

PENSIONS BOARD 12 AUGUST 2021

Report title: Lambeth Pension Fund – Investment Performance Review – 31 March 2021

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 March 2021, the pension fund costs in respect of fund managers' fees totalled £1,890,207.44 of which only £1,125.07 was remitted; the remainder was deducted in the daily pricing of the individual portfolio's net asset value. The 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 the performance of the Fund investments and administration on a quarterly basis and considers the market outlook. In addition, the Committee considers the 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 March 2021

- 2.1 The market value of the Fund's assets as at 31 March 2021 was £1,785.9m, a small decrease of £12m or 0.7% over the previous quarter (£1,797.9m as at 31 December 2020).
- 2.2 The Fund underperformed against the benchmark over the quarter to 31 March 2021 (-0.3% against a benchmark of 0.7%), the main detractors to performance being the Invesco European Property Fund (returning -5.5% against a benchmark of 1.9%) and the RBC Sustainable Equity Fund (1.4% against a benchmark of 4.0%).
- 2.3 The Fund has however outperformed its overall benchmark over a twelve-month, three-year and five-year period; performance over the twelve-month period was particularly notable at 27%, 8.3% 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	1.9	3.8	53.6	39.0	20.9	13.4	20.1	14.5
Emerging Markets	(0.1)	1.3	53.5	42.3	6.6	7.1	-	-
Property	(5.5)	1.9	(7.3)	8.0	(0.4)	8.0	3.9	8.0
UK PRS Property	0.2	1.8	1.4	0.7	-	-	-	-
Multi-Asset Credit	2.0	1.0	24.8	4.3	-	-	-	-
Private Debt	(0.4)	1.0	(0.6)	4.3	-	-	-	-
LDI	(7.6)	(7.6)	0.9	0.9	(6.0)	(6.0)	-	-
Total (ex-Adams Street)	(0.3)	0.7	27.0	18.7	9.6	7.8	9.7	8.3

Notes on table:

- 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 March 2021 the Fund's allocation to global equities was approximately 10.3% over benchmark allocation (due to increases in market value), most notably with Baillie Gifford (7.8% over benchmark), whilst the overall property allocation is 6.1% under the benchmark (set out on slide 3 of the attached report at Appendix One) and the LDI allocation 2.5% under benchmark. Officers are working to address the imbalances in the Fund's asset allocations.

Fund Management Fees

- 2.6 For the quarter ended 31 March 2021 the costs in respect of fund managers' fees totalled £1,890,207.44 of which only £1,125.07 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 changes in capital value. All fees are met by the Pension Fund.

Funding Level as at 31 March 2021

- 2.7 The funding level at the last formal valuation as at 31 March 2019 was 82%. The actuary's estimated funding level as at the end of 31 March 2021 had improved to 94.5%, an increase of approximately 12.5% over the current valuation period. However, it should be noted that market reactions to the Chancellor's announcement on RPI reform have indicated their 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 Following the decision made by Committee at the March 2021 meeting, officers have confirmed with the Fund's current Private Debt managers our intention to top up our existing allocations by approximately 7%, or £125m, across the two managers, Churchill and Permira; monies will be invested into the latest iterations of their respective funds.
- 2.9 Subscription to the Churchill Middle Market Senior Loan Fund IV was completed at the end of April 2021, with Permira to follow once subscription documents become available. The Committee is reminded that funds for Private Debt commitments are currently held in the M&G Multi Asset Credit mandate, to be drawn down as and when capital calls are issued by the Private Debt managers.
- 2.10 In line with the rebalancing requirements of the Fund officers will continue to explore options to increase the currently underweight property allocation, which was increased from 12% to 15% as part of the March 2020 revised investment strategy, and update the Committee at the next meeting.

3 FINANCE

- 3.1 This report outlines the financial performance of the Pension Fund over the quarter to 31 March 2021. 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.

AUDIT TRAIL				
Consultation				
Name/Position	Lambeth directorate/ division or partner	Date Sent	Date Received	Comments in para:
Councillor Andrew Wilson, Cabinet Member	Finance and Performance	22.06.2021	22.06.2021	
Fiona McDermott, Strategic Director	Finance and Investment	16.06.2021	24.06.2021	
Christina Thompson, Director of Finance	Finance and Investment	16.06.2021	23.06.2021	
Hamant Bharadia, Assistant Director of Finance	Finance and Investment	16.06.2021	22.06.2021	
Andrew Pavlou, Legal Services	Legal and Democratic Services	16.06.2021	23.06.2021	
Marianna Ritchie, Democratic Services	Legal and Democratic Services	16.06.2021	23.06.2021	
Mercer (External)	Consultant	22.06.2021	24.06.2021	

REPORT HISTORY	
Original discussion with Cabinet Member	N/A
Report deadline	16 June 2021
Date final report sent	
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	N/A
Appendices	<ul style="list-style-type: none"> Appendix One – Lambeth Pension Fund Investment Performance Report March 2021