Havering
LONDON BOROUGH

PENSIONS COMMITTEE 24 July 2019

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED MARCH 2019**
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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 March 2019

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 2019. 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 2019 was **6.1% (or £41.21m to £733.62m).** This quarter the fund outperformed the combined tactical benchmark by 1.5% and underperformed against the strategic benchmark by -0.2%.

LCIV Baillie Gifford Global Alpha Growth Fund was the best performer on a relative basis over the quarter although there were no outstanding performers for this period, all of the Funds multi asset-mandates provided

positive returns, the largest underperformance against benchmark coming from Stafford Capital.

The overall net return of the Fund's investments for the **year** to 31 March 2019 was **3.3%.** This represents an underperformance of -**2.3%** against the combined tactical benchmark, and an underperformance of **-3.8%** 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.

In January 2017 the Fund appointed Pensions & Investment Research Consultants Ltd (PIRC) to provide the universe comparisons against other LGPS funds. The PIRC Local Authority Universe comprised of 64 funds as at the end of March 2019 with a value of £193 billion. The PIRC report can be found at Appendix C

PIRC Ltd completed a Local Authority Pensions Performance Analytics report, which provides a LGPS League table of investment performance, with the Havering Pension Fund returning 3.4% well below the average of 6.6% and ranked in the bottom (100^{th}) percentile of results achieved by the LGPS Universe in 2018/19. The high commitment to Diversified Growth (the worst performing asset last year) had a large negative impact on the overall result and the portfolio being relatively underweight in equities also had a negative impact. We have requested comments to this report from our Investment Advisors Hymans.

Hymans comments in response to the Fund's performance published in PIRC report are as follows:

The overriding investment objective for the Fund is to support an affordable and stable level of contributions for the longer term. The current funding approach implies a target investment return of Gilts + 1.8% p.a. over the longer term from the Fund's assets, or c. 4% per annum in absolute terms based on yields as at 31 March 2016 (the previous valuation date).

Although returns over the 12 month period to 31 March 2019 have been behind this target (at c. 3%), the strategy has delivered returns of c. 8% per annum and c. 7% per annum over 3 years and 5 years respectively. Longer term returns are therefore substantially ahead of the long term (absolute) return deemed sufficient to support an affordable and stable level of contributions. A key challenge for the Fund is that the value placed on the liabilities has risen by more than the assets since the previous valuation. In particular, the liabilities have grown by more than 20% purely as a result of a fall in real gilt yields of c. 0.9% p.a. This has been a further, exceptional period for gilt yields which are now at historic low levels. Our long term outlook for index-linked gilts remains unchanged. We believe that valuations are inflated relative to history and expect that, over the long term; yields will rise leading to a fall in gilt (and consequently liability) values.

The aim of the investment strategy has been and remains to deliver sufficient and stable returns, but without introducing more investment risk than is necessary. The Fund's approach is to seek long term value and diversification across a range of asset classes and managers and the strategy incorporates a lower direct allocation to equity markets than other LGPS funds, with equity exposure being partly provided through multi-asset funds. Whilst, over the last 5 years, the Fund's equity and bond allocations have consistently outperformed those of other LGPS funds although, over the 12 months to 31 March 2019, performance from the multi-asset allocation was disappointing reflecting a particularly challenging period for more tactical asset managers. This is been the primary contributor to poor 12 month performance, dragging down performance over 3 and 5 year periods.

With markets acting in a less predictable manner and traditional equity and bond markets performing strongly in overall terms, the multi-asset mandates were biased towards areas of perceived value, favouring equity markets which have lagged the strongly performing US, contributing to weaker short-term performance. The protections within the mandates, aimed at preserving capital, have also disappointed with the mandates suffering negative returns during periods of equity market falls.

The changes in strategy which have been gradually implemented over this period have seen allocations to multi-asset mandates reduced, albeit whilst retaining the underlying equity exposure. Allocations to infrastructure, global property and private debt have been introduced to the Fund's longer term strategy, offering the prospect of long-term income generation. We have confidence that the level of returns required to support affordable and stable contributions can be (at least) supported by the current investment approach.

