

London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 31 March 2022

Subject: Quarterly Investment Performance Monitoring Report for December 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 31 December 2021 the Fund posted a positive return of c.3.38% Global equities continued to perform well over the quarter. The Fund underperformed its benchmark by 0.70%. Fund value was £1.551bn, an £51m increase from the September quarter end.

For the quarter nine mandates matched/achieved benchmark return For this quarter, nine out of twenty mandates delivered returns, matching or achieving returns above the set benchmark. The eleven mandates lagging their set benchmark for the quarter are: LCIV BG Global Alpha, LCIV JP Morgan, LCIV Longview, MFS Global Equity, Blackrock IL Gilts, Insight, M&G Inflation, York Capital, CFM Stratus, Blackrock Property and Brockton.

The Fund's investments outperformed its benchmark over the 12-month period Over the twelve-month period to 31 December 2021, the Fund outperformed its benchmark by 3.16%. For the year to 31 December 2021, thirteen 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 1.04% per annum above its benchmark return and for over five years, the Fund posted a strong return of 7.99% outperforming the benchmark return of 7.02% by 0.97% 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 also to note and comments on section 23 to 30 on the Impact of Russian Invasion on Investments Market.

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.

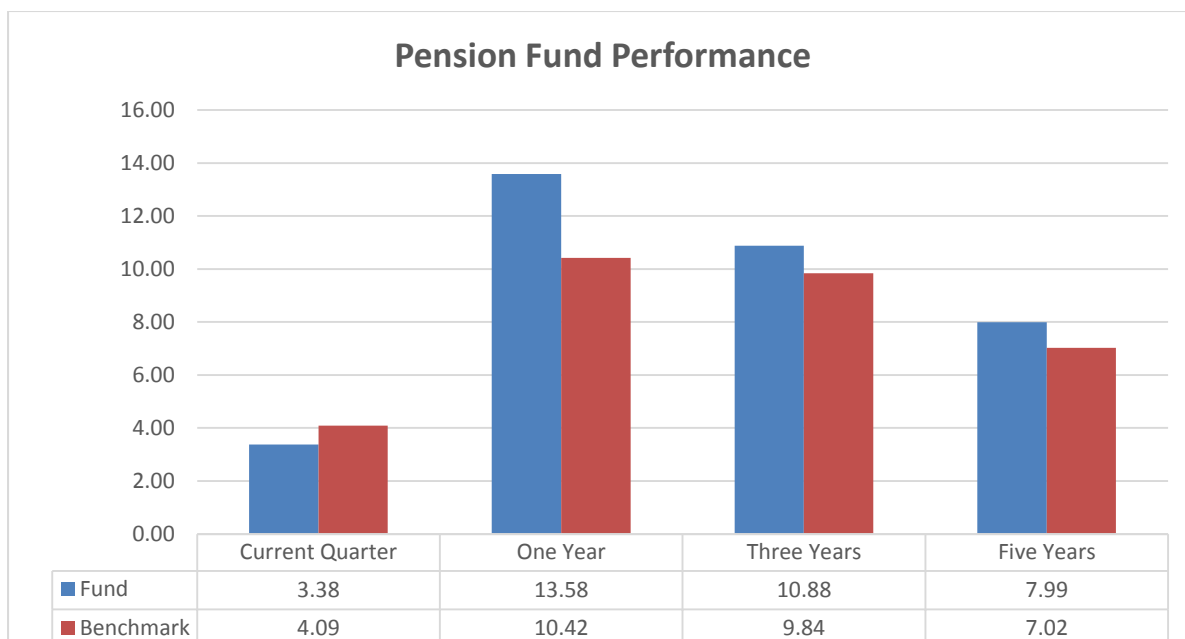
5. Relevance to the Council's Corporate Plan

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 2021 stood at £1,551m, an increase of £51m from its value of £1,500m as at 30 September 2021.
10. The fund underperformed the benchmark this reporting quarter by posting a return of 3.38% against benchmark return of 4.09%. The twelve-month period sees the fund ahead its benchmark by 3.16%.
11. Looking at the longer-term performance, the three years return for the Fund was 10.88%, which was 1.04% per annum ahead its benchmark return. For over five years period, the Fund posted a return of 7.99% outperforming the benchmark return of 7.02% by 0.97% per annum, as shown on the graph below.



12. For December quarter end, four out of the five Fund's active equity mandates underperformed their respective benchmarks. Nine out of twenty mandates delivered returns, matching or achieving returns above the set benchmark.
13. For the 12 months to December 2021, thirteen out of twenty mandates outperformed their respective benchmarks or targets. The mandates that delivered negative returns or underperformed their respective benchmark/target were LCIV BG Global Alpha, LCIV JP Morgan, MFS Global Equity, Blackrock IL Gilts, Insight, M&G Inflation and Blackrock Property

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 31 December 2021, was £66.4m in short term deposits and money market funds. £33.8m with Goldman Sachs and £32.6m with Northern Trust.

