MEETING
PENSION FUND COMMITTEE
DATE AND TIME
THURSDAY 21ST NOVEMBER, 2019
AT 7.00 PM
VENUE
HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4AX

TO: MEMBERS OF PENSION FUND COMMITTEE (Quorum 3)

Chairman: Councillor Mark Shooter
Vice Chairman: Councillor Elliot Simberg

Anthony Finn	Anne Hutton	Danny Rich
John Marshall	Alison Moore	

Substitute Members

Stephen Sowerby	Eva Greenspan	Peter Zinkin
Ross Houston	Reema Patel	Arjun Mittra

In line with the Constitution's Public Participation and Engagement Rules, requests to submit public questions or comments must be submitted on 18 November 2018 by 10am. Questions must be submitted to Paul Frost@barnet.gov.uk

You are requested to attend the above meeting for which an agenda is attached.
Andrew Charlwood – Head of Governance

Media Relations Contact: Gareth Greene 020 8359 7039

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ORDER OF BUSINESS

Item No	Title of Report	Pages
1.	Minutes	5 - 10
2.	Absence of Members	
3.	Disclosable Pecuniary interests and Non Pecuniary interests	
4.	Public Question and Comments (if any)	
5.	Report of the Monitoring Officer (if any)	
6.	Members' Items (if any)	
7.	2019 Triennial Valuation Update and Funding Strategy Statement	11 - 16
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9.	Admitted Body and Bond Status Update	To Follow
10.	Investment Performance for the Quarter to 30 September 2019	35 - 74
11.	Strategy Update and Investment in Emerging Market Equity Fund	75 - 90
12.	Responsible Investing	91 - 132
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16.	Any item(s) that the Chairman decides is urgent	

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Decisions of the Pension Fund Committee

9 September 2019

AGENDA ITEM 1

Cllr Mark Shooter (Chairman)
Cllr Elliot Simberg (Vice-Chairman)

John Marshall	Anne Hutton
Anthony Finn	Alison Moore
	Arjun Mittra (substitute for Cllr Rich)

Also in Attendance
Professor Geoffrey Alderman – Chairman of the Local Pensions Board

1. MINUTES (Agenda Item 1):

The Chairman requested that the spelling of Councillor John Marshall's name in the minutes be corrected.

The Chairman noted that Councillor Alison Moore's Members Item form the last meeting would be revisited at item 9.

Councillor Anne Hutton noted a minor typo within the minutes. She also noted that the public comment made by Mr Ben Samuels resolved that an item be report to the Committee. The Head of Treasury and Pension, Mr George Bruce informed Members that the topic would be contained in a future training module.

2. ABSENCE OF MEMBERS (Agenda Item 2):

An apology of absence was received from Councillor Danny Rich. Councillor Arjun Mittra was in attendee as a substitute Member.

3. DISCLOSABLE PECUNIARY INTERESTS AND NON PECUNIARY INTERESTS (Agenda Item 3):

Councillor Arjun Mittra declared a non-pecuniary interest in relation to items 9, 11 and 12 as he stated that he had a number of shareholdings that the Pension Fund invest in.

Councillor John Marshal declared a non-pecuniary Interest by virtue of being beneficiary of LGP Scheme and/or having shareholdings in a number of companies that the fund had invested in.

4. PUBLIC QUESTIONS (Agenda Item 4):

None.

5. REPORT OF THE MONITORING OFFICER (IF ANY) (Agenda Item 5):

None.

6. MEMBERS' ITEMS (IF ANY) (Agenda Item 6):

None.

7. 2019 TRIENNIAL VALUATION (Agenda Item 7):

The Head of Treasury and Pension, Mr George Bruce informed Members that the item be withdrawn because the Actuary was not in a position to report on the quality of the triennial valuation data.

Councillor Alison Moore noted that there should have been assumptions report submitted for consideration before the actual evaluation of the 2019 Valuation and the examination of data. She added that it was crucial that the Pension Fund Committee have the opportunity to consider the information and scrutinise the data. Mr George Bruce said that he would arrange a training session for Members in relation to this matter.

