

# LONDON BOROUGH OF CROYDON

<b>REPORT:</b>	<b>PENSION COMMITTEE</b>	
<b>DATE OF DECISION</b>	<b>19 March 2024</b>	
<b>REPORT TITLE:</b>	<b>Part A Progress Report for the Quarter Ended 31 December 2023</b>	
<b>CORPORATE DIRECTOR / DIRECTOR:</b>	<b>Jane West, Corporate Director of Resources (Section 151 Officer)</b>	
<b>LEAD OFFICER:</b>	<b>Matthew Hallett – Acting Head of Pensions and Treasury</b>	
<b>CONTAINS EXEMPT INFORMATION?</b>	<b>NO</b>	<b>[Public]</b>
<b>WARDS AFFECTED:</b>	<b>N/A</b>	

## 1. SUMMARY OF REPORT

- 1.1 The report updates Pension Committee on the Fund's Investments over the quarter to 31 December 2023.
- 1.2 The report provides an update on the Fund's performance for the quarter to 31 December 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 meetings.

## 2. RECOMMENDATIONS

The Pension Committee is recommended:

- 2.1 to note the contents of the report.
- 2.2 to agree that Officers should move 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 19<sup>th</sup> 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 December 2023 was £1,781.8m compared to £1,698.3m at 30 September 2023 an increase of £83.5m during the period. The Fund returned 4.2% over the quarter with cash inflows of £12.6m. The large cash inflow was mainly as a result of a bulk transfer from the London Borough of Sutton Pension Fund of £14.4m in relation to the South London Waste Partnership.
- 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 3.5% compared to an investment return assumption of 7.1%. In isolation the investment returns since the last valuation have had a negative impact on the funding level. However it should be noted that future expectations for investment returns are higher than assumed at the last valuation and this has a positive impact on the funding level which outweighs the negative impact from lower than expected actual returns achieved.

### Section 2: Asset Allocation Strategy

- 4.4 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 is 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%
<i>Corporate Bonds</i>	15.3%	11.9%	17.0%

<i>Absolute Return</i>	7.7%	3.8%	-
<i>Multi-Asset Credit</i>	-	-	6.0%
<b>Alternatives</b>	<b>34.0%</b>	<b>36.8%</b>	<b>34.0%</b>
<i>Infrastructure</i>	10.0%	14.8%	12.0%
<i>Private Equity</i>	8.0%	10.0%	10.0%
<i>Private Debt</i>	-	-	-
<i>Property (Core &amp; Residential)</i>	16.0%	12.0%	12.0%
<b>Cash</b>	<b>1.0%</b>	<b>2.8%</b>	<b>1%</b>
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

- 4.5** The process of moving to the revised asset allocation will take place over the next year. A report is included in the part B agenda regarding appointment of a Multi-Asset Credit manager.

#### **Monitoring of asset allocation**

- 4.6 Global Equity** – Global Equities performed well returning 8.14% over the quarter, ultimately boosted by expectations that major central banks could soon cut interest rates and that the US economy may avoid recession. The LGIM Developed World (ex-Tobacco) Equity fund which follows that of the major indices returned 8.24%, the hedged part 9.7% and unhedged 6.8% as Sterling strengthened against the dollar. The LCIV RBC Sustainable Equity Exclusion Fund returned 7.2% over the quarter outperforming its benchmark by 0.5%. Global equities are now at 47.2% compared to the target allocation of 42%. This is considered slightly above the tolerance allowed for within the target asset allocation. Officers will look to rebalance by moving investments to the fixed interest part of the portfolio.
- 4.7 Fixed Interest** - During the quarter the fixed interest investments returned a positive 7.05%, with Aberdeen Standard 6.51%, Wellington 7.65% and the LCIV Global Bond - 7.50%. The strong positive performance was again due to the expectations that major central banks would begin to cut interest rates in 2024. Government bond yields fell meaning prices rose. The fixed interest allocation is at 15.5% which is well under the target asset allocation. Officers will begin to rebalance the portfolio when the appointment of the Multi-Asset Credit manager has been confirmed.
- 4.8 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 13.7% compared to the revised target of 12%. The actual percentage allocation reduced by 0.6% over the quarter due to the strong performance in global equities and fixed interest.

**4.9 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 fallen mainly due to the currency effect. All the private equity assets are valued in currencies other than Sterling, so valuations gain when Sterling depreciates fall when Sterling appreciates. The performance of the underlying companies remains strong. Over the quarter the allocation moved from 9.9% to 9.1%. This is slightly below the target allocation of 10%.

**4.10 Property** - During the quarter the Schroders property portfolio returned -0.6% and the M&G UK Residential Property Fund returned -2.5%. The allocation to property is 11.2% which is in line with the new target asset allocation of 12.0%.

