

London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 5 October 2022

Subject: Quarterly Investment Performance Monitoring Report for June 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 2022/23.

Over the quarter to 30 June 2022 the Fund posted a negative return of c.5.06% Global equities continued to perform poorly in response to increased risk of recession and the aggressive action to curb inflation. The Fund underperformed its benchmark by 0.99%. Fund valuation at the end of this reporting quarter was £1.455bn, a decrease of £73m over the quarter.

For the quarter eleven mandates matched/achieved benchmark return For this quarter, eleven out of twenty-one mandates delivered returns matching or achieving returns above the benchmark set. The ten mandates lagging their set benchmark for this quarter are: LCIV BG Global Alpha, LCIV JP Morgan, Aon Liquid Credits, Insight Bonds, LCIV CQS MAC, Western Bonds, M&G Inflation, Davidson Kempner, Blackrock Property and Brockton.

The Fund's investments outperformed its benchmark over the 12-month period Over the twelve-month period to 30 June 2022, the Fund underperformed its benchmark by 1.18%. For the year to 30 June 2022, ten 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 0.12% per annum above its benchmark return and for over five years, the Fund posted a return of 5.71% outperforming the benchmark return of 5.32% by 0.39% 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

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;
 - ii) consider investing 5% of the Fund total assets in London CIV Renewable Fund and or agree for the Fund's investment consultant and officers of the Fund to work closely to start a search to identify suitable strategy/ies for the implementation of the 10% allocation to (Renewable) Infrastructure pooled funds in which to undertake investments.

Reason for Proposal(s)

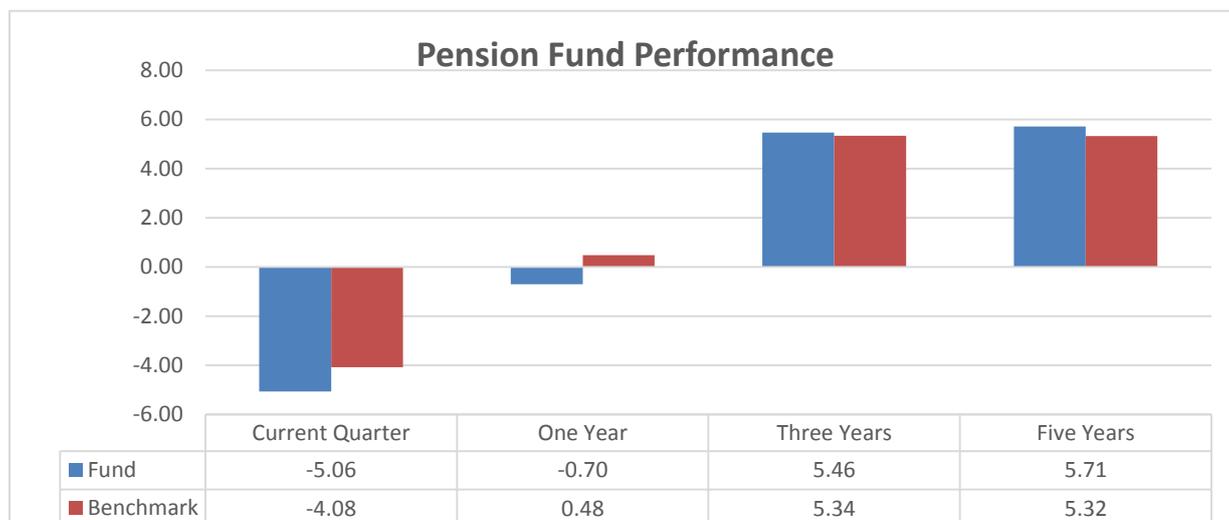
4. The report informs the Pension Policy and investment Committee of the performance of pension fund managers and the overall performance of the Enfield Pension Fund.
5. **Relevance to the Council's Corporate Plan**
6. Good homes in well-connected neighbourhoods.
7. Build our Economy to create a thriving place.
8. Sustain Strong and healthy Communities.

Background

INVESTMENT PERFORMANCE

9. The overall value of the Fund on 30 June 2022 stood at £1,455m, a decrease of £73m from £1,528m as of 31 March 2022 quarter end value.
10. The Fund underperformed the benchmark this reporting quarter by posting a return of -5.06% against benchmark return of 4.08%. The twelve-month period sees the fund lagging its benchmark by -1.18%.
11. Looking at the longer-term performance, the three years return for the Fund was 5.46%, which was 0.12% per annum ahead its benchmark return. For over

five years period, the Fund posted a return of 5.71% outperforming the benchmark return of 5.32% by 0.39% per annum, as shown in the graph below.



