



PENSIONS COMMITTEE

Subject Heading:	PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED MARCH 18
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Policy context:	Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met.
Financial summary:	This report comments upon the performance of the Fund for the period ended 31 st March 2018

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarter to 31 March 2018. The performance information is taken from the quarterly performance reports supplied by each Investment Manager, State Street Global Services Performance Services PLC (formerly known as WM Company) quarterly Performance Review Report and Hymans Monitoring Report.

The net return on the Fund's investments for the **quarter** to 31 March 2018 was **-1.1% (a reduction of £8.3m to £707m)**. This represents an under performance of **-0.3%** against the combined tactical benchmark and under performance of **-1.6%** against the strategic benchmark.

Baillie Gifford Global Equity Fund was the best performer on a relative basis over the quarter, whilst the worst performance came from GMO this quarter.

The overall net return of the Fund's investments for the **year** to 31 March 2018 was **4.9%**. This represents an outperformance of **2.3%** against the combined tactical benchmark and an outperformance of **2.5%** against the annual strategic benchmark - this is a measure of the Fund's performance against a target based upon gilts + 1.8% (the rate which is used in the valuation of the funds liabilities). The implications of this are set out in paragraphs 1.1 and 1.3 below.

We measure the individual managers' annual return for the new combined tactical benchmark and these results are shown later in the report.

RECOMMENDATIONS

That the Committee:

- 1) Notes the summary of the performance of the Pension Fund within this report.
- 2) Considers Hymans performance monitoring report and presentation (Appendix A - Exempt).
- 3) Receive a presentation from the Fund's Property Manager (UBS) (Appendix B- Exempt).
- 4) Considers the quarterly reports provided by each investment manager.
- 5) Notes the analysis of the cash balances (paragraphs 3.2 refers).

REPORT DETAIL

1. Background

- 1.1 **Strategic Benchmark** - A strategic benchmark has been adopted for the overall Fund of Index Linked Gilts + 1.8% per annum. This is the expected return in excess of the fund's liabilities over the longer term and should lead to an overall improvement in the funding level. The strategic benchmark measures the extent to which the fund is meeting its longer term objective of reducing the funds deficit. The current shortfall is driven by the historically low level of real interest rates which drive up the value of index linked gilts (and consequently the level of the fund liabilities).
- 1.2 **Tactical Benchmark** - Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance

will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance.

- 1.3 The objective of the Fund's investment strategy is to deliver a stable long-term investment return in excess of the expected growth in the Fund's liabilities. Whilst mechanisms such as hedging could have served to protect the fund against falling interest rates in the short-term, such strategies are not commonly employed within the LGPS. The Fund has retained investments with Royal London which have offered some resilience to the fluctuations in interest rates, but given the long term nature of the fund, the Fund's investment advisers believe that the objective of pursuing a stable investment return remains appropriate. They also note that although the value placed on the liabilities has risen as a result of falling yields, lower realised inflation over recent years means that the actual benefit cash flows expected to be paid from the fund will be lower than previously expected although the fund's liabilities remain subject to changes in future inflation expectations.
- 1.4 Following the results of the 2016 Valuation and in line with regulations the Committee developed a new Investment Strategy Statement (ISS) which replaced the Statement of Investment Principles (SIP). The revised asset allocation targets are shown in the following table and reflect the asset allocation split and targets against their individual fund manager benchmarks:

Table 1: Asset Allocation

Asset Class	Target Asset Allocation (ISS Jan 17)	Investment Manager/ product	Segregated /pooled	Active/ Passive	Benchmark and Target
UK/Global Equity	15.0%	LCIV Baillie Gifford (Global Alpha Fund)	Pooled	Active	MSCI All Countries Index plus 2.5%
	7.5%	Legal & General Investment Management (SSgA until Nov 17)	Pooled	Passive	FTSE All World Equity Index
	7.5%	Legal & General Investment Management (SSgA until Nov 17)	Pooled	Passive	FTSE RAFI All World 3000 Index
Multi Asset Strategy	12.5%	LCIV Baillie Gifford	Pooled	Active	Capital growth at lower risk

Asset Class	Target Asset Allocation (ISS Jan 17)	Investment Manager/ product	Segregated /pooled	Active/ Passive	Benchmark and Target
		(Diversified Growth Fund)			than equity markets
	15.0%	GMO Global Real return (UCITS)	Pooled	Active	OECD CPI g7 plus 3 - 5% over a complete market cycle
Absolute Return	15%	LCIV Ruffer	Pooled	Active	Absolute Return
Property	6%	UBS	Pooled	Active	AREF/IPD All balanced property Index Weighted Average
Gilt/ Investment Bonds	19%	Royal London	Segregated	Active	50% iBoxx £ non- Gilt over 10 years 16.7% FTSE Actuaries UK gilt over 15 years 33.3% FTSE Actuaries Index- linked over 5 years. Plus 1.25%*
Infrastructure	2.5%	No allocation			

