MEETING
PENSION FUND COMMITTEE
DATE AND TIME
TUESDAY 24TH OCTOBER, 2017
AT 7.00 PM
VENUE
HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4BQ

TO: MEMBERS OF PENSION FUND COMMITTEE (Quorum 3)

Chairman: Councillor Mark Shooter (Chairman),
Vice Chairman: Councillor John Marshall MA (Hons) (Vice-Chairman)

Councillors

Rohit Grover	Arjun Mittra	Andreas Ioannidis
Peter Zinkin	Jim Tierney	

Substitute Members

Anthony Finn	Stephen Sowerby	Adam Langleben
Dean Cohen	Ross Houston	Reema Patel

In line with the Constitution's Public Participation and Engagement Rules, requests to submit public questions or comments must be submitted by 10AM on the third working day before the date of the committee meeting. Therefore, the deadline for this meeting is 30 August 2017 at 10AM. Requests must be submitted to Faith Mwende 020 4917 Faith.Mwende@Barnet.gov.uk

You are requested to attend the above meeting for which an agenda is attached.

Andrew Charlwood – Head of Governance

Governance Services contact: Faith.Mwende@Barnet.gov.uk

Media Relations contact: Sue Cocker 020 8359 7039

ASSURANCE GROUP

ORDER OF BUSINESS

FACILITIES FOR PEOPLE WITH DISABILITIES
Hendon Town Hall has access for wheelchair users including lifts and toilets. If you wish to let us know in advance that you will be attending the meeting, please telephone Faith Mwende. People with hearing difficulties who have a text phone, may telephone our minicom number on 020 8203 8942. All of our Committee Rooms also have induction loops.
FIRE/EMERGENCY EVACUATION PROCEDURE
If the fire alarm sounds continuously, or if you are instructed to do so, you must leave the building by the nearest available exit. You will be directed to the nearest exit by Committee staff or by uniformed custodians. It is vital you follow their instructions. You should proceed calmly; do not run and do not use the lifts. Do not stop to collect personal belongings Once you are outside, please do not wait immediately next to the building, but move some distance away and await further instructions. Do not re-enter the building until told to do so.

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Decisions of the Pension Fund Committee

6 September 2017

AGENDA ITEM 1

Cllr Mark Shooter (Chairman)
Cllr John Marshall (Vice-Chairman)

* Rohit Grover
* Peter Zinkin
* Arjun Mittra
* Jim Tierney

1. MINUTES (Agenda Item 1):

RESOLVED – That the Minutes of the meeting held on 18 July 2017 be approved.

2. ABSENCE OF MEMBERS (Agenda Item 2):

An apology of absence was received from Councillor Andreas Ioannidis.

3. DISCLOSABLE PECUNIARY INTERESTS AND NON PECUNIARY INTERESTS (Agenda Item 3):

All members declared a non disclosable pecuniary Interest by virtue of being beneficiary of LGP Scheme and/or having shareholdings in a number of companies that the fund had invested in.

4. PUBLIC QUESTION AND COMMENTS (IF ANY) (Agenda Item 4):

None

5. REPORT OF THE MONITORING OFFICER (IF ANY) (Agenda Item 5):

None

6. MEMBERS' ITEMS (IF ANY) (Agenda Item 6):

None

7. IMPLEMENTATION OF THE MARKETS IN FINANCIAL INSTRUMENTS DERIVATIVE (Agenda Item 7):

The Chairman introduced the report. The Committee discussed possible training options including frequency.

Following the considering of the item the Committee Resolved:

1. That the Pension Fund Committee noted the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018.

2. That the Pension Fund Committee agreed to the commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.

3. That the Pension Fund Committee acknowledged and agreed to forgo the protections available to retail clients attached as appendix 1.

4. That the Pension Fund Committee agreed to approve delegated responsibility to the Chief Financial Officer for the purposes of completing the applications and determining the basis of the application as either full or single service.

8. PENSION FUND ANNUAL REPORT AND ACCOUNTS AND EXTERNAL AUDITOR'S REPORT UNDER INTERNATIONAL STANDARD ON AUDITING (ISA) 260 FOR THE YEAR 2016/17 (Agenda Item 8):

The report was presented by external auditor Mr Leigh Lloyd-Thomas from BOD. He highlighted the matters arising from the audit of the 2016/17 Pension Fund Accounts and Annual report in line with
International Standard on Auditing 260 (ISA 260).

The Committee noted that the report had been circulated following the publication date of the agenda and in addition to that a supplemental document had been published and circulated to Members of the Pension Fund Committee.

The Committee had the opportunity to ask questions of Mr Leigh Lloyd-Thomas. The Committee highlighted concerns and it was noted that there were issues which needed to be addressed as documented.

The Chairman thanked Mr Leigh Lloyd-Thomas for his attendance and presenting the report.

1. **That the Pensions Fund Committee approved the 2016/17 Annual Report and Pension Fund Accounts**
2. **That the Pensions Fund Committee noted the matters raised by the external auditor in respect of the audit of the 2016/17 Accounts and Annual Report**
3. **That the Pensions Fund Committee requested that:**
   - the £64,000 documented in the report be investigated and therefore Pension Fund Committee Members and Local Pension Board Members be updated.
   - the Council's response be shared with Pension Fund Committee Members and Local Pension Board Members
   - that the Pension Fund Committee noted that in the event that any decision which may derive from the report which are outside an Officer's scheme of delegation such decision be reported to the relevant decision making body.
4. **That the Pension Fund Committee requested that the report be circulated to the Local Pension Board**

9. ISSUE OF REGULATORY INTERVENTION (Agenda Item 9):

The Director for Resources introduced the report. She informed the Committee of the issue of a regulatory intervention report by the Pensions Regulator. The intervention report related to a fine that was levied due to non-completion of the 2016 Scheme Annual Return.

Following the considering of the item the Committee Resolved:

That the Pensions Fund Committee noted the issue of a regulatory intervention report by the Pensions Regulator in relation to the London Borough of Barnet Superannuation Fund and the actions being taken in response.

10. ANY ITEM(S) THAT THE CHAIRMAN DECIDES IS URGENT (Agenda Item 10):

The Chairman stated that the Pension Fund Committee needed to reinstate the meeting that was proposed to take place on 24 October. This was agreed by the Committee.

Councillor John Marshall stated that he was not happy that this meeting did not include the normal quarterly reports.

The Committee requested that a work programme be devised that included training and this be regally. The Committee also noted that an update on the Barnet Council Pension Fund – Implementation of the Markets in Financial Instruments Derivative (MiFID II) be reported to the next meeting.

The meeting finished at 8:15pm

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	AGENDA ITEM 7 **Pension Fund Committee** **24 October 2017**
Title	**Barnet Council Pension Fund – Policy for Reporting Breaches of the Law**
Report of	Director of Resources
Wards	n/a
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Breaches Policy
Officer Contact Details	George Bruce, Head of Treasury, CSG george.bruce@barnet.gov.uk - 0208 359 7126

Summary

Certain people, including Members of the Pension Committee and Local Pension Board, relevant officers and advisors, are required to report breaches of the law to the Pension Regulator where they have reasonable cause to believe that:

a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with; and

the failure to comply is likely to be of material significance to the Regulator in the exercise of any of its functions

The Administering Authority is required to make those with a reporting duty aware of their responsibility and provide guidance. This is the purpose of the breaches policy.

Recommendations

i. **That the committee approves the attached policy for reporting breaches of the law.**
ii. **That the policy is made available to all those involved in the management and administration of the scheme.**

1. WHY THIS REPORT IS NEEDED

1.1 Acting in its capacity as Administering Authority to the Barnet Pension Fund, it is the responsibility of London Borough of Barnet Council to ensure that the Pension Fund complies with legislation and effectively manages the Fund's financial affairs.

1.2 The Pensions Act 2004 requires specified individuals to make reports to the Pensions Regulator when they reasonably believe that a breach of the law of material significance to the Regulator has occurred.

1.3 The Pension Regulator's code of practice 14 (paragraphs 241 to 275) sets out:

- Who has responsibility for reporting breaches,
- The process that should be established to aid reporting,
- Judging whether a breach is reportable,
- How to submit a report,
- Protection for whistleblowing.

1.4 The attached breaches policy is based on the provisions of the code of practice. It is designed to inform those involved in the management and administration of the scheme of their legal responsibilities and give practical guidance on carrying out their responsibilities.

1.5 The policy should be made available to all those with a reporting responsibility. Part of the policy is the maintenance of a register of breaches that should be presented to both the Pension Fund Committee and Local Pension Board.

2. REASONS FOR RECOMMENDATIONS

2.1 The requirement to report breaches of the law is a legal requirement and the absence of guidance makes it likely that this requirement will be either overlooked or breaches will not be brought to the attention of the Pension Fund Committee or Local Pension Board.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Continuing as present without a breaches policy runs the risk of censure from the Pensions Regulator.

4. POST DECISION IMPLEMENTATION

4.1 The Director of Resources will carry out any actions considered necessary.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 Compliance with the Council's legal duties will minimise the risk of fines and poor publicity.

5.2 **Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

5.2.1 There are no direct resources issues for the council.

5.3 **Social Value**

5.3.1 The Public Services (Social Value) Act came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits.

5.3.2 Before they start the procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders.

5.3.3 The Act is a tool to help commissioners get more value for money out of procurement. It also encourages commissioners to talk to their local provider market or community to design better services, often finding new and innovative solutions to difficult problems.

5.3.4 There are no specific social value issues arising out of this report, however membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 **Legal and Constitutional References**

5.4.1 Section 70(2) of the Pensions Act 2004 sets out the duty to report breaches of the law to the Pensions Regulator. The Pension Regulator's code of practice 14 provides guidance on the reporting of breaches. The attached policy is consistent with the law and the code of practice.

5.4.2 There is no specific reference in the constitution to a reporting policy on breaches of the law. The fall back provision is "To determine the appropriate course of action on any matter not specifically listed above that pertains to the leadership and/or strategic management of the Pension Fund, in particular any matter which could materially affect its financial performance or long-term standing." Failure to follow the law could have material financial implications.

5.5 **Risk Management**

5.5.1 Risk management is central to the Local Government Pension Scheme (LGPS). LGPS pension funds are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

5.5.2 A major risk faced by pension schemes is poor governance. Awareness of legal responsibilities is vital for all those involved in managing and

administering the pension scheme.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

5.7 **Consultation and Engagement**

5.7.1 The proposed breaches policy has been shared with the pension administration team. Most breaches arise from the administration of benefits.

5.8 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

London Borough of Barnet Pension Fund
Procedure for Reporting Breaches of the Law

Introduction

This document sets out the procedures to be followed by certain persons involved with the London Borough of Barnet Pension Fund, the Local Government Pension Scheme managed and administered by the London Borough of Barnet, in relation to reporting breaches of the law to the Pensions Regulator.

Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions. This Procedure document applies, in the main, to:

- all members of the Pensions Committee and the Local Pension Board,
- all officers involved in the management of the Pension Fund,
- any professional advisers and third party suppliers including auditors, actuaries, independent advisers, third party administrators, legal advisers and fund managers
- officers of employers participating in the London Borough of Barnet Pension Fund who are responsible for pension matters.

The next section clarifies the full extent of the legal requirements and to whom they apply.

This policy was approved by the Pensions Committee on 24th October 2017 and is effective thereafter.

Requirements

Pensions Act 2004

Section 70 of the Pensions Act 2004 (the Act) imposes a requirement on the following persons:

- a trustee or manager of an occupational or personal pension scheme,
- a member of the pension board of a public service pension scheme,
- a person who is otherwise involved in the administration of an occupational or personal pension scheme,
- the employer in relation to an occupational pension scheme,
- a professional adviser in relation to such a scheme, and
- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme,

to report a matter to The Pensions Regulator as soon as is reasonably practicable where that person has reasonable cause to believe that:

(a) a legal duty relating to the administration of the scheme has not been or is not being complied with, and
(b) the failure to comply is likely to be of material significance to The Pensions Regulator in the exercise of any of its functions,

The Act states that a person can be subject to a civil penalty if he or she fails to comply with this requirement without reasonable excuse.

The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

The Pension Regulator's Code of Practice

Practical guidance in relation to this legal requirement is provided in The Pension Regulator's Code of Practice including in the following areas:

- implementing adequate procedures,
- judging whether a breach must be reported,
- submitting a report to The Pensions Regulator, and
- whistleblowing protection and confidentiality.

Application to the London Borough of Barnet Pension Fund

The London Borough of Barnet has developed this procedure which reflects the guidance contained in The Pension Regulator's Code of Practice in relation to the London Borough of Barnet Pension Fund and this document sets out how the Council will strive to achieve best practice through use of a formal reporting breaches procedure.

Training on reporting breaches and related statutory duties, and the use of this procedure is provided to Pensions Committee members, Pension Board members and key officers involved with the management of the London Borough of Barnet Pension Fund on a regular basis. Further training can be provided on request to the Head of Treasury.

London Borough of Barnet Pension Fund Reporting Breaches Procedure

The following procedure details how individuals responsible for reporting and whistleblowing can identify, assess and report (or record if not reported) a breach of law relating to the London Borough of Barnet Pension Fund. It aims to ensure individuals responsible are able to meet their legal obligations and avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk.

Clarification of the law

Individuals may need to refer to regulations and guidance when considering whether or not to report a possible breach. Some of the key provisions are shown below:

Section 70(1) and 70(2) of the Pensions Act 2004:
www.legislation.gov.uk/ukpga/2004/35/section/70

Employment Rights Act 1996:
www.legislation.gov.uk/ukpga/1996/18/contents

Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (Disclosure Regulations):
www.legislation.gov.uk/uksi/2013/2734/contents/made

Public Service Pension Schemes Act 2013:
www.legislation.gov.uk/ukpga/2013/25/contents

Local Government Pension Scheme Regulations (various):
http://www.lgpsregs.org/index.php/regs-legislation

The Pensions Regulator's Code of Practice:
http://www.thepensionsregulator.gov.uk/docs/code-14-public-service.pdf

In particular, individuals should refer to the section on 'Reporting breaches of the law', and for information about reporting late payments of employee or employer contributions, the section of the Code on 'Maintaining contributions'.

Further guidance and assistance can be provided by senior colleagues or advisors to the fund, in particular the scheme actuary, as long as requesting this assistance will not result in alerting those responsible for any serious offence (where the breach is in relation to such an offence).

Clarification when a breach is suspected

Individuals need to have reasonable cause to believe that a breach has occurred, not just a suspicion. Where a breach is suspected the individual should carry out further checks to confirm the breach has occurred.

Where the individual does not know the facts or events, it will usually be appropriate to check with the appropriate senior staff at the London Borough of Barnet, a member of the Pensions Committee or Pension Board or others who are able to explain what has happened. However there are some instances where it would not be appropriate to make further checks, for example, if the individual has become aware of theft, suspected fraud or another serious offence and they are also aware that by making further checks there is a risk of either alerting those involved or hampering the actions of the police or a regulatory authority. In these cases The Pensions Regulator should be contacted without delay.

Determining whether the breach is likely to be of material significance

To decide whether a breach is likely to be of material significance an individual should consider the following, both separately and collectively:

- cause of the breach (what made it happen),
- effect of the breach (the consequence(s) of the breach),
- reaction to the breach, and
- wider implications of the breach.

Individuals may also review the most recent breaches report as there may be details on other breaches which may provide a useful precedent on the appropriate action to take.

Further details on the above four considerations are provided in Appendix A to this procedure.

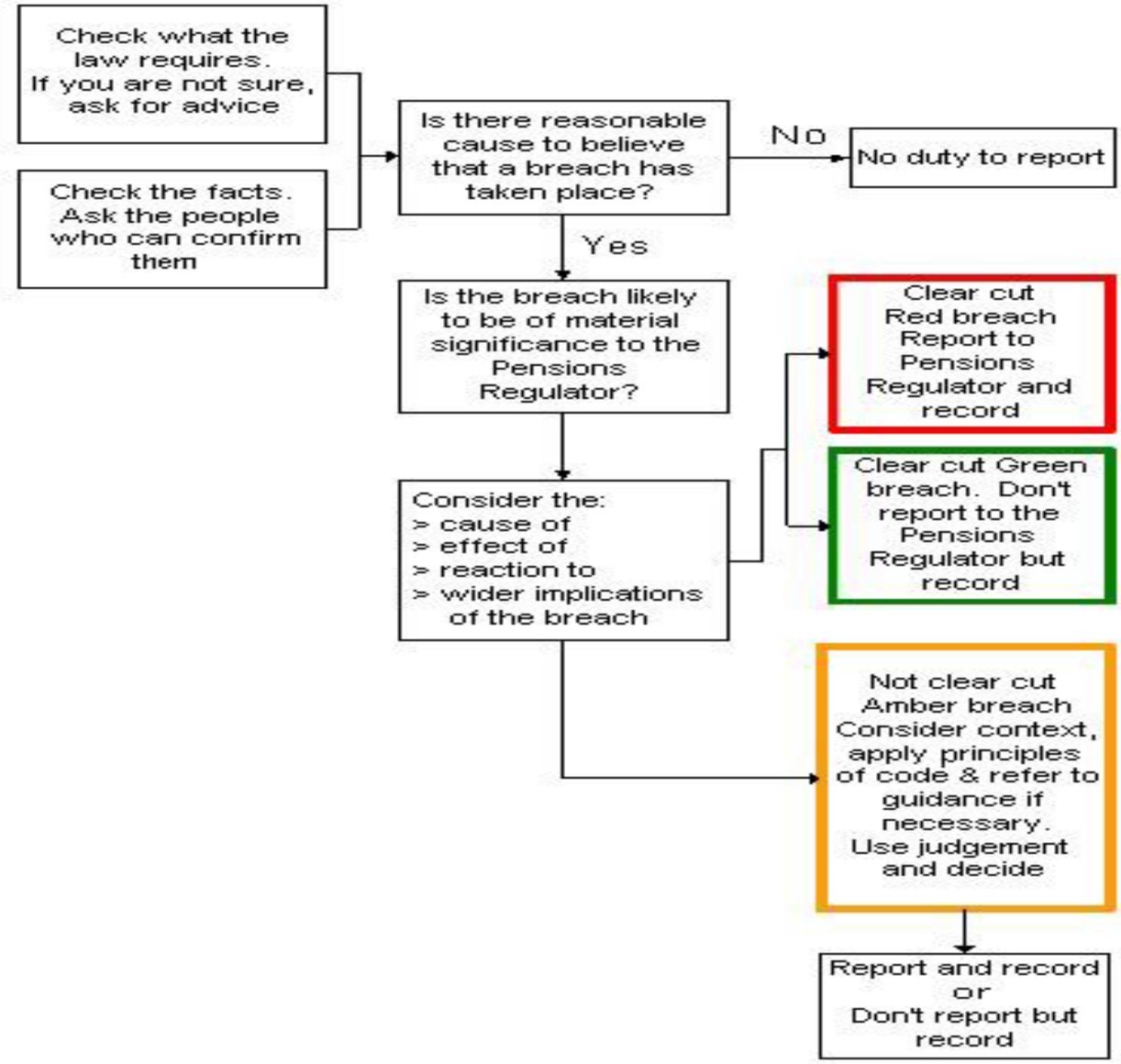
The individual should take into account expert or professional advice, where appropriate and use the traffic light framework described in Appendix B to help assess the material significance of each breach and to formally support and document their decision.

