

## Pension Committee 27 March 2019

**Report title:** Lambeth Pension Fund – Investment Performance Review – 31 December 2018

**Wards:** All

**Portfolio:** Cabinet Member for Finance: Councillor Andrew Wilson

**Report Authorised by:** Acting Strategic Director of Finance and Investments: Christina Thompson

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### Report summary

The Pensions Committee reviews Fund Managers' performance on a quarterly basis in order to assess the performance of the Council's Pension Fund investments and the market outlook.

This report informs Members of the Fund Managers' performance as measured by Mercer, the Fund's investment adviser, and keeps Members up to date on managing the implemented Investment strategy.

### Finance summary

There are no direct financial implications in agreeing this report. For the quarter ended 31 December 2018. The Pension Fund costs in respect of Fund Managers' fees totalled £1,761,323.38 of which only £112,777.25 was actually remitted; the remainder is deducted in the daily pricing of the individual portfolio's net asset value. The Pension Fund meets all fees and there is no additional financial implication for the Council.

### Recommendations

1. That the report, together with the information in the accompanying exempt from disclosure report, be noted.

## 1 CONTEXT

- 1.1 The Pensions Committee reviews performance of the Council's Pension Fund investments and administration on a quarterly basis and considers the market outlook. In addition, the Committee considers the Council's Pension Fund arrangements and pension policy issues. The following narrative provides headlines from the investment performance report from Mercer.

## 2 PROPOSALS AND REASONS

### Performance to 31 December 2018

- 2.1 The Fund underperformed the benchmark over the quarter to 31 December 2018 primarily due to the underperformance of the UK equity mandate managed by Majedie, global equities, multi-asset credit and the diversified growth funds.
- 2.2 The Fund has underperformed the benchmark (net of fees) over the one year, three years and five year periods.
- 2.3 The market value of the Fund as at 31 December was £1,372.3m showing a decrease of £81.7m (5.6%) over the previous quarter (30 September was £1,454.0m).
- 2.4 The full performance report from Mercer is attached as Appendix 1. The tables showing Fund Managers' performance for three months, one year, three years, and five years, and asset allocations are re-produced below.

Manager	Last Quarter		Last Year		Last 3 Years		Last 5 Years	
	Fund (%)	B'mark (%)	Fund (%)	B'mark (%)	Fund (% p.a.)	B'mark (% p.a.)	Fund (% p.a.)	B'mark (% p.a.)
Insight (Bonds)	-0.4	0.1	-2.5	-1.5	4.3	4.4	5.2	5.1
Insight (LDI)	0.0	0.1	-1.4	-1.3	-	-	-	-
MFS	-10.0	-11.3	-3.7	-3.0	12.2	11.6	10.4	10.2
Majedie (London CIV)	-10.7	-10.2	-9.7	-9.5	5.6	6.1	3.7	4.1
Baillie Gifford (London CIV)	-12.5	-10.6	-4.1	-3.3	13.7	12.5	12.0	10.5
JanusHenderson (London CIV)	-3.4	-5.3	-	-	-	-	-	-
Invesco <sup>(a)</sup>	2.1	2.0	6.0	8.0	12.5	8.0	8.0	8.0
PAAMCO (SPV) <sup>(b)</sup>	-14.4	1.4	-24.4	5.7	-	-	-	-
Ruffer (London CIV) <sup>(b)</sup>	-5.4	1.4	-6.0	5.7	-	-	-	-
Pyrford (London CIV) <sup>(b)</sup>	-2.0	1.4	-1.4	5.7	-	-	-	-
Aviva <sup>(c)</sup>	-5.5	1.3	-6.0	5.0	-	-	-	-
CQS (London CIV) <sup>(d) (e)</sup>	-2.0	1.2	-	-	-	-	-	-
RREEF <sup>(f)</sup>	0.2	1.1	-2.9	7.5	1.6	7.0	2.6	10.8
<b>Total (ex-Adams Street)</b>	<b>-5.6</b>	<b>-3.5</b>	<b>-3.5</b>	<b>-0.4</b>	<b>6.8</b>	<b>7.4</b>	<b>6.0</b>	<b>7.0</b>

Figures are based on performance provided by the Investment Managers, London CIV, Mercer estimates and Thomson Reuters Datastream.

<sup>(a)</sup> Benchmark return taken as absolute return target of 8% p.a. for performance measurement purposes.

<sup>(b)</sup> Benchmark return taken as 3 Month Sterling LIBOR +5% p.a. for performance measurement purposes.

<sup>(c)</sup> Benchmark return taken as 6 Month Sterling LIBOR +4.3% p.a. for performance measurement purposes.

<sup>(d)</sup> Benchmark return taken as 3 Month Sterling LIBOR +4% p.a. for performance measurement purposes.

<sup>(e)</sup> Performance shown since inception on 31 July 2018.

<sup>(f)</sup> Total RREEF performance excludes performance of the existing cash portfolio and any historical performance of the Core Property fund.

