



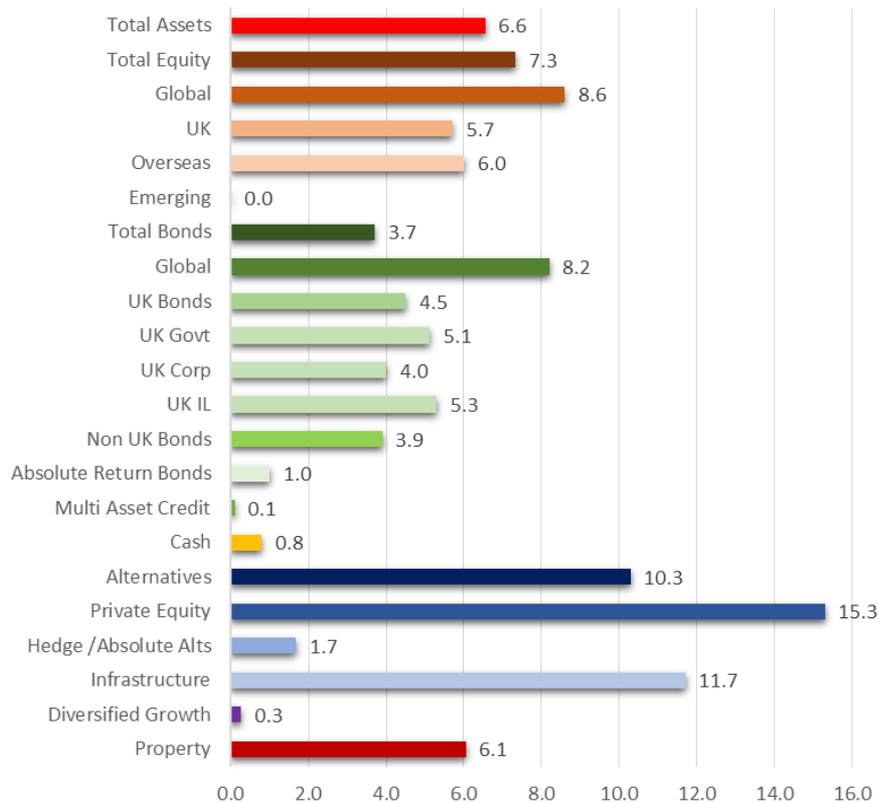
# Annual Review Presentation to Enfield Pension Fund

Neil Sellstrom – 21<sup>st</sup> November 2019



# Universe Results

# 2018/19 Results



- Despite a difficult economic and political environment the average Local Authority fund produced a return of 6.6%
- Asset class returns were tightly grouped with bonds, equities and alternatives returning 4%, 6%, and 7% respectively for the year.
- Alternatives returned 10.3% driven by excellent returns from private equity.
- Most funds failed to outperform their benchmark.

# What Did Well?

- Strong performance from **US equities** meant funds with high equity components tended to outperform last year.
- **Private equity** continued to perform strongly with a return of 15% for the year. It has outperformed quoted equity in the medium term but the outperformance is not yet visible over the longer term.
- **Infrastructure** too performed extremely well
- **US equities** (the key component of global equity funds) continued their extended run of excellent performance, assisted by the ongoing strengthening of the US Dollar.
- **Ethical / Green / Environmental investment did well in garnering funds.** These strategies saw a large influx of money across a range of funds. This was focussed principally in global equity portfolios where we saw a net inflow of £3 billion.

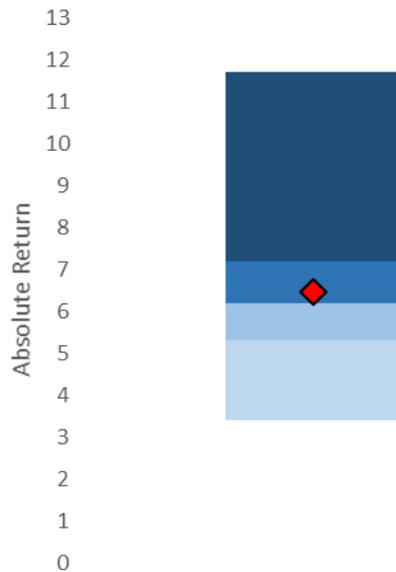
# What Did Less Well?

- **Emerging market equities** after being the best performing equity area in the previous year, fared particularly badly this year, failing to deliver a positive return.
- With an average return of 1% **absolute return** funds performed relatively poorly across a variety of strategies and asset types.
- **Equity protection**, taken out by some funds as insurance against possible market falls was not required and the cost had a drag on performance for the year.
- Continued low interest rates meant holding any level of **cash** continued to have a negative impact on return.



