

London Borough of Merton
Pension Fund Advisory Committee
Date: 02 October 2018

Wards: All

Subject: Merton Pension Fund Performance - June 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 30 June 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 30 June 2018. 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 June 2018 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 June 2018.
- 2.2 Over the 3 months to 30 June 2018, total Fund assets returned 4.7% and outperformed its target by 3.4%. The Fund's total market value increased by £31.5m in the quarter, from £664.1m to £695.6m.
- 2.3 The chart below shows the total fund valuation and the movements in investments during the June quarter.

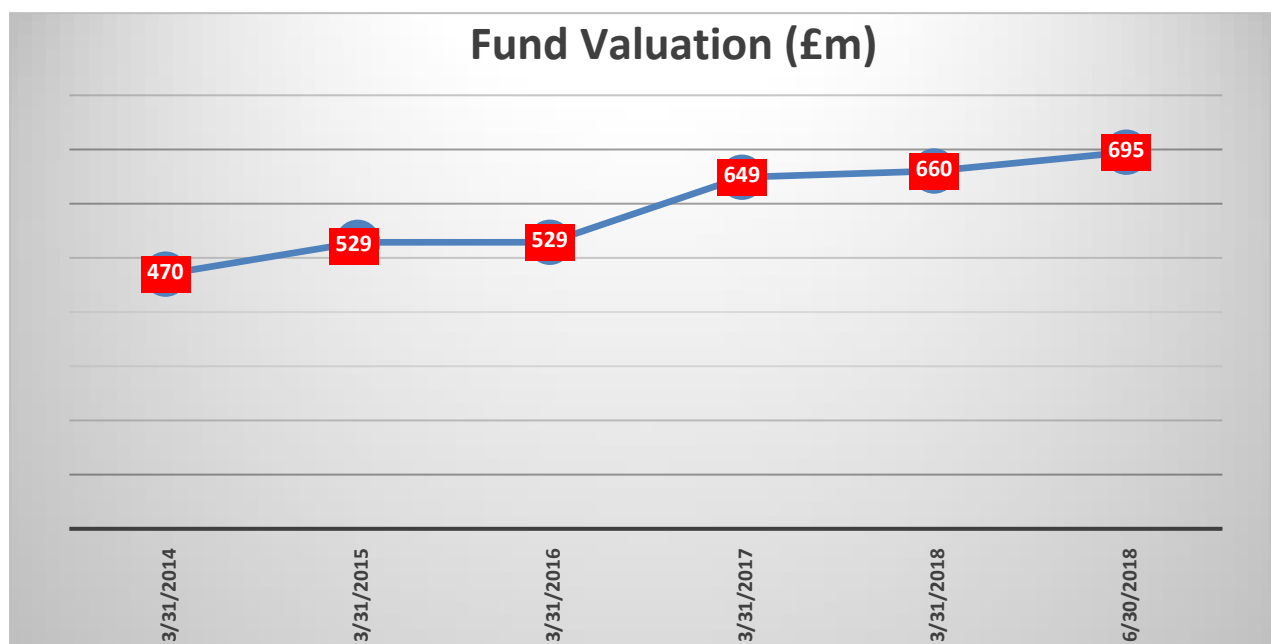
Manager / Fund	31 March 2018				30 June 2018	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS - Passive Equity	292,788	44.1	-75,000	18,882	236,670	34.0
UBS - Active Equity Fund	66,322	10.0	-25,000	3,834	45,156	6.5
LCIV RBC Sustainable Equity Fund	-	-	66,000	5,138	71,138	10.2
LCIV Global Alpha Growth Fund	-	-	66,000	4,112	70,112	10.1
Aberdeen Equity	124,804	18.8	-125,584	-	-	0.0
Global Equities	483,914	72.9			423,076	60.8
Aberdeen Emerging Market Equities Fund	-	-	27,584	-	27,584	4.0
Emerging Market Equities	-	-			27,584	4.0
LCIV Global Total Return Fund	-	-	33,000	210	33,210	4.8
LCIV Diversified Growth Fund	-	-	33,000	-530	32,470	4.7
Diversified Growth Fund	-	-			65,680	9.4
UBS Triton Property Unit Trust	16,327	2.5	-	304	16,631	2.4
BlackRock UK Property Fund	7,575	1.1	-	183	7,758	1.1
Property	23,902	3.6			24,389	3.5
Growth Assets	507,817	76.5			540,729	77.7
Aberdeen Bonds	152,461	23.0	-68,000	-1,597	82,864	11.9
Bonds	152,461	23.0			82,864	11.9
LCIV MAC Fund	-	-	68,000	-116	67,884	9.8
Multi Asset Credit	-	-			67,884	9.8
Stabilising Assets	152,461	23.0			150,748	21.7
Cash	3,858	0.6	266	-	4,123	0.6
TOTAL MERTON PENSION FUND	664,135	100.0			695,600	100.0

2.3 During the quarter the fund started implementing its new investment strategy and the chart below details the Fund's strategic asset allocation and the actual allocation to date.

Allocation by underlying asset class

Asset Class	Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	423,076	60.8	40.0	20.8	15-85
Emerging Market Equities	27,584	4.0	10.0	-6.0	0-20
Diversified Growth Fund	65,680	9.4	10.0	-0.6	0-20
Property	24,389	3.5	5.0	-1.5	0-10
Private Credit	-	0.0	7.5	-7.5	0-10
Infrastructure	-	0.0	7.5	-7.5	0-15
Long Gilts	14,114	2.0	-	2.0	0-5
Long Index Linked Gilts	41,552	6.0	10.0	-4.0	0-30
Corporate Bonds	27,197	3.9	-	3.9	0-10
Multi Asset Credit	67,884	9.8	10.0	-0.2	0-20
Cash	4,123	0.6	-	0.6	-
TOTAL MERTON PENSION FUND	695,600	100.0	100.0	-	

2.4 The following graph illustrates the Fund's market value trend over the past five years to 30 June 2018. It shows that the market value of the Fund has appreciated by £225m or 48% over the 5 years period.



3.0 Market Background/Outlook

- 3.1 Over the quarter, it continued to become clear that the rate of acceleration in global economic growth has moderated from the very strong pace seen at the turn of the year. While the US remains relatively robust, there can be little doubt that the pace of expansion in Europe in particular has slowed. The US Federal Reserve (Fed) increased interest rates again in June; however, the Bank of England (BoE) remains on hold and the first raise from the European Central Bank (ECB) is now not expected until summer 2019.
- 3.2 Amidst a turbulent political background, and less positive economic news than had been the case in recent months, global equity markets still delivered a positive return over the second quarter in local currency terms. This follows a fall in the first quarter, and leaves shares worldwide up slightly over 2018 to date. In contrast to recent periods, developed market equities outperformed emerging markets. Returns to fixed income markets were close to flat overall for the quarter
- 3.3 The Appendix 1 provides more detail on the market statistics and on the assets classes the fund is invested for 3 months, 1year and and 3years.

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 particularly in the current volatile economic environment.

9. BACKGROUND PAPERS

- 9.1 JLT Employee Benefits performance report and LCIV performance report.