

Pensions Committee

**Monday, 3 October 2022 at 6.30 p.m.
Committee Room One - Town Hall, Mulberry
Place, 5 Clove Crescent, London, E14 2BG**

Supplemental Agenda

- 8 .2 Annual Investment Benchmarking (Pages 3 - 40)**
- 8 .3 Investment Performance Monitoring (Pages 41 - 86)**

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<p>Non-Executive Report of the:</p> <p>Pensions Committee</p> <p>Monday, 3 October 2022</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Corporate Director, Resources</p>	<p>Classification: Open (Unrestricted) Appendix 1 is restricted</p>
<p>Annual Investment Benchmarking</p>	

Originating Officer(s)	Miriam Adams
Wards affected	(All Wards);

REASONS FOR URGENCY

The report was not published five clear days in advance of the meeting. Therefore, before this item can be considered at this meeting, the Chair of the Committee would need to be satisfied that it is necessary to consider the update on the performance of the Fund compared to its peers before the next meeting.

The appendix to this report is not for publication as it contains exempt information relating to the financial or business affairs of a particular person as defined in and paragraph 3 of schedule 12A of the Local Government Act 1972.

Executive Summary

This report provides the Committee with a review of the performance and risk profile of the Fund compared to other LGPS funds in the Pensions & Investment Research Consultants Limited (PIRC Ltd) LGPS universe of 62 funds out of 88.

Recommendations:

The Pensions Committee is recommended to:

1. Note the performance and risk benchmark reports produced by PIRC.
2. Note that the results supports the view that the Fund has considered to reduce its Diversified Growth Fund (DGF).

1. REASONS FOR THE DECISIONS

- 1.1 Benchmarking the Fund's performance against other LGPS funds helps the Committee review and evaluate the returns of the Fund, as well as the risks taken in order to generate those returns. Other LGPS funds are useful as a comparator because they face similar regulatory and operational constraints to the Tower Hamlets Fund (although of course some funds will be less comparable than others).

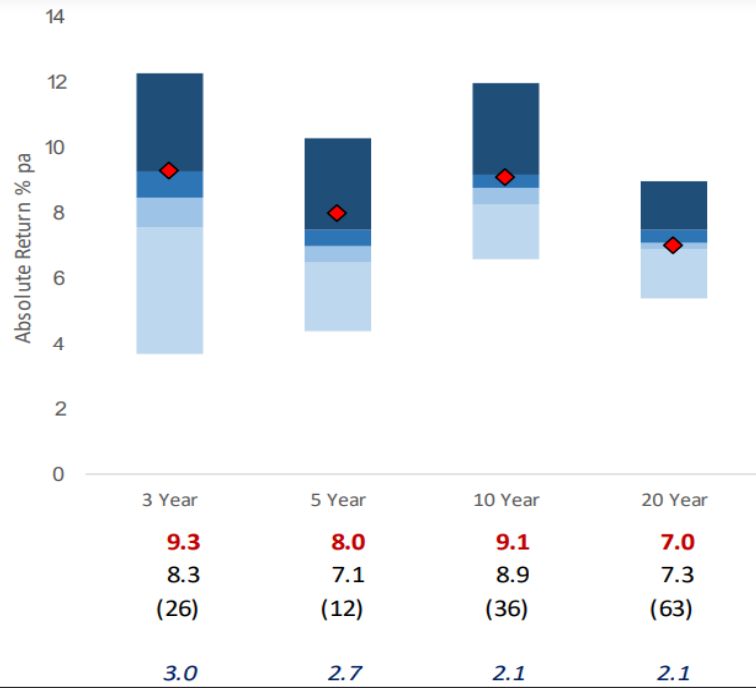
2. ALTERNATIVE OPTIONS

- 2.1 The Committee is required to review the performance of the Fund and of its fund managers.
- 2.2 Benchmarking the Fund's performance against other LGPS funds helps the Committee review and evaluate returns of the Fund, as well as the risks taken in order to generate those returns. Other LGPS funds are useful comparator because they face similar regulatory and operational constraints as Tower Hamlets Fund (although of course some funds will be less comparable than others)

3. DETAILS OF THE REPORT

- 3.1 The PIRC universe includes around 62 LGPS funds. To assist the Committee, PIRC provides a benchmarking review of LGPS funds, which includes comparing the returns of the Fund to those of its peers, and assessing the volatility of returns to indicate how much risk the Fund has taken to generate those returns.
- 3.2 Tower Hamlets Fund average 3 year return in 2021/22 of 9.3% exceeded the PIRC local authority universe average of 8.3%. The Fund ranked 26th.

