MEETING
PENSION FUND COMMITTEE
DATE AND TIME
MONDAY 2ND DECEMBER, 2013
AT 7.00 PM
VENUE
HENDON TOWN HALL, THE BURROUGHS, NW4 4BG

TO: MEMBERS OF PENSION FUND COMMITTEE (Quorum 3)

Chairman: Councillor Mark Shooter
Vice Chairman: Councillor John Marshall MA (Hons)

Councillors

Andreas Ioannidis
Geoffrey Johnson
Susette Palmer
Rowan Quigley Turner
Daniel Seal

Substitute Members

Geof Cooke
Lord Palmer
Stephen Sowerby
Daniel Thomas
Jim Tierney

You are requested to attend the above meeting for which an agenda is attached.

Andrew Nathan – Head of Governance

Governance Services contact: Maria Lugangira 020 8359 2761

Media Relations contact: Sue Cocker 020 8359 7039

ASSURANCE GROUP

ORDER OF BUSINESS

FACILITIES FOR PEOPLE WITH DISABILITIES

Hendon Town Hall has access for wheelchair users including lifts and toilets. If you wish to let us know in advance that you will be attending the meeting, please telephone Maria Lugangira 020 8359 2761 maria.lugangira@barnet.gov.uk. People with hearing difficulties who have a text phone, may telephone our minicom number on 020 8203 8942. All of our Committee Rooms also have induction loops.

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BARNET LONDON BOROUGH

AGENDA ITEM 6

Meeting	Pension Fund Committee
Date	2 December 2013
Subject	**Barnet Council Pension Fund Performance for Quarter July to September 2013**
Report of	Chief Operating Officer
Summary	This report is on Pension Fund investment manager performance for the July to September quarter 2013 and recommends the establishment of a working group to review the current investment strategy.

Officer Contributors	John Hooton, Deputy Chief Operating Officer Iain Millar, Head of Treasury
Status (public or exempt)	Public
Wards Affected	Not Applicable
Key Decision	Not Applicable
Reason for urgency / exemption from call-in	Not Applicable
Function of	Council
Enclosures	Appendix A – Pension Fund Market Value of Investments as at 30 September 2013 Appendix B – JLT Image Report Quarterly Update 30 September 2013 Appendix C – WM Local Authority Universe Comparison to 30 September 2013.) Appendix D - JLT Investment Strategy Positioning Report.
Contact for Further Information:	Iain Millar, Head of Treasury Services 0208 359 7126

1. RECOMMENDATIONS

1.1 That, having considered the performance of the Pension Fund for the quarter to 30 September 2013, the Committee instruct the Chief Operating Officer and Chief Finance Officer to address any issues that it considers necessary.

1.2 That the Committee note the investment strategy positioning report as set out in Appendix D and agreement to the formation of a working group is recommended, to review the current investment strategy and to report back on a revised investment strategy.

2. RELEVANT PREVIOUS DECISIONS

2.1 Council – 11th September 2007 – Minute 64.

2.2 Pension Fund Committee – 4 February 2010, (Decision Item 6) –The Pension Fund Committee adopted the revised investment strategy.

2.3 Pension Fund Committee – 9 September 2013, Item 11.The Pension Fund Committee instructed that any additional funding from contributions be invested with Legal and General Asset Management and requested an update on the review of investment strategy (attached as Appendix D).

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 To ensure that the pension fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund will provide support towards the Council's corporate priorities.

4. RISK MANAGEMENT ISSUES

4.1 A key risk is that of poor investment performance. The performance of Fund managers is monitored by the committee every quarter with reference to reports from JLT Investment Consulting, the Pension Fund investment adviser, and the WM Company Ltd, a company that measures the performance of pension funds. If fund manager performance is considered inadequate, the fund manager can be replaced.

4.2 Risks around safeguarding of pension fund assets are highlighted in the current economic climate following sovereign debt crisis in the Euro zone. Fund managers need to have due regard to longer term investment success, in the context of significant market volatility. Both Newton's and Schroder's will attend this Committee to update on their approach in this context.

5. EQUALITIES AND DIVERSITY ISSUES

5.1 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

5.2 The rules governing admission to and participation in the Pension Fund are in keeping with this public sector equality duty. Good governance arrangements and monitoring of the pension fund managers will benefit everyone who contributes to the fund.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

6.1 As administering authority for the London Borough of Barnet Pension Fund, the Council is required to invest any funds not required for the payment and administration of pension fund contributions and benefits.

6.2 The Pension Fund has appointed external fund managers to maximise pension fund assets in accordance with the fund investment strategy. The Pension Fund is a long term investor and volatility of investment return is expected, though in the longer term, the appointed fund managers are expected to deliver positive returns in accordance with the fund benchmarks. The Scheme benchmark is a liability driven benchmark and is dependent on the movement in gilt yield The Growth portfolio targets of the respective Diversified Growth Funds are Newton; LIBOR +4%, and Schroder; RPI+5%.

6.3 The total value of the pension fund's investments including internally managed cash was £796.264 million as at 30 September 2013, up from £782.172 million as at 30 June 2013. The total market value of externally managed investments rose by £14.1 million over the quarter. The graph in Appendix A shows how the market value of the fund has grown since 2007.

6.4 Over the quarter at a total scheme level, the Fund's externally managed investments produced a positive return of 1.9% and outperformed the liability benchmark return for the quarter by 1.0%. All the growth and bond funds produced positive absolute returns.

6.5.1 Both the Newton and Schroder diversified growth funds underperformed against global equities (not unsurprisingly as DGF Funds are expected to underperform against equities in rising markets). The Newton Real Return DGF outperformed, 1.4% return versus a benchmark return of 1.1%. One year return was 2.8% compared to a benchmark return of 4.5%. Schroder DGF slightly underperformed for the quarter, 2.0% versus a benchmark return of 2.1%. One year return was 9.3% versus the benchmark return of 8.3%.

6.6 For the quarter, the Newton Corporate Bond portfolio marginally outperformed, returning 2.7% against its benchmark of 2.9% and over the year the Fund slightly outperformed the benchmark with a 2.8% return against a benchmark return of 1.8%. Schroder's Corporate Bond portfolio outperformed the benchmark for the quarter returning 2.6% and against benchmark return of -2.2%. Over the year the Schroder corporate bond return was 4.2% versus the benchmark return of 3.1%.

6.7 For Legal and General, overseas equities outperformed marginally, 1.1%, against the benchmark of 1.0%, and the fixed interest performance of 2.0% marginally underperformed the benchmark of 2.2%.

6.8 **Investment Performance & Benchmark**

6.8.1 The Fund's overall performance is measured against a liability benchmark return.

6.8.2 The Growth portfolio return is the combined Newton and Schroder Diversified Growth Fund portfolios and is measured against a notional 60/40 global equity benchmark and underlying benchmarks of each fund for comparison.

6.8.3 The performance of the Fund including manager performance is outlined in Appendix B.

6.8.4 Fund Return compared with the WM Local Authority Universe over the quarter to 30 September 2013 for one, three and five years is set out in Appendix C.

6.8.5 It is recommended Fund performance July to September 2013.

7. LEGAL ISSUES

7.1 This report is based on the provisions of Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009) which have their basis in the Superannuation Act 1972.

7.2 Other statutory provisions are referred to in the body of this report.

8. CONSTITUTIONAL POWERS

8.1 Constitution – Part 3 Responsibility for Functions – Section 3 – Responsibility for Council Functions delegated to the Pension Fund Committee through the Pension Fund Governance Compliance Statement.

9 BACKGROUND INFORMATION

9.1 **History**

9.1.1 The Superannuation Act 1972 makes provision for local authorities to operate pension funds for their employees and employees of other employers who have either a statutory right or an admission agreement to participate in the funds. The London Borough of Barnet's Pension Scheme Fund (The Fund) is set up under the Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008/239); (ii) the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (SI 2007/1166); and (iii) The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (SI 2008/238). The Regulations include provision for retirement pensions, grants on age or ill-health retirement, short service grants, death grants, injury allowances and widows' pensions.

9.2 **Tax Status**

9.2.1 The Fund is an exempt approved fund under the Finance Act 1970, and is therefore exempt from Capital Gains Tax on its investments. At present all Value Added Tax is recoverable, but the fund is not able to reclaim the tax on UK dividends.

9.3 **Operation and Administration**

9.3.1 The Fund is operated and administered by the London Borough of Barnet. Day to day investment management of the Fund's assets is delegated to expert investment advisors in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended). The Fund is managed on a balanced (excluding property and cash) basis. The current fund managers are Schroder Investment Management Ltd and Newton Investment Management Limited.

9.3.2 At the Pension Fund Committee meeting held on the 4 February 2010, the Committee agreed to implement a 70/30 diversified growth and bonds portfolio using the existing managers. The implementation of the new investment strategy commenced on 19 November 2010 .

9.3.3 Actuarial services are provided by Barnett Waddingham and the fund receives investment advice from JLT Investment Consulting.

9.4 **Scheme Governance**

9.4.1 The Council is statutorily responsible for the management of the Fund and for making strategic decisions that govern the way the Fund is invested. In this respect, the Council delegates responsibility for making investment decisions and monitoring arrangements to the Pension Fund Committee. The Pension Fund Committee's responsibilities include reviewing and monitoring the Fund's investments; selecting and deselecting investment managers and other relevant third parties; and establishing investment objectives and policies.

The Fund's investment objectives and policies are published in a Statement of Investment Principles, details of this statement can be found on the Council's Web Site:
http://www.barnet.gov.uk/statement_of_investment_principles_oct_2010.pdf).

9.5 **Funding**

9.5.1 The Fund is financed by employer and employee contributions and from income derived from investments. Every three years the Fund Actuary carries out a valuation, which determines the level of employer contributions. The latest triennial valuation took place as at 31 March 2013. The actuary's report is being prepared and will be reported to Pension Fund Committee later in the year.

