

London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 25 March 2021

Subject: Quarterly Investment Report for December 2020

Cabinet Member: Cllr Maguire

Executive Director: Fay Hammond

Key Decision: []

This report informs Members of the performance of the Pension Fund and its investment managers for the third quarter of 2020/21.

Over the quarter to 31 December 2020 the Fund posted a positive return of c.5.2% Over the three-month period to 31 December 2020 all Equity markets delivered positive returns in both local currency and sterling terms. The Fund outperformed its benchmark by 0.8%. Fund value was £1.364bn, a £69m increase from the June quarter end.

For the quarter fifteen mandates matched/achieved benchmark return For this quarter, Fifteen out of twenty mandates delivered returns, matching or achieving returns above the set benchmark. The four mandates lagging the set benchmark for the quarter were CFM Stratus by -2.85%, York Capital by -4.73%, Adam Street by -3.06% and Brockton Capital by -7.31%.

The Fund's investments underperformed its benchmark over the 12-month period Over the twelve-month period to 31 December 2020, the Fund underperformed its benchmark by -0.37%. For the year to 31 December 2020, the following portfolios generated significant amount of unrealised losses: Insight -6.27%, LCIV Longview -14.25% and York Capital -43.49%

Longer-term performance, the Fund outperformed its benchmark return Looking at the longer-term performance, the three-year return for the Fund was 0.35% per annum above its benchmark return and for over five years, the Fund posted a strong return of 8.47% outperforming the benchmark return of 8.43% by 0.05%.

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 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.

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.

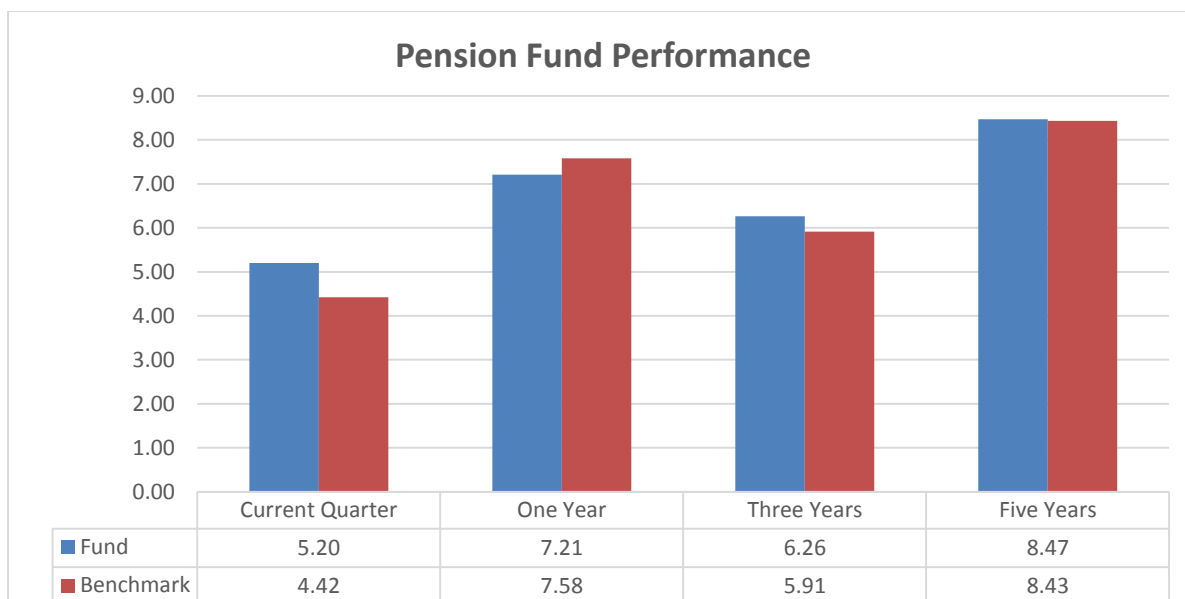
5. Relevance to the Council's Corporate Plan

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 31 December 2020 stood at £1,364m, an increase of £69m from its value of £1,295m as at 30 September 2020. Markets have bounced back sharply as initial outbreaks across major developed economies slowed and unprecedented fiscal and monetary stimulus measures boosted markets.
10. The fund outperformed the benchmark this reporting quarter by posting a return of 5.20% against benchmark return of 4.42%. The twelve-month period sees the fund behind its benchmark by -0.37%.
11. Looking at the longer-term performance, the three years return for the Fund was 6.26%, which was 0.35% per annum ahead its benchmark return. For over five years period, the Fund posted a return of 8.47% slightly outperforming the benchmark return of 8.43% by 0.05% per annum, as shown on the graph below.



