PENSIONS COMMITTEE

10 June 2020

Title: Pension Fund Quarterly Monitoring 2019/20 – January to March 2020	
Report of the Chief Operating Officer	
Open Report	**For Information**
Wards Affected: None	**Key Decision:** No
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Accountable Director: Philip Gregory, Finance Director	
Accountable Strategic Leadership Director: Claire Symonds, Acting Chief Executive	
Summary This report provides information for employers, members of London Borough of Barking and Dagenham Pension Fund and other interested parties on how the Fund has performed during the quarter 1 January to 31 March 2020. The report updates the Committee on the Fund's investment strategy and its investment performance.	
Recommendation(s) The Pension Committee is recommended to note: (i) the progress on the strategy development within the Pension Fund, (ii) the daily value movements of the Fund's assets and liabilities outlined in Appendix 1, (iii) the quarterly performance of pension funds collectively and the performance of the fund managers individually, and (iv) that the transition to CQS has been put on hold until clarification is obtained from LCIV.	

1. Introduction and Background

1.1 This report provides information for employers, members of London Borough of Barking and Dagenham Pension Fund ("the Fund") and other interested parties on how the Fund has performed during the quarter 1 January to 31 March 2020 ("Q1"). The report updates the Committee on the Fund's investment strategy and its investment performance. Appendix 2 provides a definition of terms used in this report. Appendix 3 sets out roles and responsibilities of the parties referred to in this report.

1.2 A verbal update on the unaudited performance of the Fund for the period 1 April to 9 June 2020 will be provided to Members at the Pension Committee.

2. Independent Advisors Market Background Q1 2020

2.1 The resolution of some of the trade tensions between the United States and China in late 2019 and the further loosening of monetary policy by the US Federal Reserve and European Central Bank in the second half of 2019 had led to a general view that global stocks would likely continue their long upward trend through 2020. Indeed, on 19 February 2020 the US S&P 500 Index reached a new record closing high of 3,386 almost 5% above the 31 December 2019 closing figure of 3,231. On 24 February 2020, however, equities across the globe began to rapidly fall following the decision of Italy to quarantine 10 towns in response to Coronavirus. By 31 March 2020 despite unprecedented monetary and fiscal stimulus by central banks and governments world equity markets were down by over 20% for the Quarter and the potential impact of Coronavirus on both financial markets and the world economy looked extremely serious.

2.2 It is easy to overlook but in January and until late February 2020 it continued to seem as if 2020 would be a positive year for stocks and for at least some large economies. Major developed market equity indices – for example the S&P 500, MSCI EMU, FTSE All Share, Nikkei 225 traded until mid-February above or around their high closing levels as at the end of 2019. At his press conference on 29 January 2020 the Chairman of the US Federal Reserve Jay Powell stated "I would say, now there are grounds for what I would call "cautious optimism" about the outlook now for the global economy. Many analysts are predicting a pickup in growth this year, although still to relatively modest growth rates." The Bank of Japan Summary of Opinions from the Monetary Policy meeting of 20/21 January 2020 included the statement "The probability that the global economy will follow its recovery trend through the middle of this year seems to be increasing." The January 2020 meetings of the interest rate setting committees of the US Federal Reserve, the Bank of Japan and the Bank of England all maintained interest rates/monetary policy unchanged.

2.3 Although in January 2020 China had imposed a quarantine in Wuhan and a number of other cities Coronavirus then appeared a Chinese centred issue. World markets, the world economy and world governments only, and then dramatically, reacted to Coronavirus from 24 February 2020 the following the decision, over the weekend of 22/23 February of Italy to quarantine 10 towns in response to Coronavirus. Concerns regarding Coronavirus started to hugely affect US equity markets and other major markets including Europe, the UK and Japan on Monday 24 February. By the end of Friday 28 February, the S&P 500 had fallen approximately 13% from its 19 February all-time high.

2.4 The governments of a number of leading world economies - the UK, Canada, France and Italy announced major fiscal initiatives to support their economies and citizens and also, by extension, financial markets on or before 20 March 2020. Measures included income subsidies for laid off workers, tax deferrals and state loans or guarantees for companies The German Parliament and US Congress also agreed unprecedented fiscal support packages in the last week of March. While these measures were crucial to mitigating the adverse impact of Coronavirus on economies and financial markets going forward it was the unprecedented and truly extraordinary interventions of the US Federal Reserve which, surely, prevented a financial market meltdown in March 2020.

2.5 On 28 February Federal Reserve Chair Jay Powell stated that "… the coronavirus poses evolving risks to economic activity. The Federal Reserve is closely monitoring developments and their implications for the economic outlook. We will use our tools and act as appropriate to support the economy." The actions subsequently taken by and led by the US Federal Reserve during March 2020 were unprecedented even in comparison to those following the 2008 financial crisis. These actions, the actions of other central banks and huge fiscal stimulus by governments including the UK, France and (finally) the US succeeded by the end of March in averting a complete collapse in financial markets which during that tumultuous month seemed a genuine possibility.

2.6 At an emergency meeting on 3 March 2020, the US Federal Reserve, reduced the target range for federal funds rate (its main interest rate) by ½%, to the range 1 to 1 ¼%. The Federal Reserve was however clear that action by central banks could not nearly, in itself, counter the potential economic impact of Coronavirus. Chair Jay Powell stated at the press conference following the rate cut on 3 March that while the US Federal Reserve had eased monetary policy to "provide a meaningful boost to the economy" also stated that "The virus outbreak is something that will require a multi-faceted response. And that response will come in the first instance from healthcare professionals and health policy experts. It will also come from fiscal authorities, should they determine that a response is appropriate. It will come from many other public and private sector actors, businesses, schools, state and local governments."

2.7 Coronavirus equity related market chaos continued and was compounded by adverse reaction to an oil price plunge on 9 March arising from Russian and Saudi Arabian action which resulted in a trading break in New York, the first time this measure had been used. As the Coronavirus crisis unfolded, as expected, the demand for and price of US Treasury and other haven bonds increased. Then, also, in the week commencing 9 March the demand for such bonds fell despite further equity market falls meaning that both equity and haven bonds were collapsing together and therefore, in effect, breaching a fundamental expectation of financial market behaviour. An unwelcome effect was a rush by investors to hold cash particularly in US dollars resulting in a significant strengthening of the dollar v other currencies.