10. LIST OF BACKGROUND PAPERS

10.1 None

Cleared by Finance (Officer's initials)	**JH**
Cleared by Legal (Officer's initials)	**LC**

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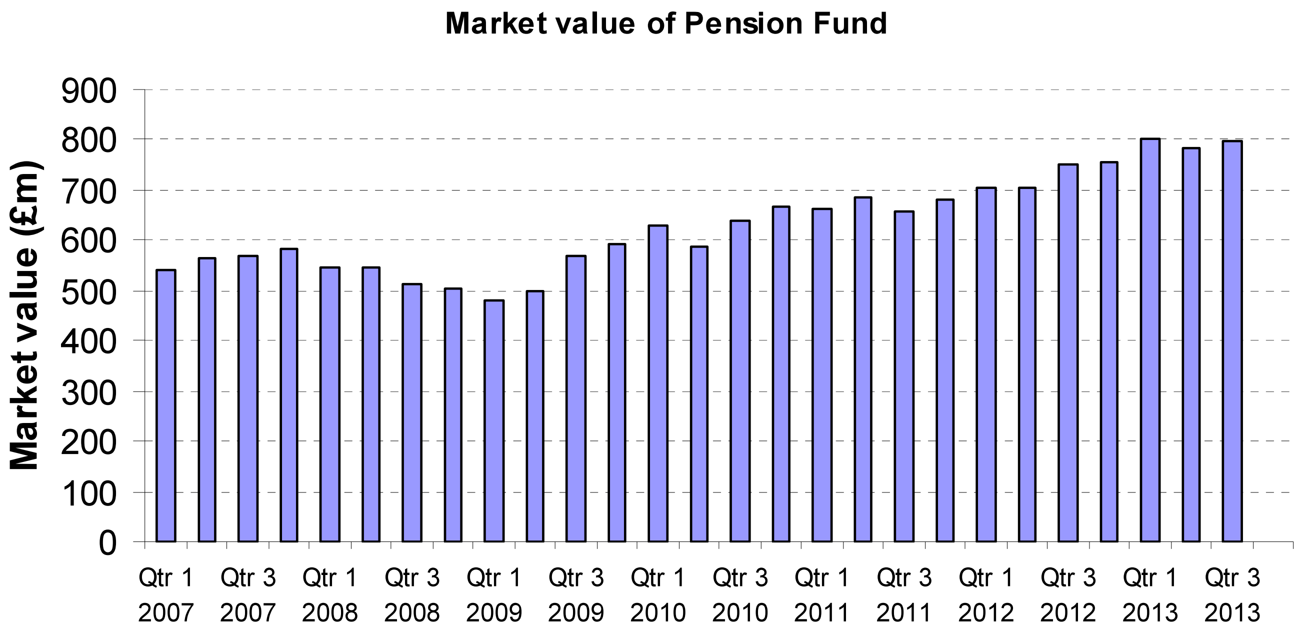
Appendix A – Pension Fund Market Value of Investments as at 30 September 2013



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Performance Report - Quarterly Update
30 September 2013

London Borough of Barnet Superannuation Fund

JLT Employee Benefits

Contents

Jignasha Patel, MMath (Hons) IMC
Principal Analyst

Julian Brown, PhD IMC
Director

November 2013

Section One – Market Update

Introduction

The tables below summarise the various market returns to 30 September 2013, to relate the analysis of your Scheme's performance to the global economic and market background.

Yields as at 30 September 2013	% p.a.
UK Equities	3.41
UK Gilts (>15 yrs)	3.41
Real Yield (>5 yrs ILG)	-0.04
Corporate Bonds (>15 yrs AA)	4.32
Non-Gilts (>15 yrs)	4.51

Absolute Change in Yields	3 Mths	1 Year	3 Years
	%	%	%
UK Equities	-0.12	-0.23	0.24
UK Gilts (>15 yrs)	-0.02	0.51	-0.44
Index-Linked Gilts (>5 yrs)	-0.01	-0.13	-0.52
Corp Bonds (>15 yrs AA)	-0.20	0.30	-0.63
Non-Gilts (>15 yrs)	-0.16	0.26	-0.46

Market Returns	3 Mths	1 Year	3 Years
Growth Assets	%	%	% p.a.
UK Equities	5.6	18.9	10.1
Overseas Equities	0.8	18.2	9.7
USA	-1.0	19.7	15.4
Europe	6.9	27.1	7.3
Japan	0.1	31.2	8.2
Asia Pacific (ex Japan)	0.6	6.9	3.2
Emerging Markets	-2.2	0.2	-1.7
Property	2.9	6.5	6.2
Hedge Fund	1.7	7.7	5.4
Commodities	-1.9	-4.4	2.7
High Yield	-3.1	8.5	8.2
Emerging Market Debt	1.2	-4.1	4.9
Senior Secured Loans	2.7	9.2	6.7
Cash	0.1	0.4	0.5

Market Returns	3 Mths	1 Year	3 Years
Bond Assets	%	%	% p.a.
UK Gilts (>15 yrs)	1.3	-4.4	6.3
Index-Linked Gilts (>5 yrs)	0.5	6.6	8.3
Corp Bonds (>15 yrs AA)	3.8	0.7	6.6
Non-Gilts (>15 yrs)	3.2	1.3	6.7

Change in Sterling	3 Mths	1 Year	3 Years
	%	%	%
Against US Dollar	6.8	0.3	0.9
Against Euro	2.5	-4.7	1.2
Against Yen	5.5	26.5	6.5

Inflation Indices	3 Mths	1 Year	3 Years
	%	%	% p.a.
Price Inflation - RPI	0.9	3.2	3.8
Price Inflation - CPI	0.7	2.7	3.3
Earnings Inflation *	-0.1	0.7	1.5

* *Subject to 1 month lag*
Source: Thomson Reuters and Bloomberg

Yields and the absolute change in yields are shown to 2 decimal places to clearly show the changes.

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
UK Equities	New BoE Governor, Mark Carney, in his forward guidance policy reaffirmed his commitment to maintain rates at low levels at least until unemployment falls below 7%.	UK trade deficit more than doubled in the month of July, to £3.1 billion from £1.3 billion in June, due to falling exports to countries outside European Union.
	The UK economy posted a strong quarter in Q2, with growth at 0.7%. This was led by construction and manufacturing, suggesting recovery in the economy continues.	The equity market continues to be nervous about the extent to which the US Federal Reserve will “taper” its programme of asset purchases.
	According to Markit and the Chartered Institute of Purchasing & Supply, August 2013 Purchasing Managers’ Index (PMI) rose to a two-and-a-half year high of 57.2, up from July’s figure of 54.8.	Towards the end of the quarter, markets became concerned about a possible escalation of the conflict in Syria that could destabilise the wider region.
	UK equity dividend yields remain comfortably in excess of government bond yields while UK equities remain the cheapest developed equity market globally on a P/E (price to earnings) basis.	
Overseas Equities		
North American Equities	The US Federal Reserve refrained from any tapering of QE and assured the markets that a hike in interest rates will follow only when jobless rate falls below 6.5% and the outlook for inflation is no higher than 2.5%. These comments led to a decrease in the 10-Year Treasury bond yield by 15 basis points and equity markets touching a new high.	Uncertainty over the starting date of Fed's "taper" of quantitative easing, and concerns over potential conflict in Syria, led to a fall in the US equity markets.
	The underlying fundamentals in terms of consumer spending, housing and business confidence are slowly improving, making equities look inexpensive.	Revised US GDP forecasts by the Fed reflected a decrease in the growth rate by 0.3%. The GDP is set to increase 2.0% to 2.3% in 2013, down from a June projection of 2.3% to 2.6% growth.
	Positive earnings growth and accelerating economic momentum suggest stronger performance from US equities.	Though employment figures look reassuring, the rate of growth in jobs and the quality of new jobs remains a concern.
		The acrimonious debate on the raising of the debt ceiling is a growing cause for concern.

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
European Equities	The Eurozone emerged from an 18 month recession in the second quarter, as GDP grew by 0.3% for the 17-nation currency area. Germany and France showed the strongest signs of recovery with Q2 growth rates of 0.7% and 0.5%, respectively.	Standard and Poor's Ratings Services downgraded Italy's sovereign credit rating by one notch, citing the country's worsening economic prospects. S&P lowered the country's rating two levels above junk territory, from BBB+ to BBB.
	Business activity in the Eurozone, as measured by the PMI, rose to 52.1 in September, higher than the August reading of 51.5 and registering its highest level since June 2011.	IMF estimates see the output gap peaking in 2013 at 3%, as unemployment rates remained at an all time high of 12.1% in the month of August. Youth unemployment continued to edge higher, up from 23.3% a year ago to 23.4%.
	European Central Bank President, Mario Draghi, assured the markets that the ECB would be willing to extend its long-term bank lending programme in order to keep short term interest rates low.	According to the IMF, Greece has a shortfall of €11 billion cash in its second bailout and Eurozone governments need to fill half of that gap before the end of this year.
	The ECB left its main refinancing rate at a historic low of 0.5%, staying true to its commitment to keep rates at current or lower levels for "an extended period".	
Japanese Equities	Japan's consumer price index has now risen for three consecutive months, rising at the fastest pace in almost five years in August 2013, by 0.9%. This represents good progress towards achieving the targeted annual inflation of 2% in the next two years. These rises have fuelled hopes that the economy is pulling out of deflation.	In an attempt to ease the nation's colossal debt, Mr Abe has confirmed the raising of sales tax to 8% in April 2014 and further to 10% in Oct 2015, from 5% as of today. Although this increase will be paired with new stimulus spending, economists fear that this move will derail the nascent economic recovery in the short term.
	Japan's economy expanded at an annualised rate of 3.8% in Q2, largely driven by strong consumer spending. This shows the benefits of Mr Abe's reflationary policies and the Bank of Japan's aggressive monetary stimulus.	Slowing growth in emerging markets is affecting demand for exports, whilst a weaker yen has hit importers.
Asia Pacific (excluding Japan) Equities	In an attempt to boost economic growth, the Reserve Bank of Australia (RBA) cut interest rates by 0.25% to a record low of 2.5%.	Rising capital costs and currency depreciations have negatively affected most Asian economies. Those with large current account deficits such as India have fared particularly poorly, seeing their currencies depreciate significantly.
	Upbeat Chinese trade and inflation data brought cheers to the Asian equity markets. August inflation was benign at 2.6% while export growth of 7.2% created the highest August trade surplus for the country since 2008.	Slower commodity demand from key economies such as China still affects the wider region.

