ENFIELD Council

London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 17 September 2020

Subject: Quarterly Investment Report for June 2020

Cabinet Member: Cllr Maguire

Executive Director: Fay Hammond

Key Decision: [ ]

Purpose of Report

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.

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.

Proposal(s)

3. Pension Policy and Investments Committee are recommended to note the contents of this report.

Reason for Proposal(s)

4. 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.

5. **Relevance to the Council's Corporate Plan**

6. Good homes in well-connected neighbourhoods.

7. Build our Economy to create a thriving place.

8. Sustain Strong and healthy Communities.

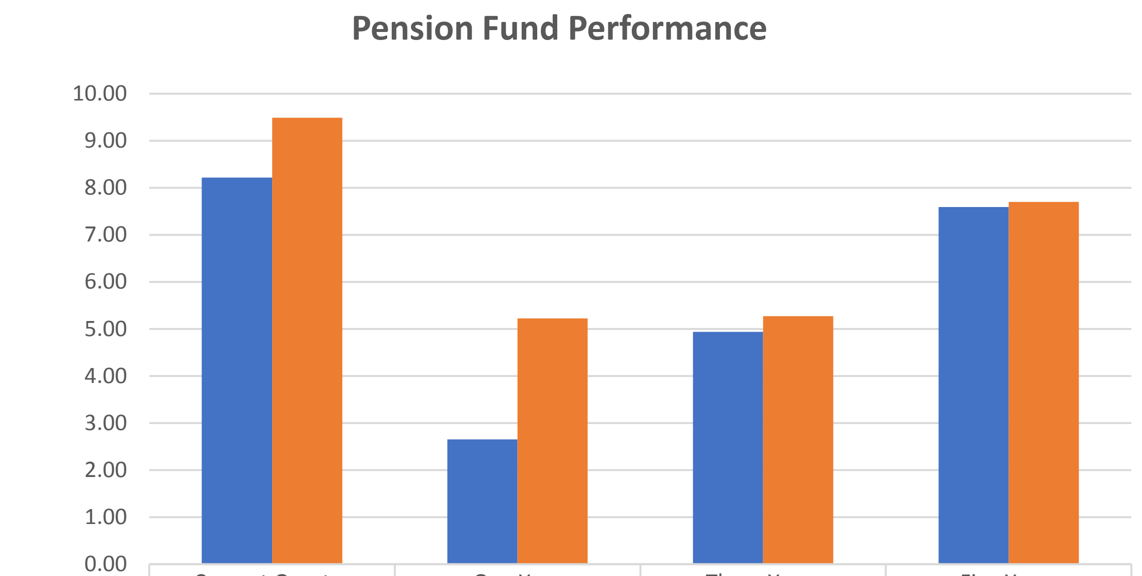
Background

INVESTMENT PERFORMANCE

9. The overall value of the Fund at 30 June 2020 stood at £1,266m which is a significant increase of £94m from its value of £1,169m as at 31 March 2020. This reduction was because of the Covid-19 outbreak that turned into a global pandemic. And brought about global equities selling off sharply after reaching all-time highs in mid-February.

10. The fund underperformed the benchmark this reporting quarter by posting a return of 8.22% against benchmark return of 9.49%. The twelve-month period sees the fund behind its benchmark by -2.56%.

11. Looking at the longer-term performance, the three years return for the Fund was 4.94%, which was -0.33% per annum behind its benchmark return. Over the five years, the Fund posted a return of 7.59% underperforming the benchmark return of 7.70% by 0.11% per annum, as shown on the graph below.



	Current Quarter	One Year	Three Years	Five Years
Fund	8.22	2.65	4.94	7.59
Benchmark	9.49	5.22	5.27	7.70

12. For June quarter end, most of the equity portfolios bounced back delivering returns matching their respective benchmarks or outperforming the respective benchmarks except MFS and Longview underperforming their respective benchmark relatively by -1.79% and -5.22%.

