

# Merton Council

## Pension Fund Investment Advisory Panel Agenda

### **Distribution:**

Cllr. Owen Pritchard (Chair)  
Cllr. Adam Bush  
Cllr. Mark Allison  
Gwyn Isaac (GMB Union Rep)  
Tina Pickard (Pensioner Rep)  
Caroline Holland (LBM)  
Roger Kershaw (LBM)  
Nemashe Sivayogan (LBM)

### **Additional Attendees:**

Barry McKay (Barnett Waddingham)

**Date:**      **Thursday 9 January 2020**

**Time:**      **7.00 pm**

**Venue:**      **Committee Room B, 1st floor, Merton Civic Centre, London Road,  
Morden, SM4 5DX**

This is a public meeting and attendance by the public is encouraged and welcomed.  
For more information about the agenda please contact  
[Merton.PensionFund@merton.gov.uk](mailto:Merton.PensionFund@merton.gov.uk) or telephone [020 8545 3458](tel:02085453458).

All Press contacts: [communications@merton.gov.uk](mailto:communications@merton.gov.uk), 020 8545 3181



# Pension Fund Investment Advisory Panel Agenda

## 9 January 2020

|    |  |          |
|----|--|----------|
| 1  | Apologies for absence  |          |
| 2  | Declarations of pecuniary interest   |          |
| 3  | Minutes of the previous meeting  | 1 - 2    |
| 4  | Quarterly Performance Review (July to Sept 2019)   | 3 - 18   |
| 5  | Merton Pension Fund Training Policy & Plan 2020/21   | 19 - 28  |
| 6  | Merton Pension Fund Work Plan 2020/21  | 29 - 30  |
| 7  | AOB  |          |
| 8  | Future meeting dates<br>Future Meeting Date:<br>- 10 March 2020  |          |
| 9  | Exclusion of the Public<br><br>To RESOLVE that the public are excluded from the meeting during consideration of the following report(s) on the grounds that it is (they are) exempt from disclosure for the reasons stated in the report(s). |          |
| 10 | Minutes of the previous meeting (exempt)   | 31 - 32  |
| 11 | Quarterly Fund and Investment Managers Performance Review (July-Sept 2019) (Decision Making)   | 33 - 82  |
| 12 | Presentation by Actuary - 2019 Triennial Valuation results   | 83 - 98  |
| 13 | Update on the Risk Management Strategy   |          |
| 14 | Governance Review update and next steps  | 99 - 114 |

### Note on declarations of interest

Members are advised to declare any Disclosable Pecuniary Interest in any matter to be considered at the meeting. If a pecuniary interest is declared they should withdraw from the meeting room during the whole of the consideration of that matter and must not participate in any vote on that matter. If members consider they should not participate because of a non-pecuniary interest which may give rise to a perception of bias, they should declare this, withdraw and not participate in consideration of the item. For further advice please speak with the Assistant Director of Corporate Governance.



## **Merton Pension Fund Advisory Panel (Part 1)**

**Minutes of the meeting held on**

**26 September 2019**

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### **Attendance:**

Cllr. Owen Pritchard (Chair),  
Cllr. David Williams  
Gwyn Isaac (GMB Union Rep)  
Roger Kershaw (LBM)  
Nemashe Sivayogan (LBM)

### **Apologies received from**

Cllr. Adam Bush  
Cllr. Mark Allison  
Caroline Holland (LBM)  
Tina Pickard (UNISON Union Rep)

### **Additional Attendees:**

Aniket Bhaduri and Adam Briggs (JLT)

## **1.0 MEETING (Part 1)**

- 1.1 Introductions made by Chair.
- 1.2 Members Declaration of Interest – None.

## **2.0 PRESENTATION OF MINUTES OF LAST MEETING (18<sup>th</sup> July 2019)**

- 2.1 Agreed as true record.

## **3.0 QUARTERLY FUND PERFORMANCE (April-June 2019)**

- 3.1 Performance has been good. Over the 3 months to 30 June 2019, total Fund assets returned 4.8% compared to the target of 1.3%. Outperforming its target by 3.5%.
- 3.2 The Fund's total market value increased by £42m in the quarter, from £720.7m to £762.7m. Over the last 12 months, the Fund performance is 7.9%, and 3 year annualised performance is 9.7%. The annual performance target is 5.5%.

## **4.0 AOB**

### **Future meeting dates:**

9 January 2020  
10 March 2020



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## **Committee:**

**London Borough of Merton Pension Committee Date: 09 Jan 2020**

**London Borough of Merton Pension Board Date: 09 Jan 2020**

Wards: All

**Subject: Merton Pension Fund Performance – September 2019**

Lead officer: Caroline Holland - Director of Corporate Services

Lead member: Councillor. Mark Allison.

Contact officer: Roger Kershaw- AD Resources

This is a Public Document

### **RECOMMENDATION**

Members are asked to note the content of this report, in particular, the market values and performance of the total fund and component portfolios for the quarter ending 30 Sept 2019, attribution of the results and the market environment during the period.

## **1.0 PURPOSE OF REPORT**

- 1.1 To report the investment performance at total fund level, and of the individual fund managers, for the quarter to 30 Sept 2019. The report highlights the performance of the total Fund by asset class compared to the customised benchmark.
- 1.2 The report gives the Committee a consistent basis on which to review the performance of the Fund as at 30 Sept 2019 and provide information to support future actions including periodic rebalancing and review of investment strategy and investment management arrangement.

## **2.0 FUND PERFORMANCE**

- 2.1 The attached Fund Analysis & Performance Report (**Appendix 1**) produced by the Fund's investment and performance consultants JLT Employee Benefits provides useful analysis and insights of the Pension Fund activities and results for the quarter to 30 Sept 2019.

The table overleaf shows the performance for the period 30 Sept 2019.