Asset Class	Factors Affecting the Market	
	Positive	**Negative**
Emerging Markets Equities	Buying opportunities can be seen in emerging markets as equity valuations look cheap after recent falls.	During the quarter, we have seen emerging economies struggle with their dependency on foreign capital inflows to fund their current-account deficits.
	Higher consumer demand from the developed economies, coupled with a weak currency, is supporting the growth of emerging economies which are export oriented.	Mexico has cut its 2013 GDP growth forecast to 1.8%, down from the 3.1% that was forecast back in July, on the back of an unexpected drop of 0.7% in the Q2 GDP figures.
		Most emerging market economies are still facing some headwinds due to inflation pressures and are raising their interest rates to combat high prices. Brazil has raised its interest rates for the fourth time since April, while Indonesia has raised interest rates to the highest level since 2009.
Gilts	With the release of the August Inflation Report, the MPC adopted formal forward rate guidance, stating that it did not intend to increase interest rates until the unemployment rate has fallen to at least 7%.	Gilt yields continued to rise, with the 10-year yield peaking at a two year high above 3%, due to the growing view that the Federal Reserve would begin to 'taper' its monthly asset purchases.
Index-Linked Gilts	Post a positive response for the new 2068 index-linked gilts, the Debt Management Office (DMO) has offered to issue an extra £750 million of inflation-linked bonds over the current financial year.	In an environment where central banks are able to control inflation within a target range, there is a limited upside to the return expectations on these instruments.
Corporate Bonds	Spreads over Government Bonds remained 'tight' over the quarter and prices have tended to follow movements in Government bonds.	The corporate bond market still suffers from a lack of liquidity while uncertainty looms over a rise in the interest rate.
	Corporations continue to maintain healthy balance sheets.	
Property	Commercial real estate values rose for the fourth straight month in August 2013. The retail sector saw growth for the first time since October 2011.	Over H1 2013, 77,686 homes were approved for construction which is still well short of the 220,000 per year needed to meet housing demand.
	Mortgage approvals in the UK rose to a five year high in July 2013. Demand in housing is supported by policy measures such as the Funding for Lending Scheme and Help to Buy.	
	The construction PMI grew at the fastest pace in six years in August 2013 amid a revival in the housing market, adding to signs the economic recovery is gaining traction.	

Section Two – Total Scheme Performance

Manager	Fund	Start of Quarter Value £	Start of Quarter Proportion of Total %	Net New Money £	End of Quarter Value £	End of Quarter Proportion of Total %
Newton Investment Management Limited (Newton)	Real Return	247,419,028	31.6	684	250,847,517	31.5
Schroder Investment Management Limited (Schroder)	Diversified Growth	240,950,292	30.8	-	245,675,594	30.9
Legal and General Investment Management (L&G)	World (ex UK) Equity Index	40,421,844	5.2	-	40,861,265	5.1
Newton	Corporate Bond	118,830,446	15.2	-	121,955,015	15.3
Schroder	All Maturities Corporate Bond	110,947,749	14.2	-	113,864,213	14.3
L&G	Active Corporate Bond – All Stocks	16,656,772	2.1	-	16,990,760	2.1
Newton	Cash	553,525	0.1	-	652,225	0.1
Schroders	Cash	598,642	0.1	-	616,928	0.1
Internal	Cash	6,282,093	0.8	-	4,800,000	0.6
ASSET SPLIT						
Growth assets		536,671,899	68.4	684	542,801,304	68.2
Bond assets		246,988,492	31.6	-	253,462,213	31.8
TOTAL		**782,660,391**	**100.0**	**684**	**796,263,517**	**100.0**

Source: Investment managers, bid value used for LGIM and NAV values used for Schroder and Newton. Please note that the Internal Cash is assumed to have earned no interest over the quarter. The Cash from the Newton and Schroder portfolios has been shown separately. The Newton Cash is assumed to be held in the Bond portfolio and the Schroders Cash in the Growth portfolio.

Total may not sum due to rounding.

Total Scheme Performance

	Portfolio Return Q3 2013 %	Benchmark Return Q3 2013 %
Total Scheme	1.9	0.9
Growth Portfolio		
Growth v Global Equity	1.7	3.7
Growth v RPI+5% p.a.	1.7	2.1
Growth v LIBOR + 4% p.a.	1.7	1.1
Bond Portfolio		
Bond v Over 15 Year Gilts	2.7	1.3
Bond v Index-Linked Gilts (> 5 yrs)	2.7	0.5

The Growth portfolio excludes L&G equities. The global equity benchmark is 60% FTSE All Share Index, 40% FTSE AW All-World (ex UK) Index. *Liability benchmark (see page 19).

The Bond portfolio excludes L&G Corporate Bond Fund.

The Total Scheme return is shown against the liability benchmark return (see page 19). The Growth portfolio return is the combined Newton and Schroder DGF portfolios and is shown against a notional 60/40 global equity benchmark and the underlying benchmarks of each fund for comparison purposes. The Bond portfolio is the combined Newton and Schroder Corporate Bond Portfolios and is shown against the Over 15 Year Gilts Index and Index Linked (Over 5 years) Index.

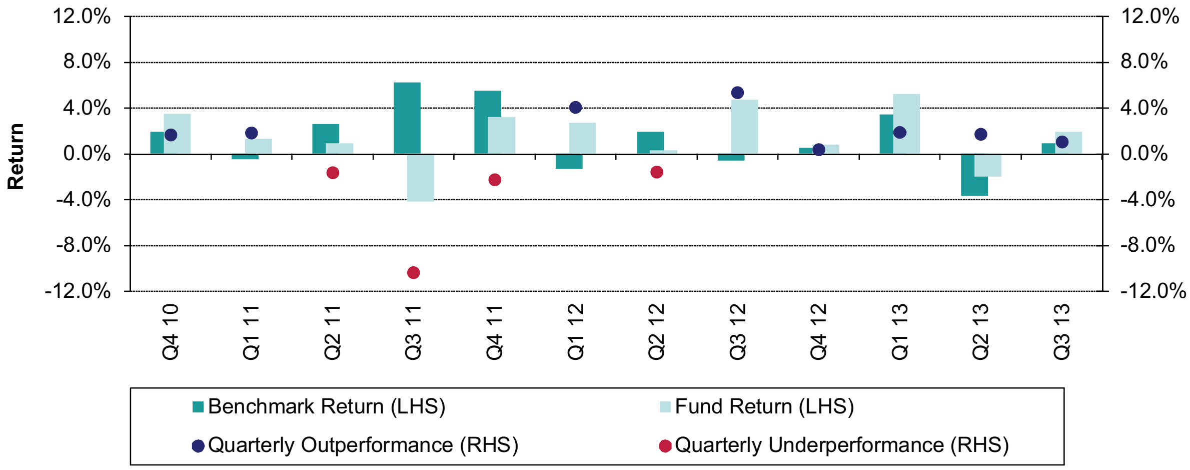
Individual Manager Performance

Manager/Fund	Portfolio Return Q3 2013 %	Portfolio Benchmark Q3 2013 %
Newton Real Return	1.4	1.1
Schroder Diversified Growth	2.0	2.1
L&G – Overseas Equity	1.1	1.0
Newton Corporate Bond	2.7	2.9
Schroder Corporate Bond	2.6	2.2
L&G – Corporate Bond	2.0	2.2

Source: Investment managers, Thomson Reuters. Performance is money-weighted and based on bid values for LGIM and NAV for Schroders and Newton.

The previous table shows the breakdown of the individual manager/portfolio returns against their underlying benchmarks.

Total Scheme - performance relative to liability benchmark



Source: Investment managers, Thomson Reuters. Liability benchmark effective from Q1 2011.

The Scheme achieved a return of 1.9% over the quarter and outperformed the liability benchmark return by 1.0%. This was due to positive performance from both the growth and bond funds.

The chart above shows the historical returns against the WM Universe for information. The new strategy against the liability benchmark is effective from 1 January 2011.

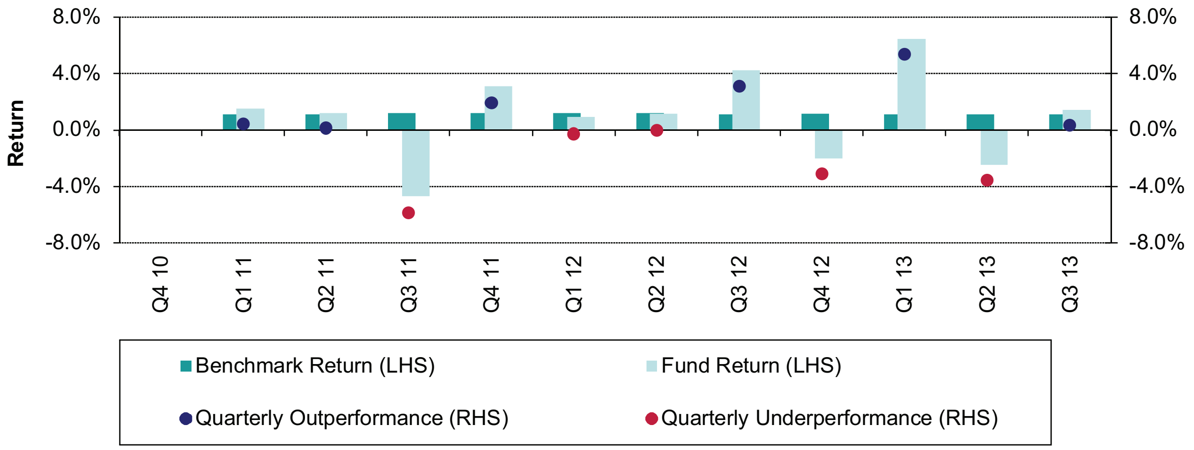
The Scheme generated a positive absolute return as all the underlying funds generated positive absolute returns. The Newton Corporate Bond fund was the best performing fund in absolute terms, and on a relative basis, the Schroder Corporate Bond Fund was the best performing fund which outperformed its benchmark return by 0.4%.

The Growth Portfolio, comprising the two DGF funds, underperformed the notional 60/40 global equity benchmark, by 2.0%. It is usual to expect DGF funds to underperform equities in rising markets. The Growth portfolio returned less than the RPI +5%, however, it outperformed the LIBOR +4% in the same period. The growth portfolio's positive absolute return over the quarter was driven by both the DGF Funds.

The Bond Portfolio, comprising the two corporate bond portfolios managed by Newton and Schroder, outperformed the Over 15 Year Gilts Index (by 1.4%) and the Over 5 Years Index Linked Gilts Index (by 2.2%).

Section Three – Manager Performance

Newton - Real Return Fund - performance relative to portfolio benchmark



Source: Investment manager.

The Newton Real Return Fund returned 1.4% compared to its LIBOR + 4% p.a. benchmark return of 1.1%, thereby outperforming by 0.3%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 2.3%.

