

Committee:

Pension Fund Advisory Panel

Date: 10 March 2021

Merton Pension Board

Date: 12 March 2021

Wards: All

Subject: Merton Pension Fund Performance – December 2020

Lead officer: Caroline Holland - Director of Corporate Services

Lead member: Councillor. Tobin Byers

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 31 December 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 31 December 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 31 December 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 December 2020.

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

VALUATION SUMMARY

PERIOD ENDING 31 DECEMBER 2020

Manager / Fund	30 September 2020				31 December 2020	
	Valuation £000s	Weight %	Cashflow £000s	Growth £000s	Valuation £000s	Weight %
UBS Passive Equity	52,177	6.4	-	4,271	56,448	6.4
UBS Alternative Beta	77,283	9.5	-	5,944	83,227	9.4
LCIV RBC Sustainable Equity Fund	93,101	11.4	-	11,119	104,219	11.8
LCIV Global Alpha Growth Fund	96,564	11.8	-	10,738	107,302	12.1
BlackRock World Low Carbon Equity Tracker Fund	84,272	10.3	-	6,549	90,821	10.3
Global Equities	403,396	49.4			442,017	50.0
UBS HALO EM Fund	52,295	6.4	-	8,256	60,551	6.8
LCIV Emerging Market Equity Fund	33,767	4.1	-	5,807	39,574	4.5
Emerging Market Equities	86,062	10.5			100,125	11.3
LCIV Global Total Return Fund	34,381	4.2	-	1,075	35,457	4.0
LCIV Diversified Growth Fund	33,629	4.1	-	2,024	35,653	4.0
Diversified Growth Fund	68,011	8.3			71,110	8.0
UBS Triton Property Unit Trust	16,229	2.0	-	202	16,431	1.9
BlackRock UK Property Fund**	7,403	0.9	-	105	7,508	0.8
Property	23,632	2.9			23,939	2.7
MIRA Infrastructure Global Solution II, L.P.*	8,487	1.0	-861	-	7,626	0.9
Quinbrook Low Carbon Power LP*	11,343	1.4	278	-639	10,982	1.2
JP Morgan Infrastructure Fund**	18,469	2.3	-	-476	17,993	2.0
Infrastructure	36,410	4.6			36,554	4.1
Permira Credit Solutions IV*	10,619	1.3	1,389	-	12,008	1.4
Churchill Middle Market Senior Loan Fund II*	13,282	1.6	1,269	-753	13,799	1.6
Private Credit	23,901	2.9			25,807	2.9
Growth Assets	643,302	78.8			699,551	79.1
Wells Fargo – RMF	97,711	12.0	-	9,661	107,371	12.1
Bonds	97,711	12.0		9,661	107,371	12.1
LCIV MAC Fund	69,652	8.5	-	3,680	73,332	8.3
Multi Asset Credit	69,652	8.5		3,680	73,332	8.3
Stabilising Assets	167,362	20.5			180,703	20.4
Cash	6,180	0.8	-2,414	-	3,766	0.4
TOTAL MERTON PENSION FUND	816,844	100.0	-339	67,516	884,021	100.0

2.2 The Fund's total market value increased by £67.6 m over the quarter, from £817m to £884m. The increase in asset value was largely attributable to the increase in global equities, emerging market equities and bonds. The other assets classes remained essentially stable over the quarter.

2.2 Over the 3 months to 31 December 2020, total Fund assets returned 8.2% compared to the target of 1.2%. This equates to outperformance by 7%. Over the last 12 months, the Fund performance was 12.2%, and 3 year annualised performance was 8.2%. 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 OCTOBER 2020 TO 31 DECEMBER 2020

Manager / Fund	3 Months %		12 Months %		3 Years % p.a.	
	Fund	B'mark	Fund	B'mark	Fund	B'mark
UBS Passive Equity Fund*	7.7	n/a	6.4	n/a	6.6	n/a
UBS Alternative Beta	7.9	7.9	6.3	5.8	n/a	n/a
LCIV RBC Sustainable Equity Fund	11.9	7.8	24.7	12.3	n/a	n/a
LCIV Global Alpha Growth Fund	11.1	8.6	32.9	13.5	n/a	n/a
BlackRock World Low Carbon Equity Tracker Fund	7.8	7.6	13.2	12.7	n/a	n/a
Global Equities						
UBS HALO EM Fund	15.4	13.2	19.1	14.6	n/a	n/a
LCIV Emerging Market Equity Fund	17.1	13.2	26.6	14.6	n/a	n/a
Emerging Market Equities						
LCIV Global Total Return Fund	3.1	1.6	2.6	6.3	n/a	n/a
LCIV Diversified Growth Fund	6.1	0.9	2.1	3.7	n/a	n/a
<i>Mercer Universe Median***</i>		6.4		5.4		
<i>Mercer Universe Upper Quartile***</i>		7.2		7.6		
Diversified Growth Fund						
UBS Triton Property Unit Trust	1.6	2.1	-0.3	-1.0	3.4	2.3
BlackRock UK Property Fund**	2.3	2.1	-0.8	-1.0	2.4	2.3
Property						
MIRA Infrastructure Global Solution II, L.P.**	0.0	1.8	6.7	7.3	n/a	n/a
Quinbrook Low Carbon Power LP**	14.9	1.8	27.4	7.3	n/a	n/a
JP Morgan Infrastructure Fund	-2.8	2.4	n/a	n/a	n/a	n/a
Infrastructure						
Permira Credit Solutions IV**	2.4	1.7	3.2	7.0	n/a	n/a
Churchill Middle Market Senior Loan Fund II	-3.8	1.7	-3.7	7.0	n/a	n/a
Private Credit						
Growth Assets						
Wells Fargo - RMF	9.9	n/a	10.0	n/a	n/a	n/a
Bonds						
LCIV MAC Fund	5.3	1.0	1.9	4.5	n/a	n/a
<i>Mercer Universe Median****</i>		4.9		4.5		
<i>Mercer Universe Upper Quartile****</i>		5.4		6.4		
Multi-Asset Credit						
Stabilising Assets						
TOTAL MERTON PENSION FUND	8.2		12.2		8.2	
Strategic Target (4.8% p.a.)	1.2		4.8		4.8	