| Manager / Fund                                 | 3 months % |       | 12 months % |       | 3 years % p.a. |       |
|--|------------|-------|-------------|-------|----------------|-------|
|  | Fund       | Bmark | Fund        | Bmark | Fund           | Bmark |
| UBS- Passive Equity Fund*                      | 3.9        | n/a   | 7.6         | n/a   | 10.3           | n/a   |
| UBS – Alternative Beta                         | 4.7        | 4.6   | n/a         | n/a   | n/a            | n/a   |
| LCIV RBC Sustainable Equity Fund               | 1.2        | 3.8   | 8.4         | 7.8   | n/a            | n/a   |
| LCIV Global Alpha Growth Fund                  | 0.7        | 3.4   | 6.7         | 8.2   | n/a            | n/a   |
| BlackRock World Low Carbon Equity Tracker Fund | 4.3        | 4.1   | n/a         | n/a   | n/a            | n/a   |
| <b>Global Equities</b>                         |            |       |             |       |                |       |
| Aberdeen Global Emerging Market Equities Fund  | -1.4       | -1.0  | 9.7         | 4.1   | n/a            | n/a   |
| UBS – HALO EM Fund                             | -0.2       | -1.1  | n/a         | n/a   | n/a            | n/a   |
| <b>Emerging Market Equities</b>                |            |       |             |       |                |       |
| LCIV Global Total Return Fund                  | 0.9        | 1.7   | 2.6         | 7.6   | n/a            | n/a   |
| LCIV Diversified Growth Fund                   | 2.2        | 1.1   | 4.5         | 4.3   | n/a            | n/a   |
| <b>Diversified Growth Fund</b>                 |            |       |             |       |                |       |
| UBS Triton Property Unit Trust                 | 0.9        | 0.4   | 4.1         | 2.2   | 7.7            | 6.7   |
| BlackRock UK Property Fund                     | 0.2        | 0.4   | 1.9         | 2.2   | 6.5            | 6.7   |
| <b>Property</b>                                |            |       |             |       |                |       |
| MIRA Infrastructure Global Solution II, L.P.   | 1.6        | 1.8   | n/a         | n/a   | n/a            | n/a   |
| Quinbrook Low Carbon Power LP                  | 6.0        | 1.8   | n/a         | n/a   | n/a            | n/a   |
| <b>Infrastructure</b>                          |            |       |             |       |                |       |
| Pemira Credit Solutions IV**                   | n/a        | n/a   | n/a         | n/a   | n/a            | n/a   |
| Churchill Middle Market Senior Loan Fund II    | 4.9        | 1.8   | n/a         | n/a   | n/a            | n/a   |
| <b>Private Credit</b>                          |            |       |             |       |                |       |
| <b>Growth Assets</b>                           |            |       |             |       |                |       |
| Aberdeen Bonds Portfolio                       | 8.0        | 7.8   | 19.1        | 18.9  | 5.1            | 4.8   |
| <b>Bonds</b>                                   |            |       |             |       |                |       |
| LCIV MAC Fund                                  | 0.6        | 1.2   | 3.0         | 4.9   | n/a            | n/a   |
| <b>Multi-Asset Credit</b>                      |            |       |             |       |                |       |
| <b>Stabilising Assets</b>                      |            |       |             |       |                |       |
| <b>TOTAL MERTON PENSION FUND</b>               | <b>2.7</b> |       | <b>8.4</b>  |       | <b>8.9</b>     |       |
| <b>Strategic Target (5.5% p.a.)</b>            | <b>1.3</b> |       | <b>5.5</b>  |       | <b>5.5</b>     |       |

Returns for private market managers are approximate, and may be low initially due to the J-curve effect. Private market investment performance is calculated on an IRR basis. All other manager performance is calculated using time-weighted rate of return.

\* Benchmark suspended in Q2 2018 as a result of transition activity. This impacts 3 month, 12 month and 3 year benchmark returns.

\*\*The Fund invested into the Pemira Credit Solutions IV on 28<sup>th</sup> September 2019. Insufficient data to provide performance figures at this time.

- 2.2 Over the 3 months to 30 Sept 2019, total Fund assets returned 2.7% compared to the target of 1.3%. This equates to outperformance by 1.4%. The Fund's total market value increased by £6.7m over the quarter, from £763.0m to £769.7m. Over the last 12 months, the Fund performance is 8.4%, and 3 year annualised performance is 8.9%. The annual performance target is 5.5%.



- 2.3 The table below shows the total fund valuation and the movements in investments during the respective quarter.

| Manager / Fund                                 | 30-June-19         |              | Cashflow<br>£000s | Growth<br>£000s | 30-September-19    |              |
|--|--------------------|--------------|-------------------|-----------------|--------------------|--------------|
|  | Valuation<br>£000s | Weight<br>%  |                   |                 | Valuation<br>£000s | Weight<br>%  |
| UBS - Passive Equity                           | 95,451             | 12.5         | -15,000           | 3,706           | 84,157             | 10.9         |
| UBS – Alternative Beta                         | 75,004             | 9.8          | -                 | 3,482           | 78,486             | 10.2         |
| LCIV RBC Sustainable Equity Fund               | 80,238             | 10.5         | -                 | 924             | 81,162             | 10.5         |
| LCIV Global Alpha Growth Fund                  | 76,537             | 10.0         | -                 | 506             | 77,043             | 10.0         |
| BlackRock World Low Carbon Equity Tracker Fund | 75,872             | 9.9          | -                 | 3,241           | 79,113             | 10.3         |
| <b>Global Equities</b>                         | <b>403,102</b>     | <b>52.8</b>  |                   |                 | <b>399,962</b>     | <b>52.0</b>  |
| Aberdeen Emerging Market Equities Fund         | 30,910             | 4.1          | -                 | -517            | 30,393             | 3.9          |
| UBS – HALO EM Fund                             | 47,339             | 6.2          | -                 | -25             | 47,314             | 6.1          |
| <b>Emerging Market Equities</b>                | <b>78,249</b>      | <b>10.3</b>  |                   |                 | <b>77,707</b>      | <b>10.1</b>  |
| LCIV Global Total Return Fund                  | 34,041             | 4.5          | -                 | 300             | 34,341             | 4.5          |
| LCIV Diversified Growth Fund                   | 33,266             | 4.4          | -                 | 724             | 33,989             | 4.4          |
| <b>Diversified Growth Fund</b>                 | <b>67,306</b>      | <b>8.8</b>   |                   |                 | <b>68,330</b>      | <b>8.9</b>   |
| UBS Triton Property Unit Trust                 | 17,077             | 2.2          | -                 | 143             | 17,220             | 2.2          |
| BlackRock UK Property Fund                     | 7,884              | 1.0          | -                 | -44             | 7,840              | 1.0          |
| <b>Property</b>                                | <b>24,961</b>      | <b>3.3</b>   |                   |                 | <b>25,060</b>      | <b>3.3</b>   |
| MIRA Infrastructure Global Solution II, L.P.*  | 4,746              | 0.6          | 3,319             | 102             | 8,167              | 1.1          |
| Quinbrook Low Carbon Power LP                  | 5,492              | 0.7          | 1,947             | 402             | 7,840              | 1.0          |
| <b>Infrastructure</b>                          | <b>10,238</b>      | <b>1.3</b>   |                   |                 | <b>16,007</b>      | <b>2.1</b>   |
| Pemira Credit Solutions IV                     | 237                | 0.0          | 2,391             | 398             | 2,789              | 0.4          |
| Churchill Middle Market Senior Loan Fund II    | 4,580              | 0.6          | -                 | 222             | 4,802              | 0.6          |
| <b>Private Credit</b>                          | <b>4,816</b>       | <b>0.6</b>   |                   |                 | <b>7,591</b>       | <b>1.0</b>   |
| <b>Growth Assets</b>                           | <b>588,673</b>     | <b>77.2</b>  |                   |                 | <b>594,657</b>     | <b>77.3</b>  |
| Aberdeen Bonds                                 | 90,005             | 11.8         | -                 | 7,103           | 97,108             | 12.6         |
| <b>Bonds</b>                                   | <b>90,005</b>      | <b>11.8</b>  |                   |                 | <b>97,108</b>      | <b>12.6</b>  |
| LCIV MAC Fund                                  | 70,584             | 9.3          | -                 | 340             | 70,924             | 9.2          |
| <b>Multi Asset Credit</b>                      | <b>70,584</b>      | <b>9.3</b>   |                   |                 | <b>70,924</b>      | <b>9.2</b>   |
| <b>Stabilising Assets</b>                      | <b>160,589</b>     | <b>21.1</b>  |                   |                 | <b>168,032</b>     | <b>21.8</b>  |
| <b>Cash</b>                                    | <b>13,704</b>      | <b>1.8</b>   | <b>-8,681</b>     | <b>-</b>        | <b>7,024</b>       | <b>0.9</b>   |
| <b>TOTAL MERTON PENSION FUND</b>               | <b>762,967</b>     | <b>100.0</b> |                   |                 | <b>769,713</b>     | <b>100.0</b> |

NOTE: INCOME REINVESTED BY LCIV FUNDS IN THE QUARTER AMOUNTED TO £0.5M.

