MEETING
LOCAL PENSION BOARD
DATE AND TIME
WEDNESDAY 29TH NOVEMBER, 2017
AT 7.00 PM
VENUE
HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4BQ

Dear Local Pensions Board Member

Please find enclosed additional papers relating to the following items for the above mentioned meeting which were not available at the time of collation of the agenda.

Item No	Title of Report	Pages
1.	ANY OTHER ITEM(S) THE CHAIRMAN DECIDES ARE URGENT - Compliance with Investment Regulations and Guidance	3 - 48

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	AGENDA ITEM 13 **Local pension Board** **29 November 2017**
Title	**Barnet Council Pension Fund – Compliance with investment regulations and guidance**
Report of	Assistant Chief Executive
Wards	n/a
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Investment Strategy Statement Appendix B – investment regulations checklist Appendix C – investment guidance checklist Appendix D – Hymans Robertson report
Officer Contact Details	George Bruce, Head of Treasury, CSG george.bruce@barnet.gov.uk - 0208 359 7126

Summary

Part of the role of the Local Pension Board is to:

assist the administering authority to secure compliance with legislation and regulations,
ensure strategies and policies are in place and maintained in line with regulations

One of the key regulations governing the Pension Fund is the LGPS (Management and Investment of Funds) Regulations 2016 ("the regulations"). This report sets out the requirements of the regulations and guidance and identifies evidence to support compliance by the Pension Committee. There is a separate note from Hymans Robertson describing the processes and modelling undertaken to advise the Pension Committee on the investment strategy and the capabilities of investment managers.

The report is designed to demonstrate to the Board that the governance arrangements in connections with the setting and implementation of investment policy are satisfactory.

Recommendations
The Local Pension Board is invited to review the report and identify any recommendations or questions it wished to direct to the Pension Committee.

1. WHY THIS REPORT IS NEEDED

1.1 Part of the role of the Local Pension Board is to (a) assist the administering authority to secure compliance with legislation and regulations, and (b) ensure strategies and policies (including the investment strategy statement) are in place and maintained in line with regulations. One of the key regulations governing the Pension Fund is the LGPS (Management and Investment of Funds) Regulations 2016 ("the regulations"). This report sets out the requirements of the regulations and CLG guidance and identifies evidence to support compliance by the Pension Committee.

1.2 The report is divided into three sections

I. A checklist to identify actions taken to meet the requirements of the regulations.

II. A similar checklist focusing on the requirements of the CLG guidance for investment strategy statements ("the guidance").

III. A report from Hymans summarising the processes they have used to advise the Pension Committee on investment strategy and the suitability of investment products used by the fund.

1.3 Compliance with the investment regulations are demonstrated by:

The content of the Investment Strategy Statements ("ISS")

The application of the ISS

The consideration of advice received from the investment consultant and actuary

1.4 A copy of the current ISS (revised October 2017) is attached at appendix A.

LGPS (Management and Investment of Funds) Regulations 2016

1.5 A summary of the requirements of the regulations is attached at appendix B. Against each provision is a note on compliance with additional commentary. The areas were compliance is not marked as yes are discussed below.

Item 7 (compliance with guidance) – this is discussed in appendix C below.

Item 7(5) (consultation) – the regulations do not specify who should be considered as appropriate for consultation. Although the ISS refers to consultation it does not say with whom. The Board and employers are normally considered appropriate. It is anticipated that the investment strategy

will be reviewed during Q1 of 2018 and the Committee will be advised to consider consultation before finalising any changes to the current ISS.

Item 7(6) (publication of the ISS) – there is a requirement that the ISS is published. This could be achieved by either placing on a fund web site or posting to employers (and scheme members). Neither option has been followed. Discussions are underway to establish a scheme web site on which the ISS could be posted. Any future changes to the ISS will be sent to scheme employers. Reference to the web site (when established) and the content will be included in future publications to scheme members.

Item 8 (directions by the Secretary of State) – no directions have been issued for Barnet.

CLG Guidance on Preparing and Maintaining an Investment Strategy Statement

1.6 The Dept. of Communities and Local Government issued revised guidance on preparing and maintaining an investment strategy statement July 2017. A note on the major provisions within the guidance and the extent of Barnet's compliance is attached (appendix C). Areas that require further explanation or where there are gaps in compliance are discussed below:

The asset allocation policy is consistent with own solvency target.

The expected return on assets and the risk being taken to achieve the target return are factors that the actuary will use to determine the contribution rate. When setting investment strategy, the Pension Committee use modelling from Hymans Robertson to identify the probability of achieving the funding objective and the implications of adverse outcomes. Increasing the return expectations can lead to more risk (poorer outcomes and increased employer contributions) and the selected strategy has to balance these considerations. Hymans note (appendix D) discussed the modelling and indicates the expectations from the current strategy.

Appetite for risk

The risk appetite is part of the modelling discussed above and in the Hymans report.

Notification to Scheme Advisory Board of changes in pooling plans

There have been no changes in plans that all assets than can be pooled will be when suitable opportunities are available.

Report to SAB on pooling progress

The SAB have requested this information from pools rather than individual funds.

Discussion of social investments

The guidance describes social investments as "Investments that deliver social impact as well as a financial return. In some cases, the social impact is simply in addition to the financial return; for these investments the positive social impact will always be compatible with the prudent approach. In other cases, some part of the financial return may be forgone in order to generate the social impact. These investments will also be compatible with the prudent approach providing administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund."

The ISS does not discuss social investments. The tone of the ISS is that financial return and risk are the main / only criteria. None of the investments in place could be considered as having a social impact. It is assumed that the Pension Committee would take into account local social benefit if the financial rewards were in line with other available opportunities. Should these types of investments be identified, they would be brought to the Committee's attention.

Become signatories to the Stewardship Code.

The Stewardship Code is aimed at encouraging institutional investors to develop policies on how they will engage with the companies they invest, in particular exercise ownership rights, including voting. The Pension Committee has not signed up to the code although it has delegated the exercise of ownership rights to appointed investment managers. The Committee plans to discuss stewardship at its May 2018 meeting.

Disclosure of voting activity and appointment of proxy voting agent

The Annual Report of the pension fund does not disclose voting activity. This will be addressed in the 2017-18 annual report. With one equity manager, Legal & General, there is no need to employ a proxy voting agenda.

Hyman's Robertson Report

1.7 A number of questions arising from the regulations and guidance on preparing an investment strategy statement are best addressed through a demonstration of the advice received from Hymans Robertson. These questions are:

- Is the asset allocation policy consistent with the solvency target?
- Is there an explicit risk appetite and is funding risk being managed.
- Does the Pension Committee take advice on the suitability of investment managers?

1.8 The appendix from Hymans Robertson seeks to demonstrate that the processes in place address the above points.

1.9 Pages 2 to 12 of the Hymans appendix demonstrate the modelling received by the Pension Committee when considering strategy. In particular slides 8 to 11 were presented to the Pension Committee at their last meeting. These graphs illustrate the probability of achieving full funding and the range of outcomes, in particular the poorer outcomes. In particular slide 11 indicates that the current strategy is a good balance of ensuring a reasonable prospect of achieving full funding and limiting the poorer outcomes. The important point is that the Committee is able to apply its judgement when setting strategy knowing not only the expected outcome but the range of possible outcomes. The Committee receive similar support each time strategy is reviewed which is generally 2-3 years.

1.10 The remaining slides address investment manager capabilities. Each quarter the Pension Committee receive updated Hymans Robertson ratings for each of their investment manager. The latest ratings are shown on slide 18. Ratings are also provided when new investment managers are being appointed. Hyman's attend each Committee meeting and discuss their views on appointed fund managers, which is the basis for the Committees decision to appoint, retain or review an investment manager.

