


Non-Executive Report of the: Pensions Committee Monday, 3 July 2023	 TOWER HAMLETS
Report of: Interim Corporate Director, Resources	Classification: Appendix 1 is restricted
Quarterly Performance Review	

Originating Officer(s)	Miriam Adams Interim Head of Pensions & Treasury
Wards affected	(All Wards);

Executive Summary

This report informs Members of the performance of the Pension Fund investments and its investment managers for the quarter ending March 2023.

Recommendations:

The Pensions Committee is recommended to:

1. Note this report.
2. Note the Independent Adviser quarterly commentary (Appendix 1).
3. Note the progress made on implementing actions from March strategic and tactical asset allocation changes.

1. REASONS FOR THE DECISIONS

- 1.1 The report informs the Pensions Committee of the performance of Pension Fund managers and overall performance of the Tower Hamlets Pension Fund.

2. ALTERNATIVE OPTIONS

- 2.1 The Pension Fund Regulations require that the Council establishes arrangements for monitoring the investments of the Fund so there is no alternative but to report the performance to those charged with governance of the Fund on a regular basis.

3. DETAILS OF THE REPORT

- 3.1 The Pension Fund Regulations require that the Council as administering authority establishes arrangements for monitoring the investments of the Fund. It considers the activities of the investment managers including the London CIV and ensures that proper advice is obtained on investment issues.
- 3.2 The Fund's Investment Adviser prepares quarterly detailed investment performance reports on the Fund's investment and manager performance. This report includes a performance update as of March 2023.

SUMMARY OF THE PENSIONS FUND INVESTMENTS ON 31 MARCH 2023

- 3.3 Over the quarter to 31 March 2023, the Fund generated a return of 3.0% net of fees generating excess return of -0.6%. On a year to date, the Fund's return of -2.0.0% underperformed benchmark by -2.5%. On a 3 year to date, the Fund's return of 8.1% also underperformed benchmark by -1.5%.
- 3.4 Key contributors to the fund relative performance during the quarter are:
- Underperformance by LCIV RBC Sustainable Global Equity -0.4%
 - Underperformance by LCIV Ruffer Absolute Return -0.3%
- 3.5 Global markets moved higher during the quarter as investors remained hopeful for a soft-landing giving concerns around the global economy entering a recession. However, volatility was elevated at times as stresses in the banking sector and uncertainty over monetary policy weighted on markets.
- 3.6 The events of the quarter, higher interest rates and stress in the banking system, combined with stronger than expected economic growth and stubbornly high inflation have contributed to the view that growth fixed income continues to offer more attractive risk adjusted returns relative to the other main asset classes, in particular. Whilst equity valuations seem slightly attractive, slowing economic activity is likely to provide downside pressure on earnings therefore, corporate profit growth is likely to remain flat or negative in 2023.
- 3.7 LCIV Sustainable Equity fund underperformance of the benchmark over the quarter partly driven by not owning a number of large-cap companies that performed strongly, driving the index returns.
- 3.8 Fund market value including operational cash balances at quarter end was £1.940bn (December 22 £1.844bn).
- 3.9 Real Estate fund performance of 0.3% outperformed benchmark by 0.3% during the quarter. The fund's performance of -11.8% also outperformed benchmark by 1.9% on a year to date Some key strategic priorities for the manager in 2023 are:
- Build income and total returns through active asset management.
 - As an SFDR II Article 8 equivalent fund, deliver on the three binding commitments to sustainability incorporated within its stated investment policy.
- 3.10 The manager continues to work towards aligning 100% of the portfolio with

Energy Performance Certificate (EPC) compliance by the Domestic Minimum Energy Efficiency Standard (MEES) deadline. Sustainability remains at the forefront of the portfolio management. Recertifications of Green Building Certificates have now been completed in some properties in the portfolio.

Investment actions from last meeting

- 3.11 Divestment from Insight and Goldmans are nearing completion. Monies are expected from both managers in July. The Sterling Liquidity fund is expected to be set up and funded by July. It is expected that this move will bring much needed liquidity to fund capital calls for Renewable Energy Infrastructure, UK Housing and under-weight in Real Estate over the next year or 2. The Sterling Liquidity fund is daily access withdrawal there by reducing the need to utilise operational cash as a temporary measure pending sale of assets.

£13m of the committed £46m has drawn by the Real Estate Manager and a further £12.6m expected to be transferred to the manager by 5 July. The LCIV UK Housing fund registration has been completed however no capital call requests have been received.

