Croydon Council

REPORT TO:	**PENSION COMMITTEE** **14 June 2022**
AGENDA ITEM:	
SUBJECT:	**Part A - Progress Report for Quarter Ended 31 March 2022**
LEAD OFFICER:	**Matthew Hallett** **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 March 2022 was £1,727.9.m compared to £1,750.3m at 31 December 2021, a decrease of £22.4m and a return of -1.3% 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 ended 31 March 2022.

2 EXECUTIVE SUMMARY

2.1 This report provides an update on the Fund's performance for the quarter to 31 March 2022. 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 At the 2019 Triennial Actuarial Valuation the whole of fund funding position was 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. was 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 made a cumulative return of 37.5% against a return of 12.5% assumed by the valuation. This has had a positive impact on the funding level.

Section 2: Asset Allocation Strategy

3.3 The Pension Committee discussed changes to the current asset allocation strategy at the Committee meeting held on 17 March 2020 (Minute A27/20 refers). However, reviewing the current allocation it is apparent that the target allocation cannot yet be applied as it has not been formally adopted because, as per the Minute – "Officers pointed out that they were not able to give investment advice and the Pension Fund's investment adviser had not been given the opportunity to offer appropriate advice to inform the decision." The prudent option is therefore to measure allocation against the prior allocation. This option is supported by the Scheme's investment advisors. Any proposal to amend this asset allocation will require a period of consultation with such persons as it considers appropriate.

3.4 The target portfolio can be broken down as follows:

Asset Class		***Target Allocation***	***Allowable Tolerance***
Equities including allocation to emerging markets. Fixed interest Alternates *Comprised of:*		42% 23% 34%	+/- 5% +/- 5% +/- 5%
Private Equity Infrastructure Property	8% 10% 16%		
	Cash	**1%**	
	Total	**100%**	

3.6 **Monitoring of asset allocation**

3.6.1 **Global Equity –** Global equities were broadly negative during the quarter as inflation pressures continued to mount, geopolitical tensions escalated, and Russia invaded the Ukraine. The equity investments held by Fund do not have any direct exposure to Russia or the Ukraine but suffered as a result of the general sell off in equity markets. The Global equity return for the quarter was -4.18%.
The LGIM Developed World (ex-Tobacco) Equity fund returned -3.54% for the quarter, although the return for the year was 12.86%.
The LCIV RBC fund returned -9.06% over the quarter experiencing one of is worst quarters since inception. The return for the year was 10.08% which is 5.31% below the MSCI World Total Return benchmark. The fund continues to outperform the benchmark since inception.
Global equities are now at 45.2% compared to the target allocation of 42% with a 5% tolerance. This has largely been due to equity returns significantly outpacing most of the other areas of the portfolio over the last few years.

3.6.3 **Fixed Interest** – During the quarter our fixed interest investments posted a negative return of -7.24% with Aberdeen Standard -5.33%, Wellington -6.37% and the LCIV Global Bond -10.71%.
Losses in the global bond markets were characterised by rising inflation and the expectations surrounding the path of monetary policy. Russia's invasion of the Ukraine also led to pressure on the bond market especially as external Russian debt traded at distressed levels. The allocation is now stand at 16.4% which is outside the target allocation of 23% allowing for a 5% tolerance. This is largely due to the poor performance of bonds.

3.6.2 **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. All the Fund's Infrastructure investments are performing in line with their targets. The renewable investments have performed particularly well due to increased inflation expectations and increases in power prices, both of which have a positive impact on the returns. The allocation currently stands at 12.3% compared to a target of 10%.

3.6.4 **Private Equity** – Our Private Equity managers continue to perform extremely well and have been the main contributor to positive returns over the last few years. The performance of private equity investments tends to follow the same direction as global equities. Note the valuations tend to be lagged so the positive returns are largely as a result of the previous quarter. The allocation is at 10.8% which is above the target allocation of 8%.

3.6.5 **Property** – The Property allocations showed good performance over the quarter and now stand at 12.7% of the Fund. This is well short of the target of 16% and is largely as a result of the excess returns from global equities. Commercial property investments suffered as a result of COVID-19, but are now showing positive returns.