The table below compared the Fund's longer term returns and rankings within the PIRC LGPS universe.



Universe Returns 2021/22

3.3 Last year the universe average Fund returned 8.6%, with 50% of Funds delivering a return between 6% and 10%. Tower Hamlets Fund performance of 3.1% in 2021/22 ranked 92 percentile while 3 year fund performance of 9.3% ranked 26th percentile and 5 year performance ranked 12th percentile.

Developed equities performed well until the first Quarter of 2022 when the Ukraine war and fear resulting inflation weighed heavily and markets fell but still most developed markets achieved positive results for the year. Funds with a high exposure to Emerging Markets and with Baillie Gifford as active manager are likely to be near the bottom of the Equity range of results.

UNIVERSE OVERVIEW

	1 Year	3 Yrs (% p.a.)	5 Yrs (% p.a.)	10 Yrs (% p.a.)	20 Yrs (% p.a.)	30 Yrs (% p.a.)
Universe average	8.6	8.3	7.1	8.9	7.3	8.5
Range of Results						
Top Quartile	10.0	9.3	7.7	9.2	7.5	8.7
Median	8.0	8.6	7.0	8.8	7.1	8.4
Bottom Quartile	6.0	7.6	6.5	8.3	6.9	8.2
Total Equity	7.6	10.2	8.4	10.6	8.0	9.2
Global	8.4	11.5	9.6	11.7	6.4	
UK	9.6	5.6	4.7	7.4	6.2	
Emerging	-9.6	4.1	4.5	6.3	8.4	
Total Bonds	-0.3	2.6	2.5	4.5	5.7	6.9
UK Govt	-4.2	-0.9	0.7			
UK Corp	-3.5	2.5	2.7			
UK IL	4.5	2.6	2.7			
Global Bonds	-2.8	1.4	1.7			
Absolute Return Bonds	-0.5	2.5	2.3			
Private Debt	7.3					
Multi Asset Credit	-0.5	1.9				
Alternatives	19.0	11.0	9.8	10.0	7.6	
Private Equity	34.5	19.5	16.5	14.7	8.8	
Infrastructure	10.7	5.7	6.9			
Hedge Funds	5.4	4.9	3.2			
Private Debt	8.4					
Diversified Growth	4.7	5.1	3.5			
Property	17.9	6.3	6.8	8.0	7.0	8.2

*At the end of March 2022 the Universe was comprised of 63 funds with a combined value of £250 bn.
GMPF Designated Fund is included in the Universe but excluded from the League tables.*

- 3.4 We saw a further move out of Equities towards alternative assets which now make up almost 20% of the average Fund (including Diversified Growth funds). This move has seen the number of managers continue to increase and size of portfolios reduce.

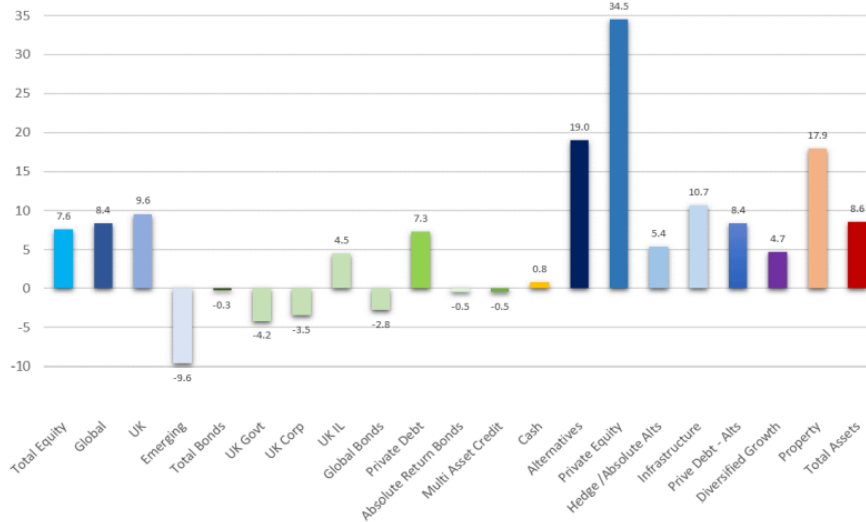
The universe average for equities was 8.2%, the Fund's return of 2.2% ranked 90th percentile while 3 year return to 31 March 2022 of 13.6% ranked 5th percentile. 5 year return of 11.0% ranked 5th percentile in the LGPS universe.

