

PENSIONS COMMITTEE

18 MARCH 2025

Subject Heading:

**PENSION FUND PERFORMANCE
MONITORING FOR THE QUARTER
ENDED DECEMBER 2024**

ELT Lead:

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Policy context:

Pension Fund performance is regularly monitored to ensure investment objectives are being met and to keep the committee updated with Pension related developments.

Financial summary:

This report comments upon the performance of the Fund for the period ended 31 December 2024

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

People – Supporting our residents to stay safe and well	X
Place – A great place to live, work and enjoy	X
Resources – Enabling a resident-focused and resilient Council	X

SUMMARY

**LOLA Module 6 – Investment Performance and Risk Management and LOLA
Module 7 – Financial Markets and products applies**

This report provides an overview of how the Fund's investments are performing, how the individual Investment Managers are also performing against their set targets and any relevant Local Government Pension Scheme (LGPS) updates for the quarter ending **31 December 2024**.

Pensions Committee, 18 March 2025

Significant events that occur after production of this report will be addressed verbally at the meeting.

The Fund's value increased by **£20.1m** over the quarter. The overall fund performance of 2.11% underperformed the tactical benchmark by -0.60% and outperformed the strategic benchmark by 7.58%.

The total value of the Fund's assets increased by c.£20.1m over the quarter to £1,018.6m as at 31 December 2024.

The increase in valuation is primarily due to the Fund's allocation to 'Growth' assets – as equity allocations generated positive returns over the period, particularly as US equities continued to outperform following Trump's presidential victory (i.e. with expectations of tax cuts, deregulation, a more US nationalist trade policy) and their exposure to the Technology sector.

The Fund's allocation to 'Income' assets also increased in value but remained slightly below the Fund's target allocation.

The Fund's allocation to 'Protection' assets decreased in value – as index-linked gilts fell in value over the period, as real gilt yields rose substantially; driven by expectations of both larger and sooner interest rate cuts and declining bond prices.

The Fund's overall allocation to index linked gilts increased over the quarter to c.4.6% (c.2.4% as at 30 September 2024) as £27.0m of 'surplus cash' (i.e. held across the Fund's in-house Treasury, Russell FX Account and Northern Trust General Cash Account) was invested into the Royal London Asset Management Index-Linked Gilts Fund in December 2024, to bring this allocation back in line with its strategic benchmark target.

The general position of the Fund is considered plus other matters including any current issues as advised by Hymans. The manager attending the meeting will be:

Stafford – Global Infrastructure Manager

Hymans will discuss the Fund's performance after which the manager will be invited to join the meeting, make their presentation and answer any questions.

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

RECOMMENDATIONS

That the Committee:

- 1) Consider Hymans Market Background, Strategic Overview and Manager Performance Report (Appendix A)
- 2) Consider Hymans Performance Report and views (Appendix B **Exempt**)
- 3) Receive presentation from the Funds Global Infrastructure Manager (Stafford) for an overview on the fund's performance (Appendix C – **Exempt**)
- 4) Consider the quarterly reports sent electronically, provided by each fund manager.
- 5) Note the analysis of the cash balances.

REPORT DETAIL

1. Elements from Hymans report, which are deemed non-confidential, can be found in **Appendix A**. Opinions on fund manager performance will remain as exempt and shown in **Appendix B**.
2. Where appropriate, topical LGPS news that may affect the Fund will be included.

