

	<p style="text-align: center;"><b>Pension Fund Committee</b></p> <p style="text-align: center;"><b>29 July 2014</b></p>	
<p style="text-align: right;"><b>Title</b></p>	<p><b>Barnet Council Pension Fund Performance for Quarter January to March 2014</b></p>	
<p style="text-align: right;"><b>Report of</b></p>	<p>Chief Operating Officer</p>	
<p style="text-align: right;"><b>Wards</b></p>	<p>Not Applicable</p>	
<p style="text-align: right;"><b>Status</b></p>	<p>Public</p>	
<p style="text-align: right;"><b>Enclosures</b></p>	<p>Appendix A – Pension Fund Market Value of Investments as at 31 March 2014</p> <p>Appendix B – JLT Image Report Quarterly Update 31 March</p> <p>Appendix C – WM Local Authority Universe Comparison to 31 March 2014</p>	
<p style="text-align: right;"><b>Officer Contact Details</b></p>	<p>Iain Millar, Head of Treasury Services</p> <p><a href="mailto:iain.miller@barnet.gov.uk">iain.miller@barnet.gov.uk</a></p> <p>0208 359 7126</p>	

## Summary

This report summarises Pension Fund investment manager performance for the January to March quarter 2014.

## Recommendations

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| <p><b>1. That having considered the performance of the Pension Fund for the quarter to 31 March 2014, the Committee instruct the Chief Operating Officer and Chief Finance Officer to address any issues that it considers necessary</b></p> |
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### **1. WHY THIS REPORT IS NEEDED**

- 1.1 To ensure that the pension fund is being invested prudently and in accordance with the investment strategy.

### **2. REASONS FOR RECOMMENDATIONS**

- 2.1 Not applicable

### **3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

- 3.1 Not Applicable

### **4. POST DECISION IMPLEMENTATION**

- 4.1 None

### **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 provide support towards the Council's corporate priorities.

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

- 5.2.1 As administering authority for the London Borough of Barnet Pension Fund, the Council is required to invest any funds not required for the payment and administration of pension fund contributions and benefits.
- 5.2.2 The Pension Fund has appointed external fund managers to maximise pension fund assets in accordance with the fund investment strategy. The Pension Fund is a long term investor and volatility of investment return is expected, though in the longer term, the appointed fund managers are expected to deliver positive returns in accordance with the fund benchmarks. The Scheme benchmark is a liability driven benchmark and is dependent on the movement in gilt yield. The Growth portfolio targets of the respective Diversified Growth Funds are Newton; LIBOR +4%, and Schroder; RPI+5%.
- 5.2.3 The total value of the pension fund's investments including internally managed cash was £828.484 million as at 31 March 2014, up from £814.876 million as at 30 December 2013. The total market value of externally managed

investments rose by £13.61 million over the quarter. The graph in Appendix A shows how the market value of the fund has grown since 2007.

- 5.2.4 Over the quarter at a total scheme level, the Fund's externally managed investments produced an absolute positive return of 1.5.0% and all the growth and bond funds produced positive absolute returns. However in relative terms the Fund underperformed against the liability benchmark by 1.0%.
- 5.2.5 Of the diversified growth funds only the Newton Real Return DGF outperformed, 1.4% return versus a benchmark return of 1.1% but one year return was 1.4% compared to a benchmark return of 4.5% reflecting an ongoing defensive strategy. The Schroder Diversified Growth Fund underperformed for the quarter, 0.4% versus a benchmark return of 2.1%. One year return was 5.3.% versus the benchmark return of 7.6%. The Growth Portfolio, comprising the two DGF funds, outperformed the third benchmark the notional 60/40 global equity benchmark, by 1.0% over the quarter. It is usual to expect DGF funds to underperform equities in rising markets and to outperform in falling markets.
- 5.2.6 For the quarter, the Newton Corporate Bond portfolio marginally underperformed, returning 2.8% against its benchmark of 3.2% and over one year the Fund slightly outperformed the benchmark with a 1.5% return against a benchmark return of 1.2%. Schroder's Corporate Bond portfolio outperformed the benchmark for the quarter returning 3.0% against a benchmark return of 2.5%. Over the year the Schroder corporate bond return was 3.7% versus the benchmark return of 1.7%.
- 5.2.7 For Legal and General, overseas equities performed in line with its benchmark with an absolute return of 0.8% for the quarter and 7.7% for one year. The fixed interest performance of 2.5% marginally outperformed the benchmark of 2.4%. with a similar outperformance for one year return of 1.7% (benchmark 1.6%).

### **Investment Performance & Benchmark**

- 5.2.8 The Fund's overall performance is measured against a liability benchmark return. Over the quarter the estimated funding position decreased by 1.3% to a 75.8 % funding level
- 5.2.9 The Growth portfolio return is the combined Newton and Schroder Diversified Growth Fund portfolios and is measured against a notional 60/40 global equity benchmark and underlying benchmarks of each fund for comparison.
- 5.2.10 The performance of the Fund including manager performance is outlined in Appendix B.
- 5.2.11 Fund Return compared with the WM Local Authority Universe over the quarter to 31 March 2013 for one, three and five years is set out in Appendix C.

### **5.3 Legal and Constitutional References**

- 5.3.1 This report is based on the provisions of Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009)made under the

powers conferred by section 7 and Schedule 3 of the Superannuation Act 1972.

- 5.3.2 Constitution – Responsibility for Council Functions, delegated to the Pension Fund Committee through the Pension Fund Governance Compliance Statement

#### **5.4 Risk Management**

- 5.4.1 A key risk is that of poor investment performance. The performance of Fund managers is monitored by the committee every quarter with reference to reports from JLT Investment Consulting, the Pension Fund investment adviser, and the WM Company Ltd, a company that measures the performance of pension funds. If fund manager performance is considered inadequate, the fund manager can be replaced.
- 5.4.2 Risks around safeguarding of pension fund assets are highlighted in the current economic climate following the sovereign debt crises in the Euro zone. Fund managers need to have due regard to longer term investment success, in the context of significant market volatility. Both Newton's and Schroder's will attend this Committee to update on their approach in this context

#### **5.5 Equalities and Diversity**

- 5.5.1 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.
- 5.5.2 The rules governing admission to and participation in the Pension Fund are in keeping with this public sector equality duty. Good governance arrangements and monitoring of the pension fund managers will benefit everyone who contributes to the fund.

#### **5.6 Consultation and Engagement**

- 5.6.1 Not Applicable.

### **6. BACKGROUND PAPERS**

- 6.1 None