

London Borough of Enfield

PENSION POLICY AND INVESTMENT COMMITTEE

Meeting Date: 29 March 2023

Subject: Economic and Market Outlook, Update on Enfield Pension Fund Investments and Managers

Cabinet Member: Councillor Leaver

Executive Director: Fay Hammons

Purpose of Report

1. To provide an update on the performance of the Fund's investments as at 31 December 2022 and introduce 3 three reports from Aon (the Pension Fund's investment advisors) covering a market update and investment outlook in addition to a Manager monitoring report scrutinising investment manager performance as at quarter 4 2022.

Proposal(s)

2. Members are asked to note the contents of the report.

Reason for Proposal(s)

3. The Pension Fund Regulations require that the Council establishes arrangements for monitoring investments of the fund. It considers the activities of the investment managers and ensure that proper advice is obtained on investment issues.
4. Officers and Aon meet regularly with investment managers to discuss their strategy and performance and if considered necessary may recommend that investment managers are invited to the Pension Policy and Investment committee to explain performance further.

Relevance to the Council Plan

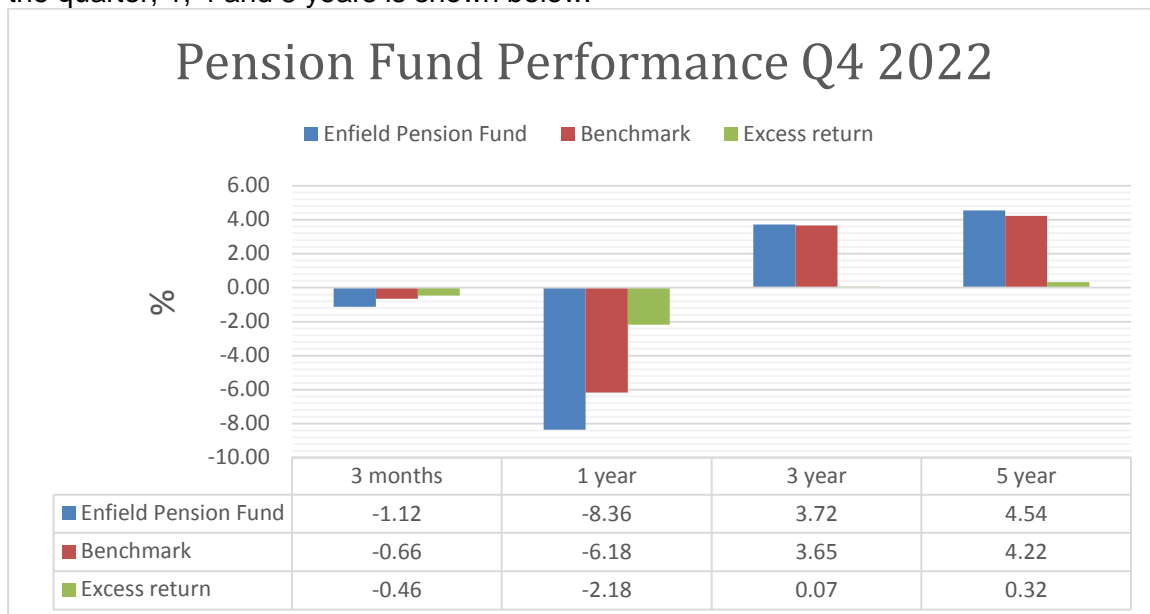
5. Strong, healthy and safe communities
6. An economy that works for everyone

Main Considerations for the Committee

7. A full breakdown of the Fund's holdings and performance are presented in Appendix 1. Areas of performance to note for Q4 2022 are:

Overall Fund Performance

- (i) Overall the fund reduced in value by 1.1% (£13.4m) in Q4 2022 . This represents a 0.5% underperformance against the benchmark. On an annual basis the fund reduced in value by 8.4% which is an underperformance of 2.2% against the benchmark. A full portfolio breakdown of performance for the quarter, 1, 4 and 5 years is shown below:



Reasons for underperformance against benchmark are explored further in the appendices.

(ii) Equities

Equities in the Fund returned +2.63% for the quarter against the benchmark of +1.35%. Index returns were strong across most geographies and markets aided in part by the view that central bank's will slow down the rate of interest rate hikes. All equity funds outperformed their respective benchmarks. Of particular note were LCIV Longview and MFS Global equity who outperformed their benchmarks by 3.49% and 3.4% respectively . Over 5 years pension fund performance (7.55%) is line with the benchmark (7.59%)

(iii) Bonds

Bonds returned +2.87% for the quarter against a benchmark of +2.82%. Within this, Insight bonds underperformed the benchmark by 4.67% and LCIV – CQS outperformed the benchmark by 3.3%.

(iv) Inflation protecting illiquid

Within this asset class M&G inflation opportunities underperformed the benchmark by 8.76% in the quarter. 5 year performance for this fund also shows an underperformance of 8.79%. This may warrant further challenge and investigation.

(v) Hedge funds

Hedge funds underperformed the benchmark by 2.64% in the quarter. It should be noted that in line with previous decisions made by the committee the positions with hedge funds are in the process of being dissolved and being allocated to other asset classes.

(vi) Private Equity

This asset class underperformed the benchmark by 11.48%. However, 5 year performance still outperforms the benchmark by 14.56%

(vii) Infrastructure

This asset class outperformed the benchmark by 1.31%

(viii) Property

Property outperformed the benchmark by 2.23% but was still a negative performance overall of 11.87%. This is line with overall property market returns

8. There are a number of asset allocations within the fund that are not in line with the strategic benchmark. A portfolio rebalancing exercise will take place over the new few months in line with decisions previously agreed by the committee. Of these, redemption notices have been given to hedge fund managers and the proceeds from these investments should be received in April 2023. It was also agreed that £40m of cash is to be invested into bonds but this is being reviewed with the Fund's investment advisors given market volatility in the banking sector over the month of March.
9. Appendix 2 covers a market update and general investment outlook which cover macroeconomic conditions and how this may affect investment performance. Appendix 4 reviews individual manager performance in more detail which also incorporates a forward looking view of the asset class and investment manager.

Financial Implications

10. The Pension fund is invested in a mix of assets in order to generate a return to ensure that it can meet its liabilities (pension payments) when they fall due. Higher investment returns will ensure that employers in the fund (including Enfield Council) have a lower level of contributions thereby enabling budgets to be utilised on other service areas.

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Date of report: 15 March 2023

Appendices

- Appendix 1: Northern Trust Report for Enfield PF December 2022
Appendix 2 :Market update and investment outlook – **Part 2 exempt**
Appendix 3: Q4 2022 Dashboard – - **Part 2 exempt**
Appendix 4: Quarterly Monitoring report Q4 2022 – **Part 2 exempt**