LONDON BOROUGH OF CROYDON

REPORT:	Pension Committee	
DATE OF DECISION	12 December 2023	
REPORT TITLE:	Part A Progress Report for Quarter Ended 30 September 2023	
CORPORATE DIRECTOR	Jane West, Corporate Director of Resources (Section 151 Officer)	
LEAD OFFICER:	Matthew Hallett, Acting Head of Pensions & Treasury	
CONTAINS EXEMPT INFORMATION?	No	Public

1 SUMMARY OF REPORT

1.1 This report shows that the market value of the Fund investments at 30 September 2023 was £1,698.3m compared to £1,701.7m at 30 June 2023 a decrease of £3.4m during the period. The Fund returned 0.1% over the quarter, but the value decreased due to negative cashflow of £4.7m.

1.2 This report provides an update on the Fund's performance for the quarter to 30 September 2023. The report falls into four parts. Section 1 addresses performance against strategic goals. Section 2 considers the asset allocation strategy and how that is being applied, specifically current and planned investments. Section 3 deals with risk management and section 4 summarises updates from any recent investment manager site visits.

2 RECOMMENDATIONS

The Committee is recommended:

1.3 to note the performance of the Fund for the quarter ended 30 September 2023.

3 BACKGROUND AND DETAILS

Section 1: Performance

1.4 At the 2022 Triennial Actuarial Valuation funding position for the Fund was 97% 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 4.2% p.a. was used and the likelihood of achieving this investment return was deemed to be 73%. 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.

1.5 At the 2019 valuation date the Fund was 88% funded with assets totalling £1,258m. From the 2019 valuation to the 2022 valuation the funding position improved to 97%. The main reason for this improvement was due to investment returns being 23.9% (or £299m) higher than expected. The assets at the valuation date of 31 March 2022 were £1,731m.

1.6 Since the valuation date the assets have returned -0.73% compared to the investment return assumption of 6.1%. In isolation the investment returns have had a negative impact on the funding level. However it should be noted that this would be outweighed by a positive impact due to a decrease in liabilities under current market conditions.

Section 2: Asset Allocation Strategy

1.7 Following the results of the triennial valuation at 31 March 2022, the Fund's investment advisers have carried out an asset allocation review and a revised asset allocation was agreed at the Pension Committee held on 20 June 2023. The Pension Committee also agreed that an allocation to Private Debt might be added at a later date after further training on this asset class has been undertaken. The revised asset allocation was incorporated in the Investment Strategy Statement which was agreed at the Pension Committee meeting held on 19th September 2023. The revised allocation agreed was as follows:

Asset Class	Previous Strategic Asset Allocation	Actual Allocation 31 March 2023	New Allocation without Private Debt Strategy 1
Developed Equity	**42.0%**	**44.7%**	**42.0%**
Fixed Income	**23.0%**	**15.7%**	**23.0%**
Corporate Bonds	*15.3%*	*11.9%*	*17.0%*
Absolute Return	*7.7%*	*3.8%*	*-*
Multi-Asset Credit	*-*	*-*	*6.0%*
Alternatives	**34.0%**	**36.8%**	**34.0%**
Infrastructure	*10.0%*	*14.8%*	*12.0%*
Private Equity	*8.0%*	*10.0%*	*10.0%*
Private Debt	*-*	*-*	*-*
Property (Core & Residential)	*16.0%*	*12.0%*	*12.0%*
Cash	**1.0%**	**2.8%**	**1%**
Total	**100.0%**	**100.0%**	**100.0%**

1.8 In moving to the revised asset allocation Officers will first look at the London CIV's multi asset credit fund to see if it meets our requirements. The process of moving to the revised asset allocation will take place over the next year.

Monitoring of asset allocation

1.9 **Global Equity –** Global Equities were broadly negative over the quarter. The LGIM Developed World (ex-Tobacco) Equity fund which follows that of the major indices returned -0.88%, the hedged part -2.42% and unhedged 0.7% as Sterling weakened against the dollar. The LCIV RBC Sustainable Equity Exclusion Fund returned -1.78% over the quarter. Global equities are now at 45.8% compared to the target allocation of 42%.

1.10 **Fixed Interest –** During the quarter the fixed interest investments returned a positive 0.5%, with Aberdeen Standard 2.26%, Wellington -0.05% and the LCIV Global Bond -1.65%. The overall allocation was underweight at 15.2% against a target asset allocation of 23%.

1.11 **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 continue to perform well largely due to their link to inflation. All of the managers have returned close to or above the benchmark since inception. The allocation currently stands at 14.3% compared to the revised target of 12%.

1.12 **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. During the last quarter valuations have risen mainly due to the currency effect. All the private equity assets are valued in currencies other than Sterling, so valuations gain when Sterling depreciates. The performance of the underlying companies remains strong. Over the quarter the allocation moved from 9.5% to 9.9%. This is slightly below the target allocation of 10%.

1.13 **Property** – During the quarter the Schroders property portfolio returned -0.92% and the M&G UK Residential Property Fund returned 0.07%. The Fund's property portfolio is positioned defensively being underweight to retail and office sectors. The allocation to property is 11.9% which is in line with the new target asset allocation of 12.0%.

