PENSIONS COMMITTEE

16 September 2020

Title: Pension Fund Quarterly Monitoring 2020/21 – April to June 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 April to 30 June 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,

(iv) the update on the transition to CQS, and

(v) the Independent Advisors Market Background Report 2019-20

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 April to 30 June 2020 ("Q2"). 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 July to 15 September 2020 will be provided to Members at the Pension Committee.

2. Independent Advisors Market Background Q2 2020

2.1 April to June 2020 was characterised by a clear disconnect between the economy and households on the one hand and financial markets. While many businesses faced temporary or permanent closure and millions of employees faced either unemployment or the threat of unemployment (with US unemployment at 11.1% in June 2020 compared to 3.5% in February and around 30% of UK employees on the Government's Furlough scheme) equity markets saw huge gains which erased much of the losses of late February and March 2020. There were however significant discrepancies in equity sector performance. Information technology was a generally very strong performer as would be expected in a lockdown/social distancing environment. In contrast banks struggled in an environment of ultra-low interest rates and economies in distress.

2.2 The MSCI World Index which fell over 21% in the January to March Quarter recovered much of this loss in the April to June Quarter to close on 30 June 2020 less than 8% lower than at 31 December 2019. US stocks enjoyed a dramatic rebound. The S&P 500 index which fell 20% in the January to March Quarter ended the April to June Quarter only 4% lower than at the start of January. Unprecedented central bank monetary policy stimulus, led by the US Federal Reserve, backed up by the fiscal initiatives of various governments provided the support to facilitate this recovery.

2.3 As the press release issued on 10 June 2020 after the June meeting of the policy setting Federal Open Markets Committee (FOMC) of the US Federal Reserve correctly stated *"the Coronavirus outbreak is causing tremendous human and economic hardship across the United States and around the world…"* COVID-19 has heavily affected the US economy. The "advance" estimate from the US Bureau of Economic Analysis, of 30 July 2020, indicated that "*…gross domestic product (GDP) decreased at an annual rate of 32.9 percent in the second quarter of 2020…"* Compared with the previous three months the economy contracted 9.5%.This was the largest contraction since World War II.

2.4 In December 2019 unemployment had been at a 50 year low of 3.5%. By March 2020 it had risen to 4.4%. There was a huge increase in April to 14.7%. This is the highest level recorded in the present series of the US Bureau of Labour Unemployment Rate statistics which date back to 1948. By the end of June, the rate was still 11.1% and above any recorded between 1948 and 2019. Inflation as measured by the Personal Consumption Expenditures (PCE) Index (the US Federal Reserve's preferred inflation measure) has long run clearly below the Federal Reserve's 2% target. The Minutes of the June 2020 FOMC indicate that the Committee believes COVID-19 will result in

lower inflation stating *"… the overall effect of the outbreak on prices was seen as disinflationary… Observing that inflation had been running somewhat below the Committee's 2 percent longer-run objective before the coronavirus outbreak, some participants noted a risk that long-term inflation expectations might deteriorate. Participants noted that a highly accommodative stance of monetary policy would likely be needed for some time to achieve the 2 percent inflation objective over the longer run."*

2.5 In contrast to the weakness of the economy US equities regained most of the losses suffered in the previous Quarter. Late February and March 2020 saw dramatic falls in equity markets before efforts led by the unprecedented actions of US Federal reserve led to a turnaround in late March. Despite this the S&P 500 closed at 2,585 on 31 March 2020 compared to 3,231 on 31 December 2019. April saw a dramatic turnaround with the S&P 500 closing at 2,912 on 30 April. By the end of May the index had risen to 3,044 and on 8 June it closed at 3,232 fractionally above its 31 December level! At the close on 30 June the index stood at 3,100. This was an increase of 20% over the April to June Quarter leaving the S&P 500 only 4% lower than at the close on 31 December 2019. The particular recovery in the US equity market was undoubtedly assisted by the unprecedented actions of the US Federal Reserve which are described in some detail in the Independent Advisors Market Background report for January to March 2020.

2.6 The FOMC of the US Federal Reserve which had introduced extraordinary measures to support the economy and financial markets in March 2020 continued this approach at its April and June meetings. The very low interest rate policy introduced in March was maintained at the April and June meetings when *"the Committee decided to maintain the target range for the federal funds rate at 0 to ¼ percent."* Forecasts issued after the June meeting indicated Federal Reserve policymakers expect interest rates to remain at this level until 2022. The Federal Reserve undertook asset purchases and implemented the unprecedented policy (announced in March) of purchasing corporate bonds. Central Bank support undoubtedly supported and buoyed equity markets but so must the fiscal stimulus provided by the Federal Government (which included a $1,200 payment to individuals with a yearly income under $75,000 and $1,200 billion support to businesses) and investor optimism with markets positively reacting, for example, to signs of laid off workers returning and some turnaround in the unemployment statistics.

2.7 Although not as positive as US equities Eurozone equities enjoyed a significant recovery in the April to June Quarter. The MSCI EMU Index increased by 17% (in Euro terms) to offset a sizable proportion of the 25% loss of the January to March 2020 Quarter – this left the index around 12% lower than at the beginning of January. The significant monetary policy interventions of the major central banks of March 2020 including the European Central Bank (ECB), supported equity markets in this Quarter as did additional monetary policy easing announced by the ECB at its April and June meetings. This included an expansion, in June, of the ECB's Pandemic Emergency Purchase Programme (PEPP) – covering government and corporate debt - from 750 billion to 1,350 billion Euros. Fiscal policy interventions to support businesses and employees by major governments including France, Germany, Italy and Spain and easing of lockdown restrictions during the April to June Quarter also supported the equity market recovery.

