

Committee:

Merton Pension Committe

Date: 17 November 2022

Wards: All

Subject: Merton Pension Fund Performance – September 2022

Lead Officer: Roger Kershaw – Interim Executive Director of Finance and Digital
Lead Member: Councillor Billy Christie
Contact Officer: Nemashe Sivayogan – Head of Treasury and Pensions

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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 2022, 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 2022. 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 2022. 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 Hymans provides useful analysis and insights of the Pension Fund activities and results for the quarter ending September 2022.

The following table shows the total Fund valuation for the quarter ended September 2022.

VALUATION SUMMARY

PERIOD ENDING 30 SEPTEMBER 2022

Mandate	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q2 22	Q3 22			
UBS Alternative Beta	44.8	45.1	5.3%	5.0%	0.3%
LCIV RBC Sustainable Equity Fund	83.3	84.5	9.9%	10.0%	-0.1%
LCIV Baillie Gifford Global Alpha Growth Fund	69.9	0.0	0.0%	0.0%	0.0%
LCIV Baillie Gifford Global Alpha Growth Paris Aligned Fund	0.0	70.4	8.3%	10.0%	-1.7%
BlackRock World Low Carbon Equity Tracker	97.4	101.1	11.9%	10.0%	1.9%
Global Equities	295.4	301.1	35.4%	35.0%	0.4%
UBS GEM HALO	48.4	47.5	5.6%	5.0%	0.6%
LCIV JP Morgan Emerging Market Equity Fund	32.9	33.3	3.9%	5.0%	-1.1%
Emerging Market Equities	81.3	80.8	9.5%	10.0%	-0.5%
LCIV Ruffer Absolute Return Fund	58.3	59.4	7.0%	5.0%	2.0%
LCIV Baillie Gifford Diversified Growth Fund	50.2	48.5	5.7%	5.0%	0.7%
Diversified Growth	108.5	107.9	12.7%	10.0%	2.7%
UBS Triton Property Fund	20.7	19.8	2.3%	2.5%	-0.2%
BlackRock UK Property Fund	9.2	8.7	1.0%	2.5%	-1.5%
Henley Secure Income Propety Fund II	4.5	13.6	1.6%	1.0%	0.6%
Property	34.4	42.2	5.0%	6.0%	-1.0%
MIRA Infrastructure Global Solutions II L.P Fund	15.8	18.9	2.2%	2.0%	0.2%
Quinbrook Low Carbon Power LP Fund	14.3	16.1	1.9%	1.5%	0.4%
Quinbrook Net Zero Power Fund	33.9	33.1	3.9%	3.0%	0.9%
JP Morgan Infrastructure Fund	18.1	64.9	7.6%	5.0%	2.6%
Infrastructure	82.1	133.0	15.6%	11.5%	4.1%
Permira Credit Solutions IV Fund	22.7	23.5	2.8%	4.5%	-1.7%
Churchill Middle Market Senior Loan II Fund	17.7	20.0	2.4%	3.0%	-0.6%
Private Credit	40.3	43.5	5.1%	7.5%	-2.4%
Allspring RMF Fund	73.8	49.9	5.9%	10.0%	-4.1%
Risk Management Framework	73.8	49.9	5.9%	10.0%	-4.1%
LCIV CQS / PIMCO MAC Fund	70.6	68.9	8.1%	10.0%	-1.9%
Multi Asset Credit	70.6	68.9	8.1%	10.0%	-1.9%
Cash	51.8	24.1	2.8%	0.0%	2.8%
Total Fund	838.3	851.4	100.0%	100.0%	

At the time of writing, latest quarterly information in respect of mandates held with MIRA, Quinbrook, Permira and Churchill are unavailable. We have lagged reporting by 3 months, therefore the valuations shown are as at Q2 2022 respectively. The FX rate used is lagged and at each of these dates also.

- 2.2 The Fund's total market value increased by £13m over the quarter, from £838m to £851m.
- 2.3 Over the 3 months to 30 September 2022, total Fund assets returned -2.4% compared to the benchmark of -3.5%. This equates to an overperformance of 1,1%. Over the last 12 months, the Fund performance was -11.8%, and 3 year annualised performance was 2,5%. The annual Actuarial performance target is 4.8%.