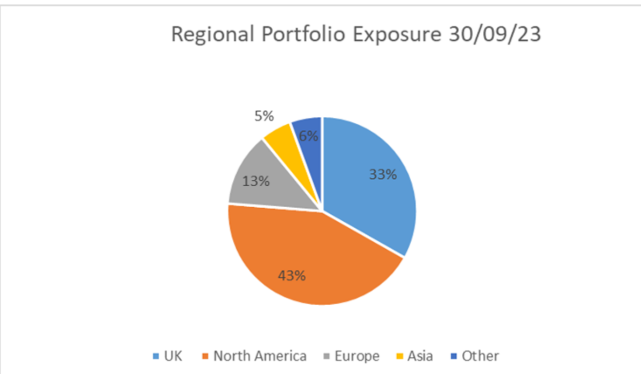
1.14 The table below illustrates the movement in the Fund's valuation during the quarter and the current asset allocation against the target.

London Borough of Croydon Pension Fund
Fund valuation and asset allocation for the quarter ending 30 September 2023

	Valuation at 30/06/23 £'000	Net cashflow £'000	Gain/Loss £'000	Valuation at 30/09/2023 £'000	Asset allocation Fund percentage	Asset allocation target percentage
Equities					45.8%	42%
Legal & General FTSE World (Ex Tobacco)	708,107	-	- 6,255	701,852		
LCIV RBC	77,915	-	- 1,387	76,527		
LCIV	150			150		
Fixed Interest					15.2%	23%
Standard Life	120,944	-	2,731	123,675		
Wellington	53,798	-	- 28	53,769		
LCIV Global Bond	81,876	-	- 1,355	80,521		
Infrastructure					14.3%	12%
Access	37,736	831	403	38,970		
Temporis	80,128	- 1,509	1,169	79,789		
Equitix	72,769	6	98	72,873		
Macquarie GIG Renewable Energy	21,288	- 512	99	20,876		
I Squared	28,774	581	1,615	30,971		
Private Equity					9.9%	10%
Knightsbridge	59,176	1,427	1,808	62,411		
Pantheon	67,479	- 827	2,148	68,800		
Access	15,305	1,271	169	16,746		
North Sea	19,777	-	1,207	20,984		
Property					11.9%	12%
Schroders	139,586	-	- 1,290	138,297		
M&G	64,075	- 347	44	63,772		
Cash					2.8%	1%
Legal & General FTSE4Good Cash	946	-	69	1,015		
Cash	51,901	- 5,601	-	46,300		
Fund Total	1,701,733	- 4,679	1,246	1,698,300	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.

1.15 The following chart gives 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.



1.16 The descriptor Asia includes Japan, Korea and Australia. The descriptor Other includes the continent of Africa and Latin America.

1.17 It should be noted that of the 33% invested in the UK 12.0% is allocated to Property and 9.7% to Infrastructure. The majority of the Private Equity and Global Equity investments are in the US and Canada.

Section 3: Risk Management

1.18 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.

1.19 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.

1.20 Mercer, the Fund's investment adviser, have drafted a Fund Monitoring Report, for the 3 months to 30 September 2023. These reports are included in Part B of this Committee agenda.

Section 4: Investment Manager Visits

1.21 No meetings with managers were held over the quarter. The London CIV and RBC Bluebay have been invited to present in Part B of this Committee.

4 CONSULTATION

2.1 Officers consult with the Fund's advisers when monitoring the performance of the Pension Fund.

5 IMPLICATIONS

2.2 FINANCIAL IMPLICATIONS

2.2.1 This report provides an update on the investment of the Council's Pension Fund, including the value of investments to fund future liabilities and the allocations between different asset classes to diversify risk, maximise return and ensure necessary liquidity. The report notes that at the 2022 Triennial Actuarial Valuation, the funding position for the Pension Fund was 97% using a future investment return assumption (otherwise described as the discount rate) of 4.0% p.a.

Approved by: Allister Bannin, on behalf of Jane West, Corporate Director of Resources (Section 151 Officer) (Date 30/11/2023)

2.3 LEGAL IMPLICATIONS

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

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

2.4 EQUALITIES IMPLICATIONS

2.4.1 The Council has a statutory duty to comply with the provisions set out in Sec 149 of the Equality Act 2010. The Council must therefore have due regard to:

2.4.1.1 eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act.

2.4.1.2 advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it.

2.4.1.3 foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

2.4.2 Any risks to the investment fund are likely to impact on the age characteristic in relation to older workers. The council is 67.73% female and 32.27% male so therefore women are more likely to be impacted by any investment risks.

Approved by: Naseer Ahmad on behalf of the Equalities Manager. (Date 30/11/2023)

2.5 HUMAN RESOURCES IMPLICATIONS

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

Approved by: Dean Shoesmith, Chief People Officer. (Date 28/11/2023)

3 APPENDICES

6.1 None

4 BACKGROUND DOCUMENTS

7.1 None