

Committee:

London Borough of Merton Pension Committee Date: 10 September 2020

London Borough of Merton Pension Board

Wards: All

Subject: Merton Pension Fund Performance – June 2020

Lead officer: Caroline Holland - Director of Corporate Services

Lead member: Councillor. Mark Allison.

Contact officer: Roger Kershaw- AD Resources

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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 quarters ending 30 June 2020, 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 June 2020. 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 June 2020. 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 Mercer provides useful analysis and insights of the Pension Fund activities and results for the quarters ending June 2020.

The table overleaf shows the performance for the quarter.

PERFORMANCE SUMMARY

PERIOD ENDING 30 JUNE 2020

Manager / Fund	3 Months %		12 Months %		3 Years % p.a.	
	Fund	B'mark	Fund	B'mark	Fund	B'mark
UBS Passive Equity Fund*	15.9	n/a	2.9	n/a	6.0	n/a
UBS Alternative Beta	16.0	15.8	2.7	2.3	n/a	n/a
LCIV RBC Sustainable Equity Fund	23.0	19.8	9.4	5.9	n/a	n/a
LCIV Global Alpha Growth Fund	28.0	19.6	17.4	5.3	n/a	n/a
BlackRock World Low Carbon Equity Tracker Fund	18.2	18.0	6.8	6.3	n/a	n/a
Global Equities						
UBS HALO EM Fund	20.8	21.0	-10.7	-15.4	n/a	n/a
LCIV Emerging Market Equity Fund	21.3	18.5	n/a	n/a	n/a	n/a
Emerging Market Equities						
LCIV Global Total Return Fund	6.3	1.3	2.7	4.8	n/a	n/a
LCIV Diversified Growth Fund	8.3	0.9	-2.3	4.1	n/a	n/a
<i>Mercer Universe Median / Upper Quartile</i>		9.7 / 11.5		0.6 / 2.1		
Diversified Growth Fund		9.7		0.6		
UBS Triton Property Unit Trust	-1.9	-2.0	-1.7	-2.6	4.4	3.4
BlackRock UK Property Fund	-1.2	-2.0	-2.8	-2.6	3.3	3.4
Property						
MIRA Infrastructure Global Solution II, L.P.	-	1.8	1.6	7.3	n/a	n/a
Quinbrook Low Carbon Power LP	19.4	1.8	17.5	7.3	n/a	n/a
JP Morgan Infrastructure Fund	-0.1	2.4	n/a	n/a	n/a	n/a
Infrastructure						
Permira Credit Solutions IV	-	1.7	n/a	n/a	n/a	n/a
Churchill Middle Market Senior Loan Fund II	0.5	1.7	-0.9	7.0	n/a	n/a
Private Credit						
Growth Assets						
Wells Fargo - RMF	-6.4	-6.4	n/a	n/a	n/a	n/a
Bonds						
LCIV MAC Fund	12.7	1.2	-4.5	4.9	n/a	n/a
<i>Mercer Universe Median / Upper Quartile</i>		10.2 / 11.7		-0.7 / 2.2		
Multi-Asset Credit						
Stabilising Assets						
TOTAL MERTON PENSION FUND		14.1		4.2		5.9
Strategic Target (4.8% p.a.)		1.2		4.8		4.8

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 year benchmark returns.

2.2 Over the 3 months to June 2020, total Fund assets returned 14.1% compared to the target of 1.2%. This equates to outperformance by 12.9%. The Fund's total market value increased by £96m over the quarter, from £689m to £785m. Over the last 12 months, the Fund performance was 4.2%, and 3 year annualised performance was 5.9%. The annual performance target is 4.8%. The table below shows the total fund valuation and the movements in investments during the respective quarter.

VALUATION SUMMARY

31 MAR 2020 TO 30 JUN 2020

Manager / Fund	31 March 2020				30 June 2020	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS Passive Equity	52,116	7.6	-7,000	10,309	55,425	7.1
UBS Alternative Beta	66,021	9.6	-	10,510	76,531	9.8
LCIV RBC Sustainable Equity Fund	71,357	10.4	-	16,347	87,704	11.2
LCIV Global Alpha Growth Fund	70,161	10.2	-	19,606	89,767	11.4
BlackRock World Low Carbon Equity Tracker Fund	68,529	10.0	-	12,502	81,031	10.3
Global Equities	328,185	47.7			390,458	49.8
UBS HALO EM Fund	41,305	6.0	-	8,685	49,990	6.4
LCIV Emerging Market Equity Fund	25,753	3.7	-	5,469	31,222	4.0
Emerging Market Equities	67,058	9.7			81,212	10.3
LCIV Global Total Return Fund	32,909	4.8	-	2,024	34,933	4.4
LCIV Diversified Growth Fund	30,019	4.4	-	2,519	32,538	4.1
Diversified Growth Fund	62,928	9.1			67,471	8.6
UBS Triton Property Unit Trust	16,834	2.4	-136	-443	16,255	2.1
BlackRock UK Property Fund	7,553	1.1	-	-150	7403	0.9
Property	24,387	3.5			23,658	3.0
MIRA Infrastructure Global Solution II, L.P.*	11,657	1.7	-3,210	-	8,446	1.1
Quinbrook Low Carbon Power LP	7,292	1.1	-	1,411	8,703	1.1
JP Morgan Infrastructure Fund	18,863	2.7	-	-26	18,837	2.4
Infrastructure	37,812	5.5			35,986	4.6
Permira Credit Solutions IV*	4,431	0.6	5,222	-	9,653	1.2
Churchill Middle Market Senior Loan Fund II	11,536	1.7	1,466	64	13,066	1.7
Private Credit	15,967	2.3			22,719	2.9
Growth Assets	536,337	77.9			621,505	79.2
Wells Fargo – RMF	88,960	12.9	-	2,426	91,386	11.6
Bonds	88,960	12.9			91,386	11.6
LCIV MAC Fund	59,756	8.7	-	7,606	67,362	8.6
Multi Asset Credit	59,756	8.7			67,362	8.6
Stabilising Assets	148,716	21.6			158,747	20.2
Cash	3,596	0.5	958	-	4,555	0.6
TOTAL MERTON PENSION FUND	688,649	100.0	-2,700	98,858	784,807	100.0

