



London Borough of Enfield

Report Title	Update on Enfield Pension Fund Investments & Managers, Economic/market update and investment outlook.
Report to	Pension Policy & Investment Committee
Date of Meeting	19 July 2023
Cabinet Member	Cllr Tim Leaver
Executive Director / Director	Fay Hammond
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Classification	Part 1 Public and Part 2 Private
Reason for exemption	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 the Pension, Policy & Investment committee (PPIC) with an update on the Enfield Pension Fund ("Fund") investments and their performance as at 31 March 2023.
2. To introduce a paper from the Fund's Investment advisors (Aon) presenting a market update and investment outlook. (Appendix 4)

Recommendations

3. Members are asked to note the content of the report.
4. Agree to investigate the performance of the M&G inflation opportunities fund and receive assurances over future performance.

Reason for Recommendation

- The Pension Fund Regulations require that the Council establishes arrangements for monitoring investments of the Fund and it considers the activities of the investment managers and ensure that proper advice is obtained on investment issues.
- Officers and Aon (the Fund's investment advisors) 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.

Main Considerations for the committee

- The value of the fund as at 31 March 2023 was £1,456.9m which was a £26.5m increase in the quarter.

Fund performance:

- The table below summaries the Fund's total performance over recent time periods :

	Quarter ending 31 March 2023	1 year	3 year	5 year
Fund Return	+1.6%	-5.5%	+7.8%	+5.4%
Strategic benchmark	+2.0%	-3.5%	+6.9%	+5.0%
Excess return	-0.4%	-2.0%	+0.9%	+0.4%

*Figures are on an annual basis

Asset Class and Manager performance (significant issues)

Performance of the Fund's managers over this time frame and since inception can be found in Appendix 1: (Northern trust Enfield PF performance)

A quarterly investment dashboard and a comprehensive evaluation of manager performance is provided by the Fund's investment advisor's Aon and can be found in Appendix 2 and 3.

Infrastructure

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return				
			One Month	Three Months	Year to Date	One Year	Three Years
Infrastructure	62,626,417	4.30	-2.27	-4.45	-4.45	-5.52	5.36
<i>Enfield Infrastructure BM</i>			-1.76	-4.49	-4.49	-12.19	2.01
<i>Excess Return</i>			-0.51	0.03	0.03	6.66	3.35
Antin Infrastructure	20,789,554	1.43	-3.30	-4.42	-4.42	8.13	12.21
INPP	41,836,863	2.87	-1.76	-4.49	-4.49	-12.19	2.01
<i>LEFD05015 Fund returns</i>			-1.76	-4.49	-4.49	-12.19	2.01
<i>Excess Return</i>			0.00	0.00	0.00	0.00	0.00

- Over the quarter the asset class that had the most significant negative performance on an absolute basis was Infrastructure (-4.5%). On a one year basis performance is also negative for the infrastructure asset class (-5.5%). This performance is approximately in line with the benchmark and both infrastructure managers (Antin and INPP) had similar negative performance. This is partly attributable to all Pension funds needing greater liquidity thereby creating a fall in demand and therefore values in illiquid funds such as infrastructure. For those less liquidity constrained, the weaker demand for illiquid assets could, in fact, present an eventual buying

opportunity. (The committee are currently exploring investments in infrastructure as the Fund is underweight in this asset class)

- Over longer time periods (3 and 5 years) the managers have produced positive returns beating the benchmark.

Private Equity

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return				
			One Month	Three Months	Year to Date	One Year	Three Years
Private Equity	108,303,629	7.43	-3.27	-3.89	-3.89	-8.66	24.35
Enfield PE BM			0.93	4.39	4.39	-1.43	15.47
Excess Return			-4.20	-8.28	-8.28	-7.23	8.89

- Over the quarter the asset class that was the most significant relative detractor from performance was Private Equity. (There is only 1 fund manager for private equity – Adams Street). This contributed -3.9% on an absolute basis and -8.3% on relative basis. On a one year time frame absolute performance is also negative, -8.7% absolute and -7.3% relative. Rising interest rates across major economies will have contributed to private equity valuations reducing substantially. It should be noted however that the as the private equity fund has matured it has become cashflow positive over recent years.
- Over longer time periods (3 and 5 years) performance has produced positive returns significantly beating the benchmark. Over a 5 year period Adams Street has been the best performing asset for the fund producing returns of +21.1% p.a.