PERFORMANCE SUMMARY

1 JULY 2022 TO 30 SEPTEMBER 2022

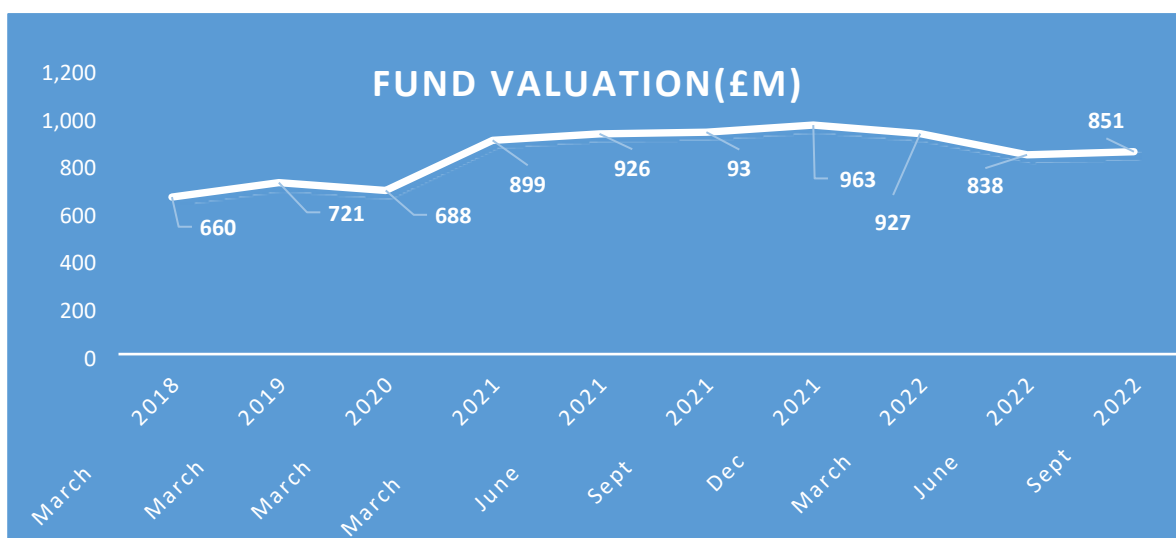
Mandate	Last 3 Months (%)			Last 12 Months (%)			Last 3 Years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
UBS Alternative Beta	0.5	0.6	-0.1	1.4	1.4	0.0	4.8	4.8	-0.0	1.1	1.1	0.0
LCIV RBC Sustainable Equity Fund	1.5	2.3	-0.7	-9.7	-1.3	-8.5	9.1	8.7	0.4	9.3	7.6	1.6
LCIV Baillie Gifford Global Alpha Growth Fund	10.5	7.6	2.7	-14.9	3.1	-17.5	8.9	10.2	-1.2	8.2	8.7	-0.4
LCIV Baillie Gifford Global Alpha Growth Paris Aligned Fund	-	-	-	-	-	-	-	-	-	-8.6	-5.6	-3.2
BlackRock World Low Carbon Equity Tracker	3.9	2.8	1.0	-3.7	-3.6	-0.1	8.5	8.3	0.2	12.1	11.9	0.2
Global Equities												
UBS GEM HALO	-2.1	-3.8	1.8	-18.1	-13.2	-5.6	-0.5	1.2	-1.6	3.0	3.2	-0.2
LCIV JP Morgan Emerging Market Equity Fund	1.4	-3.2	4.7	-15.4	-11.0	-4.9	-	-	-	2.4	0.8	1.6
Emerging Market Equities												
LCIV Ruffer Absolute Return Fund	1.8	1.1	0.6	3.3	3.7	-0.4	-	-	-	5.5	3.5	2.0
LCIV Baillie Gifford Diversified Growth Fund	-3.2	1.4	-4.6	-14.0	4.5	-17.6	-1.7	4.0	-5.5	-0.1	3.7	-3.7
Diversified Growth												
UBS Triton Property Fund	-4.1	-4.0	-0.1	14.7	13.2	1.3	8.2	7.6	0.6	1.8	1.6	0.2
BlackRock UK Property Fund	-4.5	-4.0	-0.5	11.8	13.2	-1.3	6.8	7.6	-0.8	3.0	3.3	-0.3
Henley Secure Income Propety Fund II	0.0	0.0	0.0	-	-	-	-	-	-	0.0	0.0	0.0
Property												
MIRA Infrastructure Global Solutions II L.P Fund	1.2	1.8	-0.6	8.2	7.4	0.8	6.6	6.8	-0.3	5.4	5.6	-0.2
Quinbrook Low Carbon Power LP Fund	3.8	1.8	1.9	15.2	7.4	7.2	7.3	7.4	-0.1	6.7	6.6	0.1
Quinbrook Net Zero Power Fund	-	-	-	-	-	-	-	-	-	0.5	4.6	-3.9
JP Morgan Infrastructure Fund	2.2	2.5	-0.3	7.5	10.4	-2.6	-	-	-	5.5	9.5	-3.7
Infrastructure												
Permira Credit Solutions IV Fund	-0.6	1.7	-2.2	3.3	7.0	-3.4	-	-	-	4.1	5.2	-1.1
Churchill Middle Market Senior Loan II Fund	0.4	1.7	-1.3	4.0	7.0	-2.7	2.8	6.8	-3.7	3.6	5.9	-2.2
Private Credit												
Allspring RMF Fund	-35.9	-35.9	0.0	-55.7	-55.7	0.0	-	-	-	-19.2	-19.2	0.0
Risk Management Framework												
LCIV CQS / PIMCO MAC Fund	-2.4	1.5	-3.9	-10.8	5.2	-15.2	-1.0	4.8	-5.5	0.4	4.4	-3.9
Multi Asset Credit												
Cash	-	-	-	-	-	-	-	-	-	-	-	-
Total Fund	-2.4	-3.5	1.1	-11.8	-6.4	-5.8	2.5	3.6	-1.0	5.2	4.0	1.1