A decision tree is provided below to show the process for deciding whether or not a breach has taken place and whether it is materially significant and therefore needs to be reported. In the decision tree the traffic lights referred to are:-

Red breaches - Where the cause, effect, reaction and wider implications of a breach, when considered together, are likely to be of material significance

Amber breaches - Where the cause, effect, reaction and wider implications of a breach, when considered together, may be of material significance

Green breaches - Where the cause, effect, reaction and wider implications of a breach, when considered together, are not likely to be of material significance



Dealing with complex cases

Senior colleagues or an advisor to the Fund may be able to provide guidance on particularly complex cases. Guidance may also be obtained by reference to previous cases, information on which will be retained by the London Borough of Barnet, or via discussions with those responsible for maintaining the records. Information may also be available from national resources such as the Scheme Advisory Board or the LGPC Secretariat (part of the LG Group - http://www.lgpsregs.org/).

If timescales allow, legal advice or other professional advice can be sought and the case can be discussed at the next Committee or Board meeting.

Timescales for reporting

The Pensions Act and The Pension Regulator's Code require that, if an individual decides to report a breach, the report must be made in writing as soon as reasonably practicable. Individuals should not wait for others to report and nor is it necessary for a reporter to gather all the evidence which The Pensions Regulator may require before taking action. A delay in reporting may exacerbate or increase the risk of the breach. The time taken to reach the judgements on "reasonable cause to believe" and on "material significance" should be consistent with the speed implied by 'as soon as reasonably practicable'. In particular, the time taken should reflect the seriousness of the suspected breach.

Early identification of very serious breaches

In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, The Pensions Regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary.

The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert The Pensions Regulator to the breach.

Recording all breaches even if they are not reported

The record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). The London Borough of Barnet will maintain a record of all breaches identified by individuals and reporters should therefore provide copies of reports submitted to The Pensions Regulator as detailed in the table below.

Records of unreported breaches should also be provided as soon as reasonably practicable and certainly no later than within 20 working days of the decision made not to report. These will be recorded alongside all reported breaches. The record of all breaches (reported or otherwise) will be reported to each meeting of the Pensions Committee and this will also be shared with the Pension Board.

Reporting a breach

Reports must be submitted in writing via The Pensions Regulator's online system at www.tpr.gov.uk/exchange or by post, email or fax, and should be marked urgent if appropriate. If necessary a written report can be preceded by a telephone call. Contact details are:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW
Tel - 0845 6000707
E-mail - customersupport@tpr.gov.uk

Reporters should ensure they receive an acknowledgement for any report they send to The Pensions Regulator. The Pensions Regulator will acknowledge receipt of all reports within five working days and may contact reporters to request further information. Reporters will not usually be informed of any actions taken by The Pensions Regulator due to restrictions on the disclosure of information.

As a minimum, individuals reporting should provide:

- full scheme name (London Borough of Barnet Pension Fund)
- description of breach(s)
- any relevant dates
- name, position and contact details
- role in connection to the scheme
- employer name or name of scheme manager (the latter is the London Borough of Barnet).

If possible, reporters should also indicate:

- the reason why the breach is thought to be of material significance to The Pensions Regulator
- scheme address (provided at the end of this procedures document)
- scheme manager contact details (provided at the end of this procedures document)
- pension scheme registry number (PSR – 10123044)
- whether the breach has been reported before.

The reporter should provide further information or reports of further breaches if this may help The Pensions Regulator in the exercise of its functions. The Pensions Regulator may make contact to request further information.

Confidentiality

If requested, The Pensions Regulator will do its best to protect a reporter's identity and will not disclose information except where it is lawfully required to do so.

If an individual's employer decides not to report and the individual employed by them disagrees with this and decides to report a breach themselves, they may have protection under the Employment Rights Act 1996 if they make an individual report in good faith.

Process for reporting and recording material and non-material breaches

The following table details the process for reporting material and non-material breaches:

Type of Breach	Timescale for reporting	Internal actions	Further actions
Urgent and Material	Responsible officer informs Head of Public Sector Pensions and Head of Treasury, the breach is reported immediately to the Pensions Regulator.	Pension Administration team to keep record of breach and investigate options to prevent further occurrence.	Report urgent and material breaches to Section 151 officer, Chairman and Vice Chairman of Committee and Local Pension Board, full report to be submitted at the next available meeting.
Non urgent and material	Responsible officer informs Head of Public Sector Pensions and Head of Treasury, the breach is reported within 30 days to the Pensions Regulator.	Pension Administration team to keep record of breach and investigate options to prevent further occurrence.	Report non urgent and material breach at next Pensions Committee/Pension Board meeting.
Immaterial	Responsible officer informs Head of Public Sector Pensions within 30 days.	Pension Administration team to keep record of breach and investigate options to prevent further occurrence.	Report immaterial breach at next Pensions Committee/Pension Board meeting.

Reporting to Pensions Committee

A report will be presented to the Pensions Committee on a quarterly basis setting out:

- all breaches, including those reported to The Pensions Regulator and those not reported, with the associated dates.
- in relation to each breach, details of what action was taken and the result of any action (where not confidential)
- any future actions for the prevention of the breach in question being repeated
- new breaches which have arisen in the last year/since the previous meeting.

This information will also be provided upon request by any other individual or organisation (excluding sensitive/confidential cases or ongoing cases where discussion may influence the proceedings).

An example of the information to be included in the quarterly reports is provided in Appendix C to this procedure.

Review

This Reporting Breaches Procedure will be kept under review and updated as considered appropriate. It may be changed as a result of legal or regulatory changes, evolving best practice and ongoing review of the effectiveness of the procedure.

Further Information
If you require further information about reporting breaches or this procedure, please contact:

George Bruce
Head of Treasury
London Borough of Barnet
North London Business Park
Oakleigh Road South
London
N11 1NP
E-mail – George.bruce@Barnet.gov.uk
Telephone - 02083597126

Appendix A

Determining whether a breach is likely to be of material significance

To decide whether a breach is likely to be of material significance individuals should consider the following elements, both separately and collectively:

- cause of the breach (what made it happen)
- effect of the breach (the consequence(s) of the breach)
- reaction to the breach
- wider implications of the breach

The cause of the breach

Examples of causes which are likely to be of concern to The Pensions Regulator are provided below:

- Acting, or failing to act, in deliberate contravention of the law.
- Dishonesty.
- Incomplete or inaccurate advice.
- Poor administration, i.e. failure to implement adequate administration procedures.
- Poor governance.
- Slow or inappropriate decision-making practices.

When deciding whether a cause is likely to be of material significance individuals should also consider:

- whether the breach has been caused by an isolated incident such as a power outage, fire, flood or a genuine one-off mistake
- whether there have been any other breaches (reported to The Pensions Regulator or not) which when taken together may become materially significant

The effect of the breach

Examples of the possible effects (with possible causes) of breaches which are considered likely to be of material significance to The Pensions Regulator in the context of the LGPS are given below:

- Committee/Board members not having enough knowledge and understanding, resulting in pension boards not fulfilling their roles, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements,
- Conflicts of interest of Committee or Board members, resulting in them being prejudiced in the way in which they carry out their role and/or the ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements,
- Poor internal controls, leading to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the scheme at the right time,
- Inaccurate or incomplete information about benefits and scheme information provided to members, resulting in members not being able to effectively plan or make decisions about their retirement,
- Poor member records held, resulting in member benefits being calculated incorrectly and/or not being paid to the right person at the right time,
- Misappropriation of assets, resulting in scheme assets not being safeguarded, and

- Other breaches which result in the scheme being poorly governed, managed or administered.

The reaction to the breach

A breach is likely to be of concern and material significance to The Pensions Regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence, or
- are not pursuing corrective action to a proper conclusion, or
- fail to notify affected scheme members where it would have been appropriate to do so.

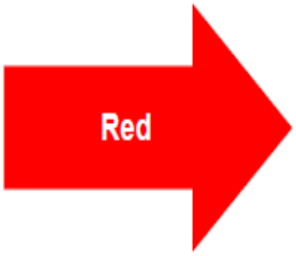
The wider implications of the breach

Reporters should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to The Pensions Regulator where the fact that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

Appendix B

Traffic light framework for deciding whether or not to report

The London Borough of Barnet recommends those responsible for reporting to use the traffic light framework when deciding whether to report to The Pensions Regulator. This is illustrated below:



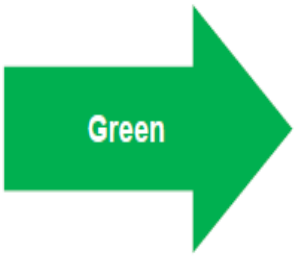
Where the cause, effect, reaction and wider implications of a breach, when considered together, are likely to be of material significance.

These must be reported to The Pensions Regulator.

Example: Several members' benefits have been calculated incorrectly. The errors have not been recognised and no action has been taken to identify and tackle the cause or to correct the errors.

Where the cause, effect, reaction and wider implications of a breach, when considered together, may be of material significance. They might consist of several failures of administration that, although not significant in themselves, have a cumulative significance because steps have not been taken to put things right. You will need to exercise your own judgement to determine whether the breach is likely to be of material significance and should be reported.

Example: Several members' benefits have been calculated incorrectly. The errors have been corrected, with no financial detriment to the members. However the breach was caused by a system error which may have wider implications for other public service schemes using the same system.



Where the cause, effect, reaction and wider implications of a breach, when considered together, are not likely to be of material significance.

These should be recorded but do not need to be reported.

Example: A member's benefits have been calculated incorrectly. This was an isolated incident, which has been promptly identified and corrected, with no financial detriment to the member. Procedures have been put in place to mitigate against this happening again.

All breaches should be recorded even if the decision is not to report.

When using the traffic light framework individuals should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together. Some useful examples of this is framework is provided by The Pensions Regulator at the following link

http:// www.thepensionsregulator.gov.uk/codes/code-related-report-breaches.aspx

Appendix C

Example Record of Breaches

Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to breach	Reported / Not reported (with justification if not reported and dates)	Outcome of report and/or investigations	Outstanding actions

New Breaches since the last meeting should be highlighted.

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	AGENDA ITEM 8 **Pension Fund Committee** **24 October 2017**
Title	**Barnet Council Pension Fund – Review of Strategic Allocations**
Report of	Director of Resources
Wards	n/a
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Hymans Robertson Strategy Slides Appendix B – Model Portfolios
Officer Contact Details	George Bruce, Head of Treasury, CSG george.bruce@barnet.gov.uk - 0208 359 7126

Summary

The current investment strategy retains a reasonable probability of achieving the funding objective. However the Hymans report examines opportunities to improve the efficiency of the portfolio including modestly higher equity allocations and creating an allocation to UK real estate.

Recommendations

The Pension Fund Committee agree that:

I. The strategic equity allocation is increased by 4% to 40% with 2% reductions to each of DGFs and corporate bonds.
II. Realisations to meet funding commitments will be drawn from the strategic bond fund, DGFs and corporate bonds in that order.
III. Training is provided on UK property, private equity and emerging market equities and opportunities to invest in these assets classes via the London CIV will be monitored.

1. WHY THIS REPORT IS NEEDED

1.1 Acting in its capacity as Administering Authority to the Barnet Pension Fund, it is the responsibility of London Borough of Barnet Council to ensure that the Pension Fund complies with legislation and effectively manages the Fund's financial affairs.

1.2 Following the completion of the triennial valuation as at March 2016, Hymans Robertson have used the revised projections of the scheme liabilities to review the likelihood that the current investment strategy will deliver the funding objective – a 'sufficient' probability of being fully funded. In addition, Hymans has also modelled variations in the investment strategy to identify potential enhancements that will deliver improved funding outcomes.

1.3 The current strategy was set in October 2015. The main change compared with the previous strategy was the inclusion of a 36% allocation to passive equities with consequential reductions to corporate bond and DGF allocations. The strategy was modified in March 2016 with the creation of four new mandates (Partners 2015 MAC, Alcentra (Clareant) multi-asset credit and European direct lending and Barings high yield) and further modified in March 2017 with a further four mandates (Partners 2017 MAC, Insight secured finance, M&G asset backed securities and IFM Infrastructure). These new mandates are being funded from disinvestment from the Schroder's strategic bond fund and rebalancing other assets classes.

1.4 Details of the current structure are given within the quarterly investment report. Many of the mandates currently in place are therefore relatively new and some are still being funded e.g. IFM Infrastructure and Partners 2017 MAC.

1.5 The probability of the current strategy delivering a fully funded scheme in twenty years is modelled on slide 2 of the Hymans report. This indicates a probability of around two thirds assuming contribution are set and paid in line with the current Funding Strategy Statement. This success probability is normally deemed sufficient, although there remains a significant (one third) probability of a funding level below 100% at the end of this period.

1.6 The modelling indicates that the current strategy remains 'fit for purpose' and that there is no imperative to alter. However, opportunities to improve the expected outcome are considered within the slide pack.

Future Opportunities

1.7 Hymans modelling considers the impact of increasing the equity allocation by 16% (to 52%) and by including 10% private equity at the expenses of lower DGF and corporate bond allocations. Unsurprisingly, these changes increase the probability of achieving full funding but also lead to poorer funding levels for the worst 5% of outcomes. See slide 8. The increased likelihood of full

funding is not as great (circa 5%) as might be expected. As also detailed on slide 8, more modest equity increases offer some benefits with only marginal changes in the 5% worst outcomes. The analysis supports further modest increases in the long term equity allocation funded from realisations of DGFs and corporate bonds. The fund is currently overweight on its equity allocation target (36%) and it is proposed to set a target equity allocation of 40% reflecting the current position. The increase has been reflected in 2% reductions in corporate bonds and DGFs. No additional funds will be moved into equities as a consequence of this change.

1.8 Hymans has used the results of the modelling to created two model portfolios (new 1 and 2) shown on appendix 2. The main features of these portfolios are:

- Increasing the global equity weighting to 40% as discussed above,
- Introducing property, private equity and a specific allocation to global emerging markets, and
- Reducing the allocations to DGFs and corporate bonds.

1.9 Two asset classes absent from the current strategic asset allocation that are commonly held by LGPS funds are property and private equity. Property offers a real asset with a high income yield. Private equity offers an illiquidity premium and the potential for returns in excess of public markets partially due to the leverage inherent in these investments.

1.10 Both of these asset classes can involve costly fund of fund (FoF) structures. Significant cost savings are available with increased mandate sizes, particularly if FoFs are replaced by funds or even direct holdings. It is proposed that opportunities to invest in these asset classes via the London CIV are reviewed when they become available and consideration given to inclusion within the strategy. In the meantime training on the characteristics and opportunity set for these asset classes can be provided.

Funding the new mandates and rebalancing

1.11 The current holdings have the following overweights:

4% - Schroder Strategic Bonds (to be fully redeemed)

7% - DGFs (after reduction in the target from 22% to 20%)

1% - Schroder's corporate bonds (2% reduction in target from 12% to 10%)

1.12 Talking these positions into account it is proposed that the funding sources for the new mandates are, in order:

Schroders Strategic Bond Fund, then

DGFs, then

Corporate bonds.

Conclusion

1.13 The current strategic allocations retain a satisfactory probability of achieving full funding in 20 years. Although modestly higher equity allocations will improve this probability of achieving full funding the impact is tempered by increases in the volatility of returns and hence the downside risk. Long term, moderate (up to 5%) higher equity allocations are justified and a proposal is included to increase the equity allocation by 4%.

1.14 It is proposed that opportunities to invest in property and private equity are reviewed when available through the London CIV and that training on property, private equity and emerging market equities is provided, but in the meantime no changes are made.

1.15 Those mandates not fully funded will receive funds drawn from the strategic bond fund, DGFs and corporate bonds in that order.

2. REASONS FOR RECOMMENDATIONS

2.1 The LGPS (Management and Investment of Funds) Regulations 2016 (clause 7(7)) requires the Committee to periodically (at least every three years) to review the investment strategy. The proposal recognises that the strategy has been enhanced in 2015, 2016 and 2017. Modelling indicates that the current strategy, while expected to achieve the funding objective, can be enhanced. The proposal to provide training and monitor the availability of suitable mandates through the London CIV recognises that the management of costs is important.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 The various alternatives are discussed in the paper and modelled within the Hymans slide pack. The recommendations are based on the modelling results.

4. POST DECISION IMPLEMENTATION

4.1 The Director of Resources will carry out any actions considered necessary.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 Good management of the Pension Fund will minimise the cost of providing benefits thus enabling funds to be directed to Council priorities.

5.2 **Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

5.2.1 There are no direct resources issues for the council however changes in the financial performance of the pension fund affects the pension fund deficit reflected in the Authority's accounts.

5.3 **Social Value**

5.3.1 The Public Services (Social Value) Act came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits.

5.3.2 Before they start the procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders.

5.3.3 The Act is a tool to help commissioners get more value for money out of procurement. It also encourages commissioners to talk to their local provider market or community to design better services, often finding new and innovative solutions to difficult problems.

5.3.4 There are no specific social value issues arising out of this report, however membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 **Legal and Constitutional References**

5.4.1 The LGPS (Management and Investment of Funds) Regulations 2016 (clause 7(7)) requires the Committee to periodically (at least every three years) to review the investment strategy.

5.4.2 The Council's Constitution – Part 15, Annex A, Responsibility for Functions details the responsibilities of the Committee, including to periodically review at least triennially the Investment Strategy Statement. This paper considers alterations to the asset allocation set out in the ISS.