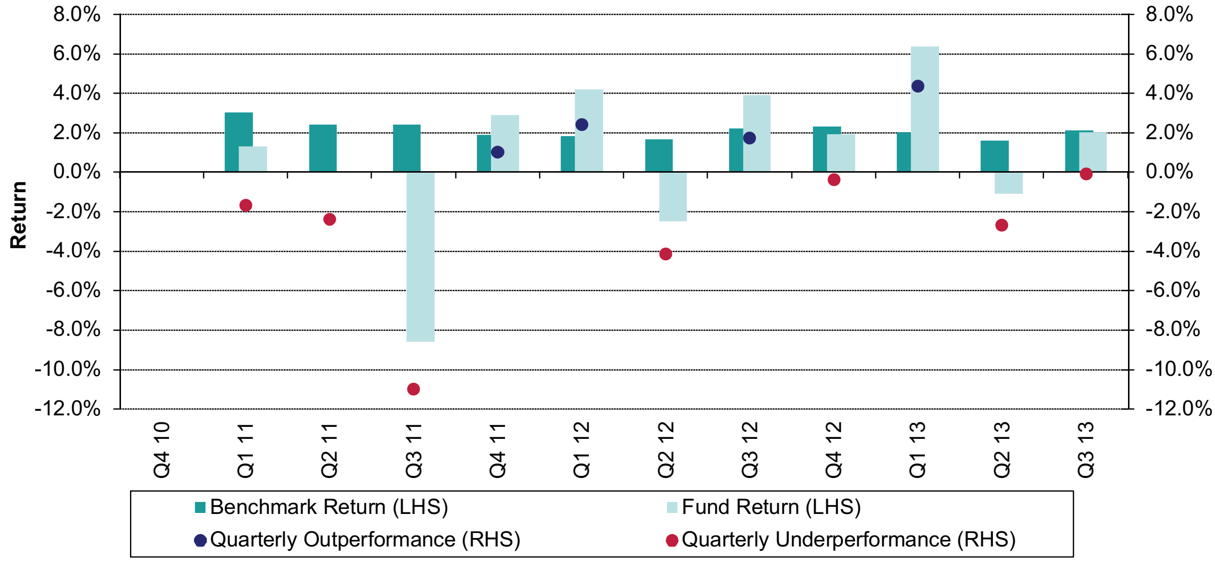
The Real Return Fund outperformed its benchmark, but underperformed equities. UK and European equities, particularly those in the telecoms and mining sectors, and the Fund's currency hedges generated the majority of total fund performance.

Government bonds detracted significantly from returns, most notably the US 30 year Treasury, Norwegian and Australian bonds. The Fund's S&P 500 and FTSE 100 equity protection strategies also detracted from performance.

Four infrastructure funds were added over the quarter, Newton expect these funds to provide a strong income stream as well as bringing further diversification to the portfolio.

Over the 12 month period, the Fund returned 2.8% versus the benchmark return of 4.5%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 15.9%.

Schroder - Diversified Growth Fund - performance relative to portfolio benchmark



Source: Investment manager.

The Schroder DGF return was 2.0% compared to its RPI + 5% p.a. portfolio benchmark return of 2.1% and underperformed marginally by 0.1%. The Fund underperformed the notional 60/40 global equity benchmark by 1.7% over the quarter.

The Fund's exposure to developed market equities was the main driver of performance, with allocations to European and North American equities adding significantly to the total return. High Yield debt also added significantly to performance as yields fell and credit spreads tightened over the quarter. Commodities also made a small contribution to performance, with precious metals rebounding from a disappointing Q2 2013.

The remainder of the Fund's diversifying assets were flat, or negative, over the quarter. The largest detractor from performance was the Fund's Hedge Fund exposures.

The Fund has reduced its exposure to Credit and High Yield to reflect the low level of yields and reduced credit spreads. Monies have been reallocated to Equities, including a position in emerging market equities for the first time over two years, a thematic basket of equities (RARP) and Property.

Over the 12 month period, the Fund returned a strong absolute return of 9.3% versus the benchmark return of 8.3%. In comparison to a notional 60/40 global equity benchmark return the Fund underperformed by 9.4%.

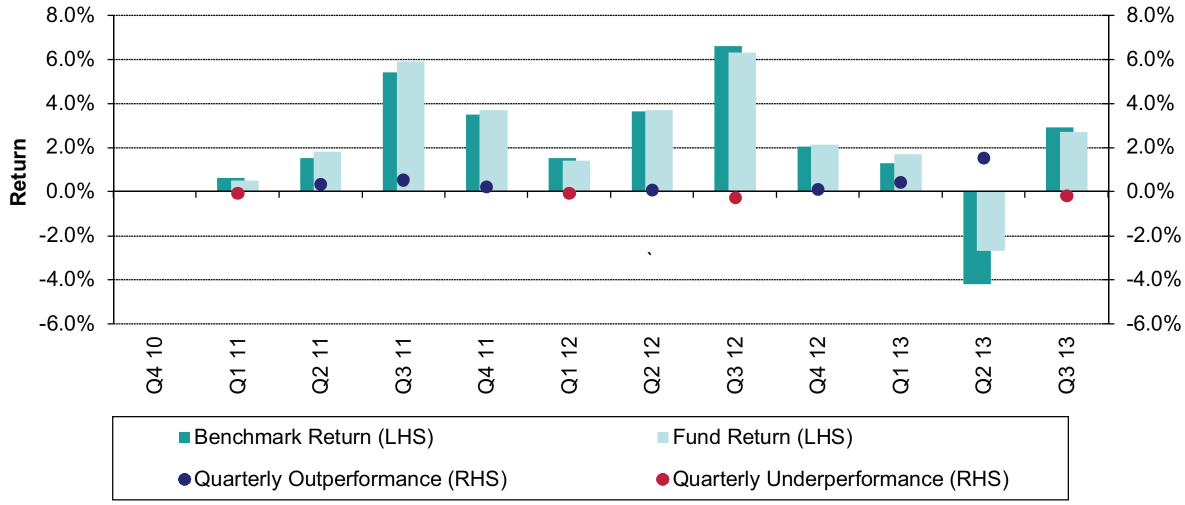
Asset allocation for growth managers: movement over the quarter

	Q3 '13 Newton %	Q3 '13 Schroder %	Q2 '13 Newton %	Q2 '13 Schroder %
UK Equities	15.1	4.0	15.1	2.5
Overseas Equities	40.9	47.7	43.1	44.4
Fixed Interest	18.8	-	15.4	-
Corporate Bonds	10.3	8.5	10.9	4.3
High Yield	-	12.3	-	21.3
Private Equity	-	1.2	-	1.2
Commodities	3.3	7.1	2.8	1.9
Absolute Return	-	6.4	-	6.8
Index-Linked	1.3	-	1.4	-
Property	-	2.3	-	0.3
Cash/Other	10.3	10.5	11.3	17.3
TOTAL	**100.0**	**100.0**	**100.0**	**100.0**

Source: Investment managers.

Note: Total may not sum due to rounding.

Newton - Corporate Bond portfolio - performance relative to portfolio benchmark

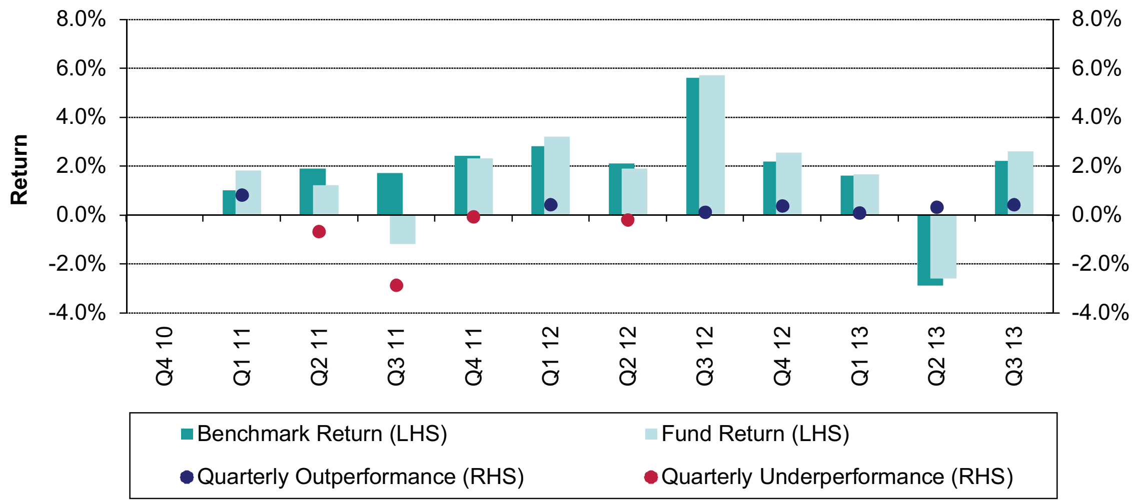


Source: Investment manager.

The Newton Corporate Bond portfolio underperformed its benchmark by 0.2%; it returned 2.7% versus the benchmark return of 2.9%. The Fund's relatively cautious positioning caused it to underperform the benchmark.

Over the 12 month period, the Fund returned 2.8% against the benchmark return of 1.8%.

Schroder - All Maturities Corporate Bond portfolio - performance relative to portfolio benchmark

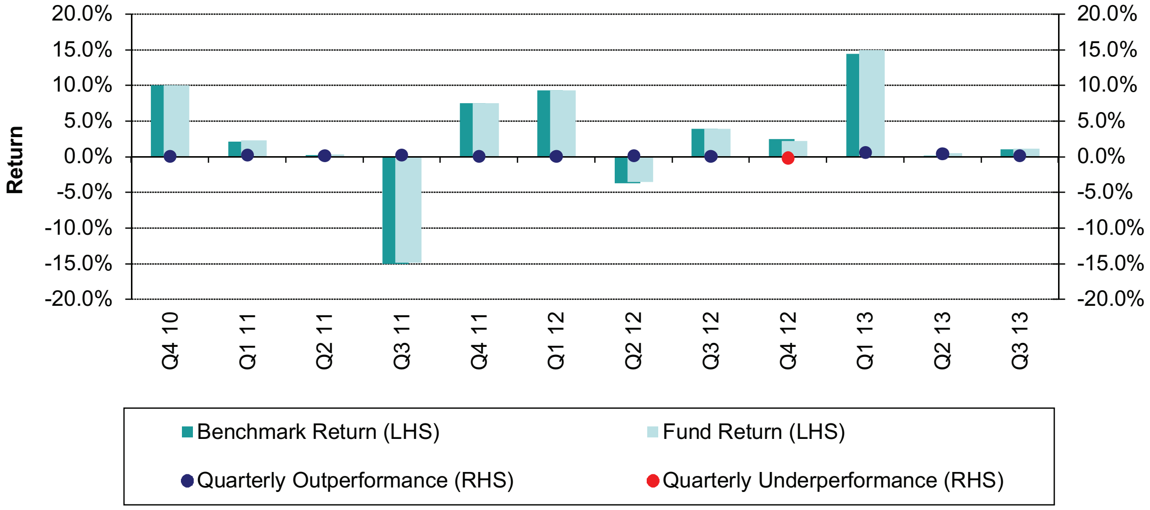


Source: Investment manager.

