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# Merton Council

## Pensions Committee Agenda

### Membership

#### Councillors:

Cllr: Laxmi Attawar (Chair)  
Adam Bush (Vice-Chair)  
Tobin Byers  
Gwyn Isaac  
Tina Pickard (Pensioner Rep)

Caroline Holland (LBM)  
Roger Kershaw (LBM)  
Nemashe Sivayogan (LBM)

#### External:

Investment Consultants – Hyman Roberston  
Actuary – Barnet Waddingham  
Investment Manager - LCIV

**Date:       Wednesday 24 November 2021**

**Time:       6.00 pm**

**Venue:     Committee Rooms, 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

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## **Pensions Committee Agenda**

### **24 November 2021**

- |    |  |              |
|----|--|--------------|
| 1  | Apologies for absence  |              |
| 2  | Declarations of pecuniary interest   |              |
| 3  | Minutes of the previous meeting  | 1 - 2        |
| 4  | Quarterly Performance Review (July - Sept 2021)  | 3 - 14       |
| 5  | March 2022 Triennial valuation - by Barnett Waddingham   | 15 - 38      |
| 6  | Merton Pension Fund - Update on governance arrangements  | 39 - 46      |
| 7  | Training Plan  | 47 - 48      |
| 8  | AOB - Audit update   |              |
| 9  | Exclusion of the public<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)   | 49 - 50      |
| 11 | Quarterly Fund and Investment Managers Performance Review (July - Sept 2021)   | 51 - 80      |
| 12 | Business / Investment update - LCIV  | 81 - 104     |
| 13 | Infrastructure / Private Debt Report - Hymans Robertson  | 105 -<br>140 |
| 14 | Social Impact Investment - Next steps  | 141 -<br>148 |
| 15 | Future meeting dates<br>- 9 March 2022   |              |

#### **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. For further advice please speak with the Managing Director, South London Legal Partnership.

## Merton Pension Fund Committee

Minutes of the meeting held on

23 September 2021 (Virtual Meeting)

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Councillor Laxmi Attawar (Chair)  
Councillor Adam Bush (Vice Chair)  
Councillor Tobin Byers  
Tina Pickard (Pensioner Rep)  
Gwyn Isaac (GMB Union Rep)  
Caroline Holland (LBM)  
Roger Kershaw (LBM)  
Nemashe Sivayogan (LBM)

### Investment Consultants – Hymans

#### 1.0 MEETING (Part 1)

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

#### 2. Minutes of Last Meeting Held (Part 1) – 24 June 2021

- 2.1 Agreed as true record.

#### 3. Merton Pension Fund 2020/21 Audit Results Report (Ernst & Young)

- 3.1 EY could not attend the meeting RK presented the report
- 3.2 RK said there is some tidying up to do but there are no misstatements of note. Extra work is being carried out around the ISA540 standard and how the actuary does their work in this area.

#### 4. Quarterly Fund Performance Review (April – June 2021)

- 4.1 RK stated that over the 3 months to 30 June 2021, total Fund assets returned 4.8% compared to the target of 4.3%. This equates to an over performance of 0.5%.
- 4.2 The Fund's total market value increased by £27.3m over the quarter, from £898.8m to £926.1. Over the last 12 months, the Fund performance was 20.1%, and 3 year annualised performance was 10.4%. The annual performance target is 4.8%.

#### 5. AOB - None

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## Committee:

**Merton Pension Committe**

**Date: 24 November 2021**

**Merton Pension Board**

**Date: 29 November 2021**

Wards: All

**Subject: Merton Pension Fund Performance – September 2021**

Lead officer: Caroline Holland - Director of Corporate Services

Lead member: Councillor. Tobin Byers

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 quarters ending 30 September 2021, 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 ending 30 September 2021. 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 September 2021. The report provides 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 Hymans provides useful analysis and insights of the Pension Fund activities and results for the quarters ending September 2021.

The table below shows the total fund valuation for the quarter ended September 2021.

## VALUATION SUMMARY

### PERIOD ENDING 30 SEPTEMBER 2021

Mandate	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q2 21	Q3 21			
UBS World Equity Tracker Fund	36.5	32.3	3.5%	0.0%	3.5%
UBS Alternative Beta	95.2	96.1	10.3%	10.0%	0.3%
LCV RBC Sustainable Equity Fund	113.7	116.7	12.5%	10.0%	2.5%
LCV Baillie Gifford Global Alpha Growth Fund	117.4	116.8	12.5%	10.0%	2.5%
BlackRock World Low Carbon Equity Tracker	101.1	105.0	11.3%	10.0%	1.3%
<b>Global Equities</b>	<b>463.8</b>	<b>466.9</b>	<b>50.0%</b>	<b>40.0%</b>	<b>10.0%</b>
UBS GEM HALO	61.8	57.6	6.2%	5.0%	1.2%
LCV JP Morgan Emerging Market Equity Fund	40.8	39.5	4.2%	5.0%	-0.8%
<b>Emerging Market Equities</b>	<b>102.6</b>	<b>97.1</b>	<b>10.4%</b>	<b>10.0%</b>	<b>0.4%</b>
LCV Ruffer Absolute Return Fund	37.6	37.9	4.1%	5.0%	-0.9%
LCV Baillie Gifford Diversified Growth Fund	37.1	37.5	4.0%	5.0%	-1.0%
<b>Diversified Growth</b>	<b>74.8</b>	<b>75.4</b>	<b>8.1%</b>	<b>10.0%</b>	<b>-1.9%</b>
UBS Triton Property Fund	16.6	18.1	1.9%	2.5%	-0.6%
BlackRock UK Property Fund	7.8	8.0	0.9%	2.5%	-1.6%
<b>Property</b>	<b>24.3</b>	<b>26.1</b>	<b>2.8%</b>	<b>5.0%</b>	<b>-2.2%</b>
MIRA Infrastructure Global Solutions II L.P. Fund	8.2	12.8	1.4%	3.0%	-1.6%
Quinbrook Low Carbon Power LP Fund	11.7	12.0	1.3%	1.5%	-0.2%
JP Morgan Infrastructure Fund	17.0	16.9	1.8%	3.0%	-1.2%
<b>Infrastructure</b>	<b>36.9</b>	<b>41.8</b>	<b>4.5%</b>	<b>7.5%</b>	<b>-3.0%</b>
Permira Credit Solutions IV Fund	14.8	20.4	2.2%	4.5%	-2.3%
Churchill Middle Market Senior Loan II Fund	16.7	17.1	1.8%	3.0%	-1.2%
<b>Private Credit</b>	<b>31.5</b>	<b>37.5</b>	<b>4.0%</b>	<b>7.5%</b>	<b>-3.5%</b>
Wells Fargo RMF Fund	108.2	104.3	11.2%	10.0%	1.2%
<b>Risk Management Framework</b>	<b>108.2</b>	<b>104.3</b>	<b>11.2%</b>	<b>10.0%</b>	<b>1.2%</b>
LCV CQS MAC Fund	76.3	77.2	8.3%	10.0%	-1.7%
<b>Multi Asset Credit</b>	<b>76.3</b>	<b>77.2</b>	<b>8.3%</b>	<b>10.0%</b>	<b>-1.7%</b>
Cash	7.5	6.6	0.7%	0.0%	0.7%
<b>Total Fund</b>	<b>926.1</b>	<b>932.9</b>	<b>100.0%</b>	<b>100.0%</b>	

At the time of writing, latest quarterly information in respect of mandate held with MIRA is unavailable. Q3 2021 valuation is therefore based on Q2 2021 information and includes all known capital calls which occurred during Q3 2021.

- 2.2 The Fund's total market value increased by £6.8m over the quarter, from £926.1m to £932.9m. Global equities made modest returns whilst the fall in the Emerging Markets returns was somewhat offset by the increase in infrastructure and private credit.
- 2.3 Over the 3 months to 30 September 2021, total Fund assets returned 0.5% compared to the benchmark of 0.7%. This equates to an underperformance of 0.2%. Over the last 12 months, the Fund performance was 16.4%, and 3 year annualised performance was 9.9%. The annual Actuarial performance target is 4.8%.