RECOMMENDATIONS

That the Committee:

1) Note the summary of the performance of the Pension Fund within this report.
2) Consider Hymans performance monitoring report and presentation (Appendix A - Exempt).
3) Receive presentations from the Royal London Asset Management the Fund's Bonds Manager (Appendix B – Exempt)
4) Consider the quarterly reports provided by each investment manager.
5) Note the analysis of the cash balances (paragraph 3.2 refers).
6) Consider the review of the current Quarterly Performance report

7) Consider the PIRC Local Authority Pensions Performance Analytics report (Appendix C-Exempt)

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 Fund's deficit. The current shortfall has arisen largely as a consequence of the historically low level of real interest rates which have driven up the value of index linked gilts (and consequently the level of the funds liabilities). The Funds steady outperformance against strategic benchmark over the previous two years came to an abrupt halt as index-linked gilt yields fell over the quarter, pushing liability valuations up, whilst the funds return seeking assets fell sharply.

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.

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. The Fund has retained investments with Royal London which have offered some resilience to the fluctuations in interest rates over this period, but given the long term nature of the fund, the Funds investment advisors believe that the objective of pursuing a stable investment return remains appropriate. The investment strategy has therefore been evolved to provide exposure to diverse sources of investment return consistent with this objective.

1.3 The Fund will be aiming to work towards fulfilling the Long Term Asset allocations in line with the revised targets per the Investment Strategy Statement over the coming years. As the fund is currently transitioning assets over a short term asset allocation to a long term asset allocation the fund will be under or over weight to some asset classes during this time.

The asset allocations as at 31 March 2019 are shown on Table 1 together with individual Fund manager benchmarks

Table 1: Asset Allocation

Asset Class	Current Allocation 31 March 2019	Investment Manager/ product	Segregated/pooled	Active/ Passive	Benchmark and Target
UK/Global Equity	18.9%	LCIV Baillie Gifford (Global Alpha Fund)	Pooled	Active	MSCI All Countries Index plus 2.5% (gross)
	7.5%	Legal & General Investment Management	Pooled	Passive	FTSE All World Equity Index
	7.2%	Legal & General Investment Management	Pooled	Passive	FTSE RAFI All World 3000 Index
	3.4%	Legal & General Investment Management	Pooled	Passive	FTSE World Emerging Markets
Equities	**37.0%**				
Multi Asset Strategy	12.0%	LCIV Baillie Gifford (Diversified Growth Fund)	Pooled	Active	Capital growth at lower risk than equity markets
	4.5%	GMO Global Real return (UCITS)	Pooled	Active	OECD CPI g7 plus 3 - 5% over a complete market cycle
	12.9%	LCIV Ruffer	Pooled	Active	Absolute Return
Multi-Asset	**29.4%**				
Property	5.8%	UBS	Pooled	Active	AREF/IPD All balanced property Index Weighted Average
Infrastructure	4.1%	JP Morgan	Pooled	Active	CPI plus 5% (net of fees)
	1.0%	Stafford	Pooled	Active	CPI plus 5% (net of fees)
Other	1.7%	CBRE Global Property	Pooled	Active	CPI plus 5% (net of fees)
Real Assets	**12.6%**				

Table 1: Asset Allocation continued

Asset Class	Current Allocation 31 March 2019	Investment Manager/ product	Segregated /pooled	Active/ Passive	Benchmark and Target
Gilt/Investment Bonds	20.6%	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%*
Other Bonds	0.4% Yet to be funded	Churchill Permira	Pooled Pooled	Active Active	Libor + 4% Libor + 4%
Bonds and Cash	**21.0%**				
TOTAL	**100%**				

