

**PENSIONS BOARD 14 APRIL 2021**

**Report title:** Lambeth Pension Fund – Investment Performance Review – 31 December 2020

**Wards:** All

**Portfolio:** Cabinet Member for Finance and Performance: Councillor Andy Wilson

**Report Authorised by:** Strategic Director for Finance and Investment: Fiona McDermott:

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**REPORT SUMMARY**

The Pensions Committee considers 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 2020, the Pension Fund costs in respect of Fund Managers' fees totalled £1,842,124.91 of which only £1,248.64 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 are no additional financial implications for the Council.

**RECOMMENDATIONS**

1. That the report, together with the information in the accompanying performance 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 2020

- 2.1 The market value of the Fund as at 31 December 2020 was £1,785.3m showing an increase of £103.6m or 6.2% over the previous quarter (£1,681.7m at 30 September 2020).
- 2.2 The Fund outperformed the benchmark over the quarter to 31 December 2020, primarily as a result of outperformance in the global equity portfolios managed by Baillie Gifford and RBC and the emerging market equity portfolio managed by JP Morgan.
- 2.3 The Fund has outperformed the benchmark over all time periods shown to 31 December 2020; performance over the 12-month period was particularly notable, at 9.9% ahead of benchmark.
- 2.4 The full performance report from Mercer is attached at Appendix One; the table showing asset class performance over three months, one year, three years, and five years is 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                  | 11.4         | 8.2        | 37.4        | 12.8       | 18.9          | 10.2            | 20.3          | 14.2            |
| Emerging Markets               | 17.1         | 13.2       | 26.6        | 14.7       | -             | -               | -             | -               |
| Property                       | (1.0)        | 2.0        | 1.9         | 8.0        | 1.5           | 8.0             | 6.9           | 8.0             |
| UK PRS Property                | 0.6          | 1.4        | 1.9         | (2.9)      | -             | -               | -             | -               |
| Multi-Asset Credit             | 5.1          | 1.0        | 1.7         | 4.5        | -             | -               | -             | -               |
| Private Debt                   | (3.0)        | 1.0        | (2.1)       | 4.5        | -             | -               | -             | -               |
| LDI                            | 0.8          | 0.9        | (3.6)       | (3.5)      | (4.3)         | (4.3)           | -             | -               |
| <b>Total (ex-Adams Street)</b> | <b>7.1</b>   | <b>4.4</b> | <b>19.4</b> | <b>9.5</b> | <b>8.8</b>    | <b>6.7</b>      | <b>10.2</b>   | <b>8.6</b>      |

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.

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

UK Private Rented Sector Property and Private Debt 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.

### **Rebalancing**

- 2.5 As at 31 December 2020 the Fund's allocation to global equities was 9.6% over benchmark allocation, most notably with Baillie Gifford (7.3% over benchmark), whilst the overall property allocation is 5.7% under the benchmark (see page 2 of Appendix One). The over allocation to equities is a result of the overall increase in market value of the Fund's equity holdings, and not as a result of additional investment.

### **Fund Management Fees**

- 2.6 For the quarter ended 31 December 2020 the Fund's costs in respect of Fund Managers' fees totalled £1,842,124.91 of which only £1,248.64 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 31 December 2020**

- 2.7 The funding level at the last formal valuation as at 31 March 2019 was 82%. The funding level as at the end of 31 December 2020 was 92.5%, an increase of more than 10% over the current valuation period. However, it should be noted that market reactions to the Chancellor's announcement on RPI reform have indicated our estimate of long-term CPI may be viewed as optimistic; as a result, the true underlying funding level may be slightly lower than indicated in this update.

### **Implementation of Investment Strategy**

- 2.8 As a reminder, the investment strategy changes approved by Committee at their March 2020 meeting are as follows:
- Invest proceeds in Private Debt (circa 7%).
  - Invest in Property (circa 4%). The Committee requested that with this allocation, the Fund should work closely with the LCIV on the potential for an investment in their London Fund. Should this not fulfil the needs of the Committee, the Fund should also look at other possibilities such as renewables with the LCIV.

- 2.9 The progress update on the implementation of our 2020 Investment Strategy can be found in Appendix Two. Key highlights are as follows:
- Mercer is working with the Fund to implement the 2020 Investment Strategy changes as approved by Committee at their March 2020 meeting.
  - The Committee appointed M&G as the new MAC mandate manager for diversification purposes and officers made the full investment in December 2020.
  - Officers worked with other London boroughs to invest into this M&G mandate for manager diversification purposes.
  - Officers are working with LCIV on the Private Debt offer.

### **3 FINANCE**

- 3.1 This report outlines the financial performance of the Pension Fund over the quarter to 31 December 2020. 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 Regulations 2013 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 always bear in mind. 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. 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 for the purposes of this report.

## **8 COMMUNITY SAFETY**

8.1 None for the purposes of this report.

## **9 ORGANISATIONAL IMPLICATIONS**

### **Environmental**

9.1 None for the purposes of this report.

### **Health**

9.2 None for the purposes of this report.

### **Corporate Parenting**

9.3 None for the purposes of this report.

### **Staffing and accommodation**

9.4 None for the purposes of this report.

### **Responsible Procurement**

9.5 None for the purposes of this report.

## **10 TIMETABLE FOR IMPLEMENTATION**

10.1 Not Applicable.

| <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       | Finance and Performance                         | 04.03.2021       | 05.03.2021           | None                     |
| Fiona McDermott, Strategic Director            | Finance and Investment                          | 03.03.2021       | 04.03.2021           | None                     |
| Christina Thompson, Director of Finance        | Finance and Investment                          | 03.03.2021       | 04.03.2021           | None                     |
| Hamant Bharadia, Assistant Director of Finance | Finance and Investment                          | 03.03.2021       | 03.03.2021           | None                     |
| Andrew Pavlou, Legal Services                  | Legal and Democratic Services                   | 03.03.2021       | 04.03.2021           | None                     |
| Marianna Ritchie, Democratic Services          | Legal and Democratic Services                   | 03.03.2021       | 04.03.2021           | None                     |
| Mercer (External)                              | Consultant                                      | 04.03.2021       | 05.03.2021           | None                     |

| <b>REPORT HISTORY</b>   |  |
|---|--|
| <b>Original discussion with Cabinet Member</b>                          | N/A  |
| <b>Report deadline</b>  | 3 March 2021   |
| <b>Date final report sent</b>   | 11 March 2021  |
| <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>   | N/A  |
| <b>Appendices</b>   | <ul style="list-style-type: none"> <li>Appendix One – London Borough of Lambeth Pension Fund Investment Performance Report December 2020</li> <li>Appendix Two – Investment Strategy 2020 Implementation plan status update Dec 2020.</li> </ul> |