The Schroders Corporate Bond portfolio outperformed its benchmark by 0.4%, returning 2.6% versus the benchmark return of 2.2%. The Fund's outperformance was driven by a combination of sector selection, such as an overweight position to the financials sector which outperformed, individual security selection and a modest overweight interest rate duration position.

Over the 12 month period, the Fund returned 4.2% versus the benchmark return of 3.1%.

L&G – Overseas Equities



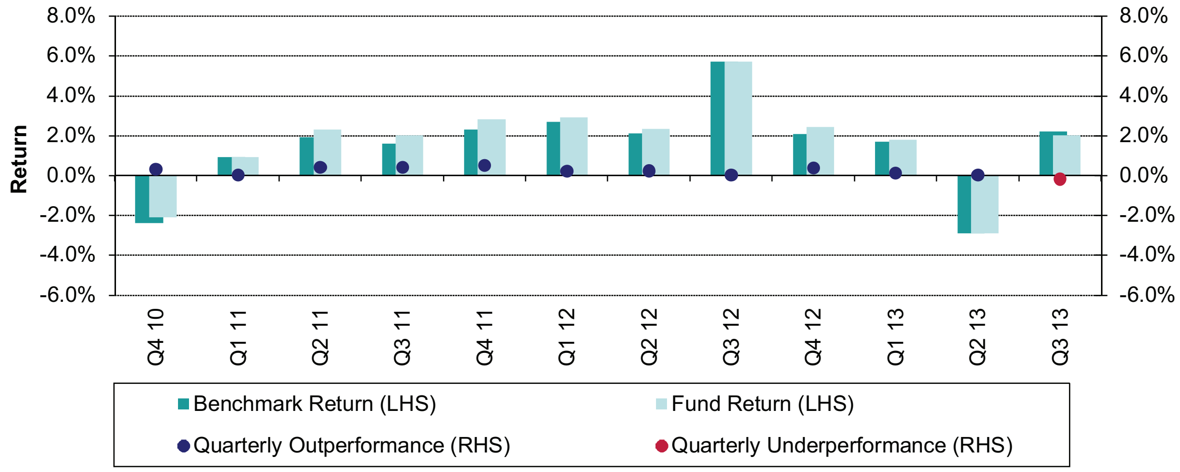
Source: Investment manager.

Over the third quarter of 2013, the Fund outperformed the benchmark return marginally by 0.1% and produced an absolute return of 1.1%.

Over the 12 month period, the Fund return was 19.3%, against the benchmark return of 19.2% thus outperformed its benchmark by 0.1%.

The Fund has tracked its benchmark over the 3 year period.

L&G – Active Corporate Bond - All Stocks - Fund



Source: Investment manager.

Over the quarter, the Fund underperformed its benchmark by 0.2% and produced an absolute return of 2.0% compared to benchmark return of 2.2%.

The overweight position in credit risk benefited the Fund's performance as credit excess returns were positive. Also the overweight position to lower tier two Banks and Sub-Insurance contributed positively.

However, the overweight exposure to Collateralised debt was detrimental as there was mark to market volatility in some names held. The Media sector also detracted. In addition, the 'Off benchmark' overweight exposure to Time Warner Cable detracted due to concerns of a potential bid from Charter Communications Inc. The allocation to US Debt in the Fund also detracted from performance as the sterling market was the best performing over the period.

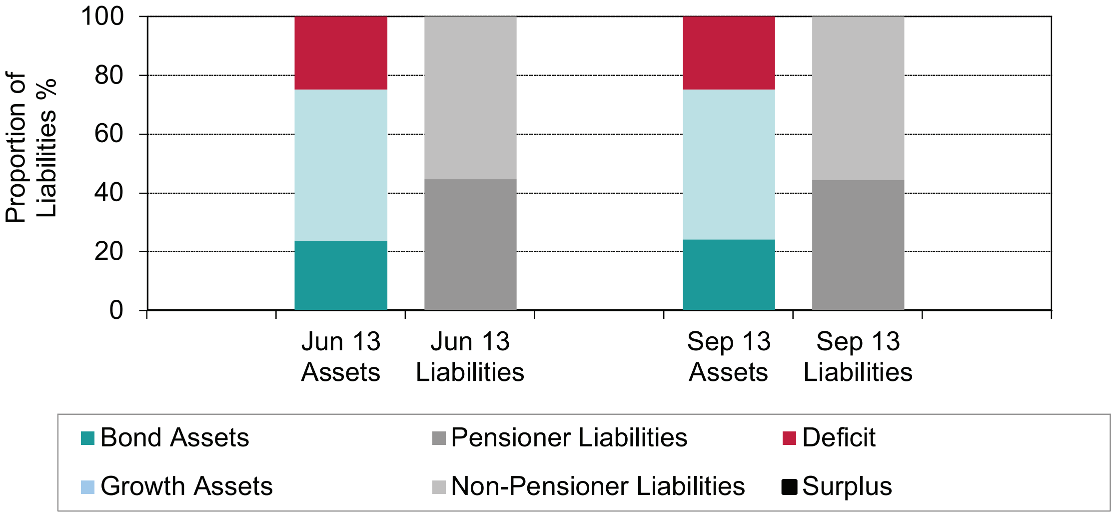
Over the 12 month period, the Fund has produced return of 3.2% compared with the benchmark return of 3.0%.

The Fund has outperformed its benchmark over the 3 year period.

Section Four – Consideration of Funding Level

This section of the report considers the funding level of the Scheme. Firstly, it looks at the Scheme asset allocation relative to its liabilities. Then it looks at market movements, as they have an impact on both the assets and the estimated value placed on the liabilities.

Allocation to Bond and Growth assets against estimated liability split

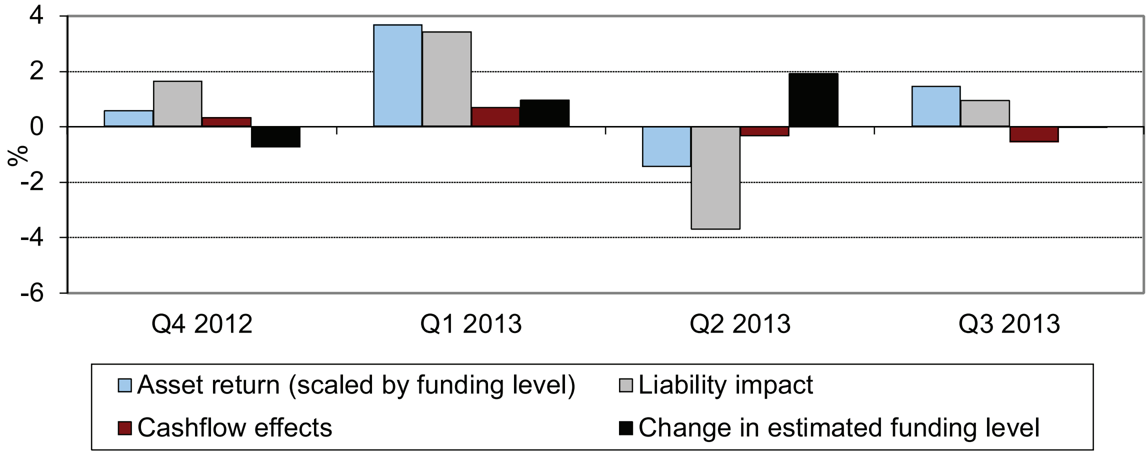


The chart above shows the allocation of the Scheme to Bond and Growth assets (see Glossary of Terms for definition) against the estimated liability split, which is based on changes in gilt yields underlying the Scheme Actuary's calculation of liabilities. The reference yield for the liabilities is the over 15-year gilt yield, as shown in the Market Statistics table in Section 2. These calculations do not take account of unexpected changes to Scheme membership and should not be construed as an actuarial valuation. However, by showing approximations to these liabilities, this chart should assist the Panel in making informed decisions on asset allocation.

Over the quarter, the expected funding position marginally decreased by 0.1%, as the expected increase in liabilities was only partially offset the increase in the assets. The Scheme was approximately 75.1% funded as at 30 September 2013.

The split between non-pensioner and pensioner liabilities is estimated to have remained fairly stable over the quarter. The Scheme remains very underweight to Bond assets relative to its estimated pensioner liabilities; a mismatch that leaves the Scheme exposed to interest rate risk.

Scheme performance relative to estimated liabilities



The above chart shows, for each quarter, how changes in the value of the assets and the liabilities, combined with the cashflow of the Scheme, have affected the funding level. As detailed earlier, the value of the liabilities has been estimated with reference to changes in the gilt yields underlying the Scheme Actuary's calculation of liabilities, as shown in the Market Statistics table.

Over the quarter, the estimated funding level decreased by 0.1% due to a large expected increase in the value of the liabilities which was partially offset by an increase in asset value.

Overall, Q3 2013 has been a flat quarter for the Scheme in terms of the funding level.

Section Five – Summary

Overall this has been a fair quarter for the Scheme as equity and bond markets performed positively and the funding level is expected to have remained broadly the same.

In absolute terms, the Scheme's assets produced a return of 1.9% over the quarter. All the growth and bond portfolios produced positive absolute returns.

In relative terms, the Scheme outperformed the liability benchmark return (see page 19) by 1.0%. The Newton Real Return Fund, L&G Overseas equities and Schroder Corporate Bond Fund outperformed the benchmark by 0.3%, 0.1% and 0.4% respectively. However, the Schroder Diversified Growth Fund, Newton Corporate Bond Fund and the L&G Corporate Bond Fund underperformed their respective benchmarks by 0.1%, 0.2% and 0.2% respectively.

The combined Growth portfolio underperformed a notional 60/40 global equity return producing a positive absolute return of 1.7%.

The combined Bond Portfolio outperformed the Over 15 Year Gilts Index by 1.4% and the Index Linked Gilts (>5 Years) Index by 2.2%.

Over the quarter it is anticipated, all other things being equal, that investment conditions had a marginal negative impact (0.1%) on the Scheme's estimated funding level which was 75.1% as at 30 September 2013.

