

Committee:
Merton Pension Committee

Date: 29 June 2023

Wards: All

Subject: Merton Pension Fund Performance – Quarter ending March 2023

Lead Officer: Roger Kershaw – Assistant Director of Resources
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 March 2023, 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 2023. 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 2023. 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 March 2023.

The following table shows the total Fund valuation for the quarter ended March 2023.

VALUATION SUMMARY

PERIOD ENDING 31 MARCH 2023

Asset Allocation

Mandate	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q4 22	Q1 23			
UBS Alternative Beta	47.6	49.0	5.6%	5.0%	0.6%
LCIV RBC Sustainable Equity Fund	84.1	84.3	9.7%	10.0%	-0.3%
LCIV Baillie Gifford Global Alpha Growth Paris Aligned Fund	71.5	74.8	8.6%	10.0%	-1.4%
BlackRock World Low Carbon Equity Tracker	101.6	104.8	12.0%	10.0%	2.0%
Global Equities	304.7	312.8	35.9%	35.0%	0.9%
UBS GEM HALO	47.6	47.4	5.4%	5.0%	0.4%
LCIV JP Morgan Emerging Market Equity Fund	34.1	35.0	4.0%	5.0%	-1.0%
Emerging Market Equities	81.6	82.4	9.5%	10.0%	-0.5%
LCIV Ruffer Absolute Return Fund	62.3	61.7	7.1%	5.0%	2.1%
LCIV Baillie Gifford Diversified Growth Fund	34.0	24.7	2.8%	5.0%	-2.2%
Diversified Growth	96.4	86.4	9.9%	10.0%	-0.1%
UBS Triton Property Fund	16.8	17.0	1.9%	2.5%	-0.6%
BlackRock UK Property Fund	7.4	7.4	0.8%	2.5%	-1.7%
Property	24.2	24.3	2.8%	5.0%	-2.2%
Henley Secure Income Property Fund II	22.4	30.2	3.5%	1.0%	2.5%
Social Impact	22.4	30.2	3.5%	1.0%	2.5%
MIRA Infrastructure Global Solutions II L.P Fund	20.4	21.1	2.4%	2.0%	0.4%
Quinbrook Low Carbon Power LP Fund	17.8	16.7	1.9%	1.5%	0.4%
Quinbrook Net Zero Power Fund	14.3	17.3	2.0%	3.0%	-1.0%
JP Morgan Infrastructure Fund	64.9	64.1	7.4%	5.0%	2.4%
Infrastructure	117.5	119.2	13.7%	11.5%	2.2%
Permira Credit Solutions IV Fund	23.7	25.2	2.9%	4.5%	-1.6%
Permira Solutions V Fund	5.2	6.2	0.7%	0.0%	0.7%
Churchill Middle Market Senior Loan II Fund	21.8	20.1	2.3%	3.0%	-0.7%
Private Credit	50.6	51.6	5.9%	7.5%	-1.6%
Allspring RMF Fund	60.7	66.0	7.6%	10.0%	-2.4%
Risk Management Framework	60.7	66.0	7.6%	10.0%	-2.4%
LCIV CQS / PIMCO MAC Fund	71.8	73.3	8.4%	10.0%	-1.6%
Multi Asset Credit	71.8	73.3	8.4%	10.0%	-1.6%
Cash	19.3	25.5	2.9%	0.0%	2.9%
Total Fund	849.4	871.6	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 Q4 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 £22.2m over the quarter, from £849.4m to £871.6m.
- 2.3 Over the 3 months to 31 March 2023, total Fund assets returned 2.4% compared to the benchmark of 3.5%. This equates to an underperformance of 1.1%. Over the last 12 months, the Fund performance was -5.9% and 3 year annualised performance was 8.8%. The annual Actuarial performance target is 4.2%.

