Havering
LONDON BOROUGH

PENSIONS COMMITTEE 19 SEPTEMBER 2017

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED JUNE 2017**
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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 30 June 2017

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 first quarter to 30 June 2017. 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 first **quarter** to 30 June 2017 was **1.3% (or £10m to £681m).** This represents an outperformance of **1.0%** against the combined tactical benchmark and represents an outperformance of **3.1%** against the strategic benchmark. The Baillie Gifford (BG) Global Equity Fund was the best performer over the quarter. The BG DGF and GMO Global Real Return Fund both outperformed their respective benchmarks over the quarter whilst the Ruffer Fund

underperformed. The RLAM Fund lost money albeit less than the benchmark reflecting a fall in the value of bond markets over the quarter.

The overall net return of the Fund's investments for the **year** to 30 June 2017 was **13.5%.** This represents an outperformance of **5.0%** against the combined tactical benchmark and an outperformance of **4.7%** 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 shortfall are set out in paragraphs 1.1 and 1.2 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).
3) Receive a presentation from the Fund's Multi-Asset Manager (Ruffer) (Appendix B).
4) Considers the latest quarterly update from the Chair of the Investment Advisory Committee, LCIV (Appendix C)
5) Considers the quarterly reports provided by each investment manager.
6) 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%	State Street Global Asset	Pooled	Passive	FTSE All World Equity Index
	7.5%	State Street Global Asset	Pooled	Passive	FTSE RAFI All World 3000 Index
Multi Asset Strategy	12.5%	LCIV Baillie Gifford (Diversified Growth Fund)	Pooled	Active	Capital growth at lower risk than equity markets
	15.0%	GMO Global Real return	Pooled	Active	OECD CPI g7 plus 3 - 5%

Asset Class	Target Asset Allocation (ISS Jan 17)	Investment Manager/ product	Segregated /pooled	Active/ Passive	Benchmark and Target
		(UCITS)			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

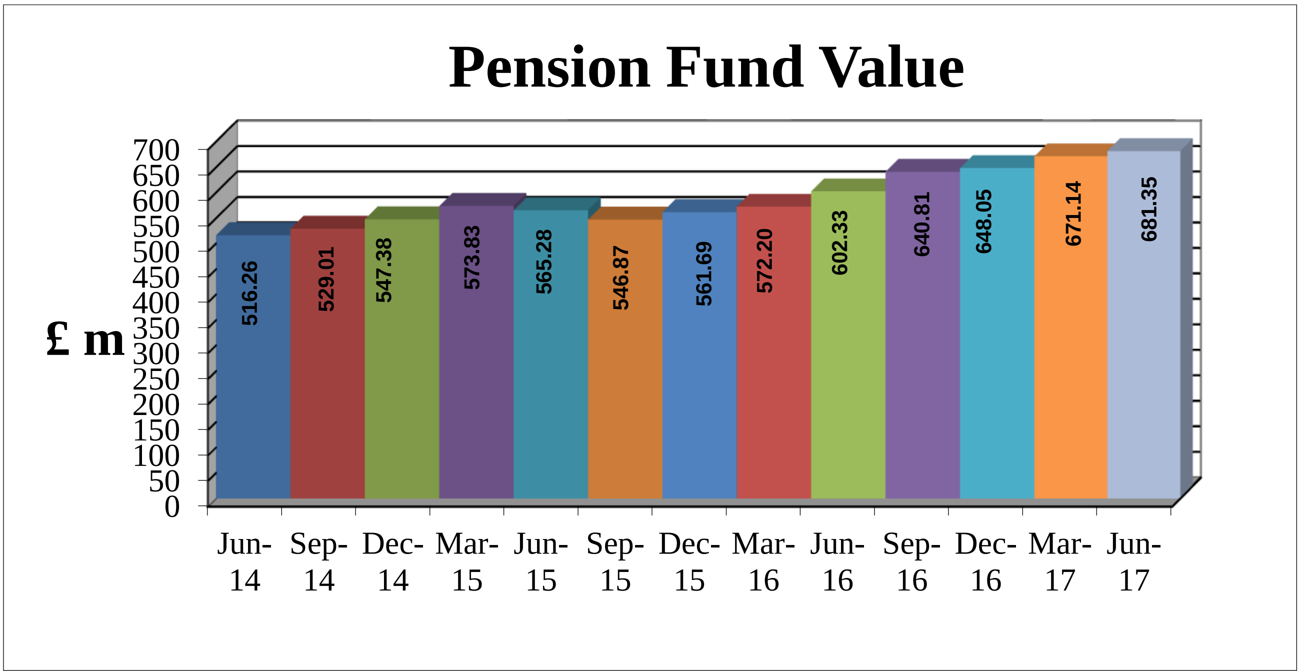
2.1 After reviewing the current reporting arrangements at the last Pensions Committee held on the 15 June 2017 it was agreed that only one fund manager will attend each committee meeting.

