

**London Borough of Enfield**

**PENSION POLICY AND INVESTMENT COMMITTEE**

**Meeting Date: 23 November 2022**

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**Subject: The Report of PPIC Subgroup on Investment Strategy Implementation and Fund Rebalancing Plan**

**Cabinet Member: Cllr Leaver**

**Executive Director: Fay Hammond**

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**Purpose of Report**

1. This report introduces notes from the PPIC subgroup meetings and Aon's recommendation report on the Hedge Fund redemptions and investing surplus cash within the Fund's portfolio.

**Proposal(s)**

2. Pension Policy and Investments Committee is recommended to:
  - a) note the contents of this report and Aon's report on Hedge Fund redemption and surplus cash, appended as confidential appendix 1;
  - b) note, consider and approve the Fund rebalancing proposal as prepared in appendix 1 of this report;
  - c) consider and comment on the meeting notes of the PPIC subgroup of 14<sup>th</sup> October 2022 and LCIV Renewable Infrastructure Fund presentation to the PPIC subgroup (appended as appendix 3b) at their meeting of 9th November 2022 appended as confidential appendix 3c to this report; and
  - d) decide on a way forward to commence the investment of 10% allocation to infrastructure funds, pursuing 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.

**Reason for Proposal(s)**

3. The decisions taken around investment strategy are some of the most important decisions taken by the Committee. Contributions and investment returns are the only two options available to fund benefit payments; decisions around the contribution and investment strategies are therefore some of the most significant in terms of their overall impact on the Fund. It should be

noted that the high level decision making around the type of assets held has far more impact than manager selection.

### **Relevance to the Council's Corporate Plan**

4. Good homes in well-connected neighbourhoods.
5. Build our Economy to create a thriving place.
6. Sustain Strong and healthy Communities.

### **Background**

7. The committee decided at their last meeting to create a subgroup that will meet informally frequently in order to implement the 2021 Enfield revised Investment Strategy.
8. The subgroup met in October and November given consideration to:
  - i) The overall asset allocation that the PPIC agreed back in 2021 and to confirm that in this current market conditions that the PPIC are still comfortable with this;
  - ii) the hedge funds redemption issues;
  - iii) the London CIV current offerings, for indication of where LCIV are in terms of Enfield Pension Fund strategy requirements; and
  - iv) the need to have a project plan.
9. The subgroup received presentations from Aon on all the above items, appended to this report as appendix 2a and 3a.
10. The Subgroup also received a presentation from LCIV on their renewable infrastructure offering, appended to this report as appendix 3b.
11. Note of the meetings are attached to this report as appendix 2b and 3c.
12. Appendix 1 to this report provides the Committee with Aon's recommendation on redemption and allocation of Hedge Fund proceeds, and investment of surplus cash.
13. **Hedge Fund Redemptions** - A number of legacy holdings in hedge funds remain – these are due to be fully redeemed (in line with the Committee's decision). Historically, the Fund's Hedge Fund allocation was more diversified than the current position, with a variety of different manager styles and strategies that together provided a diversified allocation. However, after wind-downs of two strategies (York, Landsdowne), the allocation has become more concentrated.
14. The decision was made to redeem Hedge Funds at the latest strategy review, although to defer the redemption until there was a plan in place. We believe

that now is a suitable time to initiate the redemption of the remaining Davidson Kempner and CFM allocations, which together with the residual York allocation are valued at c.£77m as at 30 September 2022.