2.8 The Eurozone economy suffered a large contraction in the April to June Quarter with GDP down by 12.1% compared to the previous Quarter according to preliminary flash estimates issued on 31 July 2020. Eurostat stated "*these were by far the sharpest declines observed since the time series started in 1995.*" Eurozone unemployment which had been 7.4% in December 2019 was 7.8% in June 2020. This small increase reflects the fact that there are furlough schemes covering millions of workers in France, Germany, Italy and Spain and many of these jobs could be at risk when they end. In 2019 headline Eurozone inflation was well below the ECB policy objective of below, but close to 2% over the medium term. By December 2019 Eurozone headline inflation had climbed to 1.3%. The onset of COVID-19 has however also clearly negatively impacted the inflation policy objective with Eurozone inflation at 0.3% in June 2020.

2.9 COVID-19 had a huge negative effect on the United Kingdom economy during the April to June 2020 Quarter causing (to quote the Bank of England Monetary Policy Summary issued 18 June 2020) *"severe economic and financial disruption*." To take just one example - by 30 June there were, according to statistics released by HM Revenue and Customs, 9.4m employees on the Government's furlough scheme. This represents around 30% of UK employees. Consumer Price Inflation (CPI), which had been 1.5% in March 2020 fell way below the Bank of England target of 2%. CPI was 0.8% in April, 0.5% in May and 0.6% in June.

2.10 Although UK equities gained 10% (as measured by the FTSE All Share) over the April to June Quarter they clearly lagged world markets generally which increased by approximately 19% (as measured by the MSCI World Index) and continued their long period as unloved by investors. Given the COVID-19 dominated environment a 10% gain over the Quarter must, however, still be viewed as somewhat positive. The Quarter saw a recovery by the FTSE All Share Index doubtlessly facilitated by the huge fiscal stimulus of government, the continuing monetary policy stimulus of the Bank of England (which expanded its asset purchase programme from £645 billion to £745 billion at its June Monetary Policy Committee meeting and maintained Base Rate at its all-time low of 0.1% throughout the Quarter) and indications of consumer spending and output increases as COVID-19 restrictions were eased during the Quarter.

2.11 Japanese Equities (as measured by the Nikkei 225 Index) had lost 20% in the January to March Quarter. The April to June Quarter was, however, clearly very positive with the Nikkei 225 gaining approximately 18%. This resulted in the Nikkei 225 ending June about 6% lower than at the end of December 2019. One reason for the bounce back by Japanese equities may be the policy decision taken by the Bank of Japan at its 16 March 2020 meeting to increase its purchase activity relating to Japanese Exchange Traded Funds (ETF's) and its subsequent implementation of this. The Bank of Japan also announced further measures, including increasing its ability to purchase government and corporate bonds to support the economy and markets during the April to June Quarter. The Japanese Government announced major support packages in April and May primarily directed at business and employment support.

2.12 Asian (excluding Japan) and Emerging Market equities both enjoyed a positive Quarter. The MSCI AC Asia (excluding Japan) returned 17% (in $ terms) compared to a loss of 18% in the previous Quarter. The MSCI Emerging Markets index returned a positive return of 18% (in $ terms) following a torrid January to March Quarter when the Index lost approaching 24% (in $ terms). The reopening of markets during the April to June Quarter and central bank stimulus by Asian/Emerging Market as well as the

major central banks facilitated a recovery in equity prices despite the ongoing COVID-19 emergency and economic weakness.

2.13 As reported by the National Bureau of Statistics of China the Chinese economy grew by 3.2% in the April to June Quarter compared with the same period in 2019. This followed a fall of 6.8% in the January to March Quarter. China is the first major economy to report growth in the context of the COVID-19 emergency. This surely reflects both the fact that as the source of COVID-19 China has had longer to seek to tackle the virus, and also government support for the economy.

2.14 The leading Government Bonds - US, UK and Germany – had had a very positive January to March Quarter with prices rising significantly (and yields consequently falling) as investors favoured their perceived safety as equity markets fell and a severe global recession seemed likely. During the April to June Quarter investors maintained their appreciation of these assets. The US and German 10 year bond yields which opened the Quarter at the low yields of 0.67 and -0.47 were little changed by the end of June closing at 0.66 and -0.45. The 10 year UK Gilt increased further in value as the yield fell from 0.36 to 0.17 – the increase in Gilt prices perhaps reflected concerns regarding the future of the UK after its current agreement with the European Union ends in December 2020 and also a reaction to comments in May by Andrew Bailey the Governor of the Bank of England that negative interest rates were a possibility.

2.15 Corporate credit and in particular high yield had weakened in the January to March Quarter in the context of both economic and financial market weakness and indeed turmoil. In contrast the April to June Quarter saw corporate bonds perform strongly doubtlessly strengthened by supportive announcements from March onwards by the major central banks in relation to corporate bond purchases. A return of investor risk appetite was also a contributory factor as high yield as well as investment grade corporate credit enjoyed a clearly positive April to June 2020 Quarter.