5.5 **Risk Management**

5.5.1 Risk management is central to the LGPS. LGPS pension funds are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

5.5.2 Understanding the causes of sources and variabilities of scheme returns informs the management of investment and funding risk.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation

and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

5.7 **Consultation and Engagement**

5.7.1 Not applicable.

5.8 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

London Borough of Barnet

Draft Investment Strategy slides

- Andrew Elliott
- September 2017

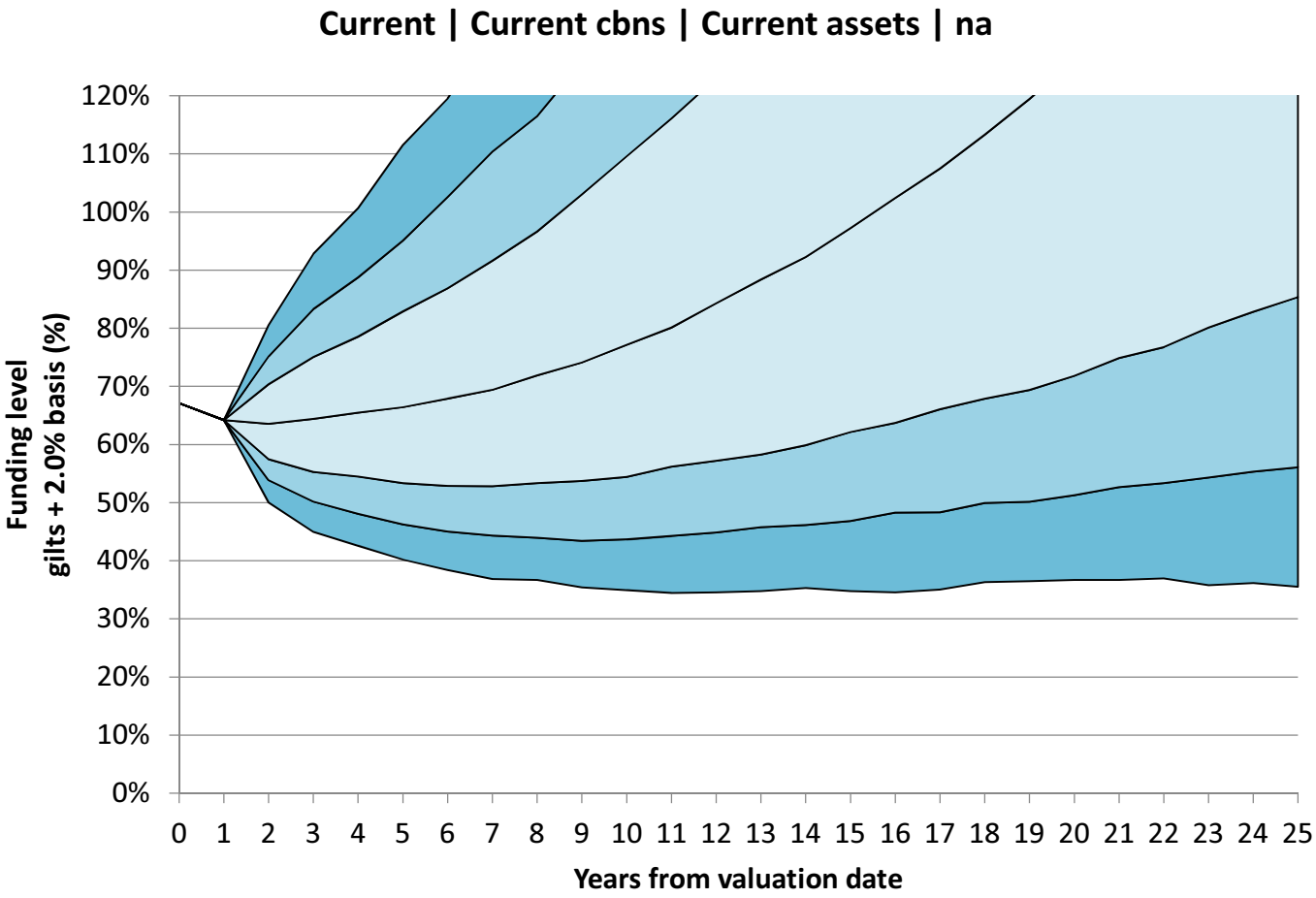
HYMANS ROBERTSON

Strategies modelled

Asset allocations:

Asset class	Current target	Alternative 1 (synthetic credit)	Alternative 2 (synthetic equity)	Alt 3 (low risk)	Alt 4 (high risk)
Global Equity	36.0	36.0	20.0	10.0	52.0
Absolute return Funds (DGF)	22.0	22.0	22.0	35.0	5.0
Multi asset credit (liquid)	7.0	7.0	7.0	7.0	7.0
Multi-asset credit (illiquid)	9.0	9.0	9.0	7.0	7.0
Private debt	9.0	9.0	9.0	9.0	9.0
Corporate bonds	12.0	-	-	25.0	5.0
Private Equity	-	-	-	-	10.0
Infrastructure	5.0	5.0	5.0	5.0	5.0
CDS	-	3.0 (12.0)	-	-	-
Synthetic equity (+gilts)	-	-	16.0 equity (4.0 cash) (12.0 gilts)	-	-
AN other asset (assume property)	-	9.0	12.0	-	-
Cash	-	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0
Total exposure	100.0	109.0	116.0	100.0	100.0

Current funnel



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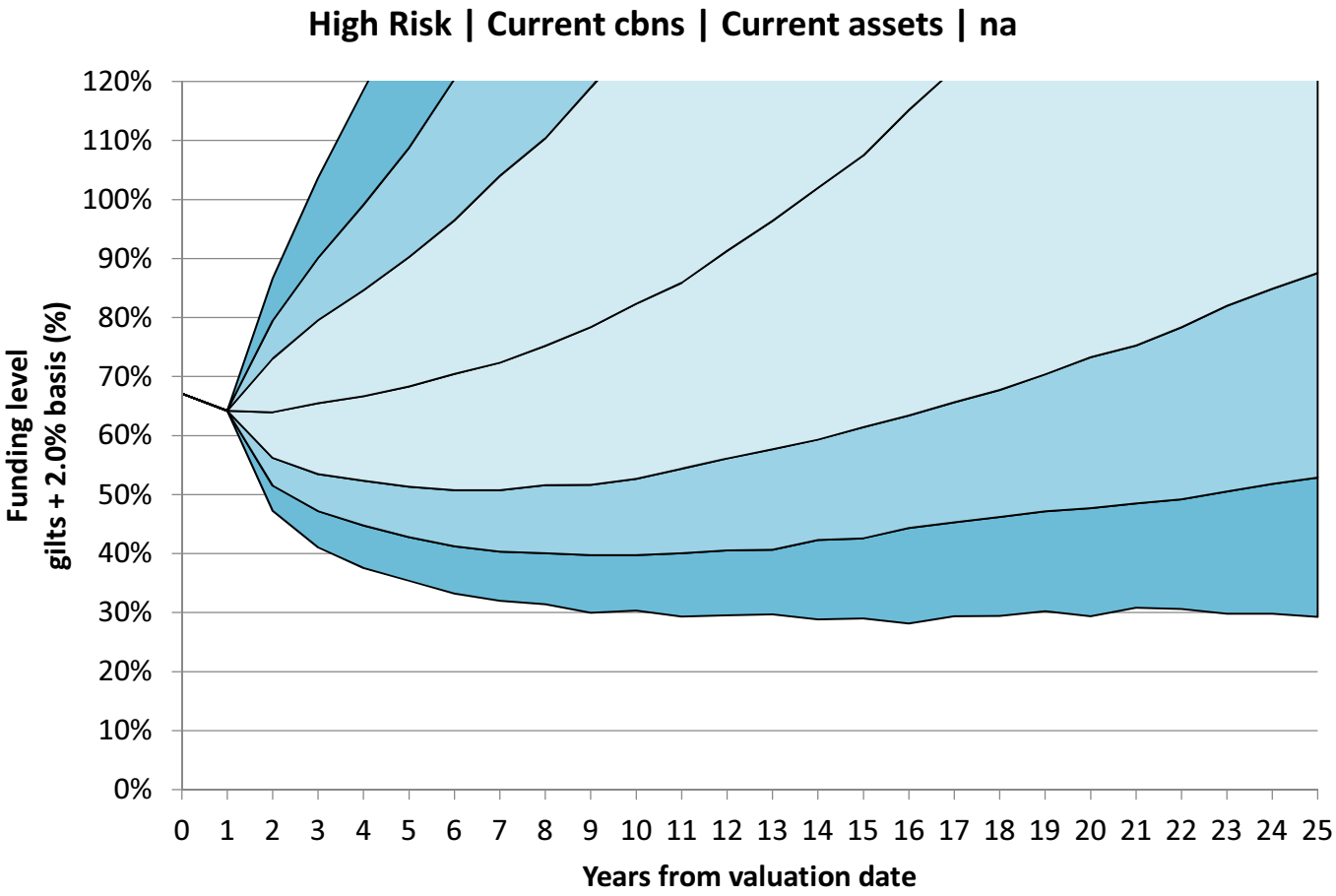
Higher Risk funnel



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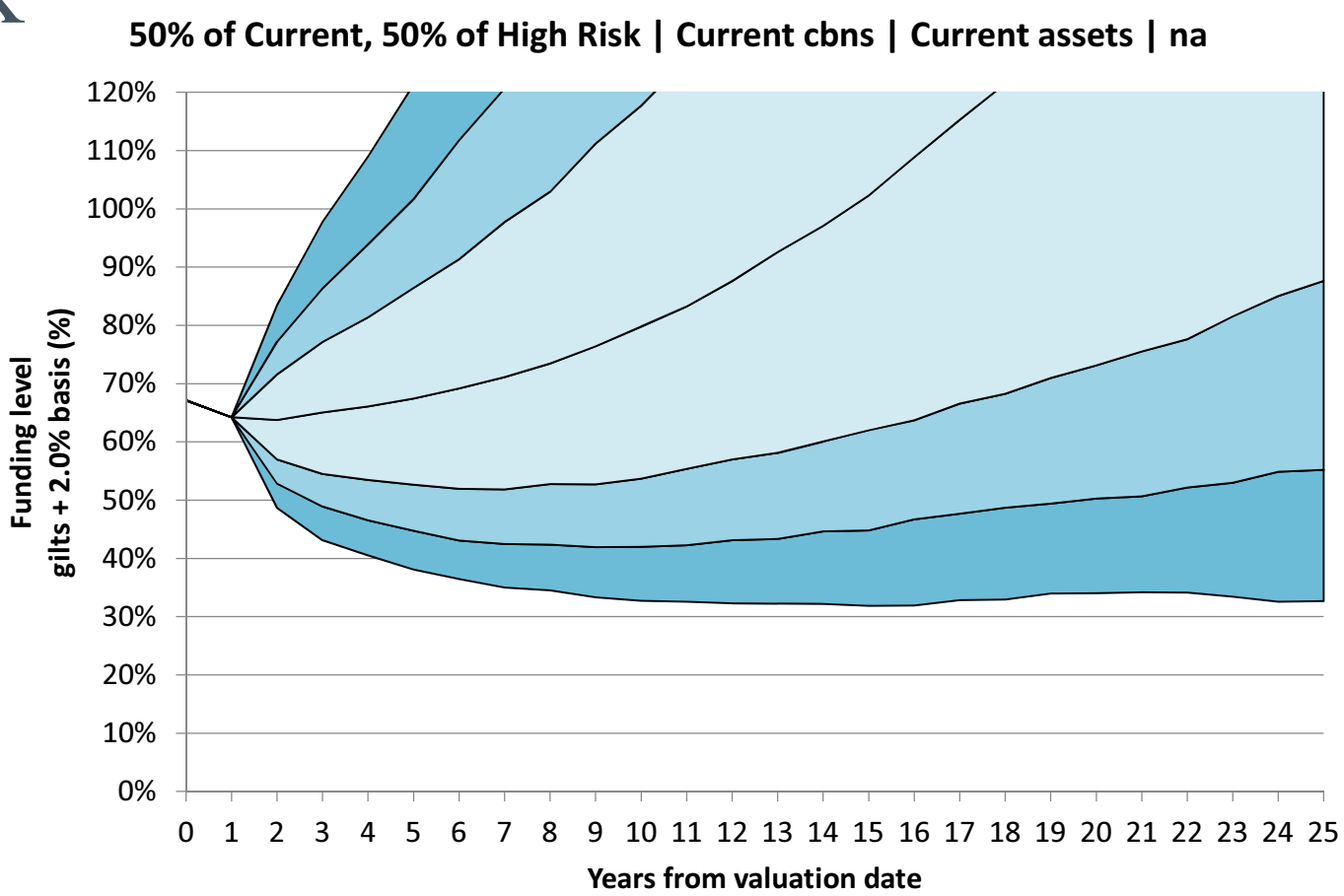
Interpolation – Current and Higher Risk



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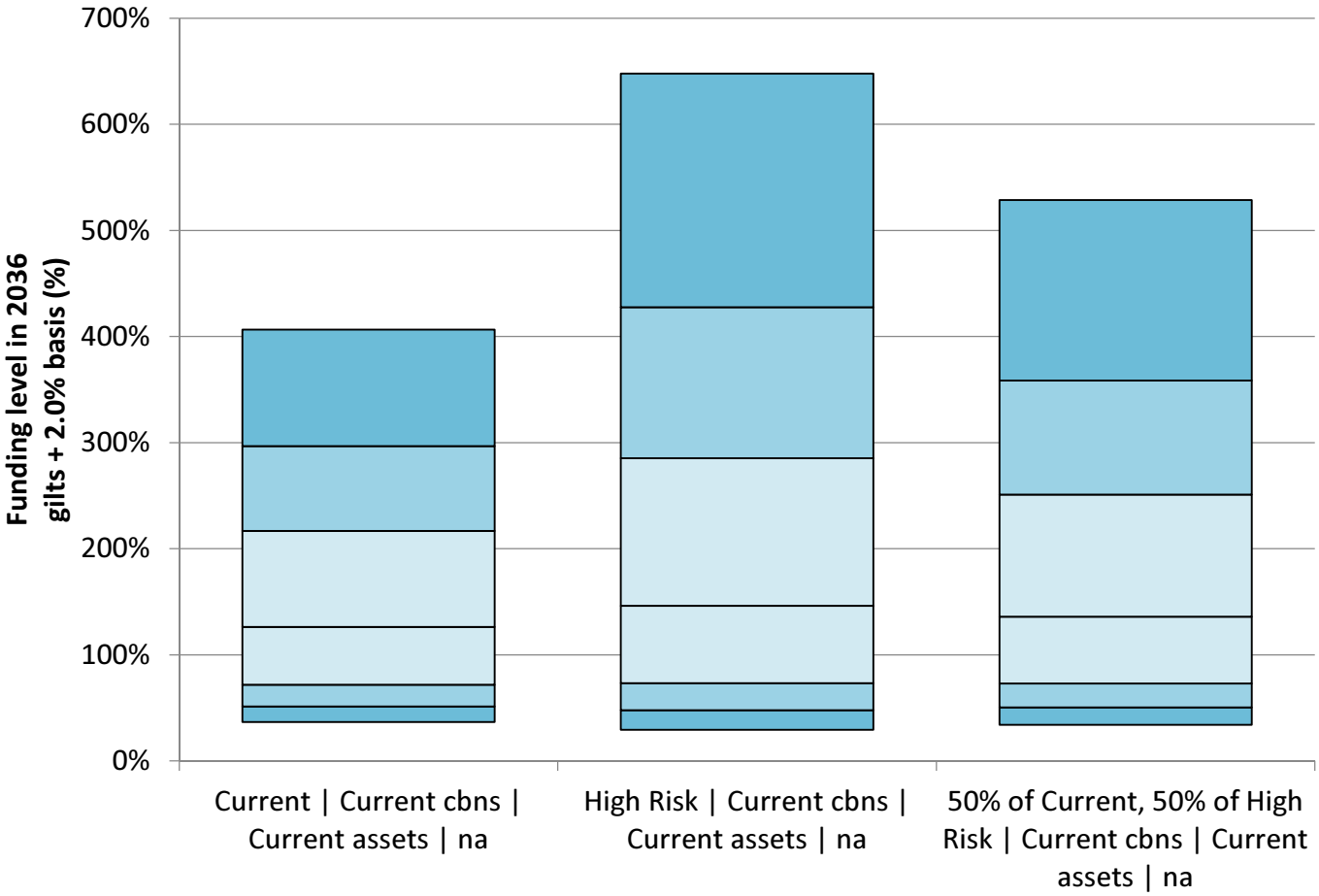
Slice of Funnel in 2036