1.11 The current fund managers all have one of the top two ratings.

Conclusion

1.12 There are a number of gaps in compliance with the regulations and guidance that are mainly relating to consultation and disclosure. These can be readily addresses. The gaps relating to stewardship vote and including a voting report in the annual accounts will be addressed in 2018.

2. REASONS FOR RECOMMENDATIONS

2.1 The LGPS (Management and Investment of Funds) Regulations 2016 is an important part of the regulatory environment for pension schemes. Ensuring compliance and reviewing compliance monitoring procedures falls within the remit of the Pensions Committee.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 The various alternatives are discussed in the paper and the Hymans Robertson modelling.

4. POST DECISION IMPLEMENTATION

4.1 Recommendations and comments will be forwarded to the Pensions Committee.

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.

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 Regulations 2013 place responsibility for the local administration of pensions and other benefits under these Regulations on the administering authority, which is LB Barnet. The Local Government Pension Scheme (Amendment) Regulations 2015 requires the Council to establish a Pension Board, whose role is to assist the Council in securing compliance with legislation, regulation and best practice, including as set out in the Pension Regulator's Code of Practice.

5.4.2 This paper considers the governance arrangement of the LGPS pension scheme that form part of the remit of the Local Pension Board.

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 Good governance is essential to ensuring that risks are identified and managed.

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 Where relevant, consultation and engagement is discussed in the paper.

5.8 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 Links to:

LGPS (Management and Investment of Funds) Regulations 2016

https://www.lgpsregs.org/schemeregs/invregs2016/timeline.php

Guidance on Preparing and Maintaining an Investment Strategy Statement

https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement

Stewardship Code

https://www.frc.org.uk/getattachment/d67933f9-ca38-4233-b603-3d24b2f62c5f/UK-Stewardship-Code-(September-2012).pdf

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Investment Strategy Statement (Published March 2017)

Introduction and background

This is the Investment Strategy Statement ("ISS") of the London Borough of Barnet Pension Fund ("the Fund"), which is administered by Barnet Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Fund (Management and Investment of Funds) Regulations 2016.

The ISS has been prepared by the Fund's Pension Committee ("the Committee") having taken advice from the Fund's investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee on 14 March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Draft Funding Strategy Statement dated March 2017.

The suitability of particular investments and types of investments

The primary investment objective of the Fund is to ensure that the assets are invested to secure the benefits of the Fund's members under the Local Government Pension Scheme. Against this background, the Fund's approach to investing is to:

- Optimise the return consistent with a prudent level of risk;
- Ensure that there are sufficient resources to meet the liabilities; and
- Ensure the suitability of assets in relation to the needs of the Fund.

The Fund's funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

It is intended that investment strategy will be reviewed at least every three years following actuarial valuations of the Fund. The approach that the Fund has taken to setting an appropriate investment strategy is as follows:

Every three years following the actuarial valuation, the Fund undertakes an asset liability modelling exercise. This exercise focuses on key risk metrics of probability of success (how likely is the Fund to be fully funded over the agreed funding period) and downside risk (how poor could the funding position become in the worst economic outcomes).

Within each major market the Fund's investment managers will maintain a diversified portfolio of securities through direct investment or via pooled vehicles. An Investment Management Agreement is in place for each investment manager, which sets out the relevant benchmark, performance target and asset allocation ranges, together with further restrictions.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation; the Fund does not have a formal rebalancing policy at present, however, a suitable policy is currently under consideration. In the meantime the Fund's position is monitored both by Officers and the Fund's advisers. A rebalancing back towards target weightings was undertaken in January 2017.

Investment of money in a wide variety of investments

Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(e).

Table 1 - Fund asset allocation

Asset class	Benchmark	Benchmark Proportion	Maximum Allocation
Equity		**40%**	**44%**
Global equity	FTSE All World Index	**20%**	
	FTSE RAFI All World Equity GBP Hedged Index	**20%**	
Diversified growth funds	libor or inflation plus margin	**20%**	**28%**
Liquid Multi-asset credit	3 month libor plus margin 4-5%	**11%**	**14%**
Corporate bonds	Merrill Lynch Sterling Non-Gilts All Stocks Index	**10%**	**13%**
Strategic bonds	3 month Libor	**0**	**5%**
Illiquid alternatives	percentage annual return or 3 month libor plus a margin	**19%**	**23%**
		100%	

Consideration of the Fund's risks, including the approach to mitigating risks, is provided in the following section.

Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

The approach to risk, including the ways in which risks are to be measured and managed

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk – The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. This analysis will be revisited as part of the 2016 valuation process. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk - The risk that the currency of the Fund's assets underperforms relative to sterling (i.e. the currency of the liabilities).
- Environmental, social and governance ("ESG") - The risk that ESG related factors reduce the Fund's ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee is developing formal rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. Rebalancing is considered currently but not on a formal structured basis. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as liquid diversified growth funds, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis. Currently the Committee hedges 50% of its exposure to currency risk within its quoted equity allocation.

Details of the Fund's approach to managing ESG risks is set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and has attempted to reduce this risk by appointing more than one manager and having a significant proportion of the Scheme's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending - The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

The Pension Fund Committee reviews its risk register annually with emerging risks reported to Pension Fund Committee as they arise.

A more comprehensive breakdown of the risks to which the Fund is exposed and the approach to managing these risks is set out in appendix A. A separate schedule of risks that the Fund monitors is set out in the Fund's Draft Funding Strategy Statement.

The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund's intention is to invest its assets through the London CIV as and when suitable pool investment solutions become available. An indicative timetable for investing through the pool was set out in the July 2016 submission to Government. They key criteria for assessment of pool solutions will be as follows:

1. That the pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
2. That there is a clear financial benefit to the Fund in investing in the solution offered by the pool, should a change of provider be necessary.

Any assets not currently invested in the London CIV will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds to meet the Fund's investment strategy requirements.

The Fund holds 36% of its assets in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool

In addition the Fund has already transitioned other assets into the London CIV with a value of 11% of the assets and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

The Fund holds c.8% of its assets in illiquid strategies (private market credit and direct lending) and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

Structure and governance of the London CIV

The July 2016 submission to Government of the London CIV provided a statement addressing the structure and governance of the pool, the mechanisms by which the Fund can hold the pool to account and the services that will be shared or jointly procured.

How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

- **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- **Stewardship and governance** – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Panel undertakes training on a regular basis and this will include training and information sessions on matters of social, environmental and corporate governance.

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment

managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

The exercise of rights (including voting rights) attaching to investments

Voting rights

The Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitor the voting decisions made by all its investment managers on a regular basis.

Stewardship

The Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the 7 Principles of the Stewardship Code. The Fund will be reviewing this position in 2017-18 with a view to formally adopting the Code.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which it invests.

The Committee expects both the London CIV and any directly appointed fund managers to also comply with the Stewardship Code and this will be monitored on an annual basis.

The Fund is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners

Chartered Institute of Public Finance ("CIPFA") Pensions Panel Principles for Investment Decision Making set out the six principles of good investment practice issued by Government (Myners principles). The extent to which the Fund complies is set out in Appendix B.

Prepared by:-

Andrew Elliott, Senior Investment Consultant

Mufaddal Jamali, Investment Analyst

For and on behalf of London Borough of Barnet Pension Fund Committee

Appendix A – Approach to Risk

Investment invariably involves an element of risk. The Committee, in recognition of this, has adopted a number of strategies to mitigate the impact of unavoidable risks on the Fund. The Fund is subject to the following risks:

Funding risk: Asset values may not increase at the same rate as liabilities, resulting in an adverse impact on the funding position. The Committee monitors the funding position by considering the Fund's investment strategy and performance relative to the liabilities as part of the Fund's quarterly performance monitoring exercise.

