

## **PENSIONS BOARD 13 APRIL 2022**

**Report title:** Lambeth Pension Fund – Investment Performance Review – 31 December 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 31 December 2021, the pension fund costs in respect of fund managers' fees totalled £1,894,920.71 of which only £1,595.01 was remitted; the remainder was deducted in the daily pricing of the individual portfolio's net asset value. Total manager fees for the financial year to date total £5,765,944.68. 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 31 December 2021

- 2.1 The market value of the Fund's assets at 31 December 2021 was £1,925.5m, an increase of £26.6m, or 1.38%, over the previous quarter (£1,898.9m as at 30 September 2021).
- 2.2 The Fund underperformed against benchmark performance over the quarter to 31 December 2021, primarily as a result of poor performance in the equity funds and, in particular, the Baillie Gifford Global Alpha Growth Fund which returned 0.1% over the quarter against a benchmark of 6.3%. Baillie Gifford has acknowledged that 2021 represented their worst calendar year in terms of performance, with the uncertainty caused by Covid-19, further variants of the virus, and the timing and extent of interest rate hikes affecting particular pockets of the market where the fund is heavily invested. They expect this volatility to continue well into 2022 given the nature of the companies held in the portfolio.
- 2.3 Fund performance over the year was also under benchmark at 7.1% against 9.7%, although the Fund continues to outperform over the three-year and five-year periods; performance was 2.4% ahead of benchmark in the three-year period and 0.9% ahead in the five-year period.
- 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	3.4	6.8	15.3	21.5	26.4	18.9	18.1	12.9
Emerging Markets	(4.4)	(1.8)	(4.7)	(1.6)	7.7	8.7	-	-
Property	(0.3)	1.9	(1.1)	8.0	(0.9)	8.0	2.7	8.0
UK PRS Property	0.9	6.7	3.9	17.3	-	-	-	-
Multi-Asset Credit	0.6	1.0	5.3	4.0	4.5	4.5	-	-

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.)
Private Debt	(0.4)	1.0	11.4	4.0	-	-	-	-
LDI	5.1	5.2	3.6	3.7	(2.8)	(0.9)	(2.3)	(1.3)
<b>Total (ex-Adams Street)</b>	<b>1.5</b>	<b>3.5</b>	<b>7.1</b>	<b>9.7</b>	<b>12.7</b>	<b>10.3</b>	<b>8.5</b>	<b>7.6</b>

Notes on table:

- Figures shown are net of fees and based on performance provided by the investment managers, Mercer estimates and Refinitiv (a global provider of financial market data and subsidiary of the London Stock Exchange Group).
- For periods over one year the figures in the table above have been annualised.
- Total scheme returns include quarterly returns for Invesco (UK PRS), Churchill and Permira calculated by Mercer using a Modified Dietz approach based on data provided by the managers and Refinitiv; this approach takes into account the timing of cash flows during the period, assuming a constant rate of return, and is widely used in the investment management industry. Over the long-term returns are chain linked using quarterly Total Fund returns, an approach which simply takes the product of returns over several periods.
- The Invesco property benchmark return is taken as an absolute return target of 8% p.a. for performance measurement purposes.
- Multi-Asset Credit and Private Debt benchmark returns are taken as 3 Month Sterling LIBOR +4% p.a. for performance measurement purposes.
- Invesco (UK PRS) 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 the managers and Refinitiv.

**Rebalancing and Investment Strategy Update**

2.5 As at 31 December 2021 the Fund's overall allocation to property remained underweight by 6.5% whilst cash was approximately 6.9% over benchmark allocation as a result of equity sales in August 2021, undertaken to rebalance the overweight global equity position. 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 31 December 2021 approximately £58m (or 77%) of the Fund's original £75m commitment to its two private debt managers, Churchill and Permira, had been called. Including new commitments of £135m made in 2021, total capital called as at 31 December 2021 was approximately £71m, or 34% of commitments. Members are reminded that 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 To address the underweight property allocation officers are engaging with the London CIV as it looks to launch an affordable/social housing property fund. The first Seed Investor Group (SIG) for this proposed fund will take place on 22 March, with an expected product launch for Q1 2023. The Fund's advisers are also researching potential affordable and social housing funds for the Fund to invest in as per previous discussions, and this will be addressed at the next meeting.

### **Fund Management Fees**

- 2.8 For the quarter ended 31 December 2021 the costs in respect of fund managers' fees totalled £1,894,920.71 of which only £1,595.01 was remitted; the remainder was deducted in the daily pricing of the individual portfolio's net asset value. Total manager fees for the financial year to date total £5,765,944.68. 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 Fund.

### **Fossil Fuel Exposure**

- 2.9 As at 31 December 2021 the Fund's direct exposure to fossil fuels was nil; indirect exposure was estimated at 0.70% of the Fund, or £13.6m. Further information is provided elsewhere in the exempt section of this agenda under the Investment Performance (Managers) report.

### **Funding Level as at 31 December 2021**

- 2.10 The funding level at the last formal valuation as at 31 March 2019 was 82%. The actuary's estimated funding level as at 31 December 2021 had improved to 97%, an increase of approximately 15% 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 31 December 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.

<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	10.03.2022	17.03.2022	
Fiona McDermott, Strategic Director	Finance and Investment	10.03.2022	16.03.2022	
Christina Thompson, Director of Finance	Finance and Investment	10.03.2022	17.03.2022	
Hamant Bharadia, Assistant Director of Finance	Finance and Investment	10.03.2022	16.03.2022	
Andrew Pavlou/ Dawn Lelliott, Legal Services	Legal and Democratic Services	10.03.2022	16.03.2022	
Marianna Ritchie, Democratic Services	Legal and Democratic Services	10.03.2022	11.03.2022	
Mercer (External)	Consultant	10.03.2022	10.03.2022	

<b>REPORT HISTORY</b>	
<b>Original discussion with Cabinet Member</b>	N/A
<b>Report deadline</b>	09 March 2022
<b>Date final report sent</b>	10 March 2022
<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 – Lambeth Pension Fund Investment Performance Report December 2021</li> </ul>