REPORT TO:	**PENSION COMMITTEE** **11 October 2022**
SUBJECT:	**Part A -Progress Report for Quarter Ended 30 June 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 (the 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 Fund investments as at 30 June 2022 was £1,633.8m compared to £1,731.3m at 31 March 2022, a decrease of £97.5m and a return of -4.77% 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 30 June 2022.

2 EXECUTIVE SUMMARY

2.1 This report provides an update on the Fund's performance for the quarter to 30 June 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.

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 31.2% against a return of 13.6% 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.		42%	+/- 5%
Fixed interest		23%	+/- 5%
Alternates		34%	+/- 5%
Comprised of:			
Private Equity	8%		
Infrastructure	10%		
Property	16%		
	Cash	**1%**	
	Total	**100%**	

3.6 **Monitoring of asset allocation**

3.6.1 **Global Equity –** Global equities continued to perform poorly in the last quarter, with high levels of volatility. This reflects the increased risk of recession because of more aggressive action to curb inflation, concerns over the pace of growth in China and risks to global supply chains.
The Global equity return for the quarter was -11.42% with LGIM Developed World (ex-Tobacco) Equity fund returning -11.77% and the LCIV RBC fund returning -8.54% Global equities are now at 42.3% compared to the target allocation of 42%.

3.6.3 **Fixed Interest** – During the quarter our fixed interest investments continued on the downward path posting a negative return of -6.2%, with Aberdeen Standard -4.57%, Wellington -7.34% and the LCIV Global Bond -7.63%. The protection offered by the Aberdeen Absolute Return Fund shielded the loses slightly.
Volatility has also been a feature of the bond markets, with the release of data on inflation and growth punctuated by sharp swings in yields. One more recent development is the deterioration in the performance of credit, with an acceleration in the widening of spreads in the investment grade and high yield markets. The combination of rising yields on government bonds and widening spreads has led to the experienced over the quarter. Th overall allocation is 16.5% which is outside the target allocation of 23% allowing for a 5% tolerance. This is largely due to the poor performance of bonds when compared to the other asset classes.

3.6.2 **Infrastructure** – Due to the nature of these assets, performance of Infrastructure investments and indeed Private Equity, discussed in more detail below, is better measured over a period of time, rather than quarter by quarter. All the Fund's Infrastructure investments are performing in line with their targets. The renewable investments have performed particularly well recently 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 13.4% 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 performance from the previous quarter. The majority of our private equity investments are priced in foreign currency so the increase in valuations has largely been as a result of the fall in Sterling. Over the quarter the assets have grown from £186.8m to £193.3m which has increased the allocation from 10.8% to 11.8%. This is above the target allocation of 8%.

3.6.5 **Property** – The Property allocations continued to show good performance over the quarter and for the year. The Schroders portfolio has returned 21% and the M&G has returned 5.27% over the year. The property allocation now makes at 13.9% of the Fund. The recent negative returns in equities and bonds demonstrate the value of a property portfolio as a diversifier and risk mitigator within the overall Fund's portfolio.