Resolved

- That the Pensions Fund Committee noted that the item be withdrawn because the report was not ready
- That the Pension Fund Committee noted that a training session be arranged to consider the assumptions of the 2019 evaluation of the 2019 Valuation

8. THE PENSION REGULATOR - IMPROVEMENT NOTICE (Agenda Item 8):

The Chairman welcomed the Chairman of the Local Pension Board, Professor Geoffrey Alderman.

The Head of Treasury and Pension, Mr George Bruce introduced the report. He summarised the contents of the Improvement Notice issued by The Pensions Regulator (TPR) on 25 July 2019 to London Borough of Barnet to address weaknesses in the processes and controls within the administration of the Barnet Pension Fund. He therefore informed Members that the report outlined the improvement and actions taken to respond to the Notice.

The Chairman of the Local Pension Board, Professor Geoffrey Alderman was welcomed to address the Committee. He outlined the role of the Local Pension Board and therefore stated that the Board had voiced concern in relation to data cleansing and Scheme employers. He said that the Local Pension Board was unimpressed that the External Auditor was not in attendance at the last Board meeting and therefore Board Members were not able to cross examine the report. Mr Bruce said the external auditor had agreed to attend the next meet of the Local Pension Board.

Councillor Alison Moore spoke in relation to the letter from the Pensions Regulator. She said that a high volume of cases and issue were outstanding, including the late circulation of Annual Benefit Statements to some Scheme Member. Councillor Moore acknowledged that a lot of work had taken place and stated that further work was still required to have a robust pension's administration service. Councillor Moore added that the Council should not have got into the situation and therefore questioned if there were enough resources in place to deliver the work in order to resolve the large number of open cases. Councillor Moore noted that a number of people had not received an annual benefit statement and requested that such Members be written to with an update.

Mr George Bruce responded to these points as did Mr Paul Faulkner who outlined that there were Scheme Members who had not received Annual Benefit Statements. Mr Faulkner said that extra resources had been deployed in order for work to be completed.

Councillor Alison Moore requested to know what the additional cost was in order for the extra resources. Mr Faulkner said that there was no intention to charge the Council for any deployment of resources. Councillor Moore sought clarity on the level of training that Capita staff received, Mr Faulkner said that all staff were trained appropriately, he added that the Capita had a experienced Local Government team in place.

The Committee outlined some concerns in relation to the late payment of contributions from employers. Professor Geoffrey Alderman asked on behalf of the Local Pension Board why financial penalties have not been implemented to employers that had not submitted information The Director of Finance, Mrs Darr said that training was being provided and she noted that attention would be given for repeat offenders. It was noted that further informed would be provided. The Chairman requested that the Local Pension Board be updated in respect to this.

Councillor Moore said that an options paper should be submitted to the Policy and Recourse Committee. The Chairman requested that it be minuted that the Pension Fund Committee at its next meeting will consider the position which members duly noted.

Having considered the report the Committee:

Resolved

- The Pension Fund Committee noted the content of the response and the actions taken to comply with the Notice and the verbal update from officers.
- The Chairman requested that it be minuted that the Pension Fund Committee at its next meeting will consider the position of requesting that Policy and Recourses receive an options paper, members duly noted this.

9. INVESTMENT STRATEGY (Agenda Item 9):

The Committee noted that the report followed on from the investment strategy discussions at recent meetings and therefore the reported provided an update on implementation of decisions made by the Committee and contains two recommendations in respect of private debt and currency hedging.

Mr Bruce that there was an error in the cover report. He said that the level of currency hedging was current below, and not above as suggested in the report, the 50% strategic level proposed by Hymans Robertson.

Investment Consultant Mr Nick Jellema from Hymans Roberts provided an update on the level of currency hedging with relation to the Fund’s assets denominated in overseas currencies.

