

Committee:

Pension Fund Advisory Panel

Date: 24 June 2021

Merton Pension Board

Date: 28 June 2021

Wards: All

Subject: Merton Pension Fund Performance – March 2021

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 March 2021, 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 March 2021. 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 March 2021. 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 March 2021.

The table below shows the total fund valuation for the quarter ended March 2021.

VALUATION SUMMARY PERIOD ENDING 31 MARCH 2021

Mandate	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q4 20	Q1 21			
UBS World Equity Tracker Fund	56.4	54.1	6.0%	0.0%	6.0%
UBS Alternative Beta	83.3	88.0	9.8%	10.0%	-0.2%
LCIV RBC Sustainable Equity Fund	104.2	104.4	11.6%	10.0%	1.6%
LCIV Baillie Gifford Global Alpha Growth Fund	107.3	109.6	12.2%	10.0%	2.2%
BlackRock World Low Carbon Equity Tracker	90.8	94.2	10.5%	10.0%	0.5%
Global Equities	442.1	450.3	50.1%	40.0%	10.1%
UBS GEM HALO	60.6	60.6	6.7%	5.0%	1.7%
LCIV JP Morgan Emerging Market Equity Fund	39.6	39.5	4.4%	5.0%	-0.6%
Emerging Market Equities	100.1	100.1	11.1%	10.0%	1.1%
LCIV Pyrford Global Total Return Fund	35.5	0.0	0.0%	0.0%	0.0%
LCIV Ruffer Absolute Return Fund	0.0	37.4	4.2%	5.0%	-0.8%
LCIV Baillie Gifford Diversified Growth Fund	35.7	35.4	3.9%	5.0%	-1.1%
Diversified Growth	71.1	72.8	8.1%	10.0%	-1.9%
UBS Triton Property Fund	16.4	16.8	1.9%	2.5%	-0.6%
BlackRock UK Property Fund	7.5	7.6	0.8%	2.5%	-1.7%
Property	23.9	24.4	2.7%	5.0%	-2.3%
MIRA Infrastructure Global Solutions II L.P Fund	8.1	7.6	0.8%	3.0%	-2.2%
Quinbrook Low Carbon Power LP Fund	11.6	11.8	1.3%	1.5%	-0.2%
JP Morgan Infrastructure Fund	18.5	18.0	2.0%	3.0%	-1.0%
Infrastructure	38.2	37.5	4.2%	7.5%	-3.3%
Permira Credit Solutions IV Fund	12.3	14.9	1.7%	4.5%	-2.8%
Churchill Middle Market Senior Loan II Fund	14.0	16.3	1.8%	3.0%	-1.2%
Private Credit	26.3	31.3	3.5%	7.5%	-4.0%
Wells Fargo RMF Fund	107.4	106.4	11.8%	10.0%	1.8%
Risk Management Framework	107.4	106.4	11.8%	10.0%	1.8%
LCIV CQS MAC Fund	73.3	74.8	8.3%	10.0%	-1.7%
Multi Asset Credit	73.3	74.8	8.3%	10.0%	-1.7%
Cash	3.8	1.2	0.1%	0.0%	0.1%
Total Fund	886.2	898.8	100.0%	100.0%	

The benchmark showing 2016 strategic allocation. The table will show the 2019 strategic allocation after the implementation of the new strategy. Please see appendix 1 for move detail

- 2.2 The Fund's total market value increased by £12.6 m over the quarter, from £886.2m to £898.8m. The increase in asset value was largely attributable to the increase in global equities, and the increased capital calls into Private Credit. The other assets classes remained essentially stable over the quarter.
- 2.3 the table below shows the fund performance for 3 months, 12 months and 3 years. Over the 3 months to 31 March 2021, total Fund assets returned 2% compared to the target of 2.3%. This equates to underperformance by 0.3%. Over the last 12 months, the Fund performance was 30.8%, and 3 year return was 10.4%. The annual actuarial expected return is 4.8%.