12. For June quarter end, two out of the five Fund's active equity mandates underperformed their respective benchmarks. Eleven out of twenty-one mandates delivered returns, matching or achieving returns above the set benchmark.
13. For the 12 months to June 2022, ten 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, Insight, LCIV MAC, Western Bonds, M&G Inflation, Davidson Kempner, Brockton 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. 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 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 30 June 2022, was £82.033m in short term deposits and money market funds. £42.433m Northern Trust with and £39.6m with Goldman Sachs.

Currency Analysis

22. Sterling is close to multi-decade lows against the US Dollar and has lost ground against all major currencies except the Japanese Yen in the last 8 months.
23. 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.
24. The active equity managers have exposures to various currencies as they are all global mandates, and we have approximated the currency exposures based on the geographical split of the underlying investments.
25. Adams Street, York and Davidson Kempner are US dollar denominated whilst Antin is euro denominated. CFM, BlackRock, CBRE, Western, M&G Inflation Opportunities, Legal & General, Brockton, Insight, London CIV MAC, Aon Diversified Liquid Credit, 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.

Currency	%	£m
Sterling	50.6	735.9

US Dollar	37.0	538.8
Euro	5.2	76.2
Yen	1.5	21.9
Other	5.6	82.0
Total	100.0	1,454.8

26. Manager exposures are based on geographical exposures and not currency exposures. US dollar exposure is the largest foreign currency risk for the Fund.
27. Following a 1% foreign currency appreciation (depreciation), the value of the Funds' US dollar denominated assets will increase (decrease) approximately by £5.4m, euro denominated assets will increase (decrease) by £0.8m and yen denominated assets will increase (decrease) by £0.2m.
28. Note 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.
29. The Fund has \$54.5m as cash balance as of 20 August 2022. was £82.033m in short term deposits and money market funds. \$28.7m Northern Trust with and \$25.8m with Goldman Sachs.

ASSET ALLOCATION

30. The current strategic weight of asset distribution and the Fund's assets position as of 30 June 2022 are set out below:

Asset Class	Strategic asset allocation as at June 2021 (%)	Fund Position as at 30 Jun. 2022 (%)	Difference as at 30 Jun. 2022 (%)	Difference as at 30 Jun. 2022 (£m)
Equities	35.0	41.0	6.0	86.7
Private Equities	5.0	8.3	3.3	48.6
Total Equities	40.0	49.3	9.3	135.3
Hedge Funds	0.0	4.9	4.9	70.7
Property	5.0	6.7	1.7	24.0
Infrastructure	16.0	5.0	(11.0)	(160.3)
Alternative Fixed Income	5.0	0.0	(5.0)	(72.8)
Bonds	24.0	20.6	(3.4)	(49.2)
Inflation protection illiquid	10.0	8.0	(2.1)	(29.8)
Cash	0.0	5.6	5.6	82.1
Total	100.0	100.0		

31. The Fund has 11% underweighted position to Infrastructure, 8.4% underweighted position to Bonds, alternative fixed income and indexed linked gilts, 2.1% underweight in Inflation Protection. And the Fund has 5.6% overweighted position to cash, 9.3% overweight position to total equities and 1.7% overweight position in Property.
32. 41% of the Equity portfolio which is 15.7% of the total Fund assets is being managed passively by BlackRock. The remainder (25.4%) is being managed on an active basis, with the largest share of 9.8% with MFS, followed by 6.9% with LCIV Baillie Gifford, 6.6% with LCIV Longview and 2.1% in LCIV Emerging Markets.
33. As of 30 June 2022, the MSCI All Country World Index had a 11.7% exposure to Emerging Markets and in aggregate, the Fund's public equity portfolio was £595.8m and £41m was invested in Emerging market.
34. At the reporting quarter end, c.2.8% of the Fund's total assets were invested in Emerging Markets which equates to 6.9% of the Fund's public equity portfolio as shown in the table below.

Asset Manager	Valuation of Assets as of June 2022 (£m)	Emerging Market Allocation (%)	Emerging Market Allocation (£m)
Blackrock	228.1	0.0	0.0
MFS	141.9	1.0	1.4
Baillie Gifford	95.4	19.5	18.6
JP Morgan	29.9	70.0	20.
Longview	99.7	0.0	0.0
Total Public Equities	595.8	6.9	41.0

35. 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.