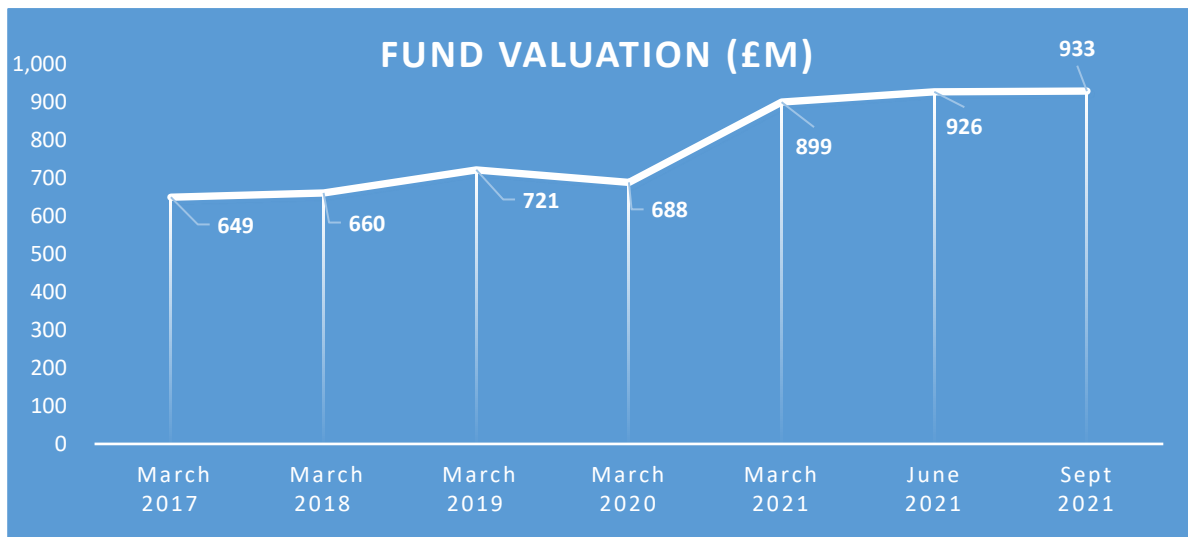
## PERFORMANCE SUMMARY

### 1 JULY 2021 TO 30 SEPTEMBER 2021

Mandate	Last 3 Months (%)			Last 12 Months (%)			Last 3 Years (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
UBS World Equity Tracker Fund	2.2	2.2	0.0	23.6	23.7	-0.1	-	-	-
UBS Alternative Beta	2.0	1.9	0.0	24.0	23.9	0.1	-	-	-
LCIV RBC Sustainable Equity Fund	2.6	2.5	0.2	25.3	23.5	1.4	16.0	11.9	3.6
LCIV Baillie Gifford Global Alpha Growth Fund	-0.6	1.5	-2.1	21.0	22.8	-1.5	17.4	12.0	4.9
BlackRock World Low Carbon Equity Tracker	3.9	2.5	1.4	24.6	23.9	0.6	-	-	-
<b>Global Equities</b>									
UBS GEM HALO	-6.9	-5.8	-1.1	9.6	13.3	-3.3	-	-	-
LCIV JP Morgan Emerging Market Equity Fund	-3.3	-5.8	2.7	16.8	13.3	3.0	-	-	-
<b>Emerging Market Equities</b>									
LCIV Ruffer Absolute Return Fund	0.6	0.8	-0.2	6.1	1.5	4.5	-	-	-
LCIV Baillie Gifford Diversified Growth Fund	1.1	0.9	0.2	11.7	3.6	7.8	4.9	4.0	0.9
<b>Diversified Growth</b>									
UBS Triton Property Fund	3.2	4.5	-1.2	12.7	13.2	-0.4	4.6	4.0	0.6
BlackRock UK Property Fund	3.7	4.5	-0.8	11.5	13.2	-1.5	3.5	4.0	-0.4
<b>Property</b>									
MIRA Infrastructure Global Solutions II L.P. Fund	N/A	1.8	-1.8	7.2	7.4	-0.2	-	-	-
Quinbrook Low Carbon Power LP Fund	0.1	1.8	-1.6	21.1	7.4	12.7	-	-	-
JP Morgan Infrastructure Fund	1.3	2.5	-1.2	6.0	10.4	-3.9	-	-	-
<b>Infrastructure</b>									
Pemira Credit Solutions IV Fund	1.7	1.7	0.0	7.7	7.0	0.6	-	-	-
Churchill Middle Market Senior Loan II Fund	N/A	1.7	-1.7	4.8	7.0	-2.0	-	-	-
<b>Private Credit</b>									
Wells Fargo RMF Fund	-2.6	-2.6	0.0	7.7	7.7	0.0	-	-	-
<b>Risk Management Framework</b>									
LCIV CQS MAC Fund	1.2	1.1	0.0	11.0	4.4	6.3	3.9	4.7	-0.7
<b>Multi Asset Credit</b>									
Cash	-	-	-	-	-	-	-	-	-
<b>Total Fund</b>	<b>0.5</b>	<b>0.7</b>	<b>-0.2</b>	<b>16.4</b>	<b>13.0</b>	<b>3.0</b>	<b>9.9</b>	<b>7.5</b>	<b>2.2</b>

*Note: 12-month performance for the LCIV Ruffer Absolute Return Fund is since inception on 13 January 2021. Furthermore, Q3 2021 performance figures for MIRA, Quinbrook, Pemira and Churchill have been assumed flat due to lack of manager information at the time of writing (see comment on left).*

- 2.4 The Fund is an open fund and long-term investment focused. The Fund will continue to work on this basis with the key focus to ESG and maintain a stable contribution rate.
- 2.5 The Strategic Asset Allocation (SAA) has been updated to reflect the recommendations of the 2020 Investment Strategy Review.
- 2.6 The Fund continues to remain underweight to Property, Private Credit, Infrastructure, and Multi Asset Credit and overweight to Global and Emerging Markets Equity, which will remain until the private markets portfolio is fully drawn down. The 5% allocation to Social Impact is yet to be implemented.
- 2.7 The following graph illustrates the Fund's market value trend over the past 5 ¾ years and as at 30 September 2021. It shows that in this period the Fund value has appreciated by £284m or 30%.



### 3.0 Market Background/Outlook

- 3.1 This quarters environment was characterised by an inflection point in global growth momentum, and persistent disruption to global trade and supply changes associated with rising COVID-19 Delta-variant caseloads, particularly in Asia.
- 3.2 Inflation volatility continued to cause concern, with many expecting central banks to raise interest rates multiple times over the next 12 months. Despite this, property markets continued to rebound as restrictions continued to ease.
- 3.3 More market update on individual asset classes is available on the quarterly performance report –Appendix 1

### 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 Hymans Robertson LLP – quarterly performance report.



# London Borough of Merton Pension Fund

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Q3 2021 Investment Monitoring Report

Nick Jellema – Senior Investment Consultant  
Kameel Kapitan – Investment Consultant  
Jamie McLaughlan – Investment Analyst

Executive Summary

The Fund's assets returned 0.5% during Q3 2021. To provide context, we have assessed total returns against a composite benchmark - a weighted average of the underlying manager benchmarks. Against the comparator, the Fund was marginally behind benchmark with relative returns of -0.2% (top left chart). We have also shown performance against the Fund's actuarial target (top right chart).

Overall, the fund grew marginally from £926.1m to £932.9m.

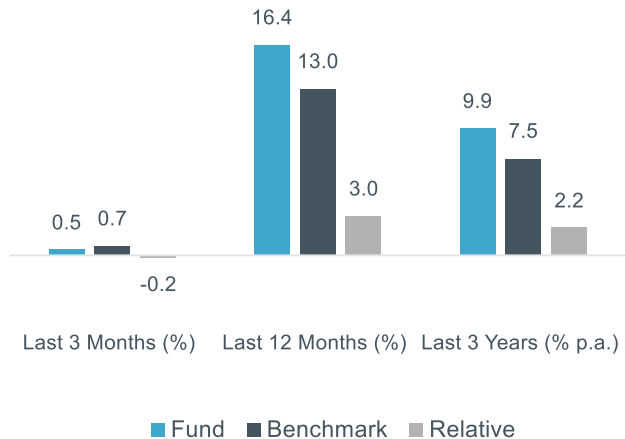
In markets, growth expectations were more muted than in previous quarters, and global equity markets returned 1.5% during the period. Inflation volatility continued to cause concern, with many expecting central banks to raise interest rates multiple times over the next 12 months. Despite this, property markets continued to rebound as restrictions continued to ease.

Across fixed income markets, gilt implied inflation pushed higher at shorter durations, reflecting the current supply demand imbalance and rising cost of goods.

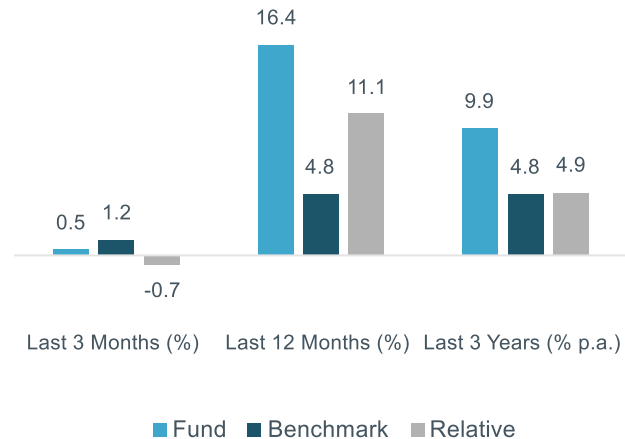
From a fund mandate perspective:

- The equity mandates delivered modest positive absolute returns.
- Both diversified growth funds retained a cautious stance.
- Property was the largest net contributor on a purely asset class basis.
- The Risk Management Framework detracted from performance as the pound depreciated despite rising inflation.