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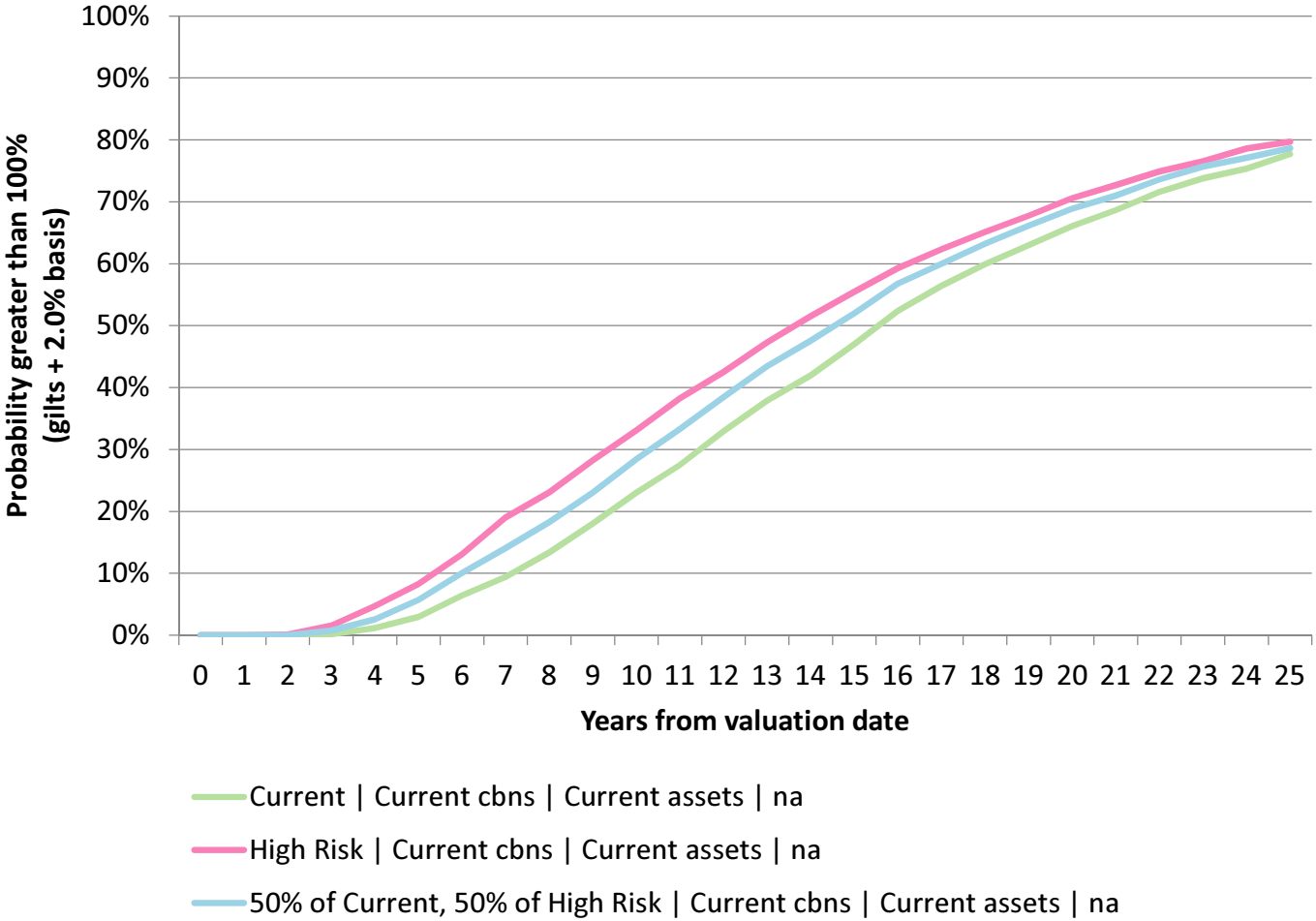
Probability of success over time



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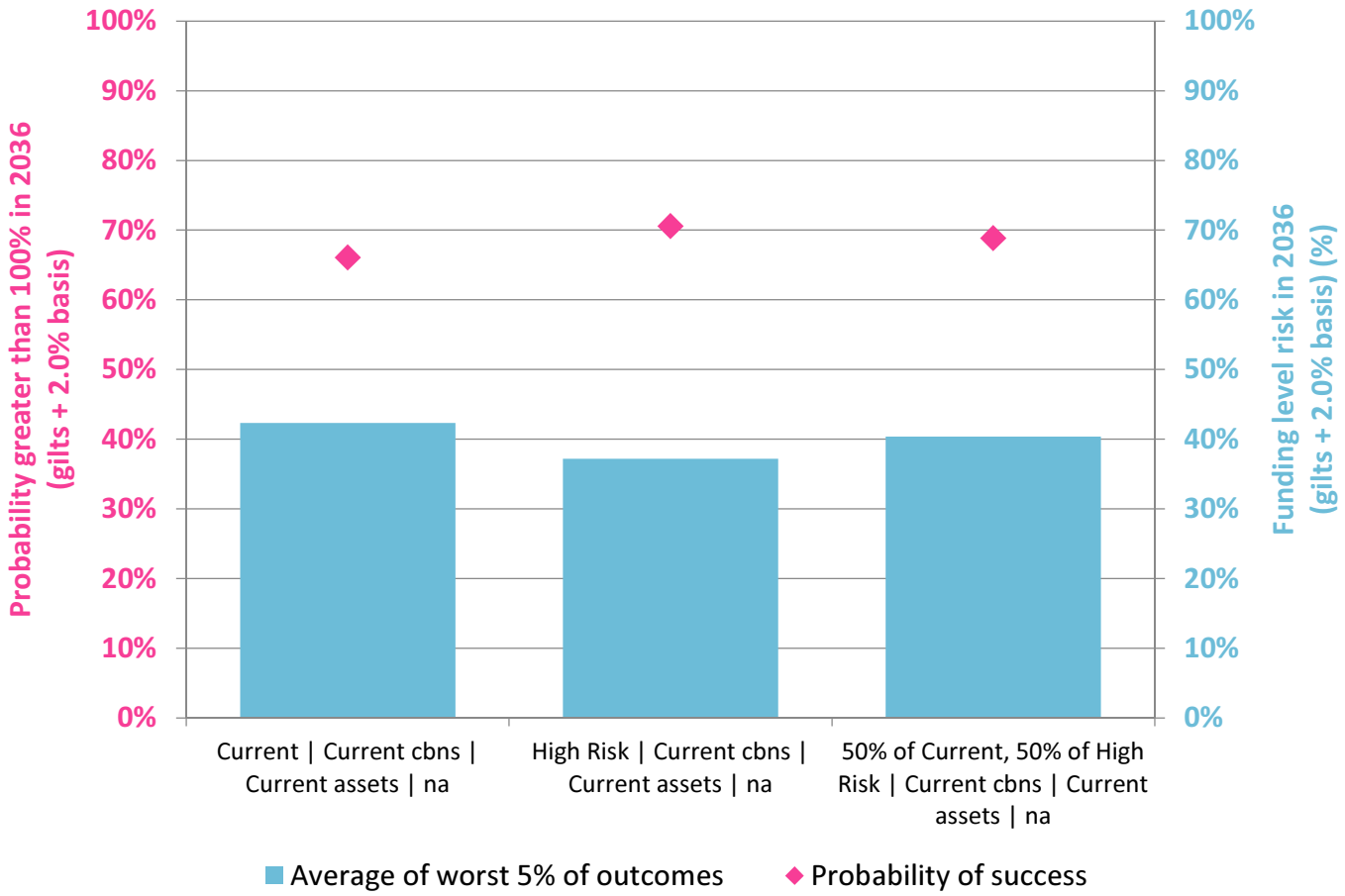
Probability of success versus downside risk 2036



HYMANS ROBERTSON

Thank you

HYMANS ROBERTSON

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Appendix 2 - Specimen Model Portfolios

Fund	Current target	Actual 30 June '17	Rebalancing 1	New 1	Rebalancing 2	New 2
LGIM equity	36	39.1	-	40	-	40
Newton Real Return	11	12.9	-5.9	7	-7.9	5
Schroder DGF	11	14	-7	7	-9	5
Alcentra MAC	3.5	3.2	0.3	3.5	0.3	3.5
Barings MAC	3.5	3.5	-	3.5	-	3.5
Schroder Corps	12	11.1	-3.1	8	-3.1	8
Schroder Strat Bond	0	4.3	-4.3	0	-4.3	0
Alcentra Direct Lending	4	1.5	2.5	4	2.5	4
Partners	8	3.6	4.4	8	4.4	8
M&G ABS	3	2.9	-	3	-	3
Insight SSF	3	3.8	-	3	-	3
IFM Infra	5	0	5	5	5	5
AN Other	-	-	8	8	12	12

Possible ideas:

1. Property – long term income
2. Private equity – long term growth (hold in listed equity pending drawdown)
3. Global EM equity – allocate from passive equities

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	AGENDA ITEM 9 **Pension Fund Committee** **24 October 2017**
Title	**Investment Strategy Statement**
Report of	Director of Resources
Wards	All
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1- Investment Strategy Statement final March 2017 Appendix 2 – Current Investment Strategy Statement Appendix 3 – Revised tables for ISS.
Officer Contact Details	George Bruce, Head of Treasury, CSG george.bruce@barnet.gov.uk - 0208 359 7126

Summary

The Pension Fund Committee approved an Investment Strategy Statement (ISS) at the March 2017 meeting. The asset allocation table within the ISS requires updating in line with the changes to strategy agreed both at March 2017 and proposed at this meeting.

Recommendations

That the Pension Fund Committee approves the revision of table 1 within the ISS as shown on appendix 1 and that the table on appendix 2 is attached to the ISS but does not form a part of the ISS.

1. WHY THIS REPORT IS NEEDED

1.1 Administering authorities are required to prepare, maintain and publish a written investment strategy statement which must be in accordance with the guidance issued by the Secretary of State.

1.2 The Investment Strategy Statement (ISS) document has been written in accordance with the legislative requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Proper advice has been taken from the Pension Fund Committee's investment advisor Hymans Robertson LLP.

1.3 Since approving the ISS at the March 2017 meeting, the Committee has altered the target allocations and these should be reflected in the ISS. The only required changes relate to table 1. The alterations proposed at this meeting are also reflected in the revised table 1.

1.4 The layout of table 1 has been altered in two regards. Firstly upper limits have been included against each asset class. Clause 7(3) of the investment regulations require the ISS to set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investments.

1.5 Secondly, the table 1 no longer mentions manager names, rather asset classes and benchmarks. There is no requirement for manager names in the ISS and by avoiding this level of detail, changes to the ISS can be reduced.

1.6 It is recognised that having a detailed breakdown of mandates is helpful and this is included in a new table (appendix 2) that is proposed to be attached to but outside of the ISS.

2. REASONS FOR RECOMMENDATIONS

2.1 The London Borough of Barnet is required to ensure the proper management of the London Borough of Barnet Pension Fund in its capacity as administering authority. This includes compliance with the requirement of the LGPS (Management and Investment of Funds) Regulations 2016 that requires preparation of an Investment Strategy Statement.

2.2 The Investment Strategy Statement (ISS) includes the Fund's approaches to investment pooling and risk; Asset classes and fund managers; Stewardship; Voting Rights; Environmental, Social and Governance Engagement and Fund Compliance with the "Myners Principles".

3 ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not applicable as this a Scheme requirement

4 POST DECISION IMPLEMENTATION

4.1 Officers will update the draft and publish the approved Investment Strategy Statement.

5 IMPLICATIONS OF DECISION

5.1 **Corporate Priorities and Performance**

5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage in order to achieve the required funding level. This in return protects LB Barnet's liabilities and supports the Council's corporate priorities as expressed through the Corporate Plan.

5.2 **Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

5.2.1 The financial issues are set out in the draft ISS.

5.2.2 There are no performance and value for money, staffing, IT, Property or Sustainability implications arising from this report.

5.3 Social Value

5.3.1 Ensuring the long term financial health of the Pension Fund will benefit everyone who contributes to it.

5.4 Legal and Constitutional References

5.4.1 The Council's Constitution – Part 15, Annex A, Responsibility for Functions details the responsibilities of the Committee, including to review the Investment Strategy Statement [previously called Statement of Investment Principles] at least triennially, or more frequently if advised by the Chief Finance Officer of the need to do so.

5.4.2 Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires an administering authority to formulate an investment strategy which must be in accordance with the guidance issued by the Secretary of State and to take proper advice when making decisions in connection with the investment strategy of the Fund.

5.5 Risk Management

5.5.1 Risk management issues are addressed in the draft ISS and are included in the Pension Fund Risk Register.

5.6 Equalities and Diversity

5.6.1 Ensuring the long term financial health of the Pension Fund will benefit everyone who contributes to it. Access to and participation in the Pension Fund is open to all those eligible, as provided by the criteria set out within the relevant Regulations.

The 2010 Equality Act outlines the provisions of the Public Sector Equalities Duty which requires Public Bodies **to have due regard** to the need to:

- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010
- advance equality of opportunity between people from different groups
- foster good relations between people from different groups

The broad purpose of this duty is to integrate considerations of equality and keep them under review in decision making, the design of policies and the delivery of services.

5.7 Consultation and Engagement

5.7.1 The London CIV was consulted on in the preparation of the ISS.

6 BACKGROUND PAPERS

6.1 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/553342/LGPS_Guidance_on_Preparing_and_Maintaining_an_Investment_Strategy_Statement.pdf

Investment Strategy Statement (Published March 2017)

Introduction and background

This is the Investment Strategy Statement ("ISS") of the London Borough of Barnet Pension Fund ("the Fund"), which is administered by Barnet Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016.

The ISS has been prepared by the Fund's Pension Committee ("the Committee") having taken advice from the Fund's investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee on 14 March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Draft Funding Strategy Statement dated March 2017.

The suitability of particular investments and types of investments

The primary investment objective of the Fund is to ensure that the assets are invested to secure the benefits of the Fund's members under the Local Government Pension Scheme. Against this background, the Fund's approach to investing is to:

- Optimise the return consistent with a prudent level of risk;
- Ensure that there are sufficient resources to meet the liabilities; and
- Ensure the suitability of assets in relation to the needs of the Fund.

The Fund's funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Fund. The approach that the Fund has taken to setting an appropriate investment strategy is as follows:

Every three years following the actuarial valuation, the Fund undertakes an asset liability modelling exercise. This exercise focuses on key risk metrics of probability of success (how likely is the Fund to be fully funded over the agreed funding period) and downside risk (how poor could the funding position become in the worst economic outcomes).

Within each major market the Fund's investment managers will maintain a diversified portfolio of securities through direct investment or via pooled vehicles. An Investment Management Agreement is in place for each

investment manager, which sets out the relevant benchmark, performance target and asset allocation ranges, together with further restrictions.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation; the Fund does not have a formal rebalancing policy at present, however, a suitable policy is currently under consideration. In the meantime the Fund's position is monitored both by Officers and the Fund's advisers. A rebalancing back towards target weightings was undertaken in January 2017.

Investment of money in a wide variety of investments

Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e).

Table 1: Fund allocation

Asset class	Fund	Benchmark Proportion (%)
EQUITY		**36.0**
LGIM	Passive Global Equity	18.0
LGIM	FTSE RAFI AW 3000 Equity Index Fund	18.0
DIVERSIFIED GROWTH		**22.0**
Schroder	Diversified Growth Fund	11.0

Newton	Real Return Fund	11.0
MULTI-ASSET CREDIT		**17.0**
Schroder	ISF Strategic Bond Fund	10.0
Barings	Global High Yield Credit Strategies Fund	3.5
Alcentra	Global Multi Credit Fund	3.5
CORPORATE BONDS		**12.0**
Schroder	Corporate Bond Fund	12.0
ILLIQUID ALTERNATIVES		**13.0**
Alcentra	European Direct Lending Fund	4.0
Partners Group	Private Market Credit Strategies Fund	4.0
TBC	TBC	5.0
Total		**100.0**

Consideration of the Fund's risks, including the approach to mitigating risks, is provided in the following section.

Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

The approach to risk, including the ways in which risks are to be measured and managed

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.

- Systemic risk – The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. This analysis will be revisited as part of the 2016 valuation process. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk - The risk that the currency of the Fund's assets underperforms relative to sterling (i.e. the currency of the liabilities).
- Environmental, social and governance ("ESG") - The risk that ESG related factors reduce the Fund's ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee is developing formal rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. Rebalancing is considered currently but not on a formal structured basis. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as liquid diversified growth funds, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis. Currently the Committee hedges 50% of its exposure to currency risk within its quoted equity allocation.

Details of the Fund's approach to managing ESG risks is set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and has attempted to reduce this risk by appointing more than one manager and having a significant proportion of the Scheme's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending - The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

The Pension Fund Committee reviews its risk register annually with emerging risks reported to Pension Fund Committee as they arise.

A more comprehensive breakdown of the risks to which the Fund is exposed and the approach to managing these risks is set out in appendix A. A separate schedule of risks that the Fund monitors is set out in the Fund's Draft Funding Strategy Statement.

The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund's intention is to invest its assets through the London CIV as and when suitable pool investment solutions become available. An indicative timetable for investing through the pool was set out in the July 2016 submission to Government. They key criteria for assessment of pool solutions will be as follows:

1. That the pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
2. That there is a clear financial benefit to the Fund in investing in the solution offered by the pool, should a change of provider be necessary.

Any assets not currently invested in the London CIV will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds to meet the Fund's investment strategy requirements.

The Fund holds 36% of its assets in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool

In addition the Fund has already transitioned other assets into the London CIV with a value of 11% of the assets and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

The Fund holds c.8% of its assets in illiquid strategies (private market credit and direct lending) and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest

through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

Structure and governance of the London CIV

The July 2016 submission to Government of the London CIV provided a statement addressing the structure and governance of the pool, the mechanisms by which the Fund can hold the pool to account and the services that will be shared or jointly procured.

How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

- **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- **Stewardship and governance** – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Panel undertakes training on a regular basis and this will include training and information sessions on matters of social, environmental and corporate governance.

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

The exercise of rights (including voting rights) attaching to investments

Voting rights

The Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitor the voting decisions made by all its investment managers on a regular basis.

Stewardship

The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the 7 Principles of the Stewardship Code. The Fund will be reviewing this position in 2017-18 with a view to formally adopting the Code.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which it invests.

The Committee expects both the London CIV and any directly appointed fund managers to also comply with the Stewardship Code and this will be monitored on an annual basis.

The Fund is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners

Chartered Institute of Public Finance ("CIPFA") Pensions Panel Principles for Investment Decision Making set out the six principles of good investment practice issued by Government (Myners principles). The extent to which the Fund complies is set out in Appendix B.

Prepared by:-

Andrew Elliott, Senior Investment Consultant

Mufaddal Jamali, Investment Analyst

For and on behalf of London Borough of Barnet Pension Fund Committee

Appendix A – Approach to Risk

Investment invariably involves an element of risk. The Committee, in recognition of this, has adopted a number of strategies to mitigate the impact of unavoidable risks on the Fund. The Fund is subject to the following risks:

Funding risk: Asset values may not increase at the same rate as liabilities, resulting in an adverse impact on the funding position. The Committee monitors the funding position by considering the Fund's investment strategy and performance relative to the liabilities as part of the Fund's quarterly performance monitoring exercise.

Financial mismatch risk: The Committee recognises that assets and liabilities have different sensitivities to changes in financial factors. To mitigate this risk, the investment strategy is set such that it provides exposure to real assets (which provide some form of inflation-hedging) as well as income generating assets that, to some extent, match the Fund's liabilities.

Liquidity/Cashflow risk: Investments are held until such time as they are required to fund payment of pensions. In 2016/2017 it is anticipated that the contributions due will exceed the net payments from the fund to pensioners. However, the liquidity risk is being closely monitored. The Committee manages its cashflows and investment strategy to ensure that all future payments can be met and that sufficient assets are held in liquid investments to enable short term cash requirements to be met.