# Universe Performance

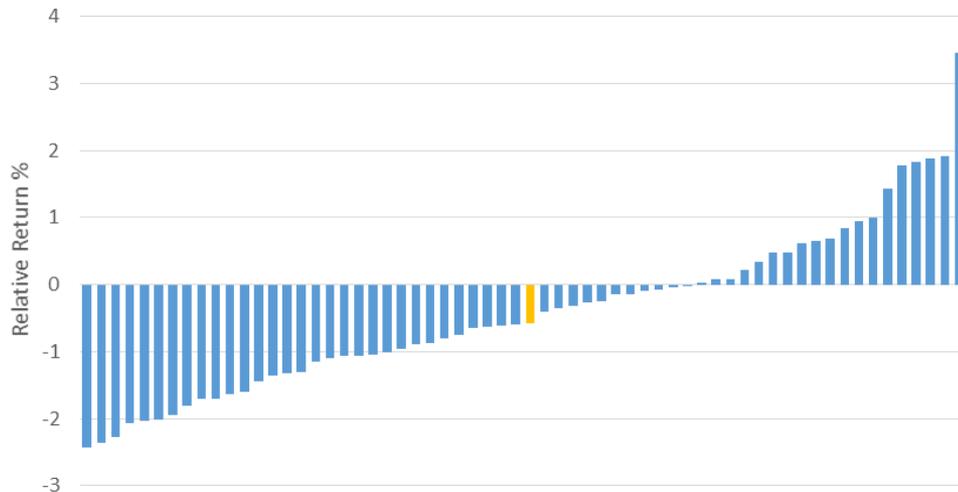
## Range of Fund Returns – Year to End March 2019



- Larger funds performed relatively better than their smaller peers resulting in the average return of 6.6% being ahead of the median result of 6.2%.
- The range of results was relatively tight with most funds returning between 5% and 8% for the year.
- Lancashire was the best performing fund in the latest year with a return of 11.7% whilst Havering was the worst at 3.4%.

# Performance Relative to Benchmark

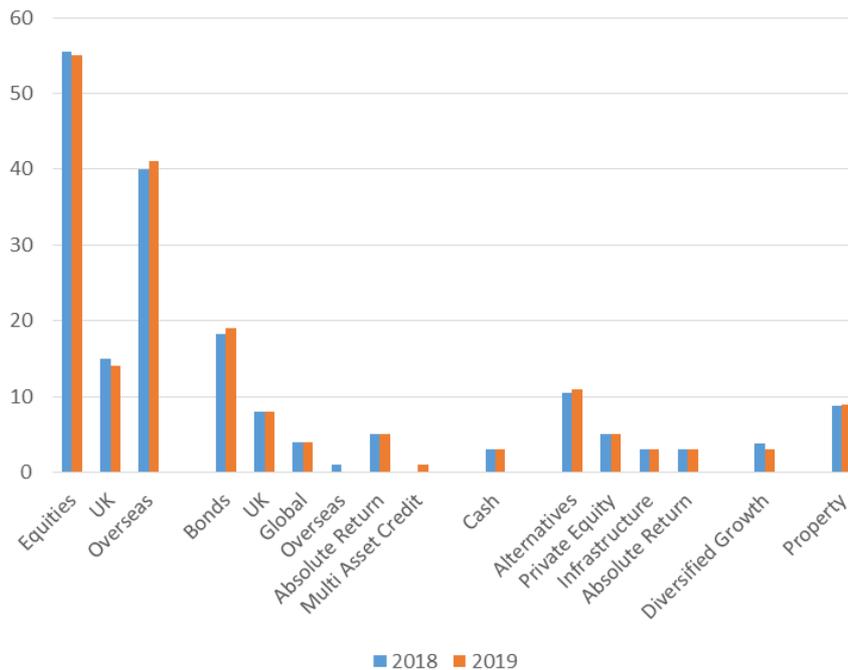
Relative Performance— Year to End March 2019



- The median fund (in orange) underperformed its benchmark by 0.5% last year.
- Less than a third of funds managed to achieve a better than benchmark return
- Only 6 funds outperformed by more than 1% while 22 underperformed by more than that margin

