

Pension Board 29 January 2020

Report title: Lambeth Pension Fund – Investment Performance Review – 30 September 2019

Wards: All

Portfolio: Cabinet Member for Finance and Performance: Councillor Andrew Wilson

Report Authorised by: Strategic Director for Finance and Investments: Fiona McDermott

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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 30 September 2019 the Pension Fund costs in respect of Fund Managers' fees totalled £1,903,676.47 of which only £121,238.01 was remitted; the remainder was 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 30 September 2019

- 2.1 The Fund underperformed the benchmark over the quarter to 30 September 2019, primarily as a result of underperformance of the Baillie Gifford global equity portfolio, emerging markets managed by Janus Henderson and property managed by Invesco.
- 2.2 The Fund has also underperformed the benchmark over the one, three- and five-year periods to 30 September 2019, in part due to Diversified Growth Funds (DGFs) underperforming their cash +5% target benchmarks.
- 2.3 As at 30 September 2019, the Fund's manager allocation was overweight to cash and Baillie Gifford and underweight to Pyrford and Invesco Property.
- 2.4 The Fund underperformed the benchmark over all periods shown to 30 September 2019 as a result of the DGF manager and Invesco property underperforming their cash +5% and 8% absolute target benchmarks respectively.
- 2.5 The market linked value of the Fund as at 30 September was £1,517.3m showing a modest increase of £9.3m or 0.62% over the previous quarter (30 June was £1,508.0m).
- 2.6 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.

Asset Class	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.)
Global Equity	2.0	3.6	10.0	7.8	13.7	12.2	15.2	13.3
Emerging Markets Equity	-4.7	-1.1	1.7	3.7	-	-	-	-
Property	-0.1	2.0	1.8	8.0	5.3	8.0	8.2	8.0
SPV	-0.9	1.4	-40.4	5.9	-	-	-	-
Diversified Growth	1.9	1.4	2.4	5.7	1.5	5.3	1.0	5.2
Multi-Asset Credit	0.6	1.2	3.0	4.9	-	-	-	-
Bonds	3.4	3.7	9.3	10.2	3.2	3.3	5.5	5.6
LDI	-1.7	-1.5	0.8	0.8	-	-	-	-
Senior Loans	3.3	1.2	-	-	-	-	-	-
UK Private Rented Sector Property	0.0	0.1	-	-	-	-	-	-
Total (ex-Adams Street)	1.0	2.2	5.1	6.8	6.1	6.6	7.5	7.9

Figures shown are net of fees and based on performance provided by the Investment Managers, Mercer estimates and Thomson Reuters Datastream.

For periods over one year the figures in the table above have been annualised.

Total Scheme returns include quarterly returns for Private Debt calculated by Mercer using a Modified Dietz approach based on data provided by Churchill, Invesco and Thomson Reuters Datastream. Over the long term returns are chain linked using quarterly Total Fund returns.

Property benchmark return taken as an absolute return target of 8% p.a. for performance measurement purposes.

SPV benchmark return taken as 3 Month Sterling LIBOR +5% p.a. for performance measurement purposes.

Diversified Growth asset class is composed by Ruffer and Pyrford's absolute return portfolios and Aviva's multi-strategy portfolio.

Multi-Asset Credit benchmark return taken as 3 Month Sterling LIBOR +4% p.a. for performance measurement purposes.

Senior Loans and UK Private Rented Sector Property figures shown for all periods are calculated by Mercer using a Modified Dietz approach over each period and are based on data provided by Churchill, Invesco and Thomson Reuters Datastream.

