



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	02 October 2024
Cabinet Member	Cllr Tim Leaver
Executive Director / Director	Fay Hammond
Report Author	Ravi Lakhani (Head of Pension Investments). Ravi.Lakhani@enfield.gov.uk
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 Q2, 30 June 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

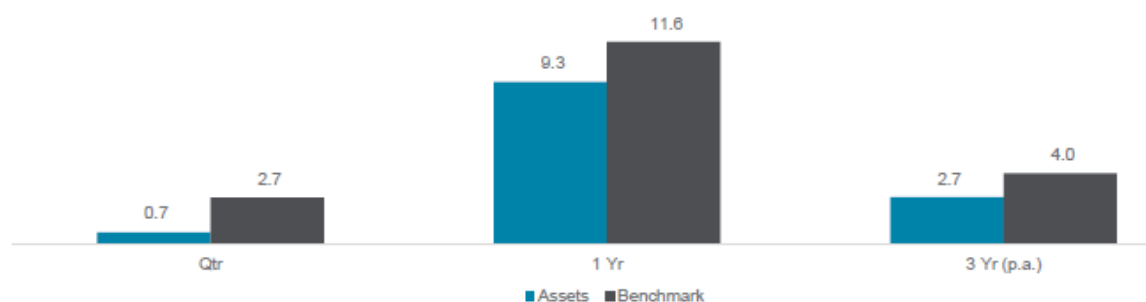
3. The Pension Fund Regulations require that the Council establishes arrangements for monitoring investments of the Fund and it considers the activities of the investment managers and ensure that proper advice is obtained on investment issues.
4. Officers and Aon (the Fund's investment advisors) meet 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 30 June 2024 was £1,586m which was a £6.3m (0.4%) increase in the quarter.

Fund performance:

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



*Figures are on an annual basis

Asset Class and Manager performance (significant points)

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	1,585,985,118	100.00	1.53	0.66	4.43	9.29	2.68
<i>Enfield Strategic BM</i>			2.06	2.66	4.80	11.57	4.05
<i>Excess Return</i>			-0.52	-2.01	-0.37	-2.28	-1.37
Total Equities	682,484,376	43.03	2.76	1.08	9.56	15.54	6.15
<i>Enfield Equities BM</i>			3.48	2.92	12.17	20.51	8.41
<i>Excess Return</i>			-0.72	-1.83	-2.60	-4.97	-2.26
Blackrock Low Carbon	314,876,189	19.85	3.92	3.04	12.70	22.29	9.97
<i>LEFD02 MSCI Wld Lw CrbnTgtxFsl</i>			3.92	2.84	12.52	21.87	9.51
<i>Excess Return</i>			-0.00	0.20	0.19	0.42	0.46
LCIV - JP Morgan (EM)	32,001,042	2.02	4.95	1.81	2.85	3.18	-4.79
<i>LEFD05018 MSCI EM Mrkts ND</i>			4.69	4.93	8.40	13.19	-2.21
<i>Excess Return</i>			0.26	-3.11	-5.55	-10.01	-2.58
LCIV - Longview (FOCUS GE)	128,988,142	8.13	1.97	-1.36	7.63	11.43	10.06
<i>LEFD05019 MSCI ACWI ND</i>			2.96	2.80	12.24	20.06	8.60
<i>Excess Return</i>			-1.00	-4.16	-4.61	-8.63	1.46
LCIV-Baillie Gifford(ALPHA GE)	120,832,233	7.62	2.38	1.28	10.13	13.86	-0.98
<i>LEFD05016 MSCI ACWI ND</i>			2.96	2.80	12.24	20.06	8.60
<i>Excess Return</i>			-0.58	-1.52	-2.11	-6.21	-9.58
MFS Global Equity	85,786,469	5.41	-0.42	-2.60	3.57	6.83	3.48
<i>LEFD05005 MSCI ACWI ND</i>			2.96	2.80	12.24	20.06	8.60
<i>Excess Return</i>			-3.38	-5.40	-8.67	-13.23	-5.12

