Meeting Name:	Pensions Advisory Panel
Date:	30 September 2024
Report title:	Asset Allocation and Net Zero Strategy Update – 30 June 2024
Ward(s) or groups affected:	Not applicable
Classification:	Open
Reason for lateness (if applicable):	Not applicable
From:	Chief Investment Officer

Recommendation

1. The Pensions Advisory Panel is asked to note the Fund’s asset allocation at 30 June 2024, overall performance and other matters considered by the officers and advisers of the Fund during the quarter to the end of June and post quarter end.

Background

2. Decision making for the Southwark Pension Fund is a bipartite mutual responsibility between the Strategic Director of Finance (S151 officer) and the Pensions Advisory Panel (PAP). London Borough of Southwark, as administering authority for the Southwark Pension Fund, has delegated responsibility for the management and decision making for the Fund to the S151 officer. All Fund investment decision making, ongoing investment monitoring and risk management by the S151 officer must be made with regard to advice received from PAP.

3. Additional oversight of the decision-making process is provided via the Local Pension Board.

Pension Fund Investments – June Quarter 2024

Position Statement at 30 June 2024

4. The market value of the Fund increased during the quarter from £2,238.9m to £2,257.8m, an increase of £18.9m (+0.8%). In contrast, in the previous quarter the market value of the Fund increased by £73.1m.

5. The value of the major asset classes at 30 June compared to 31 March is as follows:

	31 March		30 June	
	£m	%	£m	%
Low carbon passive equities	815.340	36.4	810.920	35.9
Active Emerging Market equities	94.974	4.2	97.140	4.3
Active global equities	306.951	13.7	314.917	14.0
Total Global Equities	**1,217,265**	**54.4**	**1,222.977**	**54.2**
Total Multi-Asset Credit	**205.828**	**9.2**	**208.185**	**9.2**
Total Index Linked Gilts	**153.080**	**6.8**	**159.437**	**7.1**
Total Property	**348.897**	**15.6**	**355.793**	**15.7**
Total ESG Priority	**287.311**	**12.8**	**295.291**	**13.1**
Total Cash & Cash Equivalents	**26.560**	**1.2**	**16.125**	**0.7**
Total Fund	**2,238,942**	**100.0**	**2,257,809**	**100.0**

6. The following table shows the breakdown of the market valuation as at 30 June 2024 by asset class/manager and compares the totals with the target asset allocation, which was agreed by PAP in December 2022:

	Manager(s)	TOTAL FUND £000	Actual %	Target %	(Under) Overweight
Low carbon passive equity	Blackrock LGIM	408,605 402,314	18.1 17.8	17.5 17.5	+0.6 +0.3 +0.9
Active Emerging Market equity	Comgest	97,140	4.3	5.0	-0.7
Active global equity	Newton	314,917	13.9	10.0	+3.9
Total Global Equity		**1,222,977**	**54.2**	**50.0**	**+4.2**
Total Multi-Asset Credit	Robeco LCIV-CQS	**105,804** **102,381**	**4.7** **4.5**	**5.0** **5.0**	**-0.3** **-0.5**
Total Index Linked Gilts	Blackrock LGIM	**101,593** **57,845**	**4.5** **2.5**	**5.0** **5.0**	**-0.5** **-2.5**
Total Property	See table below (Para 9)	**355,793**	**15.8**	**20.0**	**-4.2**
Total ESG Priority	See table below (Para 16)	**295,291**	**13.1**	**10.0**	**+3.1**
Total Cash & Cash Equivalents	LGIM Northern Trust Blackrock Newton Nuveen	**5,021** **-** **1,051** **5,952** **4,100**	**0.2** **0.0** **0.1** **0.3** **0.2**	0.0 0.0 0.0 0.0 0.0	+0.2 0.0 +0.1 +0.2 +0.2 **+0.7**
TOTAL Fund		**2,257,809**	**100.0**	**100.0**	**0.0**
31st March		2,238,942			
31st December 2023		2,165,880			
30th September 2023		2,057,902			

7. The Fund's Strategic Asset Allocation (SAA) has tolerance, within specific ranges, for deviation from the target allocation for each manager/asset class. All allocations are within the maximum permitted by the SAA. The key overweight positions are in Global Equity via Newton (+3.9%) and ESG Priority Funds (+3.1%). In contrast, the key underweights are in Property (-4.2% excluding cash held by Nuveen) and Index-linked gilts (-2.9%).