Manager risk: Fund managers could fail to achieve the investment targets specified in their mandates. This is considered by the Committee when fund managers are selected and their performance is reviewed regularly by the Committee as part of the manager monitoring process.

Concentration risk: This relates to the risk that the performance of a single asset class, investment or manager has a disproportionate influence on the Fund's performance. The Committee attempts to mitigate this risk by establishing a well-diversified strategic asset allocation, reviewing the investment strategy regularly, and following a regular fund manager review process.

Demographic risk: This relates to the uncertainty around longevity. The Committee recognises there are effectively no viable options to mitigate these risks and assesses the impact of these factors through the Funding Strategy Statement and formal triennial actuarial valuations.

Counterparty risk: This risk relates to the counterparty in a financial transaction failing to meet its obligations to the Fund. The Committee has set guidelines with its fund managers and its custodian to limit its exposure to counterparty risk by specifying minimum credit ratings and credit limits. It has similarly applied this strict criteria within its stock lending agreements to mitigate counterparty risk in these transactions.

Currency risk: The strategic asset allocation adopted by the Committee provides for an overseas allocation to enhance diversification via exposure to different economies. Such investments are, however, subject to fluctuations in exchange rates with an associated impact on performance. As such, the Committee has opted to hedge 50% of the Fund's currency risk (based on overseas exposure of the passive global equity allocation). This is considered to strike a suitable balance between dampening the volatility associated with currency fluctuations and the cost associated with currency hedging.

Environmental, Social, and Governance Issues risk: The Committee recognises that environmental, social and ethical issues have the potential to impact on the long term financial viability of an organisation. The Committee encourages managers to exercise votes in line with their stated ESG objectives.

Appendix B – CIPFA Compliance

The statements below state the extent to which the Fund complies with the principles of investment practice originally issued by the Government in October 2001 in response to the recommendations of the Review of Institutional Investment undertaken by Lord Myners.

Principle 1: Effective decision-making

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they received, and manage conflicts of interest.

Compliant. The Council, as the administering authority, appoints the Pension Fund Committee, specifically for the purpose of managing the Fund's Investments. The Committee is supported by the actuary, independent advisors and officers.

Principle 2: Clear Objectives

Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant, and clearly communicate these to advisers and investment managers.

Compliant. The Fund's investment objective and attitude to risk are reviewed and adjusted where necessary, on the basis of the outcomes of asset liability studies.

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Compliant. The investment strategy is reviewed annually and updated to take account of the latest actuarial information. Risk of sponsor or fund default is irrelevant as the London Borough of Barnet Pension Fund benefits are guaranteed by law.

Principle 4: Performance Assessment

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.

Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Part Compliant. The performance of the Fund's investments is monitored on a quarterly basis by officers and also the adviser, Hymans Robertson. The Committee is looking into how to assess the performance of decisions taken.

Principle 5: Responsible Ownership

Trustees should adopt, or ensure their investment managers adopt the Institutional Shareholder's Committee Statement of Principles on the responsibilities of shareholders and agents.

A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.

Trustees should report periodically to members on the discharge of such responsibilities.

Compliant. Investment managers employed by the fund have clear corporate governance policies. The Pension Fund Committee has an approved voting policy.

Principle 6: Transparency and Reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

Trustees should provide regular communication to members in the form they consider most appropriate.

Compliant. The Committee publishes documents including the Investment Strategy Statement, Funding Strategy Statement, Corporate Governance policy and committee meeting minutes on the London Borough of Barnet website. Annual reports and accounts are also published on the website.

Table 1 - Fund asset allocation

Asset class	Benchmark	Benchmark Proportion	Maximum Allocation
Equity		**40%**	**44%**
Global equity	FTSE All World Index	**20%**	
	FTSE RAFI All World Equity GBP Hedged Index	**20%**	
Diversified growth funds	libor or inflation plus margin	**20%**	**28%**
Liquid Multi-asset credit	3 month libor plus margin 4-5%	**11%**	**14%**
Corporate bonds	Merrill Lynch Sterling Non-Gilts All Stocks Index	**10%**	**13%**
Strategic bonds	3 month Libor	**0**	**5%**
Illiquid alternatives	percentage annual return or 3 month libor plus a margin	**19%**	**23%**
		100%	

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Appendix 2

This table does not form part of the Investment Strategy Statement

Investment Managers and Benchmarks

Asset class / Investment Manager	Benchmark	Benchmark Proportion	Target
Equity		**40%**	
LGIM	FTSE All World Index	20%	Track within +/- 0.5% p.a. the index for 2 years in every 3
LGIM	FTSE RAFI All World Equity GBP Hedged Index	20%	
Divsified Growth Fund		**20%**	
Schroder DGF	CPI plus 5% p.a.	10%	To outperform the benchmark over a market cycle (typically 5 years
Newton Real Return	1 month LIBOR plus 4% p.a.	10%	to outperform the benchmark over a rolling 5 years
Corporate Bonds		**10%**	
Schroders All Maturities Corporate Bond Fund	Merrill Lynch Sterling Non-Gilts All Stocks Index	10%	To outperform the benchmark by 0.75% p.a. (gross of fees) over a rolling 3 years
Liquid Multi-Asset Credit		**11%**	
Alcentra - Clareant Global Multi Credit	3 month LIBOR plus 4% p.a.	3.50%	To outperform the benchmark over a market cycle (typically 5 years)
Baring Global High Yield Credit Strategies	3 month LIBOR plus 5% p.a.	3.50%	To outperform the benchmark over a market cycle (typically 5 years)
Insight - IIFIG Secured Finance	3 month LIBOR plus 4% p.a.	4%	To outperform the benchmark over a market cycle (typically 5 years)
Illiquid Alternatives		**19%**	
Partners Multi Asset Credit 2015	3 month LIBOR plus 4% p.a.	4%	Over the life of the fund
Partners Multi Asset Credit 2017	3 month LIBOR plus 4% p.a.	3%	Over the life of the fund
Alcentra - Clareant Direct European Lending	8-10% per annum	4%	Over the life of the fund
M&G Lion Credit Opportunities Fund	3 month Libor plus 2%	3%	Over the life of the fund
IFM Global Infrastructure	8-10% per annum	5%	Over the life of the fund
		100%	

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AGENDA ITEM 10

Pension Fund Committee

24 October 2017

Title	**Barnet Council Pension Fund Performance for the Quarter to June 2017**
Report of	Director of Resources
Wards	n/a
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Pension Fund Market Value of Investments as at 30 June 2017 Appendix B - Asset Allocation as at 30 June 2017 Appendix C – Review of Investment Managers' Performance for 2nd Quarter of 2017 (Hymans Robertson)
Officer Contact Details	George Bruce, Head of Treasury, CSG George.bruce@barnet.gov.uk - 0208 359 7126

Summary

This report summarises the Pension Fund investment managers' performance for the quarter to June 2017, based on the performance monitoring report provided by Hymans Robertson.

Recommendations

1. **Having considered the performance of the Pension Fund for the quarter to 30 June 2017, it is recommended that the Committee instructs the Director of Resources to address any issues that it considers necessary.**
2. **The Committee discuss the options set out in paragraph 5.2.9 to hold annual meetings with fund managers outside of normal Committee meetings and agree an appropriate format.**

1. WHY THIS REPORT IS NEEDED

1.1 To ensure that the Pension Fund is being invested prudently and in accordance with the Pension Fund investment strategy.

2. REASONS FOR RECOMMENDATIONS

2.1 The terms of reference of the Pension Fund Committee require the Committee to review and challenge the fund managers' quarterly investment performance against benchmarks and targets.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None

4. POST DECISION IMPLEMENTATION

4.1 The Director of Resources will carry out any actions considered necessary.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities (2015-2020).

5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 The Pension Fund appoints external fund managers to maximise Pension Fund assets in accordance with the Fund investment strategy. The Pension Fund is a long term investor and short term volatility of investment return is expected. In the longer term, the appointed fund managers are expected to deliver positive returns in accordance with the Fund benchmarks. The global diversification of the Pension Fund portfolio gives some protection against the market volatility. The funding level of the Scheme uses a valuation of the future liabilities discounted using gilt yields. The mismatch between assets held and the method of valuing future liabilities will also result in volatility of funding levels.

5.2.2 The valuation of the fund as at 30th September 2017 was £1,071.7 million as detailed on appendix B, an increase of £22.2 million in the quarter. The chart on appendix A indicates a steady increase in valuations over the last year and indeed the last nine years post the financial crisis of 2007.

5.2.3 The most recent changes in strategy was the decision at March 2017 to commit additional funds to credit strategies being – Partners multi asset credit 2017 (3%), IFM Infrastructure (5%), IIFIG Secured Finance (4%) and M&G Lion Credit

Opportunities (4%). These are being funded by the realisation of the Schroders Strategic Bond Fund and by rebalancing from the overweight asset classes.

5.2.4 During the quarter the process of subscribing to the Partners 2017 fund was completed. The first drawdown of funds of £7.5 million (25% of the commitment) is due on 23 October 2017. Funding for the M&G and IIFIG mandates were completed in April and June respectively. The Alcentra European Direct Lending Fund is partly funded and the IFM Infrastructure fund is anticipated to be drawn in one or two instalments during 2018. A further withdrawal of £20 million from Schroder's Strategic Bond Fund was undertaken on 16th October 2017

Performance Summary:

5.2.5 The Hymans report discusses the performance of the Fund over various time periods to 30 June 2017. Performance, net of fees, is shown on page 10 of their report.

5.2.6 The longer term periods – 12 months and 3 years, record underperformance against the customised benchmarks of 0.4% and 1.0% respectively. The main drivers are the relative returns from the Newton and Schroder Diversified Growth Funds that have annualised three year underperformance of 1.2% and 2.8% respectively. The net absolute returns since inception from both managers are lacklustre at best – Newton 3.4% and Schroder 4.5%. While early days, the performance of the newer mandates and of Schroder Corporate Bonds are above their respective mandates.

5.2.7 Most of the mandates are rated at Hymans highest level of conviction (preferred). The three exceptions – Schroders DGF and Corporate Bonds and Newton DGF are rated one level lower (retain). Comments made on page 12 of the Hymans report concerns over changes to the management team at Newton. Hymans indicated that they planned to meet the manager in August and could revise their rating. Andrew Elliott will comment at the meeting on developments.

5.2.8 The Hymans report, page 7, comments on the actuarial funding level. They estimate that as at August 2017, the funding level is unchanged from March 2016 at 73% although the absolute deficit has grown by £70 million. The report does not discuss the extent to which investment performance, changes in the gilt yield and other factors (inflation, longevity etc) have contributed to the change in deficit.

Fund Manager Meetings

5.2.9 The fund now has 14 different mandates, and keeping track of the nature of each mandate and the performance expected in different economic environments will be difficult when the Committee does not have a regular schedule of meetings with each manager. The Committee has rightfully concluded that it has insufficient time to routinely include manager presentations on the Committee agenda. However, it is appropriate that the Committee has the opportunity to meet the managers and remind themselves of why the

manager was appointed and is being retained. Two possible approaches are suggested:

1. That a fund manager day (or two evenings) is added to the Committee diary with each manager being invited to brief the Committee on the mandate, their portfolio and performance. Each manager would be allowed circa 30 minutes and given a strict briefing to ensure they focus on the matters of importance to the Committee; or

2. Officers together with a representative of Hymans arrange to meet each manager annually for an in-depth discussion at the manager's office with Committee members able to join the meeting. A written report on each meeting would be presented to the following Committee.

The Committee is invited to discuss whether these formats (or others) are suitable.

5.3 **Social Value**

5.3.1 Membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 **Legal and Constitutional References**

5.4.1 Constitution - Under Part 15, Annex A Responsibility for Functions, one of the terms of reference of the Pension Fund Committee is 'To review and challenge at least quarterly the Pension Fund investment managers' performance against the Statement of Investment Principles [now Investment Strategy Statement] in general and investment performance benchmarks and targets in particular.'

5.4.2 Clause 9 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 provides the power to appoint investment managers. The regulations no longer have a specific reference to monitoring investment managers but state "the authority must reasonably believe that the investment manager's ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it." Only through periodic monitoring can the Committee achieve this requirement.

5.5 **Risk Management**

5.5.1 A key risk is that of poor investment performance. The performance of the fund managers is monitored by the Pension Fund Committee every quarter with reference to reports from Hymans Robertson, the Pension Fund investment adviser. If a fund manager's performance is considered inadequate, the fund manager can be replaced.

5.5.2 Risks around safeguarding of Pension Fund assets are highlighted in the current economic climate following the Brexit decision in the UK. Fund managers need to have due regard to longer term investment success, in the

context of significant market volatility.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public sector equality duty. The Public Sector Equality Duty requires public authorities in carrying out their functions, to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

5.7 **Consultation and Engagement**

5.7.1 Not applicable

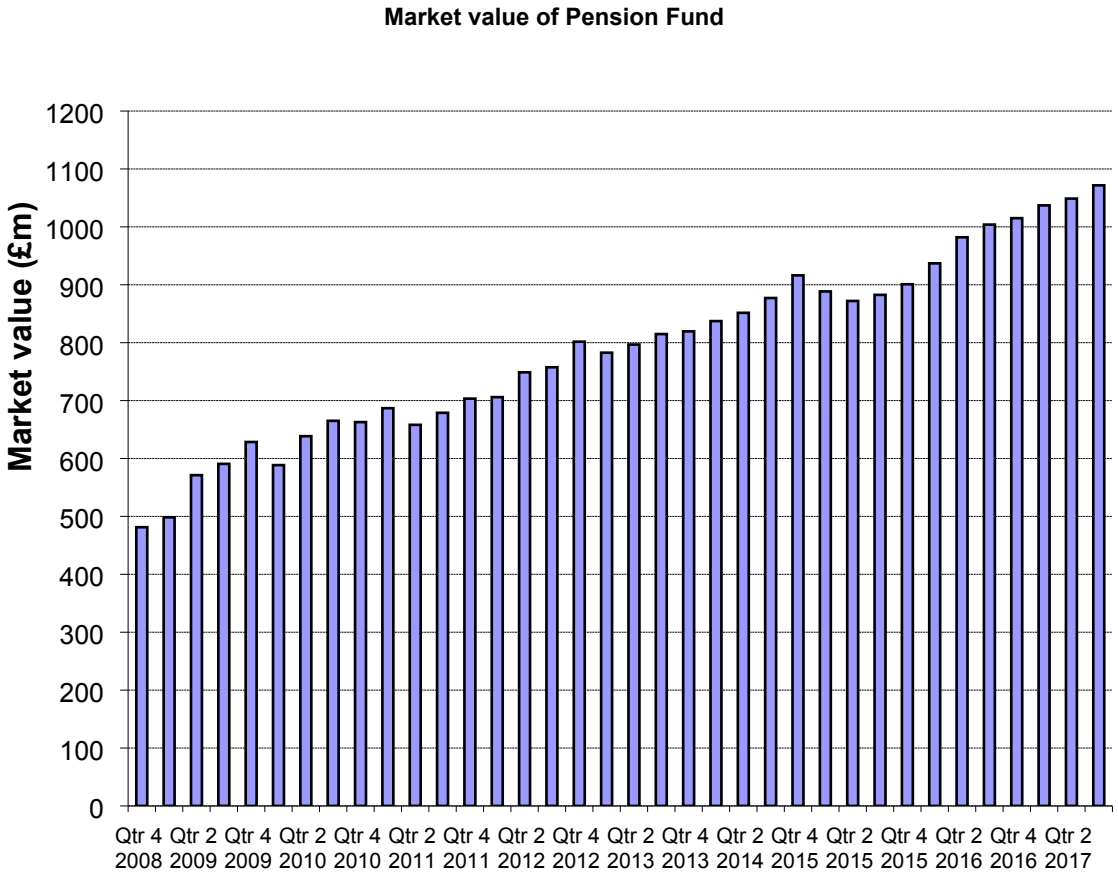
5.8 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

Appendix A – Market Value of Investments as at 30 September 2017



Appendix B - Asset Allocation to 30 September 2017

Total value of Externally Managed Investments as at 30 Sept 2017

	Valuation as at 30.09.2017			Target Allocation		
	£	%	%	%	%	£
Equities						
LGIM Global	208,983,825	19.50		18.00		192,904,691
LGIM RAFI	212,640,068	19.84		18.00		192,904,691
	421,623,893		**39.34**		**36.00**	
Diversified Growth						
Schroder	148,644,345	13.87		11.00		117,886,200
Newton	134,078,867	12.51		11.00		117,886,200
	282,723,212		**26.38**		**22.00**	
Multi Credit Liquid						
Schroder Strategic Bond	45,274,621	4.22		0.00		0
Barings Global High Yield	37,318,428	3.48		3.50		37,509,246
Alcentra Clareant Global Multi Credit	33,630,930	3.14		3.50		37,509,246
Insight IIFIG Secured Finance	40,506,621	3.78		4.00		42,867,709
	156,730,600		**14.62**		**11.00**	
Corporate Bonds						
Schroder Corp Bond	118,658,757		**11.07**		**12.00**	128,603,127
Illiquid Alternatives						
Alcentra Clareant European Direct Lending	18,777,325	1.75		4.00		42,867,709
Partners MAC 2015	37,891,161	3.54		4.00		42,867,709
Partners MAC 2017	0	0.00		3.00		32,150,782
M&G Lion Credit Opportunities Fund	30,481,793	2.84		3.00		32,150,782
IFM Global Infrastructure	0	0.00		5.00		53,584,636
	87,150,279		**8.13**		**19.00**	
Internally held Cash	4,805,988		**0.45**			
Total	**1,071,692,729**		**100.00**		**100.00**	**1,071,692,729**

HYMANS ROBERTSON

London Borough of Barnet Pension Fund

Review of Investment Managers' Performance for the Second Quarter of 2017

Prepared By:

Andrew Elliott - Senior Investment Consultant
Kinna Patel - Investment Analyst

For and on behalf of Hymans Robertson LLP
October 2017

Contents

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Executive Summary

Market Summary

Sterling strength largely offset global equity strength over the quarter. Global equity sector performance was dominated by Oil & Gas poor performance whilst growth stocks, particularly healthcare, outperformed. The best regional performance came from Japan and Europe, both perhaps boosted by their robust economic momentum. The French election result eased concerns from earlier in the year of political instability. The US struggled, partly due to the failure of the new administration to deliver the tax reforms and infrastructure spending that had encouraged investors in the wake of the presidential election.