2.16 In conclusion the April to July Quarter was extremely positive for equity markets despite a very poor economic environment including lockdowns/social distancing, GDP contraction, the potential for big increases in unemployment and extremely low inflation in developed economies. Additionally, as Jay Powell the Chair of the US Federal Reserve stated in his press conference of 10 June 2020 *"The extent of the downturn and the pace of recovery remain extraordinarily uncertain…"* All this clearly raises the vital question as to how much equity prices are now driven by optimism in markets based on central bank support, suggestions of a possibly viable vaccine, and any sign of economic momentum rather than by macroeconomic fundamentals and likely long term company earnings? Is fear of missing out another possible driver of the equity recovery? Volatility in equity markets going forward would clearly not be a surprise!

3. Overall Fund Performance

3.1 The Fund's externally managed assets closed Q2 valued at £1,132.03m, an increase of £127.03m from its value of £1,005.00m at 31 March 2020. The cash value held by the Council at 30 June 2020 was 0.81m, giving a total Fund value of £1,132.84m. The gross value of £1,132.84m includes a prepayment of £35.0m from the Council. The net asset value as at 30 June 2020, after adjusting for the prepayment was therefore £1,097.84m.

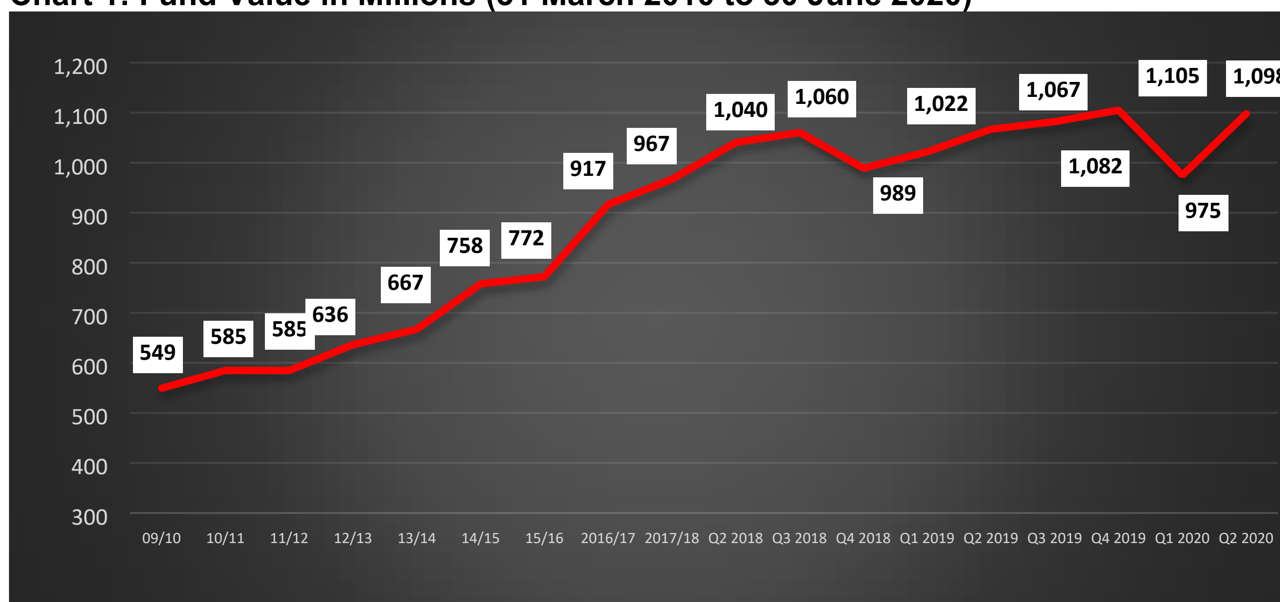
3.2 For Q2 the Fund returned 12.3%, net of fees, outperforming its benchmark by 2.7%. Over one year the Fund returned 4.5%, underperforming its benchmark by 1.5%. Over three years the Fund underperformed its benchmark by 1.8%, with a return of 5.1%. The Fund's returns are below:

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

Year	2020		2019				2018		One Year	Two Years	Three Years	Five Years
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3				
Actual Return	12.3	(11.4)	2.2	1.4	3.3	5.8	(6.3)	2.3	4.5	4.8	5.1	7.8
Benchmark	9.6	(7.7)	1.7	2.4	3.5	5.6	(4.6)	3.3	6.0	6.9	6.9	8.7
Difference	2.7	(3.7)	0.5	(1.0)	(0.2)	0.2	(1.7)	(1.0)	(1.5)	(2.1)	(1.8)	(0.9)

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 May 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 2010.

Chart 1: Fund Value in Millions (31 March 2010 to 30 June 2020)



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

	RED- Fund underperformed by more than 3% against the benchmark
Δ	**A**MBER- Fund underperformed by less than 3% against the benchmark.
O	**G**REEN- Fund is achieving the benchmark return or better

3.5 Table 2 highlights the Q2 2020 returns. Baillie Gifford performed well this quarter returning 27.9% which was 8.1% above the benchmark. The return for Kempen was 16.9% which was 2.9% below the benchmark of 19.8%. UBS Equities passive fund provided a return of 18.8% against a 18.8% benchmark. Most managers provided a positive return this quarter except for Blackrock, Schroders and the funds diversified alternative fund.

