

London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 25 November 2021

Subject: Quarterly Investment Report for September 2021

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 second quarter of 2021/22.

Over the quarter to 30 September 2021 the Fund posted a positive return of c.2.69% Global equities continued to perform well over the quarter. The Fund outperformed its benchmark by 1.31%. Fund value was £1.5bn, a £41m increase from the June quarter end.

For the quarter thirteen mandates matched/achieved benchmark return For this quarter, thirteen out of twenty mandates delivered returns, matching or achieving returns above the set benchmark. The seven mandates lagging the set benchmark for the quarter LCIV Longview, MFS Global Equity, Insight, Davidson Kempner, CFM Stratus, Blackrock Property and Brockton.

The Fund's investments outperformed its benchmark over the 12-month period Over the twelve-month period to 30 September 2021, the Fund outperformed its benchmark by 3.78%. For the year to 30 September 2021, fifteen out of twenty mandates delivered returns, matching or achieving returns above the set benchmark.

Longer-term performance, the Fund outperformed its benchmark return Looking at the longer-term performance, the three-year return for the Fund was 1.17% per annum above its benchmark return and for over five years, the Fund posted a strong return of 8.07% outperforming the benchmark return of 6.57% by 1.50% per annum.

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:
 - i) note the contents of this report and
 - ii) approve \$10m or \$20m investment in Adam Street Partners.

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.

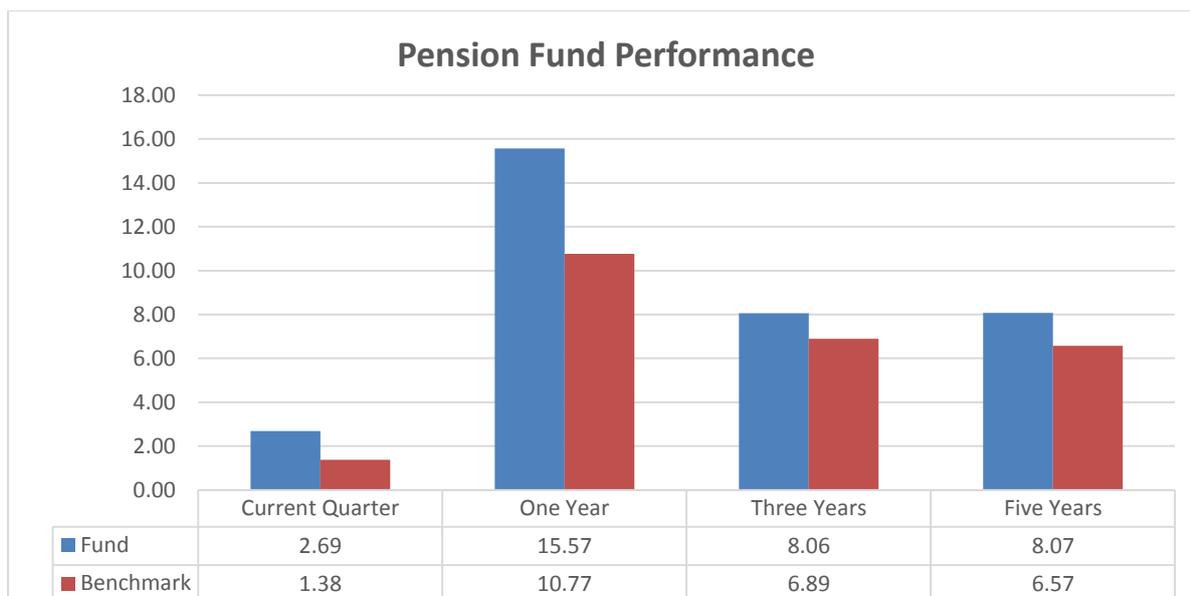
5. Relevance to the Council's Corporate Plan

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 September 2021 stood at £1,500m, an increase of £41m from its value of £1,459m as at 30 June 2021.
10. The fund outperformed the benchmark this reporting quarter by posting a return of 2.69% against benchmark return of 1.38%. The twelve-month period sees the fund ahead its benchmark by 4.8%.
11. Looking at the longer-term performance, the three years return for the Fund was 8.06%, which was 1.17% per annum ahead its benchmark return. For over five years period, the Fund posted a return of 8.07% outperforming the benchmark return of 6.57% by 1.50% per annum, as shown on the graph below.



12. For September quarter end, two out of the four Fund's active equity mandates underperformed their respective benchmarks. Thirteen out of twenty mandates delivered returns, matching or achieving returns above the set benchmark.
13. For the 12 months to September 2021, fifteen out of twenty mandates outperformed their respective benchmarks or targets. The mandates that delivered negative returns or underperformed their respective benchmark/target were London CIV (BG), MFS, Blackrock Property, LGIM Property and Brockton.

INTERNAL CASH MANAGEMENT

14. 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.
15. The Pension Fund cash balance is invested in accordance with the Council's Treasury Management strategy agreed by Full Council in February 2021, which is delegated to the Executive Director of Resources to manage on a day to day basis within the agreed parameters.
16. The cash balance as at 30 September 2021, was £103.989m in short term deposits and money market funds. £33.829m with Goldman Sachs and £70.160m with Northern Trust.

