

LONDON BOROUGH OF CROYDON

REPORT:	PENSION COMMITTEE	
DATE OF DECISION	11 June 2024	
REPORT TITLE:	Part A Progress Report for the Quarter Ended 31 March 2024	
CORPORATE DIRECTOR / DIRECTOR:	Jane West, Corporate Director of Resources (Section 151 Officer)	
LEAD OFFICER:	Matthew Hallett – Head of Pensions and Treasury	
CONTAINS EXEMPT INFORMATION?	NO	[Public]
WARDS AFFECTED:	N/A	

1. SUMMARY OF REPORT

- 1.1 The report updates Pension Committee on the Fund’s Investments and current Funding position for the quarter to 31 March 2024.
- 1.2 The report provides an update on the Fund’s performance for the quarter to 31 March 2024. 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 meetings.

2. RECOMMENDATIONS

The Pension Committee is recommended:

- 2.1 to note the contents of the report.
- 2.2 to agree that Officers should continue to rebalance the Fund’s investments over the next year in line with the target asset allocation set out in the Investment Strategy Statement as agreed by Pension Committee on 19th September 2023.

3. REASONS FOR RECOMMENDATIONS

- 3.1 This report assists the Pension Committee in carrying out its Fiduciary Duty in regard to the Fund’s investments.

- 3.2** The Fund's actual investments should be in accordance with the target asset allocation as set out in the Investment Strategy Statement.

4. BACKGROUND AND DETAILS

Section 1: Performance

- 4.1** The market value of the Fund investments at 31 March 2024 was £1,860m compared to £1,781.8m at 31 December 2023 an increase of £78.2m during the period. The Fund returned 4.8% over the quarter with cash outflows of £6.7m.
- 4.2** 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.
- 4.3** At the 31 March 2022 valuation the Fund's investments were £1,731m. Since the valuation date the investments have returned 8.41% compared to an investment return assumption of 8.2%.
- 4.4** The Fund now has access to a Funding update tool provided by the Fund's Actuaries, Hymans Robertson. The purpose of the tool is to assist Officers and the Committee in monitoring of the Fund's funding position. It should be noted that decisions should not be made based solely on the results produced by the tool as it has its limitations and does not replace a formal valuation. The results produced by the tool are based on projecting the results of the 31 March 2022 forward to the current date using approximate methods. It should be noted that no allowance has been made for membership changes since the last valuation. The results produced by the tool do give the Committee a good indication of the likely strength of the Funding position.
- 4.5** The indicative Funding position at 31 March 2024 is that the Fund has a Funding level of 126% and the future level of return required to be 100% is currently 4.4%. There is currently an 87% chance of achieving this return. The Funding update report is included as Appendix A to this report.

Section 2: Asset Allocation Strategy

- 4.6** The current asset allocation was agreed by Pension Committee on 19th September 2023 and incorporated in the Investment Strategy Statement. The target allocation is as follows:

Asset Class	Target Asset Allocation	Operational Range	Regulation Maximums
Developed Equity	42.0%	37-47%	60.0%
Fixed Interest	23.0%	15-28%	28.0%
Alternatives	34.0%	29-39%	40.0%
<i>Infrastructure</i>	<i>12.0%</i>	<i>7-17%</i>	<i>17.0%</i>
<i>Private Equity</i>	<i>10.0%</i>	<i>5-15%</i>	<i>15.0%</i>
<i>Property (Core & Residential)</i>	<i>12.0%</i>	<i>7-17%</i>	<i>17.0%</i>
Cash	1.0%	0-10%	Not Applicable
Total	100.0%		

