

Committee:

Pension Fund Advisory Panel

Date: 25 November 2020

Merton Pension Board

Date: 14 December 2020

Wards: All

Subject: Merton Pension Fund Performance – September 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 September 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 September 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 30 September 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 September 2020.

The table below shows the total fund valuation and the movements in investments during the quarter ended Sept 2020.

VALUATION SUMMARY

PERIOD ENDING 30 SEPTEMBER 2020

Manager / Fund	30 June 2020				30 September 2020	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS Passive Equity	55,425	7.1	-5,000	1,752	52,177	6.4
UBS Alternative Beta	76,531	9.8	-	752	77,283	9.5
LCIV RBC Sustainable Equity Fund	87,704	11.2	-	5,396	93,101	11.4
LCIV Global Alpha Growth Fund	89,767	11.4	-	6,797	96,564	11.8
BlackRock World Low Carbon Equity Tracker Fund	81,031	10.3	-	3,241	84,272	10.3
Global Equities	390,458	49.8			403,396	49.5
UBS HALO EM Fund	49,990	6.4	-	2,305	52,295	6.4
LCIV Emerging Market Equity Fund	31,222	4.0	-	2,545	33,767	4.2
Emerging Market Equities	81,212	10.3			86,062	10.6
LCIV Global Total Return Fund	34,933	4.4	-	-552	34,381	4.2
LCIV Diversified Growth Fund	32,538	4.1	-	1,092	33,629	4.1
Diversified Growth Fund	67,471	8.6			68,011	8.3
UBS Triton Property Unit Trust	16,255	2.1	-	-27	16,229	2.0
BlackRock UK Property Fund**	7,403	0.9	-	-	7,403	0.9
Property	23,658	3.0			23,632	2.9
MIRA Infrastructure Global Solution II, L.P.*	8,871	1.1	-383	-	8,487	1.0
Quinbrook Low Carbon Power LP*	8,703	1.1	1,262	-	9,965	1.2
JP Morgan Infrastructure Fund***	18,837	2.4	-321	100	18,616	2.3
Infrastructure	36,410	4.6			37,067	4.5
Permira Credit Solutions IV*	9,771	1.2	615	-	10,386	1.3
Churchill Middle Market Senior Loan Fund II*	13,066	1.7	340	-	13,406	1.6
Private Credit	22,838	2.9			23,792	2.9
Growth Assets	622,047	79.2			641,961	78.7
Wells Fargo – RMF	91,386	11.6	-	6,325	97,711	12.0
Bonds	91,386	11.6			97,711	12.0
LCIV MAC Fund	67,362	8.6	-	2,290	69,652	8.6
Multi Asset Credit	67,362	8.6			69,652	8.6
Stabilising Assets	158,747	20.2			167,362	20.5
Cash	4,555	0.6	1,625	-	6,180	0.8
TOTAL MERTON PENSION FUND	785,350	100.0	-1,862	32,015	815,503	100.0

2.2 The Fund's total market value increased by £30.1m over the quarter, from £785.4m to £815.5m. the increase in asset value increase in global equity , emerging market equity and the bond investment manly contributed to the increase in value.The other assets classes remind stable over the quarter.

2.2 Over the 3 months to 30 September 2020, total Fund assets returned 3.8% compared to the target of 1.2%. This equates to outperformance by 2.6%. Over the last 12 months, the Fund performance was 5.3%, and 3 year annualised performance was 6.8%. The annual performance target is 4.8%. The table below shows the total fund valuation and the movements in investments during the respective quarter.

PERFORMANCE SUMMARY

1 JULY 2020 TO 30 SEPTEMBER 2020

Manager / Fund	3 Months %		12 Months %		3 Years % p.a.	
	Fund	B'mark	Fund	B'mark	Fund	B'mark
UBS Passive Equity Fund*	1.0	n/a	0.0	n/a	5.6	n/a
UBS Alternative Beta	1.0	1.0	-0.9	-1.3	n/a	n/a
LCIV RBC Sustainable Equity Fund	6.2	3.2	14.8	5.2	n/a	n/a
LCIV Global Alpha Growth Fund	7.6	3.8	25.5	5.7	n/a	n/a
BlackRock World Low Carbon Equity Tracker	4.0	4.0	6.5	6.2	n/a	n/a
Global Equities						
UBS HALO EM Fund	4.2	4.7	9.5	5.3	n/a	n/a
LCIV Emerging Market Equity Fund	8.2	4.7	13.6	7.2	n/a	n/a
Emerging Market Equities						
LCIV Global Total Return Fund	-1.6	1.8	0.2	4.9	n/a	n/a
LCIV Diversified Growth Fund	3.4	0.9	-1.1	3.9	n/a	n/a
<i>Mercer Universe Median***</i>		2.4		0.2		
<i>Mercer Universe Upper Quartile***</i>		3.1		3.0		
Diversified Growth Fund						
UBS Triton Property Unit Trust	0.7	0.2	-1.9	-2.8	3.9	2.6
BlackRock UK Property Fund**	-1.2	-2.0	-2.8	-2.6	3.3	3.4
Property						
MIRA Infrastructure Global Solution II, L.P.**	4.3	1.8	6.0	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	0.5	2.4	n/a	n/a	n/a	n/a
Infrastructure						
Permira Credit Solutions IV**	3.1	1.7	16.1	7.0	n/a	n/a
Churchill Middle Market Senior Loan Fund II**	5.1	1.7	3.7	7.0	n/a	n/a
Private Credit						
Growth Assets						
Wells Fargo - RMF	6.9	6.9	n/a	n/a	n/a	n/a
Bonds						
LCIV MAC Fund	3.3	1.0	-2.0	4.7	n/a	n/a
<i>Mercer Universe Median****</i>		2.6		0.9		
<i>Mercer Universe Upper Quartile****</i>		3.3		3.9		
Stabilising Assets						
TOTAL MERTON PENSION FUND	3.8		5.3		6.8	

