

Non-Executive Report of the: Pensions Committee Thursday, 24 June 2021	 TOWER HAMLETS
Report of: Interim Corporate Director, Resources	Classification: Open (Unrestricted) All Appendices to this report are restricted
Quarterly Performance Review	

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

Appendices 1 and 2 to this report are not for publication as they contain exempt information relating to the financial or business affairs of a particular person as defined in paragraph 3 of schedule 12A of the Local Government Act 1972.

Executive Summary

This report informs Members of the performance of the Pension Fund investments and its investment managers for the quarter ending June 2021.

Recommendations:

The Pensions Committee is recommended to:

1. Note the content of this report.
2. Note the Independent Adviser quarterly commentary (Appendix 1).
3. Note the performance reports and manager rating (Appendix 2)

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 at 30 June 2021.

SUMMARY OF THE PENSIONS FUND INVESTMENTS AT 31 MARCH 2021

- 3.3 Over the quarter to 30 June 2021, the Fund generated a return of 4.1% net of fees marginally underperformed the benchmark by 0.1%. On a year to date, the Fund's return of 17.2% outperformed benchmark by 2.2%. On a 3 year to date, the Fund's return of 10.7% outperformed benchmark by 2.0%.
- 3.4 Fund market value including operational cash balances at quarter end was £2.036bn (March 21 £1.959bn).
- 3.5 Absolute Return funds Goldman Sachs and Insight lagged their benchmark during the quarter. Schroders Real Estate fund also lagged behind its benchmark by 0.1%.

Equity Overweight

- 3.6 Although the Fund was overweight in equities at the end of the quarter much of this overweight was used to fund the additional collateral purchase required for Equity Protection in August.

Manager Changes

- 3.7 During the quarter, LCIV (BG) Global Equity fund was transferred to the new LCIV (BG) Global Alpha Paris-Aligned Equity fund. Schroders Synthetic Equity matured on 31 March 21, was invested in LCIV (RBC) Sustainable Equity fund. LCIV Renewable Energy fund was accepted during the quarter with investments initially funded from operational cash.

Manager Ratings

- 3.8 The table below shows Mercer Manager research review at 30 June 21.

Manager Ratings

Investment Manager	Asset Class	12m Perf	3yr Perf	Rating	Strategy Rating Change	ESG
Baillie Gifford	Global Equity	--	--	A		2
RBC	Global Equity	--	--	B+		1
LGIM	Global Equity	●	--	A		p1
LGIM	Global Equity	●	●	A		p1
Ruffer	Absolute Return	●	●	A		2
Baillie Gifford	Diversified Growth	●	●	B+		3
Schroders	Real Estate	●	●	A	ESG rating changed from 3 to 2 in June 2021	2
LCIV	Renewable Energy Infrastructure	--	--	N		N
CQS	Multi-Asset Credit	●	●	B+	Watch (W) status removed in August 2021	3
Insight	Absolute Return Bonds	●	●	B+		2
GSAM	Absolute Return Bonds	●	●	B+	Rating changed from A to B+ in August 2021	3

Mercer does not rate LGIM Passive Low Carbon Equity strategy, Rating shown is for the LGIM Passive Global Equity strategy.

	Active Funds, Target Specified	Active Funds, Target Not Specified	Passive Funds
● Meets criteria	Target or above performance	Benchmark or above performance	Within tolerance range
● Partially meets criteria	Benchmark or above performance, but below target	--	--
● Does not meet criteria	Below benchmark performance	Below benchmark performance	Outside tolerance range
● Not applicable	--	--	--

Manager ESG Ratings

- 3.9 Mercer upgraded ESG rating for Schroders Real Estate fund in June. CQS watch was removed in August, the manager has been active in respect of ESG and recently announced that they are to become a signatory of the Net Zero Asset Managers Initiative.
- 3.10 Appendix B to this report is the detailed report prepared by Mercer.
- 3.11 Appendix 1 to this report is the economic, market and manager report prepared by the Independent Investment Adviser. Managers have been contacted to provide responses on issues raised in the report.

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 or not 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 don't (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.
-

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1 – Independent Adviser's Quarterly Report March 2021 (not for publication)
- Appendix 2 – LBTH Investment Performance Quarterly Report by Mercer (not for publication)

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

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

- NONE

Officer contact details for documents:

Miriam Adams, Interim Head of Pensions & Treasury

Tel: 0207 3644248

Email: miriam.adams@towerhamlets.gov.uk