ASSET ALLOCATION

17. The current strategic weight of asset distribution and the Fund's assets position as at 31 December 2021 are set out below:

Asset Class	Strategic asset allocation as at June 2021 (%)	Fund Position as at 31 Dec. 2021 (%)	Difference as at 31 Dec. 2021 (%)	Difference as at 31 Dec. 2021 (£m)
Equities	35.0	44.3	9.3	144.7
Private Equities	5.0	7.1	2.1	32.9
Total Equities	40.0	51.5	11.5	177.6
Hedge Funds	0.0	4.1	4.1	62.8
Property	5.0	5.8	0.8	12.6
Infrastructure	16.0	4.6	(11.4)	(177.4)
Alternative Fixed Income	5.0	0.0	(5.0)	(77.6)
Bonds	24.0	22.0	(2.0)	(31.0)
Inflation protection illiquid	10.0	7.9	(2.1)	(33.2)
Cash	0.0	4.3	4.3	66.4
Total	100.0	100.0		

18. The Fund has underweight position of 11.4% to Infrastructure, 2% underweight position in Bonds and Indexed linked gilts, 2.1% underweight in Inflation Protection and 7.5% overweight position in cash, 11.5% overweight position to total equities and 0.8% overweight position in Property.
19. 38% of the Equity portfolio which is 16.9% of the total Fund assets is being managed passively by BlackRock. The remainder is being managed on an active basis, with the largest share of 10.4% with MFS, followed by 8.0% with LCIV Baillie Gifford, 6.7% with LCIV Longview and 2.2% in LCIV Emerging Markets.
20. As at 31 December 2021, the MSCI All Country World Index had a 11.2% exposure to Emerging Markets and in aggregate, the Fund's equity portfolio was £686.8m and £46.3m was invested in Emerging market. At this quarter end, c.2.9% of the Fund's total assets were invested in Emerging Markets which equates to 6.6% of the Fund's equity portfolio.
21. 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.
22. 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.

The Impact of Russian Invasion on Investment Market

23. Russia's invasion of Ukraine can be seen as a serious escalation and the start of protracted and unpredictable Russia-U.S. tensions. Deploring the human toll and tragedy all this may bring
24. The key macro impact from this event, is fast-rising energy prices. This will exacerbate supply-driven inflation - while delaying and raising its peak. Central banks will need to normalise policy to pre-Covid settings to curb inflation, and they will find it tough to respond to any slowdown in growth as policy rates are headed higher.
25. The Enfield Pension Fund had £985k exposure in total to Russia and Ukraine, which was 0.069% of the total Fund assets as at 31st January 2022. This has no bearing or minimal impact on the Fund's investment strategy and indeed on the upcoming triennial valuation.
26. As at 28th February 2022, the council's pension fund holds under one million of investments in Russia and Ukraine, which is less than 0.07% of the total Fund's assets.
27. Our investments with London CIV contributed under £200k to this amount. One of the fund manager Baillie Gifford has investment in two Russian companies: Sberbank (Russia's main bank) and VK Company (Russian equivalent of Facebook), within its London CIV Global Alpha Growth Equity mandate, has now confirmed that Sberbank shares have fallen significantly and are now held at a de minimis position (0.01%) in the Global Alpha portfolio. The asset manager has also been actively selling down this position, as well as the small holding in VK Company, both of which trade on the London Stock Exchange. In terms of value, these holdings are now shown as zero within the portfolio.
28. The Council's pension fund will be seeking to divest from all investments in Russia and Ukraine. Although the current markets means this is not wholly possible, the intention will be to do so as soon as practically possible.
29. The LB Enfield Fund is working closely with other London Funds, the LCIV and indeed the LGPS Scheme Advisory Board to have a unified and

consistent message of condemning the deplorable human toll and tragedy the current actions have brought.

30. Scheme Advisory Board (SAB) issued a statement that LGPS funds may wish to consider divesting from assets held before 1st March 2022 for prudent financial reasons, although there may be significant challenges to achieving this due to a number of factors including the closure of the Russian stock exchange and the potential lack of buyers for such assets resulting in significantly depressed values.

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

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55. As at 31 December 2021, the MSCI All Country World Index had a 11.2% exposure to Emerging Markets and in aggregate, the Fund's equity portfolio was £686.8m and £46.3m was invested in Emerging market. At this quarter end, c.2.9% of the Fund's total assets were invested in Emerging Markets which equates to 6.6% of the Fund's equity portfolio.
56. 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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Appendices

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