2.8 Then in a highly unusual (and unscheduled) Sunday meeting on 15 March the US Federal Reserve intervened on an unprecedented scale. Interest rates were reduced by a full 1% to the range 0% to ¼% and an asset purchase programme announced of "at least" $500bn of Treasury bonds and "at least" $200bn of mortgaged backed securities to "support the smooth functioning of markets…." To further support the flow of credit to businesses and households the US Federal Reserve also announced measures to ease requirements upon and to support banks and other savings institutions. To directly support not only the US markets and economy but other major developed markets and economies the Federal Reserve also announced, in a press release, on 15 March 2020 "co-ordinated action" with the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank and the Swiss National Bank to lower the cost of borrowing dollars internationally "to ease strains in global funding markets, thereby helping to mitigate the effects of such strains on the supply of credit to households and businesses, both domestically and abroad."

2.9 The European Central Bank (ECB) acted decisively at an emergency meeting on 18 March announcing a 750 billion Euro Pandemic Emergency Purchase Programme (PEPP) covering government and corporate debt (in the words of the official press release) to "…counter the serious risks to the… outlook for the euro area posed by the outbreak and escalating diffusion of the coronavirus, COVID-19." The Bank of England also acted decisively reducing Bank Rate by from 0.75% to 0.25% on 10 March and then on 19 March to an all-time low of 0.10% together with the introduction of a £200 billion purchase programme of government and corporate bonds. On 10 March, it also introduced measures to facilitate further lending to businesses by UK banks.

2.10 Turmoil however continued in markets when they reopened on Monday March 16. The S&P 500 fell by 12% only to rise by 6% on 17 March and then to fall by 5% on 18 March. In the context of the clearly rapid spread of Coronavirus in Europe, closures and severe disruption to businesses not only in Europe but the US, including for example the closure of the properties of the high end hotel and casino operator Wynn resorts and a warning by United Airlines, in a letter to employees of 15 March that "…We expect both the number of customers and revenue to decline sharply in the days and weeks ahead…", coupled with an admission by President Trump that the Coronavirus crisis could last till "August, could be July, could be longer…" US markets fell 12%. 18 March was a day of panic in world markets with the FTSE All World equity index falling almost 7%, government bond prices falling, oil prices again

plummeting, sterling falling to its lowest level against the dollar since the 1980s. The S&P index closed on Friday 20 March at 2,305 which was 15% lower than at the close on Friday 13 March.

2.11 Then on the morning of 23 March, the US Federal Reserve intervened in an unprecedented manner. First it extended its purchases of Treasury Bonds and mortgage backed securities from $700billion to (in the words of the official press release) “the amounts needed to support smooth market functioning and effective transmission of monetary policy…” This meant that to help facilitate the supply of credit to households and businesses the US Federal Reserve was prepared to buy unlimited amounts of government securities. Secondly, in an extraordinary break with previous precedent the Federal Reserve announced initiatives to purchase both new issue and secondary market corporate debt. This meant that in effect the Federal Reserve was prepared to directly support employers and act as a backstop in the corporate bond market.

2.12 In the days following this extraordinary intervention by the Federal Reserve of 23 March 2020, financial markets began to recover with the S&P 500 closing at 2,585 on 31 March a full 12% higher than on 20 March. Admittedly, after much argument Congress finally passed a huge $2.2 trillion fiscal stimulus on 27 March to assist US business and families. However, there can be no doubt that during March 2020 the US Federal Reserve acted decisively and in an unprecedented manner to avoid a financial market meltdown while the US Congress argued over what measures to take.

2.13 In summary, over the Quarter global equity prices fell heavily with the MSCI World Index down 21% (in $ terms). All sectors of equity markets saw significant declines with, for example, travel, financials and energy particularly badly hit while areas likely to be more in demand in a lockdown such as information technology saw smaller declines. As the Quarter progressed it also became clear that many companies would either suspend or reduce Dividend payments going forward. European and UK equities were especially badly affected with the MSCI EMU Index down 25% (in Euro terms) and the FTSE All Share down 25% (in £ terms). The S&P 500 lost 20% as did the Nikkei 225.

2.14 Despite volatility the leading government bond prices rose (and yields fell) over the Quarter, as investors favoured their perceived safety as equity markets fell and a severe global recession became increasingly likely/inevitable. The US 10 Year Treasury Bond increased in value as its yield fell to 0.7% at the end of March compared to 1.92% at the end of December. The 10 Year UK Gilt and 10 Year German Bund also clearly increased in value as their yields fell from 0.82 to 0.35 and -0.19 to -0.46 respectively. Corporate credit, and in particular, high yield weakened.

2.15 Even though the effects of Coronavirus were only really felt by the world economy and financial markets from late February onwards GDP data for the first Quarter 2020 demonstrates the immediate and devastating economic effects. The “Advance” estimate from the US Bureau of Economic Analysis, issued on 29 April 2020, indicated that US “gross domestic product (GDP) decreased at an annual rate of 4.8% in the first quarter of 2020…In the fourth quarter of 2019, real GDP increased 2.1 percent….The decline in first quarter GDP was, in part, due to the response to the spread of COVID-19…This led to rapid changes in demand, as businesses…switched to remote work or cancelled operations, and consumers cancelled, restricted, or redirected their spending…” In the previous three Quarters an annualised rate of approximately plus 2% was achieved. Eurozone GDP was down 3.8% in the first Quarter of 2020, compared to the previous Quarter, according to preliminary figures issued by Eurostat on 30 April 2020. Eurostat stated “These were the sharpest declines observed since time series started in 1995…” In each of the previous three Quarters Eurozone GDP increased by plus 0.1%-0.2%. The UK Office for National Statistics (release 13 May 2020) included in relation to Coronavirus the statement “There has been a widespread disruption to economic activity, as services output fell by a record 1.9% in Quarter 1; there were also significant contractions in production and construction.”

2.16 In conclusion the calendar year 2020 began positively for both financial markets and the global economy. The realisation, however of the health/economic implications of Coronavirus during late February and March 2020 resulted in both a huge worldwide equity market sell off and a closedown of large parts of the world economy. Only because of both huge fiscal and monetary policy intervention, and in particular the intervention of the US Federal Reserve, was a meltdown in financial markets avoided. Going forward this downturn will be far more difficult to resolve than that of 2008. This is because this crisis, which arises from a deadly disease, is affecting all economic sectors while the previous one was a financially originated and focussed crisis.

3. Overall Fund Performance

3.1 The Fund's externally managed assets closed Q1 valued at £1,005.00m, a decrease of £121.32m from its value of £1,126.33m at 31 December 2019. The cash value held by the Council at 31 March 2020 was negative 10.51m, giving a total Fund value of £994.49m. The gross value of £994.49m includes a prepayment of £20.0m from the Council. The net asset value as at 31 March 2020, after adjusting for the prepayment was therefore £974.49m.

