

Committee:

Merton Pension Committe

Date: 30 March 2023

Wards: All

Subject: Merton Pension Fund Performance – December 2022

Lead Officer: Roger Kershaw – Interim Executive Director of Finance and Digital

Lead Member: Councillor Billy Christie - Cabinet Member for Finance

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 31 December 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 December 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 31 December 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 Robertson provides useful analysis and insights of the Pension Fund activities and results for the quarter ending 31 December 2022.

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

VALUATION SUMMARY PERIOD ENDING 31 DECEMBER 2022

- 2.2 The Fund's total market value decreased by £2.9m over the quarter, from £851.1 m to £848.2m.
- 2.3 Over the 3 months to 31 December 2022, total Fund assets returned 3.5% compared to the benchmark of 4.6%. This equates to an underperformance of 1.1%. Over the last 12 months, the Fund performance was -11.8% and 3 year annualised performance was 3.3%. The annual Actuarial performance target is 4.8%.

Mandate	Valuation (€m)		Actual Proportion	Benchmark	Relative
	Q3 22	Q4 22			
UBS Alternative Beta	45.1	47.6	5.3%	5.0%	0.3%
LCIV RBC Sustainable Equity Fund	64.5	64.1	7.6%	10.0%	-2.4%
LCIV Barile Gifford Global Alpha Growth Paris Aligned Fund	70.4	71.5	8.4%	10.0%	-1.6%
BlackRock World Low Carbon Equity Tracker	101.1	101.6	12.0%	10.0%	2.0%
Global Equities	301.1	304.7	35.3%	35.0%	0.3%
UBS GEM HXLD	47.5	47.6	5.6%	5.0%	0.6%
LCIV JP Morgan Emerging Market Equity Fund	33.3	34.1	4.0%	5.0%	-1.0%
Emerging Market Equities	80.8	81.6	9.6%	10.0%	-0.4%
LCIV Ruffer Absolute Return Fund	59.4	62.3	7.3%	5.0%	2.3%
LCIV Barile Gifford Diversified Growth Fund	48.5	34.0	4.0%	5.0%	-1.0%
Diversified Growth	107.9	96.4	11.4%	10.0%	1.4%
UBS Trilon Property Fund	19.8	16.8	2.0%	2.0%	0.0%
BlackRock UK Property Fund	8.7	7.4	0.9%	2.0%	-1.1%
Property	28.5	24.2	2.9%	5.0%	-2.1%
Hanley Secure Income Property Fund II	13.3	22.4	2.6%	1.0%	1.6%
Social Impact	13.3	22.4	2.6%	1.0%	1.6%
MIRA Infrastructure Global Solutions I LP Fund	18.8	20.4	2.4%	2.0%	0.4%
Quinbrook Low Carbon Power LP Fund	16.1	16.5	1.9%	1.5%	0.4%
Quinbrook Net Zero Power Fund	33.1	14.3	1.7%	3.0%	-1.3%
JP Morgan Infrastructure Fund	64.8	64.9	7.8%	5.0%	2.8%
Infrastructure	133.0	116.2	13.1%	11.5%	2.2%
Pemira Credit Solutions IV Fund	23.5	23.7	2.8%	4.5%	-1.7%
Churchill Middle Market Senior Loan II Fund	20.0	21.8	2.6%	3.0%	-0.4%
Private Credit	43.5	45.5	5.4%	7.5%	-2.1%
Adaptive RMF Fund	49.9	60.7	7.2%	10.0%	-2.8%
Risk Management Framework	49.9	60.7	7.2%	10.0%	-2.8%
LCIV CQS / PIMCO MAC Fund	68.9	71.8	8.5%	10.0%	-1.5%
Multi Asset Credit	68.9	71.8	8.5%	10.0%	-1.5%
Cash	24.1	24.7	2.9%	0.0%	2.9%
Total Fund	851.1	848.2	100.0%	100.0%	

At the time of writing, latest quarterly information in respect of mandates held with MIRA, Quinbrook, Pemira and Churchill are unavailable. We have lagged reporting by 3 months, therefore the valuations shown are as at Q3 2022 respectively. The FX rate used is lagged and at each of these dates also.

