



## London Borough of Enfield

<b>Report Title</b>	Cash Investment recommendation
<b>Report to</b>	Pension, Policy & Investment Committee (PPIC)
<b>Date of Meeting</b>	19 July 2023
<b>Cabinet Member</b>	Cllr Tim Leaver
<b>Executive Director / Director</b>	Fay Hammond
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<b>Classification</b>	Part 1 public and Part 2 -Private & Confidential
<b>Reason for exemption</b>	3. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

### Purpose of Report

1. To provide a recommendation to the Pension, Policy & Investment committee (PPIC) on the plan for investments to utilise surplus cash (£114.7 million) held within the Pension Fund ('Fund').

### Recommendations

- I. Agree investments of £70 million into Bonds consisting of
  - £35 million into Blackrock Passive Gilts fund
  - £35 million into AIL Diversified Liquid Credit fund(These investments to be funded from the surplus cash balance of £114.7m)
- II. The remaining balance of £44.7million, following the investments in (I), to remain in cash.

### Background and Options

2. As at 31 May 2023 the Fund had the following weightings in each asset class:

	£m	Current weighting	Strategic %	Relative %
Equities	574.5	39.8	35	+4.8
Bonds	323.5	22.4	24	-1.6
Alternative Fixed Income	77.4	5.4	5	+0.4
Income Protecting Illiquids	101.4	7.0	10	-3.0
Hedge Funds	2.7	0.2	0	+0.2
Private Equity	107.4	7.4	5	+2.4%
Infrastructure	61.4	4.3	16	-11.7
UK property	80.6	5.6	5	+0.6
Cash	114.7	7.9	0	+7.9
<b>Total</b>	<b>1,443.6</b>	<b>100</b>	<b>100</b>	

3. The Fund is significantly underweight Infrastructure assets, -11.7% (c. £169m). Potential Investments in this asset class are being explored by the committee but due to the illiquid nature of these funds the cash is not expected to be fully called for investment for at least 3-4 years.
4. The cash balance as at 31 May 2023 is £114.7m . This balance is currently invested in a variety of Money Market Funds which offer instant liquidity, overnight returns and are heavily diversified in high quality credit counterparties (typically with a credit rating of AAA). In the current high interest rate environment these funds are yielding approximately 4-5% p.a.
5. Excluding the underweight position to illiquid assets classes (Inflation Protecting Illiquids and Infrastructure) which can't effectively be rebalanced in a short time, allocations are broadly in line with strategic targets for most classes with the exception of bonds and cash.

### Preferred Option and Reasons For Preferred Option

6. The Funds investment advisors, Aon, have provided advice on the plan to utilise surplus cash and this advice can be found in Appendix 1 ("Aon Cash recommendation -Part 2 Private & Confidential)
7. Given the significant cash holding, it is recommended £35 million is invested in Black Rock Passive Gilts and £35 million is invested in the AIL diversified liquid credit fund with £44.7 million. The rationale for this allocation and these funds can be found in appendix A.
8. These funds are expected to generate a return in excess of cash holdings.
9. Other funds and managers within the bond asset class were considered and more detail is given in appendix A. However, for the reasons given in the appendix the other bond funds are not considered appropriate for investment at this time.

10. Cash rates continue to be attractive which means a small cash allocation is sensible at this point.
11. The Fund is currently also underweight inflation protecting illiquids. However, trading costs will likely be significantly lower for Bonds and therefore this is more appropriate for a short / medium term allocation. Also, given where interest rates are it is expected that there will be a softening in valuations for these assets over the coming months.
12. This recommendation will mean that the Fund is overweight to Bonds in the short term (+3.3%) but this position can be considered acceptable given this is largely due to the underweight position in illiquids as noted previously which can't effectively be rebalanced in the short term.

### **Relevance to Council Plans and Strategies**

13. An economy that works for everyone

### **Financial Implications**

14. 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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### **Appendices**

Appendix 1: Aon Cash recommendation **(Part 2 Confidential – Exempt report)**