*0.75% prior to 1 November 2015

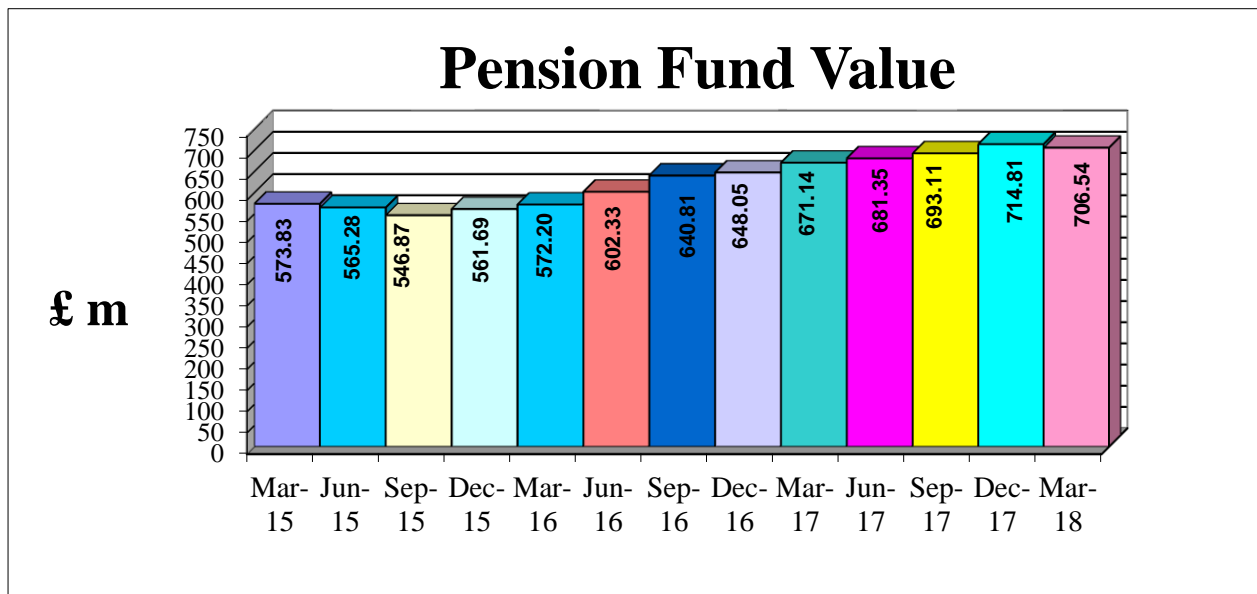
- 1.5 UBS, SSgA and GMO manage the assets on a pooled basis. Royal London manages the assets on a segregated basis. Both the Baillie Gifford mandates and the Ruffer mandates are managed on a pooled basis and operated via the London Collective Investment Vehicle (LCIV). Performance is monitored by reference to the benchmark and out performance target as shown in the above table. Each manager's individual performance is shown later in this report with a summary of any key information relevant to their performance.
- 1.6 Since 2006, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the 'relative returns' (under/over performance) calculations has been changed from the previously used arithmetical method to the industry standard geometric method (please note that this will sometimes produce figures that arithmetically do not add up).

2. Reporting Arrangements

- 2.1 After reviewing the current reporting arrangements at the Pensions Committee held on the 5 June 2017 it was agreed that only one fund manager will attend each committee meeting.
- 2.2 The Fund Manager attending this meeting is the Fund's Property Manager (UBS)
- 2.3 Hyman's performance monitoring report is attached at **Appendix A**.