3. BACKGROUND

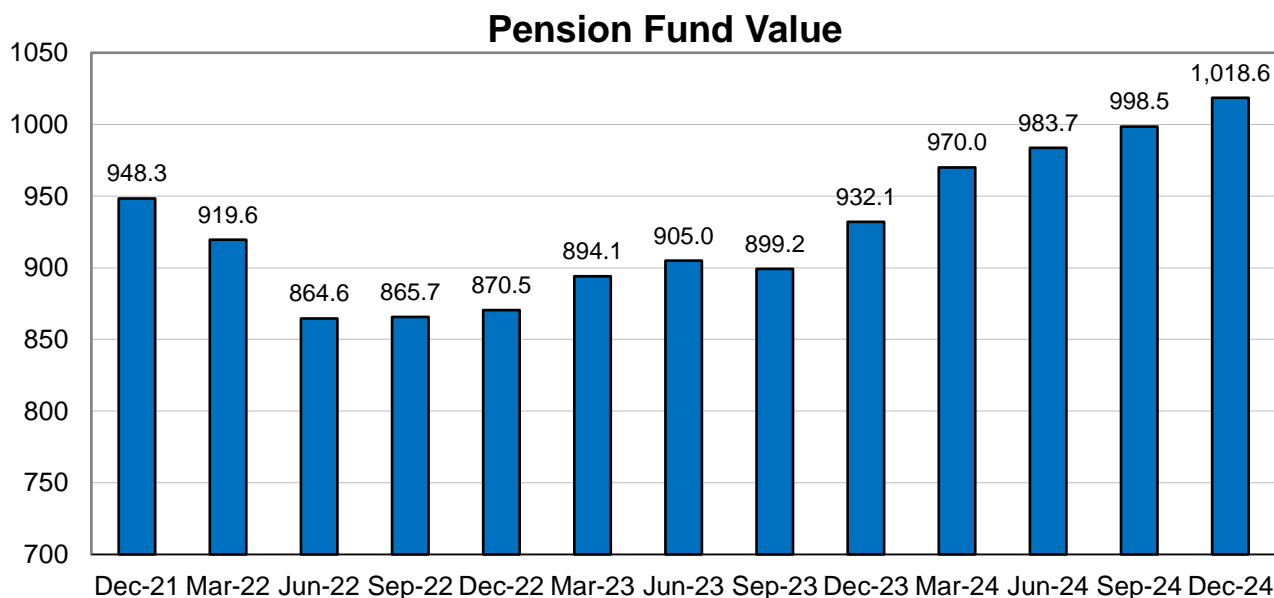
- a. The Committee adopted an updated Investment Strategy Statement (ISS) in September 2023.
- b. The objective of the Fund's ISS is to deliver a stable long-term investment return in excess of the expected growth in the Fund's liabilities.
- c. The Fund's assets are monitored quarterly to ensure that the long-term objective of the ISS is being delivered.
- d. We measure returns against tactical and strategic benchmarks.

4. PERFORMANCE

- a. The Fund's invested asset value at 31 December 2024 was £1,018.6m compared with £998.5m at 30 September 2024; an increase of £20.1m (decrease in cash (£31.7m), increase in assets

£51.8m). Movement in cash was utilised for fund rebalancing purposes (para 8b also refers)

Chart 1 – Pension Fund Asset Value



Source: Northern Trust Performance Report

- b. The overall net performance of the Fund against the **Tactical Benchmark** - Each asset manager has been set a specific (tactical) benchmark as well as an outperformance target against which 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.

Table 1: Tactical Performance

	Quarter to 31/12/2024 %	12 Months to 31/12/2024 %	3 Years to 31/12/2024 %	5 years to 31/12/2024 %
Fund	2.11	8.82	1.69	5.41
Benchmark	2.73	10.88	5.98	7.16
*Difference in return	-0.62	-2.06	-4.29	-1.75

Source: Northern Trust Performance Report

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

- c. The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted of Gilts + 1.8% Net of fees). The strategic benchmark represents the expected rate at which the Fund's liabilities are growing (or falling) in value. The asset performance relative to the strategic benchmark performance gives

an indication of whether the funding level has improved or weakened over a given period.

Table 2: Strategic Performance

	Quarter to 31/12/2024 %	12 Months to 31/12/2024 %	3 Years to 31/12/2024 %	5 years to 31/12/2024 %
Fund	2.11	8.82	1.69	5.41
Benchmark	-5.47	-6.62	-13.20	-4.80
*Difference in return	7.58	15.44	14.89	10.20

Source: Northern Trust Performance Report

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

- d. Further detail on the Fund's investment performance is detailed in **Appendix A** in the performance report which will be presented by the Investment Adviser (Hymans)

5. CASH FORECAST

- a. At the end of December 2024, the cash balance stood at £14m, which is invested with London Borough of Havering Treasury and available for operational cash requirements as needed.