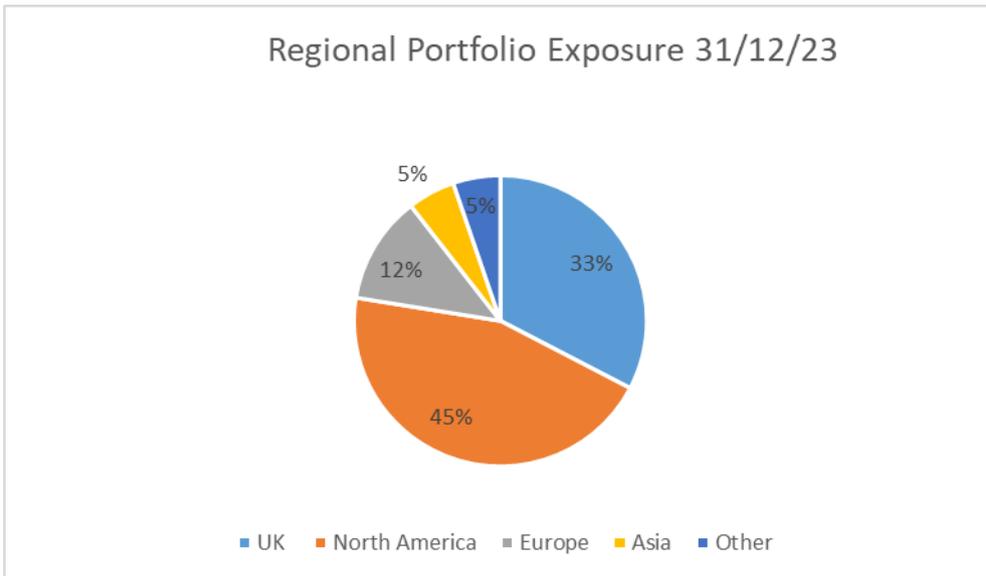
**4.11** The table below illustrates the movement in the Fund's valuation during the quarter and the current asset allocation against the target.

**London Borough of Croydon Pension Fund  
Fund valuation and asset allocation for the quarter ending 31 December 2023**

	Valuation at 30/09/23 £'000	Net cashflow £'000	Gain/Loss £'000	Valuation at 31/12/2023 £'000	Asset allocation Fund percentage	Asset allocation target percentage
<b>Equities</b>					47.2%	42%
Legal & General FTSE World (Ex Tobacco)	701,852	-	57,837	759,690		
LCIV RBC	76,527	-	5,523	82,051		
LCIV	150			150		
<b>Fixed Interest</b>					15.5%	23%
Standard Life	123,675	-	8,046	131,721		
Wellington	53,769	-	4,112	57,882		
LCIV Global Bond	80,521	-	6,039	86,560		
<b>Infrastructure</b>					13.7%	12%
Access	38,970	1,064	42	37,863		
Temporis	79,789	1,871	265	81,395		
Equitix	72,873	-	809	73,682		
Macquarie GIG Renewable Energy	20,876	720	379	20,535		
I Squared	30,971	444	1,383	30,032		
<b>Private Equity</b>					9.1%	10%
Knightsbridge	62,411	347	4,472	57,592		
Pantheon	68,800	730	3,212	66,318		
Access	16,746	645	543	16,849		
North Sea	20,984	-	415	21,399		
<b>Property</b>					11.2%	12%
Schroders	138,297	-	791	137,506		
M&G	63,772	374	1,546	61,853		
<b>Cash</b>					3.3%	1%
Legal & General FTSE4Good Cash	1,015	-	9	1,006		
Cash	46,300	11,445	-	57,745		
<b>Fund Total</b>	<b>1,698,300</b>	<b>12,629</b>	<b>70,899</b>	<b>1,781,828</b>	<b>100%</b>	<b>100%</b>

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.

**4.12** 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.



- 4.13** The descriptor Asia includes Japan, Korea and Australia. The descriptor Other includes the continent of Africa and Latin America.
- 4.14** It should be noted that of the 33% invested in the UK 11.2% is allocated to Property and 9.3% to Infrastructure. The majority of the Private Equity and Global Equity investments are in the US and Canada.

### Section 3: Risk Management

- 4.15** 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.
- 4.16** 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.
- 4.17** Mercer, the Fund's investment adviser, have drafted a Fund Monitoring Report, for the 3 months to 31 December 2023. These reports are included in Part B of this Committee agenda.

### Section 4: Investment Manager Meetings

- 4.18** Officers attended the AGM for Knightsbridge, met with Access Capital Partners and North Sea Capital Partners. All three managers are performing well and looking to launch new funds in 2024.
- 4.19** The London CIV and RBC BlueBay attended the December 2023 Pensions Committee.

## **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 06/03/2024)

### **7.2 LEGAL IMPLICATIONS**

- 7.2.1. Burges Salmon LLP (a legal advisor appointed to the Fund) note there are no direct legal implications arising from the recommendations within this report.
- 7.2.2. 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.
- 7.2.3. Comments approved by Burges Salmon LLP (06/03/2024)

### **7.3 EQUALITIES IMPLICATIONS**

- 7.3.1. Under the Public Sector Equality Duty of the Equality Act 2010, decision makers must evidence consideration of any potential impacts of proposals on groups who share the protected characteristics, before decisions are taken. This includes any decisions relating to how authorities act as employers; how they develop, evaluate and review policies; how they design, deliver and evaluate services, and also how they commission and procure services from others.
- 7.3.2. 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.

**7.3.3.** 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. We expect our managers to carry due diligence when investing and adhere to the three tenet's of section 149 of PSED.

**7.3.4.** Comments approved by Felisha Dussard, Senior Communities Officer on behalf of Helen Reeves, Head of Strategy & Policy. (Date 07/03/2024).

## **7.4 HUMAN RESOURCES IMPLICATIONS**

**7.4.1.** It is important through effective management to ensure the Fund can pay benefits to its members now and in the future

**7.4.2.** Comments approved by: Dean Chief People Officer. (Date 1/3/2024)

## **8. APPENDICES**

**8.1** None

## **9. BACKGROUND DOCUMENTS**

**9.1** None