3 Fund Size

- 3.1 Based on information supplied by our performance measurers the total combined fund value at the close of business on 31 March 2018 was **£706.54m**. This valuation differs from the basis of valuation used by our Fund Managers and our Investment Advisor in that it excludes accrued income. This compares with a fund value of £714.81m at the 31 December 2017; a **decrease** of (**£8.27m**). Movement in the fund value is attributable to a decrease in assets of (£9.62m) and an increase in cash of £1.35m. The internally managed cash level stands at **£17.25m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

3.2 An analysis of the internally managed cash balance of **£17.25m** follows:

Table 2: Cash Analysis

<u>CASH ANALYSIS</u>	<u>2015/16</u> <u>31 Mar 16</u>	<u>2016/17</u> <u>31 Mar 17</u>	<u>2017/18</u> <u>31 Mar 18</u>
	£000's	£000's	£000's
Balance B/F	-7,599	-12,924	-12,770
Benefits Paid	35,048	36,490	36,490
Management costs	1,754	1,358	1,246
Net Transfer Values	518	2,151	1,586
Employee/Employer Contributions	-42,884	-40,337	-42,909
Cash from/to Managers/Other Adj.	306	586	-785
Internal Interest	-67	-94	-109
Movement in Year	-5,325	154	-4,481
Balance C/F	-12,924	-12,770	-17,251

3.3 Members agreed the updated cash management policy at its meeting on the 15 December 2015. The policy sets out that the target cash level should be £5m but not fall below the de-minimus amount of £3m or exceed £6m. This policy includes drawing down income from the bond and property manager when required.

3.4 The cash management policy also incorporates a threshold for the maximum amount of cash that the fund should hold and introduced a discretion that allows the Chief Executive (now the Statutory S151 officer) to exceed the threshold to meet unforeseeable volatile unpredictable payments. The excess above the threshold of £6m is being considered as part of the investment strategy review.

4. Performance Figures against Benchmarks

4.1 The overall net performance of the Fund against the new **Combined Tactical Benchmark** (the combination of each of the individual manager benchmarks) follows:

Table 3: Quarterly Performance

	Quarter to 31.03.18	12 Months to 31.03.18	3 Years to 31.03.18	5 years to 31.03.18
	%	%	%	%
Fund	-1.1	4.9	6.7	8.0
Benchmark	-0.8	2.6	5.5	6.5
*Difference in return	-0.3	2.3	1.1	1.4

Source: WM Company

Totals may not sum due to geometric basis of calculation and rounding.

- 4.2 The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted of Gilts + 1.8% Net of fees) is shown below:

Table 4: Annual Performance

	Quarter to 31.03.18	12 Months to 31.03.18	3 Years to 31.03.18	5 years to 31.03.18
	%	%	%	%
Fund	-1.1	4.9	6.7	8.0
Benchmark	0.5	2.3	8.8	8.7
*Difference in return	-1.6	2.5	-2.0	-0.7

Source: WM Company

**Totals may not sum due to geometric basis of calculation and rounding.*

- 4.3 The following tables compare each manager's performance against their **specific (tactical) benchmark** and their **performance target** (benchmark plus the agreed mandated out performance target) for the current quarter and the last 12 months.

Table 5: QUARTERLY PERFORMANCE (AS AT 31 MARCH 2018)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
	%	%	%	%	%
Royal London	-0.32	-0.41	0.09	-0.10	-0.22
UBS	2.09	1.90	0.19	n/a	n/a
GMO	0.05	0.61	-0.56	n/a	n/a
LGIM Global Equity	-4.39	-4.42	0.03	n/a	n/a
LGIM Fundamental Index	-5.17	-5.24	0.07	n/a	n/a
LCIV/Ruffer*	-2.55	n/a	n/a	n/a	n/a
LCIV/Baillie Gifford (DGF)*	0.52	n/a	n/a	n/a	n/a
LCIV/Baillie Gifford (Global Alpha Fund)	-0.94	-4.44	3.50	n/a	n/a

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- Performance data reported as per LCIV for those funds under their management.
- *Not measured against a benchmark

Table 6: ANNUAL PERFORMANCE (LAST 12 MONTHS)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
	%	%	%	%	%
Royal London	2.72	1.49	1.23	2.74	-0.02
UBS	10.52	10.02	0.50	n/a	n/a
GMO	6.06	1.77	4.29	n/a	n/a
LGIM Global Equity	n/a	n/a	0.00	n/a	n/a
LGIM Fundamental Index	n/a	n/a	0.00	n/a	n/a
LCIV/Ruffer*	-1.15	n/a	n/a	n/a	n/a
LCIV/Baillie Gifford (DGF)*	4.77	n/a	n/a	n/a	n/a
LCIV/Baillie Gifford (Global Alpha Fund)	13.10	3.17	9.93	n/a	n/a

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- Performance data reported as per LCIV for those funds under their management.
- *Not measured against a benchmark.
- LGIM not invested for the reported period.

5. Fund Manager Reports

In line with the new reporting cycle, the Committee will only see one Fund Manager at each Committee meeting. Fund Managers brief overviews are included in this section. The full detailed versions of the fund managers' report are distributed electronically prior to this meeting.