Table 2 – Fund Manager Q2 2020 Performance

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
Aberdeen Standard	(0.6)	1.3	(1.9)	Δ
Baillie Gifford	27.9	19.8	8.1	O
BlackRock	(2.9)	(2.0)	(0.9)	Δ
Hermes GPE	0.9	1.4	(0.5)	Δ
Kempen	16.9	19.8	(2.9)	Δ
Prudential / M&G	0.1	1.3	(1.2)	Δ
Newton	8.0	1.1	6.9	O
Pyrford	6.2	1.3	4.9	O
Schroders	(2.0)	(2.0)	0.0	O
Mellon Corporation (Standish)	4.7	1.3	3.4	O
UBS Bonds	2.5	2.5	0.0	O
UBS Equities	18.8	18.8	0.0	O

3.6 Kempen has provided a disappointing return of -8.6% over one year which was 17.5% below the benchmark. UBS Bonds performed well over the year with returns of 11.1%. Baillie Gifford also performed well returning 20.3% which was 11.5% above the benchmark.

Table 3 – Fund Manager Performance Over One Year

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
Aberdeen Standard	1.8	4.9	(3.1)	
Baillie Gifford	20.3	8.8	11.5	O
BlackRock	(4.3)	(2.6)	(1.7)	Δ
Hermes GPE	5.7	5.8	(0.1)	Δ
Kempen	(8.6)	8.9	(17.5)	
Prudential / M&G	3.5	4.9	(1.4)	Δ
Newton	2.0	4.6	(2.6)	Δ
Pyrford	2.9	6.0	(3.1)	
Schroders	(4.7)	(2.6)	(2.1)	Δ
Mellon Corporation (Standish)	2.4	4.9	(2.5)	Δ
UBS Bonds	11.1	11.1	0.0	O
UBS Equities	7.3	7.3	0.0	O

3.7 Over two years, (table 4), most mandates are positive. Returns ranged from -2.0% for Schroders to 15.5% for Baillie Gifford. Absolute return and credit continue to struggle, underperforming their benchmarks but providing positive actual returns overall. Kempen also underperformed the benchmark by 11.3% with a return of negative 1.1%

Table 4 – Fund manager performance over two years

Fund Manager	Actual Returns (%)	Benchmark Returns (%)	Variance (%)	Ranking
Aberdeen Standard	3.2	4.8	(1.6)	Δ
Baillie Gifford	15.5	9.9	5.6	O
BlackRock	(0.4)	0.4	(0.8)	Δ
Hermes GPE	2.1	5.7	(3.6)	
Kempen	(1.1)	10.2	(11.3)	
Prudential / M&G	3.5	4.7	(1.2)	Δ
Newton	5.5	4.5	1.0	O
Pyrford	2.7	6.8	(4.1)	
Schroders	(2.0)	0.4	(2.4)	Δ
Mellon Corporation (Standish)	1.3	4.8	(3.5)	
UBS Bonds	8.0	8.0	0.0	O
UBS Equities	7.7	7.9	(0.2)	Δ

4. Asset Allocations and Benchmark

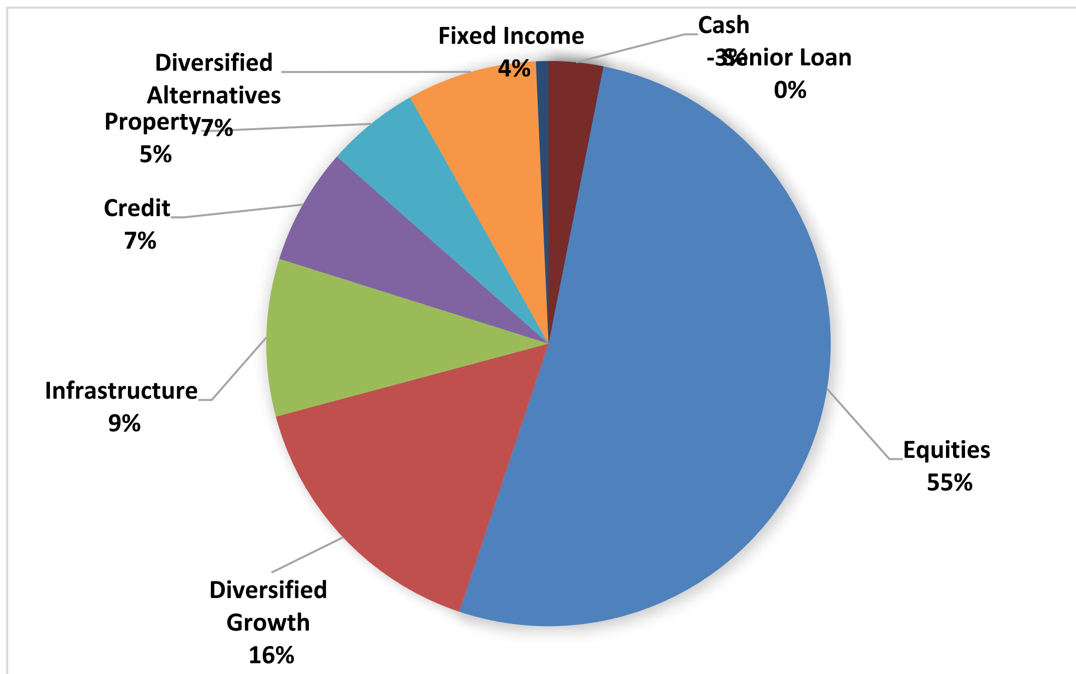
4.1 Table 5 below outlines the Fund's current actual asset allocation, asset value and benchmarks