8. US equities were the second best-performing market both in local and sterling terms over the quarter. Large sectors such as Information Technology (13.0%) and Communication Services (9.5%) outperformed over the quarter. Earnings growth was strongest in Communication Services, Utilities, Consumer Discretionary, and I.T. sectors. Several amongst the “Magnificent-7” stocks performed well after reporting solid earnings amidst high demand for A.I. technology.
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. **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 one and three year periods. Poor stock selection, specifically within consumer staples and information technology was the key driver for underperformance over the quarter.
11. **LCIV- Longview – Global Equity Focus Fund-** The strategy underperformed the benchmark in the second quarter of 2024. The underweight to IT detracted from performance as did stock selection in Consumer Staples, Healthcare and IT. More positive was stock selection in Communication Services and Industrials.

12. **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 underperformed the index in Q2 2024. Longer periods of performance also underperformed relative to the index, this underperformance remains highly influenced by the weak returns in 2021 and 2022.
13. **MFS Global equity** – The strategy significantly underperformed in the quarter against the benchmark which continues the trend of underperformance over longer time frames. The manager is currently being reviewed in depth by PPIC with the outcome of this to be bought to a future PPIC meeting. This manager is outside the London CIV pool.
14. 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	465,451,960	29.35	0.72	0.05	0.45	7.40	-2.67
<i>Enfield Bonds & IL BM</i>			0.66	0.04	0.15	6.10	-1.89
<i>Excess Return</i>			0.06	0.00	0.30	1.30	-0.78
AON Diversified Liquid Credit	69,778,105	4.40	0.56	1.42	3.31	7.94	-
<i>LEFD07003 1 month SONIA + 1.5%</i>			0.51	1.64	3.31	6.69	-
<i>Excess Return</i>			0.05	-0.22	-0.00	1.25	-
Blackrock IL Gilts	116,663,688	7.36	0.47	-0.45	-1.17	3.67	-4.71
<i>LEFD01 Blended Benchmark</i>			0.46	-0.46	-1.17	3.66	-4.74
<i>Excess Return</i>			0.01	0.01	-0.01	0.01	0.02
Insight Bonds	33,574,533	2.12	0.81	1.82	4.38	8.90	2.29
<i>LEFD05006 SONIA 3 Month GBP+2%</i>			0.55	1.75	3.55	7.24	6.06
<i>Excess Return</i>			0.26	0.08	0.83	1.66	-3.77
LCIV - CQS (MAC)	60,740,129	3.83	0.79	1.70	4.06	11.29	2.87
<i>LEFD05020 3 Month GBP SONIA</i>			0.39	1.26	2.55	5.24	3.09
<i>Excess Return</i>			0.40	0.43	1.50	6.05	-0.21
LCIV Global Bond Fund	82,428,949	5.20	0.78	0.15	0.69	6.45	-
<i>LEFD05021 Bloomberg Global Agg</i>			0.69	0.09	0.08	5.18	-
<i>Excess Return</i>			0.10	0.06	0.61	1.27	-
Western	102,266,556	6.45	0.98	-1.90	-2.98	9.60	-8.75
<i>LEFD03 ML Stg Non-Gilts 10+</i>			1.15	-1.73	-2.74	9.30	-9.01
<i>Excess Return</i>			-0.16	-0.16	-0.23	0.30	0.26

15. Global bond yields trended higher on a shift in expectations towards slower interest rate cuts by major central banks. The FTSE All Stocks Gilts Index and the FTSE All Stocks Index-Linked Gilts Index fell 0.9% and 2.1% respectively. Investment grade (corporate) bond credit spreads marginally widened over the quarter, causing the iBoxx Sterling Non-Gilts index to post a -0.1% return in Q2 2024, still outperformed government bond indices.
16. Over 1 year, Bond fund managers performed approximately in line with their benchmarks.