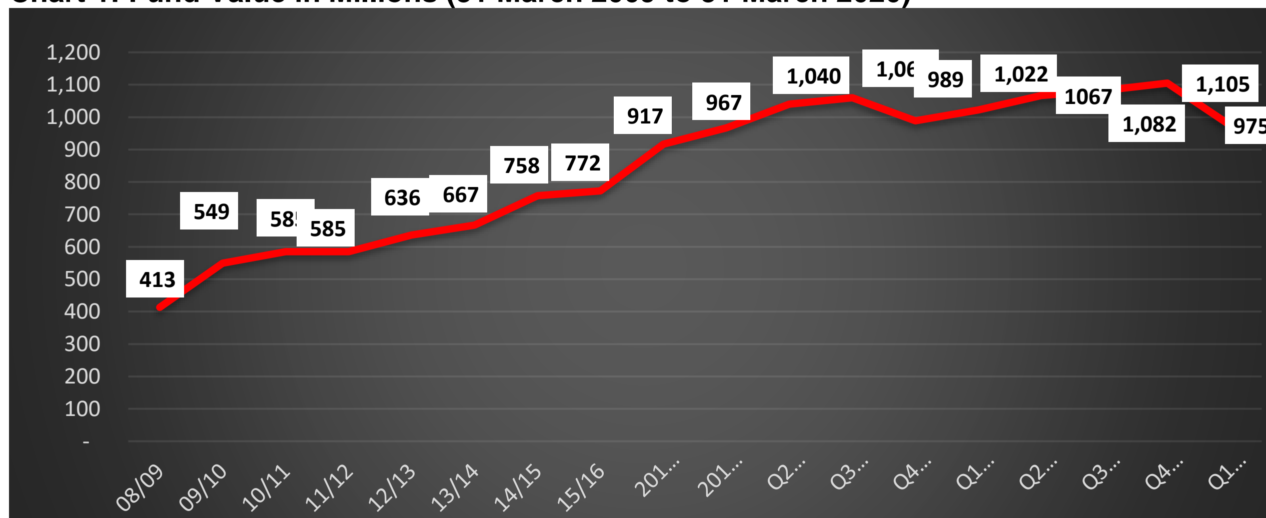
3.2 For Q1 the Fund returned negative 11.4%, net of fees, underperforming its benchmark by 3.7%. Over one year the Fund returned negative 4.5%, underperforming its benchmark by 4.4%. Over three years the Fund underperformed its benchmark by 2.3%, with a return of 1.8%. The Fund's returns are below:

Table 1: Fund's 2019, 2018, 2017 Quarterly and Yearly Returns

Year	2020	2019				2018			One Year	Two Years	Three Years	Five Years
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2				
Actual Return	(11.4)	2.2	1.4	3.3	5.8	(6.3)	2.3	3.8	(4.5)	6.2	1.8	4.7
Benchmark	(7.7)	1.7	2.4	3.5	5.6	(4.6)	3.3	3.7	(0.1)	7.8	4.1	6.4
Difference	(3.7)	0.5	(1.0)	(0.2)	0.2	(1.7)	(1.0)	0.1	(4.4)	(1.5)	(2.3)	(1.7)

3.3 Appendix 1 illustrates changes in the market value, the liability value, the Fund's deficit and the funding level from 31 March 2013 to 31 March 2020. Members are asked to note the significant changes in value and the movements in the Fund's funding level. Chart 1 below shows the Fund's value since 31 March 2009.

Chart 1: Fund Value in Millions (31 March 2009 to 31 March 2020)



3.4 The fund manager's performance has been scored using a quantitative analysis compared to the benchmark returns, defined below.

3.5 Table 2 highlights the Q1 2020 returns. The return for Kempen was -27.9% which was 12.2% below the benchmark of 15.7%. Baillie Gifford provided a negative return of 13.2% but performed 2.7% above the benchmark. UBS Bonds, the funds passive strategy provided a positive return of 6.3% against a benchmark of 6.3%. UBS Equities passive fund provided a return of -19.3% against a -19.3% benchmark. Most managers provided a negative return this quarter.

Table 2 – Fund Manager Q1 2020 Performance

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
Aberdeen Standard	0.7	1.2	(0.5)	Δ
Baillie Gifford	(13.2)	(15.9)	2.7	O
BlackRock	(2.8)	(1.3)	(1.5)	Δ
Hermes GPE	3.9	1.5	2.4	O
Kempen	(27.9)	(15.7)	(12.2)	
Prudential / M&G	1.7	1.2	0.5	O
Newton	(9.2)	1.2	(10.4)	
Pyrford	(4.8)	1.5	(6.3)	
Schroders	(3.9)	(1.3)	(2.6)	Δ
Mellon Corporation (Standish)	(2.3)	1.2	(3.5)	
UBS Bonds	6.3	6.3	0.0	O
UBS Equities	(19.3)	(19.3)	0.0	O

3.6 Kempen has provided a disappointing return of -20.2% over one year which was 15.8% below the benchmark. UBS Bonds performed well over the year with returns of 10%. Baillie Gifford returned 0.1% but was above the benchmark by 4.9%.

	RED- Fund underperformed by more than 3% against the benchmark
Δ	AMBER- Fund underperformed by less than 3% against the benchmark.
O	GREEN- Fund is achieving the benchmark return or better

Table 3 – Fund Manager Performance Over One Year

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
Aberdeen Standard	4.6	4.9	(0.3)	Δ
Baillie Gifford	0.1	(4.8)	4.9	O
BlackRock	(0.9)	0.0	(0.9)	Δ
Hermes GPE	5.9	5.8	0.1	O
Kempen	(20.2)	(4.4)	(15.8)	
Prudential / M&G	3.5	4.6	(1.1)	Δ
Newton	(1.6)	4.5	(6.1)	
Pyrford	(2.2)	7.5	(9.7)	
Schroders	(2.6)	0.0	(2.6)	Δ
Mellon Corporation (Standish)	(1.5)	4.9	(6.4)	
UBS Bonds	10.0	9.9	0.1	O
UBS Equities	(7.5)	(7.3)	(0.2)	Δ

3.7 Over two years, (table 4), most mandates are positive. Returns ranged from -6.0% for Kempen to 6.9% for UBS Bonds. Absolute return and credit continue to struggle, significantly underperforming their benchmarks but providing positive actual returns overall.