Table 3: Cash Flow Forecast

	ACTUALS TO 31/12/2024 £000	ESTIMATE Year to 31/03/2025 £000	ESTIMATE Year to 31/03/2026 £000	ESTIMATE Year to 31/03/2027 £000
Balance b/f	24,276	14,036	13,802	10,333
Benefits paid	(25,969)	(8,700)	(35,363)	(36,070)
BACS expenses*	(9,817)	(3,300)	(13,379)	(13,647)
Lump sums by faster payment	(3,298)	(1,070)	(4,368)	(4,368)
Transfers in	3,320	1,500	4,820	4,820
Contributions received**	34,959	10,506	44,374	40,261
Pension strain	197	50	247	300
Interest	-	780	200	100
Sweep	368	-	-	-
Transferred to NT	(10,000)	-	-	-
Balance c/f	14,036	13,802	10,333	1,728

* BACS expenses also includes some grants i.e. lump sums made to members via payments team

** Contributions received from LBH are net of pension payroll deductions (e.g. HMRC)

- b. Members updated the cash management policy at their committee meeting on the 19 March 2024.
- c. An operational cash balance in the range of £5m to £13m has been set. In the event that cash levels rise above the upper limit of £13m cash will be invested in the most underweight liquid asset allocation.

- d. Cash balance may be retained above the upper limit at the discretion of the Section 151 officer.
- e. The Section 151 officer approved the use of £10m surplus cash for portfolio rebalancing. This took place in December and is included in the above table (para 8b also refers).

6. REPORTING ARRANGEMENTS

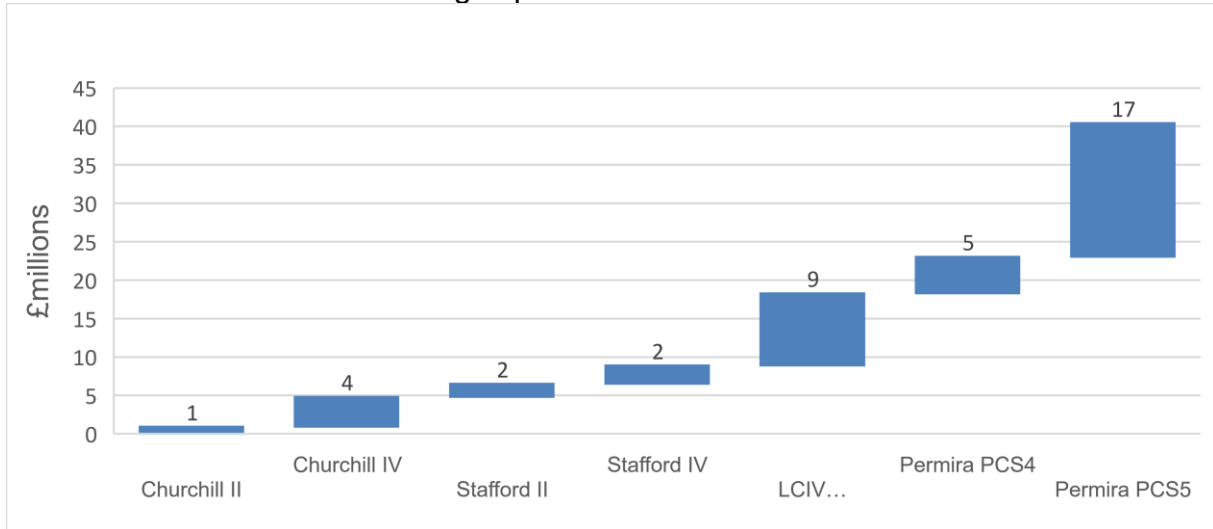
- a. At each reporting cycle, the Committee will see a different fund manager until members have met them all unless there are performance concerns that demand a manager be brought back again for further investigation.
- b. Summary fund manager reviews are included within Hymans performance report at **Appendix A**.
- c. All fund manager's quarterly reports are distributed electronically prior to this meeting. Where applicable, quarterly voting information, from each fund manager, detailing the voting history of the fund managers is also included in the manager's quarterly report.
- d. The fund manager attending this meeting is **Stafford** who manage the Funds Global Infrastructure portfolio. Their report is attached at **Appendix C (Exempt)**.