2.2 The Fund Manager attending this meeting is the Multi Asset Manager Ruffer who transitioned over to the London CIV in June 2016. Normally the London CIV would meet with the managers who are part of the London CIV but Ruffer welcomes the opportunity to maintain client relationship with their Local Government investors.

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 30 June 2017 was **£681.35m**. 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 £671.14m at the 31 March 2017; an **increase** of **£10.21m**. The movement in the fund value is attributable to an increase in assets of £8.59m and an increase in cash of £1.62m. The internally managed cash level stands at **£14.62m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

3.2 An analysis of the internally managed cash balance of **£14.62m** follows:

Table 2: Cash Analysis

CASH ANALYSIS	**2015/16 31 Mar 16**	**2016/17 31 Mar 17**	**2016/17 31 Mar 17 Revised Final**	**2017/18 30 Jun 17**
	£000's	£000's	£000's	£000's
Balance B/F	**-7,599**	**-12,924**	**-12,924**	**-12,770**
Benefits Paid	35,048	36,409	36,490	7,425
Management costs	1,754	781	1,358	217
Net Transfer Values	518	2,216	2,151	-764
Employee/Employer Contributions	-42,884	-39,977	-40,337	-9,961
Cash from/to Managers/Other Adj.	306	586	586	1,256
Internal Interest	-67	-91	-94	-24
Movement in Year	**-5,325**	**-76**	**154**	**-1,851**
Balance C/F	**-12,924**	**-13,000**	**-12,770**	**-14,621**

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 30.06.17	**12 Months to 30.06.17**	**3 Years to 30.06.17**	**5 years to 30.06.17**
	%	**%**	**%**	**%**
Fund	1.3	13.5	9.2	10.7
Benchmark	0.2	8.1	7.9	8.8
*Difference in return	1.0	5.0	1.3	1.7

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 30.06.17	**12 Months to 30.06.17**	**3 Years to 30.06.17**	**5 years to 30.06.17**
	%	**%**	**%**	**%**
Fund	1.3	13.5	9.2	10.7
Benchmark	-1.8	8.4	13.6	10.1
*Difference in return	3.1	4.7	-3.9	0.5

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 30 JUNE 2017)

Fund Manager	**Return (Performance)**	**Benchmark**	**Performance vs benchmark**	**Target**	**Performance vs Target**
	%	**%**	**%**	**%**	**%**
Royal London	-0.60	-1.0	**0.40**	-0.67	**0.04**
UBS	2.89	2.29	**0.60**	n/a	**n/a**
GMO	2.12	0.35	**1.77**	n/a	**n/a**
SSgA Global Equity	0.46	0.45	**0.01**	n/a	**n/a**
SSgA Fundamental Index	-0.82	-0.81	**-0.01**	n/a	**n/a**
LCIV/Ruffer*	-0.45	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (DGF)*	1.75	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (Global Alpha Fund)	4.62	0.71	**3.91**	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	6.72	5.42	**1.30**	6.67	**0.05**
UBS	5.46	5.99	**-0.53**	n/a	**n/a**
GMO	8.43	1.39	**7.04**	n/a	**n/a**
SSgA Global Equity	22.84	22.88	**-0.04**	n/a	**n/a**
SSgA Fundamental Index	24.27	24.47	**-0.20**	n/a	**n/a**
LCIV/Ruffer*	8.61	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (DGF)*	11.74	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (Global Alpha Fund)	31.13	21.81	**9.32**	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.

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 14 March 2017 which reviewed performance as at 31 December 16 and with officers on the 11 May 2017 which reviewed performance as at 31 March 2017.

b) The value of the fund as at 30 June 2017 has reduced by -£0.72m since the March quarter.

c) Royal London delivered a net return of -0.63% over the quarter, outperforming the benchmark by 0.35%. The mandate is ahead of the benchmark over the year by 1.30% and 0.59% since inception.

d) Royal London Asset Allocation:

i. Credit Bonds (corporate) 53.4%
ii. Index Linked Bonds 28.5%

iii.	Sterling Government Bonds	10.5%
iv.	RL Sterling Extra Yield Bond	7.1%
v.	Overseas Bonds	0.2%
vi.	Cash	0.3%

e) Relative performance was driven predominantly by duration positioning and asset allocation, reflecting the Fund's overall short duration stance and underweight exposure to government debt, although this was partially offset by a preference for index linked government debt versus conventional gilts. Credit sector selection, in particular the overweight positions in financials and the underweight positions in supranationals, was also positive for performance. The exposures to the Royal London Sterling Extra Yield Bond Fund and global index linked bonds were also beneficial.