Monitoring of asset allocation

- 4.7 Global Equity** – Global Equities performed well returning 9.97% over the quarter, driven by resilient US economic data and hopes that major central banks will soon begin to cut interest rates. The LGIM Developed World (ex-Tobacco) Equity fund which follows that of the major indices returned 9.97%, the hedged part 10.23% and unhedged 9.71%. The LCIV RBC Sustainable Equity Exclusion Fund also returned 9.97% over the quarter slightly outperforming its benchmark. The London CIV is undertaking enhanced monitoring of the LCIV RBC Sustainable Equity Exclusion Fund. Global equities are now at 49.8% compared to the target allocation of 42%. This is considered slightly above the tolerance allowed for within the target asset allocation. Post quarter end, Officers divested £100m from the LGIM Developed World (ex-Tobacco) Equity fund and invested the proceeds with the London CIV Multi-Asset Credit Fund as agreed at the March 2024 Pension Committee. This brought the allocation to just below 45% which is in the target range.
- 4.8 Fixed Interest** - During the quarter the fixed interest investments delivered near-neutral returns where positive returns from spread tightening were offset by the rising long-term rates. Aberdeen Standard returned 1.1%, Wellington -1.2% and the LCIV Global Bond 0.5%. The fixed interest allocation was at 14.9% which was under the operational range for the target asset allocation. Post quarter end, Officers divested £100m from the LGIM Developed World (ex-Tobacco) Equity fund and invested the proceeds with the London CIV Multi-Asset Credit Fund as agreed at the March 2024 Pension Committee. This brought the allocation for Fixed Interest to just over 20% which is in the target range.
- 4.9 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. The Temporis holdings were revalued at 31 December 2023 to tie in with their accounting year end. This resulted in more than a 10% reduction in the NAV for these holdings. This was expected as the valuations are sensitive to interest rates and power prices. The discount rate used for valuation increased due to higher interest rates and power prices for the year and

forecasts for future years were significantly lower. The Internal Rate of Return for the Temporis investments is running at 10.2% which is still in line with the expected rate of return. All of the managers have returned close to or above the benchmark since inception. The allocation currently stands at 12.7% compared to the target of 12%. The actual percentage allocation reduced by 1.0% over the quarter mainly due to the strong performance in global equities and the revaluation of the Temporis holdings.

4.10 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 as they tend to move in line with global equities strong. Over the quarter the allocation moved from 9.1% to 8.7%. This is slightly below the target allocation of 10%.

4.11 Property - During the quarter property values continued to decline, however the Schroders property portfolio returned 1.40% over the quarter due to the manager reinvesting accumulated income at heavily discounted prices. The M&G UK Residential Property Fund returned -0.2%. The allocation to property is 10.8% which is in line with the target asset allocation of 12.0%.

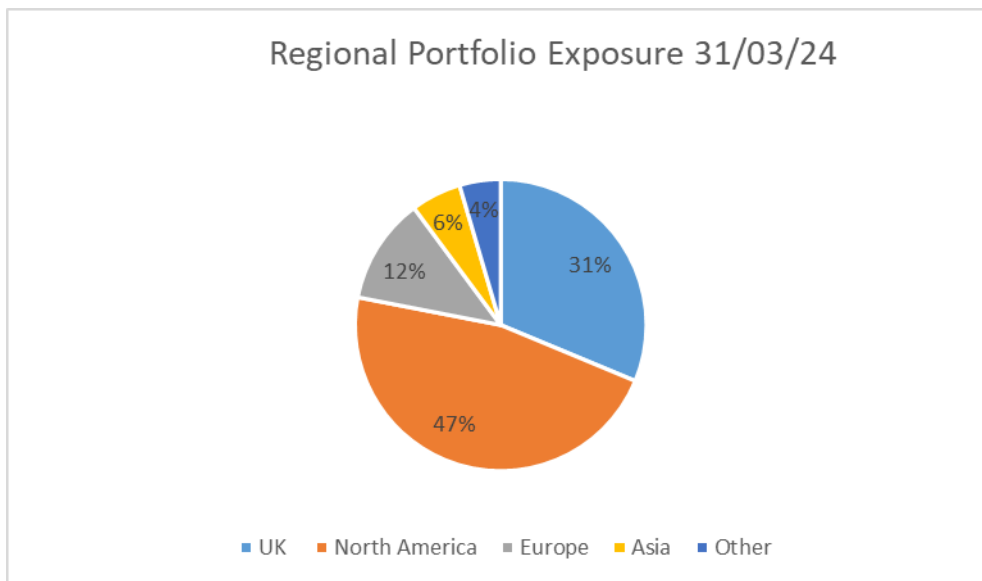
4.12 The table below illustrates the movement in the Fund's valuation during the quarter and the current asset allocation against the target.