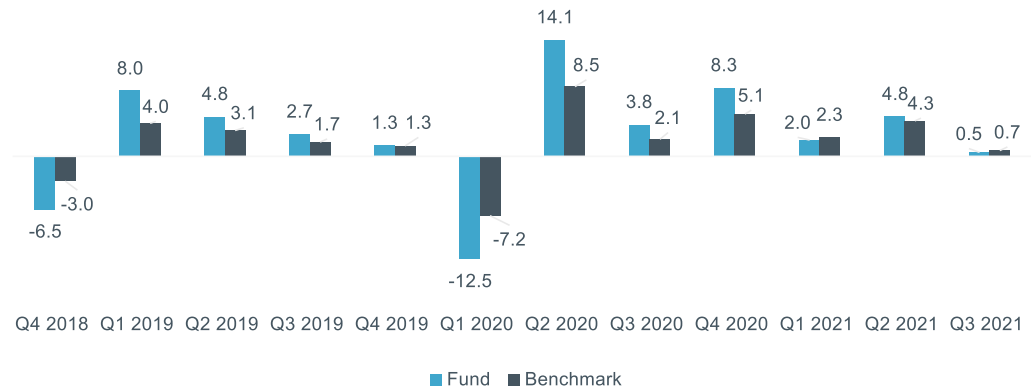
Fund performance vs benchmark/target



Fund performance vs actuarial target



Relative quarterly performance vs benchmark/target



## Asset Allocation

Following the 2019 strategy review the agreed long-term target allocation for the Fund is as follows:

- Global equities: 30.0%
- Emerging market equities: 10.0%
- Diversified growth fund: 8.0%
- Property: 5.0%
- Private credit: 6.5%
- Infrastructure: 11.5%
- Social Impact: 5.0%
- Multi-asset credit: 9.0%
- Risk management framework: 15.0%

In time the Fund will transition towards this target allocation. As it does, the benchmark (as agreed with Officers) shown in the table and used in the benchmark performance calculation on the next will be gradually updated to reflect progress to date.

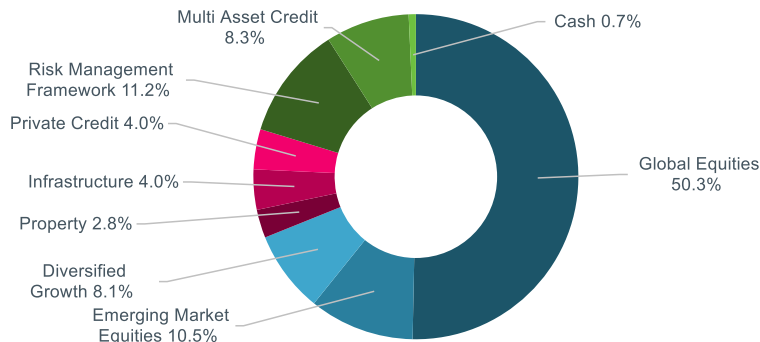
Commitments to infrastructure and private credit investments continued to be drawn down over time. A manager selection exercise for the Fund's allocation to social impact investment is currently under way.

In the meantime, to manage the level of risk within the Funds asset allocation, at the September Panel meeting members agreed to undertake a degree of rebalancing that would see the Fund's equity allocation reduced in favour of holding the monies assigned for private market deployment within the two diversified growth mandates. Fund Officers will be carrying out this agreed rebalancing over Q4 2021.

Mandate	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q2 21	Q3 21			
UBS World Equity Tracker Fund	36.5	32.3	3.5%	0.0%	3.5%
UBS Alternative Beta	95.2	96.1	10.3%	10.0%	0.3%
LCIV RBC Sustainable Equity Fund	113.7	116.7	12.5%	10.0%	2.5%
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BlackRock World Low Carbon Equity Tracker	101.1	105.0	11.3%	10.0%	1.3%
<b>Global Equities</b>	<b>463.8</b>	<b>466.9</b>	<b>50.0%</b>	<b>40.0%</b>	<b>10.0%</b>
UBS GEM HALO	61.8	57.6	6.2%	5.0%	1.2%
LCIV JP Morgan Emerging Market Equity Fund	40.8	39.5	4.2%	5.0%	-0.8%
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LCIV Ruffer Absolute Return Fund	37.6	37.9	4.1%	5.0%	-0.9%
LCIV Baillie Gifford Diversified Growth Fund	37.1	37.5	4.0%	5.0%	-1.0%
<b>Diversified Growth</b>	<b>74.8</b>	<b>75.4</b>	<b>8.1%</b>	<b>10.0%</b>	<b>-1.9%</b>
UBS Triton Property Fund	16.6	18.1	1.9%	2.5%	-0.6%
BlackRock UK Property Fund	7.8	8.0	0.9%	2.5%	-1.6%
<b>Property</b>	<b>24.3</b>	<b>26.1</b>	<b>2.8%</b>	<b>5.0%</b>	<b>-2.2%</b>
MIRA Infrastructure Global Solutions II L.P Fund	8.2	12.8	1.4%	3.0%	-1.6%
Quinbrook Low Carbon Power LP Fund	11.7	12.0	1.3%	1.5%	-0.2%
JP Morgan Infrastructure Fund	17.0	16.9	1.8%	3.0%	-1.2%
<b>Infrastructure</b>	<b>36.9</b>	<b>41.8</b>	<b>4.5%</b>	<b>7.5%</b>	<b>-3.0%</b>
Permira Credit Solutions IV Fund	14.8	20.4	2.2%	4.5%	-2.3%
Churchill Middle Market Senior Loan II Fund	16.7	17.1	1.8%	3.0%	-1.2%
<b>Private Credit</b>	<b>31.5</b>	<b>37.5</b>	<b>4.0%</b>	<b>7.5%</b>	<b>-3.5%</b>
Wells Fargo RMF Fund	108.2	104.3	11.2%	10.0%	1.2%
<b>Risk Management Framework</b>	<b>108.2</b>	<b>104.3</b>	<b>11.2%</b>	<b>10.0%</b>	<b>1.2%</b>
LCIV CQS MAC Fund	76.3	77.2	8.3%	10.0%	-1.7%
<b>Multi Asset Credit</b>	<b>76.3</b>	<b>77.2</b>	<b>8.3%</b>	<b>10.0%</b>	<b>-1.7%</b>
Cash	7.5	6.6	0.7%	0.0%	0.7%
<b>Total Fund</b>	<b>926.1</b>	<b>932.9</b>	<b>100.0%</b>	<b>100.0%</b>	

At the time of writing, latest quarterly information in respect of mandate held with MIRA is unavailable. Q3 2021 valuation is therefore based on Q2 2021 information and includes all known capital calls which occurred during Q3 2021.

## Asset class exposures



## Manager performance

Q3 2021 saw the Fund return 0.5% in absolute terms, underperforming its benchmark of 0.7% with relative returns of -0.2%. However, more importantly, over the longer time periods of 12 months and 3 years, the fund has outperformed benchmark with relative returns of 3.0% and 2.2% p.a. respectively.

Equities were the largest net contributor given the sizeable holding in this asset class. The BlackRock World Low Carbon Equity Tracker was the greatest contributor with absolute returns of 3.9%.

Emerging market equities struggled as increased regulator pressures in China weighed heavily on markets.

Both DGFs enjoyed positive absolute returns, however only the Baillie Gifford fund managed to outperform relative to benchmark.

The property mandates performed strongly over the period in absolute performance terms. As lockdown restrictions continued to ease, the pace of activity in this asset class continued to improve.

At time of writing, MIRA and Churchill reporting information was unavailable. For performance reporting purposes we have therefore assumed nil returns over Q3 2021. Once details are received, performance figures will be updated such that future reports reflect actual Q3 2021 movements for each.