5.2. Property (UBS)

a) UBS last met with the Committee on 14 March 2017 which reviewed performance as at 31 December 2016 and with officers on the 17 August 2016 which reviewed performance as at 30 June 2016.

b) The value of the fund as at 30 June 2017 increased by £1.12m since the March quarter.

c) UBS delivered a net return of 2.89% over the quarter, outperforming the benchmark by 0.60%. The mandate is behind the benchmark over the year by -0.53% and behind by 2.00% over 5 years. Return comprises of income attributing 0.9% and capital returns 2.0%.

d) UBS Sector weighting:

i.	Industrial	33.9%
ii.	Retail warehouse	24.3%
iii.	Office	20.3%
iv.	Other Commercial Property	13.1%
v.	Shopping Centres	4.5%
vi.	Unit Shops	4.9%

e) Performance was primarily driven by the Fund's industrial properties with the active leasing programmes across the portfolio also contributing to performance.

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 £2.17m since the June quarter.

c) GMO have outperformed their benchmark over the 3 month, 12 month and since inception as follows:

Table 7:GMO performance

	3 Months	12 Months	Since inception (13 Jan 2015)
	%	%	%
Net Fund Return	2.12	8.43	1.65
Benchmark	0.35	1.39	1.37
Relative to Benchmark	1.77	7.04	0.28

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

d) GMO asset Allocation:

i. Equities 41.7%
ii. Alternative strategies 15.7%
iii. Fixed Income 15.1%
iv. Cash/Cash Plus 27.5%

e) Mayor performance drivers came from equities, alternative strategies and fixed income comprising 2.5% of the return but security selection in alternative strategies and fixed income slightly detracted from performance at -0.3%. The fund's cash allocation to cash was a drag on returns over the quarter.

5.4. Passive Equities Manager (SSgA)

a) SSgA last met with the Committee on 13 December 2016 which reviewed performance as at 30 September 2016 and with officers on the 11 May 2017 which reviewed performance as at 31 March 2017.

b) The value of the fund has decreased by -£0.18m since the June quarter.

c) The SSgA mandate is split into two components, SSgA All World Equity Index sub fund, and the Fundamental Index Global Equity sub fund.

d) As anticipated from an index-tracking mandate SSgA has performed in line with the benchmark over the latest quarter. The Fundamental Index Global equity sub fund (FTSE RAFI All World 3000 Index) underperformed the All World Equity Index sub fund (FTSE All World Index) by 0.9%. The Index's overweight in Financials and relative exposures in Utilities and Financials were the top contributors, whereas the Index's overweight in Energy, underweights in Information

Technology and Health Care, and relative exposure in Consumer Discretionary were the major detractors.

5.5. Multi Asset Manager – London CIV (Ruffer)

a) This mandate transferred to the London CIV on 21 June 2016.

b) Ruffer last met with the Committee on 20 September 2016 which reviewed performance as at 30 June 2016 and with officers on the 31 January 2017 which reviewed performance as at 31 December 2016.

c) The London CIV will now oversee the monitoring and review of performance for this mandate. The London CIV quarterly manager review meeting took place on the 18 July 2017 which reviewed performance as at 30 June 2017 and the review notes are attached to this agenda (Appendix B). 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 and representatives from Ruffer are due to make a presentation at this Committee, therefore a brief overview of their performance since 31 December 2016 follows.

d) The value of the fund as at 30 June 2017 decreased by -£0.43m over the last quarter.

e) Since inception with the London CIV Ruffer returned -0.45% over the quarter, 8.61% over the year and 11.0% 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.

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 13 December 2016 which reviewed performance as at 30 September 2017.

c) The London CIV quarterly manager review meetings took place on the 25 July 2017 which reviewed performance as at 30 June 2017 and the review notes have been distributed to members electronically. Officers also attended an investment review pre meeting on the same day at which their performance review was presented.

d) The value of the Baillie Gifford Global Equities mandate fund increased by £5.16m over the last quarter.

e) Since inception with the London CIV the Global Alpha Fund delivered a return of 4.62% over the quarter, outperforming the benchmark by 3.91%, delivered a return of 31.13% over the year, outperforming the benchmark by 9.32% and since inception with the London CIV the fund returned 41.23% outperforming the benchmark by 7.70%.

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 13 December 2016 which reviewed performance as at 30 September 2017.

c) The London CIV quarterly manager review meetings took place on the 25 July 2017 which reviewed performance as at 30 June 2017 and the review notes have been distributed to members electronically.

d) The value of the Baillie Gifford DGF mandate increased by £1.46m over the last quarter.

e) The Diversified Growth mandate delivered a return of 1.75% over the quarter, 11.74% over the last year and 16.76% 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.

5.8 London CIV Update

a) The latest quarterly update from the Chair of the Investment Advisory Committee, Ian Williams and LCIV CEO, Hugh Grover on LCIV and the work of the Investment Advisory Committee is attached (Appendix C).

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:

  Ruffer

- 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.

BACKGROUND PAPERS

None