8. The majority of the (minor) changes in over and underweight positions are linked to market movements, where there has been ongoing strong absolute performance in equity markets. The + 0.3% movement in the overweight to ESG priority is predominantly due to the first drawdown into the Glennmont IV renewable energy fund (see paragraph 16).

Fund Manager Activity – public market assets

9. Some rebalancing of equities took place in the quarter to fund private market drawdowns. In total, £14.3m was taken out of the LGIM equity fund. Despite this, the overweight in equities reduced only marginally (from 4.4% at 31 March to 4.2% at 30 June). In addition, £5m of cash was returned by Newton. See paragraph 19 for further detail.

Fund Manager Activity – property

10. The table below breaks down the property holdings showing the valuation of the direct and indirect fund holdings as at 30 June 2024.

Manager	Description	Market Value £m	Actual %	Target %
Nuveen	Direct property UK Retail Warehouse Fund	225.750 2.025	10.1	14.0
Invesco	UK Residential Fund	46.733	2.1	1.5
M&G	UK Residential Property Fund	42.885	1.9	1.5
Darwin	Leisure Development Fund	24.957	1.1	1.5
Frogmore	Frogmore Real Estate Fund III	4.915	0.2	0.75
Brockton	Brockton Capital Fund III	8.528	0.4	0.75
Total Property		**355.793**	**15.8**	**20.0**
Last quarter		**348.897**	**15.6**	**20.0**

11. The table shows that there is a significant underweight in the core property mandate run by **Nuveen** (-3.9%, excluding cash). However, it should be noted that Nuveen have permission to draw down cash, which is held within the Pension Fund's cash balances, as and when appropriate investment opportunities arise.

12. In April £4m was transferred to **Nuveen** to fund the purchase of an industrial unit in Northamptonshire.

13. Following the quarter end, officers and Aon have been liaising with Nuveen over operational changes to the direct property benchmark. The purpose is to improve alignment with the market environment within which Nuveen is operating on behalf of the Fund. It is expected that the benchmark change (from an absolute cash basis to a real-estate index-based benchmark) will be effective from 1 October 2024.

14. As previously advised, in the March quarter officers met with **London CIV and M&G (**separately) to discuss the potential for the investment in the M&G Residential Property Fund to be aggregated with that of three other London Boroughs to access a lower fee share-class.

15. Officers subsequently completed the paperwork and transferred to the lower fee share-class on 1st July. The assets held in the M&G fund are now deemed to be pooled since they fall under the supervision of LCIV. A net fee saving of 5bps applies.

16. Following the quarter end, officers instigated a conversation between LCIV and Invesco with the aim of achieving a similar outcome for the Invesco UK Residential Housing Fund.

Fund Manager Activity – ESG Priority allocations (ex-property)

17. The below table breaks down the ESG priority holdings (excluding property) showing the valuation of underlying funds as at 30 June 2024 against the original commitments:

Manager	Fund	Commitment	Market Value £m	Last Quarter £m
Glennmont	Glennmont Clean Energy Fund III	€35m	32.404	31.154
Glennmont	Glennmont Clean Energy Fund IV	€50m	11.353	-
Temporis	Operational Renewable Energy	£33.3m	56.387	65.711
	Renewable Energy	£30.6m	25.951	31.621
	Impact Strategy	£31.0m	25.425	21.781
Blackrock	Global Renewable Power Infrastructure	$40m	27.907	24.996
Darwin	Bereavement Services Fund	£20m	22.790	22.694
Blackstone	Strategic Capital Holdings II	$110m	56.431	53.289
BTG Pactual	Core US Timberland	$40m	36.642	36.064
TOTAL			**295.291**	**287.311**

18. As advised at the meeting of PAP on 27th February 2024, LBS PF was admitted as an investor to the **Glennmont Clean Energy Fund IV** on 20 December 2023. The first cash drawdown (€15.9m/£13.6m) was made on 19th April.

