London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 27 July 2022

Subject: Quarterly Investment Performance Monitoring Report for March 2022

Cabinet Member: Cllr Leaver

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 March 2022 the Fund posted a negative return of c.1.60%	Global equities fell in response to heightened geopolitical tensions and continued inflationary pressure. The Fund underperformed its benchmark by 0.83%. Fund valuation at the end of this reporting quarter was £1.528bn, a decrease of £23m over the quarter.
For the quarter nine mandates matched/achieved benchmark return	For this quarter, twelve out of twenty-one mandates delivered returns matching or achieving returns above the benchmark set. The eight mandates lagging their set benchmark for this quarter are: LCIV BG Global Alpha, LCIV JP Morgan, MFS Global Equity, Aon Liquid Credits, LCIV CQS MAC, M&G Inflation, L&G Property and Brockton.
The Fund's investments outperformed its benchmark over the 12-month period	Over the twelve-month period to 31 March 2022, the Fund outperformed its benchmark by 0.20%. For the year to 31 March 2022, eleven out of twenty-one 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 0.70% per annum above its benchmark return and for over five years, the Fund posted a return of 6.99% outperforming the benchmark return of 6.27% by 0.72% 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 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.

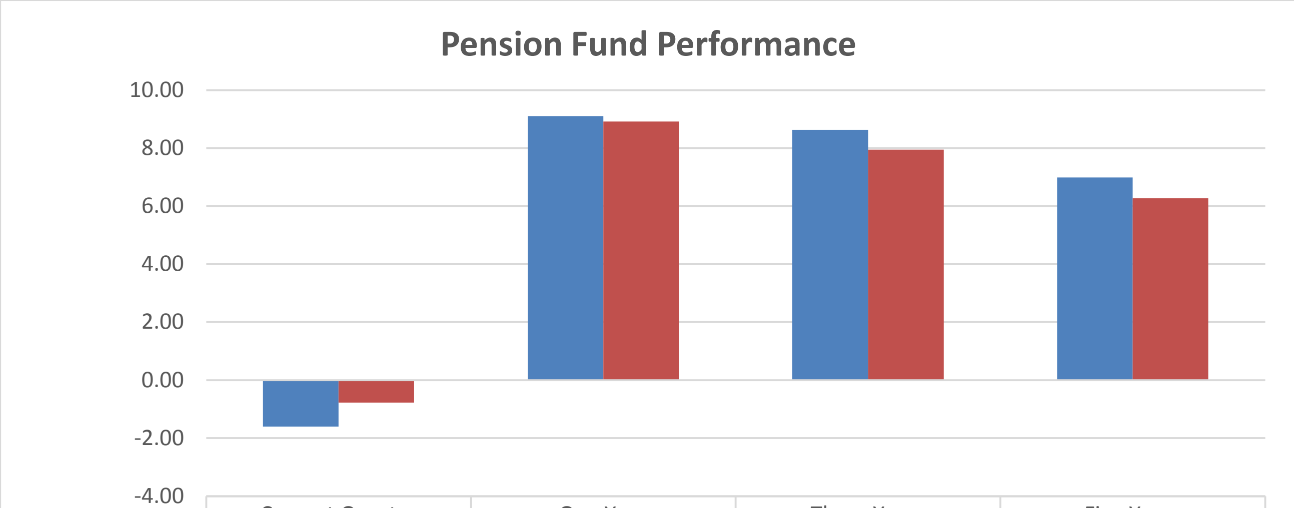
Background

INVESTMENT PERFORMANCE

9. The overall value of the Fund on 31 March 2022 stood at £1,528m, a decrease of £23m from £1,551m December 2021 quarter end value.

10. The Fund underperformed the benchmark this reporting quarter by posting a return of -1.60% against benchmark return of 0.78%. The twelve-month period sees the fund ahead its benchmark by 0.20%.

11. Looking at the longer-term performance, the three years return for the Fund was 8.63%, which was 0.69% per annum ahead its benchmark return. For over five years period, the Fund posted a return of 6.99% outperforming the benchmark return of 6.27% by 0.72% per annum, as shown on the graph below.



	Current Quarter	One Year	Three Years	Five Years
Fund	-1.60	9.10	8.63	6.99
Benchmark	-0.78	8.91	7.94	6.27

12. For March quarter end, three out of the five Fund's active equity mandates underperformed their respective benchmarks. Twelve out of twenty one mandates delivered returns, matching or achieving returns above the set benchmark.

13. For the 12 months to March 2022, eleven out of twenty one 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, LCIV MAC, M&G Inflation, Brockton, Blackrock Property and L&G 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. Any excess cash from the Fund's bank accounts is invested in accordance with the Council's Treasury Management Strategy, prepared in accordance with the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice. The Treasury Management Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk for the Fund's exposure. In addition, excess cash held with the custodian is swept into a liquidity fund to provide further diversification.

16. The Pension Fund cash balance is invested in accordance with the Council's Treasury Management strategy agreed by Full Council in February 2021and currently March 2022, which is delegated to the Executive Director of Resources to manage on a day to day basis within the agreed parameters. Officers monitor the credit risk of the Fund by keeping under review the credit rating and financial positions of the custodian and banks the Fund uses.

17. Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The market value of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

18. The Pension Fund reviews its exposure to credit and counterparty risk through its external Investment Managers by reviewing the Managers' annual internal control reports. This ensures that Managers exercise reasonable care and due diligence in their activities for the Pension Fund, such as in the selection and use of brokers, clearing houses, counterparties and other appointees with whom transactions on behalf of the Fund take place.

19. A counterparty rating is one measure of credit risk. The carrying amounts of investment assets best represent the maximum credit risk exposure at the Net Asset Statement date.

20. A majority of the assets of the Fund are held by the Fund's custodian, Northern Trust Company. Bankruptcy or insolvency of the custodian may cause the Fund's rights with respect to securities held by the custodian to be delayed or limited. Cash not forming part of the investment assets is held in the Fund's current accounts with HSBC Bank.

21. The cash balance as of 31 March 2022, was £71.2m in short term deposits and money market funds. £34.1m with Goldman Sachs and £37.1m with Northern Trust.

ASSET ALLOCATION

22. The current strategic weight of asset distribution and the Fund's assets position as of 31 March 2022 are set out below:

Asset Class	Strategic asset allocation as at June 2021 (%)	Fund Position as at 31 Mar. 2022 (%)	Difference as at 31 Mar. 2022 (%)	Difference as at 31 Mar. 2022 (£m)
Equities	35.0	43.0	8.0	122.1
Private Equities	5.0	7.7	2.7	41.9
Total Equities	**40.0**	**50.7**	**10.7**	**164.0**
Hedge Funds	0.0	4.4	4.4	66.8
Property	5.0	6.2	1.2	17.6
Infrastructure	16.0	4.8	(11.2)	(171.0)
Alternative Fixed Income	5.0	0.0	(5.0)	(76.4)
Bonds	24.0	21.3	(2.7)	(41.1)
Inflation protection illiquid	10.0	8.0	(2.0)	(30.9)
Cash	0.0	4.7	4.7	71.2
Total	**100.0**	**100.0**		

23. The Fund has 11.2% underweighted position to Infrastructure, 2.7% underweighted position to Bonds and Indexed linked gilts, 2% underweight in Inflation Protection. And the Fund has 4.7% overweighted position to cash, 10.7% overweighted position to total equities and 1.2% overweight position in Property.

24. 39% of the Equity portfolio which is 16.8% 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 10.1% with MFS, followed by 7.1% with LCIV Baillie Gifford, 6.9% with LCIV Longview and 2.1% in LCIV Emerging Markets.

25. As of 31 March 2022, the MSCI All Country World Index had a 11.1% exposure to Emerging Markets and in aggregate, the Fund's public equity portfolio was £656.9m and £42.1m was invested in Emerging market.

26. At the reporting quarter end, c.2.8% of the Fund’s total assets were invested in Emerging Markets which equates to 6.4% of the Fund’s public equity portfolio as shown in the table below.

Asset Manager	**Valuation of Assets as of March 2022 (£m)**	**Emerging Market Allocation (%)**	**Emerging Market Allocation (£m)**
BlackRock	256.2	0.0	0.0
MFS	154.3	1.1	1.7
Baillie Gifford	108.5	12.7	13.7
JP Morgan	32.3	82.7	26.7
Longview	104.8	0.0	0.0
Total Public Equities	**656.1**	**6.4**	**42.1**

27. 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.

28. 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

29. 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

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

Equalities Impact of the Proposal

31. 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

32. 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

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

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

35. 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

36. 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

37. 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

38. 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.

39. 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.

40. 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.

41. 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.

42. 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

43. 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

44. None

Other Implications

45. None

Options Considered

46. There are no alternative options.

Conclusions

47. The overall value of the Fund on 31 March 2022 stood at £1,528m, a reduction of £23m from its value of £1,551m at December 2021 quarter end.

48. The fund underperformed the benchmark this reporting quarter by posting a return of -1.60% against benchmark return of -0.78%. The twelve-month period sees the fund ahead its benchmark by 0.20%.

49. Looking at the longer-term performance, the three years return for the Fund was 8.63%, which was 0.69% per annum ahead its benchmark return. For over five years period, the Fund posted a return of 6.99% outperforming the benchmark return of 6.27% by 0.72% per annum.

50. For March quarter end, three out of the five Fund's active equity mandates underperformed their respective benchmarks. Twelve out of twenty one mandates delivered returns, matching or achieving returns above the set benchmark.

51. For the 12 months to March 2022, eleven out of twenty one 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, LCIV MAC, M&G Inflation, Brockton, Blackrock Property and L&G Property.39% of the Equity portfolio which is 16.8% 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 10.1% with MFS, followed by 7.1% with LCIV Baillie Gifford, 6.9% with LCIV Longview and 2.1% in LCIV Emerging Markets.

52. As of 31 March 2022, the MSCI All Country World Index had a 11.1% exposure to Emerging Markets and in aggregate, the Fund's equity portfolio was £656.1m with £42.1m invested in Emerging market. At this reporting quarter end, c.2.8% of the Fund's total assets are invested in Emerging Markets which equates to 6.4% of the Fund's public equity portfolio.

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.

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Appendices

Appendix 1 – Northern Trust Report for Enfield PF Asset Class Performance Mar 2022
Appendix 2 – London CIV Sub-Funds Quarterly Report