\* Valuation as at 30.09.2019 for MIRA Infrastructure Global Solution II, L.P. is based on the March valuation plus cashflows in Q3 2019. The growth in the quarter is therefore solely due to currency movements. Up to date manager data is not available until 120 days after quarter end.

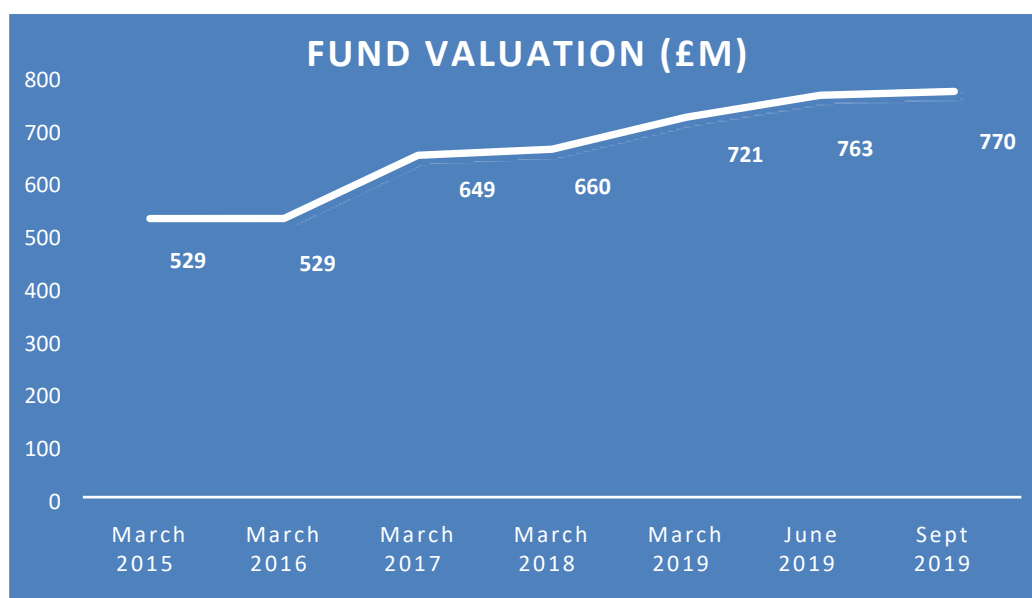
- 2.4 During the quarter the Fund continued implementing its new investment strategy and the chart below details the Fund's strategic asset allocation and the actual allocation to date.



- 2.5 In the quarter the Fund moved assets on to the private market investments. £5.3m was invested in infrastructure and £2.4m in Private debt. The full capital commitments will be drawn in stages as capital calls over 3-5 years.

| Asset Class                      |  | Market Value<br>£000s | Actual Weight % | Strategic Allocation % | Relative % | Strategic Range % |
|----------------------------------|--|-----------------------|-----------------|------------------------|------------|-------------------|
| Global Equities                  |  | 399,962               | 52.0            | 40.0                   | 12.0       | 15-85             |
| Emerging Market Equities         |  | 77,707                | 10.1            | 10.0                   | 0.1        | 0-20              |
| Diversified Growth Fund          |  | 68,330                | 8.9             | 10.0                   | -1.1       | 0-20              |
| Property                         |  | 25,060                | 3.3             | 5.0                    | -1.7       | 0-10              |
| Private Credit                   |  | 7,591                 | 1.0             | 7.5                    | -6.5       | 0-10              |
| Infrastructure                   |  | 16,007                | 2.1             | 7.5                    | -5.4       | 0-15              |
| Long Index Linked Gilts          |  | 56,572                | 7.4             | 10.0                   | -2.6       | 0-30              |
| Corporate Bonds                  |  | 40,536                | 5.3             | -                      | 5.3        | 0-10              |
| Multi Asset Credit               |  | 70,924                | 9.2             | 10.0                   | -0.8       | 0-20              |
| Cash                             |  | 7,024                 | 0.9             | -                      | 0.9        | -                 |
| <b>TOTAL MERTON PENSION FUND</b> |  | <b>769,713</b>        | <b>100.0</b>    | <b>100.0</b>           | <b>-</b>   |                   |

- 2.6 The following graph illustrates the Fund's market value trend over the past 5 years and as at 30 Sept 2019. It shows that in this period the Fund value has appreciated by £241m or 31%.



### 3.0 Market Background/Outlook

- 3.1 Global economic growth has continued to decelerate amid the uncertainty associated with global trade and technology conflicts, although sharply lower bond yields should provide some cushion for consumers and businesses against other headwinds. The range of potential growth and inflation outcomes has risen as this historically long economic cycle extends.



- 3.2 There was a notable shift to a focus on the outlook for monetary policy and economic growth earlier in the quarter, as investors positioned themselves for a turn towards easing from major central banks such as the Fed and the ECB given continued mixed economic news. Although equity and bond markets advanced in tandem earlier in the summer, this pattern diverged in August as many government bond yields hit record lows while equity markets struggled, before a further reversal in September.
- 3.3 Appendix 1 provides more detail on the market statistics and the assets classes the fund is invested in for 3 months, 1 year and 3 years.
- 4. OTHER ISSUES AFFECTING THE FUND**
- 4.1 none
- 5. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**
- 5.1 All relevant implications are included in the report.
- 6. LEGAL AND STATUTORY IMPLICATIONS**
- 6.1 All relevant implications are included in the report.
- 7. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**
- 7.1 N/A
- 8. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**
- 8.1 Risk management is an integral part of designing the investment portfolio of the fund.
- 9. BACKGROUND PAPERS**
- 9.1 JLT Employee Benefits performance report.



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The background of the slide is a close-up, slightly blurred image of a financial chart. It shows a grid with red candlestick-style bars and numerical values on the right side, including 400, 420, and 440.











# MERTON PENSION FUND INVESTMENT PERFORMANCE REVIEW QUARTER ENDING 30 SEPTEMBER 2019



# 1 STRATEGIC ASSET ALLOCATION

## 30 SEPTEMBER 2019

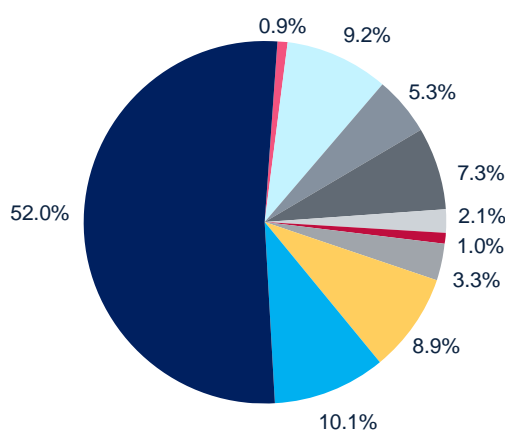
### Allocation by underlying asset class