Equities

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return				
			One Month	Three Months	Year to Date	One Year	Three Years
Total Equities	571,833,866	39.25	-0.03	3.76	3.76	-1.39	14.88
Enfield Equities BM			0.13	3.63	3.63	-2.88	14.86
Excess Return			-0.16	0.13	0.13	1.49	0.01
Blackrock Low Carbon	245,618,146	16.86	-0.83	3.15	3.15	-4.12	16.11
LEFD02 MSCI Wld Lw CrbnTgtxFsl			-0.92	3.02	3.02	-4.68	14.96
Excess Return			0.09	0.13	0.13	0.56	1.14
LCIV - JP Morgan (EM)	31,856,346	2.19	1.28	2.84	2.84	-1.23	10.80
LEFD05018 MSCI EM Mrkts ND			0.88	1.14	1.14	-4.91	7.93
Excess Return			0.40	1.70	1.70	3.68	2.87
LCIV - Longview (FOCUS GE)	110,801,635	7.61	0.25	4.12	4.12	5.69	18.15
LEFD05019 MSCI ACWI ND			0.93	4.39	4.39	-1.43	15.47
Excess Return			-0.68	-0.27	-0.27	7.13	2.68
LCIV-Baillie Gifford(ALPHA GE)	102,864,765	7.06	0.91	4.64	4.64	-5.18	11.43
LEFD05016 MSCI ACWI ND			0.93	4.39	4.39	-1.43	15.47
Excess Return			-0.02	0.24	0.24	-3.74	-4.04
MFS Global Equity	79,878,492	5.48	0.37	4.46	4.46	1.26	14.95
LEFD05005 MSCI ACWI ND			0.93	4.39	4.39	-1.43	15.47
Excess Return			-0.57	0.06	0.06	2.69	-0.52

- Risky asset markets experienced a solid start in 2023 as markets initially felt confident that a recession would be avoided, although were hit by inflation fears in February and then concerns about the global banking system in mid-March. Geopolitical tension remained elevated in the quarter

14. US equities were the second-best performer amongst major equity regions in local currency terms as investors shrugged off short-lived concerns over the banking sector and priced in a quicker end to the sharpest tightening cycle in recent memory, returning 7.7% over the quarter. Double-digit returns delivered by index-heavy sectors including Information Technology (21.4%) and Consumer Discretionary (16.5%) more than offset losses in other major sectors such as Financials (-4.8%) and health care (-4.0%). Information Technology and Consumer Discretionary stocks rallied, largely driven by a fall in government bond yields whilst the financial sector suffered a sell-off triggered by turbulence in the banking sector.
15. The equity fund's held by the Fund performed largely in line with benchmark over the quarter. On a one year basis the LCIV Baillie Gifford returned -3.8% relative to benchmark. This is largely due to the underperformance of growth equities over this time frame. LCIV have worked with the manager and carried out extensive due diligence and the manager has taken aboard these recommendations.
16. Over 3 and 5 years the Fund's equity managers have performed in line with the benchmark.