# Asset Allocation

% Average Asset Allocation

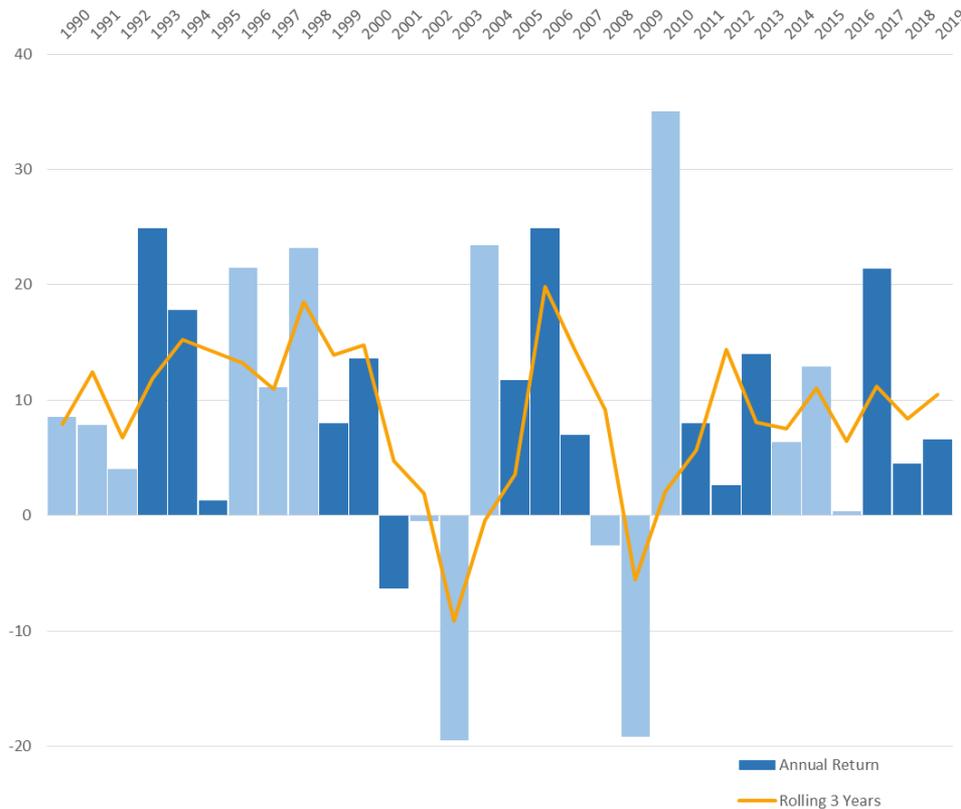


- High level asset allocation changes slowed down as funds were absorbed by pooling and waiting for the results of the upcoming actuarial revaluation.
- Move into **'green' investments** within Equity and infrastructure
- Within equities a continued move into **enhanced index / smart beta** investments including low volatility
- **Multi asset credit** gained ground.
- A continued move away from index based benchmarks towards **absolute return benchmarks** within alternative assets and within bond allocations.



# Longer Term Performance

Performance Over One and Three Years to end March

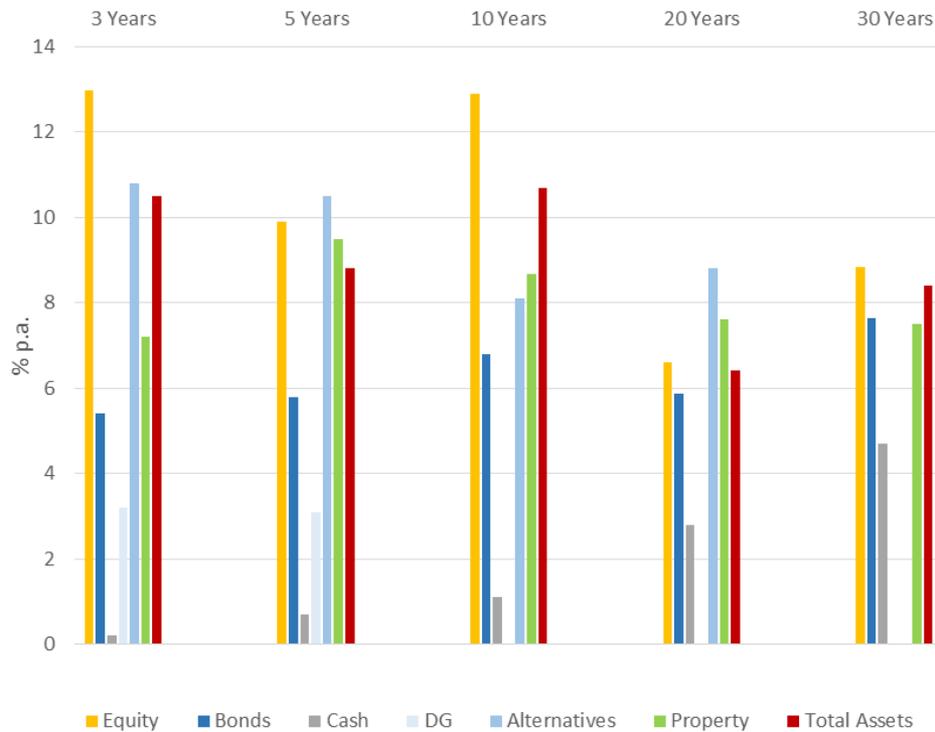


- Thirty year return averages 8.4 %p.a.
- This is almost 6%p.a. above inflation.
- Only five out of the last thirty years have produced negative returns
- Rolling three year returns average around 8%p.a.
- Asset performance has been, and remains, extremely strong.



