

	<h2>Pension Fund Committee</h2> <h3>30 May 2019</h3>
<p style="text-align: center;"><b>Title</b></p>	<p><b>Strategy Update</b></p>
<p style="text-align: center;"><b>Report of</b></p>	<p>Director of Finance</p>
<p style="text-align: center;"><b>Wards</b></p>	<p>N/A</p>
<p style="text-align: center;"><b>Status</b></p>	<p>Public</p>
<p style="text-align: center;"><b>Urgent</b></p>	<p>No</p>
<p style="text-align: center;"><b>Key</b></p>	<p>No</p>
<p style="text-align: center;"><b>Enclosures</b></p>	<p>None</p>
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<h2>Summary</h2>
<p>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.</p>

<h2>Recommendations</h2>
<ol style="list-style-type: none"> <li>1. To purchase £27 million of holdings in the Aberdeen Standard Long Lease Property Fund from an existing investor.</li> <li>2. To defer investment in the LCIV Emerging Markets Equity Fund until the new management arrangements are considered.</li> <li>3. To consider proposals at the meeting from Hymans Robertson to address delays in the launch of the LCIV private debt fund.</li> <li>4. To delegate authority to the Finance Director to take actions to implement recommendations 1&amp;3.</li> </ol>

**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, and potentially private debt. The issues discussed below are:

- Property
  - Overseas
  - Long lease
  - UK
- Private debt
- Emerging market equities
- Private equity

#### 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 The Committee agreed at the March 2019 meeting to delegate authority to invest 2.5% of the fund (Circa £27 million) in long-lease property, with one option being the Aberdeen Standard Long Lease Property Fund that the Committee previously reviewed. An opportunity has arisen to purchase a £27 million holding in this fund from an existing investor. This will enable an immediate investment and avoid Aberdeen's 6-9 month investor queue. The price has been agreed as the net asset value of the fund plus 4.75% to settle on 3<sup>rd</sup> June 2019. This represents a saving of 1.13% versus the current primary price of NAV + 6.38% (broadly equating to c.£305k saving on the £27m investment) and is in line with the most recent transaction for this fund.

#### UK Core Commercial Property

1.5 The final element of the property proposition was an investment in UK Core commercial property. We have indicated to the LCIV our interest in investing but as yet there is not firm timetable to when the fund will be launched and monies invested. 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.

### LCIV Private Debt Fund

- 1.6 The Committee agreed at its meeting held on 22 January 2019 to invest £30 million in the LCIV Private Debt Fund. Unfortunately, the LCIV have delayed the launch of this fund due to legal issues connected with the fund structure. Given our continued underweighting to private debt consideration has been given to making an additional commitment to one of the current managers in this asset class – Partners and Alcentra. Hymans will discuss their proposals at the meeting.

### Emerging Market Equities

- 1.7 The Committee agreed at the February meeting to invest £54 million in the LCIV Emerging Markets Equity Fund subject to any announcement on 27 March 2019. Subsequently, the Janus Henderson team managing the LCIV fund announced that they are leaving this firm. The LCIV is currently considering what actions to take. Janus Henderson are planning to recruit a new emerging markets team and the LCIV is also considering transferring management to a new fund manager. No investment will be made until the LCIV's new arrangements are known and the Committee has had an opportunity to meet the team that will manage the fund.

### Private Equity

- 1.8 A date has been identified (25<sup>th</sup> June) to meet with potential private equity managers identified by Hymans Robertson to manage the proposed 5% allocation to this asset allocation. Any preferences expressed at this meeting will need to be confirmed at the subsequent Committee meeting in July.

### Realisation to fund the new mandates

- 1.9 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.

## **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 13, 26 March 2019.