He requested that the Committee note that there has been a heightened level of volatility in the value of sterling ever since the ‘Brexit’ referendum and which he noted continued. Mr Jellema stated that the any adjustment to the level of currency hedging needed to be to be carefully considered in this context.

The Committee considered the report's recommendations. In doing there the committee discussed in length the currency Heage and the Fund exposure. The Committee also consider how the pound may react within the political climate as a result the Committee sought to limit risk against a weakening sterling. The Committee therefore considered it's hedging strategy and noted the advice provided.

Having considered the report the Committee:

Resolved:

1. That the Pension Fund Committee reconfirmed an investment of £30 million in the LCIV Global Private Debt Fund.
2. That the Pension Fund Committee agreed to a 55% strategic currency hedge, with implementation proposals of £20 million a week until the 55% had been reached
3. That the Pension Fund Committee agreed to delegate authority to the Finance Director to take actions to implement recommendations 1 and 2.

10. ADMISSION AGREEMENT (Agenda Item 10):

The Head of Treasury and Pensions, Mr George Bruce introduced the report. Mr Bruce gave an update on the outstanding admitted body and bond agreements, as well as bond renewals and cessation calculations, that need arranging.

Having considered the report the committee:

Resolved:
That the Pension Fund Committee noted the progress on outstanding admitted body and bond agreements, including bond renewals and cessation calculations.

11. ANNUAL PERFORMANCE REPORT (Agenda Item 11):

The Head of Treasury and Pensions, Mr George Bruce introduced the report and summarised the factors behind the returns achieved by the Fund compared with the average local authority pension fund in recent years.

Having considered the report the committee:

Resolved:

That the Pension Fund Committee noted the performance of the Pension Fund as recorded in the PIRC universe.

12. QUARTERLY PERFORMANCE REPORT (Agenda Item 12):

Investment Associate Consultant Mr Yoel Deal from Hymans Roberts introduced the report. He outlined that the report summarised the Pension Fund investment managers' activity during the three months to 30 June 2019 together with fund manager performance in the quarter.

Having considered the report the committee:

Resolved:

- That the Pension Fund Committee noted the performance of the Pension Fund for the quarter to 30 June 2019.
- That the Pension Fund Committee noted the exempt information

13. WORK PROGRAMME (Agenda Item 13):

Mr George Bruce noted that the Council were intending to task Hymans Robertson with implementing a Members website. He added that this would be an improvement of the existing platform.

Resolved:
The Pension Fund Committee noted the Work Programme

14. ANY ITEM(S) THAT THE CHAIRMAN DECIDES IS URGENT (Agenda Item 14):

None.

The meeting finished at 20:50

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AGENDA ITEM 7

	Pension Fund Committee **21 November 2019**
Title	**2019 Triennial Valuation Update and Funding Strategy Statement**
Report of	Director of Finance
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	None
Officer Contact Details	George Bruce, Head of Treasury & Pensions 0208 359 7126 george.bruce@barnet.gov.uk

Summary

The funding position of the pension scheme and rate of contributions paid by employers is assessed every three years by the Scheme Actuary. The triennial valuation as at 31 March 2019 is underway. Delays have occurred in the provision of usable data to the Actuary, which has pushed back the timetable. It is unlikely that the Actuary will be able to present valuation results to this meeting. The Actuary will attend the meeting and a progress reports will be made together with a revised timetable. It will not be possible to circulate any reports prior to the meeting.

A draft Funding Strategy Statement for consultation with employers is being reviewed and it is proposed that consultation with employers is undertaken.

Officers Recommendations
1. **That the Pension Fund Committee note the Actuary's verbal comments on the 2019 triennial valuation timetable.** 2. **That the Pension Fund Committee delegate authority to the Director of Finance to consult on the draft Funding Strategy Statement with employers and the Local Pension Board.**

1. WHY THIS REPORT IS NEEDED

1.1 The Committee are responsible for appointing a scheme actuary and commissioning a triennial actuarial valuation in addition to formulating long term funding and investment strategies that ensure that the scheme has sufficient assets to pay benefits as they fall due.

