

	<h2 style="margin: 0;">Pension Fund Committee</h2> <h3 style="margin: 0;">26 March 2019</h3>
Title	Strategy Update
Report of	Director of Finance
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	<p>Appendix A – Hymans Robertson review of the LCIV emerging markets fund [EXEMPT]. [to follow]</p> <p>Appendix B – Hymans Robertson private equity proposal [EXEMPT]. [to follow]</p> <p>Appendix C – Investment Strategy Statement Table</p> <p>Exempt reports - Not for publication by virtue of paragraphs 3 of Schedule 12A of the Local Government Act 1972 as amended.</p>
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Summary

This note follows on from the investment strategy discussions at recent meetings and provides an update on implementation of decisions made by the Committee and contains proposals on property, emerging market equities and private equity. Also included is a proposed update to the investment strategy statement.

Recommendations

1. To delegate approval to the Chairman in consultation with Hymans Robertson to select a suitable fund for a 2.5% investment in long-lease property from the choices identified in paragraph 1.6.
2. To invest £54 million in the LCIV Emerging Markets Equity Fund.

3. To delegate approval to Hymans to identify suitable private equity managers for presentation at the next meeting or on a separate date.
4. To approve the revised table 1 to be included in the investment strategy statement (appendix C).
5. To delegate authority to the Finance Director to take actions to implement recommendations 1&2.

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 recent meetings the Committee has made decisions relating to the funding of new asset classes and the appointment of new investment managers. Progress is discussed for each below. Decisions are proposed in connection with long lease property, emerging market equities, private equity and an update to the investment strategy statement. The issues discussed below are:
 - Property
 - Overseas
 - Long lease
 - UK
 - Private debt
 - Emerging market equities
 - Private equity
 - Realisations from Diversified Growth Funds
 - Investment Strategy Statement
 - Manager Monitoring Day (6th March 2019)

Overseas Property

- 1.3 A commitment of \$32 million (approximately £25 million) has been made to the CBRE Global Alpha fund as part of the proposal to invest 10% of the fund in property. CBRE have advised that they expect to drawdown the funds around June – July 2019, although this depends on suitable investment opportunities being available.

Long-Lease Property

- 1.4 Within the 10% allocation to property the Committee agreed (July 2018 – exempt minute 10) to invest in the Aberdeen Standard Long Lease Property Fund. Considering our pooling obligations, the decision to invest has been delayed pending a review of the London CIV's inflation plus fund, which was expected to have a significant allocation to long-lease property.
- 1.5 The LCIV provided an outline of their inflation plus fund in late January. On review this fund is targeting an exposure of 40% to long-lease property. However, the other components of the fund have a lower expected return and

include a number of asset classes unrelated to property. In discussion with Hymans Robertson, the consensus is that this fund is not as currently proposed a substitute for an allocation to UK commercial property. It is possible that the LCIV may refine this offering to bring it closer to a long-lease mandate.

- 1.6 The suggested choices available to the Committee are (1) invest with the LCIV inflation plus fund, (2) revert to the Committees original decision and invest with Aberdeen Standard, and (3) dispense with a long lease mandate and increase the allocation to core commercial property by 2.5% to 7.5% To avoid continued delay it is suggested that delegation is given to the Chairman to act in accordance with these parameters in consultation with Hymans Robertson when the final outline of the LCIV's inflation plus mandate is known. Hymans Robertson will discuss this proposal at the meeting.

UK Core Commercial Property

- 1.7 The final element of the property proposition was an investment in UK Core commercial property. Investing this element has been delayed partly due to pricing concerns with UK property and partly awaiting details of the LCIV property proposal. The outline of the LCIV fund was circulated during February and at this stage appears suitable for investment. While concerns remain that property prices may face a correction in 2019 it is considered appropriate to allow the LCIV time to identify a manager for their UK commercial property fund and we have notified the LCIV of our interest in investing in this fund.

LCIV Private Debt Fund

- 1.8 The Committee agreed at its meeting held on 22 January 2019 to invest £30 million in the LCIV Private Debt Fund. The LCIV are aiming to submit the fund to the Financial Conduct Authority for approval in March/April and to be taking subscriptions in April/May. So far, Barnet is the only London Borough to have indicated an intent to invest in this fund, although the LCIV is continuing to engage with other London Boroughs. It is not unusual for LCIV mandates to gradually accumulate assets. The manager of this fund, Ares presented to the manager monitoring day held on 6th March 2019.

Emerging Market Equities

- 1.9 Hymans Robertson strategy proposal to the 22 January 2019 meeting (agenda item 11) proposed a 5% allocation to emerging market equities. Prior to the meeting the Committee received training from Janus Henderson who manage the LCIV emerging market equity fund. The decision made at the last Committee meeting was to request Hymans Robertson to identify suitable funds. In view of the Committee's favourable reaction to the Janus Henderson presentation and to comply with our pooling obligation, the review has been limited to Janus Henderson. Hymans report on the LCIV fund and its manager is attached (appendix A). Hymans will outline their conclusions at the meeting and the recommendation is that a £54 million (5%) investment is made in the LCIV Emerging Markets Equity Fund.

Private Equity

- 1.10 Hymans Robertson strategy proposals to the January meeting (agenda item 11) included a 5% allocation to private equity. The Committee requested that Hymans identify suitable managers for this allocation. Hymans will provide insight into the private equity universe (see appendix B) and discuss their preferred route into this market. It is suggested that they are then delegated to identify suitable managers to present to the Committee in accordance with the outcome of the discussion on alternative approaches to private equity.

Realisation to fund the new mandates

- 1.11 Currently funds are being realised from the Newton mandate when required to fund any of the new funds. This will continue and when the Newton fund is fully realised, the Schroders diversified growth fund will be realised to meet cash requirements.

Investment Strategy Statement

- 1.12 The Committee is required to maintain an investment strategy statement (ISS) and invest in accordance with the ISS. The recent changes in strategy require the ISS to be updated, in particular the table stating the strategic allocations and maximum exposures to each asset class. The current and revised allocations are shown at appendix C and the Committee is requested to approve the revised table.

Investment Manager Monitoring Day

- 1.13 A debt focused manager monitoring day was held on 6th March 2019 attended by Cllrs Finn, Hutton, Marshall, Moore, Simberg and Shooter. The managers who presented were:

IFM
Schroders (corporate bonds)
M&G
Alcentra Multi-credit
Partners
Ares

- 1.14 A copy of Hymans presentation explaining the debt universe and the roles of the managers appointed by Barnet is available from the report author.

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 the Hymans Robertson reports. The recommendations are based on modelling results.

4. POST DECISION IMPLEMENTATION

- 4.1 Delegation is requested to the S151 officer to implement the agreed actions.

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) 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 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, marriage and civil partnership.

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 agenda item 11, 22 January 2019.