# Longer Term Asset Performance

Performance by Asset Class to End March 2019

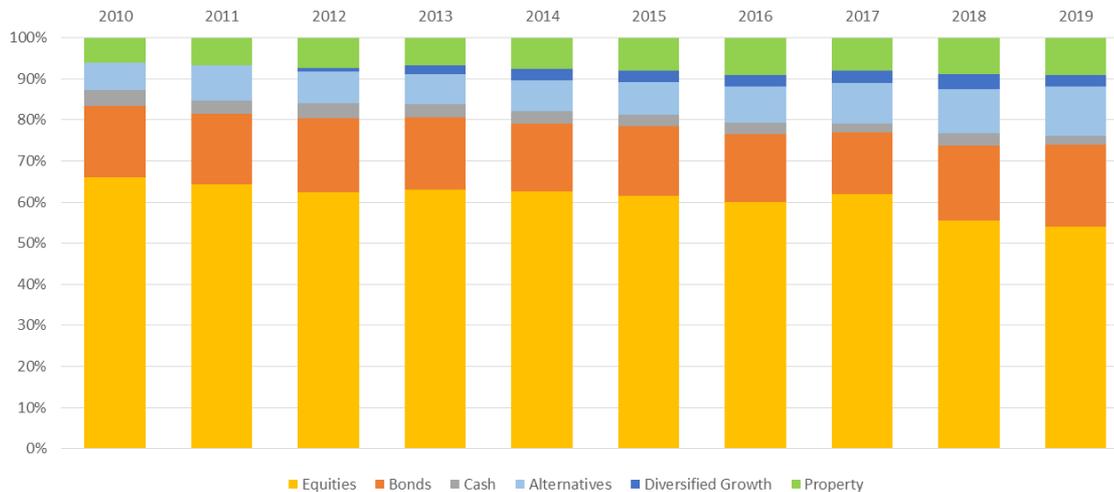


- Equities have driven the excellent long term performance of the LGPS
- Strong alternative results has been driven by private equity.
- Funds with diversified growth assets and absolute return investments have seen results well below other asset classes over the medium term.



# Asset Allocation Changes Over Time

Average Asset Allocation at End March



- High level asset allocation has remained little changed over the last decade.
- Equities remain the dominant asset class in most funds' allocations.
- Alternative asset exposure has increased and will likely increase
- There have been changes at asset class level however;
  - Domestic to global equity
  - Gilts to alternative credit sources
  - Hedge funds to more transparent alternative strategies



# Enfield Pension Fund Results



# Fund Structure

Values £'000	Value at 31/03/2018	% <i>Fund</i>	Value at 31/03/2019	% <i>Fund</i>	% <i>BM</i>
<b>Equity</b>	<b>472,193</b>	<b>43</b>	<b>459,305</b>	<b>39</b>	<b>35</b>
BlackRock	162,274	15	167,989	14	
Henderson			28,156	2	
Baillie Gifford	51,528	5	75,336	6	
Longview			76,950	7	
MFS	96,434	9	110,109	9	
Trilogy	161,957	15	765	0	
<b>Bonds + Inflation Protection</b>	<b>249,593</b>	<b>23</b>	<b>339,336</b>	<b>29</b>	<b>34</b>
BlackRock IL	86,337	8	89,089	8	
CQS MAC			50,696	4	
Insight	32,693	3	30,911	3	
Western	86,948	8	91,336	8	
CBRE			4,950	0	
M&G	43,615	4	72,354	6	
<b>Alternatives</b>	<b>222,353</b>	<b>20</b>	<b>250,244</b>	<b>21</b>	<b>21</b>
CFM Stratus	26,583	2	25,383	2	
Davidson Kemper	25,116	2	27,659	2	
Lansdowne	55,672	5	50,041	4	
York Capital	18,970	2	19,022	2	
Adams Street	55,267	5	69,183	6	
Antin	2,178		15,702	1	
INPP	38,567	4	43,254	4	
<b>Property</b>	<b>75,321</b>	<b>7</b>	<b>75,911.8</b>	<b>6</b>	<b>10</b>
BlackRock	37,311	3	38,022	3	
Brockton Capital	5,763	1	4,483	0	
LGIM	32,247	3	33,406	3	
<b>Cash</b>	<b>81,223</b>	<b>7</b>	<b>56,538</b>	<b>5</b>	
<b>Total</b>	<b>1,100,683</b>	<b>100</b>	<b>1,176,336</b>	<b>100</b>	

- The Fund is one of the most complex in the LGPS.
- Over the year it became more complex with a substantial number of portfolios less than 5% of the value of the Fund.
- It may be worthwhile looking into the impact such small portfolios have on either the risk or return profile of the Fund.