Table 4 – Fund manager performance over two years

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
Aberdeen Standard	4.7	4.7	(0.0)	O
Baillie Gifford	5.1	3.5	1.6	O
BlackRock	2.1	2.4	(0.3)	Δ
Hermes GPE	1.9	5.7	(3.8)	
Kempen	(6.0)	4.3	(10.3)	
Prudential / M&G	4.0	4.6	(0.6)	Δ
Newton	2.7	4.6	(1.9)	Δ
Pyrford	0.7	7.4	(6.7)	
Schroders	0.1	2.4	(2.3)	Δ
Mellon Corporation (Standish)	(3.0)	4.8	(7.8)	
UBS Bonds	6.9	6.9	0.0	O
UBS Equities	0.5	0.7	(0.2)	O

4. Asset Allocations and Benchmark

4.1 Table 5 below outlines the Fund's current actual asset allocation, asset value and benchmarks

Table 5: Fund Asset Allocation and Benchmarks as at 31 March 2020

Fund Manager	Asset (%)	Market Values (£000)	Benchmark
Aberdeen Standard	8.6%	83,391	3 Mth LIBOR + 4% per annum
Baillie Gifford	20.5%	199,910	MSCI AC World Index
BlackRock	3.9%	38,286	AREF/ IPD All Balanced
Hermes GPE	9.4%	91,725	Target yield 5.9% per annum
Kempen	13.3%	129,412	MSCI World NDR Index
Prudential / M&G	0.1%	505	3 Mth LIBOR + 4% per annum
Newton	7.0%	67,755	One-month LIBOR +4% per annum
Pyrford	10.3%	100,852	UK RPI +5% per annum
Schroders	2.3%	22,838	AREF/ IPD All Balanced
Mellon Corporation	6.4%	62,544	3 Mth LIBOR + 4% per annum
UBS Bonds	4.2%	41,043	FTSE UK Gilts All Stocks
UBS Equities	17.1%	166,591	FTSE AW Developed Tracker (partly hedged)
LCIV	0.0%	150	None
Cash	-3.1%	(30,509)	One-month LIBOR
Total Fund	**100.00%**	**974,493**	

4.2 The percentage split by asset class is graphically shown in the pie chart below.

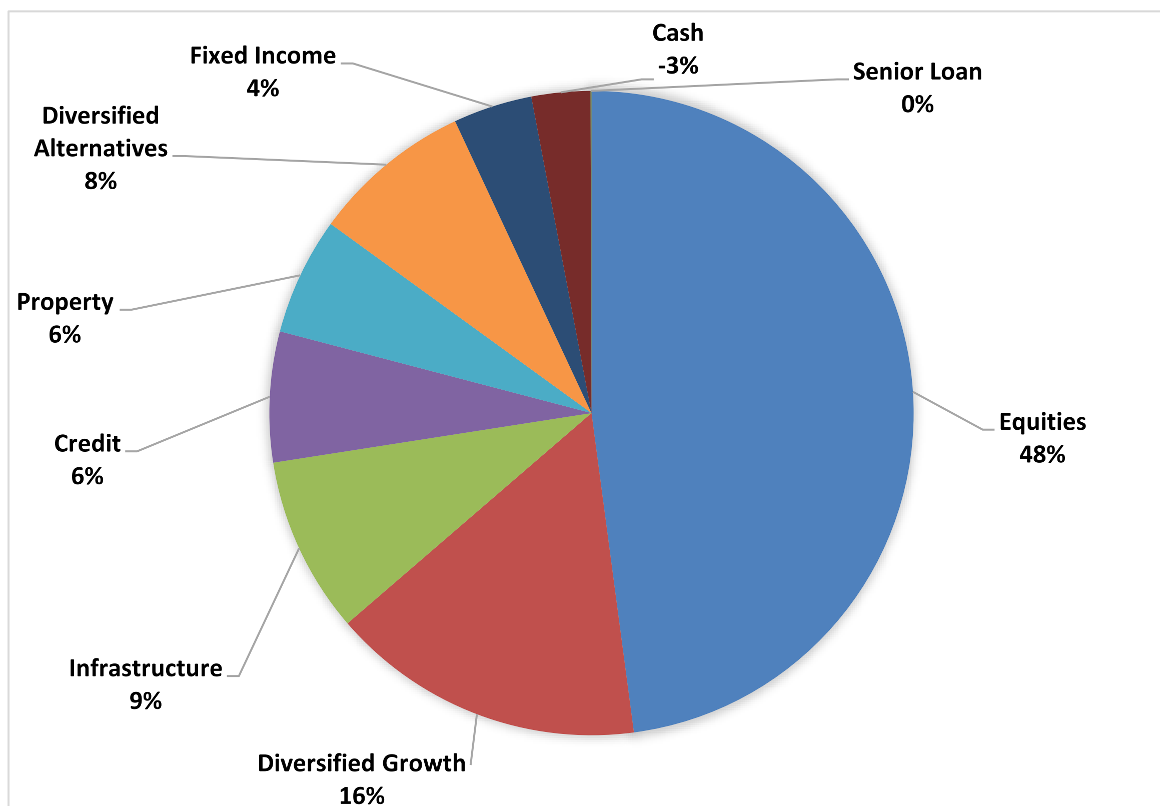


Chart 2: Fund Allocation by Asset Class as at 31 March 2020

4.3 Overall the strategy is overweight equities, with equities at the top end of the range. Cash is underweight due to the pre-payment from the council. The current position compared to the strategic allocation is provided in table 6 below:

Table 6: Strategic Asset Allocation

Asset Class	Current Position	Strategic Allocation Target	Variance	*Range*
Equities	50.9%	48%	2.9%	*45–53*
Diversified Growth	16.8%	16%	0.8%	*16-20*
Infrastructure	9.4%	9%	0.4%	*4-11*
Credit	7.0%	8%	-1.0%	*6-10*
Property	6.3%	7%	-0.7%	*6-9*
Diversified Alternatives	8.6%	8%	0.6%	*6-10*
Fixed Income	4.2%	4%	0.2%	*3-5*
Cash	-3.1%	0%	-3.1%	*0-2*
Senior Loan	0.1%	0%	0.1%	*0-1*

5. Fund Manager Performance

5.1 Kempen

Kempen	**2020**	**2019**				**2018**			**One Year**	**Two Years**	**Since Start 6/2/13**
	Q1	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**			
£129.41m	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**(27.9)**	1.2	1.3	5.2	5.5	(7.3)	2.9	7.2	(20.2)	(6.0)	4.3
Benchmark	**(15.7)**	1.0	3.8	6.5	9.9	(11.3)	6.3	8.0	(4.4)	4.3	9.7
Difference	(12.2)	0.2	(2.5)	(1.3)	(4.4)	4.0	(3.4)	(0.8)	(15.8)	(10.3)	(5.4)

Reason for appointment

Kempen were appointed as one of the Fund's global equity managers, specialising in investing in less risky, high dividend paying companies which will provide the Fund with significant income. Kempen holds approximately 100 stocks of roughly equal weighting, with the portfolio rebalanced on a quarterly basis. During market rallies Kempen are likely to lag the benchmark.