The Federal Reserve raised US interest rates again in June to 1-1.25% p.a., ignoring weakness in short-term inflation data. They are also expected to start unwinding their QE programme later in the year. Headline inflation in the UK continued to rise on the back of last year's fall in Sterling. Despite rising inflation, the Bank of England held rates at 0.25% p.a., due to the moderation in pay growth. Gilt yields rose at the end of June as investors grew more concerned about potential tightening of monetary policy.

Manager Ratings Summary

Manager	Fund Name	Rating
Legal & General	Equity index funds	
Newton	Real Return Fund	
Schroder	Diversified Growth Fund	
Schroder	ISF Strategic Bond Fund	
Schroder	All Maturities Corporate Bond Fund	
Partners Group	Multi-Asset Credit 2015 Fund	
Barings	Global High Yield Credit Strategies Fund	
Alcentra	European Direct Lending Fund II	
Alcentra	Global Multi-Credit Fund	
Insight	Secured Finance Fund	
M&G	Alternative Credit Fund	

Valuation and Performance Summary

Fund assets totalled c.£1049m at the end of Q2 2017, an increase of c.£11.7m from the end of the previous quarter.

The Fund's assets returned 0.9% (net of fees) over the quarter, slightly underperforming the combined benchmark for the period by 0.1%.

All mandates, (excluding passive funds), with the exception of Schroder Life DGF, Newton Real Return Fund and LGIM Global Equity posted modest outperformance relative to their performance targets. Over the 12 months to 30 June 2017, the Fund has returned 12.2% p.a. (net) outperforming the combined benchmark by 0.4% p.a., however the Fund lags its benchmark over longer time periods.

Actions and Recommendations

The Insight Secured Finance Fund and M&G Alternative Credit Fund were appointed over the second quarter of 2017.

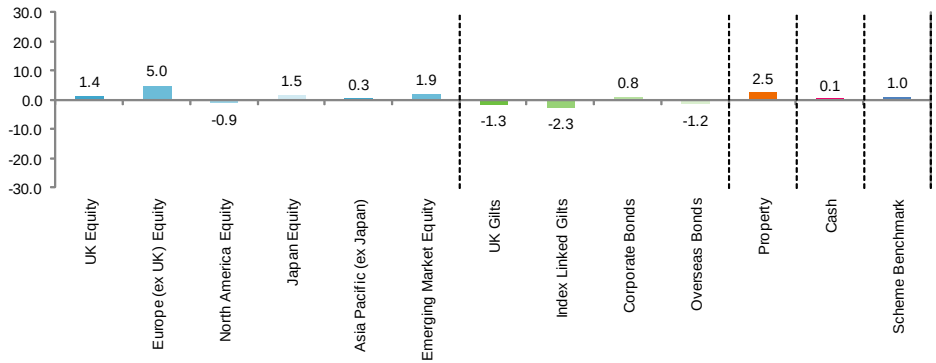
All the Fund's investment managers are currently rated either a '4-Retain' or '5-Preferred strategy'.

The were no significant changes over the quarter to warrant any changed in ratings.

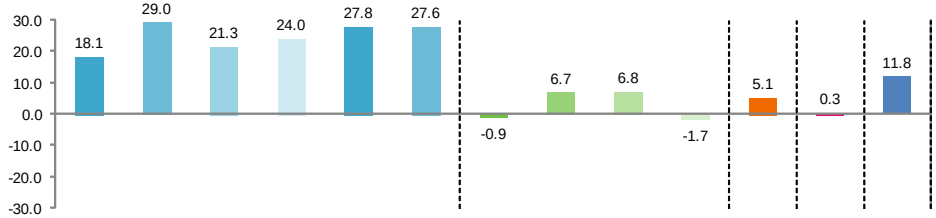
Historic Returns for World Markets to 30/06/2017

Historic Returns [1] [i]

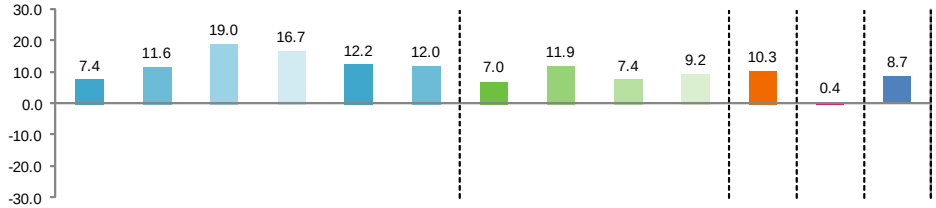
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comment

The economic weather followed a similar pattern to Q1. Survey data pointed to decent momentum in global growth. This was generally reflected in hard data from the Eurozone and Japan, but there were signs that any rebound from disappointing Q1 growth in the UK and US might be subdued.

The Federal Reserve raised US interest rates again in June, to a range of 1-1.25% p.a., ignoring unexpected weakness in short-term inflation data. They also indicated their intention to start unwinding their QE programme later in the year.

Headline inflation in the UK continued to rise, with May's UK CPI inflation of 2.9% p.a. as high as it has been for over five years. The BoE has held rates at 0.25% p.a., citing the moderation in pay growth. Three members of the MPC (out of 8) voted for a rate rise in June, and markets have adjusted to imply a better than evens chance of a rate rise before the end of the year.

Gilt yields rose over the quarter. A spike in yields after the announcement of the election in mid-April had been quickly unwound, but yields rose again at the end of June as investors grew more concerned about the possibility of tighter monetary policy.

Sterling investment-grade credit markets had another good quarter relative to gilts – yield spreads on AA-rated bonds hit their lowest levels for over 12 years. Across global credit markets, lower-rated credit led the gains. In the US, the yield premium on speculative grade BB-rated bonds relative to investment-grade AA-rated bonds is as low as it has been since the early days of the credit crunch.

Within currency markets, the Euro strengthened against the US Dollar and the Yen. Sterling fared relatively well in spite of post-election uncertainties towards the end of the quarter.

Brent crude fell from $53 to $48 a barrel over the quarter, erasing most of the gains that followed OPEC's announcement of an output cut last November.

Global equity indices rose over the quarter, establishing new all-time highs in June, while levels of volatility implied by options markets fell to new lows. However, Sterling strength towards the end of June offset earlier gains. The best regional performance came from Japan and Europe, both perhaps boosted by their robust economic momentum. Global equity sector performance was again dominated by the weakness of Oil & Gas. Outperformance from the Healthcare sector reflected the more general outperformance of growth stocks relative to value stocks – a reversal of the trend of late 2016.

UK property values continued to edge higher in Q2, but remain a little below pre-referendum levels. The strongest gains are still coming from the industrial sector, where rental growth is also slightly ahead of a modest overall rise.

[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: Equities – FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite; Bonds – FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds; Property – IPD UK Monthly Property Index; Cash – UK Interbank 7 Day.

Source: [i] DataStream, Fund Manager, Investment Property Databank Limited

Hymans Robertson LLP

LGPS Focus

Holiday homework

It might be the school holidays but the Scheme Advisory Board (SAB) has given English LGPS funds some further homework to do on academy schools. Following the report commissioned earlier this year, SAB is seeking feedback on whether it is on the right lines. The consultation on LGPS academies objectives runs to 29 September, and is only addressed to funds and committees, not academies, councils or advisers. We will be producing a note soon, which will help you frame your own response.

MiFID II - Upgrading

The Financial Conduct Authority (FCA) has issued its final policy statement setting out the rules for implementation of the Markets in Financial Instruments Directive ("MiFID II"), effective from 3 January 2018. A key change is that there is now greater clarity in the "opt-up" criteria that is expected to make it easier for local authorities administering LGPS funds to elect to be treated as "professional" (rather than "retail") clients. Further details are provided in our Sixty Second Summary.

Making another statement

Following the High Court's ruling that its original guidance on preparing and maintaining an Investment Strategy Statement was unlawful (due to it including the statement "...using pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries..."), Department for Communities and Local Government (DCLG) has published revised guidance which has removed the offending statement. The DCLG has also gained permission to appeal the ruling and, we understand, they are planning to do so. There is no date for when the appeal will be held.

Reduction in MPAA

Following the announcement of the last general election, the Government was forced to trim its legislative ambitions in an effort to get key pieces of legislation, such as the Finance Act 2017, passed before Parliament was dissolved on 9 May. Among the clauses dropped was a proposal to reduce the Money Purchase Annual Allowance (MPAA) from £10,000 to £4,000 with effect from the 2017/18 tax year. This clause will resurface in what will be the Finance (No.2) Act 2017, assuming of course that it can gain sufficient Parliamentary support. The aim is to introduce the change with effect from 6 April 2017, which means that some individuals who had made pension savings in accordance with the old limits could face a hefty retrospective tax charge.

No fundamental change?

David Gauke, the new Work and Pensions Secretary, recently announced that tax relief on pensions "wouldn't see any fundamental changes in the near future" and admitted that there was little political consensus for a radical overhaul on pension saving incentives. The use of the word "fundamental" is significant, with many in the industry fearing that the announcement leaves the way open for ever more tinkering i.e. reductions to the annual and lifetime allowances.

The downside to living longer

The latest review of the State Pension Age (SPA) has led the Government to recommend that it increases to 68, seven years ahead of schedule. The increase is planned to take place between 2037 and 2039 and affects those currently aged between 39 and 47. We estimate that this hits about 20% of LGPS active members, although the impact on LGPS finances is very small. Our 60 Second Summary provides more detail.

Counting the costs - update

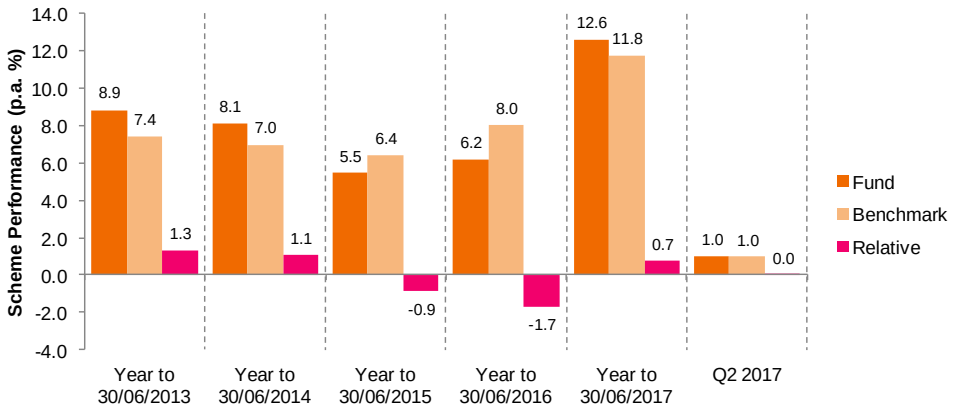
We have highlighted previously the launch of the LGPS' Code of Transparency for Asset managers ("the Code"). The Code's aim is to help Funds obtain the data they require, to allow them to report costs on a consistent and transparent basis to the Scheme Advisory Board. We are now seeing a number of managers sign up to the Code (12 at time of writing) with more expected to follow. We discuss the Code further in the following blog.

Fund Summary

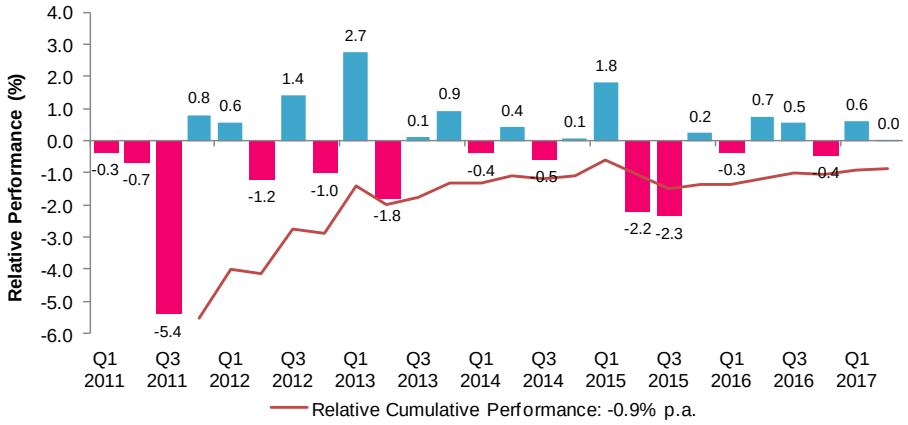
Valuation Summary [1] [i]

Asset Class	Values (£m) Q1 2017	Q2 2017	Actual Proportion %	Target Proportion %	Difference %
Alternative Credit	0.0	70.4	6.7	6.0	0.7
Global Equity	405.6	408.7	39.0	36.0	3.0
Absolute Return Funds	278.3	281.2	26.8	27.0	-0.2
Multi-Credit	163.5	115.2	11.0	7.0	4.0
Corporate Bonds	114.7	116.1	11.1	12.0	-0.9
Illiquid Credit	51.2	52.8	5.0	12.0	-7.0
Cash	23.9	4.5	0.4	0.0	0.4
Total Client	**1037.1**	**1048.8**	**100.0**	**100.0**	

Performance Summary (Gross of fees) [ii]



Relative Quarterly and Relative Cumulative Performance (Gross of Fees) [iii]

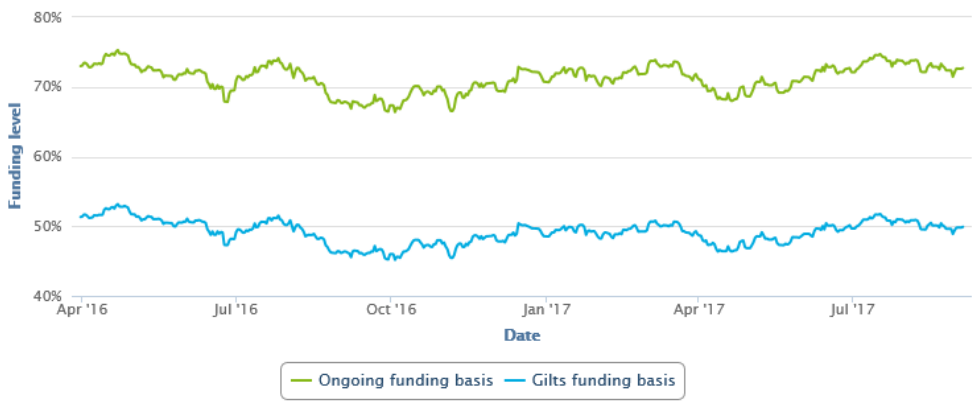


[1] The Q1 and Q2 valuations for the Alcentra Direct Lending fund are as at 31/12/16 and 31/03/17 respectively, due to a lag applied by the manager.

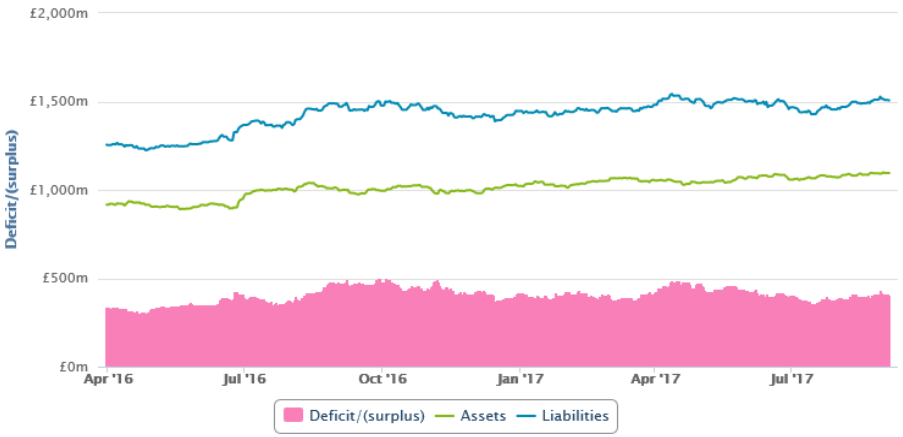
Source: [i] Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson, [iii] DataStream, Fund Manager, Hymans Robertson

Funding update

Progression of funding level (on different bases)



Funding position (gilts + 1.6% p.a. basis)



Comments

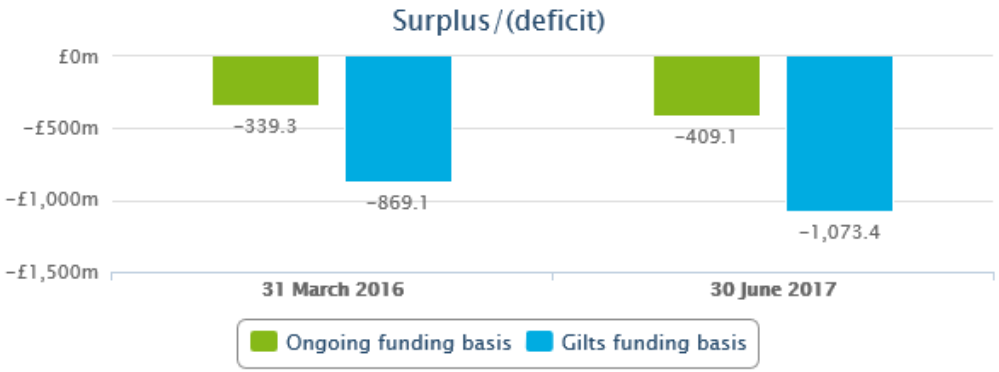
We have estimated the progression of the Fund's funding position (on different bases) since the last actuarial valuation at 31 March 2016. The analysis is based on the 2016 actuarial valuation report. The liabilities have been "rolled forward" allowing for changes in gilt yields over time.

We estimate that since 31 March 2016 the Fund's funding level (on a gilts + 2.0% p.a. basis) has fallen from c. 73% to c. 72% as at 30 June 2017.

As at 30 June 2017, we estimate that the Fund's deficit on a gilts + 2.0% basis is around £409m, an increase of c. £70m since 31 March 2016.

Since the end of June 2017, we estimate the Fund's funding level (on a gilts + 2.0% p.a. basis) has increased to 73% (as at 22 August 2017).

