

LONDON BOROUGH OF CROYDON

REPORT:	PENSION COMMITTEE	
DATE OF DECISION	3 December 2024	
REPORT TITLE:	Part A Progress Report for the Quarter Ended 30 September 2024	
CORPORATE DIRECTOR / DIRECTOR:	Jane West, Corporate Director of Resources (Section 151 Officer)	
LEAD OFFICER:	Matthew Hallett – Head of Pensions and Treasury	
CONTAINS EXEMPT INFORMATION?	NO	[Public]
WARDS AFFECTED:	N/A	

1. SUMMARY OF REPORT

- 1.1 The report updates Pension Committee on the Fund's Investments and current Funding position for the quarter to 30 September 2024.
- 1.2 The report provides an update on the Fund's performance for the quarter to 30 September 2024. The report falls into four parts. Section 1 addresses performance against strategic goals. Section 2 considers the asset allocation strategy and how that is being applied, specifically current and planned investments. Section 3 deals with risk management and section 4 summarises updates from any recent investment manager meetings.

2. RECOMMENDATIONS

The Pension Committee is recommended:

- 2.1 to note the contents of the report.

3. REASONS FOR RECOMMENDATIONS

- 3.1 This report assists the Pension Committee in carrying out its fiduciary duties in regard to the Fund's investments.
- 3.2 The Fund's actual investments should be in accordance with the target asset allocation as set out in the Investment Strategy Statement.

4. BACKGROUND AND DETAILS

Section 1: Performance

- 4.1** The market value of the Fund investments at 30 September 2024 was £1,927.8m compared to £1,907.7m at 30 June 2024 an increase of £20.1m during the period. The Fund returned 1.42% over the quarter.
- 4.2** At the 2022 Triennial Actuarial Valuation funding position for the Fund was 97% using a future investment return assumption (otherwise described as the discount rate) of 4.0% p.a. The Fund would be 100% funded if an assumed investment return of 4.2% p.a. was used and the likelihood of achieving this investment return was deemed to be 73%. In setting the Pension Fund's investment strategy, performance is measured against a benchmark return of CPI + 4% for the whole fund. Achieving this benchmark return will ensure the investments achieve a higher return than as calculated in the valuation and on the basis that other assumptions remain constant, the funding gap will close.
- 4.3** At the 31 March 2022 valuation the Fund's investments were £1,731m. Since the valuation date the investments have returned 12.0% compared to an investment return assumption of 10.32%.
- 4.4** The Fund now has access to a Funding update tool provided by the Fund's Actuaries, Hymans Robertson. The purpose of the tool is to assist Officers and the Committee in monitoring of the Fund's funding position. It should be noted that decisions should not be made based solely on the results produced by the tool has its limitations and does not replace a formal valuation. The results produced by the tool are based on projecting the results of the 31 March 2022 forward to the current date using approximate methods. It should be noted that no allowance has been made for membership changes since the last valuation. The results produced by the tool do give the Committee a good indication of the likely strength of the Funding position.
- 4.5** The indicative Funding position at 30 September 2024 is that the Fund has a Funding level of 133% (132% 30 June 2024) and the future level of return required to be 100% is currently 4.2%. There is currently an 89% chance of achieving this return. The Funding update report is included as Appendix A to this report.

Section 2: Asset Allocation Strategy

- 4.6** The current asset allocation was agreed by Pension Committee on 19th September 2023 and incorporated in the Investment Strategy Statement. The target allocation is as follows:

Asset Class	Target Asset Allocation	Operational Range	Regulation Maximums
Developed Equity	42.0%	37-47%	60.0%
Fixed Interest	23.0%	15-28%	28.0%
Alternatives	34.0%	29-39%	40.0%
Infrastructure	12.0%	7-17%	17.0%
Private Equity	10.0%	5-15%	15.0%
Property (Core & Residential)	12.0%	7-17%	17.0%
Cash	1.0%	0-10%	Not Applicable
Total	100.0%		