Diversified growth average return in 2021/22 was 4.2%. The Tower Hamlets Fund return of 5.4% ranked 36th percentile.

DIVERSIFIED GROWTH PERFORMANCE

	1 Year	Rank	3 Yrs (%p.a.)	Rank	5Yrs (%p.a.)	Rank
Universe Average	4.7		5.1		3.5	
Range of Results						
Top Quartile	7.3		6.6		4.4	
Median	4.2		4.3		3.3	
Bottom Quartile	3.1		3.6		2.8	

- 3.5 The move into infrastructure, in accordance with the 2016 government pooling criteria is progressing, although economies of scale that had been hoped for have still to be fully realized.



3.6 Over the 12 months however, developed markets were positive. Emerging markets, battered by a strong US Dollar and continuing impact of COVID were the worst performing of all asset classes.

3.7 Bond markets delivered negative results for the year, only inflation linked and private det making it onto positive territory. Strong results were delivered from alterative assets. The Bond universe average was -1.1%, the fund return of 0.4% ranked 37th percentile in the PIRC universe.

Private equity once again delivering outstanding returns.

Property too continued to do wells, returning almost 18.8% on average. Tower Hamlets return in 2021/22 of 21.3% ranked 18th percentile. The best performing fund earned 24.3% in the year.

PROPERTY PERFORMANCE

	1 Year	Rank	3 Yrs	Rank	5Yrs	Rank	10 Yrs	Rank	20 Yrs	Rank	30 Yrs	Rank
	(% p.a.)		(% p.a.)		(% p.a.)		(% p.a.)		(% p.a.)		(% p.a.)	
Universe Average	17.9		6.3		6.8		8.0		7.0		8.2	
Range of Results												
Top Quartile	21.0		7.7		7.7		8.5		7.2		8.6	
Median	18.8		6.5		6.9		7.8		6.7		7.9	
Bottom Quartile	15.3		5.5		6.3		6.8		5.8		7.2	

Universe Asset Allocation

3.8 Over the year, there was further disinvestment from Equities into ‘diversifying’ assets. With Equities there was a continuation of the move started the previous year into ‘climate aware’ investments. More portfolio changes through the year reflected the ongoing move into Pool sub-funds.

Tower Hamlets Fund Asset Allocation %	% Allocation	End March			
		2021	2022	Change	
50	Equities	56	52	-4	
	UK	10	10	0	
50	Overseas	46	42	-4	
12	Bonds	18	18	0	
	UK	7	8	1	
6	Global	2	1	-1	Index linked gilts
	Absolute Return	5	4	-1	
6	Multi Asset Credit	3	4	0	
	Private Debt	1	1	0	
0	Cash	2	2	0	
16	Alternatives	14	17	3	
0	Private Equity	7	8	1	
6	Infrastructure	5	6	1	
10	Absolute Return	2	2	0	
0	Private Debt	1	1	0	
10	Diversified Growth	2	2	0	
12	Property	8	9	1	
100		100	100	0	

ASSET ALLOCATION AT END MARCH

	Equity		Bonds		Alternatives		Property		Cash		Diversified Growth	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Average	52	56	18	17	17	14	9	8	2	2	2	2
Range												
Top Quartile	60	64	22	22	17	15	10	9	2	3	9	9
Median	54	57	18	18	11	8	9	8	1	1	0	0
Bottom Quartile	46	49	13	12	6	4	7	3	0	0	0	0