Appendix

Liability benchmarking

An assessment of Scheme liabilities and how they change would require details of membership changes and actuarial valuation calculations to be carried out. However, by considering the changes in value of a suitable notional portfolio, based on your own liabilities, we can obtain an approximation to the changes in liabilities which will have occurred as a result of investment factors. In this report, when we refer to "liabilities" we mean the notional portfolio representing the actuarial liabilities disclosed in the actuarial valuation report dated 31 March 2010, adjusted approximately to reflect changes in investment factors. This will, therefore, not reflect any unanticipated member movements since the actuarial valuation. However, as a broad approximation it will allow more informed decisions on investment strategy. When we refer to the "liability benchmark" we mean the estimated impact on the liabilities (as referred to above) based on market movements alone.

Summary of current funds

Manager	Fund	Date of Appointment	Management Style	Monitoring Benchmark	Target
Newton Investment Management Limited (Newton)	Real Return	December 2010	Active, pooled	1 month LIBOR plus 4% p.a.	To achieve significant real rates of return in sterling terms predominantly from a portfolio of UK and international securities and to outperform the benchmark over rolling 5 years
Newton	Corporate Bond	December 2010	Active, pooled	Merrill Lynch Sterling Non Gilt Over 10 Years Investment Grade Index	To outperform the benchmark by 1% p.a. over rolling 5 years
Schroder Investment Management Limited (Schroder)	Diversified Growth	December 2010	Active, pooled	Retail Price Index plus 5% p.a.	To outperform the benchmark over a market cycle (typically 5 years)
Schroder	All Maturities Corporate Bond	December 2010	Active, pooled	Merrill Lynch Sterling Non-Gilts All Stocks Index	To outperform the benchmark by 0.75% p.a. (gross of fees) over rolling 3 years
Legal and General Investment Management (L&G)	World (ex UK) Equity Index Fund	September 2008	Passive, pooled	FTSE AW World (ex UK) Index	Track within +/- 0.5% p.a. the index for 2 years in every 3

Summary of current funds (continued)

Manager	Fund	Date of Appointment	Management Style	Monitoring Benchmark	Target
L&G	Active Corporate Bond – All Stocks	December 2008	Active, pooled	iBoxx Sterling Non-Gilts All Stocks Index	Outperform by 0.75% p.a. (before fees) over rolling 3 years
Internal	Property	N/a	Active, property unit trust portfolio	UK IPD Property Index	Outperform the index
Newton Investment Management Limited (Newton)	Balanced	April 2006	Active, segregated	WM Local Authority Weighted Average	Outperform by 1% p.a over rolling 3 years, and not to underperform by 3% in any rolling 12 month period
Schroder Investment Management Limited (Schroder)	Balanced	1994	Active, segregated	WM Local Authority Weighted Average ex property, Japan and other international equities	Outperform by 1% p.a over rolling 3 years, and not to underperform by 3% in any rolling 12 month period

Glossary of Terms

Term	Definition
Absolute return	The overall return on a fund.
Bond asset	Assets held in the expectation that they will exhibit a degree of sensitivity to yield changes. The value of a benefit payable to a pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds.
Growth asset	Assets held in the expectation that they will achieve more than the return on UK bonds. The value of a benefit payable to a non-pensioner is often calculated assuming the invested assets in respect of those liabilities achieve a return based on UK bonds plus a premium (for example, if holding equities an equity risk premium may be applied). The liabilities will still remain sensitive to yields although the Growth assets may not.
Duration	The average time to payment of cashflows (in years), calculated by reference to the time and amount of each payment. It is a measure of the sensitivity of price/value to movements in yields.
Funded liabilities	The value of benefits payable to members that can be paid from the existing assets of the scheme (i.e. those liabilities that have assets available to meet them).
Market stats indices	The following indices are used for asset returns: UK Equities: FTSE All-Share Index Overseas Equities: FTSE World Index Series (and regional sub-indices) UK Gilts: FTSE-A Gilt >15 Yrs Index Index Linked Gilts: FTSE-A ILG >5 Yrs Index Corporate Bonds: iBoxx Corporate Bonds (AA) Over 15 Yrs Index Non-Gilts: iBoxx Non-Gilts Over 15 Yrs Index Property: IPD Property Index High Yield: ML Global High Yield Index Commodities: S&P GSCI GBP Index Hedge Funds: CSFB/Tremont Hedge Fund Index Cash: 7 day London Interbank Middle Rate Price Inflation: Retail Price Index (excluding mortgages), RPIX Earnings Inflation: Average Earnings Index

Market volatility	The impact of the assets producing returns different to those assumed within the actuarial valuation basis, excluding the yield change impact.
Money-Weighted rate of return	The rate of return on an investment including the amount and timing of cashflows.
Non-Pensioner liability	The value of benefits payable to those who are yet to retire, including active and deferred members.
Pensioner liability	The value of benefits payable to those who have already retired, irrespective of their age.
Portfolio benchmark	The benchmark return of the each manager/fund.
Relative return	The return on a fund compared to the return on another fund, index or benchmark. For IMAGE purposes this is defined as: Return on Fund *less* Return on Index or Benchmark.
Scheme investments	Refers only to the invested assets, including cash, held by your investment managers.
Standard deviation	A statistical measure of volatility. We expect returns to be within one standard deviation of the benchmark 2 years in every 3. Hence as the standard deviation increases so does the risk.
Surplus/Deficit	The estimated funding position of the Scheme. This is not an actuarial valuation and is based on estimated changes in liabilities as a result of bond yield changes, asset movements and, if carried out, output from an asset liability investigation (ALI). If no ALI has been undertaken the estimate is less robust.
Time-Weighted rate of return	The rate of return on an investment removing the effect of the amount and timing of cashflows.
Unfunded liabilities	The value of benefits payable to members that cannot be paid from the existing assets of the Scheme (i.e. those liabilities that have no physical assets available to meet them). These liabilities are effectively the deficit of the Scheme.
Yield (gross redemption yield)	The return expected from a bond if held to maturity. It is calculated by finding the rate of return that equates the current market price to the discounted value of future cashflows.
3 Year return	The total return on the fund over a 3 year period expressed in percent per annum.

JLT Manager Research Tier Rating System

Tier	Definition
BUY	Significant probability that the manager will meet the client's objectives.
HOLD	Reasonable probability that the manager will meet the client's objectives. This fund will not be put forward for new investments but there is no intention to sell existing holdings.
REVIEW	The manager may reach the client's objectives but a number of concerns exist. The JLT Manager Research Team are currently reviewing this fund.
SELL	There is a reasonable probability that the manager will fail to meet the client's objective due to a number of key concerns and therefore we recommend clients to redeem their assets.

JLT Employee Benefits
The St Botolph Building, 138 Houndsditch,
London EC3A 7AW
Tel: +44 (0) 207 528 4444
Fax: +44 (0) 207 528 4500

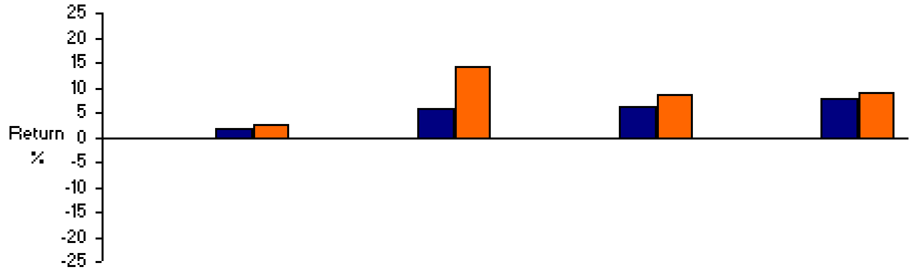
CONTACTS

Julian Brown, PhD IMC
JLT Employee Benefits
Tel: +44 (0) 207 528 4024
Email: julian_brown@jltgroup.com

Jignasha Patel, MMath (Hons) IMC
JLT Employee Benefits
Tel: +44 (0) 207 895 7706
Email: jignasha_patel@jltgroup.com

Appendix C – WM Local Authority Universe Comparison to 30 September 2013

Fund Returns



	Latest Quarter	1 Year	3 Years % pa	5 Years % pa
Fund	2.0	5.9	6.3	7.7
Benchmark	2.6	14.3	8.4	8.9
Relative Return	-0.6	-7.3	-1.9	-1.1

The graphs show the performance of the Fund and Benchmark over the latest period and longer term.

The relative return is the degree by which the Fund has out or underperformed the Benchmark over these periods
= Data not available for the full
period

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London Borough of Barnet Pension Fund

Investment strategy

Contents

Jignasha Patel

Investment Analyst

The St Botolph Building,
138 Houndsditch, London, EC3A 7AW

0207 895 7706
Jignasha_patel@jltgroup.com

Julian Brown

Investment Consultant

The St Botolph Building,
138 Houndsditch, London, EC3A 7AW

0207 528 4024
Julian_brown@jltgroup.com

1 Introduction

This report provides both a summary of the internal deliberations that resulted in the present investment asset allocation and some of the key issues for consideration by the Pension Committee in order that Members can review the current investment strategy in light of the 2013 Triennial Valuation.

The Triennial Valuation cycle provides a very effective point at which to periodically review the investment strategy because it provides the most up to date, detailed calculation of the liabilities of the London Borough of Barnet Pension Fund ('the Fund'). With that most accurate value of the liabilities it is then possible to compare the corresponding value of the Fund's assets and calculate with the greatest degree of confidence the funding level.

The changes in funding level between one triennial valuation and the next is effectively the best measure of how the Fund's liabilities are developing with respect to changing bond yields in the market, and how the investment strategy has performed, relative to expectations, in those same investment markets.

The Fund's current investment strategy was agreed by the Pensions Committee in December 2009; this agreement followed the engagement and deliberations of the Working Group that was formed in the latter part of 2009 to consider the previous asset allocation strategy and its response to the events of 2008. At that time the most critical concerns of the Pensions Committee and its Working Group were primarily that a revised investment strategy should seek to provide a reduction in funding level volatility, following the sharp asset falls seen in late 2008 and early 2009, and that any changes to the investment strategy should be achieved at as low a cost as possible.

This report will:

- Summarise how the current investment allocation was agreed in 2009.
- Consider the effectiveness of the current strategy.
- State a number of the issues that the current Pension Committee face with respect to investment strategy.
- Provide some recommendations for the Pensions Committee to consider.
- Suggest some potential next steps.