Performance Review

The strategy underperformed its benchmark by 12.2% for the quarter and has underperformed its one-year benchmark by 15.8%. Kempen has underperformed its two-year benchmark by 10.3%, providing an annual return of -6.0%. It has also underperformed its benchmark since inception by 5.4%, although the return over this period is an annualised return of 4.3%.

Portfolio Rebalancing

Kempen sold seven names during Q1: Publicis, BT Group, Dixons, Lloyds Banking, Western Forest, Nissan and Resona.

Nissan was sold due to significant dividend cuts. BT Group, Resona and Invesco were sold as more attractive alternatives were available. Publicis, Dixons Carphone, Western Forest, Lloyds Banking and EasyJet were sold due to the deterioration of the underlying business.

Nine new stocks were added: watch, Danone, Merck, Cisco, AvalonBay, Public Service, Sumitomo Mitsui Financials and Pepsico.

The current volatile environment offers good opportunities to add quality companies at more interesting levels than before this period.

5.2 Baillie Gifford

Baillie Gifford	2020	2019				2018			One Year	Two Years	Since Start 6/2/13
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£199.91m	**%**	**%**	**%**	**%**	**%**	%	**%**	**%**	**%**	**%**	**%**
Actual Return	**(13.2)**	4.9	0.7	7.7	12.4	(12.5)	3.0	7.3	0.1	5.1	12.4
Benchmark	**(15.9)**	1.5	3.4	6.2	9.8	(10.6)	5.7	6.9	(4.8)	3.5	9.5
Difference	**2.7**	3.4	(2.7)	1.5	2.6	(1.9)	(2.7)	0.4	4.9	1.6	2.9

Reason for appointment

Baillie Gifford (BG) is a bottom-up, active investor, seeking to invest in companies that will enjoy sustainable competitive advantages in their industries and will grow earnings faster than the market average. BG's investment process aims to produce above average long-term performance by picking the best growth global stocks available by combining the specialised knowledge of BG's investment teams with the experience of their most senior investors. BG holds approximately 90-105 stocks.

Performance Review

For Q1 BG returned -13.2%, outperforming its benchmark by 2.7%. BG's one-year return was 0.1%, outperforming its benchmark by 4.9%. Since initial funding, the strategy has returned 12.4% p.a., outperforming its benchmark by 2.9%.

Despite the negative absolute returns, given the equity market declines and with the global economic consumption at a halt, the fund has managed to protect on the downside. This was in part due to security selection and in part due to a large part of portfolio invested in what can be referred to as 'new economy' companies. Healthcare has been one of the better performing sectors led by stocks as Teladoc, that has benefited from increased online consultation. Other areas where the portfolio has benefited from lockdown is 'tech' stocks. Microsoft is one such example with increased usage of Microsoft Teams and other cloud-based services.

Apart from the indiscriminate sell off in the market, the gains were partly offset by Financials, Energy related exposure and stocks with relatively larger debt servicing. This included M&G and Prudential, Banco Bradesco, Bank of Ireland and ICICI. ICICI has been the only stock reduced recently, whereas, for other Financials, the manager sees good long-term prospects beyond expected short term headwind.

The manager has long invested in companies where markets understanding of the market penetration and resulting growth is undermarked by conceived higher multiples. Certain stocks have been the beneficiaries from the recent restrictions on movement which put forward many of the long term shifts some growth and tech advocates have been anticipating.

The manager sees these trends continuing, with demand for online delivery on the rise, increased demand for software helping increased working from home patterns and home entertainment. there is already evidence to suggest that these structural changes will last beyond the current pandemic in the portfolio seems well positioned to benefit from that change.

5.3 UBS Equities

UBS Equities	2020	2019				2018			One Year	Two Years	Since Start 31/08/12
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£166.59m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	(19.3)	5.7	2.1	4.0	11.5	(12.8)	5.3	4.4	(7.5)	0.5	10.5
Benchmark	(19.3)	5.7	2.1	4.1	11.5	(12.9)	5.7	4.4	(7.3)	0.7	10.6
Difference	0.0	0.0	0.0	(0.1)	0.0	0.1	(0.4)	0.0	(0.2)	(0.2)	(0.1)

Reason for appointment

UBS are the Fund's passive equity manager, helping reduce risk from underperforming equity managers and providing a cost-effective way of accessing the full range of developed market equity growth.

Performance

The fund returned -19.3% for Q1 and -7.5% over one year. Since funding in August 2012, the strategy has provided an annualised return of 10.5%.

Equities

Equity markets, as measured by the MSCI All Country World Index in local currency, had their worst month in March since the depth of the financial crisis in October 2008, despite a strong rally as the month ended. Shares lost over 12% of their value, leaving them down by almost a fifth for the first quarter; again, this was the worst performance over a calendar quarter since 2008.

Earlier in the quarter, a number of technology heavyweights such as Apple, Amazon and Microsoft reported strong results which powered US stocks higher in particular, although profits in other sectors, such as financials, were more mixed.

Increasing evidence that COVID-19 was spreading rapidly outside China drove a sudden change in sentiment in late February. News of a spate of cases in South Korea, Iran and Italy saw equity markets lurch sharply downward as market volatility, as measured by the Vix index, reached levels not seen since the financial crisis over ten years ago.

The news that the OPEC plus group of oil producers had failed to agree production cuts, in the face of reduced demand, caused oil prices to immediately decline by around 30% in March. Expectations of supply increases against a backdrop of a sharp fall in demand caused price to hit lows not seen since early this century.

5.4 UBS Bonds

UBS Bonds	2020	2019				2018			One Year	Two Years	Since Start 5/7/2013
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£41.04m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	6.3	(3.9)	6.2	1.4	3.4	1.9	(1.7)	0.2	10.0	6.9	5.8
Benchmark	6.3	(3.9)	6.2	1.3	3.4	1.9	(1.7)	0.2	9.9	6.9	5.7
Difference	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.1

Reason for appointment

UBS were appointed as the Fund's passive bond manager to allow the Fund to hold a small allocation (4%) of UK fixed income government bonds.

Performance

The return for Q1 was 6.3%, with a one-year return of 10% and a two-year return of 6.9%.