Mandate	Last 3 Months (%)			Last 12 Months (%)			Last 3 Years (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
UBS World Equity Tracker Fund	2.2	2.2	0.0	23.6	23.7	-0.1	-	-	-
UBS Alternative Beta	2.0	1.9	0.0	24.0	23.9	0.1	-	-	-
LCIV RBC Sustainable Equity Fund	2.6	2.5	0.2	25.3	23.5	1.4	16.0	11.9	3.6
LCIV Baillie Gifford Global Alpha Growth Fund	-0.6	1.5	-2.1	21.0	22.8	-1.5	17.4	12.0	4.9
BlackRock World Low Carbon Equity Tracker	3.9	2.5	1.4	24.6	23.9	0.6	-	-	-
<b>Global Equities</b>									
UBS GEM HALO	-6.9	-5.8	-1.1	9.6	13.3	-3.3	-	-	-
LCIV JP Morgan Emerging Market Equity Fund	-3.3	-5.8	2.7	16.8	13.3	3.0	-	-	-
<b>Emerging Market Equities</b>									
LCIV Ruffer Absolute Return Fund	0.6	0.8	-0.2	6.1	1.5	4.5	-	-	-
LCIV Baillie Gifford Diversified Growth Fund	1.1	0.9	0.2	11.7	3.6	7.8	4.9	4.0	0.9
<b>Diversified Growth</b>									
UBS Triton Property Fund	3.2	4.5	-1.2	12.7	13.2	-0.4	4.6	4.0	0.6
BlackRock UK Property Fund	3.7	4.5	-0.8	11.5	13.2	-1.5	3.5	4.0	-0.4
<b>Property</b>									
MIRA Infrastructure Global Solutions II L.P Fund	N/A	1.8	-	7.2	7.4	-0.2	-	-	-
Quinbrook Low Carbon Power LP Fund	0.1	1.8	-1.6	21.1	7.4	12.7	-	-	-
JP Morgan Infrastructure Fund	1.3	2.5	-1.2	6.0	10.4	-3.9	-	-	-
<b>Infrastructure</b>									
Permira Credit Solutions IV Fund	1.7	1.7	0.0	7.7	7.0	0.6	-	-	-
Churchill Middle Market Senior Loan II Fund	1.2	1.7	-0.5	6.1	7.0	-0.8	-	-	-
<b>Private Credit</b>									
Wells Fargo RMF Fund	-2.6	-2.6	0.0	7.7	7.7	0.0	-	-	-
<b>Risk Management Framework</b>									
LCIV CQS MAC Fund	1.2	1.1	0.0	11.0	4.4	6.3	3.9	4.7	-0.7
<b>Multi Asset Credit</b>									
Cash	-	-	-	-	-	-	-	-	-
<b>Total Fund</b>	0.5	0.7	-0.2	16.4	13.0	3.1	9.9	7.5	2.2

Note: 12-month performance for the LCIV Ruffer Absolute Return Fund is since inception on 13 January 2021. Furthermore, Q3 2021 performance figures for MIRA, Quinbrook, Permira and Churchill have been assumed flat due to lack of manager information at the time of writing (see comment on left).

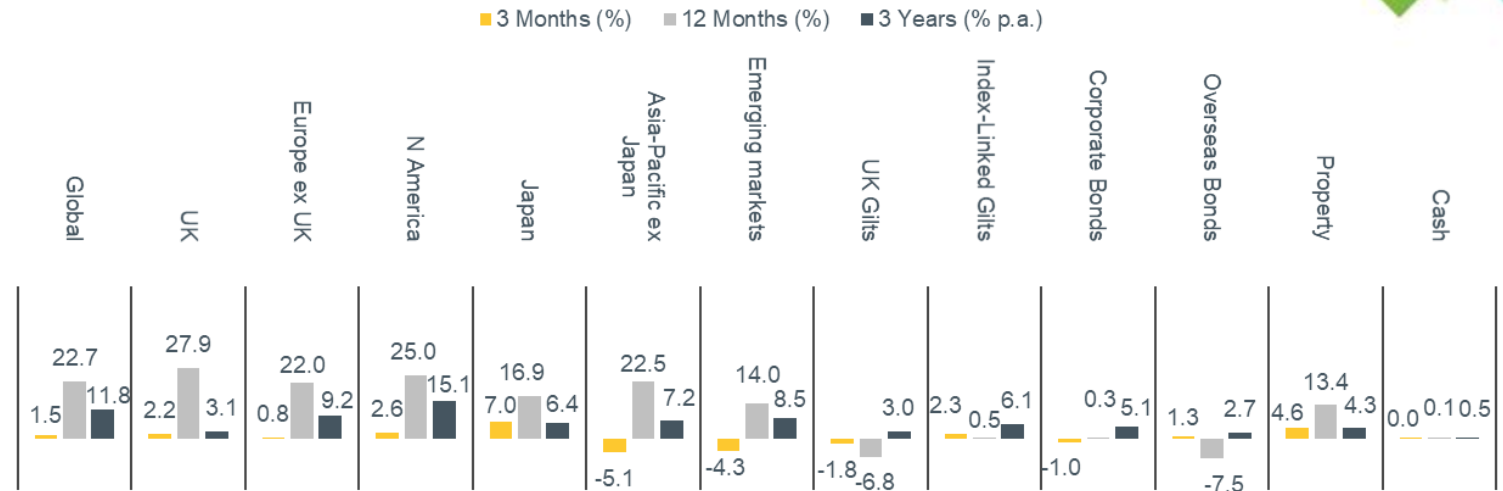
Growth momentum continued to ease as the initial impact of re-opening late last year fades. However, the pace of growth in the major advanced economies is forecast to remain strong over the next couple of years, with consensus forecasts global growth of 5.7% in 2021 and 4.4% in 2022.

Global equities gave up earlier gains as strong earnings growth was offset by easing economic momentum and the prospect of fading monetary support. Strong rises in energy prices lifted the energy sector, while the prospect of higher interest rates buoyed the financial sector. The defensive growth characteristics of the technology and healthcare sectors saw them outperform, while consumer discretionary, basic materials and industrials all underperformed in Q3.

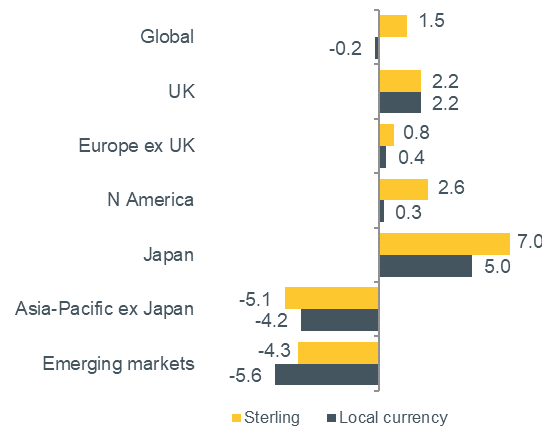
Japanese markets materially outperformed, rallying on expectations of further stimulus and economic reopening as COVID cases declined. UK markets also outperformed, driven primarily by their above average exposure to the energy sector, while emerging markets were pulled lower by weak performance from China, where announcements of tighter regulation have been compounded by a slowdown in the Chinese property and manufacturing sectors, and high energy prices

The total return on the MSCI Monthly Property index was 13.4% in the year to September, which includes a 5.5% income return. A 7.5% rise in capital values over the 12 months to end of September is attributable to buoyant industrial sector where capital values have risen 24%.

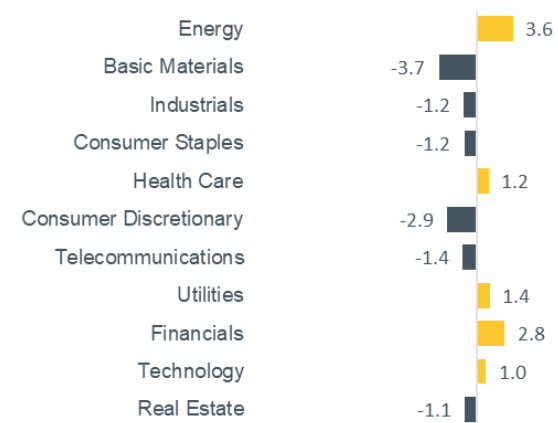
## Historic returns for world markets <sup>[1]</sup>



## Regional equity returns <sup>[2]</sup>



## Global equity sector returns (%) <sup>[3]</sup>



Source: DataStream. <sup>[1]</sup>Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property; UK Interbank 7 Day. <sup>[2]</sup>FTSE All World Indices. Commentary compares regional equity returns in local currency. <sup>[3]</sup>Returns shown in Sterling terms and relative to FTSE All World. FTSE indices migrated to a new ICB structure in Q1 2021.

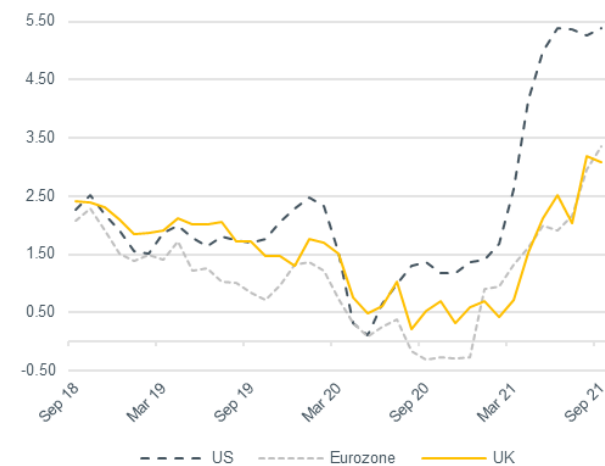
Global investment-grade spreads were little changed in Q3 and global developed market speculative-grade spreads rose 0.3% p.a. Defaults and leverage levels continue to fall, interest coverage is rising, and liquidity remains plentiful. Fears surrounding the potential default of Evergrande, a heavily indebted Chinese property developer, seem to have been contained within Chinese and Asian credit markets for now.

UK 10-year gilt yields rose 0.3% p.a., with steep rises coming in the wake of the Bank of England's September meeting. Having fallen earlier in the quarter, on the back of easing economic momentum, equivalent US and German yields rose back to end-June levels in September.

