

**London Borough of Merton  
Pension Fund Advisory Committee  
Date: 28 November 2018**

Wards: All

**Subject: Merton Pension Fund Performance - September 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 September 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 Sept 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 Sept 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 Sept 2018.

2.2 Over the 3 months to 30 Sept 2018, total Fund assets returned 1.9% and outperformed its target by 0.6%. Over one year the returned 7.1% and over three years 13.1%.

The Fund's total market value increased by £13m in the quarter, from £695.6m to £708.6m.

Manager / Fund	3 months %		12 months %		3 years % p.a.		3yr Performance
	Fund	Bmark	Fund	Bmark	Fund	Bmark	vs Bmark
UBS - Passive Equity Fund	3.0	n/a	9.7	n/a	15.4	n/a	n/a
UBS - Active Equity Fund	-0.9	-0.5	4.5	4.8	12.1	12.4	Benchmark not met
LCIV RBC Sustainable Equity Fund	5.3	6.3	n/a	n/a	n/a	n/a	n/a
LCIV Global Alpha Growth Fund	3.1	5.6	n/a	n/a	n/a	n/a	n/a
<b>Global Equities</b>							
Aberdeen Global Emerging Market Equities Fund <sup>1&amp;2</sup>	0.0	-1.0	n/a	n/a	n/a	n/a	n/a
<b>Emerging Market Equities</b>							
LCIV Global Total Return Fund	0.8	2.2	n/a	n/a	n/a	n/a	n/a
LCIV Diversified Growth Fund	0.1	1.0	n/a	n/a	n/a	n/a	n/a
<b>DGF</b>							
UBS Triton Property Unit Trust	1.9	1.6	10.0	8.8	7.7	7.1	Benchmark met
BlackRock UK Property Fund	1.9	1.6	9.9	8.8	8.0	7.1	Benchmark met
<b>Property</b>							
<b>Growth Assets</b>							
Aberdeen Bonds Portfolio <sup>1</sup>	-1.1	-1.2	1.9	1.3	7.2	6.9	Benchmark met
<b>Bonds</b>							
LCIV MAC Fund	1.5	1.2	n/a	n/a	n/a	n/a	n/a
<b>Multi-Asset Credit</b>							
<b>Stabilising Assets</b>							
<b>TOTAL MERTON PENSION FUND</b>	<b>1.9</b>		<b>7.1</b>		<b>13.1</b>		
Strategic Target (5.5% p.a.)	1.3		5.5		5.5		

2.3 The chart below shows the total fund valuation and the movements in investments during quarter ending 30 Sept 2018.

Manager / Fund	30-June-18				30-September-18	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS - Passive Equity	236,670	34.0	-	7,513	244,183	34.5
UBS - Active Equity Fund	45,156	6.5	-	-442	44,714	6.3
LCIV RBC Sustainable Equity Fund	71,138	10.2	-	3,741	74,879	10.6
LCIV Global Alpha Growth Fund	70,112	10.1	-	2,132	72,244	10.2
Aberdeen Equity	-	-	-	-	-	0.0
<b>Global Equities</b>	<b>423,076</b>	<b>60.8</b>			<b>436,020</b>	<b>61.5</b>
Aberdeen Emerging Market Equities Fund	27,584	4.0	-	192	27,777	3.9
<b>Emerging Market Equities</b>	<b>27,584</b>	<b>4.0</b>			<b>27,777</b>	<b>3.9</b>
LCIV Global Total Return Fund	33,210	4.8	-	251	33,461	4.7
LCIV Diversified Growth Fund	32,470	4.7	-	23	32,493	4.6
<b>Diversified Growth Fund</b>	<b>65,680</b>	<b>9.4</b>			<b>65,954</b>	<b>9.3</b>
UBS Triton Property Unit Trust	16,631	2.4	-	200	16,831	2.4
BlackRock UK Property Fund	7,758	1.1	-	117	7,875	1.1
<b>Property</b>	<b>24,389</b>	<b>3.5</b>			<b>24,706</b>	<b>3.5</b>
<b>Growth Assets</b>	<b>540,729</b>	<b>77.7</b>			<b>554,457</b>	<b>78.2</b>
Aberdeen Bonds	82,864	11.9	-	-968	81,895	11.6
<b>Bonds</b>	<b>82,864</b>	<b>11.9</b>			<b>81,895</b>	<b>11.6</b>
LCIV MAC Fund	67,884	9.8	-	1,068	68,952	9.7
<b>Multi Asset Credit</b>	<b>67,884</b>	<b>9.8</b>			<b>68,952</b>	<b>9.7</b>
<b>Stabilising Assets</b>	<b>150,748</b>	<b>21.7</b>			<b>150,847</b>	<b>21.3</b>
<b>Cash</b>	<b>4,123</b>	<b>0.6</b>	<b>-804</b>	<b>-</b>	<b>3,319</b>	<b>0.5</b>
<b>TOTAL MERTON PENSION FUND</b>	<b>695,600</b>	<b>100.0</b>			<b>708,623</b>	<b>100.0</b>

2.3 The below table reflects the strategy in process of implementation following 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.

2.4 Total allocation to Global Equities increased to 61.5% over the quarter, thereby 21.5% overweight relative to its strategic allocation is. However, this allocation will fall over time as the Fund transitions to other asset classes .

#### Allocation by underlying asset class

Asset Class	Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	436,020	61.5	40.0	21.5	15-85
Emerging Market Equities	27,777	3.9	10.0	-6.1	0-20
Diversified Growth Fund	65,954	9.3	10.0	-0.7	0-20
Property	24,706	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	13,860	1.9	-	1.9	0-5
Long Index Linked Gilts	40,962	5.8	10.0	-4.2	0-30
Corporate Bonds	27,273	3.8	-	3.8	0-10
Multi Asset Credit	68,952	9.7	10.0	-0.3	0-20
Cash	3,319	0.5	-	0.5	-
<b>TOTAL MERTON PENSION FUND</b>	<b>708,623</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>	

### **3.0 Market Background/Outlook**

- 3.1 According to the Office for National Statistics, labour productivity in the UK rose 0.5% in Q2, a rebound from the -0.6% fall in Q1. The Bank of England's Monetary Policy Committee, at its August meeting, voted unanimously to increase the Base Rate by 25 bps to 0.75%, taking rates to the highest level since March 2009.
- 3.2 The Purchasing Managers' Index (PMI) for the services sector, which accounts for three-quarters of the UK economy, slowed in September. The UK Services PMI dipped to 53.9 in September from 54.3 in August, although it was above the lows seen in July
- 3.3 The Eurozone continued to post encouraging economic growth with Q2 2018 GDP growing by 2.2% YoY. While the growth rate has moderated slightly, it remains healthy and is expected to remain so over the rest of the year. In a show of confidence in the strength of the Eurozone, the ECB has committed to stopping its asset purchase programme at the end of the year. It has also left the door open to rate hikes in 2019.
- 3.4 Inflation in the Eurozone showed signs of picking up over the quarter. The annual headline inflation rate touched a multi-year high of 2.1% in September. However, core inflation remains stubbornly low at 0.9%, significantly below the European Central Bank's (ECB) target of 2.0%.
- 3.5 The Appendix 1 provides more detail on the market statistics and on the assets classes the fund is invested in..

### **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.