1.2 Every three years the Actuary assesses the funding position of the Pension Fund and determines the contributions payable by each employer for the next three years. The next valuation will be as at 31 March 2019 and the new contribution schedule will be effective from 1st April 2020.

1.3 The Actuary has presented to the July meeting (data quality) and the March meeting (overall timetable). If actions had been in accordance with the timetable, draft scheme results would have been presented at the September meeting and individual employer results to this meeting. Unfortunately, at the time of writing this report (12th November) the Actuary has not received complete data and is unable to commence their calculation.

1.4 Two issues have arisen with data. Firstly, inconsistencies between employer codes used in the membership data and those used to record contributions and benefit payments. If these codes are not consistent, the Actuary is unable to fairly allocate assets and liabilities to employers. The administrator had submitted an updated data extract (4th November) that corrects these inconsistencies and in the process created four new employers in the membership database.

1.5 The second issue is a significant number of unprocessed leavers and joiners. We had anticipated that the work undertaken by the administrator pre July 2019 to review the annual returns from employers would have identified joiners and leavers not reflected in the administration records and made the necessary adjustments. However, the administrator has not been able to set up these membership records pending the receipt and processing of the appropriate forms from employers. The timetable to complete this process is not consistent with meeting the deadline for the triennial valuation. Therefore, Council staff have reviewed the discrepancies between annual returns and the

administration data extract and provided adjustment records to the Actuary to enable the valuation to continue. This exercise is expected to be completed by 15th November.

1.6 Until the Actuary is confident that the data is useable, it is pointless to speculate on a timetable. The process must be completed by 31st March 2020 but to engage in proper consultation requires results much sooner. An update on the timetable will be given by the Actuary at the meeting.

Funding Strategy Statement

1.7 It had been intended to present a draft Funding Strategy Statement ("FSS") to the Committee. The FSS is a summary of the Fund's approach to funding its liabilities. It focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers pay for their own liabilities. A revised draft was received from the Actuary on 11th November. There are a few proposed changes of approach that require consideration. Normal process is for the Committee to review the FSS, agree to consult with employers and finally to consider the consultation responses and approve the FSS. In view of the restricted timescales it is proposed that the Director of Finance initiates the consultation and that the proposed final version is presented to the February 2020 meeting for approval.

2. REASONS FOR RECOMMENDATIONS

2.1 The recommendations are in accordance with regulatory requirements for the triennial valuation.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None - statutory function

4. POST DECISION IMPLEMENTATION

4.1 The timetable to complete the valuation, including final approval by the Pension Fund Committee will be updated when the Actuary has accepted the data.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 Employers paid £48 million of contributions into the pension scheme in 2018/19. Changes in contribution rates can have a significant cashflow implication for employers and will impact on the Council's ability to spend in other areas.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 There are no immediate financial implications from the report. However, higher deficits (particularly if sustained) may translate into higher contributions from the Council and other employers. Engaging with the Scheme Actuary during the 2019 triennial valuation will enable the Committee to identify ways to stabilise future contribution rates.

5.3 **Social Value**

5.3.1 Contributing to the Pension Fund ensures that contributing members have a secured income on retirement.

5.4 **Legal and Constitutional References**

5.4.1 The Council's Constitution (Article 7) – includes within the responsibilities of the Pension Fund Committee,

- To consider actuarial valuations and their impact on the Pension Fund.
- To review the Funding Strategy Statement at least triennially

5.4.2 The Local Government Pension Scheme Regulations 2013 (regulation 62) requires the Council to obtain an actuarial valuation of the assets and liabilities of each of its pension funds as at 31 March 2016 and as at 31 March in every third year afterwards. Regulation 58 requires the administering authority to prepare, maintain and publish a funding strategy statement. It must carry out consultation with such persons as it considers appropriate.