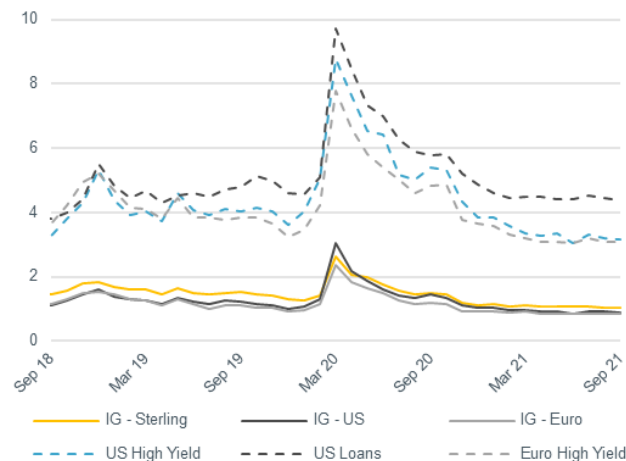
UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, rose from 3.5% p.a. to 3.9% p.a. as real yields fell and nominal yields rose. 10-year US implied inflation was little changed over Q3.

The trade-weighted dollar has risen around 1.5% while equivalent measures for the sterling and euro eased 0.9% and 0.4% respectively.

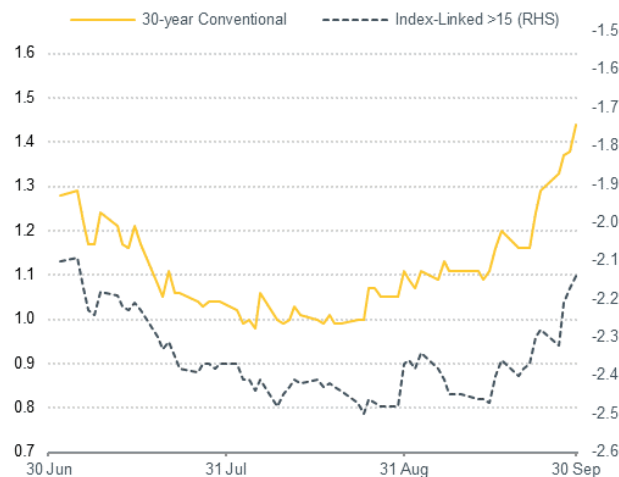
Annual CPI Inflation (% p.a.)



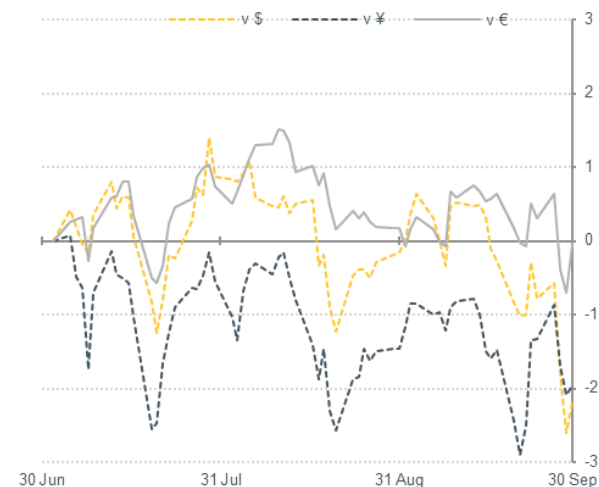
Investment and speculative grade credit spreads (% p.a.)



Gilt yields chart (% p.a.)



Sterling trend chart (% change)



Source: DataStream, Barings and ICE

## Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

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## Geometric v Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + \text{Fund Performance})}{(1 + \text{Benchmark Performance})} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.

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# London Borough of Merton Pension Fund

Page 15

Advisory Panel Training 24 November 2021  
2022 Actuarial Valuation

Barry McKay, Fund Actuary



Agenda Item 5



Page 16



What is a valuation?



How do we value liabilities?



How do we value assets?



How do we set contribution rates for employers?



Looking ahead...

# What is a valuation?



# Looking back to your last funding valuation

## Funding position

- Liabilities of £698m
- Market value of assets £718m
- Funding level of 103%

## Employer contributions

- Primary rate of 19%
- Total equivalent contribution rate 17.5%

## Section 13

- SAB funding level 110%
- Green flags

Page 18

# What is a funding valuation?



Page 19

## Liabilities

- Financial value of a promise
- Member entitlements
- Funded scheme



## Assets

- Long-term investments
- Suitable risk
- Investment return on assets



## Contributions

- Employee & employer
- Stability
- Cost efficiency

# Setting the contribution rates

Page 20



## Funding strategy

- Employer covenant
- Employer circumstances
- Funding strategy statement

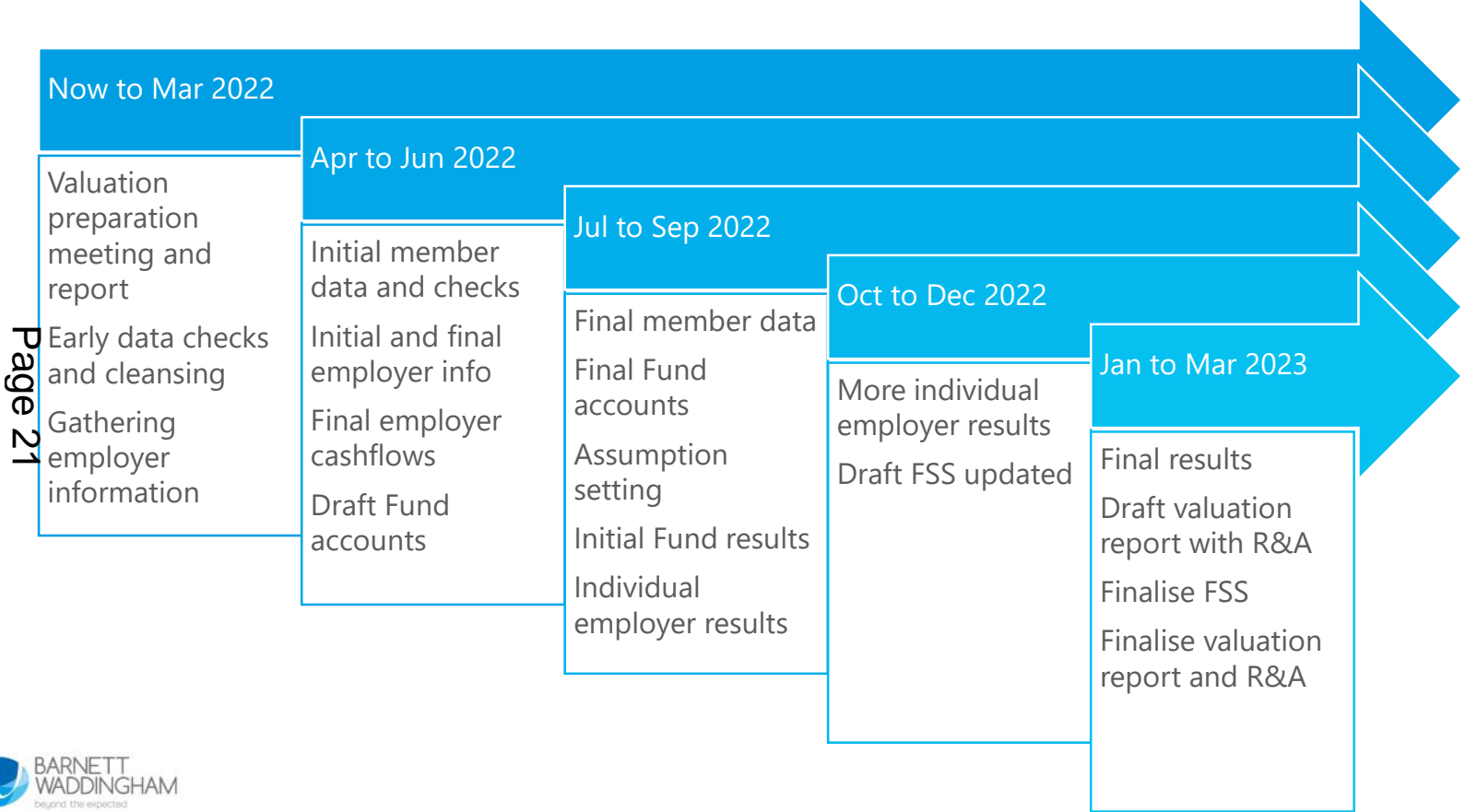
## Primary rate

- Employer's share of cost of new benefits
- Over a period of time
- Current employees only

