

London Borough of Merton Pension Fund Advisory Committee

Date: 18th July 2018

Wards: All

Subject: Performance of the Pension Fund for the ending Quarter March 2018

Lead officer: Caroline Holland Director of Corporate Services

Lead member: Councillor Owen Pritchard

Contact officer: Roger Kershaw

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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 31 March 2018, 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 31 March 2018.
- 1.2 The report gives the Committee a consistent basis on which to review the performance of the Fund as at 31 March 2018 and provide information to support future actions including periodic rebalancing and review of investment strategy and investment management arrangement.

2.0 PERFORMANCE REPORT

- 2.1 The attached Fund Analysis & Performance Report (**Appendix 1**) produced by State Street GS Performance Services provides useful analysis and insights of the Pension Fund activity and results for the quarter to 31 March 2018.
- 2.2 The report highlights the performance of the total Fund by asset class compared to the customised benchmark. It also includes comprehensive analysis of the performance of each manager against their specific benchmark and a comparison of performance over longer periods.
- 2.3 At 31 March 2018 the total Fund was valued at £660.3m, down by £28.8m (or 4.2%) since 31 December 2017.

3.0 Market Background/Outlook

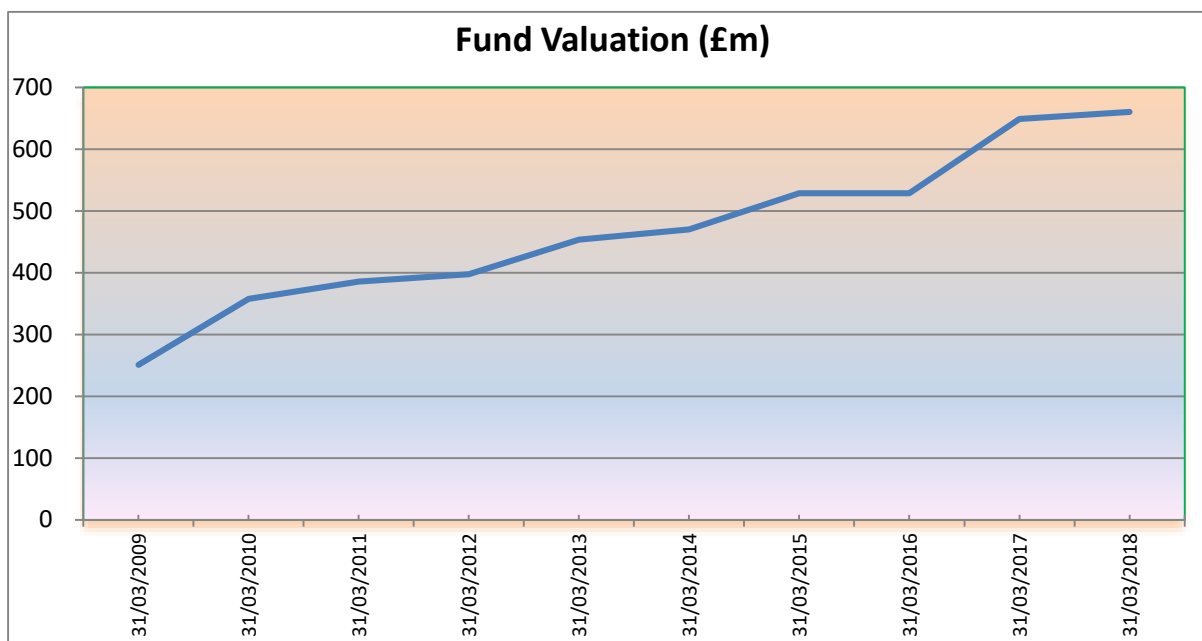
- 3.1 Investment markets and investor sentiment changed direction sharply in the first quarter of 2018, following a largely tranquil 2017. Fears around the direction of the US administration's economic policy, particularly in relation to trade, rose as the quarter progressed. This was despite economic data remaining broadly positive globally, although there may be signs that the rate of acceleration is beginning to moderate.
- 3.2 Global equity markets fell over the first three months of 2018. This was the first notable quarterly fall for stocks worldwide in two years. Emerging market equities advanced, while some of the major developed markets saw the biggest falls. Returns to bond markets were also generally negative.