| Asset Class                      |   | Market Value<br>£000s | Actual Weight % | Strategic Allocation % | Relative % | Strategic Range % |
|----------------------------------|---|-----------------------|-----------------|------------------------|------------|-------------------|
| Global Equities                  |  | 399,962               | 52.0            | 40.0                   | 12.0       | 15-85             |
| Emerging Market Equities         |  | 77,707                | 10.1            | 10.0                   | 0.1        | 0-20              |
| Diversified Growth Fund          |  | 68,330                | 8.9             | 10.0                   | -1.1       | 0-20              |
| Property                         |  | 25,060                | 3.3             | 5.0                    | -1.7       | 0-10              |
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| Infrastructure                   |  | 16,007                | 2.1             | 7.5                    | -5.4       | 0-15              |
| Long Index Linked Gilts          |  | 56,572                | 7.4             | 10.0                   | -2.6       | 0-30              |
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| Multi Asset Credit               |  | 70,924                | 9.2             | 10.0                   | -0.8       | 0-20              |
| Cash                             |  | 7,024                 | 0.9             | -                      | 0.9        | -                 |
| <b>TOTAL MERTON PENSION FUND</b> |   | <b>769,713</b>        | <b>100.0</b>    | <b>100.0</b>           | <b>-</b>   |                   |

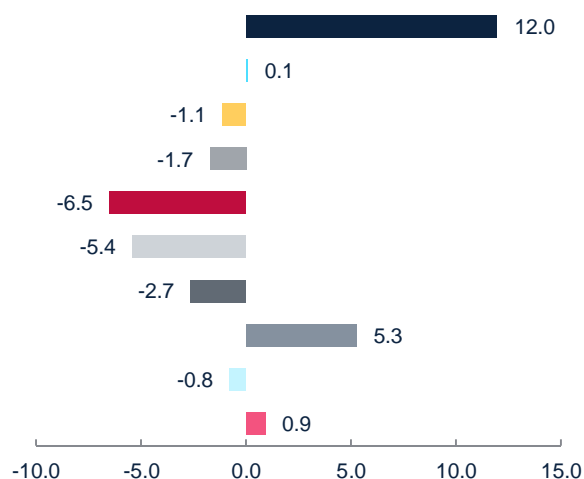
### Points to note

- The Strategic Asset Allocation reflects the strategy to be implemented as part of the 2017 Investment Strategy Review; as such, a number of asset classes will be under or overweight for an interim period until the portfolio is fully constructed.
- Total allocation to Global Equities reduced to 52.0% over the quarter, thereby being 12.0% overweight relative to its strategic allocation. However, this allocation will fall over time as the Fund transitions to Private Credit and Infrastructure.

### Actual Asset Allocation as at 30 Sept 2019



### Deviation from Strategic Allocation (%)



Note: Totals may not sum due to rounding.



# 2 VALUATION SUMMARY

## 30 JUNE 2019 TO 30 SEPTEMBER 2019

| Manager / Fund                                 | 30-June-19         |              | Cashflow<br>£000s | Growth<br>£000s | 30-September-19    |              |
|--|--------------------|--------------|-------------------|-----------------|--------------------|--------------|
|  | Valuation<br>£000s | Weight<br>%  |                   |                 | Valuation<br>£000s | Weight<br>%  |
| UBS - Passive Equity                           | 95,451             | 12.5         | -15,000           | 3,706           | 84,157             | 10.9         |
| UBS – Alternative Beta                         | 75,004             | 9.8          | -                 | 3,482           | 78,486             | 10.2         |
| LCIV RBC Sustainable Equity Fund               | 80,238             | 10.5         | -                 | 924             | 81,162             | 10.5         |
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| Aberdeen Emerging Market Equities Fund         | 30,910             | 4.1          | -                 | -517            | 30,393             | 3.9          |
| UBS – HALO EM Fund                             | 47,339             | 6.2          | -                 | -25             | 47,314             | 6.1          |
| <b>Emerging Market Equities</b>                | <b>78,249</b>      | <b>10.3</b>  |                   |                 | <b>77,707</b>      | <b>10.1</b>  |
| LCIV Global Total Return Fund                  | 34,041             | 4.5          | -                 | 300             | 34,341             | 4.5          |
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| <b>Diversified Growth Fund</b>                 | <b>67,306</b>      | <b>8.8</b>   |                   |                 | <b>68,330</b>      | <b>8.9</b>   |
| UBS Triton Property Unit Trust                 | 17,077             | 2.2          | -                 | 143             | 17,220             | 2.2          |
| BlackRock UK Property Fund                     | 7,884              | 1.0          | -                 | -44             | 7,840              | 1.0          |
| <b>Property</b>                                | <b>24,961</b>      | <b>3.3</b>   |                   |                 | <b>25,060</b>      | <b>3.3</b>   |
| MIRA Infrastructure Global Solution II, L.P.*  | 4,746              | 0.6          | 3,319             | 102             | 8,167              | 1.1          |
| Quinbrook Low Carbon Power LP                  | 5,492              | 0.7          | 1,947             | 402             | 7,840              | 1.0          |
| <b>Infrastructure</b>                          | <b>10,238</b>      | <b>1.3</b>   |                   |                 | <b>16,007</b>      | <b>2.1</b>   |
| Permira Credit Solutions IV                    | 237                | 0.0          | 2,391             | 398             | 2,789              | 0.4          |
| Churchill Middle Market Senior Loan Fund II    | 4,580              | 0.6          | -                 | 222             | 4,802              | 0.6          |
| <b>Private Credit</b>                          | <b>4,816</b>       | <b>0.6</b>   |                   |                 | <b>7,591</b>       | <b>1.0</b>   |
| <b>Growth Assets</b>                           | <b>588,673</b>     | <b>77.2</b>  |                   |                 | <b>594,657</b>     | <b>77.3</b>  |
| Aberdeen Bonds                                 | 90,005             | 11.8         | -                 | 7,103           | 97,108             | 12.6         |
| <b>Bonds</b>                                   | <b>90,005</b>      | <b>11.8</b>  |                   |                 | <b>97,108</b>      | <b>12.6</b>  |
| LCIV MAC Fund                                  | 70,584             | 9.3          | -                 | 340             | 70,924             | 9.2          |
| <b>Multi Asset Credit</b>                      | <b>70,584</b>      | <b>9.3</b>   |                   |                 | <b>70,924</b>      | <b>9.2</b>   |
| <b>Stabilising Assets</b>                      | <b>160,589</b>     | <b>21.1</b>  |                   |                 | <b>168,032</b>     | <b>21.8</b>  |
| <b>Cash</b>                                    | <b>13,704</b>      | <b>1.8</b>   | <b>-6,681</b>     | <b>-</b>        | <b>7,024</b>       | <b>0.9</b>   |
| <b>TOTAL MERTON PENSION FUND</b>               | <b>762,967</b>     | <b>100.0</b> |                   |                 | <b>769,713</b>     | <b>100.0</b> |

NOTE: INCOME REINVESTED BY LCIV FUNDS IN THE QUARTER AMOUNTED TO £0.5M.

\* Valuation as at 30.09.2019 for MIRA Infrastructure Global Solution II, L.P. is based on the March valuation plus cashflows in Q3 2019. The growth in the quarter is therefore solely due to currency movements. Up to date manager data is not available until 120 days after quarter end.