13. Twelve out of twenty-one mandates delivered returns, matching or achieving returns above the set benchmark. The seven mandates lagging the set benchmark for the quarter were Lansdowne by -1.08%, MFS by -1.79%, M & G by -3.48%, LCIV Longview -5.22%, Davidson Kempner by -5.87, Adam Street -28.77% and York Capital by -29.4%.

14. For the 12 months to June 2020, twelve out of twenty-one mandates underperformed their respective benchmarks or targets. The mandates that delivered negative returns or underperformed its benchmark/target were LCIV Henderson, LCIV Longview, LCIV CQS, Western, CFM Stratus, MFS, Blackrock UK Property, Insight Bonds, York Capital and Lansdowne. The following portfolios generated significant amount of unrealised losses for one year to 30 June 2020; LCIV CQS with -5.84%, Insight with -6.82%, LCIV Longview by -9.26%, Lansdowne with -20.54% and York Capital with -47.94%.

INTERNAL CASH MANAGEMENT

15. 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.

16. The Pension Fund cash balance is invested in accordance with the Council's Treasury Management strategy agreed by Full Council in February 2020, which is delegated to the Executive Director of Resources to manage on a day to day basis within the agreed parameters.

17. The cash balance as at 30 June 2020, was £53.961m in short term deposits and money market funds. £35.962m with Goldman Sachs and £17.998m with Northern Trust.

CURRENCY ANALYSIS

18. The depreciation of sterling versus the US dollar over the quarter increased the value of dollar denominated holdings. The Fund has exposure to the euro, US dollar, yen and other currencies within its portfolio.

19. At this reporting quarter, the Fund has 6.3% of total assets exposure to the euro, 33.6% to US dollar, 2.3% to yen and 4.6% to other currencies within it. 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.

20. Adams Street, York Capital 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, LCIV MAC 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.

21. US dollar exposure has increased by 1% to 33.6% of the total assets and still representing the largest foreign currency risk for the Fund. For example, a 1% foreign currency appreciation (or depreciation) for the Funds' US dollar denominated assets will increase (or decrease) by £4.3m, and for Euro denominated assets in the Fund, this will effect an increase (or decrease) by

£0.8m and for Yen denominated assets this will effect an increase (or decrease) by £0.3m.

22. 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

23. The current strategic weight of asset distribution and the Fund's assets position as at 30 June 2020 are set out below:

Asset Class	Strategic asset allocation as at April 2019 (%)	Fund Position as at 30 June 2020 (%)	Variance as at 30 June 2020 (%)	Variance as at 30 June 2020 (£m)
Equities	35.0	40.5	5.5	69.12
Private Equities	5.0	5.8	0.8	9.62
Total Equities	**40.0**	**46.2**	**6.2**	78.75
Hedge Funds	10.0	8.1	(1.9)	(23.93)
Property	10.0	5.9	(4.1)	(51.53)
Infrastructure	6.0	5.6	(0.4)	(5.06)
Bonds	24.0	22.1	(2.0)	(24.69)
Inflation protection illiquid	10.0	7.8	(2.2)	(27.3)
Cash	0.0	4.3	4.3	53.96
Total Equities	**100.0**	**100.0**		

24. The Fund has underweight position of 4.1% in Property, 2% underweight position in Bonds and Indexed linked gilts, 2.2% underweight Inflation protection illiquid and 1.9% underweight position in Hedge Funds. with 0.4% underweight position in Infrastructure and with 0.8% overweight position with Private Equities. There is a need for assets rebalancing to their strategic weights, the consideration for this will be included in the upcoming investment strategy review for the Fund.

25. The Fund triennial valuation result was very favourable with an outcome of 103% funding level. This means as at 31st March 2019 valuation, the Fund is in surplus. The outcome of Enfield Pension Fund of 103% funding level has put the Fund in a favourable position and it is worth noting that the strong 2016-2019 asset performance was due to high exposures to (strongly performing) overseas equities.

26. The next step, is for the Fund Investment Consultant to carry out an investment strategy review, incorporating the Fund's new investment beliefs. Bearing in mind that the high recent asset growth also leads to lower return expectations hence higher primary contribution.