London Borough of Croydon Pension Fund Fund valuation and asset allocation for the quarter ending 31 March 2024

	Valuation at 31/12/2023 £'000	Net cashflow £'000	Gain/Loss £'000	Valuation at 31/03/2024 £'000	Asset allocation Fund percentage	Asset allocation target percentage
Equities					49.8%	42%
Legal & General FTSE World (Ex Tobacco)	759,690	-	75,769	835,459		
LCIV RBC	82,051	-	8,181	90,231		
LCIV	150			150		
Fixed Interest					14.9%	23%
Standard Life	131,721	-	1,472	133,193		
Wellington	57,882	-	703	57,179		
LCIV Global Bond	86,560	-	468	87,028		
Infrastructure					12.7%	12%
Access	37,863	331	1,487	39,019		
Temporis	81,395	-	7,857	73,538		
Equitix	73,682	2,610	730	71,802		
Macquarie GIG Renewable Energy	20,535	828	-	19,706		
I Squared	30,032	65	2,186	32,152		
Private Equity					8.7%	10%
Knightsbridge	57,592	511	97	57,178		
Pantheon	66,318	394	772	67,483		
Access	16,849	918	553	16,484		
North Sea	21,399	-	77	21,323		
Property					10.8%	12%
Schroders	137,506	-	1,905	139,411		
M&G	61,853	353	120	61,379		
Cash					3.1%	1%
Legal & General FTSE4Good Cash	1,006	-	3	1,009		
Cash	57,745	1,493	-	56,252		
Fund Total	1,781,828	6,716	84,866	1,859,978	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.

4.13 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.



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

4.15 It should be noted that of the 31% invested in the UK 10.8% is allocated to Property and 8.3% to Infrastructure. The majority of the Private Equity and Global Equity investments are in the US and Canada.

Section 3: Risk Management

4.16 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.

4.17 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 caused by uncertainty in global markets.

4.18 Mercer, the Fund's investment adviser, have drafted a Fund Monitoring Report, for the 3 months to 31 March 2024. These reports are included in Part B of this Committee agenda.

Section 4: Investment Manager Meetings

4.19 No manager meetings were held during the quarter.

5. CONSULTATION

5.1 Officer consult with the Fund's advisers and Investment managers when monitoring the performance of the Fund.

6. CONTRIBUTION TO COUNCIL PRIORITIES

6.1 Ensuring regulatory compliance, good stewardship and best practise are applied to the Council's Pension Fund.

7. IMPLICATIONS

7.1 FINANCIAL IMPLICATIONS

7.1.1. 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.

7.1.2. Comments approved by Andrew Lord, Interim Finance Consultant on behalf of Allister Bannin, the Director of Finance. (Date 28/5/2024)

7.2 LEGAL IMPLICATIONS

7.2.1. 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.

7.2.1. The Committee must, however, continue to 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. Additionally, the Committee should continue to be updated in relation to possible future amendments to the LGPS (Management and Investment of Funds) Regulations 2016 and mandatory guidance, such as those proposed by the current Government as part of the proposed Mansion House Reforms.

7.2.2. Comments approved by Burges Salmon LLP (Date: 29/05/2024)

7.3 EQUALITIES IMPLICATIONS

7.3.1. 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:

1. eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act.
2. advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it.
3. foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

7.3.2. 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.

7.3.3. Comments approved by Ken Orlukwu, Senior Equalities Officer, on behalf of Helen Reeves, Head of Strategy & Policy (Date: 30/05/2024)

7.4 HUMAN RESOURCES IMPLICATIONS

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

7.4.2. Approved by: Dean Shoesmith, Chief People Officer. (Date 30/5/2024)

8. APPENDICES

8.1 *Appendix A – London Borough of Croydon Pension Fund – Funding Update 31 March 2024*

9. BACKGROUND DOCUMENTS

9.1 *None*