2 Executive summary

This report provides Members of the Pensions Committee with a summary of how the Fund arrived at the current investment strategy asset allocation. The key objective of the Working Group, set up to review the Fund's previous Balanced Mandate investment strategy, was to reduce funding level volatility and provide the most efficient risk-adjusted return. This was achieved by revising the asset allocation to 70%:30% Diversified Growth Fund (DGF):Corporate Bonds.

This revised investment strategy provided a bond allocation that matched the Fund's pensioner liabilities, and gave the Fund access to the potential risk and return benefits of active asset allocation through delegating these decisions to the DGF investment managers.

The implementation of this revised investment strategy was completed on a pragmatic and low-cost basis by effectively changing the mandates of the incumbent managers Newton and Schroders.

Within this report we also briefly consider the current issues facing pension funds of: asset volatility, low yields and correspondingly high valuations of pension fund liabilities; we then subsequently consider in summary four topics we are currently discussing with clients to address those issues. These are: liability management, infrastructure investment, bond yield changes and where future asset growth is likely to come from.

We provide our recommendations that Members should conduct either a modelling-led or a discussion-led investment strategy review *after* they have completed some investment strategy training; and conclude with what we believe are the next steps and timescales towards completing an investment strategy review.

3 Current investment strategy

3.1 2009 Working Group

Following the unprecedented market volatility of late 2008 and early 2009 at the 30 June 2009 meeting the Pension Committee convened a Working Group to sit in October and November of 2009 to review the Fund's investment strategy. JLT Employee Benefits (when we were still HSBC Actuaries and Consultants) were tasked with preparing discussion documents and facilitating the Working Group.

We presented to the Working Group on the 23 October 2009 our investment strategy review document (October 2009). Following discussions and agreement at the 23 October meeting we completed a proposed implementation strategy document that was then presented to a subsequent meeting of the Working Group on 12 November 2009. The implementation strategy was then agreed at that meeting.

The Working Group's strategy and implementation proposals were then presented and agreed by the Pensions Committee at the 21 December 2009 meeting.

3.2 2009 Working Group – strategy recommendation

The Fund's investment strategy leading up to the financial turmoil of 2008/9 was to hold all its assets in balanced funds, these were a widely utilised form of multi-asset pooled funds that were heavily weighted to equities, and that did not employ any form of active asset allocation. The major strategy recommendation from the Working Group's review of the asset allocation was two-fold:

- To split the assets into a growth portfolio and bond portfolio that equalled the split between pensioner and non-pensioner liabilities within the Fund.
- For the growth assets to be invested in diversified growth funds (DGFs) and the bond assets to be invested in investment grade corporate bonds.

These revisions to the asset allocation allowed the Fund flexible control over its allocation to growth/bond assets, and gave the Fund access to a wider universe of growth assets where the allocation to the different assets was actively managed.

The pensioner and non-pensioner liabilities proportional split between DGF and corporate bonds equated to a 70:30 allocation. This represented a significant increase in the Fund's allocation to bond assets; this increase in less volatile, lower return assets was a direct result of the Working Group's aim to reduce funding level and asset volatility in the Fund.

3.3 2009 Working Group – implementation recommendation

The Fund's investment managers prior to the strategy review were Newton and Schroders – with assets held in their respective balanced funds. At the Working Group meetings there was considerable focus given to the issue of how the revised investment strategy could be implemented in the most cost effective manner possible. Potential costs that could have been incurred were:

- The structural bid/offer spread costs of selling assets no longer in the revised asset allocation and purchasing those new assets that were in the revised allocation.
- The procurement costs associated with the OJEU compliant search and selection exercise of new investment managers to allocate the revised asset allocation.

- Increased investment consulting costs and increased officer engagement.

As your investment consultants we have always sought to employ the most pragmatic of measures to any issues that the Fund might face. At that time both Newton and Schroders had DGFs with positive track records that would have met an OJEU selection exercise's criteria, and that would complement each other if appointed together. We raised with the Working Group the possibility that a search and selection exercise, with all its attendant costs, could effectively result in the same two managers appointed.

Our recommendation to the Working Group and agreed at Pensions Committee was to change the existing engagement of the two incumbent managers from a balanced mandate to that of a DGF mandate. This legitimate and non-contentious revision of Newton and Schroders investment management agreements provided the Fund with significant savings in all three areas outlined above. It also allowed for very favourable fee negotiations to take place, and for the Fund to invest in the two managers' DGFs and corporate bond funds at lower that the published fee rates; thus providing ongoing savings to the Fund from that point.

We highlighted to the Working Group and Pension Committee that the investment of any institutional allocation to a DGF should be judged over 'a market cycle' – thereby allowing a critical evaluation in both up and down markets; typically this is viewed as a five to seven year period.

3.4 Current investment strategy – interim review

Whilst the Fund's investments into the Newton and Schroders DGFs and corporate bond funds are only just coming up to their fourth anniversary, i.e. a shorter period than normally considered to be a market cycle, it is still appropriate to periodically review the performance of both the revised investment strategy, and that of the underlying managers. This represents good governance and is conducted as part of the quarterly performance monitoring cycle that we update Members on at every Pension Committee meeting.

The Working Group's objectives were to reduce funding level and asset performance volatility. Within our strategy review paper of October 2009 we highlighted within our modelling results with any planned reduction in volatility comes a commensurate reduction in the expected return of any specific asset allocation. What the agreed strategy of 70:30 DGF:corporate bonds sought to achieve was the best risk-adjusted return. We demonstrated that the previous balanced strategy was inefficient, and that by revising the old strategy we could either achieve the higher return for the same level of volatility (a measure of risk), or reduce volatility for the same level of return. As previously stated, the decision was agreed that reduced volatility was the primary objective.

So, is the revised investment strategy proving effective? A detailed investigation of this issue would form part of an investment strategy review; and the resulting data would require some interpretation. It is not question of simply comparing returns between asset classes, because the differences in asset price volatility and the subsequent impact on funding level volatility must also be considered. We would be keen to cover all of these considerations in an investment strategy review with Members.

4 Topical investment issues

4.1 Pension Committee decision making

Following the May 2013 elections there have been a number of new Members join the Pensions Committee. As they were not present at the discussions related to the findings and recommendations of the 2009 Working Group it is to be expected that points of clarification have been raised at recent Pension Committee meetings. For example, a question sought to understand why the Fund does not have the ability to make direct investments into illiquid growth asset classes, such as private equity/venture capital. This is an extremely valid question and encapsulates many of the issues considered by the Working Group.

Both the previous investment strategy and the revised current strategy effectively delegate the asset class investment decisions to the Fund's investment managers. Previously under the balanced mandate this was a relatively narrow, equity focused, peer group benchmark allocation, whilst under the DGF strategy the managers now have the flexibility to invest in any growth asset class they believe to be appropriate.

Therefore the Fund does have potential exposure to many illiquid growth asset classes, but it is at the managers' discretion. This is a fundamental difference to a direct investment in an illiquid asset class as decided, and essentially managed, by the Pensions Committee. If the Pensions Committee wish to make such asset allocation decisions we would highlight both the increased governance burden this would place on the Committee, and the increased officer time that would also be required (to manage capital calls and cashflows, etc.).

We believe the engagement of Members in these types of investment decisions would represent a major shift in how the Pensions Committee has previously conducted its business. If this is something the Members wish to consider we would recommend that time is set aside to discuss all the potential implications.

4.2 Investment issues facing pension funds

Since the financial crisis of 2008 there have been a number of issues facing all pension funds, significantly:

- Increased asset value volatility.
- Very low yields on government and investment grade corporate bonds.
- The corresponding low discount rates applied to pension fund liabilities reducing the funding level value.

All of these factors have made it very difficult for all final salary, defined benefit schemes such as the Local Government Pension Scheme (LGPS) – i.e. the Fund. With many corporate pension schemes closing we have seen these schemes effectively maturing, focusing on the ultimate buy-out of their pension fund liabilities and a greater emphasis being placed on both cashflow management and a desire to invest in yielding assets. Therefore we are currently engaging with our clients on a number of very relevant topics, which we will briefly consider below.

Liability management – specifically liability driven investment (LDI)

As the calculation of the value an actuary has to place on a pension scheme's liabilities is so sensitive to yields in the prevailing bond markets there is now a lot of focus on what can be done towards the management of a scheme's liabilities. Many of the options open to the corporate pension schemes are not possible within the public sector, but there is one liability management tool that is increasingly being taken up by the LGPS.

LDI is an investment style that seeks to match the movements in the value of a specific pension scheme's liabilities with a basket of investments whose value will be affected by prevailing bond yields in exactly the same way as the value of the scheme's liabilities. Due to the historic low yields at present an attempt to match all of the pension scheme's liabilities would be considered expensive; however, the decision to match a scheme's inflation-linked liabilities is much more attractive – especially for the LGPS as there are direct inflation linkages to the pension liabilities.

JLT have been at the forefront of the LGPS inflation-only LDI manager selection exercises and have significant experience in discussing with Members and officers this specific asset class.

Infrastructure investment – effect of the Pensions Infrastructure Platform (PIP)

There is a lot of discussion and comment amongst pension schemes, investment managers, the trade press and Government about the benefits of institutional/pension fund investment into, specifically, UK infrastructure assets and projects. There are some clear and unequivocal benefits for UK based pension funds into such investments; in essence these investments have the potential to offer stable, transparent and, most attractively, *inflation-linked* cashflows. This is another method of addressing inflation indexed liabilities.

The National Association of Pension Funds (NAPF) is in the process of structuring a PIP which is intended to provide investor-friendly access to this asset class, which has a very broad definition. There was hope that the detail of the PIP's investment proposition would be known, and in whatever form it took, would be investable in 2013. Unfortunately this has not been the case, and we are seeing LGPS investors, who were waiting to potentially make an infrastructure allocation to the PIP, now begin to consider alternative arrangements.

We are firm believers in the appropriate nature of specific parts of this asset class for all potential investors and we have conducted the only open market LGPS selection exercise for an infrastructure manager. We have also completed many training sessions on this asset class, and your investment consultant has personally spoken at a number of infrastructure conferences.

What will happen when we see yields return to more normal levels?

Many investors are very concerned about the implications of a reversal of the historic lows we are seeing in the bond markets back towards more normal long term averages. This very rational anxiety is due to the fact that investors will see the capital erosion of the current (historically very high) value of their bond portfolios when yields rise.

Addressing this known and calculable risk is a huge investment strategy consideration; we are seeing some investors selling down their bond assets, especially gilts, and moving into assets whose values are not so negatively sensitive to upward moves in bond yields. Examples of such assets are secured loans and absolute return bond funds.