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

Fund Manager	Asset (%)	Market Values (£000)	Benchmark
Aberdeen Standard	7.4%	81,747,764	3 Mth LIBOR + 4% per annum
Baillie Gifford	23.3%	255,773,164	MSCI AC World Index
BlackRock	3.3%	36,427,108	AREF/ IPD All Balanced
Hermes GPE	9.0%	98,893,410	Target yield 5.9% per annum
Kempen	13.8%	151,387,253	MSCI World NDR Index
Prudential / M&G	0.0%	670	3 Mth LIBOR + 4% per annum
Newton	6.7%	73,146,995	One-month LIBOR +4% per annum
Pyrford	9.8%	107,054,528	UK RPI +5% per annum
Schroders	2.0%	22,012,131	AREF/ IPD All Balanced
Mellon Corporation	6.0%	65,549,464	3 Mth LIBOR + 4% per annum
UBS Bonds	3.8%	42,047,517	FTSE UK Gilts All Stocks
UBS Equities	18.0%	197,837,273	FTSE AW Devel. Tracker (part hedged)
LCIV	0.0%	150,000	None
Cash	-3.1%	(34,191,683)	One-month LIBOR
Total Fund	**100.0%**	**1,097,835,594**	

Chart 2: Fund Allocation by Asset Class as at 30 June 2020

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



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	55.1%	48%	7.1%	*45–53*
Diversified Growth	15.7%	16%	-0.3%	*16-20*
Infrastructure	9.0%	9%	0.0%	*4-11*
Credit	6.7%	8%	-1.3%	*6-10*
Property	5.3%	7%	-1.7%	*6-9*
Diversified Alternatives	7.4%	8%	-0.6%	*6-10*
Fixed Income	3.8%	4%	-0.2%	*3-5*
Cash	-3.1%	0%	-3.1%	*0-1*
Senior Loan	0.0%	0%	0.0%	*0-1*

5. Fund Manager Performance

5.1 Kempen

Kempen	2020		2019				2018		One Year	Two Years	Since Start 6/2/13
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3			
£151.39m	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**16.9**	(27.9)	1.2	1.3	5.2	5.5	(7.3)	2.9	(8.6)	(1.1)	6.3
Benchmark	**19.8**	(15.7)	1.0	3.8	6.5	9.9	(11.3)	6.3	8.9	10.2	12.1
Difference	**(2.9)**	(12.2)	0.2	(2.5)	(1.3)	(4.4)	4.0	(3.4)	(17.5)	(11.3)	(5.8)

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 2.9% for the quarter and has underperformed its one-year benchmark by 17.5%. Kempen provided an annual return of -1.1% over two years which was 11.3% below the benchmark. It has also underperformed its benchmark since inception by 5.8%, although the return over this period is an annualised return of 6.3%.

Portfolio Rebalancing

Kempen sold two names during Q2: Retail Properties of America and Telefonica Brasil.

Real estate company Retail Properties of America was hit hard by the crisis and chose to suspend its dividend so was sold. Telefonica Brasil was sold, although it is a well-managed company and a defensive name in Brasil, the valuation did not provide much margin of safety against the uncertain macro-economic situation in Brasil.

One new stock was added: Principal Financial

The new holding Principal Financial is a medium sized US life insurer with extensive operations in Latin America. The company has a strong franchise and solid strategy, the valuation is attractive while the shares still offer a dividend yield over 5%.

5.2 Baillie Gifford

Baillie Gifford	2020		2019				2018		One Year	Two Years	Since Start 6/2/13
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3			
£255.77m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	27.9	(13.2)	4.9	0.7	7.7	12.4	(12.5)	3.0	20.3	15.5	15.7
Benchmark	19.8	(15.9)	1.5	3.4	6.2	9.8	(10.6)	5.7	8.8	9.9	11.9
Difference	8.1	2.7	3.4	(2.7)	1.5	2.6	(1.9)	(2.7)	11.5	5.6	3.8

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 Q2 BG returned 27.9%, outperforming its benchmark by 8.1%. BG's one-year return was 20.3%, outperforming its benchmark by 11.5%. Since initial funding, the strategy has returned 15.7% p.a., outperforming its benchmark by 3 .8%.

Looking at sector attributions in the quarter, the sub-fund's highest conviction areas: consumer discretionary; communication services; and healthcare, were the highest returning sectors for the Sub-fund yielding a positive relative return of +8.6% alone. The manager stock selection in the 'rapid growth' bucket was already delivering strong growth prior to the pandemic but since has accelerated. for example, Shopify had a return of 130% in the quarter leading to be the top performer for the Sub-fund. In addition, Amazon also observed very strong gains in the portfolio.

The sub fund was also able to participate and outperform the benchmarks recovery in energy and industrials through strong stock selection. However, the sub fund was less successful in financials as AIA and Ping Ann insurance were weak. Prudential has also been weak for nearly 3-4 years for performance, but the manager still sees it as a key financial service provider to emerging markets in Asia.

The sub-fund's annual investment portfolio turnover increased to 15% in Q2 2020, up from 12% last quarter. There have been three key areas in which the manager has sought to make changes to the portfolio. First of which are changes to benefit from the accelerated technology adoption trends; second is instances where the manager is seeing marked improvement in the competitive landscape; and third is areas where the manager has observed evidence of change, particularly within the growth stalwart's bucket.