*0.75% prior to 1 November 2015

1.4 UBS, LGIM, GMO, Stafford, JP Morgan and Churchill 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.

1.5 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

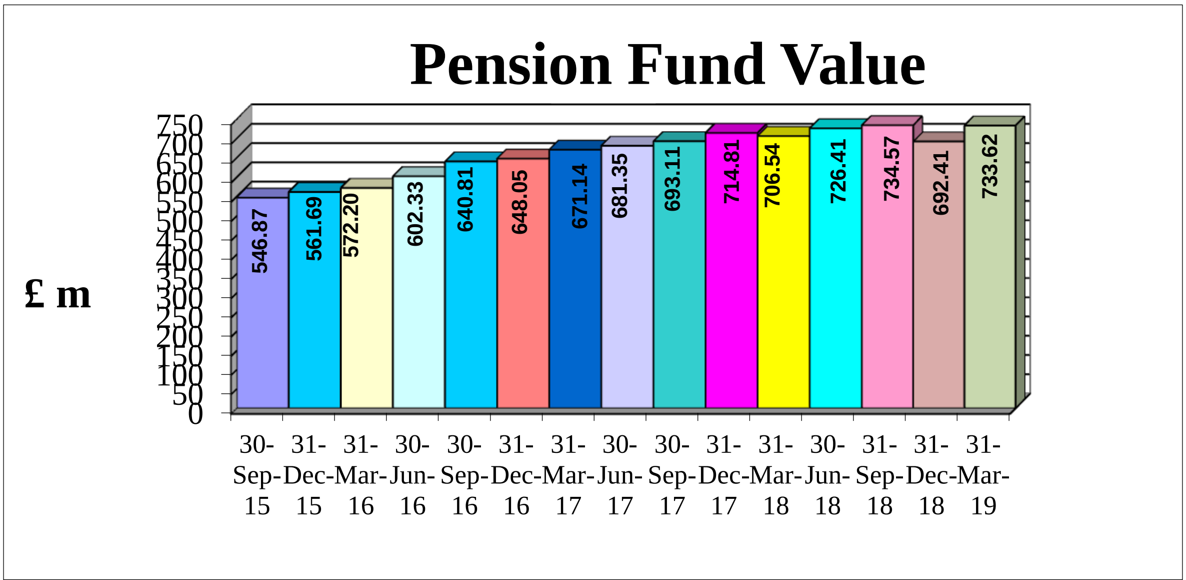
2.1 After reviewing the current reporting arrangements at the Pensions Committee held on the 5 June 2017 it was agreed that only one fund manager will attend each committee meeting, unless performance concerns override this.

2.2 The Fund Manager attending this meeting is Royal London the Fund's Bonds Manager (Appendix B- Exempt)

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 2019 was **£733.62m** 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 £692.41m at the 31 March 2019; an **increase** of **£41.21m**. Movement in the fund value is attributable to an increase in assets of £42.29m and a decrease in cash of £-1.08m. Internally managed cash level stands at **£14.20m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

3.2 An analysis of the internally managed cash balance of **£14.20m** follows:

Table 2: Cash Analysis

CASH ANALYSIS	**2016/17 31 Mar 17**	**2017/18 31 Mar 18**	**2018/19 31 Mar 19**
	£000's	£000's	£000's
Balance B/F	**-12,924**	**-12,770**	**-17,658**
Benefits Paid	36,490	36,532	37,838
Management costs	1,358	1,221	1,358
Net Transfer Values	2,151	1,108	1,586
Employee/Employer Contributions	-40,337	-42,851	-45,126
Cash from/to Managers/Other Adj.	586	-785	7,925
Internal Interest	-94	-113	-120
Movement in Year	**154**	**-4,888**	**3,462**
Balance C/F	**-12,770**	**-17,658**	**-14,197**

3.3 Cash Analysis for WM is prepared before the finalisation of the Pension Fund accounts, the final closing cash position at 31 March 2019 £-13.698m, a revised breakdown will be provided on the Qrt1 (June19) report.

3.4 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.

3.5 The cash management policy incorporates a threshold for the maximum amount of cash that the fund should hold but introduced a discretion that allows the Chief Executive (now the Chief Operating Officer/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 implementation (possibly to fund the closed ended funds and College mergers).

3.6 During 2018, the Committee appointed three Real Asset Managers and two Private Debt managers to implement the agreed strategy. As at 31 March 2019, 28% of the commitment has been drawn by Stafford Capital, 100% of the commitment to JP Morgan (infrastructure) and 50% of the commitment to CRBE (Global Property) alongside a commitment to Churchill and Permira (Private Debt). These commitments have been largely funded by realising assets from GMO (£70m). Investments have also been made in the LGIM

Emerging Market Equity Fund as assets have been realised from GMO to maintain the underlying allocation to this asset class. To finalise implementation of the strategy, Committee has still to consider the appointment of a Multi Asset Credit Mandate, expected to be via the London CIV, and which will be progressed during 2019

