Return</i>			-1.88	-0.03	-0.03	0.34	0.42
LCIV - JP Morgan (EM)	31,430,905	1.99	1.67	1.02	1.02	-1.34	-4.36
<i>LEFD05018 MSCI EM Mrkts ND</i>			2.62	3.30	3.30	5.86	-2.22
<i>Excess Return</i>			-0.94	-2.29	-2.29	-7.19	-2.14
LCIV - Longview (FOCUS GE)	130,760,519	8.29	3.37	9.11	9.11	18.01	12.70
<i>LEFD05019 MSCI ACWI ND</i>			3.28	9.19	9.19	20.60	10.15
<i>Excess Return</i>			0.09	-0.07	-0.07	-2.59	2.56
LCIV-Baillie Gifford(ALPHA GE)	119,300,099	7.56	2.10	8.73	8.73	15.98	0.89
<i>LEFD05016 MSCI ACWI ND</i>			3.28	9.19	9.19	20.60	10.15
<i>Excess Return</i>			-1.18	-0.45	-0.45	-4.62	-9.26
MFS Global Equity	88,042,688	5.58	2.90	6.34	6.34	10.04	6.94
<i>LEFD05005 MSCI ACWI ND</i>			3.28	9.19	9.19	20.60	10.15
<i>Excess Return</i>			-0.38	-2.85	-2.85	-10.56	-3.21

8. Equity markets continued to make good progress over Q1, despite rising yields and expectations that inflation is likely to remain sticky in the US and other developed countries. One main reason for this is the strength of the US economy, with a number of widely-tracked datapoints surprising the consensus by rebounding. Aon think that US growth could remain relatively strong throughout this year, albeit with some degree of slowdown.
9. An important factor to consider is the strong leadership of a handful of US technology stocks that have been boosted by the Artificial Intelligence (AI) theme. Not only has this driven the performance of the US market, but it also skewed results for the MSCI World index. Aon do not think it (AI) will lose relevance in the near-term as the major beneficiary companies are highly profitable and their valuations do not look excessive. However, the top 10 US stocks are now very dominant in global indices, and it may be worth considering rebalancing if portfolios continue to become similarly dominated by these big companies.
10. Over 1 year, JP Morgan Emerging market equities, Baillie Gifford and MFS all underperformed their benchmarks.
11. **Baillie Gifford – Global Alpha Growth Fund – (London CIV)** -The strategy remains diversified across its three types of growth, with around a third of the portfolio in each of Capital Allocators, Compounders and Disruptors. The strategy performed largely in-line with the index in Q1 2024. Longer periods of performance remain highly influenced by the weak returns in 2021 and 2022.
12. **LCIV – JP Morgan Emerging market equity fund** - Over the quarter the fund has continued its trend of underperformance against its benchmark and continues to lag

over the one and three year periods. The stock selection, specifically within financials was the key driver for the underperformance over the quarter. Across sectors, both stock selection and sector allocation detracted from the Sub-fund's performance.

13. All equity managers will be reviewed as part of the PPIC deep dive into the asset class in 2024.

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	465,941,441	29.54	1.47	0.41	0.41	5.78	-2.03
<i>Enfield Bonds & IL BM</i>			1.27	0.11	0.11	4.53	-1.34
<i>Excess Return</i>			0.20	0.30	0.30	1.25	-0.69
AON Diversified Liquid Credit	69,494,876	4.41	0.71	1.86	1.86	7.36	-
<i>LEFD07003 1 month SONIA + 1.5%</i>			0.53	1.64	1.64	6.50	-
<i>Excess Return</i>			0.19	0.22	0.22	0.86	-
Blackrock IL Gilts	117,195,125	7.43	1.42	-0.72	-0.72	0.00	-4.11
<i>LEFD01 Blended Benchmark</i>			1.44	-0.71	-0.71	0.06	-4.12
<i>Excess Return</i>			-0.02	-0.02	-0.02	-0.06	0.01
Insight Bonds	32,973,040	2.09	0.71	2.51	2.51	8.62	1.82
<i>LEFD05006 SONIA 3 Month GBP+2%</i>			0.57	1.77	1.77	7.11	5.81
<i>Excess Return</i>			0.14	0.74	0.74	1.51	-3.98
LCIV - CQS (MAC)	59,726,800	3.79	1.41	2.32	2.32	11.52	2.97
<i>LEFD05020 3 Month GBP SONIA</i>			0.40	1.27	1.27	5.11	2.67
<i>Excess Return</i>			1.00	1.05	1.05	6.41	0.30
LCIV Global Bond Fund	82,306,067	5.22	1.35	0.54	0.54	6.39	-
<i>LEFD05021 Bloomberg Global Agg</i>			1.19	-0.01	-0.01	4.87	-
<i>Excess Return</i>			0.16	0.56	0.56	1.52	-
Western	104,245,533	6.61	2.43	-1.10	-1.10	6.18	-7.23
<i>LEFD03 ML Stg Non-Gilts 10+</i>			2.36	-1.03	-1.03	5.93	-7.55
<i>Excess Return</i>			0.07	-0.07	-0.07	0.25	0.32