8. FUND UPDATES:

8.1 Changes since the last report and forthcoming changes/events:

- a. In the quarter ending 30 December 2024, the Fund completed £4m of capital draw down requests, which were funded from investment income received and held with the Custodian.
- b. Underweight positions were rebalanced to target during the Quarter to December 2024, using cash withdrawn from Havering Treasury (£10m) and Northern Trust (£30m):
 - £13m increase to the LCIV Absolute Return Fund (was 1.3% underweight)
 - £27m increase to Royal London Index Linked Bonds (was 2.7% underweight)
- c. At 31 December 2024 there was £43m of outstanding capital commitments as follows:

Chart 2 – Outstanding capital commitments at 31 December 2024



8.2 London CIV UPDATES -The LCIV is the appointed asset pool manager for the Fund and the governance of investments held with the LCIV is their responsibility. It is therefore crucial that regular communication and contact is upheld and activity updates are reported and covered here as follows:

8.2.1 LCIV meetings (since the last report)

- a. Virtual weekly "Coffee with the CIO" are held to share news, learn and develop opportunities. Recordings can be made available to members on request.
- b. Business Update Meetings take place monthly – since the last report, meetings were held on the 28 November 2024 and 12 February 2025. Recordings can be made available on request. These meetings will move to quarterly to align with the release of London CIV's Quarterly Investment Reports (QIRs). Each business update meeting includes an update from LCIV Chief Officers covering current fund offerings, fund performance; fund updates (including those funds for which enhanced monitoring is in place) and the pipeline for new fund launches. In addition, relevant topical issues are included as appropriate. Highlights as follows:

- **Fund Activity - New/Changes to Sub Fund Launches:**

- *New:* Natural Capital/ Nature Based Solution - Fund is now available and first was on 10 December 2024. Havering currently has no plans to invest in this fund
- *New:* Private Debt II Fund – The Fund is now available and first close was on 9 December 2024. Potential for consideration when the Fund reviews its allocation to this asset class.
- *New:* Indirect Property Pooling – Draft legal documents being finalised and shared with Partner Funds. Aim to

launch by 31 March 2025, subject to notice periods of existing arrangement.

- *New: Global Equity Value* – was launched on the 28 October 2024. Havering currently has no plans to invest in this fund
- *New: Buy and maintain Fund* - was launched on the 9 October 2024. Havering currently has no plans to invest in this fund

c. **Meet the manager meeting:** These sessions are open for investors to attend to receive information on manager's current investment strategies, a summary of meeting that relate to the mandates held by the Fund:

- **13 November 2024** – Stonepeak are the Investment Manager of the LCIV Renewable Infrastructure Fund's (LRIF) largest investment, Stonepeak Global Renewables Fund. The key individuals who manage the fund provided a market update on the renewables sector across North America, Europe, and Asia Pacific, as well as a deep dive into LRIF's first co-investment.

d. **Fund Manager monitoring updates** - All LCIV sub funds undergo investment reviews and annual in-depth reviews unless there are any concerns, in which case the frequency of the in-depth reviews occurs every six months. Havering investment funds are on **"normal"** **except the LCIV Absolute Return Fund which is now on 'enhanced' monitoring.** Investment reviews and update meetings have taken place over the last quarter and a summary follows of those that relate to mandates held by Fund:

- **29 January 2025 – Monitoring status update meeting Fixed Income - LCIV Global Bond Fund (GBF)** - this deep dive review covered performance as at the end of December (outperformed benchmark over the quarter by 0.01% and 0.33% since inception). The LCIV uses traffic light for scoring and the GBF achieved a GREEN rating for the categories; Resourcing, Investment Process, Responsible Investment & Engagement, Business Management, Strategy Execution and Value for money. AMBER ratings for Risk Management and Performance score was upgraded to 'Light Green'.
- **5 February 2025 – Investment Review Webinar – London CIV Multi Asset Funds** – This incorporated the LCIV Absolute Return Fund. Performed poorly in Q4 and overall had a disappointing year in 2024 (underperformed benchmark by - 5.06% in the quarter and underperformed by – 9.4% over the year). Using the traffic light basis for scoring the fund received GREEN rating for categories; Resourcing, Investment process, Responsible Investment & Engagement, Strategy execution. AMBER rating for categories Risk Management and Business Management. Overall rating score is 4, this is the lowest score

available. Given concerns, this Fund is now on 'enhanced monitoring status and an in-depth review scheduled for later in February 2025. Officers will report the outcome once known.