36. 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.

Investments Considerations

37. Given that the Committee recently allocated 10% to infrastructure as an asset class and the Fund's responsible investment commitment of aligning the Fund to a low carbon economy. The Fund currently has £82m in cash with the Fund Custodian and GSAM MMF and also £47.6m in short term bonds compounded with the current economy climate.
38. The Fund Investment Consultant advised in a paper drafted September 2021 that the LCIV Renewables Fund appears to fit strategically with the desired characteristics in terms the ability to implement Environmental Social and Governance factors into the portfolio and they are supportive of the Committee making a commitment to this fund.
39. Officers are therefore recommending to the Committee to pursue investing in London CIV renewable infrastructure and if the Committee deemed to find this product still unsuitable due to underperformance or perceived inadequate governance arrangement of the London CIV, the Committee can choose to collaborate with other LGPS funds to do a search for a suitable strategy for the Fund.
40. As making direct investments into pooled funds enables the Pension Fund to make investment decisions and invest directly in funds without the requirements to undertake the lengthy OJEU process, however, the same level of due diligence when choosing funds is still undertaken to ensure that the investments are appropriate for the Fund. The costs of making such investments taking into account, consultancy and officer time is immaterial in the context of £50m investments being made.
41. Aon's hedge fund research specialists have confirmed that the redemption terms for the Fund's two remaining hedge funds, CFM Stratus and Davidson Kempner are:
- i) Davidson Kempner: Quarterly redemptions, with 60 days notice; and
 - ii) CFM Stratus: Monthly redemptions, with 60 days notice.
42. The combined holdings in these two hedge funds were c.£66m as of 30 June 2022. Once the redemptions notices have been placed and the proceeds have been received, this amount will be available for investment and will help move the Fund towards its revised investment strategy.
43. Even with the relatively long redemption notice required in each case, careful planning is required to ensure that the proceeds from the redemptions can be

invested elsewhere within the Fund's investment strategy in a timely manner, to avoid holding a significant balance in cash for a prolonged period.

Safeguarding Implications

44. 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

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

Equalities Impact of the Proposal

46. 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

47. 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

48. Any form of investment inevitably involves a degree of risk.
49. To minimise risk the Pension Policy and Investment Committee attempts to achieve a diversification portfolio. Diversification relates to asset classes and management styles.
50. 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

51. 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

52. 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

53. 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.
54. 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.
55. 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.
56. 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.
57. 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

58. 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

59. None

Other Implications

60. None

Options Considered

61. There are no alternative options.

Conclusions

62. The overall value of the Fund on 30 June 2022 stood at £1,455m, a reduction of £73m from its value of £1,528m at March 2022 quarter end.
63. The fund underperformed the benchmark this reporting quarter by posting a return of -5.06% against benchmark return of -4.08%. The twelve-month period sees the fund lagging its benchmark by -1.18%.
64. Looking at the longer-term performance, the three years return for the Fund was 5.46%, which was 0.12% per annum ahead its benchmark return. For over five years period, the Fund posted a return of 5.71% outperforming the benchmark return of 5.32% by 0.39% per annum.
65. For June quarter end, two out of the five Fund's active equity mandates underperformed their respective benchmarks. eleven out of twenty-one mandates delivered returns, matching or achieving returns above the set benchmark.
66. For the 12 months to June 2022, ten 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, Insight, LCIV MAC, Western Bonds, M&G Inflation, Davidson Kempner, Brockton and Blackrock Property.
67. 41% of the Equity portfolio which is 15.7% of the total Fund assets is being managed passively by BlackRock. The remainder (25.4%) is being managed on an active basis, with the largest share of 9.8% with MFS, followed by 6.9% with LCIV Baillie Gifford, 6.6% with LCIV Longview and 2.1% in LCIV Emerging Markets.
68. As of 30 June 2022, the MSCI All Country World Index had a 11.7% exposure to Emerging Markets and in aggregate, the Enfield Pension Fund's public equity portfolio was £595.8m and in aggregate £41m was invested in Emerging market.

69. 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.
70. Officers are recommending to the Committee to pursue appropriate strategy in line with the Fund commitment of making positive contribution to the transition to a low carbon economy, through investment in renewable infrastructure and any other suitable asset classes.

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Date of report 19th September 2022

Appendices

Appendix 1 – Northern Trust Report for Enfield PF Asset Class Performance June 2022

Appendix 2 – London CIV - Enfield Quarterly Investment Report for June 2022