Financial mismatch risk: The Committee recognises that assets and liabilities have different sensitivities to changes in financial factors. To mitigate this risk, the investment strategy is set such that it provides exposure to real assets (which provide some form of inflation-hedging) as well as income generating assets that, to some extent, match the Fund's liabilities.

Liquidity/Cashflow risk: Investments are held until such time as they are required to fund payment of pensions. In 2016/2017 it is anticipated that the contributions due will exceed the net payments from the fund to pensioners. However, the liquidity risk is being closely monitored. The Committee manages its cashflows and investment strategy to ensure that all future payments can be met and that sufficient assets are held in liquid investments to enable short term cash requirements to be met.

Manager risk: Fund managers could fail to achieve the investment targets specified in their mandates. This is considered by the Committee when fund managers are selected and their performance is reviewed regularly by the Committee as part of the manager monitoring process.

Concentration risk: This relates to the risk that the performance of a single asset class, investment or manager has a disproportionate influence on the Fund's performance. The Committee attempts to mitigate this risk by establishing a well-diversified strategic asset allocation, reviewing the investment strategy regularly, and following a regular fund manager review process.

Demographic risk: This relates to the uncertainty around longevity. The Committee recognises there are effectively no viable options to mitigate these risks and assesses the impact of these factors through the Funding Strategy Statement and formal triennial actuarial valuations.

Counterparty risk: This risk relates to the counterparty in a financial transaction failing to meet its obligations to the Fund. The Committee has set guidelines with its fund managers and its custodian to limit its exposure to counterparty risk by specifying minimum credit ratings and credit limits. It has similarly applied this strict criteria within its stock lending agreements to mitigate counterparty risk in these transactions.

Currency risk: The strategic asset allocation adopted by the Committee provides for an overseas allocation to enhance diversification via exposure to different economies. Such investments are, however, subject to fluctuations in exchange rates with an associated impact on performance. As such, the Committee has opted to hedge 50% of the Fund's currency risk (based on overseas exposure of the passive global equity allocation). This is considered to strike a suitable balance between dampening the volatility associated with currency fluctuations and the cost associated with currency hedging.

Environmental, Social, and Governance Issues risk: The Committee recognises that environmental, social and ethical issues have the potential to impact on the long term financial viability of an organisation. The Committee encourages managers to exercise votes in line with their stated ESG objectives.

Appendix B – CIPFA Compliance

The statements below state the extent to which the Fund complies with the principles of investment practice originally issued by the Government in October 2001 in response to the recommendations of the Review of Institutional Investment undertaken by Lord Myners.

Principle 1: Effective decision-making

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they received, and manage conflicts of interest.

Compliant. The Council, as the administering authority, appoints the Pension Fund Committee, specifically for the purpose of managing the Fund's Investments. The Committee is supported by the actuary, independent advisors and officers.

Principle 2: Clear Objectives

Trustees should set out an overall investment objective(s) for the fund that takes account of the scheme's liabilities, the strength of the sponsor covenant, and clearly communicate these to advisers and investment managers.

Compliant. The Fund's investment objective and attitude to risk are reviewed and adjusted where necessary, on the basis of the outcomes of asset liability studies.

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities. These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Compliant. The investment strategy is reviewed annually and updated to take account of the latest actuarial information. Risk of sponsor or fund default is irrelevant as the London Borough of Barnet Pension Fund benefits are guaranteed by law.

Principle 4: Performance Assessment

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers.

Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Part Compliant. The performance of the Fund's investments is monitored on a quarterly basis by officers and also the adviser, Hymans Robertson. The Committee is looking into how to assess the performance of decisions taken.

Principle 5: Responsible Ownership

Trustees should adopt, or ensure their investment managers adopt the Institutional Shareholder's Committee Statement of Principles on the responsibilities of shareholders and agents.

A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.

Trustees should report periodically to members on the discharge of such responsibilities.

Compliant. Investment managers employed by the fund have clear corporate governance policies. The Pension Fund Committee has an approved voting policy.

Principle 6: Transparency and Reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

Trustees should provide regular communication to members in the form they consider most appropriate.

Compliant. The Committee publishes documents including the Investment Strategy Statement, Funding Strategy Statement, Corporate Governance policy and committee meeting minutes on the London Borough of Barnet website. Annual reports and accounts are also published on the website.

Investment Managers and Benchmarks

This table does not form part of the Investment Strategy Statement

Asset class / Investment Manager	Benchmark	Benchmark Proportion	Target
Equity		**40%**	
LGIM	FTSE All World Index	20%	Track within +/- 0.5% p.a. the index for 2 years in every 3
LGIM	FTSE RAFI All World Equity GBP Hedged Index	20%	
Divsified Growth Fund		**20%**	
Schroder DGF	CPI plus 5% p.a.	10%	To outperform the benchmark over a market cycle (typically 5 years
Newton Real Return	1 month LIBOR plus 4% p.a.	10%	to outperform the benchmark over a rolling 5 years
Corporate Bonds		**10%**	
Schroders All Maturities Corporate Bond Fund	Merrill Lynch Sterling Non-Gilts All Stocks Index	10%	To outperform the benchmark by 0.75% p.a. (gross of fees) over a rolling 3 years
Liquid Multi-Asset Credit		**11%**	
Alcentra - Clareant Global Multi Credit	3 month LIBOR plus 4% p.a.	3.50%	To outperform the benchmark over a market cycle (typically 5 years)
Baring Global High Yield Credit Strategies	3 month LIBOR plus 5% p.a.	3.50%	To outperform the benchmark over a market cycle (typically 5 years)
Insight - IIFIG Secured Finance	3 month LIBOR plus 4% p.a.	4%	To outperform the benchmark over a market cycle (typically 5 years)
Illiquid Alternatives		**19%**	
Partners Multi Asset Credit 2015	3 month LIBOR plus 4% p.a.	4%	Over the life of the fund
Partners Multi Asset Credit 2017	3 month LIBOR plus 4% p.a.	3%	Over the life of the fund
Alcentra - Clareant Direct European Lending	8-10% per annum	4%	Over the life of the fund
M&G Lion Credit Opportunities Fund	3 month Libor plus 2%	3%	Over the life of the fund
IFM Global Infrastructure	8-10% per annum	5%	Over the life of the fund
		100%	

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Appendix B

LGPS (Management and Investment of Funds) Regulations 2016

Summary of Provisions of the Regulations and the extent of LB Barnet Compliance

Regulations	Barnet's Compliance	Comments on Compliance
3 - Investments defined to include derivatives, limited partnerships and contracts for insurance.	Yes	Barnet's asset investments are within the permitted classes.
5 - Borrowing is only permitted to pay benefits and meet investment commitments provided that the borrowing can be repaid within 90 days.	Yes	The pension fund has not undertaken any borrowing.
6 - A separate bank account(s) should be established for the pension fund into which contributions, capital proceeds and income should be deposited.	Yes	The pension fund maintains separate bank accounts with RBS and JP Morgan (custodian) into which contribution, income and proceeds of sale are deposited.
7 - The authority must, after taking proper advice and formulate an investment strategy that is in accordance with guidance issued by the Secretary of State includes.	Discussed in separate appendix	See separate report from Hymans Robertson that confirms advice has been received.
7(2)(a) A requirement to invest in a wide variety of investments.	Yes	Table 1 within the ISS identifies the range of investments held. Should we ask Hymans to comment on 'wide'?
7(2)(b) an assessment of the suitability of investments.	Yes	Discussed in ISS – page 2. Also relevant to the modelling undertaken by Hymans Robertson.
7(2)(c) the approach to risk, including assessment and management.	Yes	Discussed ISS – pages 3 to 5. Risk is also discussed in the Hymans report that considers adverse outcomes.
7(2)(d) the approach to pooling.	Yes	The relationship with the London CIV and pooling plans are discussed in the ISS – pages 5&6.
7(2)(e) the policy on how social, environmental and corporate governance considerations are taken into account.	Yes	Discussed ISS – page 6.
7(2)(f)the policy on the exercise of rights(including voting rights) attaching to investments.	Yes	Discussed ISS – page 7.
7(3) the maximum percentage to be invested in any investment or class of investment	Yes	ISS, table 1.