PERFORMANCE SUMMARY

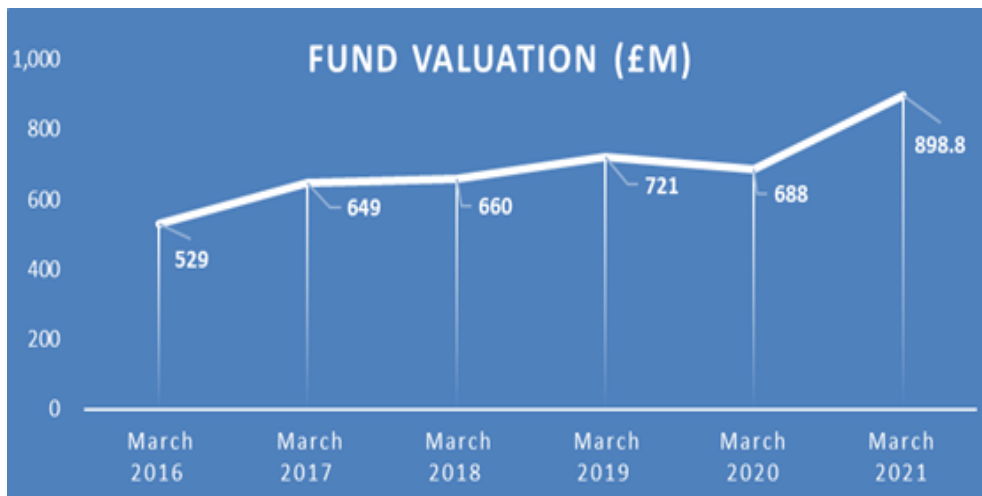
1 JANUARY 2021 TO 31 MARCH 2021

Mandate	Last 3 Months (%)			Last 12 Months (%)			Last 3 Years (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
UBS World Equity Tracker Fund	4.1	4.1	-0.0	39.4	39.4	-0.0	-	-	-
UBS Alternative Beta	5.5	5.5	-0.0	15.7	15.8	-0.1	-	-	-
LCIV RBC Sustainable Equity Fund	0.2	4.0	-3.6	46.4	38.5	5.7	-	-	-
LCIV Baillie Gifford Global Alpha Growth Fund	2.2	3.6	-1.3	56.5	39.6	12.1	-	-	-
BlackRock World Low Carbon Equity Tracker	3.7	3.9	-0.2	37.4	37.2	0.2	-	-	-
Global Equities									
UBS GEM HALO	-0.1	1.3	-1.4	45.9	45.3	0.4	-	-	-
LCIV JP Morgan Emerging Market Equity Fund	-0.1	1.3	-1.5	53.5	42.3	7.8	-	-	-
Emerging Market Equities									
LCIV Ruffer Absolute Return Fund	4.8	0.6	4.1	-	-	-	-	-	-
LCIV Baillie Gifford Diversified Growth Fund	-0.7	0.9	-1.6	18.0	3.6	13.8	-	-	-
Diversified Growth									
UBS Triton Property Fund	4.0	2.2	1.8	4.2	2.5	1.7	3.6	2.4	1.2
BlackRock UK Property Fund	2.2	2.2	0.0	4.0	2.5	1.5	2.6	2.4	0.2
Property									
MIRA Infrastructure Global Solutions II L.P. Fund	4.5	1.8	2.6	9.0	7.4	1.5	-	-	-
Quinbrook Low Carbon Power LP Fund	0.7	1.8	-1.1	20.2	7.4	12.0	-	-	-
JP Morgan Infrastructure Fund	1.3	2.5	-1.2	7.1	10.4	-3.0	-	-	-
Infrastructure									
Permira Credit Solutions IV Fund	1.3	1.7	-0.4	6.9	7.0	-0.0	-	-	-
Churchill Middle Market Senior Loan II Fund	1.8	1.7	0.1	3.4	7.0	-3.3	-	-	-
Private Credit									
Wells Fargo RMF Fund	-0.9	-0.9	0.0	25.5	25.5	0.0	-	-	-
Risk Management Framework									
LCIV CQS MAC Fund	2.1	1.1	1.0	25.2	4.4	20.0	-	-	-
Multi Asset Credit									
Cash	-	-	-	-	-	-	-	-	-
Total Fund	2.0	2.3	-0.3	30.8	18.9	10.0	10.4	6.3	3.8

Note, performance for the LCIV Ruffer Absolute Return Fund is since inception on 13 January 2021.

- 2.4 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.
- 2.5 The Fund continues to remain underweight to Property, Private Credit, Infrastructure. The private credit and infrastructure will be on their target allocation once all committed capitals are called in. As part of the new strategy implementation the property portfolio will be reviewed and the allocation will be fully implemented.
- 2.6 Global and Emerging Markets Equity shows an overweight. The main reason for these are the good performance of the equity and the funds allocation to private credit and infrastructure placed in equities, which will remain until the private markets portfolio is fully drawn down. also the 5% allocation to Social Impact is yet to be implemented.

- 2.7 The following graph illustrates the Fund's market value trend over the past 6 years and as at 31 March 2021. It shows that in this period the Fund value has appreciated by £370m or 41%.



3.0 Market Background/Outlook

- 3.1 The first quarter of 2021 delivered two main surprises: faster-than-expected vaccine rollouts and bigger-than-expected US fiscal stimulus. The backdrop of vaccination-led reopening's, plus substantial monetary and fiscal stimulus, drove expectations for a faster economic recovery and further gains for equities. Global stocks, as measured by the FSTE All World Developed index, delivered returns of 4.1%, in sterling terms over the quarter.
- 3.2 Markets ended the quarter on a high note, with a 4.6% return delivered by global equities over the quarter. The better-than-expected vaccine rollouts and US fiscal stimulus drove expectations for a faster economic recovery and further gains for equity markets. Meanwhile, the yield curve steepened as the market continued to price in higher inflation in the future.
- 3.3 Market update on individual asset classes and general updates are 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 Hymans Robertson LLP – quarterly performance report.

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