# 3 PERFORMANCE SUMMARY

## PERIOD ENDING 30 SEPTEMBER 2019

| Manager / Fund                                 | 3 months % |       | 12 months % |       | 3 years % p.a. |       |
|--|------------|-------|-------------|-------|----------------|-------|
|  | Fund       | Bmark | Fund        | Bmark | Fund           | Bmark |
| UBS- Passive Equity Fund*                      | 3.9        | n/a   | 7.6         | n/a   | 10.3           | n/a   |
| UBS – Alternative Beta                         | 4.7        | 4.6   | n/a         | n/a   | n/a            | n/a   |
| LCIV RBC Sustainable Equity Fund               | 1.2        | 3.8   | 8.4         | 7.8   | n/a            | n/a   |
| LCIV Global Alpha Growth Fund                  | 0.7        | 3.4   | 6.7         | 8.2   | n/a            | n/a   |
| BlackRock World Low Carbon Equity Tracker Fund | 4.3        | 4.1   | n/a         | n/a   | n/a            | n/a   |
| <b>Global Equities</b>                         |            |       |             |       |                |       |
| Aberdeen Global Emerging Market Equities Fund  | -1.4       | -1.0  | 9.7         | 4.1   | n/a            | n/a   |
| UBS – HALO EM Fund                             | -0.2       | -1.1  | n/a         | n/a   | n/a            | n/a   |
| <b>Emerging Market Equities</b>                |            |       |             |       |                |       |
| LCIV Global Total Return Fund                  | 0.9        | 1.7   | 2.6         | 7.6   | n/a            | n/a   |
| LCIV Diversified Growth Fund                   | 2.2        | 1.1   | 4.5         | 4.3   | n/a            | n/a   |
| <b>Diversified Growth Fund</b>                 |            |       |             |       |                |       |
| UBS Triton Property Unit Trust                 | 0.9        | 0.4   | 4.1         | 2.2   | 7.7            | 6.7   |
| BlackRock UK Property Fund                     | 0.2        | 0.4   | 1.9         | 2.2   | 6.5            | 6.7   |
| <b>Property</b>                                |            |       |             |       |                |       |
| MIRA Infrastructure Global Solution II, L.P.   | 1.6        | 1.8   | n/a         | n/a   | n/a            | n/a   |
| Quinbrook Low Carbon Power LP                  | 6.0        | 1.8   | n/a         | n/a   | n/a            | n/a   |
| <b>Infrastructure</b>                          |            |       |             |       |                |       |
| Permira Credit Solutions IV**                  | n/a        | n/a   | n/a         | n/a   | n/a            | n/a   |
| Churchill Middle Market Senior Loan Fund II    | 4.9        | 1.8   | n/a         | n/a   | n/a            | n/a   |
| <b>Private Credit</b>                          |            |       |             |       |                |       |
| <b>Growth Assets</b>                           |            |       |             |       |                |       |
| Aberdeen Bonds Portfolio                       | 8.0        | 7.8   | 19.1        | 18.9  | 5.1            | 4.8   |
| <b>Bonds</b>                                   |            |       |             |       |                |       |
| LCIV MAC Fund                                  | 0.6        | 1.2   | 3.0         | 4.9   | n/a            | n/a   |
| <b>Multi-Asset Credit</b>                      |            |       |             |       |                |       |
| <b>Stabilising Assets</b>                      |            |       |             |       |                |       |
| <b>TOTAL MERTON PENSION FUND</b>               |            |       |             |       |                |       |
|  | 2.7        |       | 8.4         |       | 8.9            |       |
| <b>Strategic Target (5.5% p.a.)</b>            |            |       |             |       |                |       |
|  | 1.3        |       | 5.5         |       | 5.5            |       |

Returns for private market managers are approximate, and may be low initially due to the J-curve effect. Private market investment performance is calculated on an IRR basis. All other manager performance is calculated using time-weighted rate of return.

\* Benchmark suspended in Q2 2018 as a result of transition activity. This impacts 3 month, 12 month and 3 year benchmark returns.

\*\*The Fund invested into the Permira Credit Solutions IV on 26<sup>th</sup> September 2019. Insufficient data to provide performance figures at this time.



# 4 MARKET BACKGROUND

## PERIOD ENDING 30 SEPT 2019

### MARKET STATISTICS

| Market Returns<br>Growth Assets | 3 Mths<br>% | 1 Year<br>% | 3 Years<br>% p.a. |
|---------------------------------|-------------|-------------|-------------------|
| UK Equities                     | 1.3         | 2.7         | 6.8               |
| Overseas Developed              | 3.9         | 8.2         | 12.8              |
| North America                   | 4.9         | 10.4        | 15.1              |
| Europe (ex UK)                  | 1.6         | 6.3         | 10.0              |
| Japan                           | 6.6         | 0.3         | 8.4               |
| Asia Pacific (ex Japan)         | -1.6        | 3.7         | 8.1               |
| Emerging Markets                | -0.5        | 7.1         | 8.4               |
| Frontier Markets                | -7.0        | 0.2         | 3.2               |
| Hedge Funds**                   | 0.3         | 2.1         | 3.8               |
| Commodities**                   | -4.7        | -18.5       | -0.3              |
| High Yield**                    | 0.9         | 5.4         | 4.6               |
| Emerging Market Debt            | 2.5         | 16.5        | 4.9               |
| Senior Secured Loans**          | 0.9         | 1.4         | 2.7               |
| Cash                            | 0.2         | 0.7         | 0.5               |

| Yields as at<br>30 September 2019 | % p.a. |
|-----------------------------------|--------|
| UK Equities                       | 4.21   |
| UK Gilts (>15 yrs)                | 0.91   |
| Real Yield (>5 yrs ILG)           | -2.20  |
| Corporate Bonds (>15 yrs AA)      | 1.81   |
| Non-Gilts (>15 yrs)               | 2.33   |

| Market Returns<br>Bond Assets | 3 Mths<br>% | 1 Year<br>% | 3 Years<br>% p.a. |
|-------------------------------|-------------|-------------|-------------------|
| UK Gilts (>15 yrs)            | 11.0        | 23.0        | 5.3               |
| Index-Linked Gilts (>5 yrs)   | 8.7         | 20.3        | 5.3               |
| Corporate Bonds (>15 yrs AA)  | 8.5         | 21.0        | 5.2               |
| Non-Gilts (>15 yrs)           | 7.8         | 19.3        | 4.8               |

| Exchange Rates:<br>Change in Sterling | 3 Mths<br>% | 1 Year<br>% | 3 Years<br>% p.a. |
|---------------------------------------|-------------|-------------|-------------------|
| Against US Dollar                     | -3.2        | -5.5        | -1.7              |
| Against Euro                          | 1.1         | 0.7         | -0.7              |
| Against Yen                           | -2.9        | -10.1       | 0.41              |

| Inflation Indices     | 3 Mths<br>% | 1 Year<br>% | 3 Years<br>% p.a. |
|-----------------------|-------------|-------------|-------------------|
| Price Inflation – RPI | 0.5         | 2.4         | 3.2               |
| Price Inflation – CPI | 0.5         | 1.7         | 2.4               |
| Earnings Inflation*   | 0.9         | 3.4         | 3.1               |

| Absolute Change in Yields    | 3 Mths<br>% | 1 Year<br>% | 3 Years<br>% p.a. |
|------------------------------|-------------|-------------|-------------------|
| UK Equities                  | 0.08        | 0.41        | 0.75              |
| UK Gilts (>15 yrs)           | -0.49       | -0.95       | -0.51             |
| Real Yield (>5 yrs ILG)      | -0.31       | -0.71       | -0.42             |
| Corporate Bonds (>15 yrs AA) | -0.44       | -1.00       | -0.42             |
| Non-Gilts (>15 yrs)          | -0.45       | -0.94       | -0.27             |