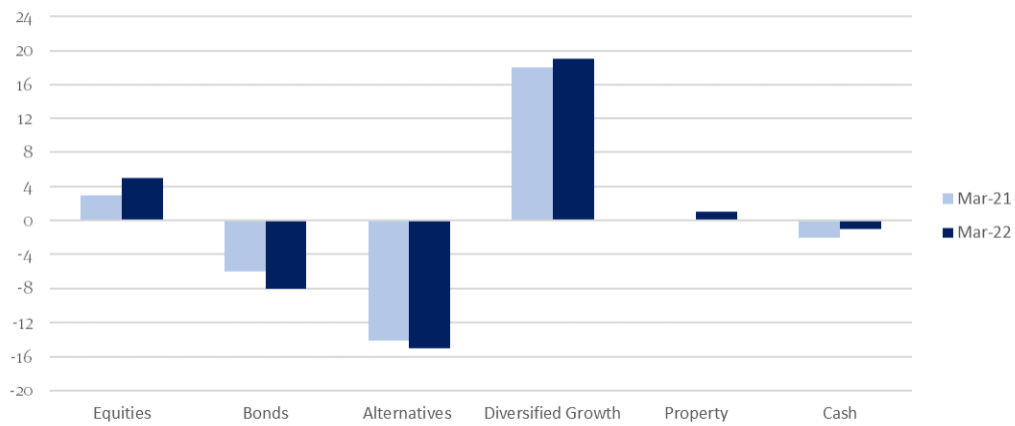
- 3.9 The 50% allocation to equities means that the Fund is taking around the same risk as average return. The Previous Committee considered reducing slightly the allocation to equities given the improvement in the funding level at the last valuation by considering investing in Affordable Housing.
- 3.10 The Fund is relatively overweight to DGF compared to its peers and does not have an allocation to private equity like its peers. The performance of the DGF allocation is more difficult to compare with peers. Tower Hamlets fund has the 4th largest allocation to DGF in the universe. The average allocation was 0% and average top quartile allocation was 9%.
- 3.11 The property allocation of 12% appears to be more the average in 2020 and

2021. The previous Committee agreed to keep the underweight of 3% in the Real Estate portfolio and invest in an alternative asset class.

Tower Hamlets Fund Asset Allocation Relative to PIRC LGPS Universe Average

3.12 The table below shows that the Tower Hamlets fund is structured quite differently from the PIRC universe average. The key difference is the relatively high exposure to diversified growth assets. Last year this structure had a negative impact on the relative performance. This was worsened by the below average results from Equities and from the equity protection strategy that was in place.

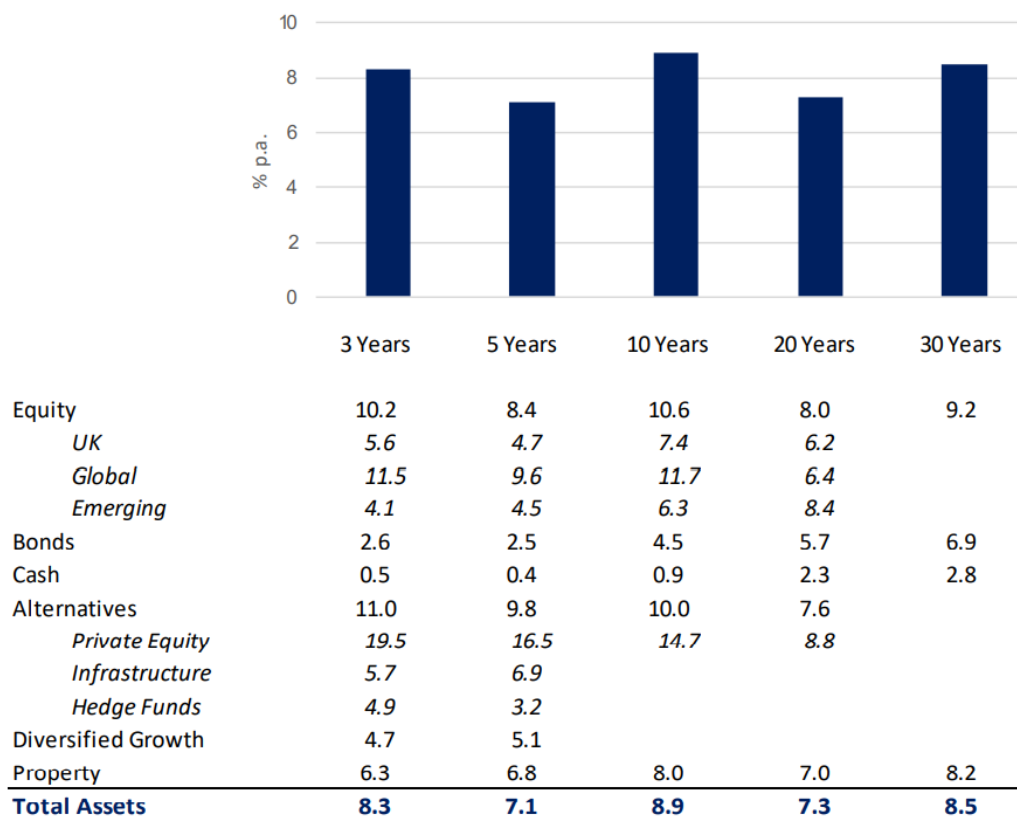
Asset Allocation Relative to Universe Average