5.1. UK Investment Grade Bonds (Bonds Gilts, UK Corporates, UK Index Linked, UK Other) – (Royal London Asset Management)

- a) Royal London last met with the Committee on 13 March 2018 which reviewed performance as at 31 December 17 and with officers on the 11 May 2017 which reviewed performance as at 31 March 2017.
- b) The value of the fund as at 31 Mar 2018 has decreased by (£0.38m) since the December quarter.
- c) Royal London delivered a net return of -0.32% over the quarter, outperforming the benchmark by 0.09%. The mandate is ahead of the benchmark over the year by 1.23% and 0.62% since inception.
- d) Royal London Asset Allocation:

%

i. Credit Bonds (corporate)	53.2
ii. Index Linked Bonds	26.9
iii. Sterling Government Bonds	11.6
iv. RL Sterling Extra Yield Bond	5.6
v. Overseas Bonds	0.2
vi. Cash	2.6

(Figures subject to Rounding)

The main driver of relative performance over the quarter was the Fund's short duration stance. Stock selection also made a positive contribution, in particular within the Fund's allocation to secured and structured debt. The Fund's holding in the Royal London Sterling Extra Yield Bond Fund had a small positive effect upon relative returns. Credit sector selection had a negative effect on relative returns, mainly reflecting the lack of exposure to supranationals, which outperformed the broad market. Yield curve positioning also detracted from relative performance, while asset allocation had a small negative impact

5.2. Property (UBS)

- a) UBS last met with the Committee on 14 March 2017 which reviewed performance as at 31 December 2017 and with officers on the 16 August 2017 which reviewed performance as at 30 June 2017.
- b) The value of the fund as at 31 March 2018 decreased by (£1.2m) since the December quarter.
- c) Representatives from UBS are due to make a presentation at this Committee, and a brief overview of their performance follows
- d) UBS delivered a net return of 2.09% over the quarter, outperforming the benchmark by 0.19%. The mandate is ahead of the benchmark over the year by 0.05% and behind by 0.59% over 5 years

e) UBS Sector weighting:	
	%
i. Industrial	38.9
ii. Retail warehouse	25.7
iii. Office	19.8
iv. Other Commercial Property	12.4
v. Shopping Centres*	0.0
vi. Unit Shops	2.9

*reclassified as Retail warehouse

- f) Performance was primarily driven by the Fund's Sector weighting, mainly UK commercial properties and ongoing asset management across the portfolio.

5.3. Multi Asset Manager (GMO – Global Real Return (UCITS) Fund)

- a) GMO last met with the Committee on 15 June 2017 which reviewed performance as at 31 March 17 and with officers on the 3 November 2016 which reviewed performance as at 30 September 2016.
- b) The value of the fund has increased by £0.55m since the December quarter.
- c) GMO have underperformed their benchmark over the 3 month but outperformed over the 12 month and since inception, as follows:

Table 7: GMO performance

	3 Months	12 Months	Since inception (13 Jan 2015)
	%	%	%
Net Fund Return	0.05	6.06	2.46
Benchmark (OECD CPIG7)	0.61	1.77	1.49
Relative to Benchmark	-0.56	4.28	0.97

- Totals may not sum due to geometric basis of calculation and rounding.
- Investment Advisor reports include outperformance target, the above is the Fund manager benchmark, so benchmark will not match.

- d) GMO asset Allocation:

	%
i. Equities	36.8
ii. Alternative strategies	22.1
iii. Fixed Income	16.9
iv. Cash/Cash Plus	24.2
- e) Main performance driver came from the equity portfolio and the high weighting in emerging markets. Alternative Strategies also saw a positive return. The Allocation to cash was positive, albeit modest, notably due to risk assets suffering a sell off whilst cash maintained its value. Negative contribution came from the Fixed Income strategies.