19. As previously advised, on the 21st of March officers had an update call with **Glennmont** regarding the status of fundraising for Fund IV. The key issue was that the final closure of the Fund was to be delayed, enabling three investors to finalise their paperwork having missed the original deadline. Having completed the paperwork required to enable this to take place, officers received confirmation on 27th July that he Fund's first close has taken place with total fundraising of €1.9bn.

20. The following table shows the private market cash transactions (excluding property) for the June quarter:

	Net Drawdowns	Net Distributions
Blackrock GRP	-£2.5m	
Blackstone		£0.5m
Glennmont IV	-£13.6m	
Temporis Impact V	-£5.7m	
Total impact on LBSPF cash balances	**-£21.8m**	**+£0.5m**
Last Q total	**-£6.6m**	**+£0m**

21. Given that net drawdowns exceeded distributions for the quarter (and in conjunction with the property drawdowns discussed in paragraph 11 and an excess of other payments out compared to payments into the pension fund bank account), there were several transactions to fund the drawdowns:

- £11.5m redemption directly from the LGIM equity portfolio
- £5m redemption from the LGIM liquidity fund.
- £2.8m redemption from the LGIM equity portfolio to top up the LGIM liquidity fund to the minimum balance of £5m (as required by the cash management policy). A further £3m was used to rebalance on 1/7.
- £5m redemption from the Newton global equity custody cash account – no sale of assets was required to fund this.

22. The activity described above demonstrates that the Pension Fund cashflow management framework policy (approved in March 2023, see Appendix 1) is working effectively.

UK Holdings

23. Under new annual reporting guidelines, LGPS funds are now expected to declare what proportion of their total portfolio is allocated to UK assets. This is in line with both the previous and new government's aim to increase pension fund investment in the UK (see paragraph 32). To increase transparency on a Business as Usual (BAU) basis, the following table identifies the Fund's UK based assets as at quarter end (30th June 2024):

		% of manager portfolio	£m	% of LBS Fund
UK listed equity	Blackrock LGIM Newton	3.7% 3.6% 7.3%	15.0 14.4 23.4	0.7 0.6 1.0
Index-Linked Gilts	Blackrock} LGIM}	100%	159.4	7.1
Multi-Asset Credit	Robeco LCIV-CQS	11.5% 19.2%	12.2 19.7	0.5 0.9
UK Residential Housing	Invesco} M&G}	100%	89.6	4.0
Direct Property	Nuveen	100%	227.8	10.1
Opportunistic Property	Brockton} Frogmore}	100%	13.4	0.6
Leisure Development	Darwin	100%	25.0	1.1
Bereavement Services	Darwin	100%	22.8	1.0
Renewable Infrastructure	Temporis Blackrock	100% 6%	107.8 1.7	4.8 0.1
Private Equity	Blackstone	5%	2.8	0.1
TOTAL			735.1	32.6

*If a manager is not shown above, it is because there is zero exposure to UK.

24. In some instances, estimates have been made based on reporting or advice received from the relevant fund managers. Many of the above mandates or funds have a global reach and reporting may be denominated in currency other than GBP and on a lagged basis.

Investment Performance Results for the Period

25. The following table shows the total fund returns for the quarter and for longer-term assessment periods:

	Quarter to 30 June	Year to 30 June	3 Years to 30 June p.a.	Inception to 30 June p.a.
Fund	1.1	9.7	4.0	8.4
Benchmark[1]	1.9	13.4	6.2	7.6
Relative	-0.8	-3.7	-2.2	+0.8

[1] The benchmark figures are subject to change given outstanding queries with JP Morgan (custodian)

26. The Fund made a return of 1.1% in the quarter, behind the benchmark return of +1.9%. The total fund return for the year to the end of June 2024 was 9.7%, which was below the benchmark return of 13.4%. Over 3 years, the Fund returned 4.0% p.a. compared to a benchmark return of 6.2% p.a., a difference of -2.2% p.a. An annualised return of 8.4% since inception means that the Fund has exceeded, by some margin, the 2022 actuarial valuation's assumed investment returns of 4.05% p.a.