4.0 PERFORMANCE OF THE FUND

- 4.1 The table below shows the Fund's strategic asset allocation as at 31 March 2018 against the asset allocation of the benchmark. The Fund was overweight in Equities and underweight in Bonds and Property compared to the benchmark.

At 31/03/2018	Total Equity %	Total Bonds %	Cash/Alts %	Property %	Total Fund %
Fund Asset Allocation	73.0	23.1	0.4	3.5	100
Fund Benchmark	68.7	25.9	N/A	5.3	100
Difference overweight / (underweight)	4.3	(2.8)	N/A	(1.8)	-

- 4.2 The Fund under performed the benchmark by 0.2% for the quarter ending 31 March 2018. It lost (4.2%) compared to the benchmark return of (4.0%) for the period.
- 4.3 The 0.2% under performance was due to asset allocation of (0.3) and stock selection 0.1. The manager's results are discussed in more detail below in section 5.
- 4.4 The following graph illustrates the Fund's market value trend between 31 March 2009 and 31 March 2018. It shows that the market value of the Fund has appreciated by £409m or 163% over the 9 yr. period.



4.5 The table below shows the market value of each Portfolio at the start and end of the period. The change in value over the period is a combination of the net money flows into or out of each Portfolio and any gain or loss on the capital value of investments.

<i>Fund</i>	Market Value 30/12/17 £000	Market Value 31/03/18 £000	% of Total Fund
UBS Passive Equity	310,771	292,788	44
Aberdeen Fixed Income	153,159	152,461	23
Aberdeen Active Equity	131,102	124,814	19
UBS Active Equity	70,446	66,322	10
UBS Property	16,125	16,327	2
BlackRock Property	7,448	7,561	1
Total External Fund	689,050	660,272	100
London CIV Subscription	150	150	-
Total	689,200	660,422	100

4.6 The following table provides detailed analysis of the return on the Fund's investment for the period relative to the benchmark.

Sector	Market Value Dec17 £000	Market Value Mar 18 £000	Fund Return Mar 18 %	Benchmark Return Mar 18 %
UK Equities	302,864	282,578	(6.8)	(6.9)
UK Bonds	38,508	38,407	0.4	0.6
Overseas Bonds	37,388	37,363	(2.5)	(2.2)
UK Index-Linked	77,129	76,545	0.2	0.2
Cash Alternatives	2,125	2,762	0.1	-
Property	22,773	23,057	2.0	1.9
Total	689,050	660,272	(4.2)	(4.0)

4.7 The Fund's assets are invested in various sectors and markets globally. During the quarter to 31 March 2018, only UK Bonds, UK Index Linked and Property yielded positive returns.

5.0 FUND MANAGER PERFORMANCE

UBS

5.1 UBS manages three portfolios for LB Merton Pension Fund.

UBS Active Global (Equity)

5.2 The market value of the active equity portfolio managed by UBS was £66.3m (£70.4m in December 2017). During the quarter the manager's performance of (6.3)% underperformed the benchmark of (6.2)%.

The table below shows the movement during the period within the portfolio.

UBS Active Equity	30/012/2017		Purchases	Sales	Gain/Loss	Income	31/03/2018	
	£000	%					£000	£000
Total Equities	69,943	99	7,960	7,220	(4,721)	368	65,961	99
Cash & Cash Alternatives	503	1	7,817	7,960	-	-	360	1
Total	70,446	100	15,776	15,179	(4,721)	297	66,322	100

The manager's mandate is summarised in the following:

- For the portion of the Active Portfolio invested in UK Equities, the manager shall seek to outperform the benchmark by 1% p.a.
- For the portion of the Active Portfolio invested in Emerging Markets, the manager shall seek to outperform the benchmark by 2.0% p.a.