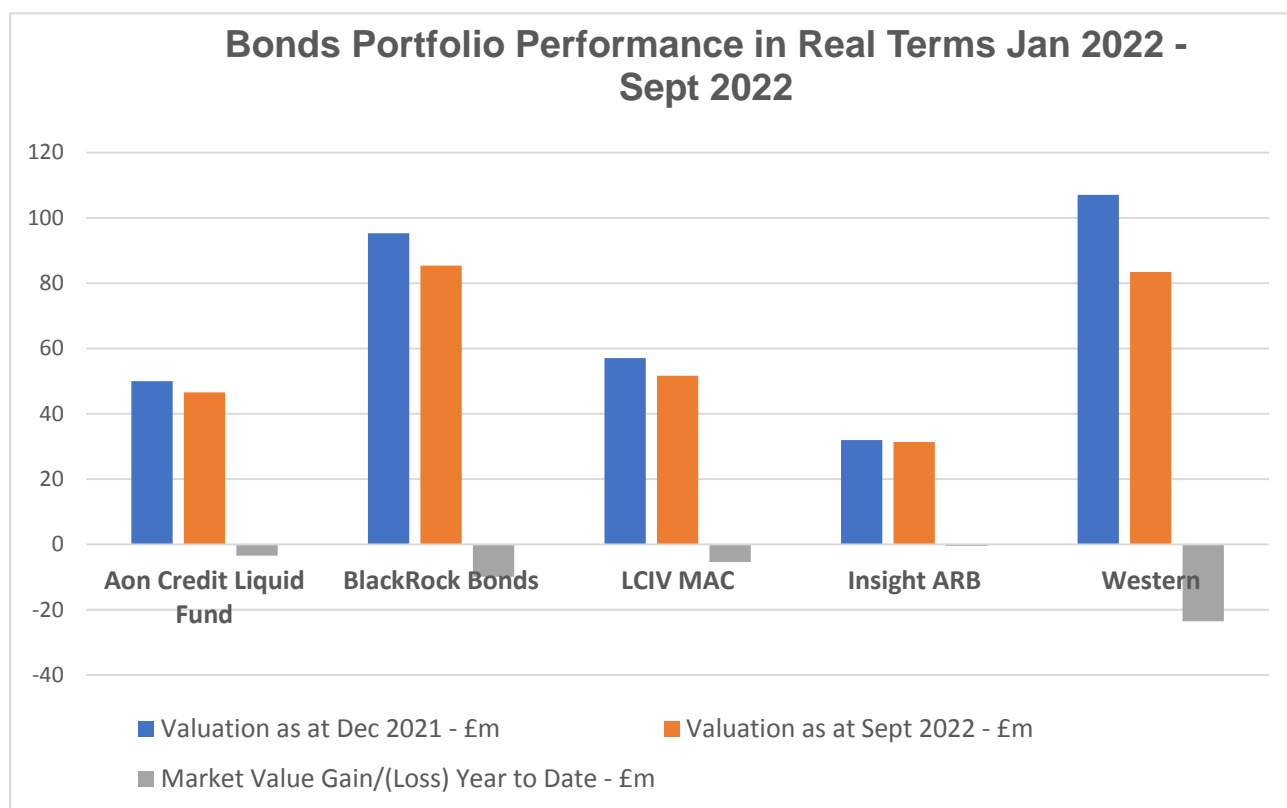
15. **Cash** - The Fund remains significantly overweight cash, which at its current level will cause a drag on the return of the assets over time. An investment of this excess cash in a return-seeking but defensive growth asset would reduce drag on return this drag but retain low downside risk.
16. The Fund is materially underweight Bonds by c.£69m, as shown in the below table. The Fund has been underweight Bonds for some time, driven by strong returns in Equities that has led Bonds to be a lower allocation of overall portfolio assets.

Asset Class	Strategic asset allocation as at June 2021 (%)	Fund Position as at 30 Sept. 2022 (%)	Difference as at 30 Sept. 2022 (%)	Difference as at 30 Sept. 2022 (£m)
Equities	35	42.2	7.2	103.2
Private Equities	5	8.5	3.5	50.2
<b>Total Equities</b>	<b>40</b>	<b>50.6</b>	<b>10.6</b>	<b>153.4</b>
Hedge Funds	0	5.3	5.3	76.8
Property	5	6.5	1.5	21.2
Infrastructure	16	4.9	(11.1)	(159.7)
Alternative Fixed Income	5	0.0	(5.0)	(72.2)
Bonds	24	19.2	(4.8)	(68.8)
Inflation protection illiquid	10	7.9	(2.2)	(31.0)
Cash	0	5.6	5.6	80.5
<b>Total Equities</b>	<b>100.0</b>	<b>100.0</b>		

17. The table below demonstrates the movement of each Asset manager performance in real terms the beginning of this calendar year to reporting quarter.