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 31.03.19	12 Months to 31.03.19	3 Years to 31.03.19	5 years to 31.03.19
	%	%	%	%
Fund	6.1	3.3	8.3	7.3
Benchmark	4.6	5.7	6.9	6.7
*Difference in return	1.5	-2.3	1.3	0.5

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 31.03.19	12 Months to 31.03.19	3 Years to 31.03.19	5 years to 31.03.19
	%	%	%	%
Fund	6.1	3.3	8.3	7.3
Benchmark	6.3	7.4	10.2	10.7
*Difference in return	-0.2	-3.8	-1.7	-3.1

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 month

Table 5: QUARTERLY PERFORMANCE (AS AT 31 March 2019)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
	%	%	%	%	%
Royal London	6.60	6.47	**0.13**	6.78	**-0.18**
UBS	0.50	0.30	**0.20**	n/a	**n/a**
GMO	3.30	0.80	**2.50**	n/a	**n/a**
LGIM Global Equity	9.62	9.61	**0.01**	n/a	**n/a**
LGIM Emerging Markets Equity Index	4.52	4.53	**-0.01**	n/a	**n/a**
LGIM Fundamental Index	7.80	7.84	**-0.04**	n/a	**n/a**
LCIV/Ruffer*	3.14	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (DGF)*	6.10	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (Global Alpha Fund)	12.42	9.80	**2.60**	n/a	**n/a**
Stafford Capital Partners Ltd	-3.80	1.10	**-4.90**	n/a	**n/a**
JP Morgan#	n/a	1.10	**n/a**	n/a	**n/a**
CBRE#	n/a	1.10	**-2.40**	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
- #not invested in this period for the entire period

Table 6: ANNUAL PERFORMANCE (LAST 12 MONTHS)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
	%	%	%	%	%
Royal London	5.50	5.32	**0.18**	6.57	**-1.07**
UBS	6.70	4.80	**1.90**	n/a	**n/a**
GMO	-4.40	1.60	**-6.00**	n/a	**n/a**
LGIM Global Equity	10.72	10.66	**0.08**	n/a	**n/a**
LGIM Fundamental Index	6.59	6.79	**-0.20**	n/a	**n/a**
LGIM Emerging Markets Equity Index#	n/a	n/a	**n/a**	n/a	**n/a**
LCIV/Ruffer*	-0.60	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (DGF)*	0.30	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (Global Alpha Fund)	8.80	11.00	**-2.20**	n/a	**n/a**
Stafford Capital Partners Ltd#	n/a	n/a	**n/a**	n/a	**n/a**
JP Morgan#	n/a	n/a	**n/a**	n/a	**n/a**
CBRE#	n/a	n/a	**n/a**	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 invested in this period for the entire period

*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 unless there are performance concerns for individual managers. 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) Representatives from Royal London are due to make a presentation at this committee and a brief overview follows.

b) The value of the fund as at 31 March 2019 has increased by £5.29m since the December quarter.

c) Royal London delivered a net return of 6.60% over the quarter, outperforming the benchmark by 0.13%. The mandate is ahead of the benchmark over the year by 0.18% and 0.76% since inception.

d) Royal London Asset Allocation

		%
i.	Credit Bonds (Corporate)	57.1
ii.	Index Linked Bonds	24.6
iii.	Sterling Government Bonds	10.4
iv.	RL Sterling Extra Yield Bond	5.7
v.	Overseas Bonds	0.0
vi.	Cash	2.3

(Figures subject to Rounding)

e) The Funds relative outperformance of the benchmark during the quarter was across mainly driven by the credit sector allocation as the Fund was over weight in sectors that mostly outperformed and underweight in those that underperformed.

f) Financials outperformed the broader market, with subordinated bonds leading the sector as senior issues lagged behind. The Fund's above benchmark position in subordinated financial debt and underweight holding in senior issues contributed to performance.

g) The Fund's holding in the Royal London Sterling Extra Yield Bond Fund was retained, delivering a gross return of 3.24% over the quarter, this lagged behind sterling investment grade credit, and consequently this holding had a negative effect on performance.