5.3 UBS Equities

UBS Equities	2020		2019				2018		One Year	Two Years	Since Start 31/08/12
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3			
£197.84m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	18.8	(19.3)	5.7	2.1	4.0	11.5	(12.8)	5.3	7.3	7.7	12.6
Benchmark	18.8	(19.3)	5.7	2.1	4.1	11.5	(12.9)	5.7	7.3	7.9	12.7
Difference	0.0	0.0	0.0	0.0	(0.1)	0.0	0.1	(0.4)	0.0	(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 18.8% for Q2 and 7.3% over one year. Since funding in August 2012, the strategy has provided an annualised return of 12.6%.

Equities

Equity markets moved higher in June, in spite of volatility caused by fears of a potential 'second wave' of COVID-19 cases and renewed lockdowns in parts of the United States. Dovish commentary from the US Federal Reserve, further positive vaccine trial results, and continued improvements in economic data supported markets over the month, with market leadership shifting toward Europe and the emerging markets.

US economic data appears to have bottomed out as lockdown measures have been eased, and jobs growth has continued to surpass expectations, but there is still significant uncertainty about the pace of the economic recovery, particularly in light of increased infections and renewed lockdowns in some states. Fiscal policy is providing strong support to households and businesses, and a new stimulus package is likely to pass Congress in the coming month. Investor focus is likely to start to shift toward November's elections in the months to come.

5.4 UBS Bonds

UBS Bonds	2020		2019				2018		One Year	Two Years	Since Start 5/7/2013
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3			
£42.05m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	2.5	6.3	(3.9)	6.2	1.4	3.4	1.9	(1.7)	11.1	8.0	5.9
Benchmark	2.5	6.3	(3.9)	6.2	1.3	3.4	1.9	(1.7)	11.1	8.0	5.9
Difference	0.0	0.0	0.0	0.0	0.1	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 Q2 was 2.5%, with a one-year return of 11.1% and a two-year return of 8.0%.

Europe is on the path to normalisation as the COVID-19 restrictions are eased. Fiscal support has been plentiful thus far, and an EU recovery fund of EUR 750 billion is being finalised. The European Central Bank has increased its bond-purchase program, enabling it to continue buying bonds into the middle of 2021. At EUR 1.35 trillion, this should be large enough to absorb the surge in bond issuance that will accompany national fiscal plans. These measures should facilitate the recovery in 2020, even if the recovery is likely to take time as households and firms adapt to the post-COVID-19 world.

The Bank of England's Monetary Policy Committee decreased the policy rate to 0.1%. The UK Debt Management Office held 42 nominal bond auctions during the quarter across a range of maturities.

Outside of Asia, the fundamental picture for emerging markets remains challenged, with the many of the most affected countries by COVID-19 globally in Latin America. That said, the effects of loose monetary policy in the developed world are contributing to capital inflows into the region. These developments have supported and should continue to support emerging market assets. To put some of the easing measures in numbers, developed market central banks have expanded their balance sheets by over USD 4.6 trillion this year, enough to purchase the entire universe of emerging markets' external sovereign and corporate bonds, or roughly 60% of the free-float market capitalisation of emerging market equities.

5.5 M&G / Prudential UK

M&G / Prudential	2020		2019				2018		One Year	Two Years	Since Start 31/5/2010
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3			
£0.00m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	**0.1**	1.7	0.0	1.7	0.0	1.0	1.2	1.2	3.5	3.5	4.4
Benchmark	**1.3**	1.2	1.2	1.2	1.0	1.2	1.2	1.1	4.9	4.7	3.0
Difference	**(1.2)**	0.5	(1.2)	0.5	(1.0)	(0.2)	0.0	0.1	(1.4)	(1.2)	1.4

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 4.4% per year, with an outperformance against the benchmark of 1.4% since inception. The strategies holding has reduced in size to nil, with all of the loans repaid. The weighted average credit rating is BB+ with an average life of 1.3 years.

This investment completed the sale of its last senior loan and is now closed.

5.6 Schroders Indirect Real Estate (SIRE)

Schroders	2020		2019				2018		One Year	Two Years	Since Start 6/8/2010
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3			
£22.01m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	**(2.0)**	(3.9)	1.0	0.3	0.1	(1.1)	0.3	1.4	(4.7)	(2.0)	5.2
Benchmark	**(2.0)**	(1.3)	0.3	0.4	0.6	0.3	0.9	1.6	(2.6)	0.4	6.7
Difference	**0.0**	(2.6)	0.7	(0.1)	(0.5)	(1.4)	(0.6)	(0.2)	(2.1)	(2.4)	(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.

Q2 2020 Performance and Investment Update

The fund generated a negative return in Q2 of 2.0% with a one-year return of negative 4.7% and a two-year return of negative 2.0%.

SIRE's portfolio structure maintains an overweight position relative to its benchmark to the industrial and alternative sectors and an underweight position to the retail sector. The lockdown and collapse in revenues has meant that some businesses have not paid rent and service charges. The government's decision to place a moratorium on the eviction of tenants until the end of September 2020 may also be a factor. Retailers have been most likely to defer rent and service charge payments, while most office occupiers have paid in full. Industrial tenants fall somewhere in the middle.

COVID-19 has accelerated the growth in online retailing and increase in structural vacancy. The market share of online sales jumped to 33% in May 2020 from 19% in 2019 and, while some of that will unwind as non-essential shops re-open, some people will remain hesitant about visiting stores. The surge in internet sales during lockdown helped support demand for warehouses, both from supermarkets and pure online retailers. No sales or purchases were made during Q2 2020.