## Secondary "rate"

- Adjustment to remove a deficit or surplus
- Over a period of time

# Valuation project timescales



# How to value liabilities





# Valuing liabilities for each employer

Member data

Assumptions

Model

Results

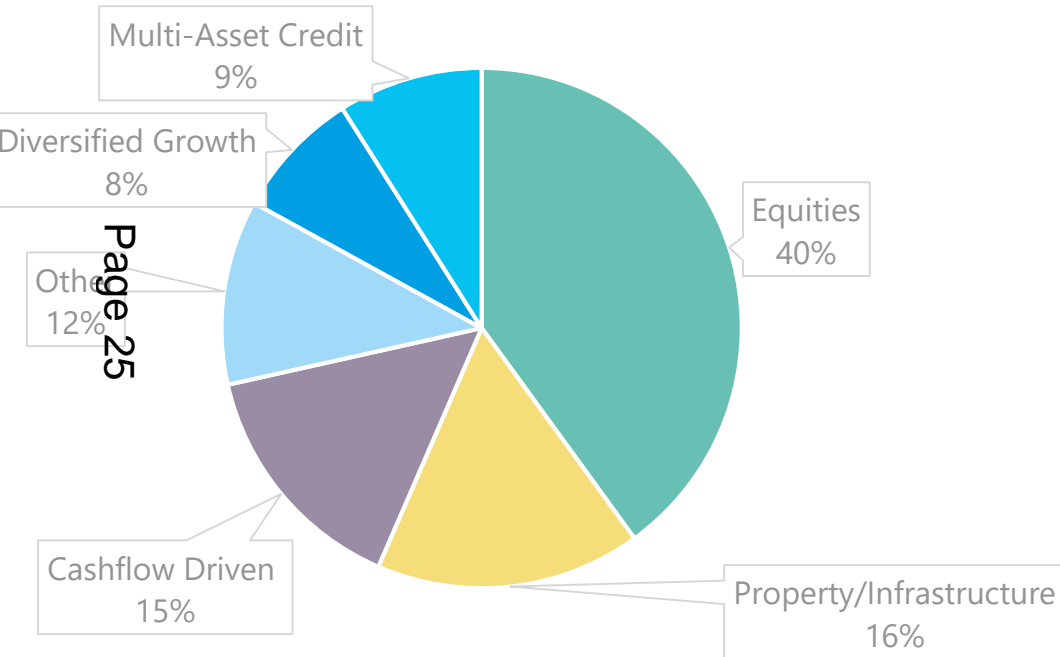
# Key actuarial assumptions - financial

Page 24



# Key assumption - discount rate

## Fund's long-term investment strategy



### Equities

- Dividend & capital growth

### Property & Infrastructure

- Inflation plus a margin

### Diversified growth

- Inflation plus a margin

### Cashflow driven investment

- Fund benchmark

### Multi-asset credit

- Fund benchmark

# Impact of increase in each assumption



Pension  
increases (CPI)

- Increases liability for **all members**
- All benefit payments are higher

Salary  
increases

- Increases liability for **active members**
- Final salary benefit payments higher

Discount rate

- Reduces liability for **all members**
- Investment return does more work

# Key demographic assumption - mortality

Page 27

## Base mortality assumption

Specific to the Fund  
Best estimate of today's mortality

## Longevity analysis

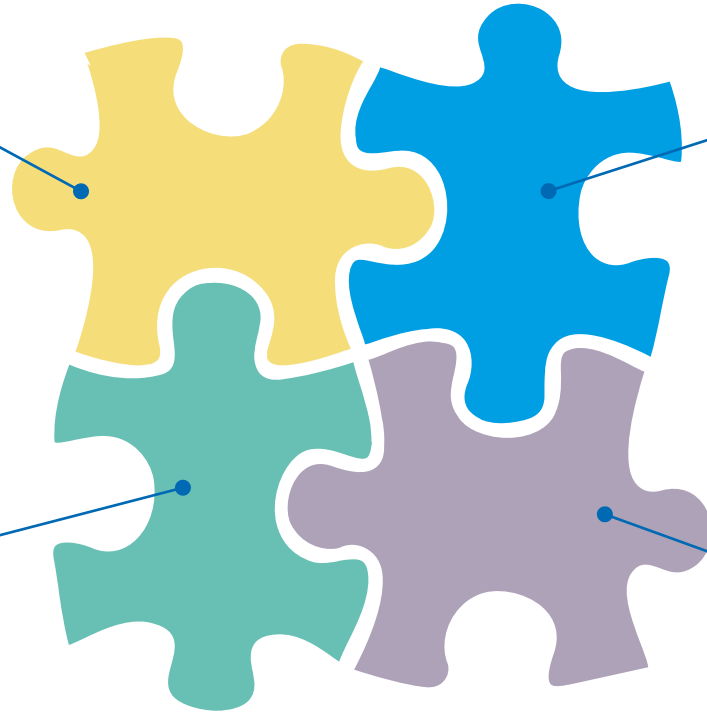
Bespoke socio-economic analysis  
Fund's own recent experience

## Future changes in mortality

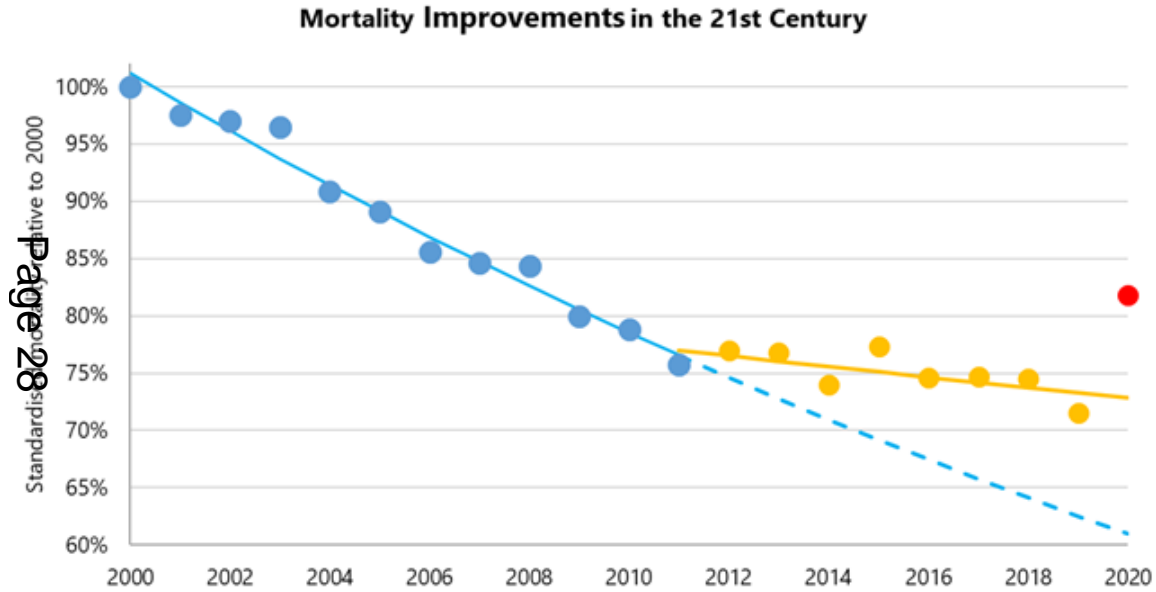
Called "improvements"...  
but not always true

## Uncertainty

Covid mortality  
Covid morbidity  
What's next?



# How is mortality changing?



Source: Barnett Waddingham calculations based on Office for National Statistics data for England and Wales and Continuous Mortality Investigation Ltd (CMI) methodology

First recorded UK Covid death 30 January 2020

100,000 UK Covid deaths by 22 January 2021

124,000 deaths above 5 year average E&W (to November 2021)

# First project cashflows....

## Step 1

- Project all possible benefit payments for every member

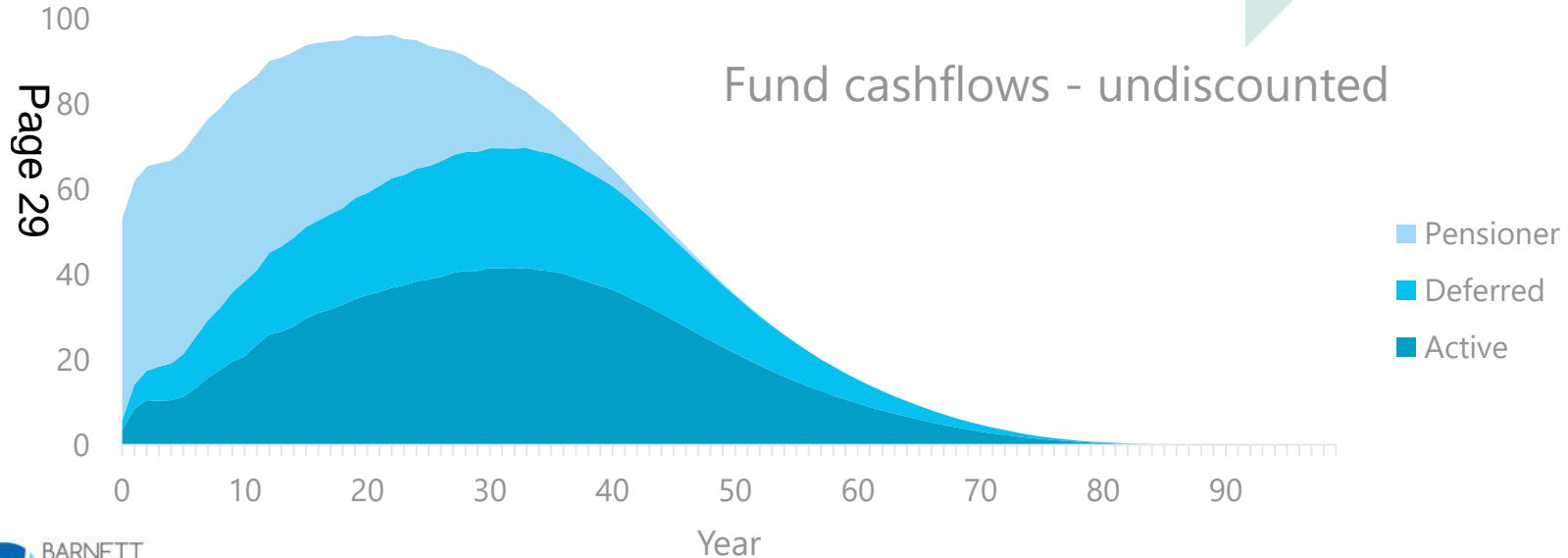
## Step 2

- Attach probabilities to each possible payment to get "expected" payments

## Step 3

- then...

