

MUNICIPAL YEAR 2019/2020 REPORT NO. 89

MEETING TITLE AND DATE:
Pension Policy & Investment Committee
5th September 2019

REPORT OF:
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Agenda – Part: 1	Item: 6
Subject: Quarterly Investment Report for June 2019	
Wards: All	
Key Decision No:	
Cabinet Member consulted:	

1. EXECUTIVE SUMMARY

This report informs Members of the performance of the Pension Fund and its investment managers for the last quarter.

Over the quarter to 30 June 2019 the Fund posted a positive return of c.3.9% Over the three-month period to 30 June 2019 all equity markets delivered positive returns in both local currency and sterling terms, except Japanese equities, that posted a negative return in local currency. The Fund outperformed its benchmark by 0.7%. Fund value was £1.223bn, a £42m increase from the March quarter end.

Thirteen mandates matched or achieved benchmark For this quarter, thirteen mandates matched or achieved returns above the set benchmark. Seven out of twenty mandates underperformed their respective benchmark or delivered a negative return or return below cash return. The underperforming portfolios are Longview, Adams Street, Lansdowne, York, BlackRock Property, BlackRock Index linked and IPPL.

The Fund's investments produced strong returns over the 12-month period Over the twelve-month period to 30 June 2019, the Fund outperformed its benchmark by 1.83%. For the year to 30 June 2019, Lansdowne generated a significant amount of unrealised loss of -12.8%.

Looking at the longer-term performance, the three-year return for the Fund was 1.62% per annum above its benchmark return and for over five year, the Fund posted a return of 9.03% outperforming the benchmark return of 8.57% by 0.46%.

Currency appreciation is a major factor in performance The appreciation of sterling versus the US dollar over the quarter decreased the value of dollar denominated holdings. The active equity managers have exposures to various currencies as they are all global mandates,

Fund is broadly in line with benchmark weightings The distribution of the Fund's assets amongst the different asset classes is broadly in line with the strategic benchmark weight, albeit mildly overweigh in equities. The overweight position in equities has helped the fund's performance in recent months.

2. RECOMMENDATIONS

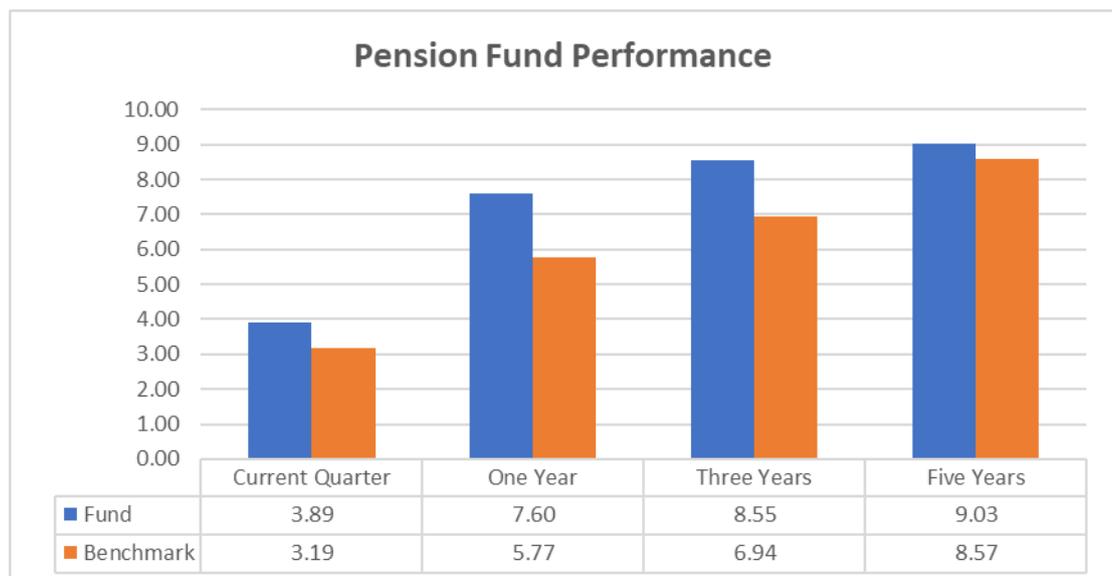
- 2.1. Members are recommended to note the contents of this report.

3. BACKGROUND

- 3.1. The Pension Fund Regulations require that the Council establishes arrangements for monitoring the investments of the Fund. It considers the activities of the investment managers and ensures that proper advice is obtained on investment issues.
- 3.2. Officers and fund advisers meet regularly with investment managers to discuss their strategy and performance and if considered necessary may recommend that investment managers are invited to explain further to the Pension Policy & Investment Committee.