27. 15% of the equity portfolio is being managed passively by BlackRock. The remainder is being managed on an active basis, with the largest share of 9.6% with MFS, followed by 7.5% with LCIV Baillie Gifford, 6% with LCIV Longview and 2% in LCIV EM.

28. As at 30 June 2020, the MSCI All Country World Index had a 12.2% exposure to Emerging Markets and in aggregate, the Fund's equity portfolio has £67.4m, a reduction in value by £44m compared to 31 March 2020 valuation of £23.4m. At this quarter end c.5% of the total assets are invested in Emerging Markets.

29. 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 / the surplus amortisation period - Most LGPS funds are fully Funded or almost 100% funded because of great investment returns but being tampered mildly by 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. For 2019 valuation, the actuary used 16 years as the target of reducing the funding ratio, to illustrate the surplus amortisation.

30. 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.

Safeguarding Implications

31. The report provides clear evidence of sound financial management, efficient use of resources, promotion of income generation and adherence to Best Value and good performance management.

Public Health Implications

32. The Enfield Pension Fund indirectly contributes to the delivery of Public Health priorities in the borough.

Equalities Impact of the Proposal

33. The Council is committed to Fairness for All to apply throughout all work and decisions made. The Council serves the whole borough fairly, tackling inequality through the provision of excellent services for all, targeted to meet the needs of each area. The Council will listen to and understand the needs of all its communities.

Environmental and Climate Change Considerations

34. There are no environmental and climate change considerations arising from this report.

Risks that may arise if the proposed decision and related work is not taken

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

36. To minimise risk the Pension Policy and Investment Committee attempts to achieve a diversification portfolio. Diversification relates to asset classes and management styles.

37. 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.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

38. Not noting the report recommendations and not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Enfield Pension Fund.

Financial Implications

39. 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.

Legal Implications

40. 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.

41. 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.

42. 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.

43. 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.

44. 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.

Workforce Implications

45. The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will allow the Council to meet this obligation easily and could also make resources available for other corporate priorities.

Property Implications

46. None

Other Implications

47. None

Options Considered

48. There are no alternative options.

Conclusions

49. The Fund assets increased by £97m over the quarter to 30 June 2020 the Fund posted a return of 8.2%. All Equity markets delivered positive returns in both local currency and sterling terms. The Fund underperformed its benchmark by -1.27%.

50. For this quarter, twelve out of twenty-one mandates delivered returns, matching or achieving returns above the set benchmark. The seven mandates lagging the set benchmark for the quarter were Lansdowne by -1.08%, MFS by -1.79%, M & G by -3.48%, LCIV Longview -5.22%, Davidson Kempner by -5.87, Adam Street -28.77% and York Capital by -29.4%.

51. Over the twelve-month period to 30 June 2020, the Fund underperformed its benchmark by -2.56%. For the 12 months to June 2020, twelve out of twenty-one mandates underperformed their respective benchmarks or targets. The following portfolios generated significant amount of unrealised losses for one year to 30 June 2020; LCIV CQS with -5.84%, Insight with -6.82%, LCIV Longview by -9.26%, Lansdowne with -20.54% and York Capital with -47.94%.

52. Looking at the longer-term performance, the three-year return for the Fund was 0.3% per annum above its benchmark return and for over five years, the Fund posted a positive return of 7.6% underperforming the benchmark return of 7.7% by -0.11%.

53. The distribution of the Fund's assets amongst the different asset classes is broadly in line with the strategic benchmark weight, albeit there is a need to rebalance the assets and equities is mildly overweight. The overweight position in equities has helped the fund's performance in recent months.

54. Uncertainty around the impact of Coronavirus on the future of the real estate and infrastructure markets has created difficulties in pricing illiquid assets. In turn, most property fund managers have suspended dealing, to protect investors and avoid having to liquidate assets at potentially highly marked down prices.

Report Author: Bola Tobun
Finance Manager – Pensions & Treasury
Bola.Tobun@enfield.gov.uk
Tel no. 020 8132 1588

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Appendices – To be attached electronically but not in the main printing pack.

Appendix 1 – AON Quarterly Report
Appendix 2 – London CIV Sub-Funds Quarterly Report

Background Papers
None