7(4) limit of 5% of self-investment.	Yes	There is no self-investment.
7(5) The administration authority should consult as it considers appropriate on the proposed strategy.	Partially	Although the ISS refers to consultation with 'such persons as considered appropriate', it does not mention who is deemed appropriate. The Board received copies of the last significant review of strategy (Jan 2017). The Committee could be more transparent on persons whom it wishes to consult and how feedback is considered. The ISS should be circulated to all employers and posted on a web site accessible to scheme members and employers.
7(6) The first ISS to be published by 1st April 2017.	Partially	The first ISS was approved by the Pension Committee on 14th March 2017. Without a web site or communication to individual employers, describing the report as 'published' is not fully justified.
7(7) The policy should be reviewed at least every three years.	Yes	The policy was reviewed and updated October 2017.
7(8) Investments should accord with the strategy.	Yes	See confirmation in the Hymans Robertson report
8 - If the Secretary of State considers that an authority is failing to act in accordance with its guidance it may issue directions; (a)to change the investment strategy (b)to direct how assets are invested (c)to nominate someone to undertake the investment functions of the authority	N/A	No directions have been issued.
9 - Investment managers may be appointed provided: (a) The authority reasonably believes that their ability and experience make them suitable. (b)The authority has taken proper advice in relation to the appointment and terms.	Yes	See Hymans Robertson Report that discussed the process for appointing and reviewing investment managers.

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https://www.lgpsregs.org/schemeregs/invregs2016/timeline.php

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Appendix C

Guidance on Preparing and Maintaining an Investment Strategy Statement

The table below lists each of the duties placed on administering authorities within the guidance

Guidance	Barnet's Compliance	Comments on Compliance
The first Investment strategy statement to be published by 1st April 2017.	Yes	The ISS was approved by the Pension Committee on 14 March 2017
Take advice on preparing an ISS.	Yes	The ISS was drafted by Hymans Robertson, the scheme Actuary and Investment Advisor. Strategy was based on modelling undertaken by Hymans.
Set out clearly the balance between different types of investments.	Yes	Detailed in table 1, pages 2 & 3.
Identify the risks associated with their overall investment strategy and manage these risks, including contingency plans.	Yes	Risks are discussed on pages 3-5 and appendix A of the ISS. The discussion is descriptive and understanding would be aided by numerical analysis.
Periodically review the strategy.	Yes	The strategy was reviewed October 2017 and table 1 was amended in light of advice received from Hymans.
Ensure that their asset allocation policy is consistent with own solvency target.	Yes	See slides from Hymans Robertson.
Periodically review the suitability of their investment portfolio to ensure that returns, risk and volatility are appropriately managed and are consistent with overall investment strategy.	Yes	Quarterly reports are received on the performance of the fund and each mandate, including changes in the funding level. Modelling was presented to the October 2017 Committee meeting by Hymans that reviewed returns and risks for the current portfolio and alternative portfolios.
State their appetite for risk & be aware of the risks that may impact on their overall funding and investment strategies	Not directly	Appetite for risk is explicitly recognised in the selection of the investment strategy as demonstrated by the Hymans Robertson slides.
Periodically review the assumptions on which the strategy is based.	Yes	The October 2017 modelling used up to date assumptions.
Confirm that the pooling arrangements meet the Government's 2015 criteria.	Yes	The Committee intends to pool assets with the London CIV when suitable pools become available.
Notify that Scheme Advisory Board ("SAB") of any changes that result in a failure to meet the criteria.	N/A	There has been no change of pooling intentions.
Set out the proportion of assets	Yes	The ISS (page 5) identifies the assets to be held

that will be invested through pooling.		outside the CIB, being life funds and illiquid assets.
Set out the structure and governance arrangements for the pool.	Indirectly	The ISS (page 6) makes reference to the London CIV's July 2016 submission to the Government that covered these issues. The SoS has not raised any queries on the governance structure.
Provide a summary and rational for assets that are deemed not suitable for pooling.	Yes	The ISS (page 5) explains the position for life funds and illiquid strategies that will initially be held outside the London CIV.
Review at least every three years the assets that the authority has determined should be held outside of the pool and ensure this continues to demonstrate value for money.	N/A	Three year period not yet complete. The February 2018 Committee agenda includes a review of pooling plans.
Submit an annual report on the progress of pooling to the SAB.	No.	The requirement is being meet by the London CIV providing reports on behalf of all London Boroughs.
Explain the extent to which the views of the local pension board and other interested parties will be taken into account when making investment decisions based on non-financial factors.	N/A	There is no provision in the ISS for the Pension Committee to make decisions on non-financial factors. As noted below, investment managers are expected to take all factors that have a potential financial implication.
Explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments.	Yes	Discussed within ISS (page 6). Investment managers are expected to take into account all factors that have a bearing on financial returns and risks.
Explain their approach to social investments.	No.	Not discussed.
Give reasons for not adopting a policy on exercising investment rights, including voting rights.	Yes	Voting is delegated to investment managers (ISS page 7), who each have voting policies and are expected to vote in accordance with their policies.
Become signatories to the Stewardship Code and explain their policy on stewardship with reference to the code's seven principles.	No	The Authority is not a signatory to the Code. It has endorsed the seven principles and will review its position at the May 2018 meeting.
Encourage investment managers to vote their shares in line with their policy.	Yes	Discussed ISS (page 7)
May wish to appoint an independent proxy voting agent to exercise voting rights and monitor voting activity.	N/A	This is voluntary. The Committee has not appointed a proxy voting agent.
Publish a report of voting activity as part of their pension funds annual report.	No	The Annual Report mentions delegation of voting to fund manager but not of voting activity.

https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement

London Borough of Barnet Pension Fund

Pension Board training - Strategic approach and manager selection process

- November 2017

HYMANS ROBERTSON

Fund strategy 2015

London Borough of Barnet Pension Fund

Hymans Robertson LLP

Manager Summary

Manager Summary

Manager	Investment Style	Benchmark Description	Annual Fee (bps)	Rating *
LGIM World ex UK Equity Index Fund	Passive	FTSE World ex UK Net Tax (UKPN)	15	
Newton Real Return Fund	Active	1 month £ LIBOR + 4% p.a.	59	
Schroder Life Diversified Growth Fund	Active	RPI + 5% p.a.	60	
LGIM Active Corporate Bond All Stocks Fund	Active	Markit iBoxx GBP Non-Gilts (All Stocks)	20	
Newton Corporate Bond Fund	Active	Merrill Lynch Sterling (Over 10 years) Investment Grade Index	10	
Schroder All Maturities Corporate Bond Fund	Active	Merrill Lynch Sterling Non-Gilts All Stocks Index	18	

* For information on our manager ratings, see individual manager pages

Key:- - Replace - On-Watch - Retain

Manager Valuations [1] [2]

Manager	Value (£m) Q1 2015	Q2 2015	Actual Proportion %	Target Proportion %	Difference %
LGIM World ex UK Equity Index Fund	52.0	49.2	5.6	6.0	-0.4
Newton Real Return Fund	275.1	267.5	30.3	31.0	-0.7
Schroder Life Diversified Growth Fund	284.4	278.7	31.6	31.0	0.6
LGIM Active Corporate Bond All Stocks Fund	19.9	19.1	2.2	2.0	0.2
Newton Corporate Bond Fund	147.7	140.2	15.9	15.0	0.9
Schroder All Maturities Corporate Bond Fund	132.1	127.3	14.4	15.0	-0.6
Total	**911.3**	**882.1**	**100.0**	**100.0**	0.0

[1] Excludes operating cash held in Fund bank account.