Benchmark Asset Allocation as of 31 March 2023

- 3.12 At the end of March 2023, total equity allocation of 49.7% compared to strategic asset allocation was underweight by 0.03% broadly in-line and within ranges set out in the ISS.
- 3.13 Overall alternatives allocation at end of March was underweight by 5.3% due to the Renewable Energy Infrastructure mandate allocation being built over time and, due to underweight to Real Estate mandate.
- 3.14 Total Bonds allocation was overweight by 4.6% with the Absolute Return Bonds mandates being gradually disinvested to fund the Renewable Energy Infrastructure mandate. The underweight allocation to Renewable Energy Infrastructure will be apparent for some time as the mandate is built up over time. Most of the mandate is to be funded from Absolute Return Bonds.
- 3.15 The existing ISS approved in March now reflects the recent 5% allocation to Affordable Housing funded from a 5% reduction of Diversified Growth. Also approved in March was the funding of the 3% Real Estate strategic asset allocation underweight (9% to 12%).

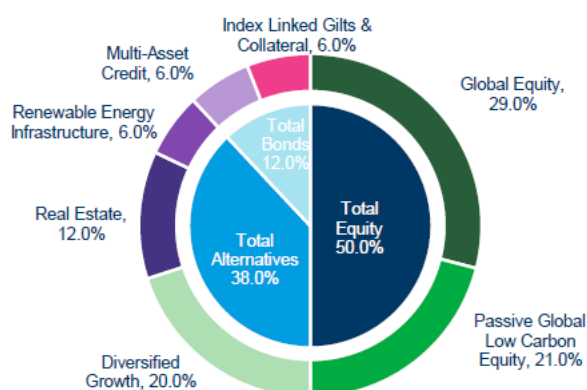
The table below shows the actual closing market values, percentage allocation on 31 March 2023 and 31 December 2022 as well as the strategic allocation of the Fund.

Manager Allocation

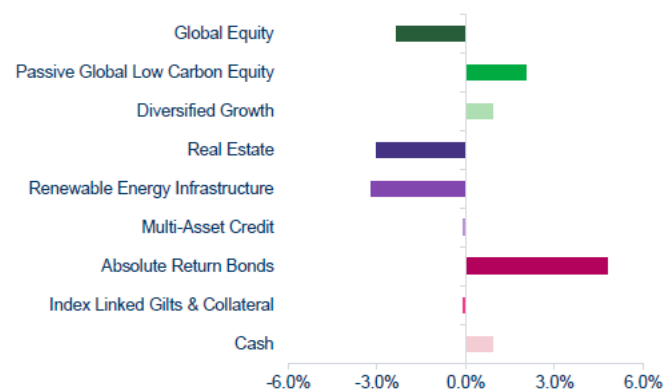
	Investment Manager	31/12/2022 Market Value (£M)	Net Cash Flow (£M)	Investment Growth/ Decline (£M)	31/03/2023 Market Value (£M)	31/12/2022 Allocation (%)	31/03/2023 Allocation (%)	31/03/2023 B'mark (%)
Total		1,884.0	-1.1	56.7	1,939.6	100.0	100.0	100.0
Total Equity		920.5	--	43.5	963.9	48.9	49.7	50.0
Global Alpha Paris-Aligned Equity	Baillie Gifford	332.9	--	15.4	348.3	17.7	18.0	20.0
Sustainable Global Equity	RBC	168.6	--	0.3	168.9	8.9	8.7	9.0
Passive Global Equity		419.0	--	27.7	446.7	22.2	23.0	21.0
Passive Global Low Carbon Equity	LGIM	105.7	--	5.0	110.6	5.6	5.7	5.0
Passive Global Low Carbon Equity (GBP Hedged)	LGIM	313.3	--	22.7	336.0	16.6	17.3	16.0
Total Alternatives		626.1	3.1	5.9	635.1	33.2	32.7	38.0
Absolute Return	Ruffer	225.9	--	-2.4	223.5	12.0	11.5	10.0
Diversified Growth	Baillie Gifford	178.0	--	3.9	181.9	9.4	9.4	10.0
Real Estate	Schroders	174.2	--	0.6	174.8	9.2	9.0	12.0
Renewable Energy Infrastructure	LCIV / multi-manager	48.0	3.1	3.8	54.9	2.5	2.8	6.0
Total Bonds		315.2	--	7.3	322.5	16.7	16.6	12.0
Multi-Asset Credit	CQS / PIMCO	112.5	--	2.3	114.8	6.0	5.9	6.0
Absolute Return Bonds	Insight	39.8	--	0.0	39.8	2.1	2.1	--
Absolute Return Bonds	GSAM	52.4	--	0.8	53.2	2.8	2.7	--
Index-Linked Gilts & Collateral	Schroders	110.4	--	4.2	114.7	5.9	5.9	6.0
Total Cash		22.3	-4.2	0.0	18.1	1.2	0.9	--
Cash		22.3	-4.2	0.0	18.1	1.2	0.9	--