# Performance Relative to Benchmark

## Annual Returns to End March 2019

	Portfolio	BM	Relative
BlackRock	10.6	9.8	0.7
Baillie Gifford	8.8	10.5	-1.5
MFS	14.0	10.5	3.2
BlackRock IL	3.2	3.1	0.1
Insight	-5.5	5.1	-10.0
Western	5.1	5.2	-0.2
CBRE			
M&G	6.2	4.9	1.2
CFM Stratus	-4.5	1.1	-5.5
Davidson Kemper	10.1	10.8	-0.6
Lansdowne	-10.1	1.1	-11.0
York Capital	0.3	10.8	-9.5
Adams Street	22.6	10.5	11.0
Antin	-5.4		
INPP	12.2	12.2	0.0
BlackRock	4.5	4.9	-0.3
Brockton Capital	20.8	4.9	15.2
LGIM	3.6	4.9	-1.2
Cash	4.4		
Total	7.3	5.3	2.0

- In the latest year the Fund performed well ahead of its benchmark.
- At portfolio level performance was very mixed and the deviation from benchmark was very wide.



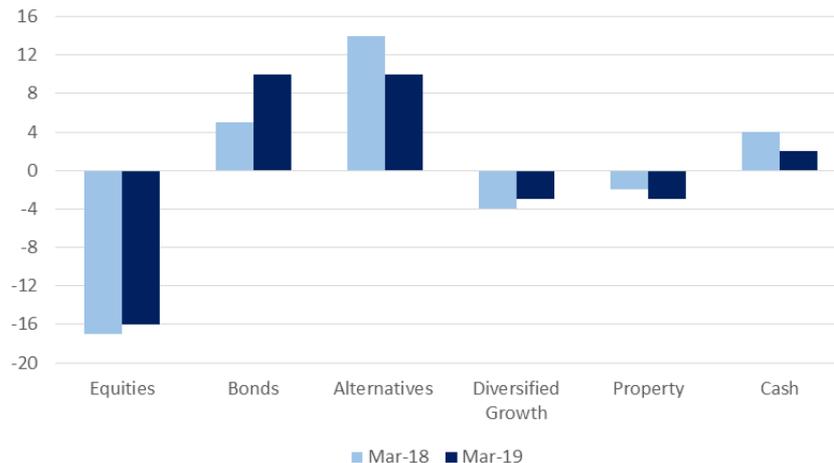
# Performance Relative to Peers

## Asset Class Performance

	Fund	Universe	Relative	Ranking
Equities	10.5	7.3	3.0	15
Bonds	2.6	3.7	-1.1	69
Alternatives	5.8	10.3	-4.1	77
Property	4.9	6.1	-1.1	58
Total Fund	7.3	6.6	0.6	24

- The Fund performed well above the average, ranking 24<sup>th</sup> percentile.
- A strong equity result was the key driver of the outperformance.
- Whilst asset allocation was very different from the average it had little impact in the latest year.

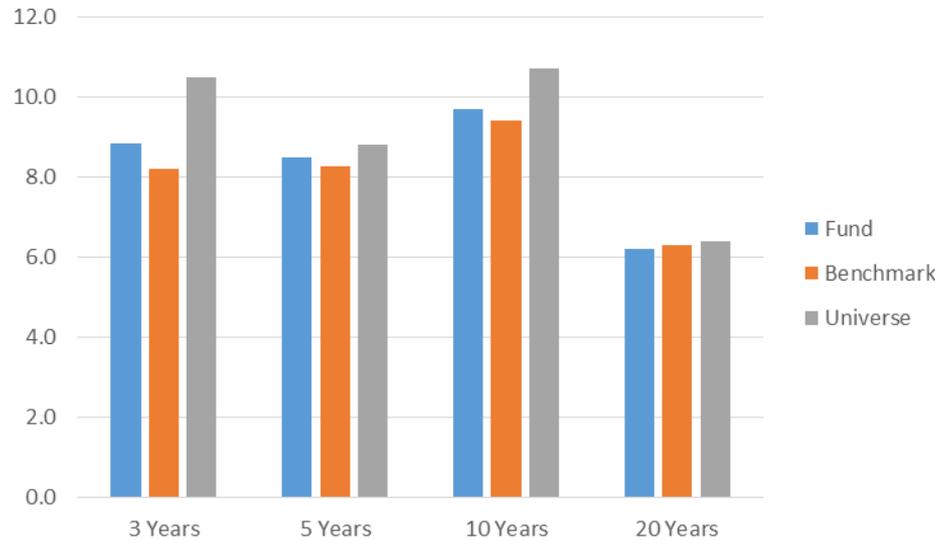
## Asset Allocation Relative to Universe