Source: [1] Fund Manager, Hymans Robertson

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Fund strategy 2017

London Borough of Barnet Pension Fund

Hymans Robertson LLP

Manager Summary

Manager Summary

Manager	Investment Style	Benchmark Description	Annual Fee (bps)	Rating *
LGIM Global Equity	Passive	FTSE World Net Tax (UKPN)	15	
Alcentra Multi-Credit	Active	£ 3 month LIBOR + 4% p.a.	50	
Newton Real Return Fund	Active	1 month £ LIBOR + 4% p.a.	59	
Schroder Life Diversified Growth Fund	Active	CPI + 5% p.a.	60	
Barings Multi-Credit	Active	£ 3-month LIBOR + 5% p.a.	53	
Insight Secured Finance Fund	Active	3 Month LIBOR + 4%	36	
M&G ABS Alternative Credit Fund	Active	LIBOR +2% p.a.	0	
Schroder All Maturities Corporate Bond Fund	Active	Merrill Lynch Sterling Non-Gilts All Stocks Index	18	
Schroder ISF Strategic Bond Fund	Active	3 month £ LIBOR + 2% p.a.	52	
Alcentra Direct Lending	Active	-	100	
Partners Group MAC 2015	Active	-	73	
Cash	Cash	-	0	

* For information on our manager ratings, see individual manager pages

Key:- Replace - On-Watch - Retain

Manager Valuations [1] [2]

Manager	Value (£m) Q1 2017	Q2 2017	Actual Proportion %	Target Proportion %	Difference %
LGIM Global Equity	405.6	408.7	39.0	36.0	3.0
Alcentra Multi-Credit	32.8	33.3	3.2	3.5	-0.3
Newton Real Return Fund	133.7	135.2	12.9	13.5	-0.6
Schroder Life Diversified Growth Fund	144.6	145.9	13.9	13.5	0.4
Barings Multi-Credit	36.2	36.8	3.5	3.5	0.0
Insight Secured Finance Fund	0.0	40.0	3.8	3.0	0.8
M&G ABS Alternative Credit Fund	0.0	30.4	2.9	3.0	-0.1
Schroder All Maturities Corporate Bond Fund	114.7	116.1	11.1	12.0	-0.9
Schroder ISF Strategic Bond Fund	94.5	45.1	4.3	0.0	4.3
Alcentra Direct Lending	13.6	15.4	1.5	4.0	-2.5
Partners Group MAC 2015	37.5	37.5	3.6	8.0	-4.4
Cash	23.9	4.5	0.4	0.0	0.4
Total	**1037.1**	**1048.8**	**100.0**	**100.0**	0.0

Source: [1] Fund Manager, Hymans Robertson

Quarterly Monitoring Report Q2 2017 Page 8 of 22

Key changes

- The previous strategy was too conservative and unlikely to deliver sufficient returns to help meet the Fund's long term objectives. Based on modelling undertaken in 2015 there was only a 53% probability of that strategy reaching full funding in 2033. The changes agreed at that time improved the probability of success to c64%.
- The main changes include:
  - Increasing exposure to listed equities
  - Reducing exposure to Diversified Growth funds
  - Reducing exposure to Corporate Bonds
  - Introducing new investments in liquid and illiquid debt portfolios to diversify risk. All of these assets deliver a significant proportion of their return through yield.
  - Introducing investment in infrastructure (this is expected to be funded in the first half of 2018)

Process for reviewing strategic asset allocation

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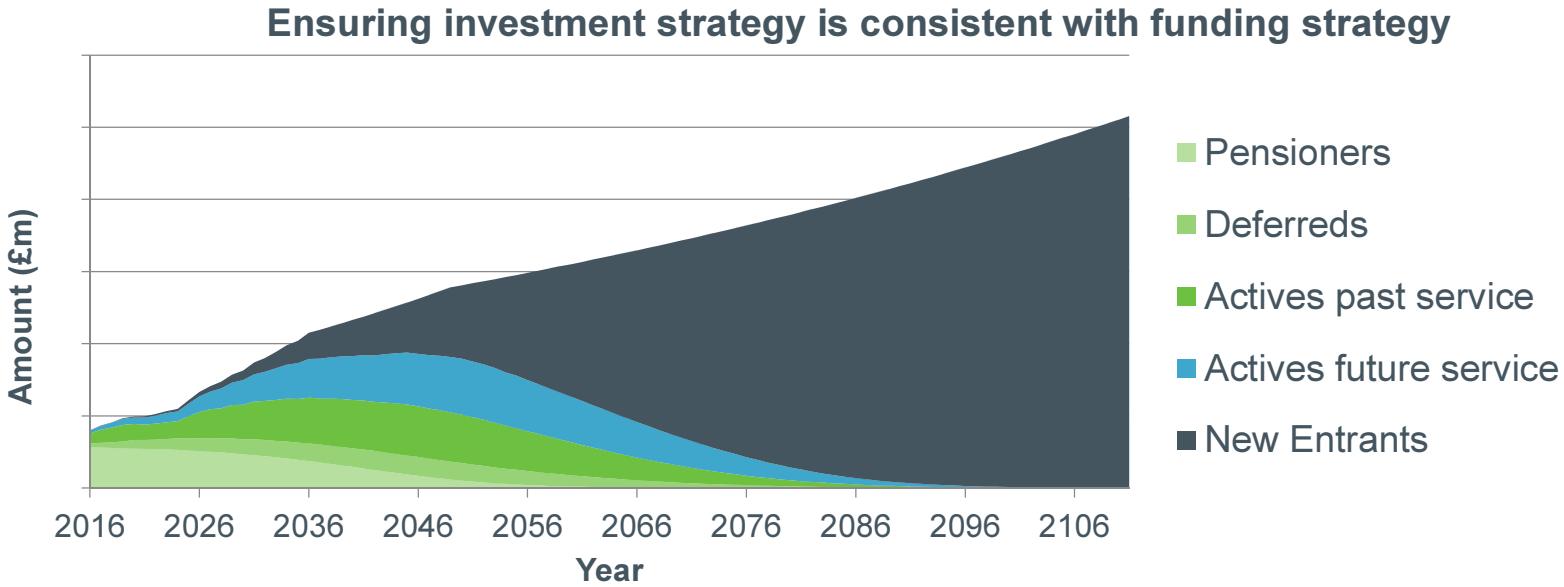
Thinking about long-term objectives



LGPS
Open to new members…..
…….but with a changing liability profile
Strong covenant (though not for all employers)
Focus on generating long term real returns