Within fixed income markets, assets seen as safe havens unsurprisingly fared best over the quarter, with yields on benchmark bonds such as Treasuries and German bonds reaching their lowest ever levels earlier in March. Even these were not immune from the general market turbulence, though, and yields generally climbed later in the month as investors demand for cash increased.

Other forms of debt fared less well, with sharp falls in value for high yield debt in particular as concerns increased over the creditworthiness of borrowers in sectors such as energy, transport and leisure. Automaker Ford was an initial example, with its debt falling to junk status following downgrades from Moody's and S&P in March.

However, as markets stabilised there was a rush from investment grade companies globally to tap debt markets even at higher yields, with a glut of new issuance in the final week of March.

The positive flows seen into emerging market debt in both hard and local currencies went sharply into reverse over the quarter. Such bonds saw sharp sell offs in March in particular, with Lebanon defaulting on its external debt. It was notable that much of the turbulence bypassed Chinese government bonds however, prompting discussion as to whether the world's third largest market is increasingly seen as a new safe haven in times of crisis.

5.5 M&G / Prudential UK

M&G / Prudential	2020	2019				2018			One Year	Two Years	Since Start 31/5/2010
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£0.51m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	**1.7**	0.0	1.7	0.0	1.0	1.2	1.2	1.1	3.5	4.0	4.5
Benchmark	**1.2**	1.2	1.2	1.0	1.2	1.2	1.1	1.1	4.6	4.6	2.9
Difference	**0.5**	(1.2)	0.5	(1.0)	(0.2)	0.0	0.1	0.0	(1.1)	(0.6)	1.6

Reason for appointment

This investment seeks to maximise returns using a prudent investment management approach with a target return of Libor +4% (net of fees).

Performance and Loan Security

The strategy provided a return of 4.5% per year, with an outperformance against the benchmark of 2.9% since inception. The strategies holding has reduced in size to £505k, with most of the loans repaid. The weighted average credit rating is BB+ with an average life of 1.3 years.

5.6 Schroders Indirect Real Estate (SIRE)

Schroders	2020	2019				2018			One Year	Two Years	Since Start 6/8/2010
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£22.84m	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**(3.9)**	1.0	0.3	0.1	(1.1)	0.3	1.4	2.3	(2.6)	0.1	5.6
Benchmark	**(1.3)**	0.3	0.4	0.6	0.3	0.9	1.6	1.9	0.0	2.4	7.1
Difference	**(2.6)**	0.7	(0.1)	(0.5)	(1.4)	(0.6)	(0.2)	0.4	(2.6)	(2.3)	(1.5)

Reason for appointment

Schroders is a Fund of Fund manager appointed to manage a part of the Fund's property holdings. The mandate provides the Fund with exposure to 210 underlying funds, with a total exposure to 1,500 highly diversified UK commercial properties.

Q1 2020 Performance and Investment Update

The fund generated a negative return in Q1 of 3.9% with a one-year return of negative 2.6% and a two-year return of 0.1%.

Despite the flexibility of many landlords and the Government's support, Schroders expect that a number of mid-market retailers and restaurant chains who were already under financial pressure will fail over the next few months. Consequently, the manager believes that it is probable that the Coronavirus will accelerate the increase in structural vacancy and decline in retail open market rents. It is expected that supermarkets, convenience stores and bulky goods retail parks will be more defensive than shopping centres and department stores. While the Coronavirus could increase the demand for warehouses to fulfil online orders, the impact is likely to be modest.

5.7 BlackRock

BlackRock	2020	2019				2018			One Year	Two Years	Since Start 1/1/2013
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£38.29m	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**(2.8)**	0.6	0.7	0.5	0.1	1.0	1.9	2.0	(0.9)	2.1	0.6
Benchmark	**(1.3)**	0.3	0.4	0.6	0.3	0.9	1.6	1.9	0.0	2.4	3.8
Difference	**(1.5)**	0.3	0.3	(0.1)	(0.2)	0.1	0.3	0.1	(0.9)	(0.3)	(3.2)

Reason for appointment

In December 2012, a sizable portion of the Fund's holdings with Rreef were transferred to BlackRock (BR). The transfer to BR provides the Fund with access to a greater, more diversified range of property holdings within the UK.

Q1 2020 Performance and Investment Update

BR returned negative 2.8% for the quarter against the benchmark of negative 1.3%. It returned negative 0.9% over one year against its benchmark's return of 0.0%. During the first quarter, the Fund completed two disposals totaling £30.1 million and did not acquire any new properties. Retail was the most significant drag on performance over the quarter, falling by -11% in value and reducing returns by 220 basis points. The Alternatives sector assets were the most resilient being effectively flat from a valuation perspective and generating 140 basis points of return. The impact on Offices and Industrial was more muted but even they experienced a -1.6% and -1.3% fall in capital values respectively.

5.8 **Hermes**

Hermes	2020	2019				2018			One Year	Two Years	Since Start 9/11/2012
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£91.73m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	**3.9**	(0.2)	1.2	1.0	(1.5)	1.1	(2.2)	0.6	5.9	1.9	8.9
Benchmark	**1.5**	1.4	1.5	1.5	1.4	1.4	1.4	1.4	5.8	5.7	5.9
Difference	**2.4**	(1.6)	(0.3)	(0.5)	(2.9)	(0.3)	(3.6)	(0.8)	0.1	(3.8)	3.0

Reason for appointment

Hermes were appointed as the Fund's infrastructure manager to diversify the Fund away from index linked fixed income. The investment is in the Hermes Infrastructure Fund I (HIF I) and has a five-year investment period which ended on 30th April 2020 and a base term of 18 years. In March 2015 Members agreed to increase the Fund's allocation to Hermes to 10%.

Performance

Hermes returned 3.9% in Q1 outperforming the benchmark by 2.4%. As at 31 March 2020, the strategy reported a one-year positive return of 5.9%, outperforming its benchmark by 0.1%. Since inception the strategy has provided a good annualised return of 8.9%, outperforming its benchmark by 3.0%.

Portfolio review

The impact of COVID-19 on the Q1 performance results of the assets has varied depending on the nature of the asset.

Eurostar has experienced a significant short-term impact on the business, notably from unprecedented travel restrictions and social distancing measures introduced in all countries served by Eurostar. Scandlines has experienced a significant short-term impact on leisure passengers and the retail business resulting from travel restrictions, restrictive border controls and other domestic lock-down measures in both Denmark and Germany. The cargo business however remains resilient, operating at slightly below planned levels.

