REPORT TO:	**PENSION COMMITTEE** **16 March 2021**
SUBJECT:	**Progress Report for Quarter Ended 31 December 2020**
LEAD OFFICER:	**Nigel Cook** **Head of Pensions and Treasury**
CORPORATE PRIORITY/POLICY CONTEXT: **Sound Financial Management**: Reviewing and ensuring that the performance of the Council's Pension Fund investments are in line with their benchmark and in line with the assumptions made by the Actuary.	
FINANCIAL SUMMARY: This report shows that the market value of the Pension Fund (the Fund) investments as at 31 December 2020 was £1,489m compared to £1,402m at 30 September 2020, an increase of £87m and a return of 5.8% over the quarter. The performance figures, Independent information and analysis on the fund managers and markets have been provided by the Fund's independent investment advisor Mercer.	
FORWARD PLAN KEY DECISION REFERENCE NO.: N/A	

1 RECOMMENDATIONS

1.1 The Committee is asked to note the performance of the fund for the quarter.

2 EXECUTIVE SUMMARY

2.1 This report provides an update on the London Borough of Croydon Pension Fund's (the Fund's) performance for the quarter to 31 December 2020. The report falls into four parts. Section 1 addresses performance against strategic goals. The second section considers the asset allocation strategy and how that is being applied, specifically current and planned investments. The third section deals with risk management and the fourth and final section summarises the recent investment manager site visit. Detailed numeric data and commentary from the Fund's advisors is included as appendices to this report.

3 DETAIL

Section 1: Performance

3.1 The 2019 Triennial Actuarial Valuation showed a whole of fund funding position of 88% using a future investment return assumption (otherwise described as the discount rate) of 4.0% p.a. The Fund would be 100% funded if an assumed investment return of 4.8% p.a. is used. In setting the Pension Fund's investment strategy, performance is measured against a benchmark return of CPI + 4% for the whole fund. Achieving this benchmark return will ensure the investments achieve a higher return than as calculated in the valuation and on the basis that other assumptions remain constant, the funding gap will close.

3.2 Since the valuation date the Fund has returned 17.3% against an assumed return of 7.1%. This has had a positive impact on the funding level.

3.3 Details of the performance of individual components of the portfolio are detailed in the report produced by the Fund's investment advisors in Appendix A of the part B report.

Section 2: Asset Allocation Strategy

3.4 The current asset allocation strategy was approved at the Committee meeting held on 17 March 2020 (Minute 24/20 refers). The portfolio now reflects the proportions described in that strategy, allowing for the vagaries of the market.

3.5 The target portfolio can be broken down as follows:

Asset Class		***Target Allocation***	***Allowable Tolerance***
Equities including allocation to emerging markets.		40%	+/- 5%
Fixed interest		20%	+/- 5%
Alternates		40%	+/- 5%
Comprised of:			
Private Equity	10%		
Infrastructure	14%		
Property (Commercial & Residential)	16%		
Cash			
Total		**100%**	

3.6 **Monitoring of asset allocation**

3.6.1 **Global Equity –** The Global Equity portfolio continued to be the main contributor to the positive performance of over the quarter. The LGIM Developed World (ex-Tobacco) Equity fund returned 10.3% and the LCIV Sustainable Equity Exclusion Fund RBC returned 11.8%.over the quarter giving a combined return of 10.4%. The hedged element of the LGIM Developed World (ex-Tobacco) Equity fund continues to have a positive impact on the performance of the Fund. As at 31 December 2020 the Fund's allocation to global equities stood at 44.5% which is a slight increase from the previous quarter, but remains within the target range.

3.6.2 **Fixed Interest** – During the quarter the returns of the three fixed interest managers were all positive and returned an overall 2.4%. At 21.2% the allocation to this asset class remains well within the tolerance agreed for the target allocation of the Fund.

3.6.3 **Infrastructure –** Due to the nature of the assets performance of Infrastructure investments and indeed Private Equity, discussed in more detail below, is better measured over a period of time, rather than on a quarter by quarter basis. The timing of receipt of valuations and production of this report means that the majority of the valuations have a 3 month time lag and so the performance for the quarter appears flat. However, it is worth noting that the Access fund is denominated in Euros and I Squared is in US dollars, and so the performance of these funds is adversely effected when Sterling strengthens. Over the quarter Sterling gained 1.3% against the Euro and 5.7% against the US Dollar. Over the long term the effects of currency movements should be largely negated due to the recycling of distributions into the future generation of new Funds. Also worth noting is the Equitix portfolio was adversely effected by the Equitix Energy Efficiency fund. The asset allocation is at 11.9% and is moving towards the target allocation of 14% as the Funds move through their investment periods.

3.6.4 **Private Equity** – .Private Equity showed strong positive return over the quarter, this despite adverse currency movements as the Funds are denominated in either Euros or US dollars. This part of the portfolio was maintained at 8.8% of the Fund which is slightly under the target allocation of 10%.

3.6.5 **Traditional Property** – The Fund's allocation to the Schroders portfolio is 8.5%. This is below the target set at 10%. As per last quarter although the Fund is below its target allocation; officers do not consider it appropriate to top up this part of the portfolio further at this time. The portfolio is well positioned and returned a positive 2.2% over the quarter and continues to proves its resilience despite the apparent headwinds caused by the uncertain future due to the Covid-19 pandemic.