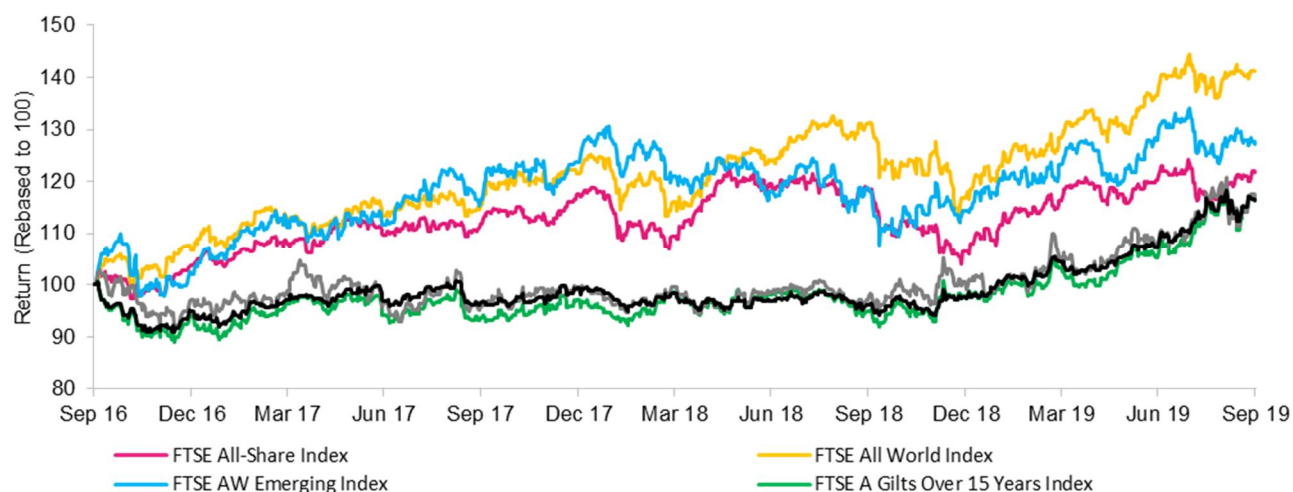
Source: Thomson Reuters.

Note: \* Subject to 1 month lag \*\* Local Currency / GBP Hedged

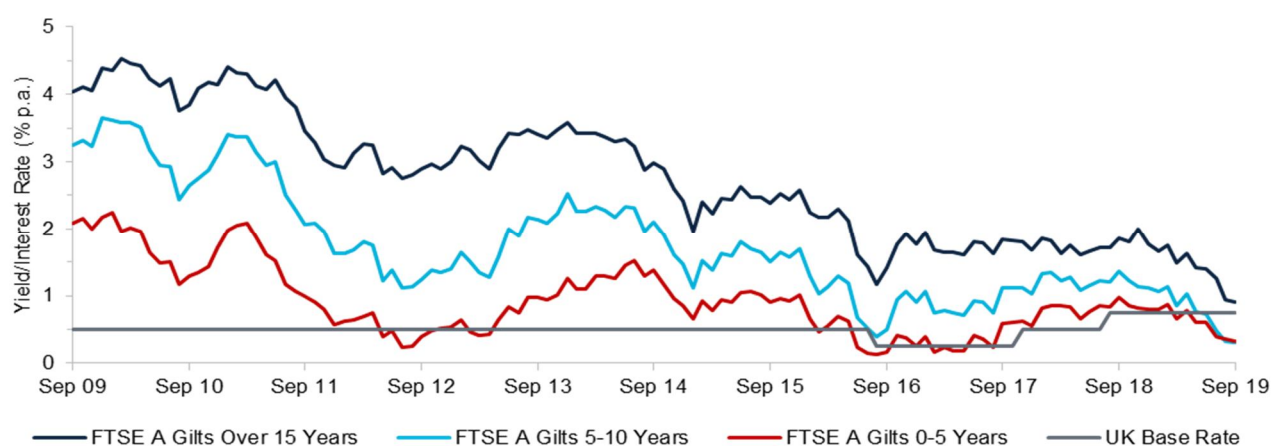


# MARKET SUMMARY CHARTS

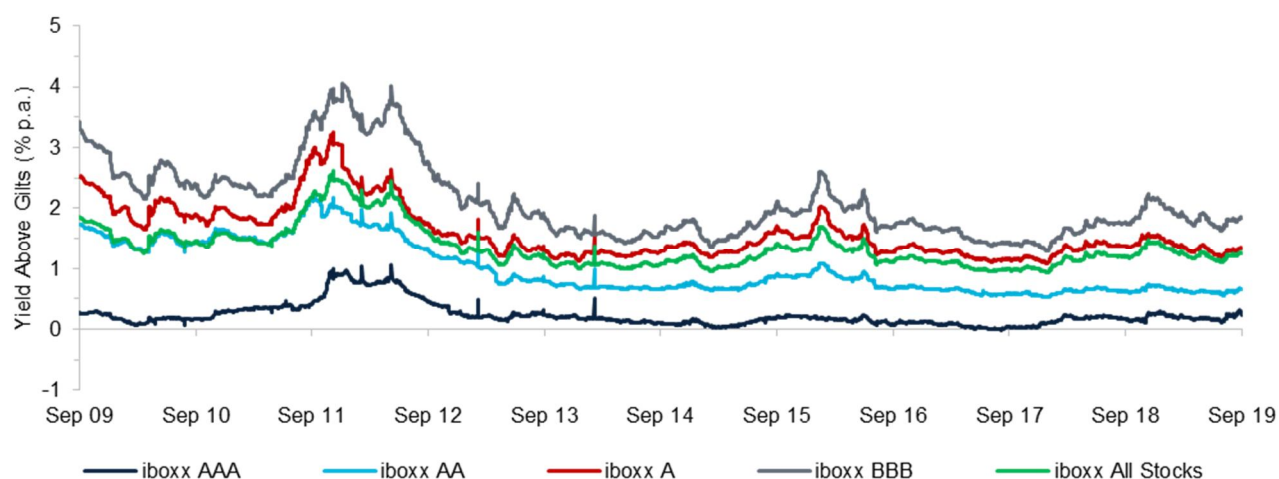
## Market performance – 3 years to 30 September 2019