Performance of the UBS Active Equity over various time periods

<i>Period</i>	Manager %	Benchmark %	Variance %	Comment
Last 3 months	(6.3)	(6.2)	(0.1)	underperformed
Last 12 months	1.5	2.3	(0.8)	underperformed
Last 3 years	6.0	6.5	(0.5)	underperformed
Last 5 years	6.0	6.7	(0.7)	underperformed

(1) UBS Global Equity (Passive)

- 5.3 The passive equity portfolio was valued at £292.8m (£310.8m in December 2017). During the quarter the manager's performance of (5.8)% was in-line with the benchmark.

The table below shows the movement of assets during the quarter.

UBS Passive	30/12/2017		Purchases	Sales	Gain/ Loss	Income	31/03/2018	
	£000	%	£000	£000	£000	£000	£000	%
UK Equities	172,064	55	3,548	2,136	(12,639)	813	160,837	55
North America	64,561	21	-	-	(2,929)	-	61,632	21
Continental Europe	36,768	12	-	-	(1,686)	-	35,082	12
Japan	18,715	6	-	250	(492)	-	17,973	6
Total Pacific (ex Japan)	18,924	6	-	-	(1,159)	-	17,765	6
Cash & Alternatives	(262)	0	3,308	3,548	-	1	(502)	0
Total	310,771	100	6,856	5,933	(18,905)	777	292,788	100

The manager is to track the Benchmark index over rolling three year periods.

This table shows the performance of the portfolio.

Period	Manager %	Benchmark %	Variance %	Comment
Last 3 months	(5.8)	(5.8)	-	In-line
Last 12 months	1.9	2.1	(0.2)	underperformed
Last 3 years	8.1	8.2	(0.1)	underperformed
Last 5 years	9.1	9.1	-	In-line

(3) UBS Property Fund

- 5.4 The market value of the property portfolio managed by UBS was £16.3m (£16.1m in December 2017). During the quarter the manager's performance of 2.0% outperformed the benchmark of 1.9%.

The table below shows the movement during the period within the portfolio.

UBS Triton (Property)	30/12/2017		Purchases	Sales	Gain/Loss	Income	31/03/2018	
	£000	%					£000	£000
Property	15,324	95	262	262	172	143	15,496	95
Cash & Cash Alternatives	800	5	667	636	-	-	831	5
Total	16,125	100	928	898	172	143	16,327	100

The manager is to track the Benchmark index over rolling three year periods.

This table shows the performance of the portfolio.

Period	Manager	Benchmark	Variance	Comment
	%	%	%	
Last 3 months	2.0	1.9	0.1	outperformed
Last 12 months	10.0	10.0	-	In-line
Last 3 years	8.0	8.1	(0.1)	underperformed
Last 5 years	10.9	10.5	0.4	outperformed

Aberdeen Asset Management

- 5.5 Aberdeen manages two portfolios for the LB Pension Fund.

(1) Aberdeen Active Global Equity

- 5.6 The market value of the active equity portfolio managed by Aberdeen was £124.8m (£131.1m in December 2017). During the quarter the manager's performance of (4.8)% outperformed the benchmark of (5.4)%.

The following below shows the movement during the period within the portfolio.

<i>Aberdeen Active Equity</i>	30/12/2017		Purchases	Sales	Gain/ Loss	Income	31/03/2018	
	£000	%					£000	£000
UK Equities	70,899	54	8,369	8,333	(5,311)	685	65,624	53
North America	7,706	6	-	2	(249)	-	7,455	6
Continental Europe	19,774	15	1,956	2,173	(390)	78	19,167	15
Japan	10,244	8	-	42	(318)	-	9,885	8
Total Pacific (ex Japan)	8,519	6	-	43	(159)	-	8,318	7
Other Intl Equities	13,009	10	-	66	(505)	-	12,438	10
Cash & Alternatives	950	1	25,461	24,484	-	1	1,927	2
Total	131,102	100	35,786	35,142	(6,932)	626	124,814	100

- 5.7 Although this portfolio is an active mandate, 33% is held in pooled funds. The Manager is required to outperform the benchmark by 1.25% p.a over rolling 3yr periods.