Note: Q3 2022 performance figures for MIRA, Quinbrook LCP & NZPF, Permira and Churchill are lagged by 3-months due to lack of manager information at the time of writing (see comment on left). As such, the performance shown is reflective of Q2 2022.

*The LCIV Baillie Gifford Global Alpha Growth Fund 3 month performance figure is part-quarter only due to the asset transition completed mid-quarter to the LCIV Baillie Gifford Global Alpha Growth Paris Aligned Fund.

^There has some repricing of the Quinbrook Net Zero Power Fund assets over the course of the last two quarters which are captured in the Since Inception figures.

- 2.5 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.
- 2.6 The Strategic Asset Allocation (SAA) has been updated to reflect the recommendations of the 2020 Investment Strategy Review.
- 2.7 The Fund continues to move towards its target allocation and to draw down commitments for infrastructure private credit and social impact asset class.
- 2.8 The Fund moved to a diversified portfolio in 2018 and since then the Fund value has increased steadily. Over this period the Fund value has appreciated by £191m or 22%.



3.0 Market Background/Outlook

- 3.1 Equities and bonds continued to fall in tandem in September, amid persistent concern that stubbornly high inflation would lead central banks to continue raising rates at a rapid pace.
- 3.2 Global stocks lost 9.6% and have now more than reversed a rally earlier this summer for a year-to-date negative return of 25.6%.
- 3.3 The S&P 500 ended the month with a loss of 9.2% for the month and 4.9% for the quarter - marking the longest run of quarterly losses since 2009. Even defensive markets retreated, with the MSCI UK down 5% and the MSCI Switzerland down 5.8%. The largest decline was in the MSCI China, which lost 14.1%, for a negative return in the quarter of 29.5%. That reflected diminishing hopes over the prospect for a vigorous economic recovery amid a property crisis and continued COVID-19 lockdowns.
- 3.4 Equities and fixed income fell in tandem in June, capping the end to a challenging second quarter and one of the worst first halves of a year in decades for investors.
- 3.5 More market background information and LGPS updates can be found in the Hymans Quarterly performance report.

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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