PERFORMANCE SUMMARY

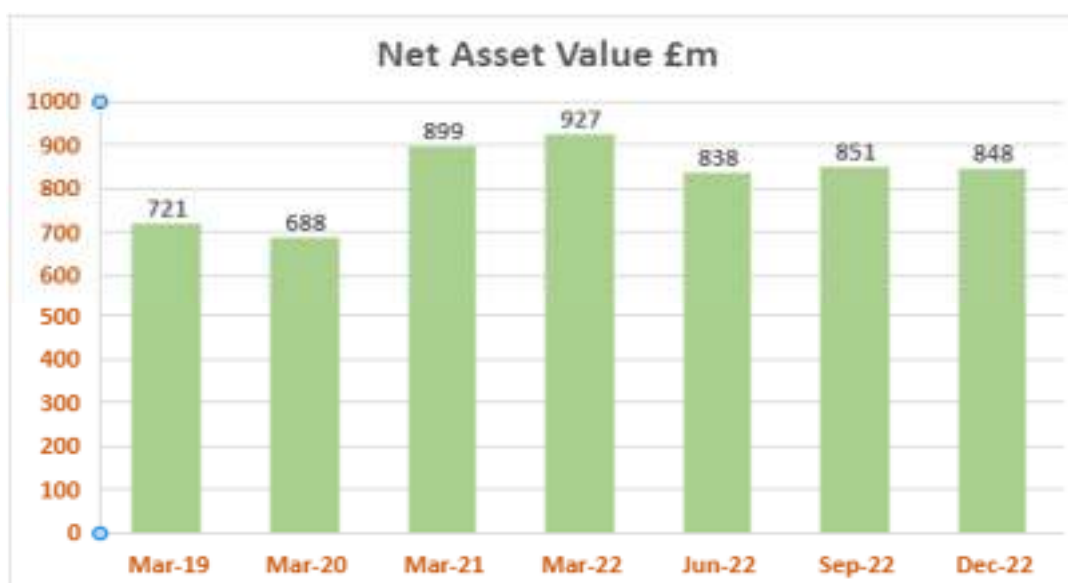
1 OCTOBER 2022 TO 31 DECEMBER 2022

Mandate	Last 3 Months (%)			Last 12 Months (%)			Last 5 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	5.5	5.4	0.0	-0.4	-0.4	0.0	6.4	6.4	0.0	1.3	1.3	0.0
LCV RBC Sustainable Equity Fund	-0.5	2.4	-2.9	-15.6	-6.0	-10.3	7.9	9.3	-1.3	4.6	7.7	-3.0
LCV Baillie Gifford Global Alpha Growth Paris Aligned Fund	1.2	1.8	-0.4	-	-	-	-	-	-	-7.8	-4.1	-3.8
BlackRock World Low Carbon Equity Tracker	0.5	2.4	0.1	-9.4	-9.0	0.5	8.2	8.0	0.2	11.5	11.2	0.2
Global Equities												
UBS GENFALO	0.2	1.8	-1.6	-15.3	-10.0	-5.5	-2.4	0.4	-2.8	2.9	3.4	-0.5
LCV JP Morgan Emerging Market Equity Fund	2.8	2.4	-0.2	-9.5	-7.8	-1.5	3.0	1.5	1.4	2.9	1.5	1.4
Emerging Market Equities												
LCV Ruffer Absolute Return Fund	4.9	1.4	3.4	6.9	4.4	2.4	-	-	-	7.4	3.8	3.5
LCV Baillie Gifford Diversified Growth Fund	1.5	1.6	-0.1	-15.8	5.1	-21.3	-2.1	4.2	-6.0	2.2	3.8	-1.5
Diversified Growth												
UBS Trion Property Fund	-16.2	-14.1	-1.3	-9.0	-9.5	0.6	2.4	2.2	0.2	0.8	0.7	0.1
BlackRock UK Property Fund	-14.2	-14.1	-0.1	-10.0	-9.5	-0.6	1.2	2.2	-0.9	1.1	1.4	-0.3
Property												
Heidex Secure Income Property Fund II	3.9	1.5	2.4	-	-	-	-	-	-	1.0	3.0	-1.4
Social Impact												
MIRA Infrastructure Global Solutions II L.P. Fund	-2.3	1.8	-4.0	4.3	7.4	-2.9	8.1	7.4	0.8	4.4	5.7	-1.2
Quinbrook Low Carbon Power LP Fund	1.5	1.8	-0.3	16.8	7.4	8.7	5.8	7.4	-1.5	5.7	5.6	0.1
Quinbrook Net Zero Power Fund	-	-	-	-	-	-	-	-	-	-3.0	5.0	-8.4
JP Morgan Infrastructure Fund	8.0	2.5	5.4	14.6	10.4	3.8	8.2	10.4	-2.0	7.6	5.6	-1.8
Infrastructure												
Perma Credit Solutions IV Fund	0.7	1.7	-1.0	2.3	7.0	-4.4	-	-	-	4.0	5.3	-1.3
Churchill Middle Market Senior Loan II Fund	1.3	1.7	-0.4	4.1	7.0	-2.7	5.8	6.7	-1.1	3.7	5.0	-2.2
Private Credit												
Aisling RWF Fund	36.5	36.5	0.0	-42.8	-42.8	0.0	-	-	-	-5.0	-5.0	0.0
Risk Management Framework												
LCV Q&S / PMCO MAC Fund	4.1	1.8	2.3	-6.0	5.9	-11.1	-0.1	5.0	-4.8	1.2	4.6	-3.2
Multi Asset Credit												
Cash	-	-	-	-	-	-	-	-	-	-	-	-
Total Fund	3.5	4.5	-1.1	-11.6	-6.1	-6.2	-3.8	4.7	-1.4	5.7	4.3	0.8

Note: Q4 2022 performance figures for MIRA, Quinbrook LCP & NZPF, Perma 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 Q3 2022.