As regulated businesses, Cadent Gas, Anglian Water and Southern Water have generally performed in line with budget over the quarter and post quarter end. The impact on operations and service delivery as a result of COVID-19 has been limited, however there has been increasing pressure on working capital as a result of the increased risk of payment delinquency. For the water assets, regulatory mechanisms are now in place to reduce the long-term economic impact of increased bad debt

Investments and Divestments

In March 2020, Hermes Infrastructure entered into binding transaction documentation to acquire a c10% interest in Viridor, a leading UK energy recovery and recycling business operating 11 facilities. The transaction is subject to certain approvals and is expected to complete in June 2020.

5.9 Aberdeen Standard Asset Management

Aberdeen Standard	2020	2019				2018			One Year	Two Years	Since Start 15/9/2014
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£83.39m	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**0.7**	(0.2)	1.9	2.3	0.6	(0.8)	2.6	2.4	4.6	4.7	4.1
Benchmark	**1.2**	1.2	1.2	1.2	1.2	1.1	1.1	1.2	4.9	4.7	4.7
Difference	**(0.5)**	(1.4)	0.7	1.1	(0.6)	(1.9)	1.5	1.2	(0.3)	(0.0)	(0.5)

Reason for appointment

As part of the Fund's diversification from equities, Members agreed to tender for a Diversified Alternatives Mandate. Aberdeen Standard Asset Management (ASAM) were appointed to build and maintain a portfolio of Hedge Funds (HF) and Private Equity (PE). All positions held within the portfolio are hedged back to Sterling.

Since being appointed ASAM have built a portfolio of HFs and PEs, which offer a balanced return not dependent on traditional asset class returns. In the case of PE, the intention is to be able to extract an illiquidity premium over time. The allocation to PE, co-investments, infrastructure, private debt and real assets will be opportunistic and subject to being able to access opportunities on appropriate terms.

Performance

Overall the strategy provided a return of 0.7% in Q1 2020, underperforming its benchmark by 0.5%. The investment in Kohinoor Series Three Fund, the Portfolio's insurance policy, led the way in terms of the positive contributors to performance, followed by the PE commitments to MML and PAI. The largest detractors were Pharo Gaia and Horizon.

Over one year the mandate has underperformed its benchmark, with a return of 4.6% against a benchmark of 4.9%. Since inception in September 2014, the strategy has returned 4.1%, underperforming its benchmark by 0.5%.

The hedge funds selected for the Portfolio are a blend of:

i. Relative Value strategies, intended to profit from price dislocations across fixed income and equity markets,
ii. Global macro strategies, which are intended to benefit significantly from global trends, whether these trends are up or down, across asset classes and geographies,
iii. Tail risk protection, which in the case of Kohinoor Series Three Fund is intended to offer significant returns at times of stress and more muted returns in normal market environments, and
iv. Reinsurance

Aberdeen have built a portfolio of hedge funds, private equity funds and co-investments, which can offer a balanced return not wholly dependent on traditional asset class returns. In the case of private equity, the intention is to be able to extract an illiquidity premium over time.

5.10 Pyrford

Pyrford	2020	2019				2018			One Year	Two Years	Since Start 28/9/2012
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£100.85m	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**(4.8)**	0.7	0.9	1.1	2.7	(2.0)	0.8	2.0	(2.2)	0.7	2.7
Benchmark	**1.5**	1.5	1.7	2.8	1.1	1.5	2.3	2.4	7.5	7.4	7.0
Difference	**(6.3)**	(0.8)	(0.8)	(1.7)	1.6	(3.5)	(1.5)	(0.4)	(9.7)	(6.7)	(4.3)

Reason for appointment

Pyrford were appointed as the Fund's absolute return manager (AR) to diversify from equities. The manager's benchmark is to RPI, which means that the manager is likely to outperform the benchmark during significant market rallies.

AR managers can be compared to equities, which have a similar return target. When compared to equities, absolute return will underperform when markets increase rapidly and tend to outperform equities during periods when markets fall.

Performance

Pyrford generated a negative return of 4.8% in Q1 underperforming its benchmark by 6.3%. Over one year the strategy has returned negative 2.2%%, underperforming its benchmark by 9.7%. Pyrford underperformed its benchmark by 4.3% since inception. The equity position was by far the largest tractor over the quarter although the relatively defensive positioning within equities also helped the fund. The UK equity position which has long been a laggard for the fund outperformed the FTSE All Share by almost 8% during the period. In the fixed income portion of the portfolio, performance was stable, but the very low duration meant that it lagged behind the government bond universe and failed he gives the fund the sufficient which tends to nullify the equity market losses.

Outlook and Strategy

Economic hit to GDP from COVID-19 related disruptions to businesses will come mainly in the second quarter of 2020. Whilst governments are attempting to keep people in work through large influx of fiscal stimulus and loose monetary policy, the consequence is that there will be a large increase in government debt owned by central banks. Because of this increased level of debt across the world, it is difficult to place a fair value on equity markets. The manager believes that prices on stocks have dropped to more appropriate levels compared to where they were, but takes a prudent stance, as it is quite likely the downward trend in equities would continue in the near future.

The longer the disruption continues, the more likely it is that this will turn from a demand side shock to a full-blown financial crisis. Therefore, the manager continues to hold short duration government bonds rather than taking advantage of the fall in long duration yields. The duration risk is an area the manager wants to avoid as prices are still too expensive for them to own. The duration level in the portfolio has been low for a number of years now and this has hurt the performance on an asset adjusted basis. The risk averse philosophy of the manager prevents them from increasing duration which hurt the fund during the first quarter.

5.11 Newton

Newton	2020	2019				2018			One Year	Two Years	Since Start 31/8/2012
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£67.75m	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**(9.2)**	1.6	1.7	4.3	4.2	(1.7)	2.1	2.4	(1.6)	2.7	2.6
Benchmark	**1.2**	1.2	1.2	1.0	1.2	1.2	1.1	1.1	4.5	4.6	4.5
Difference	(10.4)	0.4	0.5	3.3	3.0	(2.9)	1.0	1.3	(6.1)	(1.9)	(1.9)

Reason for appointment

Newton was appointed to act as a diversifier from equities. The manager has a fixed benchmark of one-month LIBOR plus 4%. AR managers have a similar return compared to equity but are likely to underperform equity when markets increase rapidly and outperform equity when markets suffer a sharp fall.

Performance

Newton generated a negative return of 9.2% in Q1 and underperformed its benchmark by 10.4%. Over one year the strategy has returned negative 1.6%, underperforming its benchmark by 6.1%. Newton's performance since inception is 2.6% and underperforms its benchmark by 1.9%.

Whilst performance was significantly negative in Q1 2020, the fund was able to protect against the wider falls in equity markets. The return seeking core and stabilising layer are functioning as expected, however the rate at which the portfolio changes continued to be a concern.