3.6.6 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 March 2022

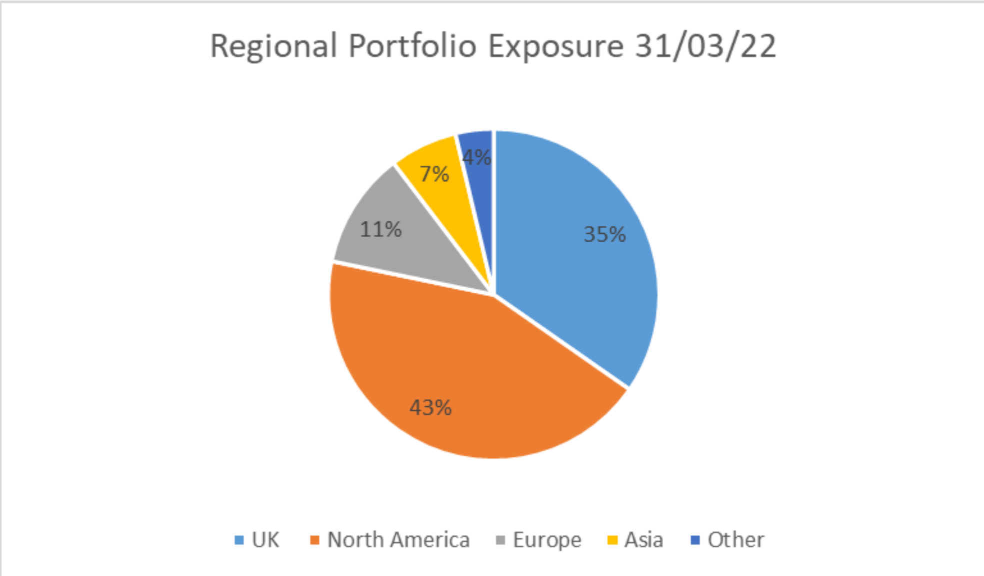
	Valuation at 31/12/2021 £'000	Net cashflow £'000	Gain/Loss £'000	Valuation at 31/03/2022 £'000	Asset allocation Fund percentage	Asset allocation target percentage
Equities					45.2%	42%
Legal & General FTSE World (Ex Tobacco)	721,648	-	- 25,667	695,982		
LCIV RBC	92,813	-	- 8,372	84,441		
LCIV	150			150		
Fixed Interest					16.4%	23%
Standard Life	139,574	-	- 7,441	132,133		
Wellington	71,576	-	- 4,556	67,020		
LCIV Global Bond	94,564	-	- 10,123	84,441		
Infrastructure					12.3%	10%
Access	29,667	907	1,268	31,842		
Temporis	57,850	- 9,000	7,180	56,030		
Equitix	75,169	271	- 303	75,137		
Macquarie GIG Renewable Energy	23,809	- 1,482	-	22,327		
I Squared	23,688	1,392	1,730	26,810		
Private Equity					10.8%	8%
Knightsbridge	65,276	1,088	8,352	74,715		
Pantheon	73,324	- 2,963	3,617	73,978		
Access	22,795	- 2,433	1,352	21,714		
North Sea	15,133	-	1,256	16,388		
Property					12.7%	16%
Schroders	148,204	-	7,544	155,747		
M&G	63,226	- 201	1,165	64,190		
Cash					2.6%	1%
Legal & General FTSE4Good Cash	738	-	3	741		
Cash	31,084	13,022	-	44,106		
Fund Total	1,750,287	602	- 22,994	1,727,895	100%	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.

3.7 Regional Exposure

3.7.1 The Committee asked for an indication of the geographical dispersion of the underlying assets comprising the portfolio. This is set out graphically in the chart below. This information is for illustrative purposes only. It should be noted that there are differences in the period represented as some data is updated far more frequently than others.

Graph 2: Geographic dispersion of funds.



3.7.2 The descriptor Asia includes Japan, Korea and Australia. The rest of the world (RoW) includes the continent of Africa and Latin America.

3.7.3 It should be noted that of the 35% invested in the UK 12.7% is allocated to Property and 8.9% to Infrastructure. The majority of the Private Equity and Global Equity investments are in the US and Canada.

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. Dependent upon that are of course a number of issues.

3.8 The global economy will always represent a specific risk and opportunity for the Fund and will effectively be impossible to quantify or evaluate. As each asset class, investment strategy and characteristic will be impacted differently by any number of macroeconomic scenarios it is critical to ensure that the portfolio is sufficiently diversified. This will ensure that opportunities can be exploited and downside volatility reduced as far as possible.

3.9 Mercer, the Fund's investment adviser, have drafted a Fund Monitoring Report, for the 3 months to 31 March 2022. These reports are included in Part B of this Committee agenda.

Section 4: Investment Manager Visits

3.10 There were no manager meetings held in the quarter.

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.

Approved by: Matt Davis, Interim Director of Finance on behalf of Jane West, Corporate Director of Resources (Section 151 Officer)

6. LEGAL CONSIDERATIONS

6.1 . Burges Salmon LLP (a legal advisor appointed to the Pension Fund) comments that there are no direct legal implications arising from the recommendations within this report.

The Committee must, however, be mindful of their fiduciary duty to make investment decisions in the best long-term interests of scheme beneficiaries and taxpayers within the investment strategy framework.

7. HUMAN RESOURCES IMPACT

7.1 There are no direct workforce implications arising from the recommendations within this report.

Approved by: Gillian Bevan, Head of Human Resources on behalf of Dean Shoesmith, Chief People Officer

8. EQUALITIES IMPACT

8.1 There are no equalities impacts arising from this report.

9. ENVIRONMENTAL IMPACT

9.1 There are no environmental impacts arising from this report.

10. CRIME AND DISORDER REDUCTION IMPACT

10.1 There are no crime and disorder impacts arising from this report.

11. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

11.1 This report and Appendices contain confidential information which could be of a sensitive nature, disclosure of which could prejudice the commercial interest of the companies involved and those of the Council's Pension Fund and will be reported in the closed part of the agenda. On application of the public interest test it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

CONTACT OFFICER:

Matthew Hallett, Acting Head of Pensions and Treasury,

BACKGROUND DOCUMENTS:

Included in Part B of the agenda.
Quarterly reports from each fund manager (circulated under separate cover to the Committee Members.) Exempt pursuant to Schedule 12A paragraph 3 of the Local Government Act 1972 as amended.

Appendices:

There are no part A appendices.

Part B appendices:

Exempt 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 March 2022, Mercer

Appendix B: Market Background and Market View Q4 2022, Mercer