- 2.5 The fourth quarter brought resilient data on economic activity, a peak in headline inflation, reduced risk of European energy rationing and China's economic re-opening. This eased concerns about the downside risks to global growth this year.
- 2.6 Global equities rallied strongly from their October low, credit spreads tightened significantly, and the dollar fell sharply from its peak early in the fourth quarter.
- 2.7 From an asset class perspective:
- The majority of equity mandate also contributed positively to returns.
 - The diversified growth funds also contributed positive returns
 - The UK property funds detracted
 - The Risk Management Framework contributed positively as gilt yields fell and dollar weakened.

- The majority of equity mandate also contributed positively to returns.



3.0 Market Background/Outlook

- 3.1 As we entered the fourth quarter of 2022, a challenging winter lay ahead. Major markets struggled and the global economy faced multiple headwinds which seemed increasingly likely to end in recession. Russia already faced a sharp recession due to Western sanctions; China's economy contracted due to their stringent zero-Covid policies and in Europe the energy price hikes looked hawkish to the prospects of the economy.
- 3.2 The global equity market rally that started in October ran out of the steam in the last month of the year, amid renewed anxiety over the pace of central bank tightening and the deteriorating growth outlook.
- 3.3 Global equities lost ground in December, as worries over the pace of central bank tightening resurfaced. All major markets except China moved lower. The largest decline was in the S&P 500, with a total return of minus 5.8%. Japan was also among the biggest losers for the month after the BoJ surprised markets by saying it would tolerate a higher yield on 10-year government bonds. The MSCI Japan lost 5.2%. More defensive markets fared better, with the MSCI UK giving a negative total return of 1.4%. The Swiss market lost 3.6%. China was a bright spot. The market was boosted by a swift move toward reducing COVID-19 restrictions.
- 3.4 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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