PIRC LGPS Universe Longer Term Results

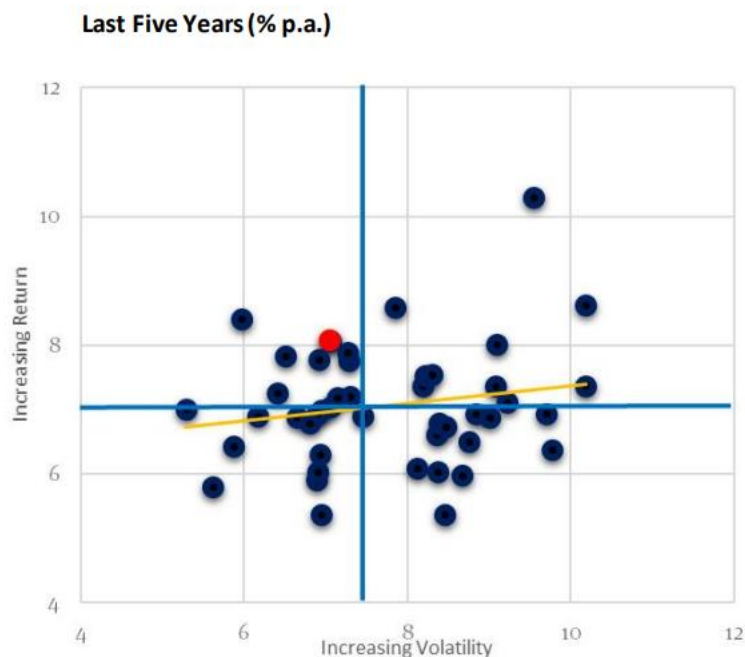
3.13

Long Term Asset Returns (% p.a.)



Fund Risk and Return Over 5 and 10 year time frame

3.14 In the last 5 years the Fund (red dot) experienced lower than average volatility but delivered a return well above average – a very efficient outcome.



Over the last 10 years the Fund (red dot) in the diagram above had a lower than average level of volatility but delivered a better than average return.

4. EQUALITIES IMPLICATIONS

4.1 There are no direct equalities impact from this report.

5. OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

Risk Management

5.2 Action has been taken to mitigate and risks in relation to items mentioned in this report. The Risk Register highlights the appropriate control measures to mitigate potential risks.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 There are direct financial implications to the Fund from this report.

7. COMMENTS OF LEGAL SERVICES

7.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016 requires Administering Authorities to publish and maintain an Investment Strategy

7.2 This report provides information on how the fund is performing in line with the Investment Strategy

7.3 When carrying out its functions, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- PIRC LGPS League Tables 2022 (Appendix 1 exempt)

Local Government Act, 1972 Section 100D (As amended)

List of "Background Papers" used in the preparation of this report

List any background documents not already in the public domain including officer contact information.

- NONE

Officer contact details for documents:

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