2.3 The Fund is an open fund and long-term investment focused. The Fund will continue to work on this basis with the key focus to ESG and maintain a stable contribution rate.

STRATEGIC ASSET ALLOCATION 31 DECEMBER 2020

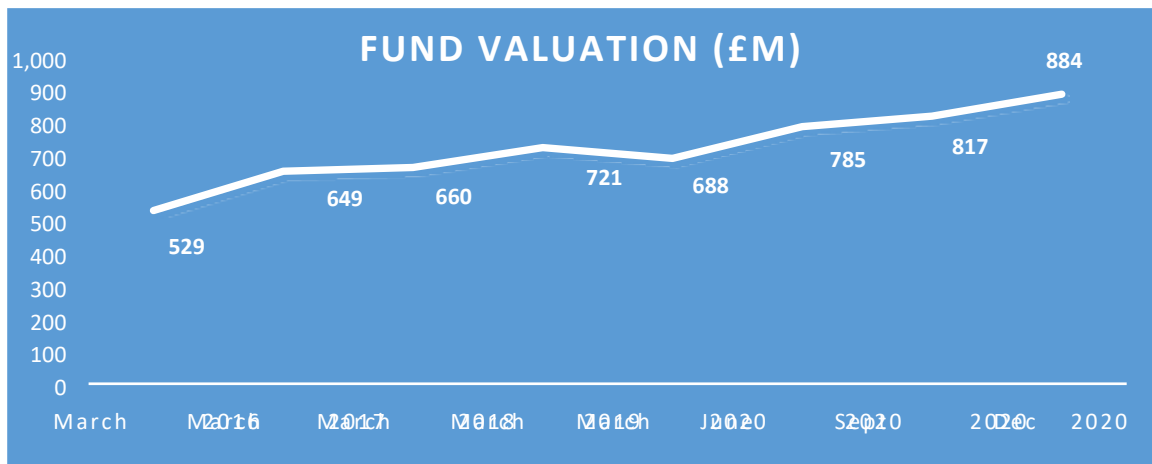
Allocation by underlying asset class

Asset Class	Market Value £000s	Actual Weight %	Strategic Allocation %	Relative %	Strategic Range %
Global Equities	442,017	50.0	30.0	20.0	15-40
Emerging Market Equities	100,125	11.3	10.0	1.3	0-20
Diversified Growth Fund	71,110	8.0	8.0	0.0	0-15
Property	23,939	2.7	5.0	-2.3	0-10
Private Credit	25,807	2.9	6.5	-3.6	0-10
Infrastructure	36,554	4.1	11.5	-7.4	0-20
RMF – Bonds and Currency	107,371	12.1	15.0	-2.9	0-25
Multi Asset Credit	73,332	8.3	9.0	-0.7	0-15
Cash	3,766	0.4	0.0	0.4	-
Social Impact	-	0.0	5.0	-5.0	0-10
TOTAL MERTON PENSION FUND	884,021	100.0	100.0	-	

Points to note

- The Strategic Asset Allocation (SAA) reflects the strategy to be implemented as part of the 2020 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.
- Total allocation to Global Equities increased by 0.5% to 50.0% over the quarter, being 20.0% overweight relative to its strategic allocation. This allocation will fall over time as the Fund transitions the remaining c. £56.5m from UBS Passive Equity to Private Credit and Infrastructure.

2.4 The following graph illustrates the Fund's market value trend over the past 5 ¾ years and as at 31 December 2020. It shows that in this period the Fund value has appreciated by £355m or 40%.



3.0 Market Background/Outlook

- 3.1 The key events of the fourth quarter of 2020 helped diminish the uncertainties that dominated the year: COVID-19 and politics. Successful vaccine development, the US election results, and the Brexit deal have clarified and brightened the economic outlook heading into 2021, even as a seasonal upturn in COVID-19 cases continues to dampen activity in developed markets in the near term. In 2020, economic damage was driven by the need to flatten the infection curve. The evolving expansion in 2021 is tied to the steepening curve of vaccinations.
- 3.2 Markets ended 2020 on a high note, with a 2.2% rise in global equities in December, in GBP terms. Overall, sentiment was the announcement of multiple successful vaccine candidates and an improving outlook for US fiscal stimulus. That more than offset concerns over rising COVID-19 infections, stricter restrictions in many parts of the world, and the emergence of a new faster-spreading strain of the virus.
- 3.3 More market update on individual asset classes is available on the quarterly performance report – Appendix 1

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 – quarterly performance report.

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