17. **Western Active Bonds** - Post quarter end, Western Asset Management announced that Co-CIO Ken Leech was taking an immediate leave of absence to address the receipt of a Wells Notice from the Securities and Exchange Commission.

At present and based on the limited information provided due to the ongoing nature of the investigations, Aon's Operational Risk Solutions & Analytics (ORSA) team considers the situation fluid and continues to monitor the situation as there has not been any detailed information about the underlying securities involved, potential impact on Aon clients' exposure, or actionable items that warrant decision-making from an ORSA rating standpoint.

As both the investment and organisational aspects of the news are assessed, Aon's internal manager research team have moved all strategies that they cover to "In Review". It is important to note that the leave of absence of Leech will not impact all Western strategies equally. On that basis, Aon would not recommend taking any immediate action for the time being.

Officers for the Fund have discussed this issue with Western Management. Western have provided assurance that the individual concerned was not involved in Enfield's portfolio and that governance procedures are being reviewed. PPIC recently decided to keep Western as manager for the foreseeable future.

18. 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 were agreed at the July 24 PPIC meeting and will therefore be reflect in future performance reports. The committee may wish to review the Western holding again given the comments in paragraph 17.

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	100,586,047	6.34	0.00	0.30	0.96	3.90	-5.56
<i>Enfield Inflation Illiquids BM</i>			0.28	1.40	1.22	4.18	5.35
<i>Excess Return</i>			-0.28	-1.11	-0.26	-0.28	-10.91
CBRE Long Income Fund	36,245,091	2.29	0.00	0.83	-2.44	2.08	-3.32
<i>LEFD06007 BMK</i>			0.00	0.83	-2.44	2.08	-3.32
<i>Excess Return</i>			0.00	0.00	0.00	0.00	0.00
M&G Inflation Opportunities Fd	64,340,956	4.06	0.00	0.00	3.00	4.94	-6.62
<i>LEFD05010 UK RPI +2.5%</i>			0.43	1.73	3.43	5.37	10.91
<i>Excess Return</i>			-0.43	-1.73	-0.43	-0.43	-17.53

19. Over 3 years the asset class and managers within it have continued to produce negative returns, however recent performance has improved in absolute terms. 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.

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	103,455,088	6.52	0.37	-0.46	2.23	-0.17	7.32
<i>Enfield PE BM</i>			2.96	2.80	12.24	20.06	8.60
<i>Excess Return</i>			-2.60	-3.26	-10.02	-20.23	-1.28
Adams Street	103,455,088	6.52	0.37	-0.46	2.23	-0.17	7.32
<i>LEFD06005 MSCI ACWI ND</i>			2.96	2.80	12.24	20.06	8.60
<i>Excess Return</i>			-2.60	-3.26	-10.02	-20.23	-1.28

20. There is only 1 fund manager for private equity – Adams Street. On a one-year time frame it has performed negatively on a 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. Over a 5 year period Adams Street has been the best performing asset for the fund producing returns of +14% p.a. and beating the benchmark by +3% 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	78,625,795	4.96	1.11	1.36	-4.39	1.97	-0.70
<i>Enfield Infrastructure BM</i>			1.56	5.90	-3.61	5.47	-3.40
<i>Excess Return</i>			-0.45	-4.53	-0.77	-3.49	2.70
Antin Infrastructure	20,884,141	1.32	-0.57	1.32	2.61	4.26	7.80
Blackrock GBL INF IV B SCSP	12,228,813	0.77	0.72	-	-	-	-
<i>LEFD06008 8.5% BMK</i>			0.68	-	-	-	-
<i>Excess Return</i>			0.04	-	-	-	-
INPP	36,867,291	2.32	2.05	6.22	-4.14	5.15	-3.49
<i>LEFD05015 Fund returns</i>			2.05	6.22	-4.14	5.15	-3.49
<i>Excess Return</i>			0.00	0.00	-0.00	0.00	-0.00
LCIV Renewable Infra	8,645,550	0.55	1.79	0.34	0.34	-	-
<i>LEFD05022 8.5% BMK</i>			0.68	2.06	4.16	-	-
<i>Excess Return</i>			1.11	-1.72	-3.82	-	-