5.7 BlackRock

BlackRock	2020		2019				2018		One Year	Two Years	Since Start 1/1/2013
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3			
£36.43m	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**(2.9)**	(2.8)	0.6	0.7	0.5	0.1	1.0	1.9	(4.3)	(0.4)	0.4
Benchmark	**(2.0)**	(1.3)	0.3	0.4	0.6	0.3	0.9	1.6	(2.6)	0.4	3.6
Difference	**(0.9)**	(1.5)	0.3	0.3	(0.1)	(0.2)	0.1	0.3	(1.7)	(0.8)	(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.

Q2 2020 Performance and Investment Update

BR returned -2.9% for the quarter against the benchmark of -2.0%. It returned -4.3% over one year against its benchmark's return of -2.6%.

During the second quarter, the Fund completed two disposals totalling £60 million. Retail was the largest detractor to performance over the quarter with capital declines of -4.8% in value with a contribution of -76bps to performance. The Alternative sector and more specifically the Healthcare allocation, returned 2.2% for the quarter, contributing 23bps of performance. The Fund also completed several significant leases, which deliver valuable income to the portfolio.

5.8 Hermes

Hermes	2020		2019				2018		One Year	Two Years	Since Start 9/11/2012
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3			
£98.89m	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**0.9**	3.9	(0.2)	1.2	1.0	(1.5)	1.1	(2.2)	5.7	2.1	8.7
Benchmark	**1.4**	1.5	1.4	1.5	1.5	1.4	1.4	1.4	5.8	5.7	5.9
Difference	**(0.5)**	2.4	(1.6)	(0.3)	(0.5)	(2.9)	(0.3)	(3.6)	(0.1)	(3.6)	2.8

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 0.9% in Q2 underperforming the benchmark by 0.5%. As at 30 June 2020, the strategy reported a one-year positive return of 5.7%, underperforming its benchmark by 0.1%. Since inception the strategy has provided a good annualised return of 8.7%, outperforming its benchmark by 2.8%.

Portfolio review

Operational and financial performance across the HIF I portfolio was negatively affected by continuing Covid-19 emergency and resulting lockdown. Major impacts include materially reduced traveller demand, reductions to power price and inflation forecasts, increased bad debt and construction delays. During the period, Eurostar undertook a material refinancing to provide liquidity for the medium term. Shareholders committed contingent equity to inject up to £100m (£10m for Hermes Infrastructure clients including HIF I).

Renewable assets have proved relatively well insulated from the short-term impact of COVID-19, with the main long-term impact being lower forecast wholesale power prices. The extent of impact will vary according to the relative exposure of individual assets to merchant power prices which, for HIF I, is mitigated by the volume of subsidy, fixed and contracted revenues in its renewable portfolio. Transport assets have been more exposed to short term revenue impacts, which in the case of Eurostar, Iridium Hermes Roads (shadow tolls) and Scandlines have been material.

Whilst no asset is immune from the effects of COVID-19 and the resulting nationwide lockdown, the Manager's view is that the business models of all portfolio businesses remain fundamentally sound and in some cases, such as Eurostar, may benefit in the medium term from societal and economic behavioural change following the pandemic

HIF I completed its acquisition of 74% of the interests held by Iridium in six shadow toll roads located in Spain and completed the sale of its 25.6% managed interest in Energy Assets Group Limited to a consortium comprising European institutional investors and an infrastructure fund.
On 30 April 2020, the HIF I Fund reached the end of its five-year investment period.

5.9 Aberdeen Standard Asset Management

Aberdeen Standard	2020		2019				2018		One Year	Two Years	Since Start 15/9/2014
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3			
£81.75m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	**(0.6)**	0.7	(0.2)	1.9	2.3	0.6	(0.8)	2.6	1.8	3.2	3.4
Benchmark	**1.3**	1.2	1.2	1.2	1.2	1.2	1.1	1.1	4.9	4.8	4.7
Difference	**(1.9)**	(0.5)	(1.4)	0.7	1.1	(0.6)	(1.9)	1.5	(3.1)	(1.6)	(1.3)

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 -0.6% in Q2 2020, underperforming its benchmark by 1.9%. The largest detractors were Advent International GPE VIII & PAI Europe VI. In terms of winners, Pharo Gaia generated strong performance in the second quarter, driven by particularly strong gains in April and May.

Over one year the mandate has underperformed its benchmark, with a return of 1.8% against a benchmark of 4.9%. Since inception in September 2014, the strategy has returned 3.4%, underperforming its benchmark by 1.3%.

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
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3			
£107.05m	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**6.2**	(4.8)	0.7	0.9	1.1	2.7	(2.0)	0.8	2.9	2.7	3.4
Benchmark	**1.3**	1.5	1.5	1.7	2.8	1.1	1.5	2.3	6.0	6.8	6.9
Difference	**4.9**	(6.3)	(0.8)	(0.8)	(1.7)	1.6	(3.5)	(1.5)	(3.1)	(4.1)	(3.5)

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 return of 6.2% in Q2 outperforming its benchmark by 4.9%. Over one year the strategy has returned 2.9%, underperforming its benchmark by 3.1%. Pyrford underperformed its benchmark by 3.5% since inception.