This table shows the performance of the portfolio

Period	Manager %	Benchmark %	Variance %	Comment
Last 3 months	(4.8)	(5.4)	(0.6)	outperformed
Last 12 months	2.9	3.7	(0.8)	underperformed
Last 3 years	6.2	8.1	(1.9)	underperformed
Last 5 years	6.3	8.2	(1.9)	underperformed

(2) Aberdeen (Bonds)

- 5.8 The market value of the bonds portfolio was £152.5m (£153.2m in December 2017). During the quarter the manager's performance of (0.5)% underperformed the benchmark of (0.3)%.

The table below shows the movement during the period within the portfolio.

<i>Aberdeen (Bonds)</i>	30/12/2017		Purchases	Sales	Gain/ Loss	Income	31/03/2018	
	£000	%					£000	£000
UK Bonds	38,508	26	401	250	(253)	401	38,407	25
Overseas Bonds	37,388	24	1,588	13	(1,600)	656	37,363	25
UK Index Linked	77,129	50	485	719	(349)	485	76,545	50
Cash & Alternatives	133	-	2,499	2,486	-	-	146	0
Total	153,159	100	4,972	3,469	(2,202)	1,428	152,461	100

The manager is required to outperform its benchmark by 0.75% p.a. over a rolling three year period.

This table shows the performance of the portfolio.

Period	Manager %	Benchmark %	Variance %	Comment
Last 3 months	(0.5)	(0.3)	(0.2)	underperformed
Last 12 months	(0.5)	(0.3)	(0.2)	underperformed
Last 3 years	6.5	6.6	(0.1)	underperformed
Last 5 Years	6.3	6.6	(0.3)	underperformed

BlackRock (Property)

- 5.9 The market value of the property portfolio managed by Blackrock was £7.6m (£7.5m in December 2017). During the quarter the manager's performance of 1.5% underperformed the benchmark of 1.9%.

The following table below shows the movement in the portfolio during the period.

<i>Blackrock</i>	30/12/2017		Purchases	Sales	Gain/Loss	Income	31/03/2018	
	£000	%	£000	£000	£000	£000	£000	%
Property	7,448	100	48	-	65	63	7,561	100
Cash & Cash Alternatives	-	-	48	48	-	-	-	-
Total	7,448	100	96	48	65	43	7,561	100

The manager is required to outperform the average of similar institutional pooled vehicles by investing in a diversified range of property throughout the UK, principally, but not exclusively, in the retail, office and industrial/warehouse sectors.

This table shows the performance of the portfolio.

Period	Manager %	Benchmark %	Variance %	Comment
Last 3 months	1.5	1.9	(0.4)	underperformed
Last 12 months	8.7	10.0	(1.3)	underperformed
Last 3 years	6.0	8.1	(2.1)	underperformed
Last 5 Years	8.5	10.5	(2.0)	underperformed

6. OTHER ISSUES AFFECTING THE FUND

- 6.1 From June 2018 the performance monitoring services will be provided by JLT- the Fund's investment consultants. JLT will prepare and present the performance report at the quarterly meeting. This will help the committee to review and monitor the new investment portfolio more efficiently.

7. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 7.1 All relevant implications are included in the report.

8. LEGAL AND STATUTORY IMPLICATIONS

- 8.1 All relevant implications are included in the report.

9. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 9.1 N/A

10. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

- 10.1 Risk management is an integral part of designing the investment portfolio of the fund particularly in the current volatile economic environment.

11. BACKGROUND PAPERS

- 11.1 State Street Analytics performance report and individual Fund Managers investment reports.

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