5.5 **Risk Management**

5.5.1 The accuracy of the valuation relies on the accuracy of the data provided to the actuaries. Any errors in the provision of the data could have a significant impact on the required contribution rates, particularly for the smaller scheduled and admitted bodies.

5.5.2 The value of the Pension Fund assets at any point in time is determined by the market and a large movement in the markets could have a significant impact on the surplus or deficit of the fund.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 3) 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. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.

5.7 **Corporate Parenting**

5.7.1 Not applicable in the context of this report.

5.8 **Consultation and Engagement**

5.8.1 Not required.

5.8 **Insight**

5.8.1 The report provides insight into the future direction of employers' contribution rates.

6. BACKGROUND PAPERS

6.1 The Actuary has attended three recent meeting (16 October 2018, 26 March 2019 and 29 July 2019). The papers for the October 2018 meeting include a background note to the valuation process and the timetable.

https://barnetintranet.moderngov.co.uk/documents/g9498/Public%20reports%20pack%2016th-Oct-2018%2019.00%20Pension%20Fund%20Committee.pdf?T=10

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AGENDA ITEM 8

Pension Fund Committee

21 November 2019

Title	**The Pensions Regulator Update**
Report of	Director of Finance
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1 – TPR letter to LB Barnet Appendix 2 – LB Barnet update letter to TPR
Officer Contact Details	Nigel Keogh, Interim Pensions Manager Nigel.Keogh@barnet.gov.uk 07505074979

Summary

Further to the Improvement Notice issued by The Pensions Regulator (TPR) on 25 July 2019 to London Borough of Barnet to address weaknesses in the processes and controls within the administration of the Barnet Pension Fund, this paper updates the Committee on the on-going communications with TPR.

Recommendations

The Pension Fund Committee is asked to note the most recent correspondence with the Regulator and the further actions being taken to address the new issues arising.

1. WHY THIS REPORT IS NEEDED

1.1 On 25 July 2019, TPR issued LBB with an Improvement Notice, which stipulated improvements in three main areas by the 31 August 2019.

1.2 On 29 August, a response was sent to TPR, detailing how the Council had responded to the Notice (https://barnet.moderngov.co.uk/mgAi.aspx?ID=29161#mgDocuments).

1.3 On 4 October, TPR responded to the Council's submission.

1.4 Our response to The Pensions Regulator was generally well-received, with the Regulator making particular reference to the improvements in data quality and internal controls in several areas (notably in relation to contributions monitoring).

1.5 Based on the extent of the improvement and the limited amount of time available to complete the work required to comply with the Improvement Notice, TPR does not intend to take any further action against the pension fund in relation to the Improvement Notice.

1.6 The Regulator did note that the failure to issue 930 ABS's to deferred members on time did constitute a breach of the law. However TPR did acknowledge the circumstances that gave rise to this (i.e. the member cases were still on-going at the time of the ABS exercise) and will therefore not be taking further action on this point at this moment in time (whilst reserving its rights to revisit this should we fail to meet our planned timetable for rectifying the situation). The Regulator was however keen to stress the need for the pension fund to continue to monitor and report material breaches. A copy of the letter from TPR is at Appendix 1.

1.7 As noted in TPR's letter, the Regulator has now published it's Regulatory Intervention Report which can be found at https://www.thepensionsregulator.gov.uk/en/document-library/enforcement-activity/regulatory-intervention-reports/london-borough-of-barnet-superannuation-fund-regulatory-intervention-report

1.8 Since this was published, the Council has subsequently sent an update letter to TPR (Appendix 2).

1.9 In this letter, updates on the following were provided:

- Annual Benefit Statements
- Triennial Valuation
- Backlog reduction
- Contributions monitoring
- NPA 1880 cases

1.10 As the letter states, progress against several of the above issues has been limited, and in the case of the Annual Benefit Statements, new

issues have emerged as members have reviewed the information they have received.

