

London Borough of Enfield Pension Fund

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Prepared for: Pensions Policy & Investment Committee
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Cashflow considerations

Introduction

At the November 2017 Pensions Policy & Investment Committee (the "Committee") meeting the Committee decided to reduce the London Borough of Enfield Pension Fund's (the "Fund") strategic equity weighting by c. 5% in order to reduce the level of risk in the investment strategy.

This is in line with discussions that the Committee had undertaken as part of the 2017 Investment Strategy Review and reflects the strong improvement in funding level since the 31 March 2016 Actuarial Valuation.

The purpose of this short paper is to outline Fund's expected asset movements across asset classes over the short term and consider the estimated cashflow position. It considers the equity de-risking as well as the agreed investments and disinvestments using 31 December 2017 asset data.

Transition of assets

The following decisions have been incorporated as part of the paper:

- Disinvest from Trilogy completely (c. £168m) and invest the assets in a new allocation with Longview (c. £70m) and a top up of the Baillie Gifford account (c. £18m) such that there is a broadly equal split between Longview and Baillie Gifford. MFS' allocation will remain unchanged.

The intention behind the restructure of the active, global equity managers was to allocate to high conviction managers and create a more balanced portfolio with respect to equity management style. The Longview and Baillie Gifford funds are accessed through the London CIV platform.

- Invest c. £25.0m in Henderson's emerging market equity fund such that the allocation results in the Fund's overall emerging market equity allocation being similar to the weight of emerging markets in a global equity index (c. 11.8%). This is to be funded through a disinvestment in BlackRock's emerging market passive equity fund (c. £12.0m) and c. £13.0m from the Trilogy proceeds.

The rationale for this change is to increase the allocation to emerging market equities, where the Fund is underweight and where growth prospects are higher. In addition, it was deemed that an active management style would be most appropriate for emerging market equities. Henderson's emerging market equity fund is to be accessed through the London CIV platform.

- Disinvest from Markham Rae (c. £9m) with the proceeds to be held in cash in the interim. The Fund is expected to receive this cash at the end of January 2018.

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- Commit a further \$5m USD in Adams Street Partners 2017 Private Equity Program and \$10m in their 2018 Program. These commitments will be drawn down over time rather than invested immediately and we have assumed that this does not immediately reduce our cash holdings.
 - Fully redeem the Fund's c. £23m holding in Gruss following a downgrade in rating to 'Sell' in Q4 2017. The Gruss fund has a staggered redemption process and the Fund is expected to receive its first tranche of capital, (25%) c. £6m, in May 2018. The remaining proceeds will be received in staggered tranches such that the Fund will receive its entire holding back by May 2019. For the purpose of this analysis we have only incorporated the first tranche of the redemption proceeds given the focus on near term cashflow.
 - Brockton – The Fund has committed £20m to the Brockton fund, with a net £2.6m being drawn to date. Brockton expects to draw down 90% of the residual amount, c. £15.7m, with a 10% buffer kept as reserve. The investment period ends in August 2018 however Brockton is able to make further capital calls after August 2018 in order to fund existing investments within the portfolio and for asset management purposes. We have assumed that Brockton draws down 90% of the Fund's total commitment prior to August 2018 and this is expressed as a reduction in the Fund's cash balance.
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Allocation of assets The table below shows the current asset allocation as at 31 December 2017 and the asset allocation post the various cashflows

	Current asset allocation		Cashflow estimate (£m)	Post transition asset allocation	
	31 Dec 2017 (£m)	31 Dec 2017 (%)		31 Dec 2017 (£m)	31 Dec 2017 (%)
Equities	520.5	46.0	-67.8	452.7	40.0
<i>BlackRock Global Passive</i>	170.1	15.0	-12.0	158.1	14.0
<i>Trilogy Global Unconstrained</i>	168.4	14.9	-168.4	-	-
<i>MFS Global Unconstrained</i>	102.0	9.0	-	102.0	9.0
<i>London CIV Baillie Gifford</i>	52.0	4.6	+17.8	69.8	6.2
<i>Lansdowne Equity L/S</i>	28.0	2.5	-	28.0	2.5
<i>London CIV Longview</i>	-	-	+69.8	69.8	6.2
<i>Henderson</i>	-	-	+25.0	25.0	2.2
Private Equity	55.9	4.9	-	55.9	4.9
<i>Adams Street</i>	55.9	4.9	-	55.9	4.9
Hedge Funds	130.9	11.6	-14.2	116.7	10.3
<i>Lansdowne Equity L/S*</i>	28.0	2.5	-	28.0	2.5
<i>York Distressed Securities</i>	19.1	1.7	-	19.1	1.7
<i>Brevan Howard Global Macro</i>	-	-	-	-	-
<i>Davidson Kempner International</i>	25.4	2.2	-	25.4	2.2
<i>Gruss Global Investors Enhanced</i>	22.7	2.0	-5.7	17.0	1.5
<i>CFM Stratus</i>	27.1	2.4	-	27.1	2.4
<i>Markham Rae</i>	8.5	0.8	-8.5	-	-
UK Property	74.6	6.6	15.7	90.2	8.0
<i>Blackrock</i>	36.9	3.3	-	36.9	3.3
<i>Legal & General</i>	31.8	2.8	-	31.8	2.8
<i>Brockton</i>	5.8	0.5	15.7	21.5	1.9
PFI & Infrastructure	45.4	4.0	-	45.4	4.0
<i>IPPL Listed PFI</i>	43.3	3.8	-	43.3	3.8
<i>Antin</i>	2.1	0.2	-	2.1	0.2
Bonds	250.9	22.2	-	250.9	22.2
<i>BlackRock Passive Gilts and ILGs</i>	86.5	7.6	-	86.5	7.6
<i>Western Active Bonds</i>	88.8	7.8	-	88.8	7.8
<i>M&G Inflation Opportunities</i>	42.8	3.8	-	42.8	3.8
<i>Insight Absolute Return Bonds</i>	32.8	2.9	-	32.8	2.9
Cash	53.5	4.7	+66.4	119.9	10.6
<i>Enfield Cash</i>	53.5	4.7	66.4	119.9	10.6
Total Assets	1,131.8	100.0		1,131.8	100.0

Source: Northern Trust/Managers/Aon. Data as at 31 December 2017. Totals may not sum due to rounding.

Cashflow

Following the transitions the Fund's cash position is estimated to be c. £119.9m (10.6% of Fund assets). However, a portion of this cash is earmarked to the following assets:

- Adams Street Partners – The Fund committed a further \$5m USD in Adams Street Partners 2017 Private Equity Program and \$10m in their 2018 Program. These commitments will be drawn down over time rather than invested immediately but this will not materially reduce the level of cash in the Fund as the programme provides distributions that can be used to fund subsequent capital drawdown notices.
- Antin – The Fund has committed €25m EUR (c. £22.1m GBP) to Antin. c. €2.7m EUR has been drawdown (including the recent capital call in December 2017) and the remaining capital will be drawn down over the Antin fund's investment period, which is expected to run to December 2021.

These investments will reduce the level of cash in the Fund; however, the level is still very high and should be addressed.

Summary

- The Committee may wish to consider possible opportunities for deploying the available capital given the high level of cash following the equity risk reduction.
 - The opportunity set of investments will be considered at future meetings and there are opportunities for the Fund to consider within the London CIV e.g. fixed income assets and outside the London CIV e.g. CBRE UK Secured Long Income Fund which we believe may be attractive for the Committee to consider.
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