Surplus / deficit (on different bases)



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Manager Summary

Manager Summary

Manager	Investment Style	Benchmark Description	Annual Fee (bps)	Rating *
LGIM Global Equity	Passive	FTSE World Net Tax (UKPN)	15	
Alcentra Multi-Credit	Active	£ 3 month LIBOR + 4% p.a.	50	
Newton Real Return Fund	Active	1 month £ LIBOR + 4% p.a.	59	
Schroder Life Diversified Growth Fund	Active	CPI + 5% p.a.	60	
Barings Multi-Credit	Active	£ 3-month LIBOR + 5% p.a.	53	
Insight Secured Finance Fund	Active	3 Month LIBOR + 4%	36	
M&G ABS Alternative Credit Fund	Active	LIBOR +2% p.a.	0	
Schroder All Maturities Corporate Bond Fund	Active	Merrill Lynch Sterling Non-Gilts All Stocks Index	18	
Schroder ISF Strategic Bond Fund	Active	3 month £ LIBOR + 2% p.a.	52	
Alcentra Direct Lending	Active	-	100	
Partners Group MAC 2015	Active	-	73	
Cash	Cash	-	0	

* For information on our manager ratings, see individual manager pages

Key:- - Replace - On-Watch - Retain

Manager Valuations [1] [i]

Manager	Value (£m) Q1 2017	Q2 2017	Actual Proportion %	Target Proportion %	Difference %
LGIM Global Equity	405.6	408.7	39.0	36.0	3.0
Alcentra Multi-Credit	32.8	33.3	3.2	3.5	-0.3
Newton Real Return Fund	133.7	135.2	12.9	13.5	-0.6
Schroder Life Diversified Growth Fund	144.6	145.9	13.9	13.5	0.4
Barings Multi-Credit	36.2	36.8	3.5	3.5	0.0
Insight Secured Finance Fund	0.0	40.0	3.8	3.0	0.8
M&G ABS Alternative Credit Fund	0.0	30.4	2.9	3.0	-0.1
Schroder All Maturities Corporate Bond Fund	114.7	116.1	11.1	12.0	-0.9
Schroder ISF Strategic Bond Fund	94.5	45.1	4.3	0.0	4.3
Alcentra Direct Lending	13.6	15.4	1.5	4.0	-2.5
Partners Group MAC 2015	37.5	37.5	3.6	8.0	-4.4
Cash	23.9	4.5	0.4	0.0	0.4
Total	**1037.1**	**1048.8**	**100.0**	**100.0**	0.0

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Source: [i] Fund Manager, Hymans Robertson

Performance Summary (Gross of fees)

Performance Summary [1] [i]

		LGIM Global Equity	Alcentra Multi-Credit	Newton Real Return Fund	Schroder Life Diversified Growth Fund	Barings Multi-Credit	Insight Secured Finance Fund	M&G ABS Alternative Credit Fund	Schroder All Maturities Corporate Bond Fund	Schroder ISF Strategic Bond Fund	Total Fund
3 Months (%)	Absolute	0.8	1.5	1.2	0.9	1.7	N/A	1.5	1.2	1.0	1.0
	Benchmark	0.8	1.1	1.1	2.0	1.3	N/A	0.5	0.5	0.6	1.0
	Relative	0.0	0.5	0.1	-1.1	0.4	N/A	1.0	0.7	0.4	0.0
12 Months (%)	Absolute	22.2	11.6	-0.7	8.7	14.4	N/A	N/A	7.9	5.6	12.6
	Benchmark	22.2	4.5	4.3	8.6	5.5	N/A	N/A	5.4	2.4	11.8
	Relative	0.0	6.9	-4.9	0.1	8.4	N/A	N/A	2.3	3.1	0.7
3 Years (% p.a.)	Absolute	12.9	N/A	3.8	4.7	N/A	N/A	N/A	7.6	N/A	8.0
	Benchmark	12.8	N/A	4.4	7.1	N/A	N/A	N/A	6.9	N/A	8.7
	Relative	0.1	N/A	-0.6	-2.3	N/A	N/A	N/A	0.6	N/A	-0.6
Since Inception (% p.a.)	Absolute	10.5	10.5	3.9	5.0	13.0	0.5	N/A	7.5	3.4	6.9
	Benchmark	10.4	4.5	4.6	7.8	5.5	0.0	N/A	7.1	2.5	7.9
	Relative	0.0	5.7	-0.6	-2.6	7.2	0.5	N/A	0.4	1.0	-0.9

[1] Since inception performance includes historic returns generated by managers that are no longer held by the Fund. Since inception figures for some funds may be slightly different to the manager reports due to rounding or different dates being used as the 'inception point'.

Source: [i] DataStream, Fund Manager

Performance Summary (Net of fees)

Performance Summary [1] [i]

		LGIM Global Equity	Alcentra Multi-Credit	Newton Real Return Fund	Schroder Life Diversified Growth Fund	Barings Multi-Credit	Insight Secured Finance Fund	M&G ABS Alternative Credit Fund	Schroder All Maturities Corporate Bond Fund	Schroder ISF Strategic Bond Fund	Total Fund
3 Months (%)	Absolute	0.7	1.4	1.0	0.8	1.6	N/A	1.5	1.2	0.9	0.9
	Benchmark	0.8	1.1	1.1	2.0	1.3	N/A	0.6	0.5	0.6	1.0
	Relative	0.0	0.3	0.0	-1.2	0.3	N/A	0.9	0.7	0.3	-0.1
12 Months (%)	Absolute	22.0	11.1	-1.3	8.1	13.8	N/A	N/A	7.7	5.1	12.2
	Benchmark	22.2	4.5	4.3	8.6	5.5	N/A	N/A	5.4	2.4	11.8
	Relative	-0.2	6.4	-5.4	-0.5	7.9	N/A	N/A	2.1	2.6	0.4
3 Years (% p.a.)	Absolute	12.7	N/A	3.2	4.1	N/A	N/A	N/A	7.4	N/A	7.6
	Benchmark	12.8	N/A	4.4	7.1	N/A	N/A	N/A	6.9	N/A	8.7
	Relative	0.0	N/A	-1.2	-2.8	N/A	N/A	N/A	0.4	N/A	-1.0
Since Inception (% p.a.)	Absolute	10.3	10.0	3.4	4.5	12.5	0.5	N/A	7.4	2.9	6.5
	Benchmark	10.4	4.5	4.6	7.8	5.5	0.0	N/A	7.1	2.5	7.9
	Relative	-0.1	5.3	-1.1	-3.1	6.7	0.5	N/A	0.2	0.4	-1.3

[1] Since inception performance includes historic returns generated by managers that are no longer held by the Fund.

Source: [i] DataStream, Fund Manager

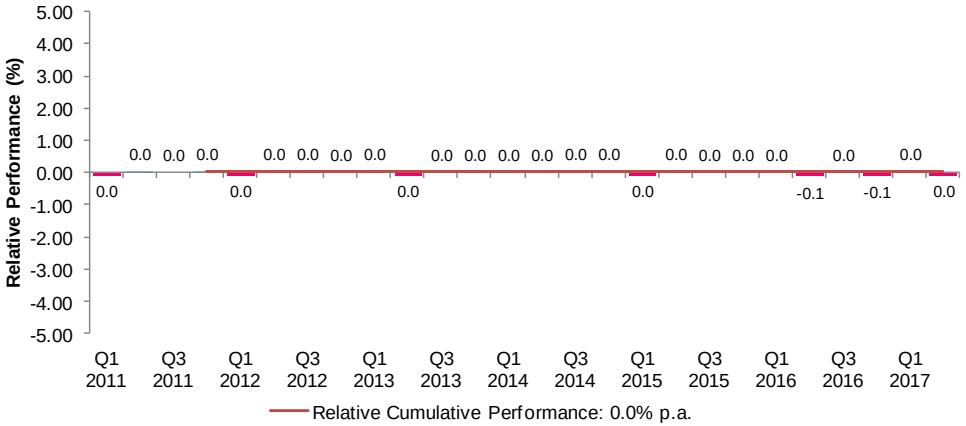
LGIM Global Equity

HR View Comment & Rating

We rate Legal and General Investment Management's market cap and fundamental index-tracking equity capability at '5 – Preferred strategy'.

There were no significant developments over the quarter.

Relative Quarterly and Relative Cumulative Performance [i]



Fund Commentary

Long term performance shown has been retained to include the performance of the World (ex UK) Equity Index fund since 31 December 2010.

LGIM's global equity mandate has been set up to broadly hedge 50% of its overseas currency exposure.

The second quarter of 2017 was not as positive as last quarter for equity markets, with the fund's overall equity portfolio returning 0.7%, broadly in line with the index as expected of a passive manager.

Performance Summary (Net of fees) [1] [ii]

	3 Months (%)	12 months (%)	3 years (% p.a.)	Since Inception* (% p.a.)
Fund	0.7	22.0	12.7	10.3
Benchmark	0.8	22.2	12.8	10.4
Relative	**0.0**	**-0.2**	**0.0**	**-0.1**

* Inception date 31 Dec 2010

[1] Long term performance returns includes performance of World (ex UK) Equity Index Fund to 8 October 2015. 3 month return includes performance of World (ex UK) Dev Equity fund from 23 October 2015, performance of UK Equity fund and World EM Equity fund from 15 October 2015 and performance of RAFI AW 3000 Equity fund from 8 October 2015.

Source: [i] DataStream, Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson

Newton Real Return Fund

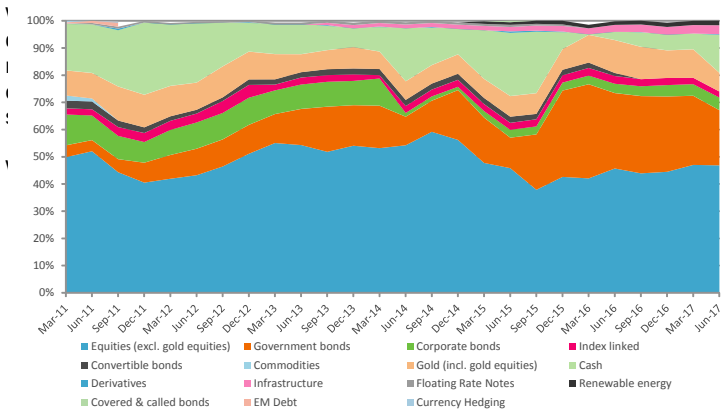
HR View Comment & Rating

Newton has announced that Peter Hensman, a macroeconomic strategist in the Real Return team, has left the firm to pursue other opportunities. Hensman joined the team in June 2016 and provided macroeconomic support for Iain Stewart. Hensman is replaced by Brendan Mulhern, who has transferred over from the research team at Newton. We are cautious about this development and are to meet the team in August for an update to help us assess whether the current rating for the fund remains appropriate.

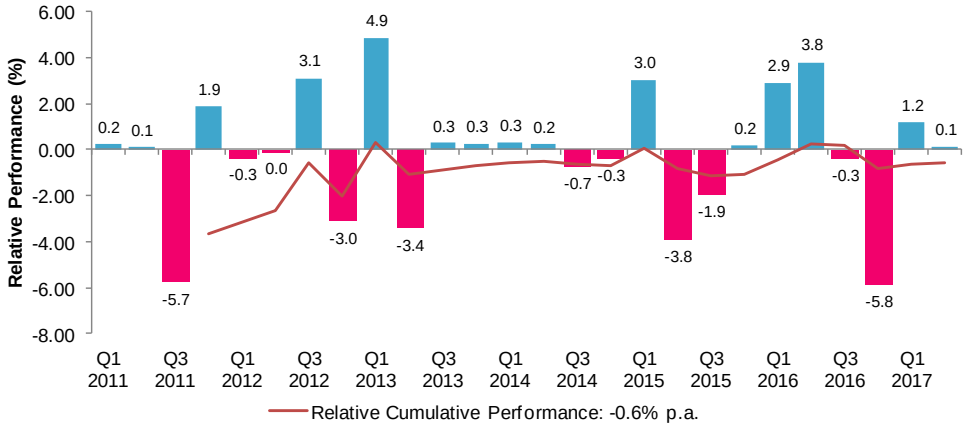
Newton has announced that Curt Custard will join as its CIO on 14 August 2017. Custard joins from UBS Asset Management where he was Head of Global Investment Solutions. The decision to appoint a CIO is interesting considering it has operated without a CIO since Simon Pryke, left the business in 2015. We are due to meet CEO Hanneke Smits later in the month and will get more detail on the motivations behind this appointment before we comment further.

In addition, Newton has announced that it has decided to absorb the cost of external research rather than passing it on to clients through higher fees. This move comes ahead of the upcoming MiFID II directive that will force asset managers to pay for sell-side research produced by investment banks.

Change in asset allocation over time [i]



Relative Quarterly and Relative Cumulative Performance [ii]



Fund Commentary

The fund produced a positive return of 1.0% over Q2 2017, slightly below of its Libor + 4% per annum target return. The fund continues to lag the target return over longer time periods.

The fund continues to rely on equities to deliver returns and they contributed the bulk of returns over the quarter, adding 1.3% to performance over Q2 notably in health care, consumer goods and technology. The fund's allocations to infrastructure and emerging market debt remained broadly flat, whilst corporate bonds added marginally to performance.

Towards the end of the quarter, investors increased their expectations of tighter monetary policy which led to bond yields rising and the fund's interest rate sensitive assets suffered, particularly government bonds. The fund's protective derivative positions on equity indices, which were implemented last year to dampen volatility, continue to hurt performance and detracted 1.0% from the fund's returns over Q2. The fund maintains a 15% overseas currency exposure with the majority of currency exposure hedged into sterling through forward contracts, which continued to hurt performance following the sharp drop in sterling.

Over the quarter, the net equity exposure remained unchanged, though the team have introduced new positions in financials and oil & gas. The fund's cash levels increased over Q2 from 7% to 13% of total assets, as the team reduced the US Treasury exposure to lock in profits made from the fall in yields since the start of the year and to also reduce the duration sensitivity of the portfolio.

The team continue to add interest rate sensitivity protection through bond options. The team continue to maintain a cautious view on valuations and believe that the market conditions remain deflationary as central banks take a careful approach. Therefore, the team expect to maintain the return-seeking core at historically low levels, whilst trying to identify opportunities based on fundamental valuations.

Source: [i] Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson

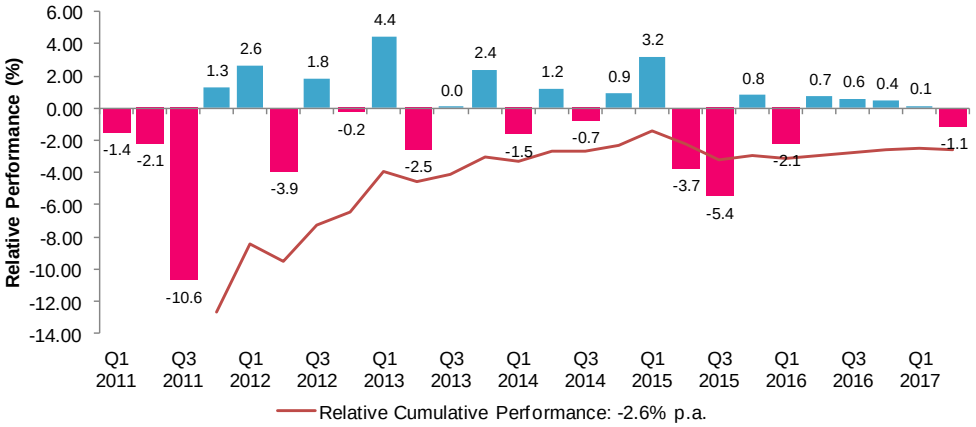
Schroder Diversified Growth Fund

HR View Comment & Rating

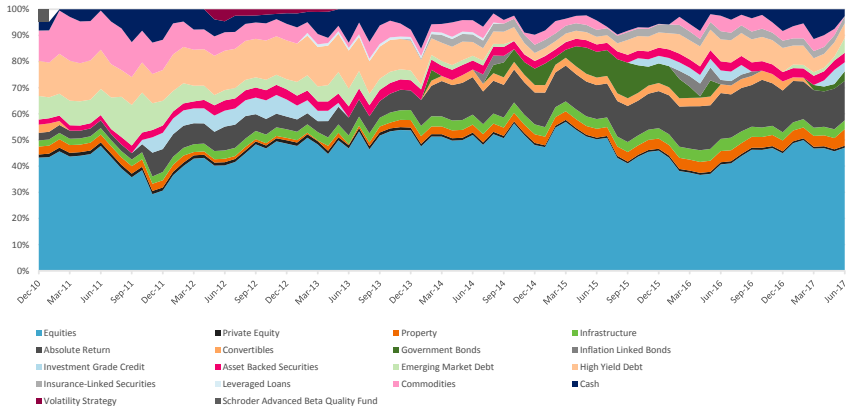
There were no significant developments over the quarter.

We continue to rate Schroder Diversified Growth at '4 - Retain'.

Relative Quarterly and Relative Cumulative Performance [ii]



Change in asset allocation over time [i]



Fund Commentary

Over the second quarter of 2017 Schroder's DGF posted an absolute return of 0.8%, underperforming its CPI + 5% p.a target by 1.2%. The fund continues to remain behind its performance target over longer time periods.

The fund's holdings in US and emerging market equities were the largest drivers during a quarter of strong equity performance. For the US, this was despite political uncertainty over the ability of the US administration to push through reflationary policies. This prompted the manager to take profits and trim back from areas that require higher levels of inflation. Concurrently, the manager reinvested in more diversifying positions as inflation expectations have receded. The fund's increasing allocation to emerging market equities has proved to be fruitful as performance was supported by tailwinds of a weaker US dollar and boosted markets such as Korea and Taiwan. Towards the end of the quarter the manager added a newly actively managed strategy to the portfolio in hopes to generate excess returns. As global credit spreads continue to narrow, the allocation to US 10-year Treasury added to performance. The main detractor from returns over Q2 were both commodities and currency strategies.

Source: [i] Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson

Hymans Robertson LLP

Schroder ISF Strategic Bond Fund

HR View Comment & Rating

There were no significant developments over the quarter.

Although we do not explicitly rate the ISF Strategic Bond Fund, we continue to rate Schroder Sterling Corporate Bond Fund at '4 - Retain'.

