	Pension Fund Committee **26th February 2018**
Title	**Barnet Council Pension Fund – Review of Strategic Allocations**
Report of	Chief Financial Officer
Wards	n/a
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Hymans Robertson Strategy Slides [EXEMPT] Appendix B – Hymans Robertson Property proposals [EXEMPT] Exempt report - Not for publication by virtue of paragraphs 3 and 5 of Schedule 12A of the Local Government Act 1972 as amended.
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Summary

The previous Committee meeting (24 October 2017) requested that Hymans Robertson review the implications of replacing the current allocations to diversified growth funds ('DGF'). Modelling undertaken by Hymans suggest that replacing the DGF allocation with property, private equity and private debt improves the future outcomes. A paper is attached discussing options for introducing property into the investment structure. It is suggested that a start is made with an allocation to UK 'core' property. Schroders and Newton will be attending the meeting to discuss the strategy and performance of their respective DGF funds.

Recommendations
The Pension Fund Committee agree: I. The strategic investment allocation is amended in line with the 'Remove DGF' column in table 1. II. That an additional Committee meeting is arranged to appoint a core UK property fund and identify preferred 'non-Core or satellite' strategies. III. Whether both DGF funds should be realised proportionally to meet future investments in property. IV. That discussion on private equity and active emerging market equities is carried over to a future meeting.

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 to ensure that the Pension Fund complies with legislation and effectively manages the Fund's financial affairs.

1.2 At the previous meeting of the Committee (24 October 2017) minor alternations were made to the investment strategy to increase the equity weighting by 4% to 40% with 2% reductions to each of DGF's and Corporate Bonds. As the revised equity allocations matched the actual proportions of investments held, no transactions were required. The meeting also requested that Hymans Robertson review the implications of removing the allocation to diversified growth funds.

1.3 Hyman's attached analysis (appendix A - slide 15) concludes that "based on this analysis the Fund's current strategy remains appropriate to the objective of being fully funded in 20 years' time." Hyman's modelling looked at both the probability of achieving full funding (66%) and the average funding level of the five percent of worst outcomes (42% funding level). Although these results are based on an out of date strategy of 36% allocation to equities, they remain relevant.

1.4 Hymans then modelled a revised strategy that replaced the allocation to DGF's with property, private equity and an increase in private debt (see table 1 below). The range of outcomes of this new strategy are modelled on pages 18 to 20 of the slide pack. The modelling indicates a slight improvement to both the probability of full funding (66% to 70%) and an improvement in the average five percent of poorest outcomes to a funding level of 44% (from 42%). The improvements are sufficient to justify the strategy being amended in line with table 1 below to replace the DGF exposures. The assumptions used for each asset class are shown on slide 27.

Table 1

Asset class	Current %	Remove DGF %
Global equity	40.0	40.0
Diversified growth	20.0	-
Multi asset credit (liquid)	7.0	7.0
Multi asset credit (illiquid)	9.0	9.0
Private debt	9.0	12.0
Corporate bonds	10.0	12.0
Infrastructure	5.0	5.0
Property	-	10.0
Private equity	-	5.0
Cash	-	-
Total	100.0	100.0

1.5 Both Schroders and Newton have been invited to attend the meeting and discuss their funds. The scheme's investments in each fund at the end of December 2017 were:

Schroder Life Diversified Growth Fund £153 million

Newton Real Return Fund £134 million

1.6 The quarterly performance report discussed recent concerns expressed by the London CIV on the management of the Newton fund.

1.7 Should the Committee decide to alter the strategic asset allocation, this cannot be implemented immediately. The Committee will need to consider the speed of the move to the new asset classes and whether disposals are made evenly across both funds.

1.8 Appendix B considers opportunities to invest in property / real estate. There are a multitude of opportunities, with the most obviously being the mainstay of most property portfolios – office, retail and industrial, and the newer sectors – residential, leisure, hotels, student accommodation etc. The majority of UK pension funds invest their property allocation wholly in the UK, but there are opportunities outside of the UK. A property exposure can be accessed through ownership of whole buildings, multi-client funds or even more diversified fund of funds. Most property funds look to buy and hold with a long-term time horizon, but other property funds have a greater emphasis on speculative projects (new build) offering the prospect of higher returns and short-term realisation. Some funds specialise in debt backed by property rather than ownership of buildings and others focus on inflation linked leases with long lives. One of the UK's largest and most diverse property managers, CBRE, is providing training before the meeting on the opportunity set available to investors.

1.9 It is suggested that a property portfolio will comprise a core element – one or two funds that invest in traditional UK office, retail and industrial properties. This allocation would be supplemented by allocations to 'satellite' or non-core funds investing in some of the opportunities discussed above. It is proposed that the next step is to arrange a meeting devoted almost entirely to property in which there would be presentations from core property managers selected based on Hyman's preferred manager listing and a range of non-core managers. The aim of the meeting would be to select one or more core funds for investment and to narrow down the non-core opportunity set prior to manager selection.

Conclusion

1.10 The current strategic allocations retain a reasonable probability of achieving full funding within 20 years. Modelling undertaken by Hymans Robertson suggests that the expected outcomes can be enhanced by replacing the allocation to diversified growth funds with property, private equity and modest additions to private debt.

1.11 It is proposed that the next step is a combination of presentations to (1) select one or two core property managers and (2) identify which non-core opportunities should be further explored.

1.12 Completing the property allocation will take up an large share of the Committee's time, and it proposed that discussion on private equity and active emerging market equities will be held over until later in 2018.

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) 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.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

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

4. POST DECISION IMPLEMENTATION

4.1 It is not intended that any implementation actions will be taken at this meeting. This will be carried over to a subsequent meeting when manager appointment decisions can be made.

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 and the level of contributions payable by the Council and other employers.

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 – Article 7 – includes within the responsibilities of the Pension Fund Committee, (1) the approval of the Investment Strategy Statement and (2) the appointment of investment managers. 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