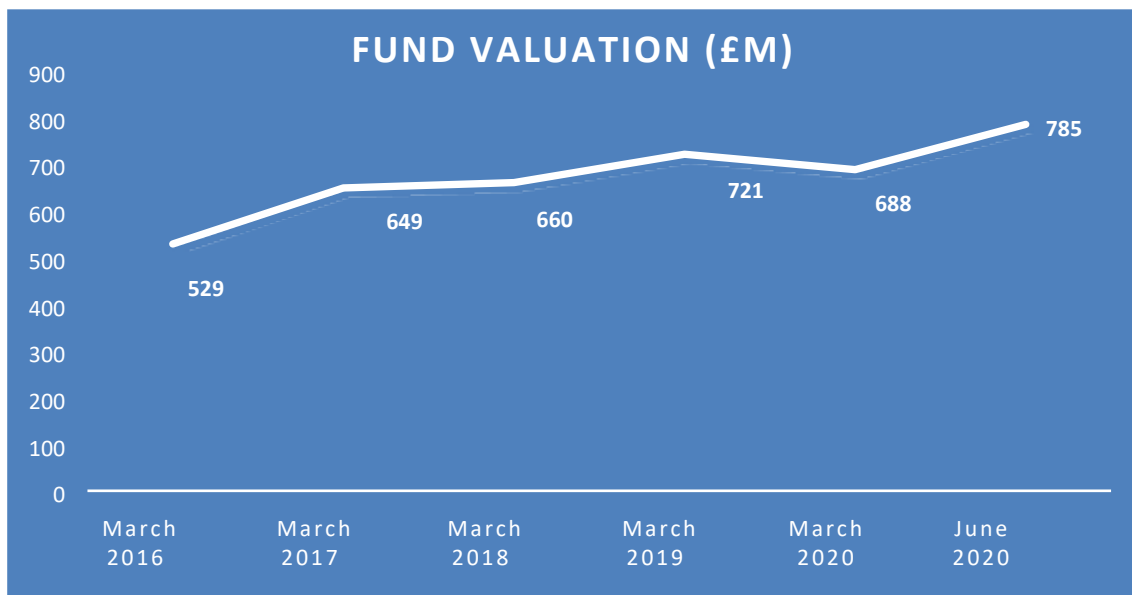
- 2.3 The Fund is an open fund and long-term investment focused. The Fund will continue work on this basis and avoid crystallising any losses from the short-term events.

STRATEGIC ASSET ALLOCATION 30 JUNE 2020

Allocation by underlying asset class

Asset Class	Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	390,458	49.8	40.0	9.8	15-85
Emerging Market Equities	81,212	10.3	10.0	0.3	0-20
Diversified Growth Fund	67,471	8.6	10.0	-1.4	0-20
Property	23,658	3.0	5.0	-2.0	0-10
Private Credit	22,719	2.9	7.5	-4.6	0-10
Infrastructure	35,986	4.6	7.5	-2.9	0-15
Bonds	91,386	11.6	10.0	1.6	0-30
Multi Asset Credit	67,362	8.6	10.0	-1.4	0-20
Cash	4,555	0.6	0.0	0.6	-
TOTAL MERTON PENSION FUND	784,807	100.0	100.0	-	

- 2.4 The following graph illustrates the Fund's market value trend over the past 5 years and as at 30 June 2020. It shows that in this period the Fund value has appreciated by £256m or 33%.



3.0 Market Background/Outlook

- 3.1 The second quarter of 2020 saw a strong recovery for global equity markets. Governments, including the US, China Germany and the UK implemented larger financial fiscal stimulus packages towards the end of the Q1 2020 in response to the Covid-19 pandemic. Stimulus measures taken by the central banks across the globe proved to be a large support to their respective economies. This was against the backdrop of growth slowdown and sell offs earlier this year caused by the pandemic.
- 3.2 The property market continued to struggle in the second quarter of 2020 with the pandemic inducing a decelerating of capital and rental values.

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 Mercer Investment Consultants performance report.

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