

# LONDON BOROUGH OF HAMMERSMITH & FULHAM

**Report to:** Pension Fund Committee

**Date:** 15 November 2022

**Subject:** Pension Fund Quarterly Update Pack

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**Responsible Director:** Phil Triggs, Tri-Borough Director of Treasury and Pensions

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## SUMMARY

This paper provides the Pension Fund Committee with a summary of the Pension Fund's:

- overall performance for the quarter ended 30 September 2022;
- cashflow update and forecast;
- assessment of risks and actions taken to mitigate these.

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## RECOMMENDATIONS

1. The Pension Fund Committee is recommended to note the update.

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**Wards Affected:** None

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Our Values	Summary of how this report aligns to the H&F Values
Being ruthlessly financially efficient	Ensuring good governance for the Pension Fund should ultimately lead to better financial performance in the long run for the Council and the council tax payer.

## Financial Impact

None

## Legal Implications

None

## DETAILED ANALYSIS

### LBHF Pension Fund Quarterly Update – Q2 2022/23

1. This report and attached appendices make up the pack for the quarter two (Q2) ended 30 September 2022. An overview of the Pension Fund's performance is provided in Appendix 1. This includes administrative, investment, and cash management performance for the quarter.
2. Appendix 2 provides information about the Pension Fund's investments and performance. The highlights from the quarter are shown below:
  - Global markets performance was negative over the quarter, with global equity indices returning a -4.8% in local currency terms over the quarter.
  - Overall, the investment performance report shows that over the quarter to 30 September 2022, the market value of the assets increased by £3.1m to £1,249.1m.
  - The Fund outperformed its benchmark net of fees by 1.3% in delivering a return of 0.4% over the quarter. The initial triennial valuation results suggest a funding level of 105% as at 31 March 2022.
  - Over the year to 30 September 2022, the fund outperformed its benchmark by 2.9%, returning -1.7% overall.
  - The driving factor to performance over the quarter came from the outperformance of the Abridged Long Lease Property Fund.
3. The Pension Fund's cashflow monitor is provided in Appendix 3. This shows both the current account and invested cash movements for the last quarter, as well as cashflow forecasts to 30 June 2023. An analysis of the differences between the actuals and the forecast for the quarter is also included.
4. Appendix 4 contains the Pension Fund's risk registers.
5. The breaches of the law log has not been included this quarter as there have been no breaches to report.
6. The ESG dashboard can be found at:  
<https://app.powerbi.com/view?r=eyJrIjoieYjc2ZTEyZjltODI0Yi00NzY2LWJkNTMtODAwYjNINWNjYTQ5IiwidCI6IjUwZDhjMTE1LWI3N2YtNDM5NS1hM2JhLTNiNDI3Y2FmMGQ4OCIsImMiOiJh9>
7. Aviva confirmed that the redemption notice was received and that total redemptions (three) for this annual window amount to less than 10% of the NAV threshold, therefore no additional time has been flagged outside the standard liquidity procedures. At the time of writing, we understand that Aviva is to make all other investors in the fund aware of all available units from redeeming investors at the next Investor Advisory Committee in November.

8. An additional note on market conditions in relation to the recent mini-budget and its impact on the Pension Fund is as follows:

- the new Chancellor has now announced that the ex-Chancellor's "mini-budget" policy relating to 45p to 40p reduction, corporation tax reductions and a raft of other tax concessions have now been reversed or abolished. The national insurance rate reduction, however, has made it through.
- With more confidence now in the system, we have already begun to see a rallying in UK government gilt prices, with some stability in yields, following these announcements.
- That said, it is likely that investors will remain sceptical as to the government's fiscal approach and the government's regard to the Bank of England for some time to come.
- It is now apparent that the Bank of England's closing of gilt market intervention beyond 14 October 2022 was one of the key factors which led to the ex-Prime Minister recalling the ex-Chancellor from the US, terminating his tenure, and appointing Jeremy Hunt as the new Chancellor.
- Last month's market movements mainly impacted schemes with high exposure to UK gilts, particularly those utilising high levels of leverage as part of an LDI strategy. LBHF has some direct exposure to UK government bonds. Ruffer (circa 21% of LBHF) has a 40% allocation to UK gilts. The LCIV Global Bond Fund (circa 7% of LBHF) has a 7% allocation to UK credit. We can expect these aspects of the strategies to fall in value where yields increase, but there is a limited impact on the total portfolio.
- LBHF is in a relatively strong position to cope with the rising gilt yields in isolation, although it is worth noting that wider capital markets have also experienced some volatility.
- In terms of mitigation, LBHF has a very well-diversified portfolios and has protection in place to the extent that direct exposure to UK government bond yield fluctuation is limited. LBHF has a well diversified portfolio.

## **Risk Management Implications**

1. This is included in the risk registers.

## **LIST OF APPENDICES**

Appendix 1: Scorecard at 30 September 2022

Appendix 2a: Deloitte Quarterly Report for Quarter Ended 30 September 2022

Appendix 2b: Deloitte Quarterly Report for Quarter Ended 30 September 2022  
(EXEMPT)

Appendix 3: Cashflow Monitoring Report

Appendix 4: Pension Fund Risk Registers