14. Global bond yields moved higher in Q1 following falling market expectations for central bank rate cuts this year. Investment grade (corporate) bond credit spreads narrowed over the quarter.
15. Over 1 year most Bond fund managers performed in line with their benchmarks with the exception of the London -CQS- Multi asset credit (MAC) fund who significantly outperformed their benchmark.
16. In the first quarter, the CQS sub-fund returned 2.3%, with an outperformance of 1.0%, against its objective, SONIA (30-day compounded) +1.3%. Over one year, the portfolio gained 11.5% and outperformed the target by 6.4%. In absolute terms, the largest gains came from asset backed securities. Other short duration asset classes, such as high yield and senior secured loans also had strong gains, this was due to spread tightening and low duration. Both asset classes offer high income and low exposure to interest rate risk. Within high yield, European financials performed well as expectations for rate cuts by central banks increased.

17. PPIC carried out a deep dive on the Bond/Fixed income portfolio in early 2024 where the Fund managers and their objectives/performance were reviewed. This resulted in a number of proposed changes to the portfolio. These changes will be bought to a PPIC meeting for agreement.

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	98,712,802	6.26	-1.55	-1.22	-1.22	-2.09	-6.09
<i>Enfield Inflation Illiquids BM</i>			-1.09	-0.18	-0.18	4.76	5.66
<i>Excess Return</i>			-0.45	-1.04	-1.04	-6.85	-11.74
CBRE Long Income Fund	36,245,091	2.30	-4.11	-3.25	-3.25	1.23	-3.42
<i>LEFD06007 BMK</i>			-4.11	-3.25	-3.25	1.23	-3.42
<i>Excess Return</i>			0.00	0.00	0.00	-0.00	0.00
M&G Inflation Opportunities Fd	62,467,711	3.96	0.00	0.00	0.00	-4.00	-7.39
<i>LEFD05010 UK RPI +2.5%</i>			0.73	1.67	1.67	6.79	11.36
<i>Excess Return</i>			-0.73	-1.67	-1.67	-10.79	-18.75

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 Fund.
19. M&G inflation opportunities Fund - continuing challenging market conditions have meant the fund has significantly underperformed over the 12 month period by -10.8%.

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	104,888,778	6.65	1.91	2.70	2.70	-1.81	11.47
<i>Enfield PE BM</i>			3.28	9.19	9.19	20.60	10.15
<i>Excess Return</i>			-1.37	-6.49	-6.49	-22.41	1.33
Adams Street	104,888,778	6.65	1.91	2.70	2.70	-1.81	11.47
<i>LEFD06005 MSCI ACWI ND</i>			3.28	9.19	9.19	20.60	10.15
<i>Excess Return</i>			-1.37	-6.49	-6.49	-22.41	1.33

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 expectations 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 +16% 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	60,570,443	3.84	-0.19	-5.67	-5.67	-5.95	-0.79
<i>Enfield Infrastructure BM</i>			-1.50	-8.98	-8.98	-8.48	-4.78
<i>Excess Return</i>			1.31	3.31	3.31	2.53	3.99
Antin Infrastructure	20,665,395	1.31	2.58	1.27	1.27	-0.60	7.43
INPP	35,827,148	2.27	-1.74	-9.75	-9.75	-9.04	-4.98
<i>LEFD05015 Fund returns</i>			-1.74	-9.75	-9.75	-9.04	-4.98
<i>Excess Return</i>			0.00	0.00	0.00	0.00	0.00
LCIV Renewable Infra	4,077,900	0.26	0.00	0.00	0.00	-	-
<i>LEFD05022 8.5% BMK</i>			0.68	2.06	2.06	-	-
<i>Excess Return</i>			-0.68	-2.06	-2.06	-	-

