

Committee: Financial Investment Board (For Decision) Local Government Pensions Board (For Information)	Date: 23 September 2020 5 October 2020
Subject: LGP Board –Pension Fund Investment Activities 1 April 2019 to 31 March 2020	Public
Report of: The Chamberlain	For Decision
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Summary

At their meeting on 4 February 2020, the Local Government Pensions Board (the LGP Board) passed a resolution asking the Financial Investment Board to provide an annual summary of investment activity in relation to the Pension Fund. Whilst the June meeting of the LGP Board was cancelled due to COVID 19, the meeting scheduled for 5 October will take place.

Attached is a summary on the investment activity of the Pension Fund from 1 April 2019 to 31 March 2020

Recommendations

Members are asked to

- (i) Note the report; and
- (ii) Provide any additional comments for the Local Government Pensions Board.

Appendices

Appendix – Summary of Pension Fund Investment Activity 1 April 2019 to 31 March 2020

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Appendix: Summary of Pension Fund Investment Activity 1 April 2019 to 31 March 2020

Introduction

1. This Summary Note sets out the investment activity of the Pension Fund over the financial year 2019/20. As at 31 March 2020 the total value of the Pension Fund (excluding cash held by the Fund for administering the Pension Scheme) was £1,024M. the table below sets out the valuation as at 31 March 2019 and 31 March 2020.

	Position @ 31/03/2019 £M	Position @ 31/03/2020 £M %	Strategic Target @ 2018/19 £M %
Equities	677	577 56%	512 50%
Artemis	95	80 8%	85 8%
LCIV Alpha Growth Fund (Baillie Gifford)	119	118 12%	85 8%
C WorldWide (Carnegie)	135	116 11%	85 8%
Lindsell Train	48	46 4%	43 4%
Harris	101	70 7%	85 8%
Majedie	42	33 3%	43 4%
Veritas	137	114 11%	85 8%
Multi-Asset	281	272 27%	307 30%
LCIV MAC Fund (CQS)	68	59 6%	102 10%
Pyrford	128	125 12%	102 10%
Ruffer	85	88 9%	102 10%
Property	0	78 8%	102 10%
Aviva Lime Fund	0	29 3%	34
M&G SPIF	0	30 3%	34
M&G UK Residential ¹	0	19 2%	34
Infrastructure	60	62 6%	51 5%
IFM	38	41 4%	
DIF ²	22	21 2%	
Private Equity²	35	35 3%	51 5%
TOTAL	1,053	1,024 100%	1,024 100%

Performance

2. The investment performance of the Pension Fund is subject to regular monitoring by the City of London's custodian BNY Mellon, City Officers, the Investment Consultant

¹ £11,936,000 transferred to the fund on 31 March 2020 for investment value date 1 April 2020. Assets held as cash with the fund manager as at the reporting date.

² Valuations for DIF and the private equity portfolio are calculated using the latest available market values (31/12/2019) and adjusted for cash flow movements occurring during the period.

and the Financial Investment Board (FIB). The table below sets out the performance of the Pension Fund as at 31 March 2020.

	2019/20 %	Last 3 Years % p.a.	Last 5 Years % p.a.
Pension Fund Returns			
Fund Return	-4.1	+1.8	+4.5
Return Benchmark (5.7% pa)	+5.7	+6.1	+6.5
Relative Return	-9.8	-4.3	-2.0

*The above table only reflects the returns on financial assets monitored by the Pension Fund's custodian and therefore does not include holdings in Private Equity, DIF Infrastructure IV or the Pension Fund's shareholding in the London CIV Ltd, which combined represents approximately 5% of the Pension Fund's overall value.

3. The year to 31 March 2020 began with steadily increasing gains in financial markets. However, by the start of 2020 awareness of Covid-19 began to emerge and within a matter of weeks it became apparent that this new virus marked not just a local or regional threat, but rather a global pandemic on a scale without precedent in living memory. Financial markets experienced sudden and significant losses as fears over the economic impact of Covid-19, and the extraordinary levels of societal intervention warranted by it, came to the fore.
4. Under these conditions, the Pension Fund's investments generated an annual return of -4.1% in the year to 31 March 2020. Although this is lower than the Fund's actuarially assessed absolute return target of +5.7%, it should be noted that the Pension Fund maintained its value far more successfully than leading financial market indices (by comparison the FTSE All Share recorded losses of -18.5% in 2019/20).
5. Events such as the market downturn in early 2020 are a reminder of the risks inherent in investing, and as an informed investor, the administering authority is aware that such risks do materialise from time to time. This is one of the reasons why FIB sets a diversified asset allocation strategy, to alleviate the volatile episodes in financial markets. In doing so, the investment approach significantly protected the Fund's funding level over the course of 2019/20.