Monitoring of asset allocation

- 4.7 Global Equity** – Global equity markets rose over the quarter. The key drivers were easing US inflation, a 50bps cut to US interest rates and continued optimism over advancements in artificial intelligence. The rise in the markets for our Fund was largely offset by currency effects due to the strengthening of Sterling against the US dollar and Euro. The LGIM Developed World (ex-Tobacco) Equity fund which follows that of the major indices returned 2.39%, the hedged part 4.53% and unhedged 0.22%. The LCIV RBC Sustainable Equity Exclusion Fund returned 0.32% over the quarter in line with its benchmark. The London CIV is continuing its enhanced monitoring of the LCIV RBC Sustainable Equity Exclusion Fund due to previous underperformance. The allocation increased slightly from 44.4% to 44.8% which is in the target range.
- 4.8 Fixed Interest** - During the quarter the fixed interest investments delivered positive returns as valuations rose due to yields on global credit falling. Aberdeen Standard returned 1.37%, Wellington 2.2%, the LCIV Global Bond 4.85% and the London CIV Multi-Asset Credit (MAC) 3.7%. Post quarter end, Officers divested holdings from Wellington and the Aberdeen Standard Corporate bond funds. The proceeds were topped up to £130m with approximately £6.5m in cash and invested in the London CIV All Maturities Buy and Maintain Credit Fund as agreed at the June 2024 Pension Committee. The fixed interest allocation was at 20.2% at the quarter end, which is within the operational range for the target asset allocation.
- 4.9 Infrastructure** - Due to the nature of these assets, performance of Infrastructure investments and indeed Private Equity, discussed in more detail below, is better measured over a period of time, rather than quarter by quarter. During the quarter the Fund received distributions of circa £8m from its Infrastructure managers. All of the managers have returned close to the benchmark since inception. The Infrastructure investments are contributing positively to the Fund's overall performance by producing high single digit returns. The allocation currently stands at 12.6% compared to the target of 12%.
- 4.10 Private Equity** - Our Private Equity managers continue to perform extremely well and have been the main contributor to positive returns over the last few years. During the last quarter valuations were lower mainly as a result of Sterling's strength versus the US dollar and Euro. Note Knightsbridge and the majority of the Pantheon funds are priced in US dollar and all other funds are priced in Euros. Over the quarter the allocation reduced to at 8.3%. This is slightly below the target allocation of 10%.
- 4.11 Property** – UK commercial property values are stabilising and the outlook forecasts positive returns for 2024 to 2029. The Schroders property portfolio returned 0.74% over the quarter and the M&G UK Residential Property Fund returned 1.1%. The allocation to property is 10.6% which is in line with the target asset allocation of 12.0%.
- 4.12** The table below illustrates the movement in the Fund's valuation during the quarter and the current asset allocation against the target.

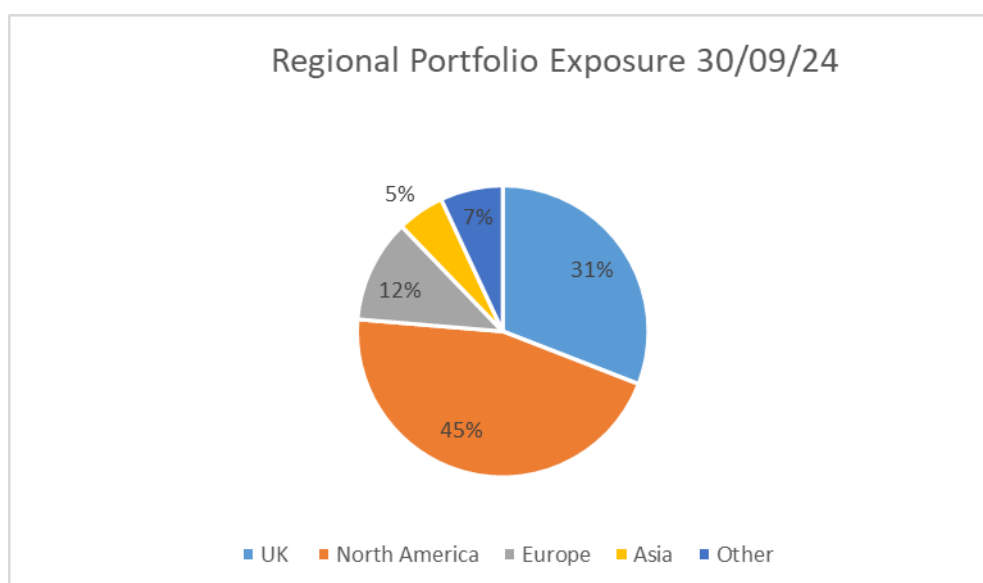
London Borough of Croydon Pension Fund

Fund valuation and asset allocation for the quarter ending 30 September 2024

	Valuation at 30/06/2024 £'000	Net cashflow £'000	Gain/Loss £'000	Valuation at 30/09/2024 £'000	Asset allocation Fund percentage	Asset allocation target percentage
Equities					44.8%	42%
Legal & General FTSE World (Ex Tobacco)	752,516	-	17,953	770,468		
LCIV RBC	93,640	-	271	93,910		
LCIV	150			150		
Fixed Interest					20.2%	23%
Standard Life	133,568	-	1,826	135,394		
Wellington	56,606	-	1,248	57,854		
LCIV Global Bond	87,158	-	4,226	91,385		
LCIV MAC	101,941	-	3,772	105,713		
Infrastructure					12.6%	12%
Access	43,414	- 526	181	42,707		
Temporis	78,922	- 3,996	2,776	77,701		
Equitix	72,610	- 1,998	73	70,686		
Macquarie GIG Renewable Energy	19,651	- 1,438	808	19,021		
I Squared	32,237	-	230	32,007		
Private Equity					8.3%	10%
Knightsbridge	58,901	1,845	4,408	56,338		
Pantheon	65,433	1,155	3,144	61,134		
Access	19,372	1,015	378	20,009		
North Sea	21,685	-	234	21,919		
Property					10.6%	12%
Schroders	141,920	-	1,053	142,973		
M&G	61,273	- 369	727	61,631		
Cash					3.5%	1%
Legal & General FTSE4Good Cash	1,013	-	22	991		
Cash	65,687	- 332	485	65,840		
Fund Total	1,907,697	- 6,954	27,088	1,927,831	100%	100%

Valuations are based on the bid price as reported by the Fund Managers. The valuations of the Infrastructure and Private Equity funds are the latest available and can be lagged by 3 months.