PERFORMANCE SUMMARY

1 JANUARY 2023 TO 31 MARCH 2023

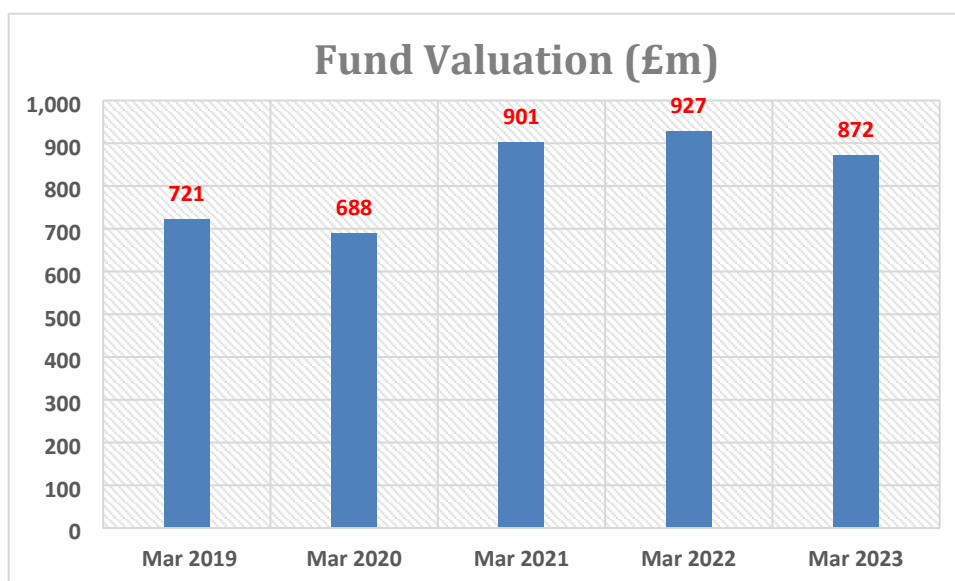
Mandate	Last 3 Months (%)			Last 12 Months (%)			Last 3 Years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
UBS Alternative Beta	2.9	2.8	0.1	2.4	2.4	0.0	11.6	11.6	0.0	1.4	1.4	0.0
LCIV RBC Sustainable Equity Fund	0.2	5.3	-4.9	-7.7	1.0	-8.6	13.8	17.7	-3.3	8.2	8.5	-0.2
LCIV Baillie Gifford Global Alpha Growth Paris Aligned Fund	4.6	5.8	-1.1	-	-	-	-	-	-	-3.3	1.4	-4.7
BlackRock World Low Carbon Equity Tracker	3.2	3.0	0.1	-4.1	-4.7	0.6	15.2	15.3	-0.1	11.6	11.3	0.2
Global Equities												
UBS GEM HALO	-0.6	1.1	-1.7	-7.1	-5.0	-2.2	4.1	8.6	-4.2	2.6	3.5	-0.9
LCIV JP Morgan Emerging Market Equity Fund	2.8	1.8	1.1	-0.9	-2.5	1.7	10.9	9.3	1.5	3.6	1.9	1.6
Emerging Market Equities												
LCIV Ruffer Absolute Return Fund	-1.1	1.7	-2.7	1.2	5.3	-3.9	-	-	-	6.0	4.1	1.8
LCIV Baillie Gifford Diversified Growth Fund	2.2	1.8	0.4	-8.4	6.0	-13.6	3.8	4.4	-0.7	0.6	4.0	-3.2
Diversified Growth												
UBS Triton Property Fund	1.8	-0.2	2.0	-14.7	-14.5	-0.3	3.3	2.6	0.7	0.9	0.7	0.2
BlackRock UK Property Fund	0.0	-0.2	0.2	-15.7	-14.5	-1.4	2.1	2.6	-0.5	1.1	1.4	-0.3
Property												
Henley Secure Income Property Fund II	-2.6	1.5	-4.0	-	-	-	-	-	-	1.6	4.6	-2.8
Social Impact												
MIRA Infrastructure Global Solutions II L.P. Fund	4.9	1.8	3.1	6.5	7.4	-0.8	7.5	7.4	0.1	5.3	5.8	-0.4
Quinbrook Low Carbon Power LP Fund	1.3	1.8	-0.5	11.3	7.4	3.7	9.0	7.4	1.5	6.6	6.7	-0.1
Quinbrook Net Zero Power Fund	1.7	1.5	0.2	-	-	-	-	-	-	-1.1	6.0	-6.7
JP Morgan Infrastructure Fund	2.7	2.5	0.2	15.3	10.4	4.4	8.6	10.4	-1.6	7.8	9.6	-1.6
Infrastructure												
Permira Credit Solutions IV Fund	2.4	1.7	0.6	2.8	7.0	-3.9	-	-	-	4.4	5.4	-1.0
Permira Solutions V Fund	-	-	-	-	-	-	-	-	-	-	-	-
Churchill Middle Market Senior Loan II Fund	2.4	1.7	0.7	5.2	7.0	-1.7	4.8	7.0	-2.1	4.1	6.1	-1.9
Private Credit												
Allspring RMF Fund	10.4	10.4	0.0	-30.9	-30.9	0.0	-6.1	-6.1	0.0	-5.5	-5.5	0.0
Risk Management Framework												
LCIV CQS / PIMCO MAC Fund	2.2	2.0	0.1	-4.3	6.9	-10.5	7.1	5.3	1.7	1.6	4.8	-3.0
Multi Asset Credit												
Cash	-	-	-	-	-	-	-	-	-	-	-	-
Total Fund	2.4	3.5	-1.0	-5.9	-1.7	-4.3	8.8	9.1	-0.2	5.9	5.3	0.6

Note: Q1 2023 performance figures for MIRA, Quinbrook LCP & NZPF, Permira IV 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 Q4 2022.

2.4 From an asset class perspective:

- All equities mandates with the exception of UBS GEM HALO, contributed positively to overall performance.
- Of the two diversified growth funds the LCIV Ruffer fund detracted whilst the LCIV Baillie Gifford fund contributed positively in a reversal of previous quarters.
- Real assets (property & infrastructure both recorded absolute gains. (With the exception of Henley.)
- The Risk Management Framework contributed positively as gilt yields fell and dollar weakened.

The chart below shows the Funds's net asset value for the past five years.



3.0 Market Background/Outlook

- 3.1 Worries over the health of the banking system on both sides of the Atlantic were the main preoccupation for investors in March. The concerns contributed to a sharp fall in government bond yields, with investors assuming that economic headwinds from the banking system would lead to an early end to central bank rate hikes.
- 3.2 Equity markets gained in March and over the quarter, pointing to confidence that regulators had acted with sufficient speed and force to avert a full-blown banking crisis. But confidence is fragile, market volatility is likely to stay high, and policymakers may have to go further to make sure faith in the global financial system stays solid.
- 3.3 The best-performing market in March was China, which returned 4.3% amid continued confidence over the economic outlook following the end of pandemic restrictions. The worst performer on the month was the UK, with a loss of 2.7%.
- 3.4 More market background information and LGPS updates can be found in the Hymans 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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