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 30 June 2022

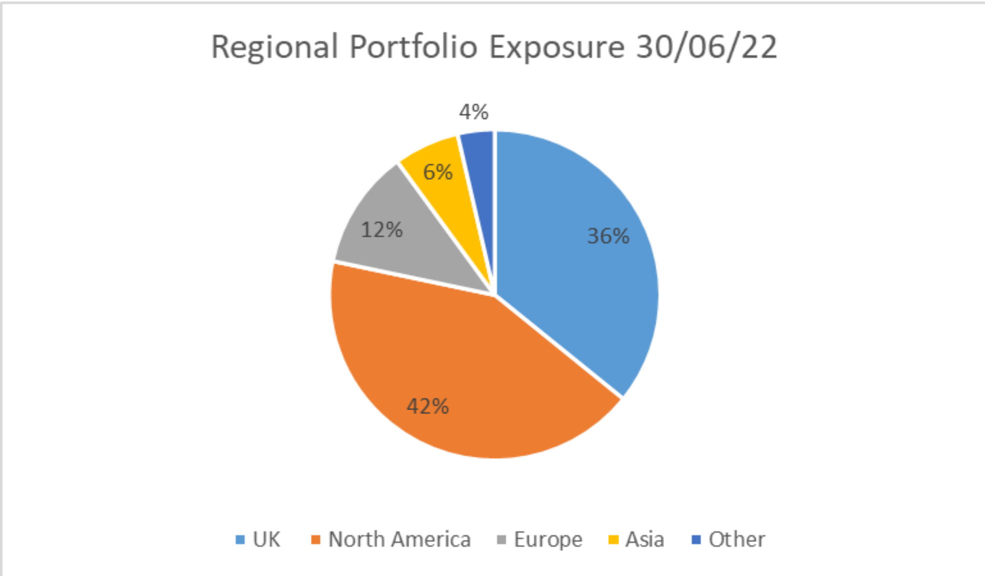
	Valuation at 31/03/2022 £'000	Net cashflow £'000	Gain/Loss £'000	Valuation at 30/06/2022 £'000	Asset allocation Fund percentage	Asset allocation target percentage
Equities					42.3%	42%
Legal & General FTSE World (Ex Tobacco)	695,982	-	-81,939	614,043		
LCIV RBC	84,441	-	-7,209	77,232		
LCIV	150			150		
Fixed Interest					16.5%	23%
Standard Life	132,133	-	-6,039	126,094		
Wellington	67,020	-	-4,918	62,102		
LCIV Global Bond	87,812	-	-6,702	81,110		
Infrastructure					13.4%	10%
Access	31,842	-312	1,258	32,788		
Temporis	56,030	513	296	56,839		
Equitix	75,137	34	-29	75,141		
Macquarie GIG Renewable Energy	22,327	-735	2,421	24,013		
I Squared	26,810	369	2,725	29,905		
Private Equity					11.8%	8%
Knightsbridge	74,715	269	227	75,212		
Pantheon	73,978	-2,901	3,915	74,993		
Access	21,714	-1,990	5,860	25,584		
North Sea	16,388	682	447	17,518		
Property					13.9%	16%
Schroders	155,747	-	6,578	162,326		
M&G	64,190	-291	888	64,788		
Cash					2.1%	1%
Legal & General FTSE4Good Cash	741	-	-	741		
Cash	44,106	-10,867	-	33,238		
Fund Total	1,731,266	-15,229	-82,220	1,633,817	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 descriptor Other includes the continent of Africa and Latin America.

3.7.3 It should be noted that of the 36% invested in the UK 13.9% is allocated to Property and 9.4% to Infrastructure. The majority of the Private Equity and Global Equity investments are in the US and Canada.

3.8 Section 3: Risk Management

3.8.1 The main 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.

3.8.2 The global economy will always represent a specific risk and opportunity for the Fund and will effectively be impossible to quantify or evaluate. The Fund takes a long-term view and manages risk by investing in a portfolio of assets which is sufficiently diversified. Having a sufficiently diversified portfolio should ensure the Fund continues to meet its performance objectives over the long term while reducing the impact of short term volatility in caused by uncertainty in global markets.

3.8.3 Mercer, the Fund's investment adviser, have drafted a Fund Monitoring Report, for the 3 months to 30 June 2022. These reports are included in Part B of this Committee agenda.

3.9 Section 4: Investment Manager Visits

3.9.1 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: Alan Layton 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.

6.2 The Committee must, however, be mindful of their fiduciary duty to make investment decisions including in the best long-term interests of Fund 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 HR, Resources and Assistant Chief Executives on behalf of Dean Shoesmith, Chief People Officer

8. EQUALITIES IMPACT

8.1 The council has an obligation under the Public Sector Equality duty, which is to eliminate unlawful discrimination, to advance equality of opportunity and to build better relationships between groups with protected characteristics. There are no negative impacts identified amongst groups with protected characteristics.

Approved by: Gavin Hanford, Director of Policy, Programmes & Performance

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 30 June 2022, Mercer

Appendix B: Market Background and Market View Q2 2022, Mercer