Bonds

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return				
			One Month	Three Months	Year to Date	One Year	Three Years
Total Bonds and Index Linked	367,642,249	25.23	1.20	2.40	2.40	-10.11	-0.92
<i>Enfield Bonds & IL BM</i>			1.67	2.17	2.17	-7.32	-1.49
<i>Excess Return</i>			-0.47	0.23	0.23	-2.79	0.57
AON Diversified Liquid Credit	47,617,685	3.27	0.30	2.06	2.06	-0.00	-
<i>LEFD07003 1 month SONIA + 1.5%</i>			0.46	1.33	1.33	3.91	-
<i>Excess Return</i>			-0.17	0.73	0.73	-3.91	-
Blackrock IL Gilts	80,901,450	5.55	2.92	2.40	2.40	-12.45	-3.77
<i>LEFD01 Blended Benchmark</i>			2.97	2.24	2.24	-12.61	-3.84
<i>Excess Return</i>			-0.05	0.16	0.16	0.17	0.08
Insight Bonds	30,356,181	2.08	-0.82	0.20	0.20	-4.43	1.83
<i>LEFD05006 SONIA 3 Month GBP+2%</i>			0.51	1.49	1.49	6.09	4.89
<i>Excess Return</i>			-1.34	-1.29	-1.29	-10.51	-3.06
LCIV - CQS (MAC)	53,557,676	3.68	-0.91	2.05	2.05	-4.15	7.04
<i>LEFD05020 3 Month GBP SONIA</i>			0.35	1.00	1.00	2.72	1.10
<i>Excess Return</i>			-1.26	1.06	1.06	-6.86	5.94
LCIV Global Bond Fund	77,365,202	5.31	1.62	3.06	3.06	-	-
<i>LEFD05021 Bloomberg Global Agg</i>			2.04	2.63	2.63	-	-
<i>Excess Return</i>			-0.43	0.44	0.44	-	-
Western	77,844,056	5.34	1.90	3.10	3.10	-19.21	-6.03
<i>LEFD03 ML Stg Non-Gilts 10+</i>			2.11	3.30	3.30	-19.64	-6.79
<i>Excess Return</i>			-0.22	-0.20	-0.20	0.43	0.76

17. On a 1 year basis, Bonds have contributed -10.1% on a absolute basis and -2.8% on a relative basis. However, performance over Q1 was +2.4%. The most significant negative performance with this asset class was the Western Bond fund at -19.2% for 1 year. However, it should be noted that it has marginally out performed it's benchmark over this period. Negative annual performance was attributable to rising interest rates and increases in gilt yields globally causing a drop in the value of investment grade bonds. This has resulted in credit spreads widening and presenting

opportunities for which the Fund has taken advantage of via a £20m investment in Western in April 2023.

18. Over a 5 year period the asset class has produced close to nil returns for the fund. This is in line with the benchmark.

Inflation Protection Illiquids

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return				
			One Month	Three Months	Year to Date	One Year	Three Years
Inflation Protection Illiquids	101,821,551	6.99	-0.36	1.94	1.94	-21.14	-3.46
<i>Enfield Inflation Illiquids BM</i>			1.14	2.13	2.13	1.48	5.28
<i>Excess Return</i>			-1.50	-0.19	-0.19	-22.62	-8.74
CBRE Long Income Fund	36,752,398	2.52	1.49	1.49	1.49	-18.61	-3.02
<i>LEFD06007 BMK</i>			1.49	1.49	1.49	-18.61	-3.02
<i>Excess Return</i>			0.00	0.00	0.00	0.00	0.00
M&G Inflation Opportunities Fd	65,069,153	4.47	-1.38	2.23	2.23	-22.10	-3.83
<i>LEFD05010 UK RPI +2.5%</i>			0.94	2.51	2.51	16.01	10.38
<i>Excess Return</i>			-2.32	-0.28	-0.28	-38.11	-14.21

19. Over 1 year the M&G inflation opportunities fund within this asset class has returned -22.1% on an absolute basis and -38.1% on a relative basis which is a significant underperformance of the benchmark. The committee is advised to “call-in “ the manager for an explanation on performance and assurances over the strategy.

Property

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return				
			One Month	Three Months	Year to Date	One Year	Three Years
Property	80,638,237	5.53	0.48	-1.35	-1.35	-13.54	2.39
<i>Enfield Property BM</i>			0.28	-0.20	-0.20	-14.49	2.56
<i>Excess Return</i>			0.21	-1.15	-1.15	0.95	-0.17
Blackrock UK FD	34,682,129	2.38	0.43	0.21	0.21	-15.75	2.43
<i>LEFD05012 IPD All Balncd Prpty</i>			0.28	-0.20	-0.20	-14.49	2.56
<i>Excess Return</i>			0.15	0.41	0.41	-1.26	-0.13
Brockton Capital Fund	9,295,429	0.64	0.02	-4.72	-4.72	-4.26	-0.77
<i>LEFD06001 IPD All Balncd Prpty</i>			0.28	-0.20	-0.20	-14.49	2.56
<i>Excess Return</i>			-0.26	-4.52	-4.52	10.23	-3.33
Legal & General Property	36,660,680	2.52	0.65	-1.92	-1.92	-13.51	2.92
<i>LEFD05013 IPD All Balncd Prpty</i>			0.28	-0.20	-0.20	-14.49	2.56
<i>Excess Return</i>			0.38	-1.72	-1.72	0.98	0.35