5.2. Property (UBS)

a) UBS last met with the Committee on 24 July 2018 which reviewed performance as at 31 March 2018

b) The value of the fund as at 31March 2019 decreased by £1.77m since the December quarter.

c) UBS delivered a net return of 0.50% over the quarter, out performing the benchmark by 0.20%. The mandate is ahead of the benchmark over the year by 1.90% and 0.90% over 5 years

d) UBS Sector weighting:

		%
i.	Industrial	41.8
ii.	Retail warehouse	25.9
iii.	Office	20.2
iv.	Other Commercial Property	12.1

e) The slow down in performance continues from Q4 18, with the MSCI Monthly all Property Index return for January and February combined coming in at just 0.3%. Overall performance continues to suffer from the negative returns in the retail sector, which has yet to reach the floor in its ongoing structural correction.

f) Brexit related uncertainty impacted investment activity, with recorded transactions for Q1 19 at just £8.9billion, although this is expected to slightly increase in the next couple of weeks, there is a chance that this is the first quarter since 2013 that volumes fail to reach £10 billion. It is expected that activity will bounce back if a deal is made with the EU in the coming weeks

/months, but until that time, the threat of no deal scenario will continue to subdue the market

5.3. Multi Asset Manager (GMO – Global Real Return (UCIT Fund - Undertakings for collective investments in transferrable securities)

a) GMO last met with the committee on 11 December 2018 which reviewed performance as at 30 September

b) During the quarter the fund has been reduced by £70m drawdown which was utilised in funding the new three Real Asset Managers, after taking this into account the Fund has increased in value by £1.97m since the December quarter.

c) GMO have outperformed their benchmark over the quarter by 2.50%, underperforming benchmark at 12 month and since inception

d) GMO asset Allocation:

		%
i.	Equities	42.4
ii.	Alternative strategies	30.8
iii.	Fixed Income	21.9
iv.	Cash/Cash Plus	4.9

This Fund has been used to fund the real asset mandates, and a continued periodical disinvestment will occur as and when required.

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

a) LGIM last met with the Committee on 18 September 2018 which reviewed performance as at 30 June 2018

b) This mandate benefits from fee reductions as negotiated by the LCIV and is recognised as a mandate under the London CIV

c) The passive equity mandate is split between the FTSE RAFI All World 3000 index, FTSE All World Index and the FTSE Emerging Markets Index.

d) As anticipated from an index-tracking mandate LGIM has performed in line with the benchmark since inception, delivering a net return on the FTSE RAFI All World 300 index of 9.62% out performing the benchmark by 0.01% a net return on the FTSE Rafi AW 3000 Equity Index of 7.80% underperforming the benchmark by -0.04% and a net performance on the FTSE Emerging Markets Equity Index of 4.52% underperforming the benchmark by -0.01% (not invested for the entire quarter in this index)

5.5. Multi Asset Manager – London CIV (Ruffer)

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

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.

b) Ruffer last met the committee on 19th March 2019 which reviewed performance as at 31 December 2018.

c) The value of the fund has increased by £2.89m since the December quarter.

d) Since inception with the London CIV, Ruffer returned 3.10% over the quarter, -0.60% over the year and 2.68% 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.

e) The fund had a net return of 3.10% this quarter. The Funds gains were mainly due as a result of the inflation linked bond position and the equity portfolio, especially from cyclical Industries. These stocks recovered most of their losses from a turbulent Qrt4

f) The largest contributor to performance was the exposure to US Inflation Linked bonds, driven by higher inflation expectations from market response following the Fed actions

g) Equity Protection continued to be a negative contributor, the credit swaps held within the fund also negatively contributed to the portfolios performance as investors returned to more risky assets.

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 last met the committee on 19th March 2019 which reviewed performance as at 31 December 2018.