INVESTMENT PERFORMANCE

- 3.3. The overall value of the Fund at 30 June 2019 stood at £1,223.1m which is a substantial increase of £42m from its value of £1,181.3m as at 31 March 2019.
- 3.4. The fund outperformed the benchmark this quarter by posting a return of 3.89% against benchmark return of 3.19%. The twelve-month period sees the fund also ahead its benchmark by 1.83%.
- 3.5. Looking at the longer-term performance, the three years return for the Fund was 8.55%, which was 1.62% per annum ahead its benchmark return. Over the five years, the Fund posted a return of 9.03% outperforming the benchmark return of 8.57% by 0.46% per annum, as shown on the graph below.



- 3.6. For this reporting quarter, thirteen out of twenty mandates delivered positive return, matched or achieved returns above the set benchmark. The seven mandates posting negative returns or returns that did not

meet their benchmarks were mandates with Lansdowne posting -4.1%; Adams Street lagging its benchmark by 7.9%; Longview lagging its benchmark by 2.3%; York, BlackRock Property lagging its benchmark by 0.2%; BlackRock Index linked lagging its benchmark by 0.1%; IPPL lagging its benchmark by 1.8%; and Insight lagging its benchmark by 1.88%.

- 3.7. For the 12 months to June 2019, five out of seventeen mandates underperformed their respective benchmarks or targets. The mandates that delivered negative returns or underperformed its benchmark/target were LCIV Baillie Gifford, Insight, York, Legal & General and Lansdowne. Lansdowne generated a significant amount of unrealised loss of -12.8% for one year to 30 June 2019.

INTERNAL CASH MANAGEMENT

- 3.8. Cash is held by the managers at their discretion in accordance with limits set in their investment guidelines, and internally by Enfield Council to meet working cashflow requirements, although transfers can be made to Fund managers to top up or rebalance the Fund.
- 3.9. The Pension Fund cash balance is invested in accordance with the Council's Treasury Management strategy agreed by Full Council in February 2019, which is delegated to the Executive Director of Resources to manage on a day to day basis within the agreed parameters.
- 3.10. The cash balance as at 30 June 2019, was £48.689m in short term deposits and money market funds. £25.067m with Goldman Sachs, £18.622m with Northern Trust and £5m with Close Brothers.

CURRENCY ANALYSIS

- 3.11. The appreciation of sterling versus the US dollar over the quarter decreased the value of dollar denominated holdings.
- 3.12. The Fund has 7.5% of total assets exposure to the euro, 31.7% to US dollar, 2.0% to yen and 5.5% to other currencies within its portfolio. The active equity managers have exposures to various currencies as they are all global mandates, and AON, the Fund Investment Consultant have approximated the currency exposures based on the geographical split of the underlying investments.
- 3.13. Adams Street, York and Davidson Kempner are US dollar denominated whilst Antin is euro-denominated. The Lansdowne, CFM, BlackRock, CBRE, Western, M&G Inflation Opportunities, Legal & General, Brockton, Insight and IPPL mandates are assumed to have no direct exposure to foreign currencies as they are either hedged to sterling or are sterling share classes.
- 3.14. US dollar exposure of 31.7% of the total assets is the largest foreign currency risk for the Fund. For example, a 1% foreign currency appreciation (depreciation), AON approximate that the value of the Funds' US dollar denominated assets will increase (decrease) by £3.9m, Euro denominated assets will increase (decrease) by £0.9m and Yen denominated assets will increase (decrease) by £0.2m.

3.15. It is therefore worth noting that movements in currencies may either contribute to or be caused by factors that move other asset classes. For example, the US dollar may appreciate at times of stress which could coincide with a fall in the value of the Fund's equity holdings.

ASSET ALLOCATION

3.16. The current strategic weight of asset distribution and the Fund's assets position as at 30 June 2019 are set out below:

Asset Class	Strategic asset allocation as at April 2019	Fund Position as at 30 June 2019	Variance as at 30 June 2019
Equities	35.0%	42.0%	7.0%
Private Equities	5.0%	6.0%	1.0%
Total Equities	40.0%	48.0%	8.0%
Hedge Funds	10.0%	8.1%	(1.9)%
Property	10.0%	6.2%	(3.8)%
Infrastructure	6.0%	5.0%	(1.0)%
Bonds	24.0%	21.8%	(2.2)%
Inflation protection illiquids	10.0%	7.3%	(2.7)%
Cash	0.0%	3.6%	3.6%
Total Equities	100.0%	100.0%	

3.17. The table above indicates the Fund is overweight by 3.6% in Cash and 8% in Equities; but the Fund has underweight position of 3.8% in Property, Bonds and Indexed linked gilts underweight position of 2.2%, Inflation protection illiquid underweight position of 2.7%, Hedge Funds with 1.9% underweight position and Infrastructure with 1%. Officers are consulting with the Fund Advisors for rebalancing possibilities.