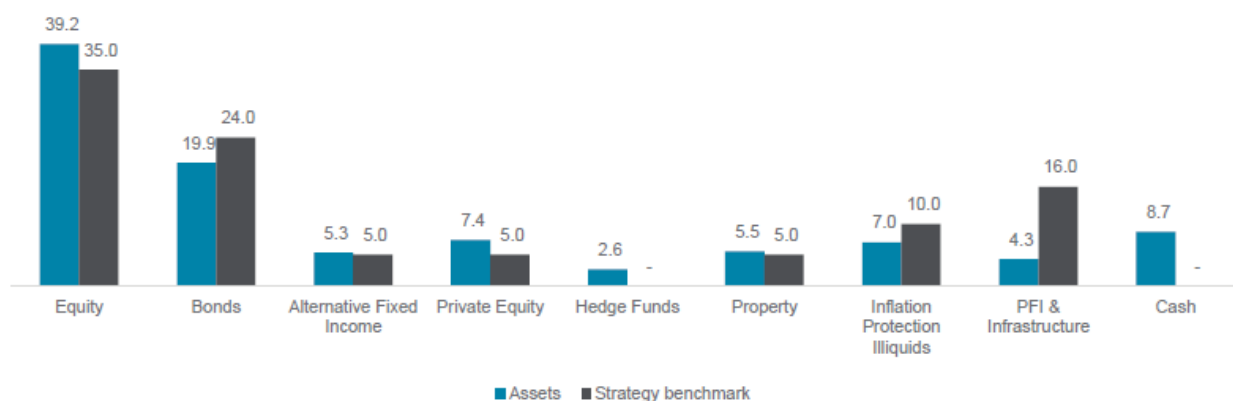
20. The property asset class fell marginally during the quarter -1.35%. On a 1 year basis the asset class for the Fund has shown -13.5% performance which is marginally better than the benchmark. Over 5 years the return has been 2.5% p.a. in line with benchmark.
21. UK property capital values continued to fall over the first quarter. The office sector was the worst performer, returning -1.8% while the retail sector was the best performer returning 1.5%. The industrial sector returned 0.4%.

Hedge Fund

22. It should be noted that in line with previous decisions, Hedge funds are in the process of being exited. As at 31 March 2023 the CFM stratus Fund had been exited but the Davidson Kempner Fund was not exited until Q2 2023.

Strategic Allocations

23. Asset allocation when compared to benchmark can be seen below:



24. The fund is significantly underweight infrastructure. The committee is in the process of carrying out due diligence with respect to prospective infrastructure investments.

25. Changes in funds in line with previous Committee decisions (as at 31 March 2023)

Additions/Investments -none

Disposals/redemptions – Hedge Funds (CFM stratus £36.4m)

26. Changes coming up in Q2 in line with previous Committee decisions

Additions/Investments -Bond- £20m Western, £20m Aon Diversified Liquid credit

Disposals/redemptions – Davidson Kempner (CFM stratus £35.6m)

Cash Position

27. The cash position as at 31 March 2023 was £126.6m. This will be impacted in Q2 by the above investments and redemptions.

28. The cash balance is currently invested in short term Money Market funds in line with the treasury management strategy. These funds offer a overnight rate of rate return, offer instant liquidity, are heavily diversified and are only invested with the highest quality credit rated instruments. At the end of the quarter they were yielding approx. 4-5%.

Economic & Market performance

29. A market update and investment outlook is covered in Appendix 4 provided by Aon covering Inflation, Recession and interest rates, Economic highlights and market outlook.

Relevance to Council Plans and Strategies

30. An economy that works for everyone.

Financial Implications

31. 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 – Northern Trust – Enfield PF performance -Part 1

Appendix 2 - Quarterly Investment dashboard -Part 1

Appendix 3 – Manager Monitoring report – **Part 2 – Exempt Confidential**

Appendix 4 – Market update & Investment outlook – **Part 2 – Exempt Confidential**