5.4 Passive Equities Manager - Legal & General Investment Management (LGIM)

- a) The value of the fund as at the 31 March 2018 decreased by (£4.9m) since the December quarter

- b) The passive equity mandate is split between the FTSE RAFI All World 3000 index and the FTSE All World Index.
- c) As anticipated from an index-tracking mandate LGIM has performed in line with the benchmark over the quarter, delivering a net return on the FTSE RAFI All World 300 index of -4.39% over performing the benchmark by 0.03%, and a net return on the FTSE Rafi AW 3000 Equity Index of -5.17% over performing the benchmark by 0.07%

5.5. Multi Asset Manager – London CIV (Ruffer)

- a) This mandate transferred to the London CIV on 21 June 2016.
- b) The London CIV will now oversee the monitoring and review of performance for this mandate. However Ruffer has stated that they are happy to continue with the existing monitoring arrangements and meet the Committee to report on its own performance.
- c) Ruffer last met with officers on the 19 September 2017 which reviewed performance as at 31 December 2016 and last met with the Committee on 19 September 2017 which reviewed performance as at 30 June 2017.
- d) The value of the fund has decreased by (£2.49m) since the December quarter.
- e) Since inception with the London CIV Ruffer returned -2.55% over the quarter, -1.15% over the year and 4.69% since inception. The mandate is an Absolute Return Fund (measures the gain/loss as percentage of invested capital) and therefore is not measured against a benchmark. Capital preservation is a fundamental philosophy of the Fund.
- f) A higher weighting to equities was the main contributor to the underperformance as markets fell, this was mitigated by stock selection and the options portfolio protective assets but the overall effect was negative. With some of the equity protections sold Ruffer feel it prudent to reduce the portfolios equity holdings. The bonds portfolio also performed poorly as yields rose across the board

5.6. UK Equities - London CIV (Baillie Gifford Global Alpha)

- a) This mandate transferred to the London CIV on the 11 April 2016.
- b) The London CIV will oversee the monitoring and review of the performance of this mandate and representatives from the London CIV last met with the Committee on the 12 December 2017 which reviewed performance as at 30 September 2017.

- c) The value of the Baillie Gifford Global Equities mandate fund decreased by (£1.20m) since the December quarter.
- d) Since inception with the London CIV the Global Alpha Fund delivered a return of -0.94% over the quarter, outperforming the benchmark by 3.50%, delivered a return of 13.10% over the year, outperforming the benchmark by 9.93% and since inception with the London CIV the fund returned 23.95% outperforming the benchmark by 6.70%.
- e) The Fund has performed ahead of expectations during the quarter, considerably outperforming a falling market.. Amazon was the largest contributor to relative performance during the quarter. Tesla led the negative contributors during the period following the crash of a Tesla vehicle which was operating in 'Autopilot mode' at the time.

5.7. Multi Asset Manager – London CIV (Baillie Gifford Diversified Growth Fund)

- a) This mandate was transferred to the London CIV on the 15 February 2016.
- b) The London CIV will oversee the monitoring and review of the performance of this mandate and representatives from the London CIV last met with the Committee on the 12 December 2017 which reviewed performance as at 30 September 2017.
- c) The value of the Baillie Gifford Global Equities mandate fund increased by £0.46m since the December quarter.
- d) The Diversified Growth mandate delivered a return of 0.52% over the quarter, 4.77% over the last year and 9.03% since inception with the London CIV. The Sub-fund's objective is to achieve long term capital growth at lower risk than equity markets and therefore is not measured against a benchmark.
- e) The fund was the best performer of Multi-Asset funds on the LCIV platform, returning a small but positive return over the quarter. During a period when equity markets sold off, the main contributor to performance came from the allocation to absolute return, with the majority of that coming from the VIX futures position. Infrastructure was the single largest detractor, having been affected by the recent sentiments around the area of Public Private Initiative (PPI) contracts; high profile news stories have impacted the prices of this area more broadly. However

5.8 London CIV Update

- a) A Verbal update will be provided with developments following the LCIV AGM being held on the 12th July 2018

6. Corporate Governance Issues

The Committee, previously, agreed that it would:

1. Receive quarterly information from each relevant Investment Manager, detailing the voting history of the Investment Managers on contentious issues. This information is included in the Managers' Quarterly Reports, which will be distributed to members electronically.
2. Receive quarterly information from the Investment Managers, detailing new Investments made.
 - Points 1 and 2 are contained in the Managers' reports.

This report is being presented in order that:

- The general position of the Fund is considered plus other matters including any general issues as advised by Hymans.
- Hymans will discuss the managers' performance after which the particular manager will be invited to join the meeting and make their presentation. The manager attending the meeting will be from:

UBS

- Hymans and Officers will discuss with Members any issues arising from the monitoring of the other managers.

IMPLICATIONS AND RISKS

Financial implications and risks:

Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met and consequently minimise any cost to the General Fund

Legal implications and risks:

None arising directly

Human Resources implications and risks:

There are no immediate HR implications. However longer term, shortfalls may need to be addressed depending upon performance of the fund.

Equalities implications and risks:

None arising that directly impacts on residents or staff.