Manager	Actual Asset Allocation				Current Benchmark (%)	Target Benchmark (%)
	Start of Quarter (£m)	End of Quarter (£m)	Start of Quarter (%)	End of Quarter (%)		
Insight (Bonds)	245.8	254.2	16.3	16.8	25.0	-
Insight (LDI)	54.4	53.5	3.6	3.5		15.0
MFS	213.8	222.0	14.2	14.6	13.5	15.0
Baillie Gifford	283.6	285.5	18.8	18.8	13.5	15.0
Janus Henderson	158.5	151.0	10.5	10.0	10.0	10.0
Invesco (Property)	132.5	130.9	8.8	8.6	12.0	12.0
PAAMCO (SPV)	1.3	1.2	0.1	0.1	-	-
Adams Street	68.0	70.2	4.5	4.6	5.0	5.0
Ruffer	61.6	63.4	4.1	4.2	4.7	6.0
Pyrford	56.8	57.3	3.8	3.8	4.3	6.0
Aviva	79.9	81.3	5.3	5.4	6.0	6.0
CQS	77.5	77.8	5.1	5.1	5.0	5.0
RREEF	0.3	0.3	0.0	0.0	-	-
Invesco (UK PRS)	34.4	41.8	2.3	2.8	0.9	5.0
Churchill	6.6	6.8	0.4	0.4	0.1	
Transition Account	33.4	20.1	2.2	1.3	-	-
Total	1,508.0	1,517.3	100.0	100.0	100.0	100.0

Source: Investment Managers and Mercer.

Figures may not sum to total due to rounding.

Benchmark allocation includes the private equity portfolio managed by Adams Street. For performance measurement purposes we exclude the allocation to private equity. See Appendix A for further details.

Adams Street and Churchill end of quarter valuations were estimated based on the capital calls occurred over the quarter.

Churchill valuation was converted from USD to GBP at the appropriate USD/GBP exchange rate.

Transition account represents assets held by State Street. Foreign currency accounts balances were converted to GBP using the prevailing start and end of quarter exchange rate. Includes cash held by Majedie.

RREEF valuation at the end of quarter assumed to be the same as at start of quarter due to unavailability of data at the time of writing.

Rebalancing Framework

- 2.7 As at 30 September 2019, the Fund's asset allocation was overweight to global equity and underweight to property.
- 2.8 As the Fund moves towards its agreed target benchmark, we would anticipate that any deviations from the benchmark will be corrected by the transitioning of assets to new asset classes and managers. Further information on this can be found on page 3 of Appendix One.

Cashflow movements

- 2.9 Over the quarter to 30 September 2019, there were a few notable investments and disinvestments made within the Fund. A summary of these changes can be found below:
- Over the quarter, cashflows totaling c. £13.4m were transferred from the transition (cash) account, of which, c. £7.6m was contributed into the UK Private Rented Sector Property managed by Invesco, £3.5m was contributed into Permira Private Debt and the balance of c. £2.3m was used in the daily operational expenses of the Fund.
 - Also, during the period, c. £1.5m was distributed from the property portfolio (c. £1.2m) and UK Private Rented Sector Property (c. £0.2m) portfolios managed by Invesco and Special Purpose Vehicle (SPV) (c. £0.1m) portfolio managed by PAAMCO.

Fund management fees

- 2.10 The Pension Fund costs in respect of Fund Managers' fees totalled £1,903,676.47 of which only £121,238.01 was remitted; the remainder was 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 30 September 2019

2.11 The funding level update is covered under the Triennial Valuation Report

Implementation of Investment Strategy

2.12 The progress update on the implementation of our Investment Strategy can be found on Appendix Two.

3 FINANCE

3.1 This report outlines the financial performance of the Pension Fund over the quarter to 30 September 2019. 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

Environmental

9.1 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.

AUDIT TRAIL

Consultation

Name/Position	Lambeth directorate/ division or partner	Date Sent	Date Received	Comments in para:
Councillor Andrew Wilson	Cabinet Member for Finance and Performance	04.11.19		
Christina Thompson, Director	Finance and Property	04.11.19	08.11.19	Throughout
Andrew Pavlou, Legal Services	Legal & Governance	04.11.19	31.10.19	Section 4
Shaughna Phillips, Democratic Services	Legal & Governance	04.11.19	04.10.19	4.3
External - Mercer	Consultant	04.11.19	31.10.19	Throughout

REPORT HISTORY

Original discussion with Cabinet Member	N/A
Report deadline	16.01.20
Date final report sent	11.11.19
Part II Exempt from Disclosure/confidential accompanying report?	No
Key decision report	No
Date first appeared on forward plan	N/A
Key decision reasons	N/A
Background information	See Part II Report
Appendices	<ul style="list-style-type: none"> • Appendix One – London Borough of Lambeth Pension Fund Performance Report Sept 2019 • Appendix Two – Investment Strategy 2017 Implementation plan status update November 2019