Fund Manager	Valuation as at Dec 2021 £m	Valuation as at March 2022 £m	Valuation as at June 2022 £m	Valuation as at Sept 2022 £m	Market Value Gain/(Loss) Year to Date £m
Aon Credit Liquid Fund	50.000	48.675	47.556	46.567	(3.433)
BlackRock Bonds	95.311	92.405	85.426	79.700	(15.611)
LCIV MAC	57.026	55.873	51.631	50.388	(6.638)
Insight ARB	31.909	32.396	31.388	31.857	(0.052)
Western	107.051	96.358	83.470	69.175	(37.876)

18. Valuations have also been affected by volatility in the bond markets and yield rises over 2022, although the defensive nature of the holdings has prevented large losses, cannot truly say that about Western Assets with unrealised losses of over 35%, calendar year to reporting quarter.



19. The above analysis is to aid the Committee in allocating the Fund assets to less volatile bonds mandate.
20. The Fund is also materially underweight infrastructure, although the Committee is working to increase, currently considering options through the LCIV namely their renewables infrastructure fund.
21. The Fund Investment Consultant recommend:
- i) A portion of the Fund's excess cash is transferred to Bonds to reduce the underweight position.
  - ii) Redemptions for the Hedge Funds are placed. Given the timeline for the receipt of proceeds while the Workgroup have looked at options for investment of proceeds, **Aon proposes a final recommendation on this is made nearer the settlement dates.** In addition, these can be also used as a source of liquidity for drawdowns from the selected infrastructure allocation.
22. Appendix 1 to this report provides the Committee with recommendation on redemption and allocation of Hedge Fund proceeds, and investment of surplus cash as prepared by Aon.

23. The Fund is materially underweight Bonds by c.£69m. The Fund has been underweight Bonds for some time, driven by strong returns in Equities that has led Bonds to be a lower allocation of overall portfolio assets. Valuations have also been affected by volatility in the bond markets and yield rises over 2022, although the defensive nature of the holdings has prevented large losses.

#### **Safeguarding Implications**

24. None.

#### **Public Health Implications**

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

#### **Equalities Impact of the Proposal**

26. 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**

27. There are no environmental and climate change considerations arising from this report.

#### **Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks**

28. Any form of investment inevitably involves a degree of risk.
29. To minimise risk the Committee attempts to achieve a diversification portfolio. Diversification relates to asset classes and management styles.
30. This report helps in addressing value for money through planning to have a rigorous and robust investment strategy in place to aid in bridging the Fund's funding gap.

#### **Risks that may arise if the proposed decision and related work is not taken**

31. Not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Enfield Pension Fund.

#### **Financial Implications**

32. The Aon's papers set out a number of recommendations in respect of the implementation of a revised Investment Strategy and also rebalancing the Fund to its strategic asset allocations.

### **Legal Implications**

33. Regulation 7 of the 2016 Regulations requires the Administering Authority to formulate an Investment Strategy in line with guidance published by the Secretary of State. Regulation 7(2) stipulates that the authority's investment strategy must include:
- a) a requirement to invest fund money in a wide variety of investments;
  - b) the authority's assessment of the suitability of particular investments and types of investments;
  - c) the authority's approach to risk, including the ways in which risks are to be assessed and managed;
  - d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
  - e) the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
  - f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.
34. This paper helps demonstrate that the Committee is investing in line with Regulation 7(2), by carrying out an assessment of the suitability of different types of investments and considering how some of the risks to which the Fund is exposed can be managed through setting an appropriate investment strategy.

### **Workforce Implications**

35. 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**

36. None

### **Other Implications**

37. None

### **Options Considered**

38. No alternative options considered.

## Conclusions

39. The Committee has responsibility for the prudent and effective stewardship of the Pension Fund and a clear fiduciary duty in the performance of its functions.
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Report Author: Bola Tobun  
Finance Manager – Pensions & Treasury  
[Bola.Tobun@enfield.gov.uk](mailto:Bola.Tobun@enfield.gov.uk)  
Tel no. 020 8132 1588

Date of report 14<sup>th</sup> November 2022

## Appendices

- Appendix 1 – Hedge Fund redemption and surplus cash (Confidential)
- Appendix 2a – Investment Strategy Review Further portfolio information-Confidential
- Appendix 2b – PPIC Subgroup Meeting Notes – 14th October 2022 (Confidential)
- Appendix 3a – Evolving the portfolio (Confidential)
- Appendix 3b – London CIV Renewable Infrastructure Fund Nov 2022 (Confidential)
- Appendix 3c – PPIC Subgroup Meeting Notes – 9th November 2022 (Confidential)