Movement in Funds during 2019/20

6. At their meeting in May 2017, FIB agreed that the Pension Fund commitment to property of £90M should be split evenly between three property funds - Aviva's Lime Fund, M&G's Secured Property Income Fund and their UK Residential Fund. Starting with a capital call from Aviva in September 2019, these commitments have been gradually drawn down over recent months and as at the end of March 2020 a total of £79.7m had been drawn down. The remaining £11.3M related to the M&G UK Residential Fund and since year end a further £7.8m has been drawn down with the residual commitment of £2.6m expected to be called in Q3.

7. Throughout the year calls are made to the existing commitments on the alternative assets portfolio (infrastructure and private equity) and during the year £4.1m amount was called down and £8.3m amount received in distributions

Movement in Funds after 31 March 2020

8. At their meeting in July, the FIB agreed to rebalance the equities and multi asset allocations to bring them more into line with the Board's strategic asset allocation targets. The FIB agreed to move a total of £40m from the Fund's equity managers (excluding the LCIV Alpha Growth Fund) to the LCIV Mac Fund, in two tranches in August and September.

Investment Strategy/Asset Allocation

9. The 2019 Actuarial Valuation has been completed. The overall funding level of the Pension Fund has increased from 84% as at 31 March 2016 to 90% as at 31 March 2019 and the deficit has decreased from £149m to £113m. Six years ago, a 20 year deficit recovery plan was established and the City Corporation is on track to recover the deficit over the remaining period (14 years). The employers' contribution for the City of London remains at 21%.
10. Following the Actuarial Valuation, the asset allocation has been reviewed to ensure the investment strategy remains appropriate for the Pension Fund. The strategic asset allocation target is unchanged but FIB agreed a rebalancing of the equities and multi asset allocations to bring the actual asset allocation more into line with the target (see para 8 above).
11. The Pension Fund is measured against an absolute return target and following the Actuarial Valuation, this has been set at 5.2% (previously 5.7%), which took effect from 1 April 2020. This revised target represents the average annualised, long-term return level expected by the Investment Consultant from the Fund's investment strategy and brings the formal target closer to the actuary's current discount rate (i.e. assumed investment return) of 5.1% per annum.

The London LGPS CIV

12. Since 2014 the City Corporation has been a shareholder in the London Local Government Pension Scheme Collective Investment Vehicle (the London CIV). The London CIV is an FCA Regulated fund manager that represents the pooled investments of the 32 London Local Authority Pension Funds (including the City of London). It was originally set up as a collaborative venture between the London Local authorities under London Councils to enable the Capital's Pension Funds to work closely together to deliver benefits of scale and efficiency savings to the participating Authorities via a voluntary pooling arrangement. Pooling for the Local Government Pension Schemes (LGPS) is now mandatory.
13. The London CIV currently has 14 sub funds (7 global equity, 2 Fixed Income, 4 multi asset and 1 infrastructure).
14. Towards the end of 2017, the London CIV undertook a governance review. This review resulted in changes to the governance arrangements including a revised shareholder meeting structure of two general meeting per year and a smaller Shareholder Committee that meets quarterly. The Chairman of the Financial Investment Board is the City's representative at the Annual General Meetings and the smaller Shareholder Committee (on which the City has one of the 8 places for

Pension Committee or equivalent Chairmen). The Deputy Chairman of the Financial Investment Board is the substitute representative.

15. As at 31 March 2020, the City had transferred assets valued at £177M to the London CIV (£118M in the LCIV Alpha Growth Fund and £59M in the LCIV MAC Fund).

Pension Fund Investment Strategy Statement (ISS)

16. As the administering authority for the City of London Pension Fund, the City of London is required, under The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, to publish an Investment Strategy Statement and to review it periodically at least every three years. The purpose of this Investment Strategy Statement (the 'ISS') is to document the principles, policies and beliefs by which the Corporation manages the Fund's investment assets. The ISS has recently been reviewed by the FIB and will be a separate item on your agenda.

Financial Investment Board

23 September 2020