

Committee: Local Government Pensions Board	Date: 20 October 2021
Subject: LGP Board – Pension Fund Investment Activities 1 April 2020 to 31 March 2021	Public
Report of: The Chamberlain	For Information
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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.

The Appendix provides a summary on the investment activity of the Pension Fund from 1 April 2020 to 31 March 2021.

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 2020 to 31 March 2021.

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Appendix: Summary of Pension Fund Investment Activity 1 April 2020 to 31 March 2021

Introduction

1. This Summary Note sets out the investment activity of the Pension Fund over the financial year 2020/21. As at 31 March 2021 the total value of the Pension Fund's investment assets was £1,294m (versus £1,024m as at 31 March 2020). The table below sets out the asset allocation of the Fund as at 31 March 2020 and 31 March 2021.

	Position @	Position @		Strategic Target @		
	31/03/2020	31/03/2021		2020/21		
	£M	£M	%	£M	%	Range
Equities	577	745	58%	648	50%	35-65%
Artemis	80	94	8%	108	8%	
LCIV Alpha Growth Fund (Baillie Gifford)	118	184	14%	108	8%	
C WorldWide	116	141	11%	108	8%	
Lindsell Train	46	48	4%	54	4%	
Harris	70	107	8%	108	8%	
Majedie	33	40	3%	54	4%	
Veritas	114	131	10%	108	8%	
Multi-Asset	272	360	28%	387	30%	20-40%
LCIV MAC Fund (CQS)	59	117	9%	129	10%	
Pyrford	125	137	11%	129	10%	
Ruffer	88	106	8%	129	10%	
Property	78	88	6%	129	10%	5-15%
Aviva Lime Fund	29	29	2%			
M&G SPIF	30	30	2%			
M&G UK Residential	19	29	2%			
Infrastructure	62	63	5%	65	5%	0-10%
IFM	41	42	3%			
DIF	21	21	2%			
Private Equity	35	38	3%	65	5%	0-10%
TOTAL	1,024	1,294	100%	1,294	100%	

2. All asset class allocations remain within tolerance of the control ranges established by the Financial Investment Board via the Investment Strategy Statement. Within these control ranges, the portfolio is currently overweight to equities versus its strategic target (50%) and underweight in most other asset classes.

Performance

3. 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 and the Financial Investment Board (FIB). The table below sets out the performance of the Pension Fund as at 31 March 2021.

	2020/21 %	Last 3 Years % p.a.	Last 5 Years % p.a.
Pension Fund Returns*			
Fund Return	+27.7	+9.5	+9.9
Return Benchmark (5.2% p.a.)	+5.2	+5.5	+6.1
Relative Return	+22.5	+4.0	+3.8

*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.

- The Pension Fund delivered a very strong return of +27.7% over the financial year which was +22.5% ahead of the Fund's absolute return target of +5.2% per annum. These gains were delivered in the context of a durable recovery in global financial markets following the sharp downturn at the end of the previous financial year (the Board may recall that the Pension Fund generated a negative return of -4.1% in the 2019/20).
- The strong outperformance over the course of the year means that the Pension Fund's long term performance figures have also improved markedly: the Fund has achieved average returns of +9.5% per annum and +9.9% per annum over the past three years and five years, respectively. Both figures are significantly ahead of the Fund's return targets over these time horizons.

Movement in Funds during 2020/21

- After finalising the investment strategy review in July 2020 (as previously reported to the Local Government Pensions Board), FIB agreed to rebalance the portfolio by transferring assets valued at £40m from the Fund's equity managers (excluding the LCIV Alpha Growth Fund) to the LCIV MAC Fund. This exercise was undertaken over two tranches in August and September 2020.
- An outstanding commitment of £10.4m to the M&G UK Residential Fund (within the property allocation) was drawn down during the year in two separate tranches. As a result, the Pension Fund's original £90m commitment to property made in May 2017 is now fully invested.

Movement in Funds after 31 March 2021

- At its meeting on 30 June 2021, the Financial Investments Board increased the Fund's commitment to property by £45m (split equally between the three existing investments in this asset class). This action increased the original commitment of £90m to £135m and was undertaken to ensure the Fund's exposure to property remains aligned the strategic asset allocation of 10%.

Funding Update

- The most recent full actuarial valuation of the fund took place in 2019/20, where the overall funding level of the Pension Fund was found to have increased from 84% as at 31 March 2016 to 90% as at 31 March 2019.

10. Barnett Waddingham, the City's actuary, provided a funding update report as at 31 March 2021, which was reviewed by the Financial Investment Board at its meeting on 22 May 2021. The funding update report found that the funding level has improved from 90% to 93% in the two years since 31 March 2019.

London LGPS CIV

11. 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.

12. The LCIV currently hosts 19 sub-funds on its platform across public and private markets. The LCIV is continuing to build out its product offering and the fund development pipeline includes the Passive Equity Progressive Paris Aligned (PEPPA) Fund, the Sterling Credit Fund, the LCIV Alternative Credit Fund, the LCIV Global Bond Fund and the LCIV Renewable Infrastructure Fund.

13. As at 31 March 2021, the London CIV's assets under management amounted to £11.1bn. £301m (23%) of the City of London's Pension Fund's investment assets have been "pooled" via the London CIV. The proportion of pooled assets is expected to increase over time in line with statutory guidance as and when sub-fund products that meet the Pension Fund's needs are available.

Pension Fund Investment Strategy Statement (ISS)

14. As the administrating 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.

15. The ISS has remained unchanged from the version reviewed by the Local Government Pensions Board at its meeting on 5 October 2020.

Climate Risk

16. During 2020/21, the Financial Investment Board has undertaken in depth analysis of the Pension Fund's exposure to climate risks and opportunities. A verbal update on this aspect of FIB's work will be provided at the Board meeting.