We understand LGPS objectives

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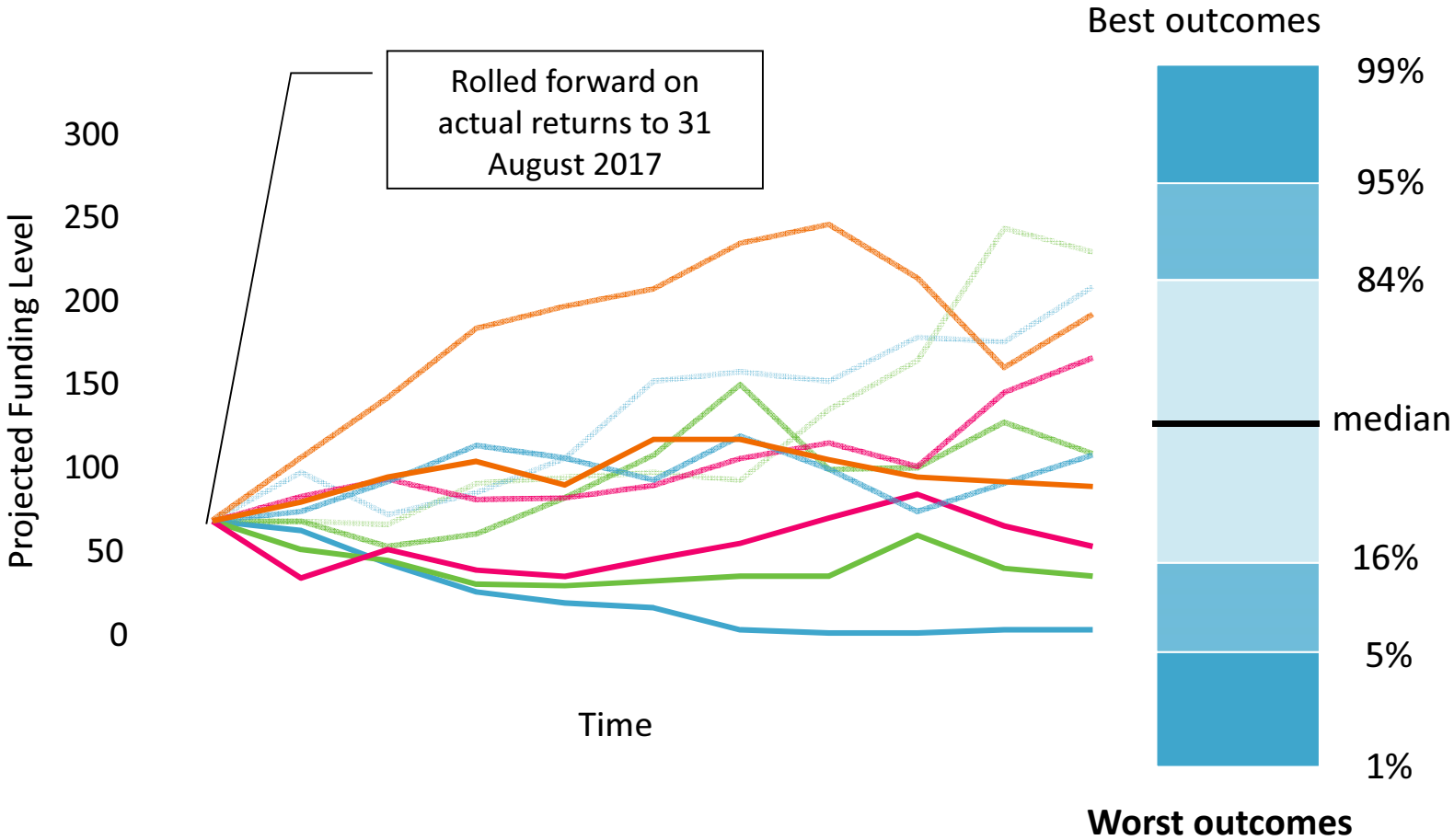
Asset liability modelling - example



- 5,000 simulations of the future
- Rank from worst to best outcome to give distribution of possible outcomes

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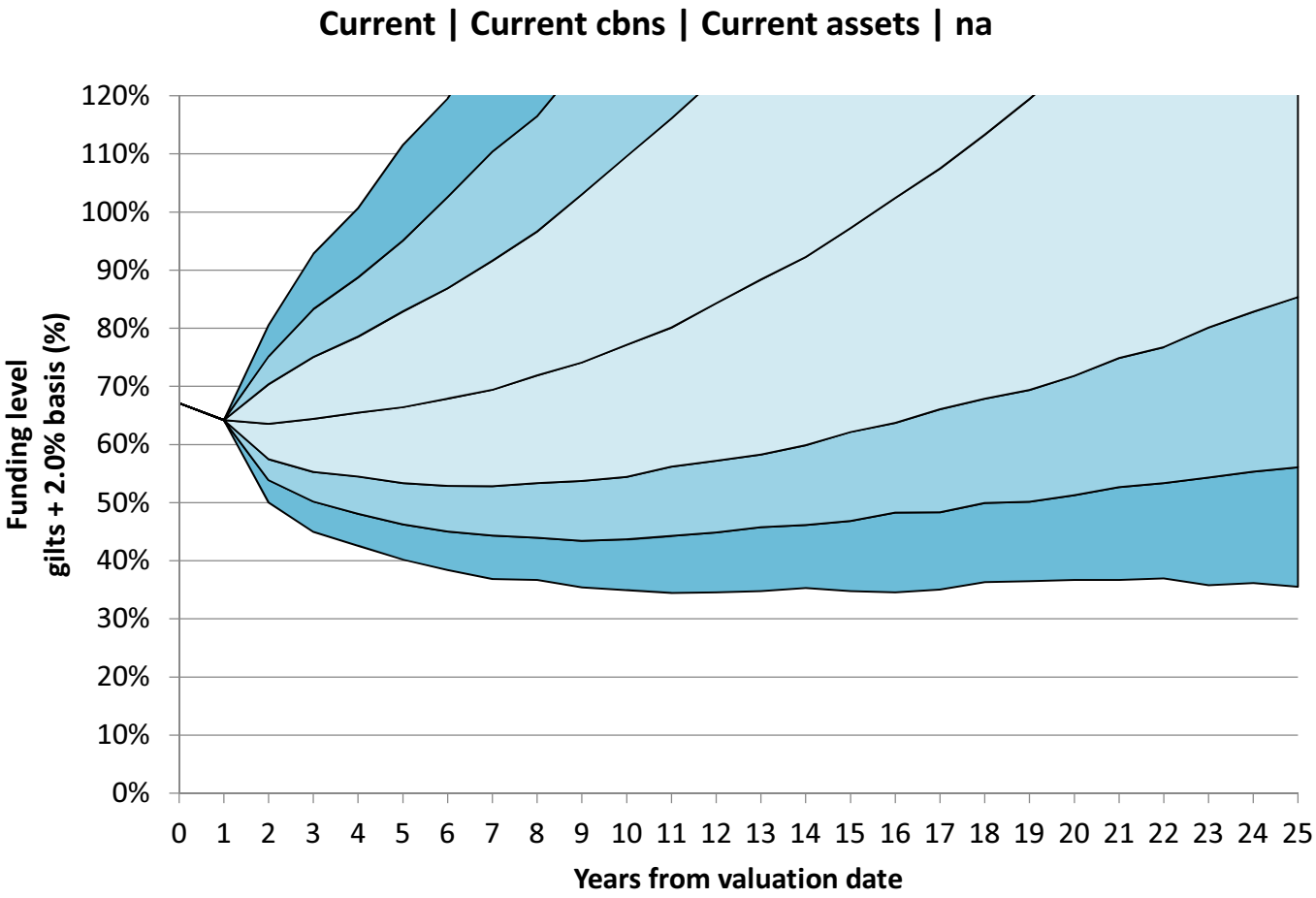
Strategies modelled for Barnet in 2017

Asset allocations:

Asset class	Current target	Alternative 1 (synthetic credit)	Alternative 2 (synthetic equity)	Alt 3 (low risk)	Alt 4 (high risk)
Global Equity	36.0	36.0	20.0	10.0	52.0
Absolute return Funds (DGF)	22.0	22.0	22.0	35.0	5.0
Multi asset credit (liquid)	7.0	7.0	7.0	7.0	7.0
Multi-asset credit (illiquid)	9.0	9.0	9.0	7.0	7.0
Private debt	9.0	9.0	9.0	9.0	9.0
Corporate bonds	12.0	-	-	25.0	5.0
Private Equity	-	-	-	-	10.0
Infrastructure	5.0	5.0	5.0	5.0	5.0
CDS	-	3.0 (12.0)	-	-	-
Synthetic equity (+gilts)	-	-	16.0 equity (4.0 cash) (12.0 gilts)	-	-
AN other asset (assume property)	-	9.0	12.0	-	-
Cash	-	-	-	-	-
Total	100.0	100.0	100.0	100.0	100.0
Total exposure	100.0	109.0	116.0	100.0	100.0

Projection based on current strategy



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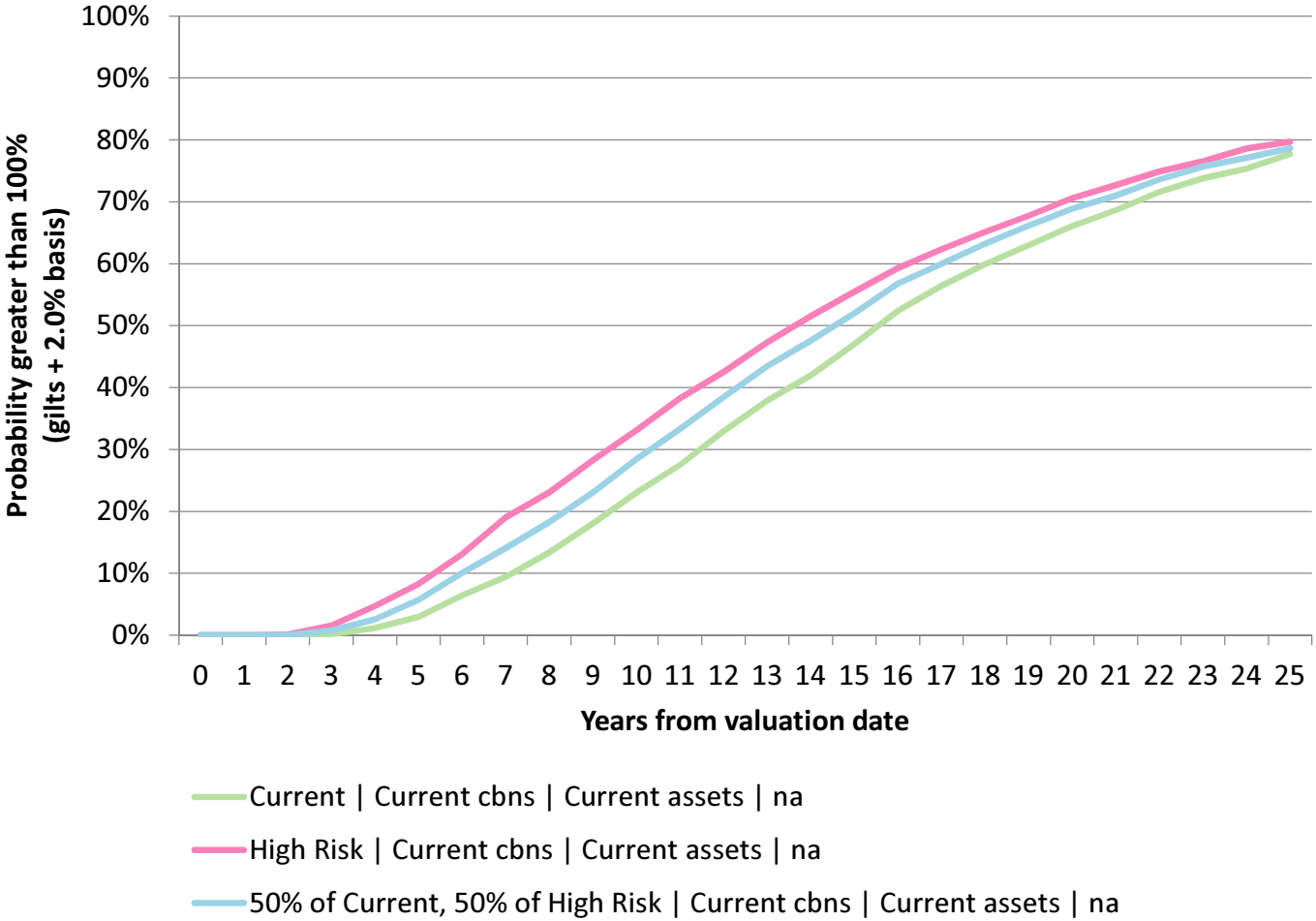
Probability of success over time



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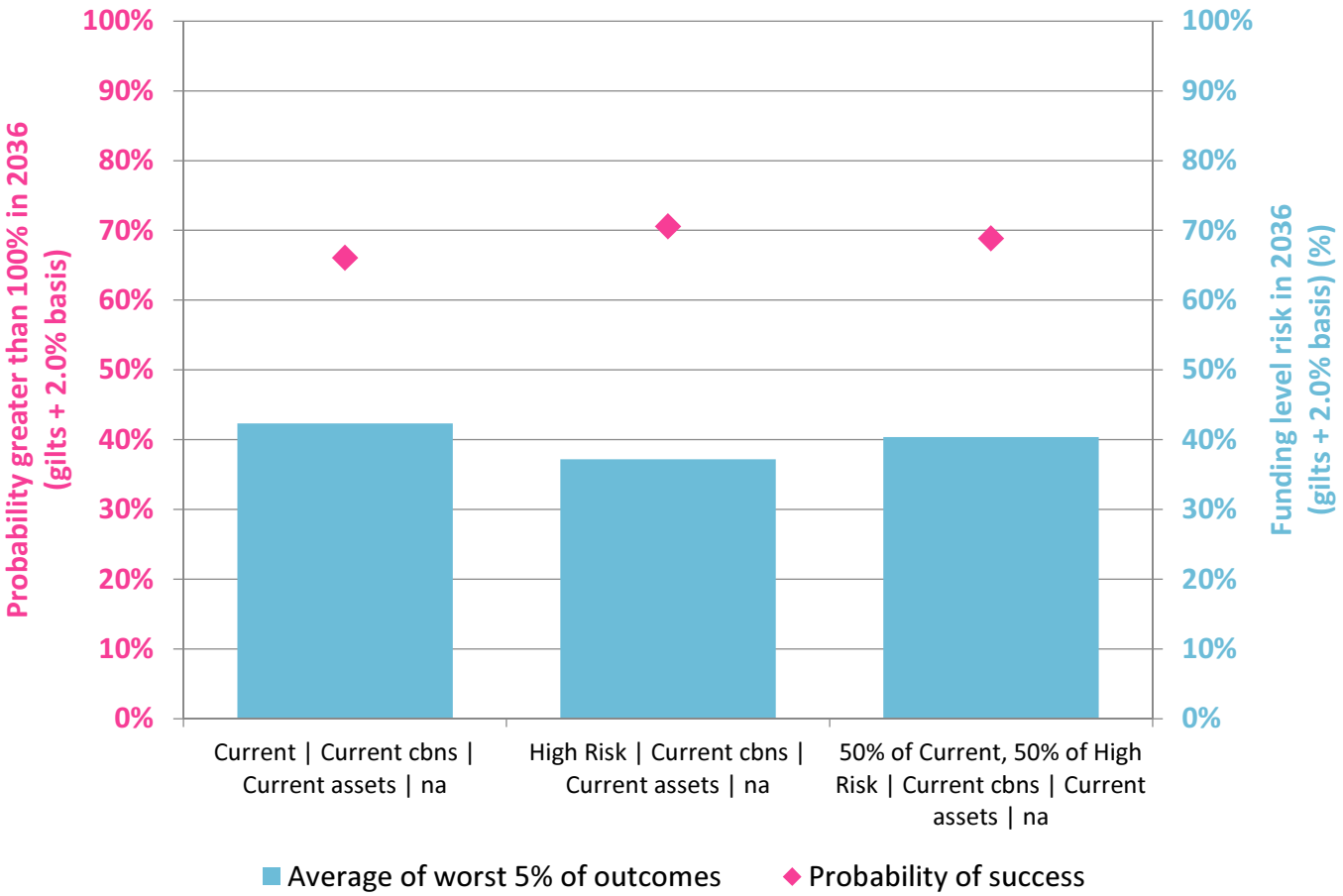
Probability of success versus downside risk 2036