27. Further information on the performance of underlying managers will be provided in the adviser update (Item 12).

Manager meetings

28. Officers had update meetings with Invesco (residential property), Temporis (renewable energy), Newton (global equity), Nuveen (direct property), Darwin Alternatives (leisure and bereavement services funds) and Robeco (credit fund). There were no notable matters arising.

29. Post quarter end, officers attended the Frogmore annual investor meeting, had an update with Blackrock on the passive funds and met with LCIV.

LGPS Next Steps on Investments – ongoing activity

30. As discussed at the PAP meeting of 26 February, in November 2023 government issued a response to the LGPS Next Steps on Investments consultation. PAP was advised that the key areas of interest were that government is progressing proposals (that were set out in the consultation) to accelerate and expand pooling and increase investment in levelling up and private equity.

31. As advised in the March quarter officer update circulated to PAP members, on 15 May the then Minister for Local Government, Simon Hoare MP, issued a letter to Chief Executives and S151 officers of all LGPS administering authorities (AA) in England: asking that each AA set out the approach to efficiencies in the management, governance, and administration of the LGPS.

32. Officers prepared and submitted a response by the deadline, which did not change following the General Election announcement.

33. Since the election, it has become increasingly clear that the new government intends to continue with the direction of travel set by the previous government: namely with a view to accelerating the pooling of assets and with the potential

to consolidate either individual LGPS funds or, over the longer-term, the pools themselves.

34. To this end, on the 20 July, the new Chancellor of the Exchequer, Rachel Reeves, announced a “landmark” pensions review to “boost investment, increase pension pots and tackle waste in the pensions system” and that “action will be taken to unleash the full investment might of the £360billion LGPS to make it an engine for UK growth”.

35. On the 16 August the terms of reference of the review were published and specified that the review would have regard to “improving the affordability and sustainability of the LGPS in the interest of members, employers and local taxpayers”. Further information can be found in the Hymans Robertson Policy Briefing note at Appendix 2.

36. On the 4 September, government issued a call for evidence to inform the Pensions Investments Review. The request is focussed on Defined Contribution and the LGPS (not the wider Defined Benefit Landscape). A full list of the questions can be found at Appendix 3, with those relevant to LBS PF highlighted. Officers prepared a response on behalf of LBS PF in time for the 25 September deadline.

Further Areas of Progress

37. Further potential opportunities with new and existing managers in asset classes such as sustainable infrastructure, property, and wider alternatives, are being pursued by officers in conjunction with Aon. The PAP will be updated on progress in these areas at future meetings.

Community, equalities (including socio-economic) and health impacts

Community impact statement

38. There are no immediate implications arising from this report.

Equalities (including socio-economic) impact statement

39. There are no immediate implications arising from this report.

Health impact statement

40. There are no immediate implications arising from this report.

Climate change implications

41. There are no immediate implications arising from this report.

Resource implications

42. There are no immediate implications arising from this report.

Legal implications

43. There are no immediate implications arising from this report.

Financial implications

44. There are no immediate implications arising from this report.

Consultation

45. There are no immediate implications arising from this report.

APPENDICES

Name	Title
Appendix 1	Cash Flow Management Policy Covering Report – March 2023
Appendix 2	Pensions Review
Appendix 3	Call for Evidence – Pensions Investment Review

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Resources		
Report Author	Tracey Milner, Pensions Investments Manager, Treasury and Pensions		
Version	Final		
Dated	17 September 2024		
Key Decision?	No		
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title		**Comments Sought**	**Comments Included**
Assistant Chief Executive – Governance and Assurance		No	No
Strategic Director of Resources		No	No
Cabinet Member		No	No
Date final report sent to Constitutional Team			17 September 2024