e. Staffing Updates:

- **Jenny Buck**, former Tesco Pension Investment Limited's Chief Investment Officer (CIO), joins LCIV's as their new CIO this month. Rob Treich, was Interim CIO returns to his role as Head of Public Markets
- **Liz Lynxwiler** has been appointed as Company Secretary, succeeding Kristina Ingate who retired in January.
- Christopher Gardiner has been appointed Chief Financial Officer (CFO) after undertaking this role as interim CFO

8.3 Training Requirements - UPDATE

- a. The Fund subscribes to the LGPS Online Learning Academy (LOLA) Launched by our Actuaries (Hymans) – this is an online platform designed to support the training needs of Pensions Committees, Local Pension Boards and Officers. The training is split into a number of modules covering the CIPFA Knowledge & Skills Framework (KSF) and The Pension Regulator's Code of Practice 14. Each module contains short 'video on demand' presentations with supplemental learning materials and quizzes.
- b. In addition to an induction training session, members are expected to complete the LOLA training modules v1.0 (modules 1- 5) or LOLA V2.0 Training modules (1- 8) in support of meeting the Committee procedure rules.
- c. The Fund transitioned over to LOLA v2.0 on the **1 October 2023**.
- d. New committee members yet to complete modules under version 1.0 will now be required to undertake the LOLA v2.0 to meet the committee procedure rules.
- e. New committee members will have 6 months from **1 October 2023** or date of joining to complete the LOLA v2.0 modules.
- f. Officers will provide the Committee with regular progress reports allowing it to easily evidence member's development and progress, as follows:

Chart 3 – Pension committee progress LOLA v1

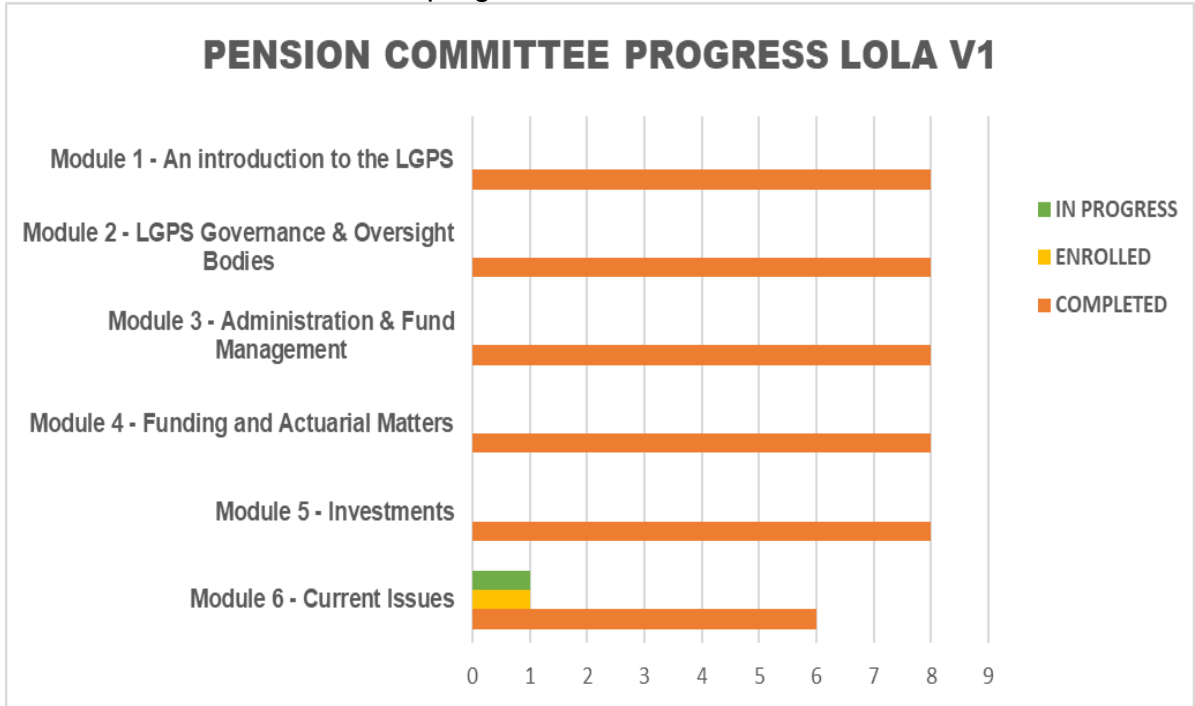
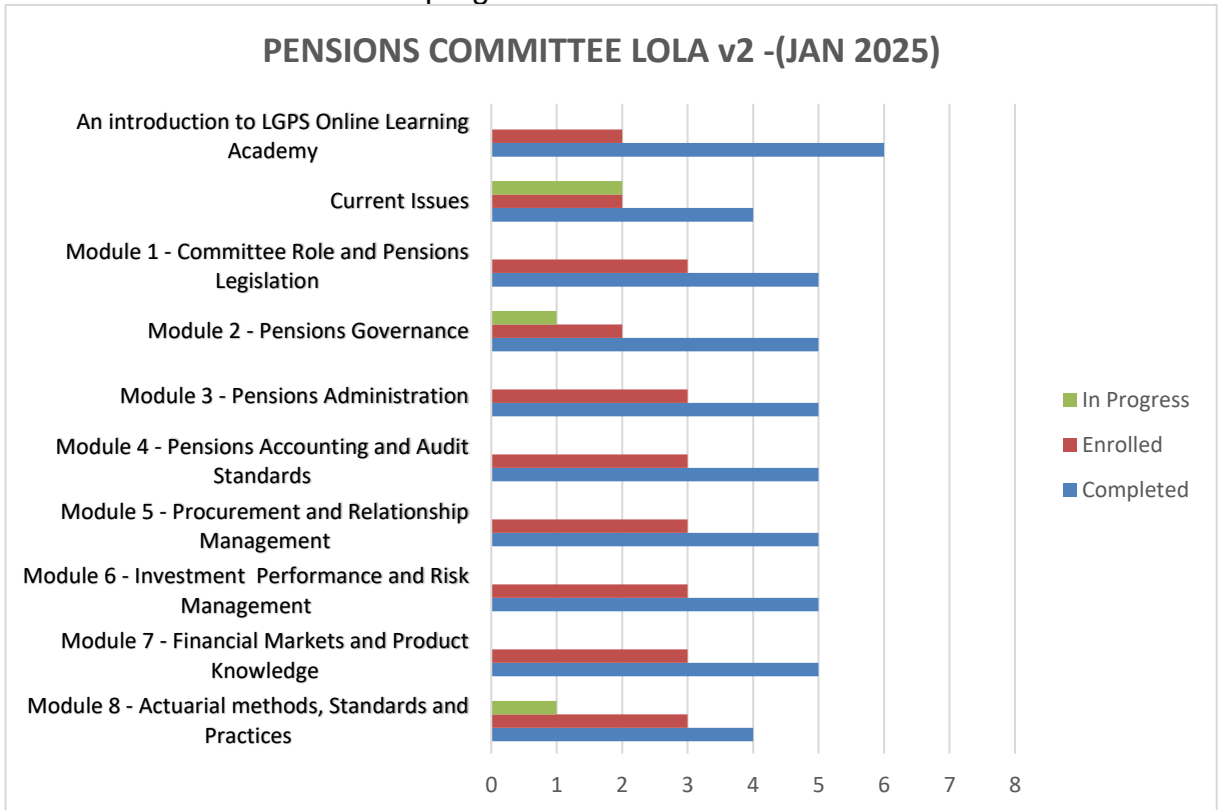


Chart 4 – Pension Committee progress LOLA v2



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 and employers in the Fund

Legal implications and risks:

None arising directly from consideration of the content of the Report.

Human Resources implications and risks:

There are no immediate HR implications.

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.

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 EHIA (Equality and Health Impact Assessment) is usually carried out and on this occasion this isn't required

The Council seeks to ensure equality, inclusion, and dignity for all in all situations.

There are no equalities and social inclusion implications and risks associated with this decision

BACKGROUND PAPERS

None