22. On a one year basis, performance is positive for the infrastructure asset class (+2.0%). Relative performance to the benchmark is +3.5%..
23. The Fund is currently underweight the asset class when compared to the strategic allocation. (5% 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

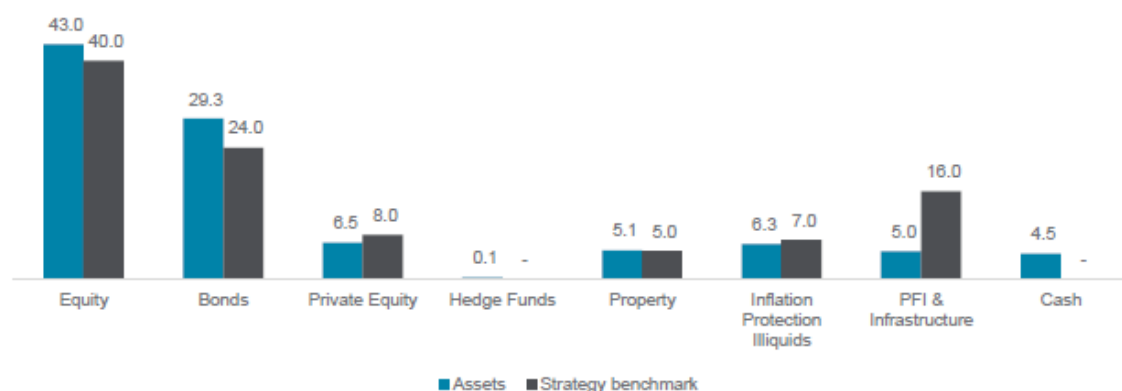
Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return				
			One Month	Three Months	Year to Date	One Year	Three Years
Property	81,481,709	5.14	0.40	1.16	0.22	-1.11	-0.17
<i>Enfield Property BM</i>			0.05	1.15	1.67	0.06	0.63
<i>Excess Return</i>			0.34	0.01	-1.45	-1.17	-0.80
Blackrock UK FD	32,515,346	2.05	0.24	1.37	1.19	-1.74	-0.80
<i>LEFD05012 IPD All Balncd Prpty</i>			0.05	1.15	1.67	0.06	0.63
<i>Excess Return</i>			0.18	0.22	-0.48	-1.80	-1.42
Brockton Capital Fund	11,406,111	0.72	0.00	0.00	-6.54	-10.29	-5.47
<i>LEFD06001 IPD All Balncd Prpty</i>			0.05	1.15	1.67	0.06	0.63
<i>Excess Return</i>			-0.05	-1.15	-8.21	-10.36	-6.10
Legal & General Property	37,560,252	2.37	0.66	1.34	1.51	2.32	1.84
<i>LEFD05013 IPD All Balncd Prpty</i>			0.05	1.15	1.67	0.06	0.63
<i>Excess Return</i>			0.61	0.19	-0.16	2.26	1.21

25. On a 1 year basis the asset class for the Fund has shown -1.1% performance which is 1.2% below the benchmark. Over 5 years the return has been 1.1% p.a. approximately in line with benchmark.

Strategic Allocations

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

30 June 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 2 - as at 30 June 2024)

Additions/Investments –
LCIV renewable infrastructure Fund - £2.6m
Blackrock infra fund - £14.1m

Disposals/redemptions – none

Changes in the Bond Portfolio will occur in Q3 in line with PPIC decisions.

Cash Position

30. The cash position as at 31 March was £71.7m.
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 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/outlook

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 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.
35. 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.

Report Author: Ravi Lakhani
Head of Pension Investments
Ravi.Lakhani@enfield.gov.uk
020 8132 1187

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**