- 4.13** The following chart gives an indication of the geographical dispersion of the underlying assets comprising the portfolio. This is set out graphically in the chart below. This information is for illustrative purposes only. It should be noted that there are differences in the period represented as some data is updated far more frequently than others.



- 4.14** The descriptor Asia includes Japan, Korea and Australia. The descriptor Other includes the continent of Africa and Latin America.
- 4.15** It should be noted that of the 31% invested in the UK 10.6% is allocated to Property and 8.4% to Infrastructure. The majority of the Private Equity and Global Equity investments are in the US.

Section 3: Risk Management

- 4.16** The main risk addressed by the Funding Strategy is that returns on investment will fall below the target asset outperformance assumption to ensure that the Fund matches the value of liabilities in the future. Dependent upon that are of course a number of issues.
- 4.17** The global economy will always represent a specific risk and opportunity for the Fund and will effectively be impossible to quantify or evaluate. The Fund takes a long-term view and manages risk by investing in a portfolio of assets which is sufficiently diversified. Having a sufficiently diversified portfolio should ensure the Fund continues to meet its performance objectives over the long term while reducing the impact of short term volatility caused by uncertainty in global markets.
- 4.18** Mercer, the Fund's investment adviser, have drafted a Fund Monitoring Report, for the 3 months to 30 September 2024. These reports are included in Part B of this Committee agenda.

Section 4: Investment Manager Meetings

- 4.19** Officers met with Access Capital Partners post quarter end. The investments continue to perform well and no concerns have been raised.

5. CONSULTATION

- 5.1** Officers consult with the Fund's advisers and Investment managers when monitoring the performance of the Fund.

6. CONTRIBUTION TO COUNCIL PRIORITIES

- 6.1** Ensuring regulatory compliance, good stewardship and best practise are applied to the Council's Pension Fund.

7. IMPLICATIONS

7.1 FINANCIAL IMPLICATIONS

- 7.1.1.** This report provides an update on the investment of the Council's Pension Fund, including the value of investments to fund future liabilities and the allocations between different asset classes to diversify risk, maximise return and ensure necessary liquidity. The report notes that at the 2022 Triennial Actuarial Valuation, the funding position for the Pension Fund was 97% using a future investment return assumption (otherwise described as the discount rate) of 4.0% p.a.

7.1.2. Comments approved by James Huggett, Head of Strategic Finance for Resources, ACE and MTFs, on behalf of Allister Bannin, the Director of Finance. (Date 20/11/2024)

7.2 LEGAL IMPLICATIONS

7.2.1. Burges Salmon LLP (a legal advisor appointed to the Pension Fund) note there are no direct legal implications arising from the recommendations within this report.

7.2.2. The Committee must, however, continue to be mindful of their fiduciary duty to make investment decisions including in the best long-term interests of Pension Fund beneficiaries and taxpayers within the investment strategy framework. Additionally, the Committee should continue to be updated in relation to possible future amendments to the LGPS (Management and Investment of Funds) Regulations 2016 and mandatory guidance, such as those proposed in the new Government's consultation paper "Local Government Pension Scheme (England and Wales): Fit for the future" published on 14 November 2024. This contains some very significant proposals regarding investment matters which the Committee should consider very carefully and engage with the consultation process as it considers it appropriate.

7.2.3. Comments approved by Burges Salmon LLP. (Date: 21/11/2024)

7.3 EQUALITIES IMPLICATIONS

7.3.1. The Council has a statutory duty to comply with the provisions set out in Sec 149 of the Equality Act 2010. The Council must therefore have due regard to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act.
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it.
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The protected characteristics defined by law are race and ethnicity, disability, sex, gender reassignment, age, sexual orientation, pregnancy and maternity, religion or belief, marriage and civil partnership.

7.3.2. There are no equality implications arising from this report.

7.3.3. Comments approved by Ken Orlukwu, Senior Equalities Officer, on behalf of Helen Reeves, Head of Strategy & Policy (Date 21/11/2024).

7.4 HUMAN RESOURCES IMPLICATIONS

7.4.1. There are no direct workforce implications arising from the recommendations within this report.

7.4.2. Approved by: Dean Shoemsmith, Chief People Officer. (Date 22/11/2024)

8. APPENDICES

- 8.1 *Appendix A – London Borough of Croydon Pension Fund – Funding Update 30 September 2024*

9. BACKGROUND DOCUMENTS

- 9.1 *None*