3.16 The table below shows benchmark asset allocation and deviation from benchmark asset allocation at the end of March 2023.

Benchmark Asset Allocation as at 31 March 2023



Deviation from Benchmark Asset Allocation



Benchmark by Fund

3.17 This table shows the benchmark for each fund. Each manager is expected to meet and outperform benchmark and if this is not met over a considerable time, the manager is put on watch and long-term action taken by the Committee.

Fund	% Asset Allocation
Equities	
Global Alpha Paris-Aligned Equity	20%
Sustainable Global Equity	9%
Passive Global Low Carbon Equity	5%
Passive Global Low Carbon Equity (GBP Hedged)	16%
Alternatives	
Absolute Return	10%
Diversified Growth	5%
Real Estate	12%
Renewable Infrastructure	6%
UK Housing	5%
Bonds	
Multi-Asset Credit	6%
Index-Linked Gilts & Collateral	6%
Absolute Return Bonds	Winding down to fund Renewable Infrastructure
Absolute Return Bonds	Winding down to fund Renewable Infrastructure
Internal Operational Cash	-

**Both Insight and Goldmans previously formed 6% strategic asset allocation previously

Equity Protection

- 3.18 The fund's equity protection strategy closed out on 30 September 2022 generating an estimated profit of £21.5m. Officers and advisers are currently working with the manager on temporary agreement to enable management of the assets pending long term decision making.

London CIV Key Dates

- 3.19 London CIV Annual Conference 4-5 September 2023.

4. **EQUALITIES IMPLICATIONS**

- 4.1 There are no direct equalities implications arising 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 Any form of investment inevitably involves a degree of risk.
- 5.3 To minimise risk, the Pensions Committee attempts to achieve a diversified portfolio. Diversification relates to asset classes and management styles.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 The Council as Administering Authority has the responsibility of ensuring that the Pension Fund is administered effectively and efficiently and that arrangements for financial management are properly scrutinised.
- 6.2 This is a noting report which fulfils the requirement to report quarterly performance of the Pension Fund investments portfolio to those charged with governance. There are no direct financial implications arising from this report, however the long-term performance of the Pension Fund will impact employer pension contribution rates set by the Committee.

7. COMMENTS OF LEGAL SERVICES

- 7.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016 govern the way in which administering authorities should manage and make investments for the fund. There are no longer explicit limits on specified types of investment and instead administering authorities should determine the appropriate mix of investments for their funds. However, administering authorities must now adhere to official guidance; broad powers allow the Government to intervene if they do not. Under regulation 8, the Secretary of State can direct the administering authority to make changes to its investment strategy; invest its assets in a particular way; that the investment functions of the authority are exercised by the Secretary of State and that the authority complies with any instructions issued by the Secretary of State or their nominee.
- 7.2 The Council must take proper advice at reasonable intervals about its investments and must consider such advice when taking any steps in relation to its investments.
- 7.3 The Council does not have to invest the fund money itself and may appoint one or more investment managers. Where the Council appoints an investment manager, it must keep the manager's performance under review. At least once every three months the Council must review the investments that the manager

has made and, periodically, the Council must consider whether to retain that manager.

- 7.4 One of the functions of the Pensions Committee is to meet the Council's duties in respect of investment matters. It is appropriate, having regard to these matters, for the Committee to receive information about asset allocation and the performance of appointed investment managers. The Committee's consideration of the information in the report contributes towards the achievement of the Council's statutory duties.
- 7.5 When reviewing the Pension Fund Investment Performance, 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 do not (the public sector duty). The Committee may take the view that good, sound investment of the Pension Fund monies will support compliance with the Council's statutory duties in respect of proper management of the Pension Fund.
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Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1 – Independent Adviser's Quarterly Report March 2023 (not for publication)
- Appendix 2 – Schroders Capital UK Real Estate Fund (SCREF) March 2023

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

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

- NONE

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