# Fund Performance

**% p.a. Returns to End March 2019**

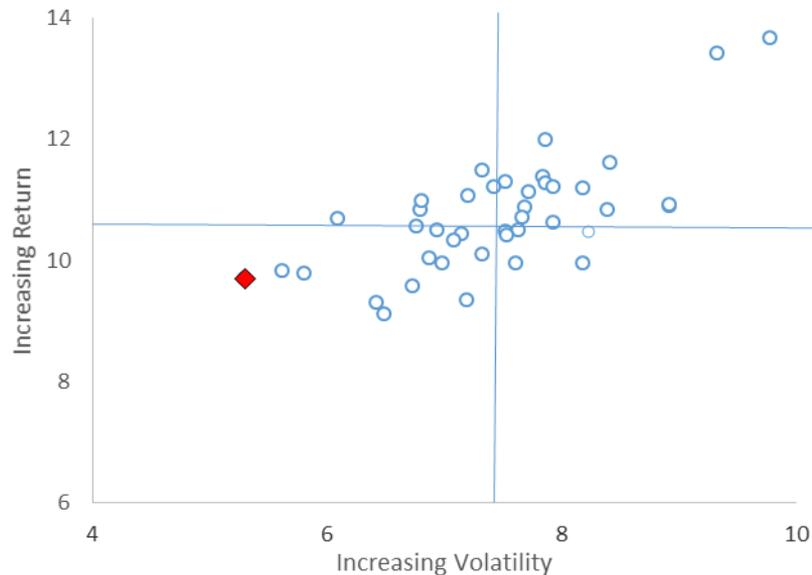


Fund	8.8	8.5	9.7	6.2
Benchmark	8.2	8.3	9.4	6.3
Universe	10.5	8.8	10.7	6.4
Ranking	82	49	86	43

- While the Fund has outperformed its benchmark over the medium term it has trailed its peers.
- This reflects the more cautious asset allocation that the Fund has in place.
- Returns have consistently outpaced the important measure of inflation – and by a substantial margin

# Risk and Return – Last Ten Years

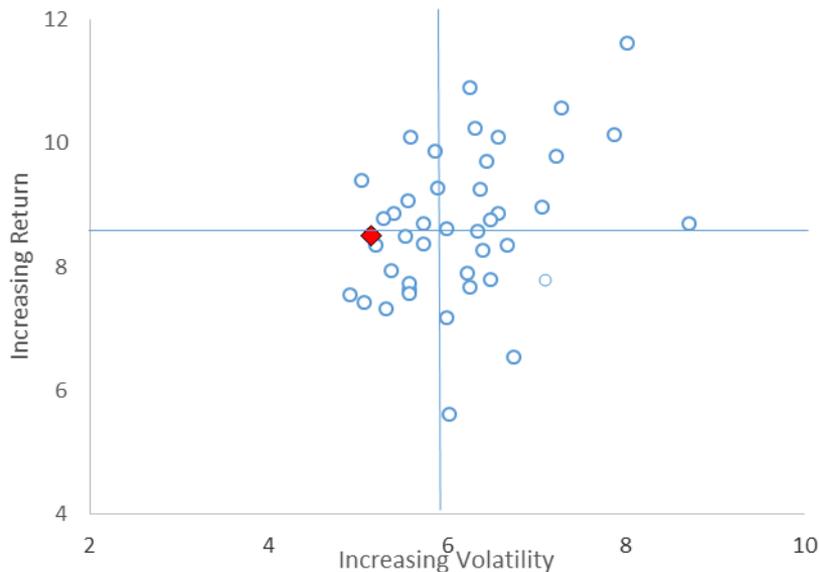
## Fund Returns and Volatility – 10 Years to End March 2019



- Over the last ten years the Fund (shown in red) experienced significantly lower volatility than its peer funds.
- As a result of the conservative asset structure it delivered a lower level of return.

# Risk and Return – Last Five Years

## Fund Returns and Volatility – 5 Years to End March 2019



- Over the last five years the relative return has improved.
- Whilst the Fund remains less volatile than most of its peers we have seen it come closer in line as other funds have implemented strategies to 'derisk'.