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Next steps

- The current strategy appears robust alongside the funding strategy adopted at the 2016 actuarial valuation, giving a c67% probability of success in 2036.
- The modelling suggests that further enhancements can be made, to improve returns a without taking more risk, increasing the probability of success to c70% in 2036.
- This will be considered further at the Pension Fund Committee meeting in February 2018.

Manager Review and selection process

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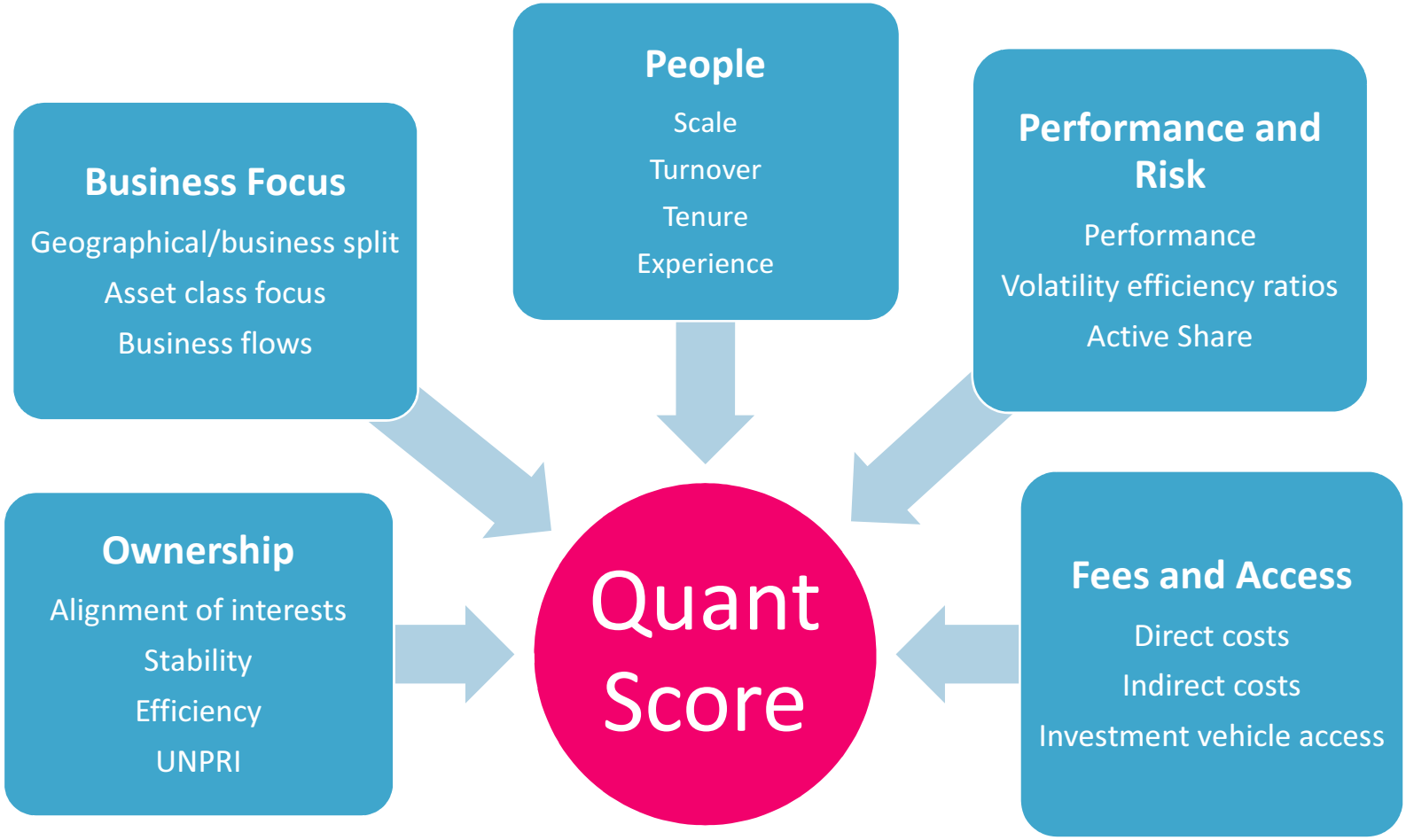
Quantitative Criteria



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Quantitative Screening

The screen uses two methodologies:

Conditional/rules basis

- Rules include pre-set thresholds, bands and maximum values, above or below which managers are rewarded or penalised. (to ensure scoring is not based on an arbitrary ranking)

Example; You might have three equity managers with £2bn, £2.5bn and £25bn AUM. Our scoring does not differentiate between the first two managers, however, we would question whether the third manager has managed capacity effectively. As a result, the third manager receives a lower score on this data point.

Peer group basis

- Some metrics are best assessed relative to the manager universe being evaluated.
- Some factors are therefore scored on a ranked or peer group basis.
- Peer group scores are those where 'bigger' or 'smaller' is generally accepted to be better, irrespective of a marginal difference between managers; e.g. we prefer managers with lower personnel turnover.

Qualitative Criteria

Philosophy

Credible

Scalable

Matches performance history

Not unduly constrained

People

Knowledgeable

Motivation/Enthusiasm

Key man risk

Corporate Alignment

Business track record

Strategic planning

Employee tie-in

ESG

Qualitative Score

Process

Effective implementation

Passes due diligence

Focused

Lower turnover

How is this used?

Our qualitative assessment focuses on thoroughly researched face-to-face meetings with managers.

We use quantitative analysis as a filter to focus our qualitative research on a sub-set of highly capable managers in each asset class.

We then apply quantitative measures to arrive to a rating.

Our current manager ratings

Rating	Recommendation	Comment
1	**Sell – immediate**	Deterioration sufficiently serious for immediate, high priority exit from the strategy.
2	**Sell – review options**	No immediate operational issues but we have lost long-term confidence; options to exit should be assessed (time frame assessed case by case).
3	**On Watch**	Retain but concerns are serious; meaningful risk of further downgrade to sell (may depend on further information).
4	**Retain**	Expected to meet objectives. May put forward for new business if circumstances warrant.
5	**Preferred strategy**	High conviction strategy expected to meet/exceed objectives. Preferred for new business situations.

Barnet Manager Ratings

Manager	Fund Name	Rating
Legal & General	Equity index funds	
Newton	Real Return Fund	
Schroder	Diversified Growth Fund	
Schroder	ISF Strategic Bond Fund	
Schroder	All Maturities Corporate Bond Fund	
Partners Group	Multi-Asset Credit 2015 Fund	
Barings	Global High Yield Credit Strategies Fund	
Alcentra	European Direct Lending Fund II	
Alcentra	Global Multi-Credit Fund	
Insight	Secured Finance Fund	
M&G	Alternative Credit Fund	

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Thank you

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