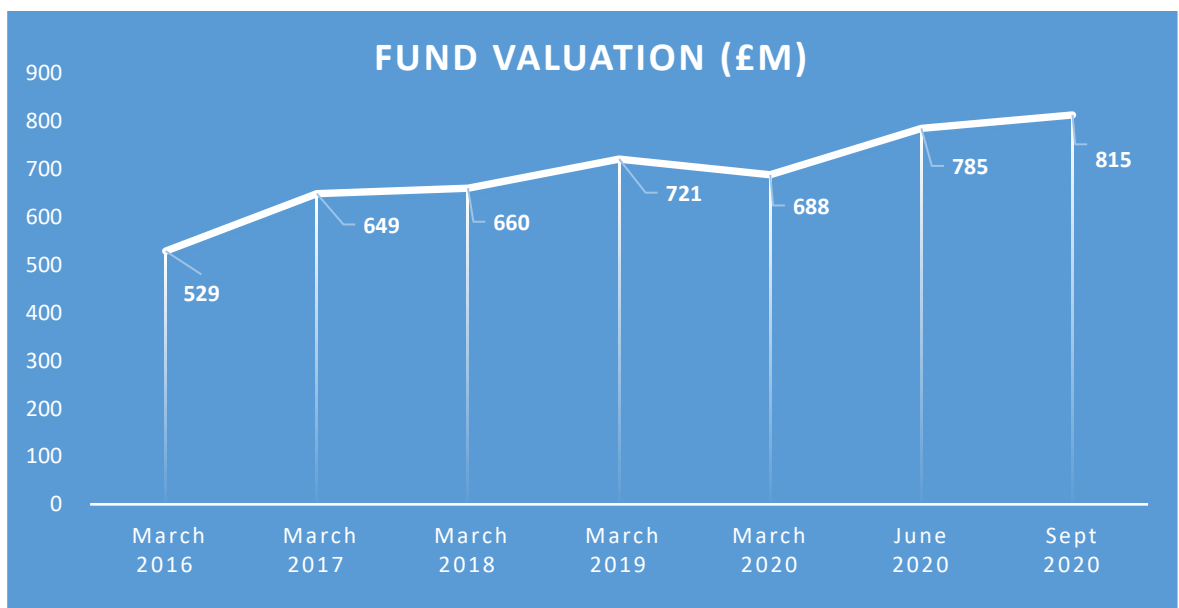
Strategic Target	(4.8% p.a.)	1.2	4.8	4.8
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2.3 The Fund is an open fund and long-term investment focused. The Fund will continue work on this basis with the key focus to ESG and maintain a stable contribution rate.

STRATEGIC ASSET ALLOCATION 30 SEPTEMBER 2020

Asset Class	Market Value £000s	Actual Weight %	Strategic Allocation %	Relative Allocation %	Strategic Range %
Global Equities	403,396	49.5	40.0	9.5	15-85
Emerging Market Equities	86,062	10.6	10.0	0.6	0-20
Diversified Growth Fund	68,011	8.3	10.0	-1.7	0-20
Property	23,632	2.9	5.0	-2.1	0-10
Private Credit	23,274	2.9	7.5	-4.6	0-10
Infrastructure	37,067	4.5	7.5	-3.0	0-15
Bonds	97,711	12.0	10.0	2.0	0-30
Multi Asset Credit	69,652	8.5	10.0	-1.5	0-20
Cash	6,180	0.8	0.0	0.8	-
TOTAL MERTON PENSION FUND	815,503	100.0	100.0	-	

2.4 The following graph illustrates the Fund's market value trend over the past 5 ½ years and as at 30 September 2020. It shows that in this period the Fund value has appreciated by £286m or 35%.



3.0 Market Background/Outlook

- 3.1 Since the peak of the COVID-19 pandemic in the Spring, the market narrative has been dominated by the transition to a "new normal", driven by the forces of technological disruption, deficit spending, and further central bank action. Those forces continued to drive equity markets higher in Q3 2020, although the quarter comprised two distinct parts.
- 3.2 The first was a rally to record highs which peaked at the start of September. The second was a pullback from the peak, accompanied by a rotation out of mega-cap tech stocks. At its peak, the tech-heavy Nasdaq had rallied 76% from the March lows, and had risen 20% since the start of the quarter.
- 3.3 Given the weight of the mega-cap tech names in the S&P 500, the index rallied by 60% from the March trough to the September peak, with a 16% gain in the first two months of Q3 2020. For markets to move materially higher investors perhaps want to see a move from "new normal" to "more normal". In particular, investors want to see a path toward sustainable mobility gains (enabled by vaccine developments) and a reduction in US political uncertainty. Timing is uncertain and progress uneven, the end result is volatility, which we expect will continue.

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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