## Appendix 1 – London Fund Results

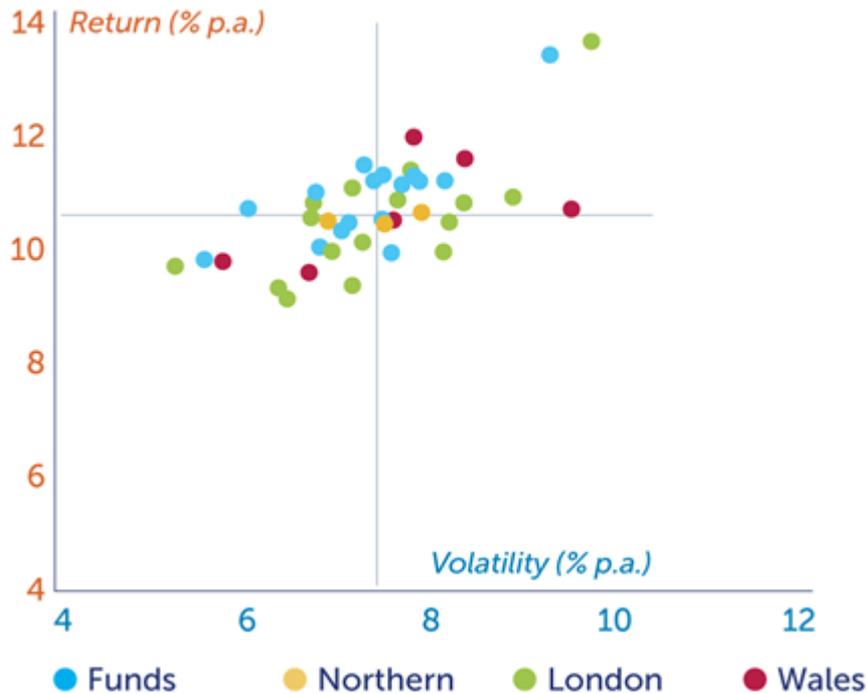
# Fund Returns and Rankings

	1 Year	Rank	3 Yrs (% p.a.)	Rank	5 Yrs (% p.a.)	Rank	10 Yrs (% p.a.)	Rank	20 Yrs (% p.a.)	Rank
Barking and Dagenham	5.2	76	9.4	69	8.5	54	9.4	93	5.1	96
Barnet Pension Fund	5.1	82	7.9	97	6.7	95	8.4	98	5.5	91
Bexley Pension Fund	7.4	21	10.4	39	9.4	18	11.5	11	7.1	6
Brent Pension Fund	7.2	26	8.5	86	7.6	80	9.1	97	4.7	98
Bromley Pension Fund	8.0	11	13.5	1	11.6	2	13.7	1	7.9	1
Camden Pension Fund	4.9	92	9.9	58	7.2	92	10.2	68	6.0	55
City of London Corporation Pension Fund	7.6	13	9.8	60	7.9	69	10.4	64		
Ealing Pension Fund	4.8	94	9.7	63	7.7	77	10.8	41	6.6	23
Enfield Pension Fund	7.3	24	8.8	82	8.5	49	9.7	86	6.2	43
Greenwich Pension Fund	4.3	97	8.2	92	7.2	94	10.0	80	5.3	94
Hackney Pension Fund	5.7	68	9.3	73	7.5	85	9.6	89	5.7	85
Hammersmith and Fulham	5.0	87	8.2	90	7.8	76	10.6	52	6.2	40
Haringey Pension Fund	5.7	66	11.5	10	10.1	12	11.4	16	5.7	77
Harrow Pension Fund	6.0	57	11.0	18	9.1	28	11.6	9	6.4	34
Havering Pension Fund	3.4	100	8.3	87	7.4	89	10.5	57	5.4	93
Hillingdon Pension Fund	5.2	78	8.6	84	7.5	84	10.0	79		
Hounslow Pension Fund	8.6	8	10.5	34	7.8	76	10.5	59	6.3	36
Islington Pension Fund	7.0	32	9.0	78	7.6	82	10.1	72	5.5	89
Kensington and Chelsea	10.9	2	13.2	2	11.9	1				
Kingston upon Thames	6.2	50	9.9	57	9.0	30	10.9	36	6.0	51
Lambeth Pension Fund	4.5	95	8.1	94						
Lewisham Pension Fund	7.2	28	10.8	26	9.7	16	10.9	38	5.7	76
Merton Pension Fund	7.8	13	10.4	37	8.3	63	10.9	37	6.4	32
Newham Pension Fund	9.0	3	10.0	53	10.1	10	10.9	39	5.9	57
Redbridge Pension Fund	5.7	63	8.9	79	7.9	67	9.3	95	5.7	81
Southwark Pension Fund	9.0	5	10.7	31	10.3	7	11.1	30	6.5	30
Sutton Pension Fund	6.4	48	10.0	50	8.7	41				
Tower Hamlets Pension Fund	6.5	45	10.9	21	8.5	51	10.1	73	5.9	62
Waltham Forest Pension Fund	6.9	36	8.0	95	6.5	97	10.9	34	5.9	59
Wandsworth & Richmond Fund	6.7	42	11.0	16	9.2	25	11.9	5	6.7	19
Westminster Pension Fund	6.1	53	10.4	36	8.5	57				
Universe Weighted Average	6.6		10.5		8.8		10.7		6.4	
London Weighted Average	6.5		9.9		8.5		10.6		6.0	

