

PENSIONS BOARD 20 OCTOBER 2021

Report title: Lambeth Pension Fund – Investment Performance Review – 30 June 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, including any rebalancing required to maintain the strategic asset allocation.

FINANCE SUMMARY

For the quarter ended 30 June 2021, the pension fund costs in respect of fund managers' fees totalled £1,940,392.99 of which only £1,192.17 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 Fund arrangements and pension policy issues in line with its investment strategy. The following narrative summarises the investment performance report from Mercer, with additional updates on rebalancing and funding levels.

2 PROPOSALS AND REASONS

Performance to 30 June 2021

2.1 The market value of the Fund's assets at 30 June 2021 was £1,870.8m, an increase of £77.6m, or 4.3%, over the previous quarter (£1,793.2m as at 31 March 2021).

2.2 The Fund outperformed the benchmark over the quarter to 30 June 2021, primarily as a result of outperformance in the sustainable global equity fund managed by RBC (9.3% against a benchmark of 7.6%) and the multi-asset credit fund managed by CQS (2% against a benchmark of 1%). The main detractors to performance were the Invesco UK PRS fund (returning 0.5% against a benchmark of 3.7%) and the JP Morgan emerging equity fund (3.2% against a benchmark of 4.9%).

2.3 The Fund has also outperformed its overall benchmark over a twelve-month, three-year and five-year period; performance over the twelve-month period was particularly strong at 16.3%, 4.6% ahead of benchmark.

2.4 The full performance report from Mercer is attached at Appendix One; the table below summarises asset class performance over three months, one year, three years, and five years.

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	8.1	7.5	31.7	24.7	21.4	13.3	20.3	14.3
Emerging Markets	3.2	4.9	30.6	26.0	8.5	9.6	-	-
Property	2.4	2.0	(5.1)	8.0	(0.2)	8.0	3.3	8.0
UK PRS Property	0.5	3.7	2.5	6.9	-	-	-	-
Multi-Asset Credit	1.7	1.0	12.6	4.1	-	-	-	-
Private Debt	(0.1)	1.0	0.5	4.1	-	-	-	-
LDI	3.9	3.9	(5.0)	(5.0)	(4.3)	(4.3)	-	-
Total (ex-Adams Street)	4.7	4.1	16.3	11.7	10.2	8.1	9.8	8.2

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 and Investment Strategy Update

- 2.5 As at 30 June 2021 the Fund's allocation to global equities was approximately 12.2% over benchmark allocation (due to increases in market value), most notably with Baillie Gifford (8.3% over benchmark) and RBC (3.3% over benchmark), whilst the overall property allocation was 6.4% under benchmark and the LDI allocation 2.6% under benchmark (all set out on slide 5 of the attached report at Appendix One). In addition, whilst the multi-asset credit and private debt allocations are over and underweight respectively, the Fund's warehousing policy agreed as part of its revised investment strategy in March 2020 will see funds drawn down from multi-asset credit holdings to finance private debt commitments as and when they fall due.
- 2.6 As at 30 June 2021 approximately £48m, or 65% of the Fund's original £75m commitment to its two private debt managers, Churchill and Permira, had been called. The first capital call against the Fund's additional 7%, or circa £125m commitment to private debt, agreed in March 2020, was issued in August for approximately £3m. The investment period of these funds is up to three years from final close, with the total term expected to last up to eight years; as such, the under-allocation to private debt against the strategic allocation is likely to continue for the medium-term.
- 2.7 The subscription and due diligence process for the Permira Credit Solutions V fund (PCS5) is now underway, with a first close targeted for October 2021.
- 2.8 To address the Fund's overweight allocation to equities, in late July 2021 officers instructed the London CIV to redeem 8% of the Fund's overweight position to global and sustainable equities, or £143m, which was executed in early August. The sales proceeds will be used to finance the top-up to the Fund's LDI allocation (as set out

elsewhere in the agenda) and property allocation; officers are in discussion with LCIV regarding their London Fund and future plans for property mandates, and are exploring an additional allocation to PRS property.

- 2.9 A formal policy on rebalancing will be introduced into the revised Investment Strategy Statement when reviewed in early 2022 alongside the actuarial valuation.

Fund Management Fees

- 2.10 For the quarter ended 30 June 2021 the costs in respect of fund managers' fees totalled £1,940,392.99 of which only £1,192.17 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.

Fossil Fuel Exposure

- 2.11 As at 30 June 2021 the Fund's direct exposure to fossil fuels was nil; indirect exposure was estimated at 0.95% of the Fund, or £17.7m. Further information is provided elsewhere in this agenda under the Investment Performance (Managers) report.

Funding Level as at 30 June 2021

- 2.12 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 30 June 2021 had improved to 99%, an increase of approximately 17% over the current valuation period and due largely to an excess return on assets. 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.

3 FINANCE

- 3.1 This report outlines the financial performance of the Pension Fund over the quarter to 30 June 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	20.09.2021	23.09.2021	
Fiona McDermott, Strategic Director	Finance and Investment	20.09.2021	23.09.2021	
Christina Thompson, Director of Finance	Finance and Investment	20.09.2021	20.09.2021	
Hamant Bharadia, Assistant Director of Finance	Finance and Investment	20.09.2021	23.09.2021	
Andrew Pavlou, Legal Services	Legal and Democratic Services	20.09.2021	21.09.2021	
Marianna Ritchie, Democratic Services	Legal and Democratic Services	20.09.2021	21.09.2021	
Mercer (External)	Consultant	20.09.2021	20.09.2021	

REPORT HISTORY	
Original discussion with Cabinet Member	N/A
Report deadline	15 September 2021
Date final report sent	23 September 2021
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 June 2021