## UK government bond yields – 10 years to 30 September 2019



## Corporate bond spreads above government bonds – 10 years to 30 September 2019



Source: Thomson Reuters



# 5 MARKET EVENTS

| Asset Class             | What happened?  |   |
|-------------------------|---|---|
|                         | Positive Factors  | Negative Factors  |
| United Kingdom          | <ul style="list-style-type: none"> <li>The FTSE 100 posted a modest positive return of 1.0% over the quarter despite uncertainties surrounding global economic growth and Brexit. Index performance was primarily driven by defensive and quality sectors.</li> </ul>   | <ul style="list-style-type: none"> <li>Data released by the Office of National Statistics showed that the UK economy contracted by 0.2% over Q2 2019. The contraction was primarily due to Brexit uncertainties and a reduction of stockpiles in the manufacturing sector.</li> </ul>   |
| North America           | <ul style="list-style-type: none"> <li>The S&amp;P 500 posted positive returns over the quarter, with most of the gains coming in during the latter half of the quarter.</li> <li>Monetary easing by the US Federal Reserve with an interest rate cut in the month of July and September supported this asset class.</li> </ul>   | <ul style="list-style-type: none"> <li>Concerns over a weak global economic outlook and the ongoing trade conflicts capped equity market gains.</li> </ul>  |
| Europe (ex UK)          | <ul style="list-style-type: none"> <li>Equity markets closed the quarter in the green despite concerns over trade wars and global growth.</li> <li>The European Central Bank (ECB) cut its interest rates to a record low of -0.5%. It also announced the resumption of its quantitative easing programme, with the purchase of assets worth €20 billion a month for an indefinite period.</li> </ul> | <ul style="list-style-type: none"> <li>The Eurozone economy grew at 0.2% over Q2 2019, significantly lower than the 0.4% seen in Q1 2019. Germany registered a GDP contraction of 0.1%, primarily due to trade conflicts and a global economic slowdown.</li> <li>Inflation in the Eurozone continued to remain subdued. The headline annual inflation came in at 0.9% in September, marking a near three year low. Core inflation too remains tepid, at 1%. The current inflation levels remain significantly below the ECB's target of 2.0%.</li> </ul> |
| Japan                   | <ul style="list-style-type: none"> <li>Japanese equities rose during the quarter, especially in the first half of September. Expectations of monetary stimulus from major global central banks led to a depreciation of the Japanese Yen, benefiting the export-oriented Japanese equity market.</li> </ul>   |   |
| Asia Pacific (ex Japan) |   | <ul style="list-style-type: none"> <li>Escalating trade tensions between the US and China negatively impacted equity markets of this region.</li> </ul>   |
| Emerging Markets        |   | <ul style="list-style-type: none"> <li>Ongoing trade talks between the US and China coupled with global recession fears continues to loom over emerging markets. Due to this, the MSCI Emerging Markets Index posted a negative return of 0.5% over Q3 2019.</li> </ul>   |
| Conventional            | <ul style="list-style-type: none"> <li>UK nominal gilts performed well as yields</li> </ul>   |   |



| Asset Class               | What happened?  |   |
|---------------------------|---|---|
|                           | Positive Factors  | Negative Factors  |
| <b>Gilts</b>              | <p>fell across all maturities over the quarter, flattening the yield curve. The yield curve inverted for UK nominal gilts maturing within five years.</p> <ul style="list-style-type: none"> <li>Globally, government bonds rallied on concerns over the ongoing trade conflicts and subdued economic growth. Additionally, in the UK, increased expectations for an interest rate cut this year by the Bank of England and rising possibility of a no-deal Brexit supported this asset class.</li> <li>Demand for nominal gilts remains robust and auctions by the DMO continue to be oversubscribed.</li> </ul> |   |
| <b>Index-Linked Gilts</b> | <ul style="list-style-type: none"> <li>UK index-linked gilts performed well as yields fell across all maturities over the quarter. In contrast to the UK nominal yield curve, the UK index-linked yield curve steepened over the quarter as inflation expectations rose over the medium-term.</li> <li>Sterling depreciated during the quarter, leading to expectations of higher inflation through imports. This resulted in increased demand for this asset class.</li> <li>Demand for index-linked gilts remains robust and auctions by the DMO continue to be oversubscribed.</li> </ul>                      |   |
| <b>Corporate Bonds</b>    | <ul style="list-style-type: none"> <li>UK corporate bonds generated positive returns over the quarter, despite wider credit spreads, as corporate bond yields fell owing to a fall in gilt yields.</li> <li>Yields for longer-dated bonds fell more than those for the shorter-dated bonds, flattening the yield curve.</li> </ul>  | <ul style="list-style-type: none"> <li>Most of the sectors witnessed wider credit spreads over the quarter.</li> </ul>  |
| <b>Commodities</b>        | <ul style="list-style-type: none"> <li>Precious metals were positive over the quarter, posting a 7.1% gain.</li> </ul>  | <ul style="list-style-type: none"> <li>The S&amp;P GSCI Spot Index posted a negative return over the quarter due to a strengthening US Dollar and geopolitical tensions.</li> </ul>   |
| <b>UK Property</b>        |   | <ul style="list-style-type: none"> <li>In Q3 2019, Brexit-related uncertainties continued to affect UK construction activities. The IHS Markit/CIPS UK construction purchasing managers' index fell to 43.3 and marked the third consecutive decline for the index. All categories of construction activities (housebuilding, commercial and civil engineering) fell during the quarter.</li> </ul> |



## CONTACT

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## Committee:

### London Borough of Merton Pension Fund Advisory Panel

Date: 09 January 2020

Wards: All

### Subject: Merton Pension Fund Training Policy and Plan

Lead officer: Caroline Holland - Director of Corporate Services

Lead member: Councillor Mark Allison

Contact officer: Roger Kershaw- Assistant Director of Resources

This is a Public Document

#### RECOMMENDATION

Members are asked to note the content of this report in particular the training plan for 2020/21 and approve the attached Merton Pension Fund's Training Policy (Appendix 1)

#### 1.0 PURPOSE OF REPORT

- 1.1 This report presents the Merton Pension Fund's Training Policy. The 2004 Pensions Act and the Markets in Financial Instruments Directive (MIFIDII) require the trustees of occupational pension schemes to be appropriately trained; have knowledge and understanding of the law relating to pensions and role of trustees; understand the principles of scheme funding and investment, and the management and administration of pension scheme benefits.
- 1.2 To facilitate the ability to make informed Pension decisions for the benefit of all stakeholders, the Pension Fund Advisory Panel (PFAP); the Pension Board (PB) and Officers will, in performing Pension responsibilities be expected to undertake regular training to ensure they have sufficient knowledge of the LGPS, pension benefits and investment issues.

#### 2.0 Context

- 2.1 This is the Training Policy of the London Borough of Merton in its role as the Administering Authority of the Merton LGPS Pension Fund. The policy details the training strategy for members of the PFAP, PB and senior officers responsible for the management of the Fund.
- 2.2 The Training Policy is established to aid the PFAP, PB members and officers in performing and developing personally in their individual roles, with the ultimate aim of ensuring that Merton Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills.



### **3.0 Objective**

- 3.1 The Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise, and that this knowledge and expertise is maintained within the continually changing LGPS and wider pensions landscape.
- 3.2 Those persons responsible for governing the Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest.
- 3.3 The implementation of MiFIDII reclassifies local and public authorities as retail investors from 3rd January 2018. The authority elected for a return to professional status in order to ensure it could access the full range of vehicles and managers to meet the needs of the investment strategy.
- 3.4 To maintain the professional status with the investment managers and to take advantage of new investment options the Fund have a responsibility to ensure that the PFAP members and the officers have the relevant knowledge and they receive regular training to make effective investment decisions.