3.18. Approximately 15% of the equity portfolio is being managed passively by BlackRock. The remainder is being managed on an active basis, with the largest holding with MFS.

3.19. In aggregate, 7.2% of the Fund's equity portfolio is allocated to Emerging Markets. As at 30 June 2019, the MSCI All Country World Index had a 11.8% exposure to Emerging Markets.

3.20. Asset allocation is determined by several factors including: -

- i) The risk profile - there is a trade off between the returns that can be obtained on investments and the level of risk. Equities have higher potential returns, but this is achieved with higher volatility. However, the Fund remains open to new members and able to tolerate the volatility, allowing it to target higher returns, which in turn reduces the deficit quicker and should eventually lead to lower contribution rates by employers.
- ii) The age profile of the Fund - the younger the members of the Fund, the longer the period before pensions become payable and investments must be realised for this purpose. This enables the

Fund to invest in more volatile asset classes because it has the capacity to ride out adverse movements in the investment cycle.

- iii) The deficit recovery term - Most LGPS funds are in deficit because of falling investment returns and increasing life expectancy. The actuary determines the period over which the deficit is to be recovered and considers the need to stabilise the employer's contribution rate. The actuary has set a nineteen year deficit recovery term for this Council, which enables a longer term investment perspective to be taken.

- 3.21. Individual managers have discretion within defined limits to vary the asset distribution. The overweight position in equities has helped the fund's performance in recent months.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1. There is no alternative unless the Committee on behalf of the Fund do agree to the terms the London CIV agreements and proposal as they are.

5. REASONS FOR RECOMMENDATIONS

- 5.1. The report informs the Pension Policy and investment Committee of the performance of pension fund managers and the overall performance of the Enfield Pension Fund.

6. COMMENTS FROM OTHER DEPARTMENTS

6.1 Financial Implications

This is a noting report which fulfils the requirement to report quarterly performance of the Pension Fund investments portfolio to the Pension Policy and Investment Committee. There are no direct financial implications arising from this report, however the long-term performance of the pension fund will impact upon pension contribution rates set by this Committee.

6.2 Legal Implications

- a) The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 govern the way in which administering authorities should manage and make investments for the fund. There are no longer explicit limits on specified types of investment and instead administering authorities should determine the appropriate mix of investments for their funds. However, administering authorities must now adhere to official guidance; broad powers allow the Government to intervene if they do not. Under regulation 8, the Secretary of State can direct the administering authority to make changes to its investment strategy; invest its assets in a particular way; that the investment functions of the authority are exercised by the Secretary of State and that the authority complies with any instructions issued by the Secretary of State or their nominee.

- b) The Council must take proper advice at reasonable intervals about its investments and must consider such advice when taking any steps in relation to its investments.
- c) The Council does not have to invest the fund money itself and may appoint one or more investment managers. Where the Council appoints an investment manager, it must keep the manager's performance under review. At least once every three months the Council must review the investments that the manager has made and, periodically, the Council must consider whether or not to retain that manager.
- d) One of the functions of the Pension Policy & Investment Committee is to meet the Council's duties in respect of investment matters. It is appropriate, having regard to these matters, for the Committee to receive information about asset allocation and the performance of appointed investment managers. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.
- e) When reviewing the Pension Fund Investment Performance, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty). The Committee may take the view that good, sound investment of the Pension Fund monies will support compliance with the Council's statutory duties in respect of proper management of the Pension Fund.

7. KEY RISKS

7.1 Any form of investment inevitably involves a degree of risk.

- a) To minimise risk the Pension Policy and Investment Committee attempts to achieve a diversification portfolio. Diversification relates to asset classes and management styles.
- b) The monitoring arrangement for the Pension Fund and the work of the Pension Policy & Investment Committee should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

Background Papers

Appendices – The below appendices are attached electronically but not in the main pack.

- Appendix 1 – Northern Trust Performance Review Report
- Appendix 2 – AON Quarterly Report
- Appendix 3 – London CIV Sub-Funds Quarterly Report