However, many investors hold bond portfolios to match their pensioner liabilities (similar to LDI) and will accept a reduction in the value of their bond funds because it will be matched by a commensurate fall in the value of their liabilities when yields rise. A discussion of the original rationale for the Fund holding a separate corporate bond allocation would be very timely; only then could any wider investment be conducted.

Where will future growth come from? – frontier markets

We have seen the developed equity market regain much of the considerable value lost in 2008/9 economic downturn. As such investors are focusing on where there is likely to be sustained and predictable growth from this point.

We are discussing frontier markets with a number of our clients. These rapidly developing economies, for example Qatar and Argentina, are effectively the 'new emerging markets' as investors seek to find the next growth opportunity.

We believe there are a number of reasons why an investment in the companies listed in these rapidly developing countries can deliver an appropriate risk-adjusted, growth asset return. These markets are capacity constrained and JLT is utilising its position in the market to provide our clients with a time-limited opportunity in these uncorrelated, growth markets.

5 Investment strategy recommendations

5.1 Investment strategy review - options

The 2013 Triennial Review of the Fund's liabilities provides an excellent opportunity for the Pensions Committee to consider the current investment strategy, and as your investment consultants we would wholeheartedly recommend that you take this opportunity to complete an investment strategy review.

There are a variety of different ways that the Members can conduct this review, and there are some standard ways in which you can engage with your investment consultant.

- Full stochastic asset liability model (ALM) – this is a very detailed, forward-looking modelling exercise that incorporates a large number of potential future economic outcomes and considers the liabilities in the most thorough manner possible.

  We would recommend this large strategy piece of work if the client was keen to make wholesale changes to their current investment strategy.

- Sensitivity analysis of investments and liabilities (SAIL) exercise – this is effectively a 'lighter' version of our ALM that utilises long term return and volatility relationships to analyse the risk of different investment strategies in relation to a pension scheme's specific liabilities, but at a summary level. This is an exercise that can be carried out with live input from the client and is able to quickly accommodate client specific requirements/asset allocations.

  We recommend this robust exercise for clients who are either periodically reviewing their investment strategy, or on appointment in order that our investment consultant can better understand the appetite for risk and return of a new client.

- Consultant-led review – this is the lowest engagement option and effectively provides the client and consultant to test and challenge the understanding and commitment to an existing long term investment strategy.

  We ideally conduct these on an at-least annual basis. These are normally part of an established and long-standing client relationship and are effectively an extension of the performance monitoring effort towards a long term, previously agreed goal.

5.2 Pension committee investment strategy training

Ongoing training of LGPS members and corporate trustees is considered to be a crucial element of pension scheme governance best practice. With all the recent economic turmoil and rapidly developing investment options and markets we would strongly recommend some dedicated training for the Fund's Members.

We consider this to be particularly relevant at the moment with the recent additions to the Fund's Pension Committee. Some dedicated and focused investment training would have three very significant benefits:

- It would provide a baseline of understanding for all Members of the Pensions Committee with respect to understanding how the current investment strategy was arrived at, and the issues, risk and opportunities that currently face the Fund.
- This understanding would better equip Members to both challenge any current assumptions/decisions and, make better, more informed investment decisions in the future.
- It would provide an auditable opportunity for continuing professional development for Members.

6 Investment strategy next steps

6.1 Investment strategy discussion at December 2013 Pension Committee

The results of the 2013 Triennial Review of the Fund's liabilities combined with the discussion of this paper at the December 2013 Pensions Committee meeting provides an excellent and timely opportunity for the Members to consider how best to:

- Review their understanding of the current investment strategy.
- Consider their training needs.

6.2 Dedicated investment strategy training

In order that Members can better consider the current investment strategy success and whether it has had enough time to meet its objectives we believe a completely separate training session should be convened. This would also cover some of the topical investment issues covered in this report and enable the Members to decide on the appropriate manner to undertake an investment strategy review of the Fund.

We would suggest that this session be scheduled for as soon as conveniently possible in 1Q2014.

6.3 Investment strategy review

Following on from the decision made at the training session, any work that is agreed upon can be conducted towards a presentation back to the Pensions Committee as soon as possible.

JLT Employee Benefits

The St Botolph Building, 138 Houndsditch,
London EC3A 7AW
Tel: +44 (0)20 7528 4000
Fax: +44 (0)20 7528 4500

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AGENDA ITEM 7

Meeting	Pension Fund Committee
Date	2 December 2013
Subject	**Update on Admitted Body Organisations**
Report of	Chief Operating Officer
Summary	This report updates the Committee on the Admitted Bodies participating in the Local Government Pension Scheme administered by the London Borough of Barnet

Officer Contributors	Hansha Patel, Pension Services Manager
Status (public or exempt)	Public
Wards Affected	Not Applicable
Key Decision	Not Applicable
Reason for urgency / exemption from call-in	Not Applicable
Function of	Council
Enclosures	Appendix 1 - Admitted Body Monitoring Spreadsheet
Contact for Further Information:	Hansha Patel, Pension Services Manager 0208 359 7895

1. RECOMMENDATIONS

1.1 That the Committee note the update to the issues in respect of admitted body organisations within the Pension Fund, as detailed in Appendix 1.

2. RELEVANT PREVIOUS DECISIONS

2.1 None

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

3.1 To maintain the integrity of the Pension Fund by monitoring of admitted body organisations and ensuring all third-parties comply fully with admission agreements and bond requirements. This ensures that pension fund liabilities are covered by the responding admitted bodies; this in return protects Barnet's liabilities and supports the Council's corporate priorities as expressed through the Corporate Plan.

4. RISK MANAGEMENT ISSUES

4.1 The ongoing viability of the Pension Fund is dependent on maximising contributions to the Fund. All admitted bodies are subject to actuarial assessments and are reviewed to ensure compliance with admissions agreements and maintenance of appropriate employer contribution levels in order to mitigate against any risk to the financial viability of the pension fund.

4.2 There is a possibility of financial losses on the Pension Fund where arrangements around admitted bodies and bond agreements are not sufficiently robust. Monitoring arrangements are in place to ensure that Admissions Agreements and bond (where relevant) are in place and that bonds are renewed, as appropriate, during the lifetime of the relevant Admission Agreement.

5. EQUALITIES AND DIVERSITY ISSUES

5.1 Pursuant to section 149 of the Equality Act, 2010, the Council has a public sector duty to: (i) have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; (ii) advancing equality of opportunity between those with a protected characteristic and those without; (iii) promoting good relations between those with a protected characteristic and those without. The relevant 'protected characteristics' are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. It also covers marriage and civil partnership with regard to elimination of discrimination

5.2 Ensuring the long term financial health of the Pension Fund will benefit everyone who contribute to it. Access to and participation in the Pension Fund is open to those with and those without protected characteristics, alike, provided that the criteria set out within the relevant Regulations are met.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

6.1 Paragraph 4, above, deals with the financial implications of this report.

6.2 There are no procurement, performance & value for money, staffing, IT, Property or Sustainability implications.

7. LEGAL ISSUES

7.1 The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) provide that a Local Authority, as an 'Administering Authority' for the Fund, may admit an organisation into the Local Government Pension Scheme, subject to that organisation, or the contractual arrangement between that organisation and the Council, meeting the criteria set out in the Regulations. Under the Regulations, the form of admission available to a contractor would either be 'a community admission body', or 'a transferee admission body' as defined in the Regulations

7.2 With respect to an admission agreement, the Regulations further provide for an assessment of the level of risk arising on premature termination of the provision of the service or assets by reason of insolvency, winding up or liquidation of the admission body. The assessment must be with the benefit of actuarial advice and, where the level of risk is such as to require it, the transferee admission body shall enter into an indemnity or bond to meet the level of risk identified.

7.3 The Council's standard admissions agreement makes provision for the admission body to maintain a bond in an approved form and to vary the level of risk exposure under the bond as may be required from time to time.

8. CONSTITUTIONAL POWERS (Relevant section from the Constitution, Key/Non-Key Decision)

8.1 The Council's constitution, Part 3 – Responsibility for Functions, Pension Fund Governance Compliance Statement, paragraph 2.2.13 empowers the Pension Fund Committee to "approve applications from organisations wishing to become admitted bodies into the Fund where legislation provides for discretion, including the requirements for bonds."

9. BACKGROUND INFORMATION

9.1 This report provides an update on issues previously reported at the Pension Fund Committee meeting held in September 2013.

10. LIST OF BACKGROUND PAPERS

10.1 Appendix 1 to this report provides an update on the Admitted Body issues

Cleared by Finance (Officer's initials)	**JH**
Cleared by Legal (Officer's initials)	**LC**

Appendix 1 - Admitted Body Monitoring Spreadsheet

Admitted Body	No Of active Employees on transfer	Start Date	Bondsman	Bond Value (£)	Bond Expiry date	Bond Tag (red)	Pension cont on time RAG	Comments
Housing 21 New	56	06/09/2010	Barclays Bank	778K	30/09/2015		G	
London Care	3	05/03/2012	Lloyds	60K	04/03/2015		G	
Personnel & Care Bank	5	01/05/2012	Nat West	33K	31/10/2014		G	
Viridian Housing	11	22.04.2006	Euler Hermes UK	65K	16/08/2016		G	
Fremantle Trust (2)	83	28/03/2014	Royal Bank of Scotland	770K	27/03/2014		G	.
Greenwich Leisure	22	31.12.2002	Zurich Insurance PLC	328K	08/02/2015		G	
Birkin Cleaning Services (St James Catholic)	6	24/10/2011	Technical & General Guarantee Company SA	13K	30/08/2014		G	
Turners Industrial Cleaning	1	01.04.2008	Lloyds TSB Securities	6.2K	continuing		G	
Go Plant	12	04.10.2008	HCC International Insurance Company PLC	290K	31/12/2013		G	
Mears Group	19	10/04/2012	Euler Hermes	320K	09/04/2015		G	

Admitted Body	No Of active Employees on transfer	Start Date	Bondsman	Bond Value (£)	Bond Expiry date	Bond Tag (red)	Pension cont on time RAG	Comments
NSL	31	01/05/2012	Lloyds TSB	412K	30/04/2017		G	
Blue 9 Security	2	03.08.2012	Evolution Insurance	61K	31/03/2014		G	
Music Service (BEAT)	2	01.03.2013	N/A	24K	28/02/2016		G	Guarantee provided by LB Barnet for a three year period
Capita (NSCSO)	412	01/09/2013	Bond is in place.	£4,731k	TBC		G	
Capita (DRS)	261	01/10/2013	Barclays Bank PLC	3,813K	01/10/2014		G	