Asset Class	Actual Asset Allocation				Current Benchmark (%)	Target Benchmark (%)
	Start of Quarter (£m)	End of Quarter (£m)	Start of Quarter (%)	End of Quarter (%)		
Bonds	232.2	231.4	16.0	16.9	25.0	15.0
LDI	53.1	53.1	3.6	3.9		
UK Equity	82.6	73.8	5.7	5.4	6.0	-
Global Equity	512.4	454.5	35.2	33.1	27.0	30.0
Emerging Market Equity	72.4	70.0	5.0	5.1	5.0	10.0
Property	133.5	135.2	9.2	9.9	12.0	12.0
Diversified Growth <sup>(a)</sup>	197.5	188.6	13.6	13.7	15.0	18.0
Hedge Funds (Fund of Funds)	2.6	2.2	0.2	0.2	-	-
Private Equity	63.3	64.8	4.2	4.7	5.0	5.0
Multi Asset Credit	75.7	74.2	5.2	5.4	5.0	5.0
Private Debt	-	-	-	-	-	5.0
Cash <sup>(b)</sup>	29.0	24.7	2.0	1.8	0.0	-
<b>Total</b>	<b>1,454.0</b>	<b>1,372.3</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

### Rebalancing Framework

- 2.5 As at 31 December 2018, the Fund's manager allocation was most notably overweight to global equity and most notably underweight to property and diversified growth funds.

### Fund management fees

- 2.6 The Pension Fund costs in respect of Fund Managers' fees totalled £1,761,323.38 of which only £112,777.25 was actually remitted; the remainder is deducted in the daily pricing of the individual portfolio's net asset value. Fees are calculated on market value of the portfolio as at the end of the quarter after adjusting for fund managers' internal funds. All fees are met by the Pension Fund.

### Funding Level as at 31 December 2018

- 2.7 This funding update is provided to illustrate the estimated development of the funding position from 31 March 2016 to 31 December 2018, for the London Borough of Lambeth Pension Fund ("the Fund"). It is addressed to London Borough of Lambeth in its capacity as the Administering Authority of the London Borough of Lambeth Pension Fund and has been prepared by Hymans Roberson in the capacity as Fund's actuarial adviser.
- 2.8 The funding level at the last formal valuation was 80%. As at 31 December 2018 the funding level has decreased to 77.9%. There was a significant falloff in equity values right at the end of the year that caused a significant dip in the funding level.

HEADLINES	31 December 2018	Ongoing funding
	Assets	£1,325m
	Liabilities	£1,702m
	Surplus/(deficit)	(£376m)
	Funding level	77.9%

### **3 FINANCE**

- 3.1 This report outlines the financial performance of the Pension Fund over the quarter to 31 December 2018. There are no further financial implications in agreeing to the recommendations in this report.

### **4 LEGAL AND DEMOCRACY**

- 4.1 The Lambeth Pension Fund is run in accordance with the Local Government Pension Scheme (Transitional Provisions) Regulations 1997 enacted along with other Regulations under the Superannuation Act 1972 and the Public Service Pension Act 2013 and is for the benefit of Council employees and outside organisations, which have entered into an agreement with Lambeth to provide pensions for their staff.
- 4.2 The Pension Committee must be mindful of their fiduciary duty to obtain the best possible financial return on the investments it administers within the investment strategy framework.
- 4.3 There are no additional comments from Democratic Services.

### **5 CONSULTATION AND CO-PRODUCTION**

- 5.1 Not Applicable.

### **6 RISK MANAGEMENT**

- 6.1 Investment decisions involve taking risks that Members of the Committee should bear in mind at all times. Generally, risk is taken to mean the Variability of Returns. Investments with greater Risk must usually promise higher Returns than more 'stable' Investments before investors will buy them
- 6.2 Members must consider the risk/reward trade-off. Generally, the higher the potential return expected the higher the associated risk. Members in their capacity as Trustees bear that risk.

### **7 EQUALITIES IMPACT ASSESSMENT**

- 7.1 None.

### **8 COMMUNITY SAFETY**

- 8.1 None.

### **9 ORGANISATIONAL IMPLICATIONS**

#### **9.1 Environmental**

None for the purpose of this report.

#### **9.2 Staffing and accommodation**

None for the purpose of this report.

#### **9.3 Procurement**

None for the purpose of this report.

#### **9.4 Health**

None for the purpose of this report.

## **10 TIMETABLE FOR IMPLEMENTATION**

10.1 None.

<b>Audit trail</b>				
<b>Consultation</b>				
<b>Name/Position</b>	<b>Lambeth directorate/ division or partner</b>	<b>Date Sent</b>	<b>Date Received</b>	<b>Comments in para:</b>
Councillor Andrew Wilson	Cabinet Member for Finance	11.03.19	19.03.19	
Christina Thompson, Acting Strategic Director of Finance and Investment	Finance and Investment	11.03.19	19.03.19	Throughout
Andrew Pavlou, Legal Services	Legal and Governance	11.03.19	14.03.19	Section 4
David Rose, Democratic Services	Legal and Governance	11.03.19	14.03.19	4.3
External - Mercer	Consultant	11.03.19		Throughout

<b>Report history</b>	
<b>Original discussion with Cabinet Member</b>	N/A
<b>Report deadline</b>	14.03.19
<b>Date final report sent</b>	14.03.19
<b>Part II Exempt from Disclosure/confidential accompanying report?</b>	No
<b>Key decision report</b>	No
<b>Date first appeared on forward plan</b>	N/A
<b>Key decision reasons</b>	N/A
<b>Background information</b>	See Part II Report
<b>Appendices</b>	<ul style="list-style-type: none"> <li>Appendix One – London Borough of Lambeth Pension Fund Performance Report December 2018</li> </ul>