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c) The value of the Baillie Gifford Global Equities mandate fund increased by £15.20m since the December quarter.

d) Since inception with the London CIV the Global Alpha Fund delivered a return of 12.42% over the quarter, outperforming the benchmark by -2.60% delivered a return of 8.80% over the year, underperforming the benchmark by -2.20 and since inception with the London CIV the fund returned 18.62% outperforming the benchmark by 3.36%.

e) The outperformance this quarter was largely due to positive signs from trade talks between the US and China that boosted returns. The fund remains largely exposed to North America and Emerging markets, with a 47% and 21% of total stock selection, respectively. This quarter the fund rebalances its best performing positions in Amazon and Banco Bradesco, in order to introduce new additions to the portfolio; Amazon still remains one of the funds largest holdings in the portfolio and continues to perform strongly. New purchases include Reliant Industries, a giant Indian based refining and marketing conglomerate, which has recently established 'RelianceJio'- the largest mobile network in the world, LCIV Global Alpha believe that this addition will continue to develop revenue generating opportunities in the future, which are currently undervalued by the market. The fund increased it's exposure to Alibaba by 1.2% to 3.2% as a result of a positive partnership structure and future growth potential.

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 last met the committee on 19th March 2019 which reviewed performance as at 31 December 2018.

c) The value of the Baillie Gifford Diversified Growth mandate fund increased by £5.00m since the December quarter.

d) The Diversified Growth mandate delivered a return of 6.10% over the quarter, 0.30% over the last year and 6.15% 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 had a positive performance this quarter. Following the weakness in risk markets the manager took the opportunity to top up certain holding based on price weakness. New additions to the portfolio were made through commercial property holdings, namely, the UK Real Estate Investment Trusts (REITS), which they believed were undervalued by up to 40%, providing an attractive investment opportunity. The fund also continues to focus on the emerging market companies, particularly China stock after an improvement in US and China relations. The China markets remains dynamic as the economy appears to have boomed this quarter, outperforming most western economies.

5.8 Private Markets Investments

The Fund has made commitments to five private markets funds (Permira not yet invested), the bulk of the monies committed to these funds have not been drawn at 31st March 19.

Table below shows a summary of commitments as at 31st March 2019

Mandate Vehicle	Infrastructure		Global Property	Private Debt
	Stafford	JP Morgan	CBRE	Churchill
Commitment date	25-Apr-18	31-Jul-18	30-Sep-18	Dec-18
Fund Currency	EUR	USD	USD	USD
Gross commitment	£25m (EUR 28.5m)	£30M (USD 34M)	£30M (USD XXM)	£22M (USD 31M)
Net Capital called during Quarter	-	£30M (USD 34M)	£13.2M (USD 17M)	£3.0M (USD 3.9M)
Net Capital called to date	£7.0M (EUR 8.1M)	£30M (USD 34M)	£13.2M (USD 17M)	£3.0M (USD 3.9M)
Other distributions to date	£0.9M (EUR 0.8M)	-	-	-
Nav Quarter End	£6.3M (EUR 7.3)	£25.9M (USD 33.8)	£26.3M (USD 34.3M)	£3.0M (USD 3.9M)
Net IRR since inception	7.3%pa* (vs 8-9% target)		5.0%	
Net Yield since inception	4.8%pa* (vs5% target)		4.0%	
No of holdings	8 funds, 171 underlying assets		51 Investments, 2297 properties	

Source: Investment managers. *Based on information avalaible as at the end of the previous quarter

5.9 London CIV Update

a) **Signing of the 'Pension Cost Recharge Agreement' and 'Pension Guarantee'**. The current position is that the LCIV are seeking information from the boroughs with regards to the decision making process and whether boroughs are likely to require independent legal advice. Officers are in the process of obtaining sign of for these agreements. The next London CIV AGM is on Thursday 18 July 2019

b) LCIV have announced the appointment of a permanent Chief Investment Officer (CIO) – Mark Thompson starting 2nd September, Mark will take over from Michael Pratten, who has been acting as our interim CIO whilst the recruitment for a permanent CIO has been ongoing. Michael will continue to lead the Investment team and help deliver the current pipeline of fund launches until Mark joins in September.

6.0 Proposed changes to future performance reports

We are undertaking a review of the current Quarterly Performance report. We acknowledge that there is an element of duplication within our report and Hymans Performance report. To that end we propose to no longer include our Fund Manager reviews, which are already extensively covered by Hymans, but include when appropriate more topical LPGS news that may affect the Pension Fund. We would like to make these changes by the next Quarterly meeting (September 19) and would welcome any views on items that you would like us to cover.

6.1 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:

Royal London Asset Management

- 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:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;

(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;

(iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the

Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

An EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

BACKGROUND PAPERS

None