3.6.6 **Private Rental Sector –** The Fund's total commitment of £60m is now fully invested in the PRS mandate. The allocation is at 4.2% which is below the original target of 6%. This is mainly due to the good performance experienced by the rest of the portfolio, the stagnation of UK house prices and the effects of the Covid-19 pandemic. The mandate continues to perform well compared to the peer group. Although the Fund is below its target allocation, officers do not consider it appropriate to top up this part of the portfolio further at this time.

3.6.8 The table below illustrates the movement in the Fund's valuation during the quarter and the current asset allocation against the target.

London Borough of Croydon Pension Fund
Fund valuation and asset allocation for the quarter ending 31 December 2020

	Valuation at 01/10/2020 £'000	Net cashflow £'000	Gain/Loss £'000	Valuation at 31/12/2020 £'000	Asset allocation Fund percentage	Asset allocation target percentage
Equities					44.5%	40%
Legal & General FTSE World (Ex Tobacco)	531,921	-	54,564	586,485		
LCIV RBC	67,617	-	8,015	75,632		
Fixed Interest					21.2%	20%
Standard Life	140,956	-	3,929	144,885		
Wellington	74,034	-	944	74,979		
LCIV Global Bond	92,396	-	2,658	95,054		
Infrastructure					11.9%	14%
Access	22,301	4,739	- 85	26,955		
Temporis	27,398	1,724	401	29,524		
Equitix	80,580	2,423	- 196	82,807		
Macquarie GIG Renewable Energy	21,231	- 689	480	21,022		
I Squared	18,000	- 487	- 49	17,463		
Private Equity					8.8%	10%
Knightsbridge	36,789	- 156	3,601	40,234		
Pantheon	63,203	- 1,238	4,094	66,058		
Access	16,699	596	- 225	17,070		
North Sea	6,911	921	189	8,021		
Property					8.5%	10%
Schroders	123,557	-	2,781	126,337		
Property PRS					4.2%	6%
M&G	61,938	-	22	61,960		
Cash					0.9%	0%
Legal & General FTSE4Good Cash	606	-	49	655		
Cash	16,073	- 2,620	-	13,453		
Fund Total	1,402,211	5,212	81,173	1,488,595	1	100%

Valuations are based on the bid price as reported by the Fund Managers. The valuations of the Infrastructure and Private Equity funds are the latest available and can be lagged by 3 months.

Section 3: Risk Management

3.7 The principle risk addressed by the Funding Strategy is that returns on investment will fall below the target asset outperformance assumption to ensure that the Pension Fund matches the value of liabilities in the future. The Committee should note the specific entries in the Pension Fund Risk Register when considering this Progress Report.

3.8 The global economy continues to present both opportunities and challenges to the investor. The three components of the portfolio – equities, fixed interest and alternatives – should perform differently in respect of economic stresses to give an aggregate performance in line with the target described above. These different scenarios currently include: frictionless trade for the UK post Brexit; Europe and the Eurozone crisis; the recovery of the US economy; the development of the Chinese economy; environmental and climate issues; global debt and inflation; emerging markets; and conflicts around the globe.

3.9 Much attention is focused on the current Covid pandemic, appropriately considering the personal impact on a great number of people. At the present some economies are responding to stimulus packages, masking the true impact of the crisis; others are simply struggling to contain and treat the pandemic, whilst for many countries the impact is yet to be understood or assessed. The Croydon portfolio is exposed to each of these markets: the US, Europe, the Indian sub-continent, Far East and emerging economies, so the benefits and concerns are offset in the aggregate returns. The current portfolio was designed with diversity in mind to ensure that such events could be mitigated and to date we have not experienced the phenomenon whereby asset classes tended to all correlate. By and large the portfolio has performed as expected and returns have held up. No reactive measures are required.

3.10 Mercer, the Fund's investment advisor, have drafted two reports covering the recent period, one analysing performance and the other the state of the markets. These reports are included in Part B of this Committee agenda.

Section 4: Investment Manager Visits

3.11 Officers have continued to maintain contact with the Fund's investment managers and advisors throughout the lockdown period. Specifically they have met with:

Schroders, Macro and Market Outlook (January);
London (CIV) Low Carbon Seed Investment Group (January)
Pantheon (January)
Mercer (February)
Insticube (February)

4 CONSULTATION

4.1 Officers have fully consulted with the Pension Fund's advisers in preparing this report.

5 FINANCIAL CONSIDERATIONS

5.1 This report deals exclusively with the investment of the Council's Pension Fund and compares the return on investment of the Fund against the benchmark return.

6. LEGAL CONSIDERATIONS

6.1 The Head of Litigation and Corporate Law comments on behalf of the Director of Law and Governance that there are no direct legal implications arising from the recommendations within this report.

Approved by: Sandra Herbert, Head of Litigation and Corporate Law on behalf of the Director of Law and Governance and Deputy Monitoring Officer.

7. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

7.1 This report contains only information that can be publicly disclosed. The confidential information is reported in the closed part of the agenda.

CONTACT OFFICER:

Nigel Cook – Head of Pensions and Treasury
Resources Department, ext. 62552.

BACKGROUND DOCUMENTS:

Included in Part B of the agenda.
Quarterly reports from each fund manager (circulated under separate cover to the Committee Members.)

Appendices:

There are no part A appendices.

Part B appendices:

Pursuant to Schedule 12A paragraph 3: Information relating to the financial or business affairs of any particular person (including the authority holding that information), the following appendices are considered to be precluded from publication:

Appendix A: London Borough of Croydon Returns to 31 December 2020, Mercer

Appendix B: Market Background and Market View Q3 2020, Mercer