

	<h2>Pension Fund Committee</h2> <h3>22 January 2019</h3>
<p style="text-align: right;">Title</p>	<p>Investment Strategy Update</p>
<p style="text-align: right;">Report of</p>	<p>Director of Finance</p>
<p style="text-align: right;">Wards</p>	<p>n/a</p>
<p style="text-align: right;">Status</p>	<p>Public with exempt appendix A</p>
<p style="text-align: right;">Urgent</p>	<p>No</p>
<p style="text-align: right;">Key</p>	<p>No</p>
<p style="text-align: right;">Enclosures</p>	<p>Appendix A – Hymans Robertson Strategy Report [EXEMPT]</p> <p>Exempt report - Not for publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 as amended.</p>
<p style="text-align: right;">Officer Contact Details</p>	<p>George Bruce, Head of Treasury, CSG george.bruce@barnet.gov.uk - 0208 359 7126</p>

Summary

At the Pension Fund Committee meetings on 26 Feb 2018 and 26 June 2018 Hymans Robertson proposed a strategy allocation that replaced the allocation to diversified growth funds with allocations to property and private equity and switching a portion of the passive equities into actively managed emerging market equities. Progress has been made with the property allocation, and this update seeks to introduce active emerging market equities and private equity to the Committee. The meeting will be preceded with training on these two asset classes.

Recommendations

That the Pension Fund Committee agree to request Hymans Robertson to identify suitable private equity and emerging market funds for presentation to the March 2019 Committee 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 The Committee at its meeting on 26 June 2018 discussed an investment strategy that replaced the current 20% allocation to diversified growth funds with property (10%), private equity (5%) and a further 5% to be distributed across existing asset classes. Progress have been made on property (discussed below) and the attached report from Hymans Robertson re-introduces the merits of an allocation to private equity and emerging market equities.

Proposed Strategic Allocations

- 1.3 The proposed changes to the strategic asset allocation are set out on page 8 of the Hymans Report. These are different in one respect from the proposals discussed at February and June 2018 in that an additional 5% allocation to equity is now proposed (moving from 40% to 45%) where as previously 5% of the DGF allocation was reallocated across the existing debt mandates. Hymans will discuss this change at the meeting.

Property

- 1.4 The Committee agreed to a 10% allocation to property at the July and October 2018 meeting, split 5% to Core UK, 2.5% to long lease and 2.5% to overseas. A Commitment of \$32 million (circa £25 million) has been made to the CBRE Global Alpha fund selected at the July meeting. No funds have been drawn as yet and an update will be given at the Committee meeting as to the timing of the draw downs.
- 1.5 The remaining 7.5% allocation to Core UK and Long Lease property has been held over awaiting information on the offerings from the London CIV. The launch of these products by the London CIV is taking longer than was initially expected and the funds destined for these investments remain invested within the Newton Real Return Fund.
- 1.6 An opportunity arose during December to invest in the Fidelity UK property fund, the Committee's preferred manager for this allocation. An existing investor was seeking to exit and the trade (Circa £30 million) would have been executed at half way between the buying and selling prices saving 2.75% entry costs. However, in discussion with the Chairman, it was concluded that UK property valuations do not currently reflect market developments and that a pricing correction of 5 to 10% is a possibility in 2019. As the seller was unwilling to reduce their pricing the offer was not accepted. Thus, the delay in

investing in property is not considered to be a concern and may offer more favourable entry pricing in 2019.

- 1.7 A verbal update on property opportunities and timing will be made at the meeting.

Emerging Market Equities and Private Equity

- 1.8 Appendix A (exempt report) provides an overview of the benefits of including allocations to private equity and emerging market equities. Training will be provided immediately before the meeting from managers in these asset classes. The training will focus on the benefits of the asset class and the different ways of investing.
- 1.9 The training on emerging market equities will be undertaken by Janus Henderson who manage the London CIV's only specialist emerging market equity fund. In light of the pooling obligations, the London CIV's fund is one that should be considered if an allocation to this asset class is considered desirable. The London CIV is not expected to have a private equity offering for some years and the Committee will have to proceed without assistance from LCIV.
- 1.10 If the Committee is agreeable to an allocation, a selection of managers with different strategies will be brought to the March meeting for consideration.

2. REASONS FOR RECOMMENDATIONS

- 2.1 The LGPS (Management and Investment of Funds) Regulations 2016 (Regulation 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 presented to the Committee at the June 2018 meeting indicated 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 within Appendix a (exempt report). 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 2012 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 (Regulation 7(7)) requires the Committee to periodically (at least every three years) review the investment strategy.

5.4.2 The Council's Constitution – Article 7 – includes within the responsibilities of the Pension Fund Committee, (1) to consider 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 Equality 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 See Pension Fund Committee agenda item 14, 26th June 2018 and item 10. 26th February 2018. Links for these meetings are below.

<https://barnetintranet.moderngov.co.uk/ieListDocuments.aspx?CId=191&MId=9228&Ver=4>

<https://barnetintranet.moderngov.co.uk/ieListDocuments.aspx?CId=191&MId=9684&Ver=4>