 Best performing  
 Worst performing

# Risk and Return – Last Ten Years

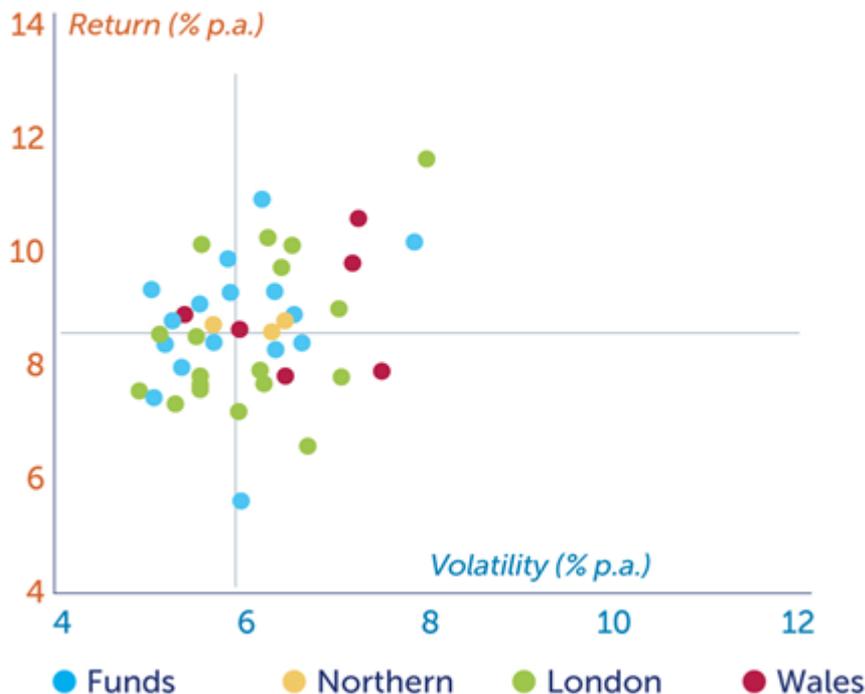
Risk and return distribution of funds over last ten years



- We now look at individual funds' risk and return profiles
- Funds with 'riskier' asset profiles have tended to perform better
- This is an expected outcome in a 'normal' investment environment
- Asset class performance quite tightly bunched so strategy had less impact

# Risk and Return – Last Five Years

Risk and return distribution of funds over last five years



- Volatility over this period has been lower while returns have remained well ahead of expectations.
- The positive correlation between risk and return is still evident but less pronounced
- The range of outcomes is wider, reflecting the large difference between the return from equities and that achieved from absolute return strategies.



## Appendix 2 – Diversification



# Diversification = Complexity

	1999	2009	2019
Number of Managers	42	116	124
Average Number of Managers	5	9	12
% Passive	9	23	27
Asset Classes	UK Equity Overseas Equity Emerging Market Equity UK Gilts UK IL Cash Property	UK Equity Overseas Equity Emerging Market Equity UK Gilts UK IL Cash Property Corporate Bonds Private Equity Hedging Absolute return	UK Equity Overseas Equity Emerging Market Equity UK Gilts UK IL Cash Property Corporate Bonds Private Equity Hedging Absolute return Alternative Credit Hedge Funds Infrastructure Commodities Diversified Groeth Multi Asset Credit Liability Matching Smart Beta Climate Aware

The range of investments available has increased markedly.

This has had positive benefits:

Reduction of manager concentration across the sector

Greater opportunity for more bespoke solutions

Individual managers have less impact on individual fund results.



# Too Much Diversification?

## Impact of Strategic Allocations Five Years to March 2019

Equity	Fund Weightings						Performance Last 5 years	
	Bond	Property	Alts	DG	AR Bond	Infra	Return	Volatility
100							9.9	9.1
80	20						9.1	7.7
70	20	10					9.1	6.7
60	20	10	10				9.2	6.0
50	20	10	10	10			8.5	5.4
50	15	10	10	10	5		8.4	5.4
50	15	10	5	10	5	5	8.5	5.4

Diversification has an impact on return, volatility and fund efficiency.

However the scale of diversification has to be significant to make a tangible difference.

At 5% they are making almost no difference to either the overall fund return or the overall fund risk.



# Complexity Brings Challenges

Range and complexity of asset types and products has led to a greater reliance on consultants.

More choice makes manager selection more difficult

Likelihood of increased manager / portfolio change

Focus being moved from return to volatility without Funds fully understanding the cost impacts.

Pressure continues to broaden investment.

Increased administration and committee time burdens need added into any decisions.

Smaller portfolios likely to have limited impact and incur higher costs.



# How Could Pooling Assist?

By removing some manager selection Funds should be able to focus on understanding, defining and implementing strategy.

More available resource and expertise to research and chose providers and create products that match the needs of the LGPS.

Funds will have larger holdings from a smaller range of options.

May help reduce reliance on consultants.

Funds will have larger holdings from a smaller range of options.

But

Complexity potentially embedded into pool offerings

This report is intended solely for the use of the participating funds. Whilst individual fund returns and rankings may be used, the report in its entirety should not be copied or distributed beyond these funds.

While all reasonable efforts have been made to ensure the accuracy of the information contained in this document there is no warranty, express or implied, as to its accuracy or completeness. Any opinions expressed in this document are subject to change without notice. The document is for general information only and PIRC Ltd accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

[Pensions & Investment Research Consultants Limited \(PIRC Ltd\) is authorised and regulated by the Financial Conduct Authority \(FCA Register number 144331, see FCA register for registration details\) and registered in England and Wales No 2300269.](#)