The portfolios exposure is summarised below:

Portfolio Exposures		
	31 December 2019	31 March 2020
Equities	**30.76**	**30.43**
UK	7.42	5.15
North America	9.07	9.23
Europe	9.29	10.83
Japan	0.59	0.31
Pacific Basin Ex Japan	3.20	3.01
Emerging Markets	1.19	1.91
Fixed Income	**34.48**	**22.20**
Government Bonds	9.59	6.03
Corporate Bonds	9.88	8.31
Index Linked Government	2.44	3.38
Emerging Debt	12.57	4.48
Alternatives	**34.76**	**47.37**
Infrastructure Funds	12.48	7.75
Renewable Energy	0.00	0.40
Precious Metals	6.89	11.90
Derivative Instruments	0.79	15.08
Cash and FX Forwards	14.60	12.25
Total	**100.00**	**100.00**

5.12 Mellon Corporation (Standish)

Mellon Corporation	2020	2019				2018			One Year	Two Years	Since Start 20/8/2013
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2			
£62.54m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	**(2.3)**	(0.0)	0.1	0.8	1.9	(2.7)	0.1	(3.9)	(1.5)	(3.0)	0.0
Benchmark	**1.2**	1.2	1.2	1.2	1.2	1.2	1.1	1.2	4.9	4.8	5.2
Difference	**(3.5)**	(1.2)	(1.1)	(0.4)	0.7	(3.9)	(1.0)	(5.1)	(6.4)	(7.8)	(5.2)

Reason for appointment

Mellon Corporation were appointed to achieve a 6% total return from income and capital growth by investing in a globally diversified multi-sector portfolio of transferable fixed income securities including corporate bonds, agency and governments debt. The return target was later reduced to 4.4%.

Performance

The Fund returned negative 2.3% against a benchmark return of 1.2%. Over one year the strategy has underperformed its benchmark of 4.9% by 6.4%, providing a return of -1.5%. Since funding in August 2013, Mellon Corporation has only provided an annual return of 0%.

Negative Contributors:

Asset allocation was the principal detractor to performance during the quarter with Fund exposure to high yield corporates and emerging markets representing over three-quarters of the drawdown amount. Asset class holdings were modest.

Portfolio Composition:

The dislocation seen within Investment Grade corporate credit does present an opportunity to increase risk on the portfolio. US Investment Grade corporate bond spreads moved from 93bps at year end 2019 to a peak of 373bps on 23rd March 2020 since then, there has been an increase in allocation to this asset class primarily through the new issue market where borrowers have offered attractive premiums.

Strategy Review

Given the consistent underperformance of the strategy both against the benchmark and peer groups, at the September 2018 Pension Committee, Members agreed to formally review Mellon Corporation, with alternative managers through the London CIV considered.

Following manager interviews, the committee agreed to replace BNY Mellon as the fund's active credit manager and to appoint CQS through the LCIV. Officers were instructed to manage the due diligence on CQS and to manage the transition from BNY Mellon to CQS.

In July, the LCIV informed officers that they have put CQS 'on watch' so the transition process to CQS was put on hold until the issues were resolved. On 18 September 2019, LCIV presented to the committee members and after a thorough discussion, members agreed to progress with the transition to CQS. The funding amount was £60million. LCIV confirmed that the trading could only take place at month end so there were further issues around the transition date:

- An initial transition date of 31 October was set. However, due to uncertainties around Brexit, the fund was advised that CQS would not be trading.
- The transition date was then delayed to the of November, however, the fund was advised against this due to the Thanksgiving Day.

On 21 November 2019, LCIV raised the possibility that CQS would be removed from the platform or alternatively, another manager would be appointed in addition to CQS as they still have concerns. As a result, the transition to CQS was put on hold until this position could be clarified. On 4 March 2020, LCIV announced that CQS is no longer on watch but will be increasing the level of monitoring of the manager. The transition is still on hold until a full Strategic Asset Allocation Review is carried out in June 2020.

5.13 Currency Hedging

No new currency hedging positions were placed in Q1 2020.

6. Consultation

6.1 Council's Pension Fund monitoring arrangements involve continuous dialogue and consultation between finance staff, external fund managers and external advisers. The Chief Operating Officer and the Fund's Chair have been informed of the approach, data and commentary in this report.

7. Financial Implications

Implications completed by: Philip Gregory, Finance Director

7.1 The Council's Pension Fund is a statutory requirement to provide a defined benefit pension to scheme members. Investment decisions are taken based on a long-term investment strategy. The investment performance has a significant impact on the General Fund. Pensions and other benefits are statutorily calculated and are guaranteed. Any shortfall in the assets of the Fund compared to the potential benefits must be met by an employer's contribution.

7.2 This report updates the Committee on developments within the Investment Strategy and on scheme administration issues and provides an overview of the performance of the Fund during the period.

8. Legal Implications

Implications completed by: Dr. Paul Feild, Senior Governance Solicitor

8.1 The Council operates the Local Government Pension Scheme which provides death and retirement benefits for all eligible employees of the Council and organisations which have admitted body status. There is a legal duty fiduciary to administer such funds soundly according to best principles balancing return on investment against risk and creating risk to call on the general fund in the event of deficits. With the returns of investments in Government Stock (Gilts) being very low they cannot be the primary investment. Therefore, to ensure an ability to meet the liability to pay beneficiaries the pension fund is actively managed to seek out the best investments. These investments are carried out by fund managers as set out in the report working with the Council's Officers and Members.

8.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 are the primary regulations that set out the investment framework for the Pension Fund. These regulations are themselves amended from time to time. The Regulations are made under sections 1(1) and 3(1) to (4) of, and Schedule 3 to, the Public Service Pensions Act 2013.

They set out the arrangements which apply to the management and investment of funds arising in relation to a pension fund maintained under the Local Government Pension Scheme.

9. Other Implications

9.1 **Risk Management** - Investment decisions are taken based on a long-term investment strategy. Investments are diversified over several investment vehicles (equities – UK and overseas, bonds, property, infrastructure, global credit and cash) and Fund Managers to spread risk.

Performance is under constant review, with this focused on how the Fund has performed over the past three months, one year and three years.

Background Papers Used in the Preparation of the Report:

- Northern Trust Quarterly Q1 2020 Report; and
- Fund Manager Q1 2020 Reports.

List of appendices:

Appendix 1 - Fund Asset and Liability Values 31 March 2013 to 31 March 2020
Appendix 2 - Definitions
Appendix 3 - Roles and Responsibilities