22. On a one year basis, performance is negative for the infrastructure asset class (-5.95). Relative performance to the benchmark is +2.53%. 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 underweight 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	80,868,538	5.13	-0.57	-0.93	-0.93	-2.28	0.26
<i>Enfield Property BM</i>			0.31	0.51	0.51	-0.70	1.50
<i>Excess Return</i>			-0.89	-1.44	-1.44	-1.59	-1.24
Blackrock UK FD	32,399,463	2.05	-0.06	-0.18	-0.18	-3.29	-0.44
<i>LEFD05012 IPD All Balncd Prpty</i>			0.31	0.51	0.51	-0.70	1.50
<i>Excess Return</i>			-0.37	-0.69	-0.69	-2.59	-1.94
Brockton Capital Fund	11,406,111	0.72	-3.81	-6.54	-6.54	-10.29	-5.47
<i>LEFD06001 IPD All Balncd Prpty</i>			0.31	0.51	0.51	-0.70	1.50

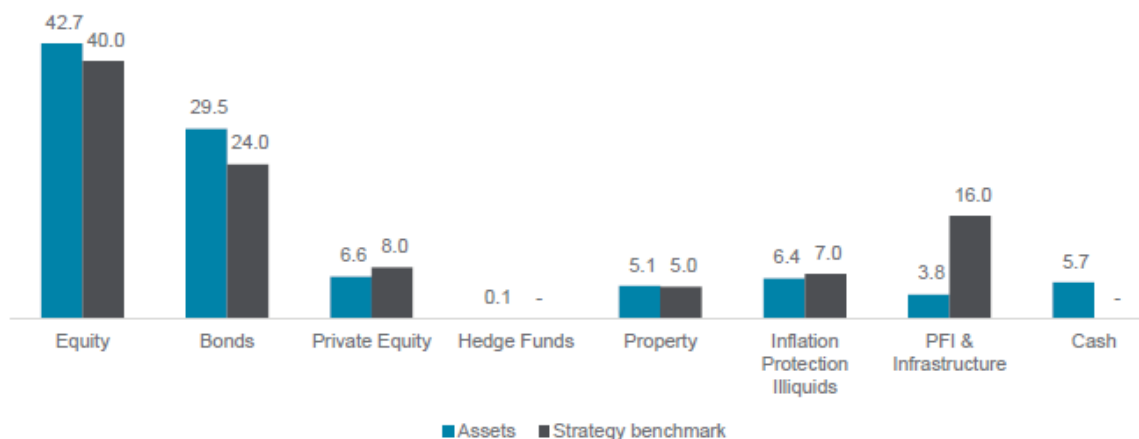
<i>Excess Return</i>			<i>-4.13</i>	<i>-7.06</i>	<i>-7.06</i>	<i>-9.60</i>	<i>-6.97</i>
Legal & General Property	37,062,964	2.35	0.01	0.17	0.17	1.10	2.42
<i>LEFD05013 IPD All Balncd Prpty</i>			<i>0.31</i>	<i>0.51</i>	<i>0.51</i>	<i>-0.70</i>	<i>1.50</i>
<i>Excess Return</i>			<i>-0.31</i>	<i>-0.35</i>	<i>-0.35</i>	<i>1.79</i>	<i>0.92</i>

25. The property asset class produced a negative return of -1% over the quarter . On a 1 year basis the asset class for the Fund has shown -2.2% performance which is 1.6% below the benchmark. Over 5 years the return has been 1.05% p.a. in line with benchmark.

Strategic Allocations

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

31 March 2024 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. The Fund is overweight in bonds/fixed income. This will be reduced following the Bonds deep dive as and when cash is required for other investments.
29. Changes in funds in line with previous Committee decisions (for quarter 1 - as at 31 March 2024)
 Additions/Investments - none
 Disposals/redemptions – none
30. Changes coming up in Q2 2024 in line with previous Committee decisions
 Additions/Investments – none
 Disposals/redemptions – none

Changes in the Bond Portfolio may occur in Q3 dependent on PPIC decisions

Cash Position

31. The cash position as at 31 March was £89.7m.
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 approximately 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 could mean that employers in the fund (including Enfield Council) have a lower level or stable contribution rates thereby enabling budgets to be utilised on other service areas.
36. The Fund is 122% funded as at 30th June 2024. 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 – part1
Appendix 3 – Manager Monitoring report – **Part 2 – Exempt Confidential**
Appendix 4 – Market update & Investment outlook – **Part 2 – Exempt Confidential**