Fund cashflows - undiscounted



# ...then "discount" for today's values

## Step 1

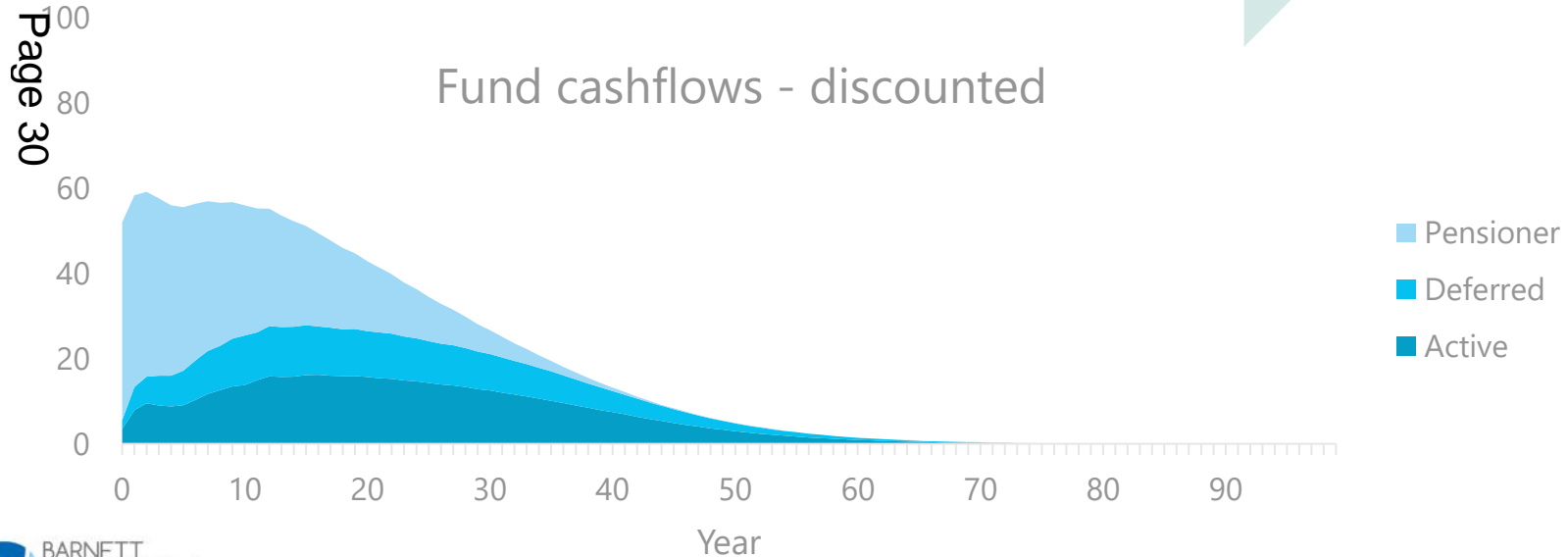
- Project all possible benefit payments for every member

## Step 2

- Attach probabilities to each possible payment to get "expected" payments

## Step 3

- Then discount payments to today's "present value"





# How do liabilities change over time?

## Underlying liabilities

Increase with

New benefits

Transfers in

Benefit increases

Interest

Decrease with

Death benefits

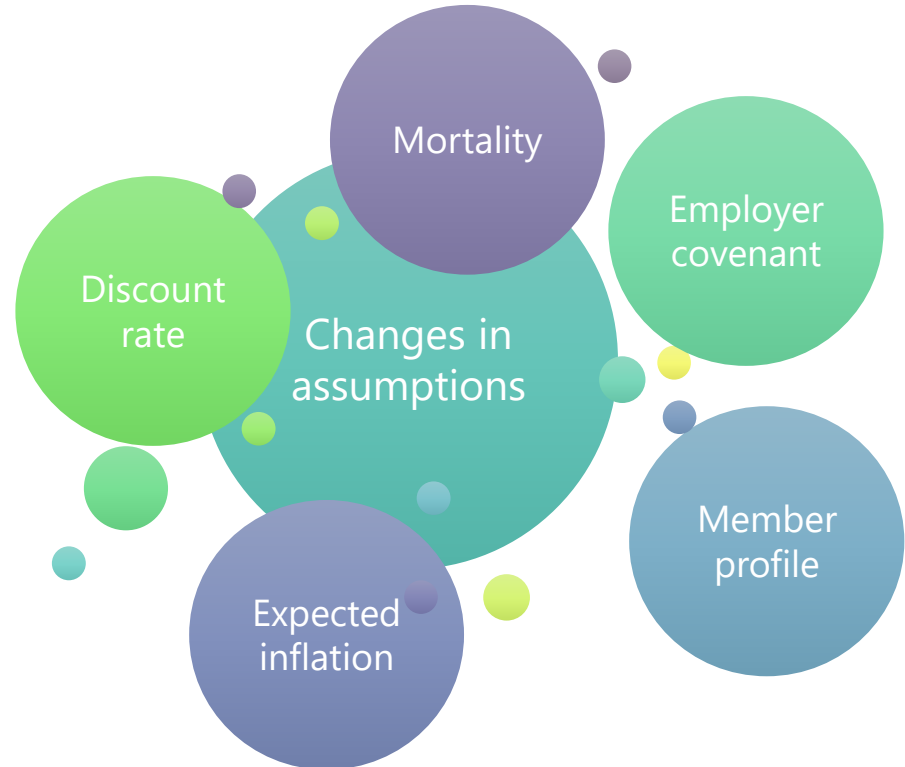
Pensions paid out

Lump sums

Transfers out

Page 31

## Actuarial value of liabilities



# Valuing assets for each employer



Assets at the **start** of the period

Plus **contributions** paid in

Minus **benefits** paid out

**Investment** return – gain or loss

Assets at the **end** of the period

# Employer contributions

# 3

# Contribution rates for each employer



Page 34

**Primary rate** or future service rate

Funding position for **deficit or surplus**

Appropriate deficit **recovery period**

**Secondary rate** or "deficit" contribution

Total contributions for each employer in  
**Rates and Adjustments** certificate

# What affects employer contribution rate?

## Primary rate

- Employer share only
- Membership profile



## Secondary rate

- Deficit recovery period
- Regular lump sums, % of payroll, something else?



## Funding risks

- Employer covenant
- Risk-sharing or guarantees



## Funding strategy statement

- Stability
- Solvency & long-term cost efficiency



# Looking ahead to key issues

# 4

# Wider key issues

## Covid

- Short and long term impact
- Mortality and morbidity
- Demographic changes

## Climate emergency

- Working with investment advisers
- Scenario analysis

## Future inflation

- Long term inflation
- Employee participation

# THANK YOU



## **Committee: Merton Pension Committee**

**Date: 24 November 2021**

Wards: All

### **Subject: Governance Arrangement**

Lead officer: Caroline Holland- Director Corporate Resources

Lead member: Cllr Tobin Byers- Corporate Resources

Contact officer: Roger Kershaw- Assistant Director- Corporate Resources

---

#### **Recommendations:**

- A. To update members on the new Governance arrangements for the Pensions Committee and to note the importance of good governance arrangements for the Pension Fund.
  - B. To note the Pension Fund advisory panel is now formally a Pension Committee under the constitution of the Council (approved by full council on the 07 July 2021) and is now a full decision making committee
- 

## **1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1. Good governance is the bedrock of a well-run pension scheme. There is a clear link between good governance and good fund performance so it is an essential part of effective scheme management. Without good governance, you are unlikely to achieve good outcomes for members.
- 1.2. Good governance is about having a motivated, knowledgeable and skilled Committee in place. It's also about having the right structures and processes to enable effective, timely decisions and risk management, and to provide clear scheme objectives. It helps you to effectively oversee:
  - administration and record-keeping
  - funding (where the scheme has defined benefits) and investment
  - communications with members

## **2 DETAILS**

- 2.1. Good governance calls for a clear identification and separation of the operational and oversight responsibilities of a pension fund. To the extent that a pension entity is established that owns the pension fund on behalf of fund members and beneficiaries.
- 2.2. Pension matters are delegated to the Pensions Committee of the London Borough of Merton (as administrating authority for the Local Government Pension Scheme of the Merton Pension Fund).
- 2.3. The Pensions Committee decides the overall policy objectives, strategy and operation of the Fund in accordance with relevant legislation and in the best interests of its members and employers.