Performance Summary (Net of fees) [i]

	3 Months (%)	12 months (%)	Since Inception* (% p.a.)
Fund	0.9	5.1	2.9
Benchmark	0.6	2.4	2.5
Relative	**0.3**	**2.6**	**0.4**

* Inception date 30 Nov 2015

Fund Commentary

The fund originally had a stated performance target of LIBOR + 4% p.a. over a market cycle which is typically c. 5 years. We have viewed this performance target as ambitious given the type of strategy being employed and, therefore, have been measuring the fund against a benchmark of LIBOR + 2% p.a., at least over the shorter term, as we believe this level of outperformance to be a more realistic target for the fund to achieve. More recently, the fund has also revised its target to LIBOR + 2% p.a. due to the manager's pessimistic outlook of markets.

Over Q2 2017 the fund outperformed its performance target of LIBOR + 2% p.a by 0.3%.

At a high level, the fund's active currency strategies and allocations to emerging markets and credit contributed positively to performance, whilst interest rate strategies detracted from performance; primarily driven by a short position in US duration.

The long position in Czech koruna also contributed to performance as the position was implemented in anticipation of the abolition of the currency floor by the Czech central bank.

The manager continues to believe that GBP has potential to weaken further and although they have trimmed the short allocation during the quarter, they still remain short in the portfolio overall.

Source: [i] Fund Manager

Hymans Robertson LLP

Barings Global High Yield Credit Strategies Fund

HR View Comment & Rating

There were no significant changes to report over the quarter.

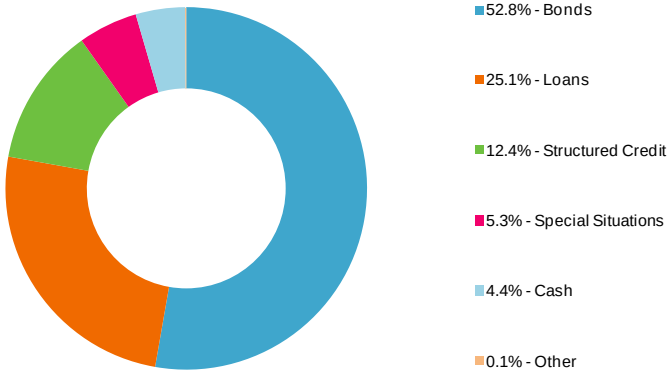
We continue to rate M&G ABS Alternative Credit Fund at '5 - Preferred Strategy'.

Performance Summary (Net of fees) [ii]

	3 Months (%)	12 months (%)	Since Inception* (% p.a.)
Fund	1.6	13.8	12.5
Benchmark	1.3	5.5	5.5
Relative	**0.3**	**7.9**	**6.7**

* Inception date 10 Jun 2016

Asset Allocation [i]



Fund Commentary

Over the quarter to 30 June 2017, the fund delivered a return of 1.5%, outperforming its performance target return of LIBOR + 2% p.a. by 0.9%.

During Q2, spreads across all sectors continued to grind tighter following a continuation of the year-to-date ABS market rally. Numerous UK deals in the primary market were oversubscribed, this in turn helped drive spreads tighter in the secondary market.

The manager continues to look for attractively priced investment opportunities in both the primary and secondary market.

Source: [i] Fund Manager, [ii] DataStream, Fund Manager

Hymans Robertson LLP

Alcentra Global Multi-Credit Fund

HR View Comment & Rating

There were no significant changes to report over the quarter.

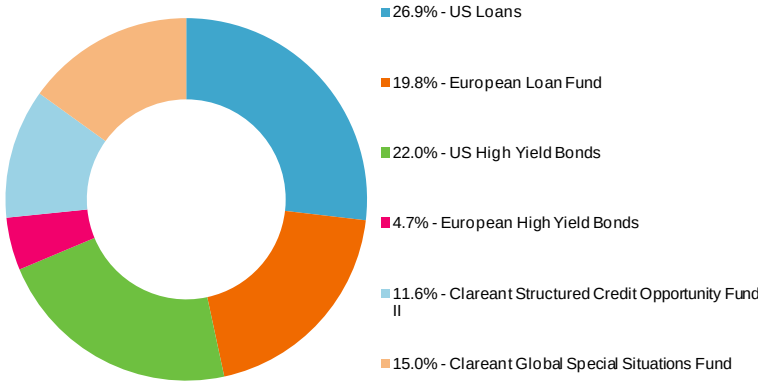
We continue to rate Alcentra Global Multi-Credit at '5 - Preferred Strategy'.

Performance Summary (Net of fees) [ii]

	3 Months (%)	12 months (%)	Since Inception* (% p.a.)
Fund	1.4	11.1	10.0
Benchmark	1.1	4.5	4.5
Relative	**0.3**	**6.4**	**5.3**

* Inception date 03 May 2016

Asset Allocation by Strategy [i]



Fund Commentary

The Fund's allocation to Alcentra's multi-credit fund has a made strong start since inception back in May 2016. The fund delivered a positive return of 1.4% during the quarter, outperforming the benchmark by 0.3%. Since inception, the fund is 5.3% ahead of the benchmark.

Following on from strong returns earlier in the quarter, risk asset performance in June was mixed. Macro data releases contributed to a solid start to the month, although the fallout from the UK general election weighed on Sterling and UK based assets, while the struggling healthcare bill cast new doubt on hopes of US fiscal expansion; both of which caused a drag on performance. In addition, sovereign bond yields widened sharply following the hawkish commentary from the European Central Bank and the Bank of England in late June.

Performance was stable for sub-investment grade credit in June. As previously noted, politics and interest rate volatility dragged on risk asset returns, with UK and long duration assets underperforming,

Source: [i] Fund Manager, [ii] DataStream, Fund Manager

Hymans Robertson LLP

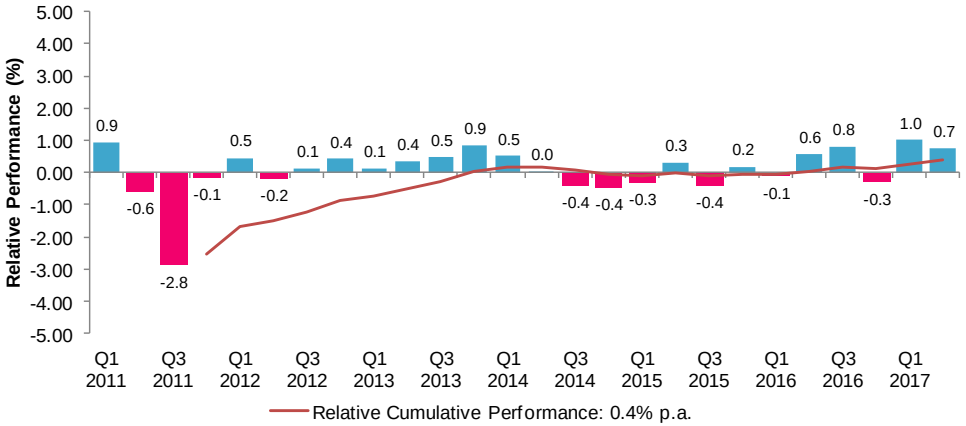
Schroder Corporate Bond Fund

HR View Comment & Rating

There were no significant developments over the quarter.

We continue to rate Schroder Corporate Bond Fund at '4 - Retain'.

Relative Quarterly and Relative Cumulative Performance [i]



Fund Commentary

The Schroder All Maturities Corporate Bond Fund seeks to outperform its benchmark by 0.75% p.a. (gross of fees) over a rolling 3 year period. The fund remains ahead of its benchmark over all time periods, and outperformed its benchmark by 0.7% in the second quarter of 2017.

At the end of June, the portfolio remained overweight in asset-backed securities, utilities and financials, while the largest underweight positions were in real estate, government guaranteed and supranational and capital goods sectors.

The manager remains cautious on the UK economic outlook as well as consumer-related sectors as uncertainty regarding Brexit and higher inflation may impact confidence in the latter half of 2017. As a result, the fund's long gilt duration position was reduced as credit risk and political uncertainty may still dominate markets.

However, the manager remains positive on the European economy, and as a direct result of the French Election decided to reduce the Italian short duration position. This was to favour a short duration in core Europe, which the manager feels will best hedge some of the long positions that could be at risk following the central banks retracting liquidity.

Performance Summary (Net of fees) [ii]

	3 Months (%)	12 months (%)	3 years (% p.a.)	Since Inception* (% p.a.)
Fund	1.2	7.7	7.4	7.4
Benchmark	0.5	5.4	6.9	7.1
Relative	**0.7**	**2.1**	**0.4**	**0.2**

* Inception date 31 Dec 2010

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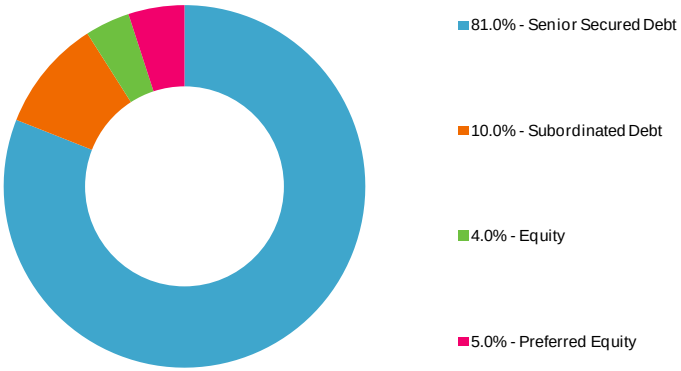
Source: [i] DataStream, Fund Manager, Hymans Robertson, [ii] DataStream, Fund Manager

Partners Group Private Market Credit Strategies 2015 Fund

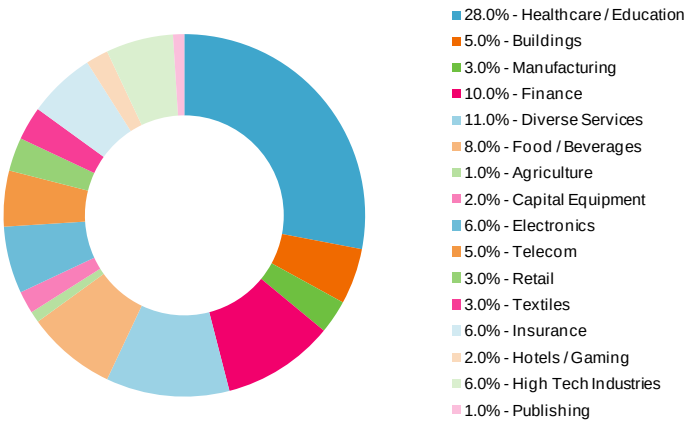
Fund Summary [i]

Fund	Capital Contributed	Total Capital Committed	Percentage of Total Program	Net Asset Value	Distributions	Value Created	Net Multiple	Net IRR
MAC 2015	£35,000,000	£35,000,000	11.6%	£37,477,389	£1,375,950	£3,853,339	1.09x	8.2%

Asset Allocation [ii]



Sector Allocation [iii]



88

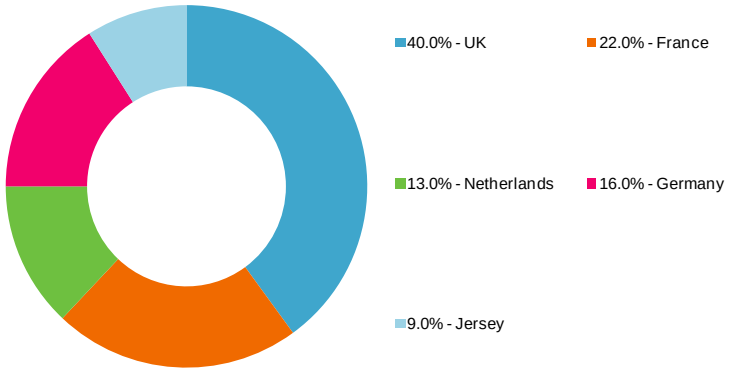
Source: [i] Fund Manager, [ii] Fund Manager, [iii] Fund Manager

Alcentra European Direct Lending Fund

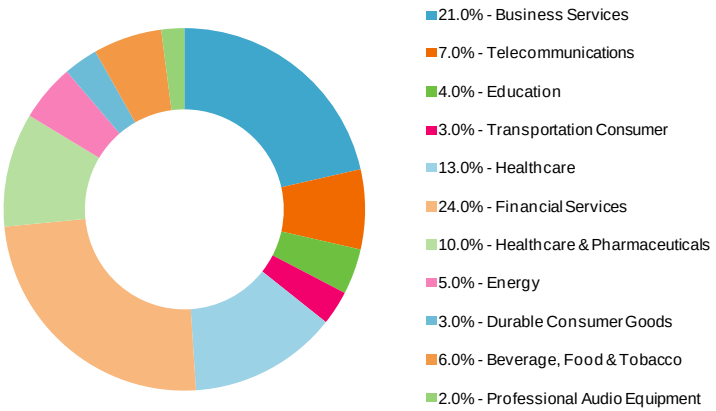
Fund Summary

Fund	Capital Contributed	Total Capital Committed	Percentage of Total Program	Net Asset Value	Distributions	Value Created	Net Multiple	Net IRR
EDL II	£15,014,902	£35,000,000	3.1%	£15,366,042	£0	£351,140	1.11x	21.3%

Geographic Allocation [1] [i]



Sector Allocation [ii]



[1] Data as at 31 March 2017, due to unavailability of data as at 30 June 2017.

Source: [i] Fund Manager, [ii] Fund Manager

Hymans Robertson LLP

Insight Secured Finance Fund

HR View Comment & Rating

There were no significant changes to report over the quarter.

We continue to rate Insight Secured Finance Fund at '5 - Preferred Strategy'.

Performance Summary (Net of fees) [i]

	Since Inception* (% p.a.)
Fund	0.5
Benchmark	0.0
Relative	**0.5**

* Inception date 31 May 2017

Recent News Comment

The fund outperformed its benchmark in June as credit spreads continued to tighten.

In the US structured credit market issuance was higher across most asset classes while lending markets remained active over the quarter. Over Q2 for Europe, the collateralised loan obligation market saw a large number of refinancing activity.

The quarter's fund performance was driven by the tightening in spreads. The manager made no changes to the fund's positions whilst still actively looking to build loans exposure.

Source: [i] DataStream, Fund Manager

Hymans Robertson LLP

M&G ABS Alternative Credit Fund

HR View Comment & Rating

There were no significant changes to report over the quarter.

We continue to rate M&G ABS Alternative Credit Fund at '5 - Preferred Strategy'.

Performance Summary (Net of fees) [i]

	3 Months (%)
Fund	1.5
Benchmark	0.6
Relative	**0.9**

Recent News Comment

Over the quarter to 30 June 2017, the fund delivered a return of 1.5%, outperforming its performance target return of 3m LIBOR + 1.75% p.a. by 0.9%.

During Q2, spreads across all sectors continued to grind tighter following a continuation of the year-to-date ABS market rally. Numerous UK deals in the primary market were oversubscribed, this in turn helped drive spreads tighter in the secondary market.

The manager continues to look for attractively priced investment opportunities in both the primary and secondary market.

Source: [i] DataStream, Fund Manager

Performance Calculation

Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

((1 + Fund Performance) / (1 + Benchmark Performance)) - 1

Some industry practitioners use the simpler arithmetic method as follows:

Fund Performance - Benchmark Performance

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

	Arithmetic Method			Geometric Method			Difference
Period	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	**0.10%**
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	**-1.24%**
Linked 6 months			-0.25%			0.96%	**-1.21%**
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	**0.34%**

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.
If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.
If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.

BARNET
LONDON BOROUGH

London Borough of Barnet

Pension Fund Committee Work Programme

October 17 – September 2018

AGENDA ITEM 11

Title of Report	Overview of decision	Report Of *(officer)*	Issue Type (Non key/Key/Urgent)
17 January 2018			
Quarterly performance report to September 2017	Review the performance of the fund and investment managers.	Director for Resources	Non-Key
Annual update on London CIV & pooling plans	Update on CIV developments and discuss the Committees plans on pooling.	Director for Resources	Non-Key
Annual Report of Pension Board, including Budget and review of ToR.	Consider any recommendations from the Pension Board, comment on their workplan and approve their budget.	Director for Resources	Non-Key
Annual review of compliance with Pension Regulators Code of Practice.	Identify the requirement of the Code of Practice; confirm areas of compliance, gaps and any actions required.	Director for Resources	Non-Key
Annual review of Governance Compliance Statement.	Ensure the Governance Statement reflects the current procedures in place. Consider the division of responsibilities between Committee, Local Pension Board, officers and appointees (fund managers).	Director for Resources	Non-Key
Annual review of risk register.	Consider whether significant scheme risks have been fully identified and are being adequately managed.	Director for Resources	Non-Key
13 March 2018			

Subject	Decision requested	Report Of	Issue Type (Non key/Key/Urgent
Quarterly performance report to December 2017	Review the performance of the fund and investment managers.	Director for Resources	Non-Key
Corporate Governance and Stewardship review.	Review the policies and procedures in place in respect of engagement with investee companies, including voting.	Director for Resources	
Role and pronouncements from Scheme Advisory Board	Review the guidance issued by the scheme advisory board and consider any necessary actions / responses.	Director for Resources	
External Audit plan	Review the plan of work identified by the external auditors.	Director for Resources	
Annual review of communications policy	Review the adequacy of the communication channels with scheme members and employers.	Director for Resources	
June / July 2018			
Quarterly performance report to March 2017	Review the performance of the fund and investment managers.	Director for Resources	Non-Key
Annual review of Funding Strategy Statement, funding level and contribution rates	Review the strategy in place to meet the scheme funding objectives, consider comments from GAD's Section 13 report and consider adequacy of the contributions being paid by the various employers.	Director for Resources	Non-Key
Annual Accounts and Auditors report	Approve the annual scheme accounts and consider actions required in response to auditors recommendations.	Director for Resources	Non-Key

Subject	Decision requested	Report Of	Issue Type (Non key/Key/Urgent
Report on scheme costs and budget 2018-19	Monitoring scheme costs.		
Annual report - Training Policy and Knowledge Understanding and Skills	Consider the adequacy of training provided to the Committee and future training plans. Consider whether members are making adequate use of training opportunities.	Director for Resources	Non-Key
September 2018			
Quarterly performance report to June 2017	Review the performance of the fund and investment managers.	Director for Resources	Non-Key
Investment Strategy Review & ISS update	Review investment strategy and confirm that it remains optimum.	Director for Resources	Non-Key
Annual Report of Pension Board, including Budget and review of ToR.	Consider any recommendations from the Pension Board, comment on their workplan and approve their budget.	Director for Resources	Non-Key
Annual review of the performance of advisors	Provide feedback to advisers on their performance.	Director for Resources	Non-Key