12. Global equities continued to perform well over the December quarter, boosted by optimism over Covid-19 vaccine roll-outs and supportive monetary and fiscal policies. After breaking its pre-pandemic all-time high in September ending quarter, the MSCI AC World continued its strong run despite uncertainties around the US elections and surging Covid-19 cases and deaths.
13. For December quarter end, all the Fund's equity portfolios performed well delivering returns matching their respective benchmarks or outperforming the respective benchmarks.
14. UK equities posted a huge return of 10.6% over Q4 2020, outperforming other developed markets in sterling terms. The UK's economy grew by 16% over the third quarter, beating initial expectations. With the UK having been harder hit by the economic impact of Covid-19 than most major economies, UK equities were particularly buoyed by the approval and rollout of vaccines.
15. US equities also performed well over the quarter with a 13.1% return in local currency terms and the US index ended the quarter at an all-time high. However, US equities underperformed other markets in sterling terms with a return of 7.0% as sterling appreciated and the US dollar broadly depreciated amidst surging Covid-19 cases and election uncertainties both before and after Democrat Joe Biden won the presidency.
16. Fifteen out of twenty mandates delivered returns, matching or achieving returns above the set benchmark. The six mandates lagging the set benchmark for the quarter were CFM Stratus by -2.85%, M & G by -0.44%, York Capital by -4.73%, Adam Street by -3.06% and Brockton Capital -7.31%.
17. For the 12 months to December 2020, fifteen out of twenty mandates outperformed their respective benchmarks or targets. The mandates that delivered negative returns or underperformed its benchmark/target were LCIV Longview, MFS, M & G, York Capital and Insight. The following portfolios have significant amount of unrealised losses, one year to 30 September 2020;

LCIV Longview by -14.25%, Insight with -6.27% and York Capital with -43.49%.

INTERNAL CASH MANAGEMENT

18. 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.
19. 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.
20. The cash balance as at 31 December 2021, was £95.068m in short term deposits and money market funds. £31.469m with Goldman Sachs and £63.599m with Northern Trust.

CURRENCY ANALYSIS

21. The appreciation of sterling versus the US dollar over the quarter decreased the value of dollar denominated holdings. The Fund has exposure to the euro, US dollar, yen and other currencies within its portfolio.
22. At this reporting quarter, the Fund has 6.4% of total assets exposure to the euro, 34.5% to US dollar, 2.4% to yen and 5.2% 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.
23. 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.
24. US dollar exposure has increased by 0.4% to 34.5% 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 £4.7m, and for Euro denominated assets in the Fund, this will effect an increase (or decrease) by £0.87m and for Yen denominated assets this will effect an increase (or decrease) by £0.33m.

Asset Class	Strategic asset allocation as at April 2019 (%)	Fund Position as at 31 Dec. 2020 (%)	Variance as at 31 Dec. 2020 (%)	Variance as at 31 Dec. 2020 (£m)

Equities	35.0	42.9	7.9	107.76
Private Equities	5.0	5.7	0.7	9.41
Total Equities	40.0	48.6	8.6	117.17
Hedge Funds	10.0	4.5	(5.5)	(74.75)
Property	10.0	5.6	(4.4)	(60.43)
Infrastructure	6.0	5.2	(0.8)	(11.05)
Bonds	24.0	21.4	(2.6)	(35.87)
Inflation protection illiquid	10.0	7.8	(2.2)	(30.1)
Cash	0.0	7.0	7.0	95.07
Total	100.0	100.0		

25. 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

26. The current strategic weight of asset distribution and the Fund's assets position as at 31 December 2020 are set out below:
27. The Fund has underweight position of 4.4% in Property, 2.6% underweight position in Bonds and Indexed linked gilts, 2.2% underweight Inflation protection illiquid and 5.5% underweight position in Hedge Funds. with 0.8% underweight position in Infrastructure and with 0.7% overweight position with Private Equities. There is a need for assets rebalancing to their strategic weights, the consideration for this is included in the ongoing investment strategy review for the Fund.
28. 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.
29. The Fund Investment Consultant is currently reviewing the strategic asset allocation of the Fund, incorporating the Fund's latest investment beliefs.
30. 15.6% of the equity portfolio is being managed passively by BlackRock. The remainder is being managed on an active basis, with the largest share of 10% with MFS, followed by 8.3% with LCIV Baillie Gifford, 6.3% with LCIV Longview and 2.6% in LCIV Emerging Markets.
31. As at 31 December 2020, the MSCI All Country World Index had a 13.3% exposure to Emerging Markets and in aggregate, the Fund's equity portfolio has £84.5m, an improvement in value by £8.1m compared to 30 September 2020 valuation of £76.4m. At this quarter end c.6.2% of the Fund's total

assets are invested in Emerging Markets which equates to 14.5% of the Fund's equity portfolio.

32. 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.
33. 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

34. 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

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

Equalities Impact of the Proposal

36. 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

37. 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

38. Any form of investment inevitably involves a degree of risk.
39. To minimise risk the Pension Policy and Investment Committee attempts to achieve a diversification portfolio. Diversification relates to asset classes and management styles.
40. 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

41. 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

42. 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

43. 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.
44. 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.

45. 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.
46. 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.
47. 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

48. 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

49. None

Other Implications

50. None

Options Considered

51. There are no alternative options.

Conclusions

52. The Fund assets increased by £69m over the quarter to 31 December 2020 the Fund posted a return of 5.2%. All Equity markets delivered positive returns in both local currency and sterling terms. The Fund outperformed its benchmark by 0.78%.
53. Fifteen out of twenty mandates delivered returns, matching or achieving returns above the set benchmark. The six mandates lagging the set

benchmark for the quarter were CFM Stratus by -2.85%, M & G by -0.44%, York Capital by -4.73%, Adam Street by -3.06% and Brockton Capital -7.31%.

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58. 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.

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Date of report 16th March 2021

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

Appendix 1 – AON Quarterly Report (Agenda Item 8 - Private & confidential)
Appendix 2 – London CIV Sub-Funds Quarterly Report

Background Papers

None