ASSET ALLOCATION

17. The current strategic weight of asset distribution and the Fund's assets position as at 30 September 2021 are set out below:
18. The Fund has underweight position of 4.5% in Property, 4.3% underweight position in Bonds and Indexed linked gilts, 2.4% underweight Inflation

Asset Class	Strategic asset allocation as at June 2021 (%)	Fund Position as at 30 Sept. 2021 (%)	Difference as at 30 Sept. 2021 (%)	Difference as at 30 Sept. 2021 (£m)
Equities	35.0	43.9	9.0	134.3
Private Equities	5.0	7.9	2.9	43.5
Total Equities	40.0	51.8	11.9	177.8
Hedge Funds	0.0	4.2	4.2	63.0
Property	5.0	7.4	2.4	36.0
Infrastructure	16.0	4.8	(11.2)	(168.0)
Bonds	29.0	18.9	(10.1)	(152.3)
Inflation protection illiquid	10.0	5.6	(4.4)	(66.0)
Cash	0.0	7.3	7.3	109.5
Total	100.0	100.0		

19. 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.

20. 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.

Adam Street Partners (ASP)

21. As at 30th September 2021, the portfolio value as audited by Northern Trust, the Fund Global Custodian stood at £109.557m, this represent 7.3% of the total Fund assets. The Fund allocation to private equity is 5% hence we are currently overweight in this asset class by 2.3%. Having said this it has been

advised that looking at current private equity exposure in isolation does not give the full picture, as our Fund's private equity portfolio is relatively mature, and we are at the stage where many of the early year investments are returning cash at a faster rate than new investments are making calls for cash.

22. (It takes ~7-8 years for Global Funds to invest capital, respectively). As shown in the model provided by the manager, hence adding \$10m - \$20m in 2021 wouldn't make a big impact on near term cash flows. An 'over commitment' is sometimes necessary to reach and maintain the target allocation when older investments within the asset class are maturing and returning funds, and the total value of the overall portfolio is expected to increase.
23. The manager is asking for Enfield Pension Fund continuation of \$10m annual commitment and attached to this report as Appendix 1a & 1b, the spreadsheet produced by the Manager modelling the cash flows and NAVs experience. Given the maturity of the investments and expected income/distributions, NAV will continue to decrease (and at a faster pace). Therefore, to maintain our Fund's target exposure to private equity it will be necessary to continue to make the regular annual commitments.
24. As indicated above the manager expect income/distributions coming from our Fund mature and maturing investments to be quite meaningful in coming years. There are still some draws that will take place, but the manager expects those to be funded from the gross distributions. Looking at the model, it is expected net distributions of a total of \$54m in the next three years (2021-2023).
25. Verbal update on the following:
 - i) Transition to London CIV (BG) Paris Aligned mandate
 - ii) London CIV (Longview)
 - iii) Investment in Aon's Liquid Credit Fund
 - iv) London CIV Conference

Safeguarding Implications

26. 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

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

Equalities Impact of the Proposal

28. 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

29. 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

30. Any form of investment inevitably involves a degree of risk.
31. To minimise risk the Pension Policy and Investment Committee attempts to achieve a diversification portfolio. Diversification relates to asset classes and management styles.
32. 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

33. 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

34. 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

35. 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.

36. 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.
37. 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.
38. 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.
39. 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

40. 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

41. None

Other Implications

42. None

Options Considered

43. There are no alternative options.

Conclusions

44. The overall value of the Fund at 30 September 2021 stood at £1,500m, an increase of £41m from its value of £1,459m as at 30 June 2021.
45. The fund outperformed the benchmark this reporting quarter by posting a return of 2.69% against benchmark return of 1.38%. The twelve-month period sees the fund ahead its benchmark by 4.8%.
46. Looking at the longer-term performance, the three years return for the Fund was 8.06%, which was 1.17% per annum ahead its benchmark return. For over five years period, the Fund posted a return of 8.07% outperforming the benchmark return of 6.57% by 1.50% per annum.
47. For the 12 months to June 2021, sixteen out of twenty mandates outperformed their respective benchmarks or targets. The mandates that delivered negative returns or underperformed their respective benchmark/target were Blackrock Property, LGIM Property, M&G Inflation and York Capital -20.53%
48. For September quarter end, two out of the four Fund's active equity mandates underperformed their respective benchmarks. Thirteen out of twenty mandates delivered returns, matching or achieving returns above the set benchmark.
49. For the 12 months to September 2021, fifteen out of twenty mandates outperformed their respective benchmarks or targets. The mandates that delivered negative returns or underperformed their respective benchmark/target were London CIV (BG), MFS, Blackrock Property, LGIM Property and Brockton.
50. 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 November 2021

Appendices

Appendix 1 – Northern Trust Report: Enfield PF Asset Class Performance
Appendix 2 – London CIV Sub-Funds Quarterly Report

Background Papers

None