### **4.0 CIPFA Knowledge and Skills Framework**

- 4.1 The Chartered Institute of Public Finance and Accounting (CIPFA) has developed a technical knowledge and skills framework. This framework is intended as a tool for pension funds to determine whether they have the right skill mix to meet their scheme financial management needs and as an assessment tool for individuals to measure their progress and plan their development.
- 4.2 The Fund has to demonstrate that it has adopted the knowledge and skills framework as a basis for the training and development of Members and officers, or outline what alternative basis it has selected to determine develop and measure their skills.

### **5. OTHER ISSUES AFFECTING THE FUND**

None

### **6. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS**

- 6.1 None.

### **7. LEGAL AND STATUTORY IMPLICATIONS**

- 7.1 None.

### **8. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS**

- 8.1 N/A

### **9. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

- 9.1 None





# **LONDON BOROUGH OF MERTON PENSION FUND**

## **TRAINING POLICY**



## **Introduction**

This is the Training Policy of the London Borough of Merton in its role as the Administering Authority of the Merton LGPS Pension Fund. The policy details the training strategy for members of the Pension Committee (PC), Pension Board (PB) and senior officers responsible for the management of the Fund.

The Training Policy is established to aid the PFAP, PB members and officers in performing and developing personally in their individual roles, with the ultimate aim of ensuring that Merton Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills.

## **Implementation**

This Policy was approved on 07 March 2018 and updated in January 2020 by the Merton Pension Fund Advisory Panel and it is effective from this date.

This policy will be reviewed annually to ensure it remains up to date and meets the necessary regulatory requirements and the Fund's specific needs. It will be available on our website at: [add link].



## Objectives

The Merton Pension Fund's (Fund) objectives relating to knowledge and skills are:

- The pension funds are managed and their services delivered by people who have the appropriate knowledge and expertise, and that this knowledge and expertise is maintained within the continually changing LGPS and wider pensions landscape.
- Those persons responsible for governing the Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and well based, and manage any potential conflicts of interest.

All PFAP, PB members, officers and advisers to whom this Policy applies are expected to continually demonstrate their own personal commitment to training and in ensuring these objectives are met.

To assist in achieving these objectives, the Fund will aim for compliance with:

- The CIPFA's Knowledge and Skills Frameworks.
- The knowledge and skills elements of the Public Service Pensions Act 2013 and the Pensions Regulator's (tPR) Code of Practice.

## Application

The Training Policy applies to all members of the PFAP PB including scheme member and employer representatives. It also applies to all officers in the Merton Pension Fund are also expected to demonstrate they can meet the objectives of this Policy.

## CIPFA Knowledge and Skills Framework

The CIPFA Training Policy applies to all members of the PFAP, including scheme member and employer representatives. It also applies to all officers in the Fund. Advisers to the Merton Pension Fund are also expected to demonstrate they can meet the objectives of this Policy.



## The Merton Pension Fund training plan

The Merton Pension Fund recognises that attaining and then maintaining relevant knowledge and skills is a continual process for PFAP.PB members and officers, and training is a key element of this. The Merton pension Fund will develop a rolling Training Plan based on the following key elements:

- **Areas of knowledge and understanding required**  
The core technical requirements for those working in public sector finance are:
- **Pensions Legislation**  
Have a working knowledge of the Local Government Pension Scheme and discretionary policies.
- **Public Sector Pensions Governance**  
Understand how the pension board interacts with other elements of the governance structure.
- **Pensions Administration**  
Understand the requirements of this complex area and assist the Scheme Manager to ensure compliance.
- **Pensions Accounting and Auditing Standards**  
Understanding the accounting and audit requirements
- **Pensions Services Procurement and Relationship Management**  
Gain an understanding of the procurement rules for the public sector
- **Investment Performance and Risk Management**  
Gain an understanding of investment risk and performance
- **Financial Markets and Product Knowledge**  
Understand how the pension fund manages its investment portfolio to ensure that this is done effectively.
- **Actuarial methods, Standards and Practices**  
Understand the work of the actuary and the way in which actuarial information is produced.

All training costs will be met directly by the Pension Fund.



## General Awareness

PFAP, PB members and officers are expected to maintain a reasonable knowledge of ongoing developments and current issues, which will allow them to have a good level of general awareness of pension related matters,

Each of these areas will be focused on the role of the individual including Pension Committee members requiring more detailed knowledge of investment matters.

### **The Training Plan will be delivered through a variety of methods including:**

- In-house training days provided by officers and/or external providers
- Training as part of meetings (e.g. Pension Committee) provided by officers and/or external advisers
- External training events – London CIV,
- Circulation of reading material
- Attendance at seminars and conferences offered by industry wide bodies
- Attendance at meetings and events with the Merton Pension Fund's investment managers and advisors
- Links to on-line training

In addition to the above Merton Pension Fund's officers and advisers are available to answer any queries on an ongoing basis



## **Measurement and assessment**

In order to identify whether we are meeting the objectives of this policy we will:

- 1) Compare and report on attendance at training based on the following:
  - Individual Training Needs – ensuring training on the key elements takes place for each individual at least once every three years.
  - Risk Based Training – Compulsory attendance required PC members and officers at planned risk based training sessions. □ General Awareness – each PC member or officer to attend at least one day each year of general awareness training or events.
  - Induction training – identified areas of for individual training need to be completed within six months.
- 2) Carry out an independent review of our governance arrangements,

## **Reporting**

A report will be presented to the PFAP and PB on an annual basis setting out:

- the training provided / attended in the previous year at an individual level
  - Future training needs and the training plan for the next financial year.



### 2020/21 Training plan

| <b>Topic</b>   | <b>Date</b> | <b>Duration</b> |
|--|-------------|-----------------|
| Investment strategy review and asset classes                                       | March 2020  | 1 hours         |
| Pension Fund Governance arrangement and the tPR Requirement Good Governance Review | July 2020   | 1 hours         |
| ESG -the responsivity at the Fund and the Pool level                               | Sept 2020   | 1 hour          |
| Asset classes – As per the new investment strategy                                 | Nov 2020    | 1 hours         |
| Pension administration and accounting  | March 2021  | 1 hours         |
|  |             |                 |



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## Pension Fund Work Plan

| Planned Activities                             | Expected completion time | Actual completion time |
|--|--------------------------|------------------------|
| <b>Qtr 4 (2019/20)</b>                         |                          |                        |
| 2019 Valuation- sign off                       | Jan to March 2020        |                        |
| Employers Open day                             | Jan to March 2020        |                        |
| Governance Review                              | Jan to March 2020        |                        |
| Members open day                               | Jan to March 2020        |                        |
| investment Strategy Review                     | Jan to March 2020        |                        |
| Training                                       | Jan to March 2020        |                        |
| 2019-20 Audit plan                             | Jan to March 2020        |                        |
| Quarterly Performance Review                   | Jan to March 2020        |                        |
| Training                                       |                          |                        |
| <b>Qtr 1 (2020/21)</b>                         |                          |                        |
| New Pension Board in Place                     | April to June 2020       |                        |
| Procurement of Investment Consultant & Actuary | April to June 2020       |                        |
| Quarterly Performance Review                   | April to June 2020       |                        |
| Training                                       |                          |                        |
|  |                          |                        |
| <b>Qtr 2 (2020/21)</b>                         |                          |                        |
| Update Procurement process                     | July to Sept 2020        |                        |
| Pensions Risk Register                         | July to Sept 2020        |                        |
| Quarterly Performance Review                   | July to Sept 2020        |                        |



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