- 2.4. It also decides the strategy for the investment of pension fund money and monitors and reviews investment arrangements. Its purpose and structure is set out in the Committee's terms of reference.
- 2.5. Please see Appendix 1 for the updated Pension Committee terms and Reference.
- 2.6. Good Governance requires the Pension Funds to have a Pension Board as well (set out in the Public Service Pensions Act 2013).
- 2.7. The Board's role is to oversee the Fund's operation and ensure that it's meeting its legal and administrative requirements. The Board operates in accordance with its terms condition approved by the full council.
- 2.8. The Pension board is made up of four members, two employer representatives and two member representatives. The Board meets four times a year to review the administration of the pension fund and process followed by the pension committee in making the decisions.
- 2.9. The Appendix 2 – detailed the terms and condition of the Merton Pension Board

### **3 ALTERNATIVE OPTIONS**

- 3.1. Not Applicable

### **4 CONSULTATION UNDERTAKEN OR PROPOSED**

- 4.1. Discussion with the internal Legal team –South London Legal Partnership

### **5 TIMETABLE**

- 5.1. Not Applicate

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

- 6.1. Not Applicate

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

- 7.1. None

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

- 8.1. None

### **9 CRIME AND DISORDER IMPLICATIONS**

- 9.1. None

### **10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS**

- 10.1. None

### **11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT**

- Appdx 1 Merton Pension Fund- Terms and Reference
- Appdx 2 Merton Pension Board Terms and Reference

### **12 BACKGROUND PAPERS**

- 12.1. Local government pension Act and the pension Regulator requirements

## **Merton Pension Committee - Terms of Reference**

### **(a) Membership**

Membership: 3 Councillors who shall be voting members plus two non-voting members comprising one staff representative and one pensioner representative to be appointed at the discretion of the Council

In addition, the Investment Consultant would normally attend meetings along with relevant officers in an advisory, non-voting capacity.

### **(b) Terms of Reference**

1. To review and approve all aspects of investment policy relating to the Pensions Fund, including agreeing the strategic asset and review the Investment Strategy Statement and amend it when necessary.
  2. To agree benchmarks and performance targets for the investment of the Fund's assets and review periodically.
  3. To agree to transfer funds into mandates managed by the London Collective Investment Vehicle (CIV) as soon as appropriate opportunities become available.
  4. To receive regular reports from the London CIV and to agree and resultant actions from a review of the investments held with the London CIV.
  5. To keep the performance of the investment managers under regular review and extend or terminate their contracts as required. To appoint new managers when necessary.
  6. To agree policy guidelines for the exercise of voting rights attached to the Fund's shares.
  7. To review the appointment of specialist advisors and service providers and make new appointments as necessary.
  8. To consider the overall implications of the Council's policies for employment and benefits issues and their impact on the Pension Fund and agree any strategic changes.
  9. Agree on the Pension fund's sustainable investment policy and consider the impact of the ESG on each investment decisions
- (c) The Director of Corporate Services be authorised to take urgent decisions in relation to the pensions fund and investment strategy on behalf of the

Committee, reporting back to the Pensions Committee any exercise of these powers for ratification

**(d) Knowledge and understanding (including Training)**

The committee members shall attend and participate in training arranged in order to meet and maintain the requirements set out in the Board's knowledge and understanding of Merton pension and the LGPS.

**(e) Non-Voting Members**

- i. The non-voting members of the Committee shall be appointed until the date of the next all council elections.
- ii. Non-voting members shall not be entitled to send substitutes in their absence
- iii. If a non-voting member does not attend for 2 consecutive meetings then unless that nonattendance is for a reason approved in advance by the Committee, their membership of the Committee shall automatically cease and the Director of Corporate Resources shall be entitled to appoint replacement members.
- iv. If a non-voting member resigns or is otherwise unable to continue as a member, the Director of Corporate Resources shall be entitled to appoint a replacement member

**LONDON BOROUGH OF MERTON  
PENSIONS BOARD  
TERMS OF REFERENCE**

The Local Pension Board (hereafter referred to as 'the Board') is established in accordance with Section 5 of the Public Service Pensions Act 2013 and under regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended). The Board is not a committee constituted under Section 101 of the Local Government Act 1972.

**Membership**

The Board shall consist of 4 voting members made of:

- 2 Member Representatives,
- 2 Employer Representatives; and
- 1 Further representative without voting rights to be appointed at the discretion of the Council

A chair to be appointed by the employer and member representatives of the Board on a rotating basis with the term of office shared between an employer and a member representative on an equal basis. In the event of a tied vote, the Chair will have the casting vote.

The Director of Corporate Services will determine an appropriate selection and appointment process for Board Members

**Functions of the Local Pension Board**

The purpose of the Board is to assist the Council in its role as a scheme manager of the Scheme. Such assistance is to:

1. (a) To secure compliance with:
  - Regulations made under the Public Service Pensions Act 2013 that
  - apply to the matters referred to in sections 5 and 6 of that Act.
  - Any other legislation relating to the governance and administration
  - of the Scheme and any connected scheme
  - Any requirements imposed by the Pensions Regulator in relation to
  - the Scheme. These areas include but are not restricted to:
2. Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations.
3. Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code

4. Assist with the development of and continually review such documentation as is required by the Regulations including Governance Compliance Statement, Funding Strategy Investment strategy statement.
5. Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation.
6. Review the implementation of revised policies and procedures following changes to the Scheme.
  - Review the compliance of particular cases, projects or process on request of the Committee.
  - Any other area within the statement of purpose (i.e. assisting the Administering Authority) the Board deems appropriate.
  - To ensure the effective and efficient and effective governance and administration of the Scheme. Including but not restricted to:
    - Assist with the development of improved customer services.
    - Assist with the development of improved management, administration and governance structures and policies.
    - Assist in the development and monitoring of process improvements on request of Committee.
    - Assist in the development of asset voting and engagement processes and compliance with the UK Stewardship Code.
    - Any other area within the statement of purpose (i.e. ensuring effective and efficient governance of the scheme) the Board deems appropriate.

### **Termination of Membership**

Non-attendance at 2 consecutive meetings would result in a replacement representative being sought. The ability of members to seek re-appointment for further term will be considered to ensure continuity.

### **Conflicts of interest**

The Administering Authority must be satisfied that any person appointed to the Board and from time to time that any member of the Board does not have a conflict of interest, as defined under Section 5(5) of the Public Service Pensions Act 2013. All members of the Board must declare to the Administering Authority on appointment and at any such time as their circumstances change, any potential Conflict of interest arising as a result of their position on the Board.

### **Knowledge and understanding (including Training)**

Board members shall attend and participate in training arranged in order to meet and maintain the requirements set out in the Board's knowledge and understanding of Merton pension and the LGPS.

### **Meetings**

The Board shall meet four times a year (at a minimum meet twice each year) and will be set in conjunction with Democratic Services.  
Substitutes will not be allowed where members are unable to attend meetings.

### **Attendance requirements**

Non-attendance at 2 consecutive meetings would result in a replacement representative being sought

### **Quorum**

The quorum for any meeting shall be 2 members comprising at least one employer and one-member representative. A meeting that becomes inquorate may continue but any decisions will be non-binding.

### **Reporting**

1. The Board in the first instance report its requests, recommendations or concerns to Pension Committee .
2. On receipt of a report Pension Committee should, within a reasonable period, consider and respond to the Board.
3. The appropriate internal route for escalation is to the Section 151 Officer.
4. The Board may report concerns to the LGPS Scheme Advisory Board for
5. Consideration subsequent to, but not instead of, using the appropriate internal route for escalation.
6. Board members are also subject to the requirements to report breaches of law under the Act and the Code [and the whistleblowing provisions set out in the Council's whistle blowing policy].
7. The Board will produce an annual report of its work, findings and recommendations.

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## Merton Pension Fund Training Plan

Topic	Date
<ol style="list-style-type: none"> <li>1. 2022 Triennial valuation process and the role of the committee – by Barnett Waddingham</li> <li>2. Triennial valuation basis- online training Academy</li> <li>3. Introduction to LGPS - online training Academy</li> <li>4.</li> </ol>	Sept –December 2021
<ol style="list-style-type: none"> <li>1. Investment Strategy Review - online training Academy</li> <li>2. Pension administration- by Pension shared services</li> </ol>	Jan to March 2022
<ol style="list-style-type: none"> <li>1. Asset Classes – Property</li> <li>2. Pension Fund accounting and Annual report- online training Academy</li> </ol>	April to June 2022
LGPS Good Governance- Online training	July to Sept - 2022

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