REPORT TO:	**PENSION COMMITTEE** **8 December 2020**
AGENDA ITEM:	**5**
SUBJECT:	**Progress Report for Quarter Ended 30 September 2020**
LEAD OFFICER:	**Nigel Cook** **Head of Pensions and Treasury**
CABINET MEMBER	**Councillor Callton Young OBE** **Cabinet Member for Resources and Financial Governance**
WARDS:	**All**
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 30 September 2020 was £1,402m compared to £1,354m at 30 June 2020, an increase of £48m and a return of 2.8% 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 30 September 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 visits. Detailed numeric data and commentary from the Fund's advisors are included as appendices to this report, in Part B of this Committee's agenda.

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 over a period of time.

3.2 Since the valuation date the Fund has returned 11.3% against an assumed return of 6.1%. 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 4.8% and the London CIV Sustainable Equity Exclusion Fund returned 7.0%.over the quarter. The hedged element of the LGIM Developed World (ex-Tobacco) Equity fund continues to have a favourable impact on the performance of the Fund. As at 30 September 2020 the Fund's allocation to global equities stood at 42.8% which is a slight increase from the previous quarter, due to the bullish market, but within the target range.

3.6.2 **Fixed Interest** – During the quarter the returns of the three fixed interest managers were mixed, but returned an overall 0.9%. The target allocation to this asset class remains 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, should be 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.

3.6.4 **Private Equity** – .Private Equity showed a positive return over the quarter. This part of the portfolio is 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 8.8%. This is below the target set at 10%. Although the Fund is below its target allocation, given the current uncertainty due to the Covid-19 pandemic, especially within the property sector, we do not consider it appropriate to top up this part of the portfolio further at this time. The portfolio is well positioned and so far has been fairly resilient despite the apparent headwinds. Members should refer to the Part B report for a more detailed consideration of these issues.

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 4.4% 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, we do not consider it appropriate to top up this part of the portfolio further at this time.

3.6.7 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 2020

	Valuation at 01/07/2020 £'000	Net Cashflow £'000	Gain/loss £'000	Valuation at 30/09/2020 £'000	Asset Allocation Fund Percentage	Asset Allocation Target Percentage
Equities					**42.8%**	**40%**
Legal & General FTSE World (Ex Tobacco)	507,640	-	24,281	531,921		
LCIV RBC	63,191	-	4,426	67,617		
Fixed Interest					**21.9%**	**20%**
Standard Life	139,593	-	1,363	140,956		
Wellington	74,714	-	- 680	74,034		
LCIV Global Bond	90,407	-	1,989	92,396		
Infrastructure					**12.1%**	**14%**
Access	19,677	2,700	- 76	22,301		
Temporis	28,766	- 1,365	- 3	27,398		
Equitix	80,028	- 684	1,236	80,580		
Green Investment bank	21,589	- 358	-	21,231		
I Squared	18,833	-	- 833	18,000		
Private Equity					**8.8%**	**10%**
Knightsbridge	35,312	- 921	2,398	36,789		
Pantheon	60,439	213	2,551	63,203		
Access	14,831	998	870	16,699		
North Sea	5,688	901	322	6,911		
Property					**8.8%**	**10%**
Schroders	123,092	-	465	123,557		
Property PRS					**4.4%**	**6%**
M&G	61,987	-	- 48	61,938		
Cash					**1.1%**	**0%**
Legal & General FTSE4Good Cash	318	-	288	606		
Cash	8,300	7,765	8	16,073		
Fund Total	**1,354,406**	**9,250**	**38,555**	**1,402,211**	**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.

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. A number of issues impact upon set of circumstances.

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. As an example, the portfolio has so far benefited from the impact of the Covid 19 pandemic, contrary to intuitive expectations.

3.9 It is probably too early to assess the long-term impact of the pandemic, setting aside the personal impact on a great number of people. Much ink has been spilled as to whether the markets will experience a ‘V-shaped’ or ‘U-shaped’ recovery and over what period. Many of these arguments were rehearsed during the 2008 Global Financial Crisis. At the time of writing it would seem that recovery will be a slow process and certainly the Chancellor of the Exchequer’s forecasts are bleak for the UK economy. 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. Stock markets have rallied vigorously and indeed both equities and fixed interest are over-weight in the portfolio. Infrastructure and Private Equity have been impacted because of the global reach of the economic impact of the crisis; property has been impacted the most. However, 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 a two reports covering the recent period, one analysing performance and the other the state of the markets. They have also produced a report which looks at the Fund's property portfolio. 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 throughout the lockdown period. Since September officers have had video-conferencing meetings with:

A Brownfield Infrastructure Fund (October);

M&G Residential Fund (November);

Knightsbridge (November);

Hymans (November);

Mercer (November);

A private debt fund (November); and

Access Capital (over the quarter).

3.12 Officers have continued to engage with the London CIV. Throughout the quarter there have been Business Updates, Meeting the Manager calls, meetings of the Low Carbon group, and meetings with the Responsible Investment team.

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 with this report. The Committee must however, be mindful of their fiduciary duty to obtain the best possible financial return on the investments it administers within the investment strategy framework.

Approved by:. Sandra Herbert for and on behalf of the interim Director of Law and Governance and Deputy Monitoring Officer.

7. HUMAN RESOURCES CONSIDERATIONS

7.1 There are no direct workforce implications arising from the recommendations within this. The pension scheme remains an important benefit available staff.

Approved by: Sue Moorman , Director of Human Resources

8. FREEDOM OF INFORMATION/DATA PROTECTION CONSIDERATIONS

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

CONTACT OFFICER:

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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 30 September 2020, Mercer

Appendix B: Market Background and Market View Q2 2020, Mercer

Appendix C: Croydon Update on Property Mandates, Mercer