The current asset allocation of the portfolio is 40% equities, 57% bonds and 3% cash. With 40% in equities the portfolio positioning will benefit from a strong equity market environment as it has done in the second quarter where the strategy delivered positive returns. Within the fixed income side of the portfolio, the manager continues to adopt a very defensive stance by owning short duration securities to protect the capital value of the portfolio from expected rises in yields. The target duration is 2.5 years, but the sub- fund has been running this at lower levels for the last 18 months.

Outlook and Strategy

The investment will continue to digest the threat that coronavirus poses to the world economy. Global supply chains remain fragile and global demand has been decimated whilst governments scramble to understand and contain the virus. The length of national lockdowns is uncertain and while some lockdown measures are easing, close attention will be paid to the second wave of cases.

In June, the portfolio's equity exposure has been reduced slightly from 45% to 40%. The manager felt that a reduction was prudent given the strong recent rally in equity markets. The potential for a further downward leg in equity market remains a real possibility and the manager will once again be prepared to increase exposure to equities if this happens.

While the performance is lower than that of other sub-funds, the risks taken within this sub-fund are also significantly lower than peers. The manager remains very cautious on the markets and with the sudden rebound in asset prices across most risk markets, this is likely to continue for the foreseeable future.

5.11 Newton

Newton	2020		2019				2018		One Year	Two Years	Since Start 31/8/2012
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3			
£73.15m	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**	**%**
Actual Return	**8.0**	**(9.2)**	1.6	1.7	4.3	4.2	(1.7)	2.1	2.0	5.5	3.5
Benchmark	**1.1**	**1.2**	1.2	1.2	1.0	1.2	1.2	1.1	4.6	4.5	4.5
Difference	**6.9**	**(10.4)**	0.4	0.5	3.3	3.0	(2.9)	1.0	(2.6)	1.0	(1.0)

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 return of 8.0% in Q2 and outperformed its benchmark by 6.9%. Over one year the strategy has returned 2.0%, underperforming its benchmark by 2.6%. Newton's performance since inception is 3.5% and underperforms its benchmark by 1.0%.

The portfolio performance was driven by exposure to precious metals, index-linked and corporate bonds as well as economic sensitive assets, mainly equities. The greater commitment to risk assets is to an extent balance with increased exposure to gold and US Treasuries. Asset allocation remains one of the more dynamic and will change as the evolving outlook necessitates.

The portfolios exposure is summarised below:

Portfolio Exposures		
	31 March 2020	**30 June 2020**
Equities	**30.43**	**37.00**
UK	5.15	6.40
North America	9.23	12.20
Europe	10.83	12.70
Japan	0.31	0.40
Pacific Basin Ex Japan	3.01	2.90
Emerging Markets	1.91	2.40
Fixed Income	**22.20**	**23.30**
Government Bonds	6.03	3.90
Corporate Bonds	8.31	13.10
Index Linked Government	3.38	2.80
Emerging Debt	4.48	3.50
Alternatives	**47.37**	**39.70**
Infrastructure Funds	7.75	11.30
Renewable Energy	0.40	0.00
Precious Metals	11.90	15.40
Derivative Instruments	15.08	1.50
Cash and FX Forwards	12.25	11.50
Total	**100.00**	**100.00**

5.12 Mellon Corporation (Standish)

Mellon Corporation	2020		2019				2018		One Year	Two Years	Since Start 20/8/2013
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3			
£65.55m	%	%	%	%	%	%	%	%	%	%	%
Actual Return	**4.7**	(2.3)	(0.0)	0.1	0.8	1.9	(2.7)	0.1	2.4	1.3	0.7
Benchmark	**1.3**	1.2	1.2	1.2	1.2	1.2	1.2	1.1	4.9	4.8	5.2
Difference	**3.4**	(3.5)	(1.2)	(1.1)	(0.4)	0.7	(3.9)	(1.0)	(2.5)	(3.5)	(4.5)

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 4.7% against a benchmark return of 1.3%. Over one year the strategy has underperformed its benchmark of 4.9% by 2.5%, providing a return of 2.5%. Since funding in August 2013, Mellon Corporation has only provided an annual return of 0.7%.

Portfolio Composition:

The Fund's allocation to corporate credit has increased from the historically low levels held earlier in Q1 2020 but which had been increased towards the end of that quarter following significant dislocation in credit spreads as the COVID 19 pandemic spread globally and governments in developed and emerging economies reacted through varying degrees of lockdown.

Strategy Review

Given the consistent underperformance of the strategy both against the benchmark and peer groups, Members agreed to replace BNY Mellon as the fund's active credit manager and to appoint CQS through the LCIV.

In July 2019, 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 2019 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 2019, 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. LCIV then announced that CQS is no longer on watch but will be increasing the level of monitoring of the manager.

Following a poor performance in Q1, CQS bounced back in Q2. On 23rd July 2020, officers were informed that the LCIV are looking to add another manager to the Multi-Asset Credit Strategy to provide a more robust performance and better risk profile for investors, without the single manager risk that currently exists. CQS currently remains on enhanced monitoring status so the transition is still on hold.

5.13 Currency Hedging

No new currency hedging positions were placed in Q2 2020.

6. Consultation

6.1 The 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 Q2 2020 Report; and
- Fund Manager Q2 2020 Reports.

List of appendices:

Appendix 1 - Fund Asset and Liability Values 31 March 2013 to 28 May 2020
Appendix 2 - Definitions
Appendix 3 - Roles and Responsibilities
Appendix 4 – Independent Advisors Market Background Report 2019-20