1.11 Where new issues have emerged, they are each subject to their own action plans and monitoring via our fortnightly performance monitoring meetings with Capita.

1.12 Further reports to TPR regarding the above will follow in due course.

2. REASONS FOR RECOMMENDATIONS

2.1 There is no action required of the Committee.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Not applicable.

4. POST DECISION IMPLEMENTATION

4.1 Not applicable.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 The Committee supports the delivery of the Council's strategic objectives and priorities as expressed through the Corporate Plan, by assisting in maintaining the integrity of the pension Fund by monitoring the administration and compliance of the Fund.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 The work identified above is being done within existing resources.

5.3 Social Value

5.3.1 Not applicable in the context of this report.

5.4 Legal and Constitutional References

5.4.1 The Local Government Pension Scheme Regulations 2013 place responsibility for the local administration of pensions and other benefits under these Regulations on the administering authority, which is the London Borough of Barnet.

5.4.2 The Council's Constitution – Article 7 – includes within it the responsibilities of the Pension Fund Committee. It ise therefore considered appropriate for the Pension Fund Committee to receive this report.

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. Good governance is essential to managing the risks of the pension fund.

5.6 Equalities and Diversity

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 3) 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. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.

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 will benefit everyone who contributes to the fund.

5.7 Corporate Parenting

5.7.1 Not applicable in the context of this report.

5.8 Consultation and Engagement

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

5.9 Insight

5.9.1 Not applicable in the context of this report.

6 BACKGROUND PAPERS

6.1 None

Private & Confidential

The Scheme Manager
LGPS – London Borough of Barnet
Superannuation Fund
FAO Ms Anisa Darr
Director of Finance
London Borough of Barnet
North London Business Park
Oakleigh Road South
London, N11 1NP

The Pensions Regulator
Making workplace pensions work

Napier House
Trafalgar Place
Brighton
BN1 4DW

www.tpr.gov.uk
www.trusteetoolkit.com

Our reference: C98061965
By post and email to:
anisa.darr@barnet.gov.uk

4 October 2019

Dear Ms Darr

Local Government Pension Scheme – London Borough of Barnet Superannuation Fund – PSR 10123044 (the Fund)

Thank you for your letter dated 29 August 2019.

We have now considered the information you have provided about the level of compliance with the Improvement Notice dated 25 July 2019.

We note the Scheme Manager has introduced and is operating Internal Controls to review the monthly contributions are being received. We further note that steps are taken to review and act upon the information these Controls produce.

In relation to the creation of Internal Controls to ensure Annual Benefit Statements provided to members are accurate, it was positive to see these Controls have been implemented and have led to potentially incorrect information not being sent to savers.

Turning to the data cleanse project, you have told us the Scheme Manager has not been able to meet all its objectives with 161 lines of data needing correcting for phase 1 and 2 as of 29 August 2019. However, we also recognise the extent of the efforts made to improve the quality of the data and the significant number of data lines you told us have been successfully cleansed.

Given the extent of the improvement and the limited amount of work to complete that required by the Improvement Notice we do not intend to take further action against the Scheme Manager in relation to the Improvement Notice.

It is apparent from your response that not all savers that are entitled to receive an Annual Benefit Statement for the financial year 2018/19 received one on time. The Pensions Regulator (TPR) is not able to permit breaches of law but it can be pragmatic in its response.

Whilst we will record the failure to provide all Annual Benefit Statements to eligible savers, we recognise the delay is connected to the overall improvements being made to the governance and administration of the Fund. We will therefore not be taking further action on this point but, going forward, would expect the Scheme Manager to ensure savers receive the information they are entitled to, on time, now the new Internal Controls are in place and operating.

Please note that we reserve the right to re-consider this decision should it be appropriate to do so and expect the Scheme Manager to report future material breaches of law or deviations from the previously submitted plans to improve the governance of the Fund.

Going forward, we intend to publish a Regulatory Intervention Report describing our engagement with the Fund. Examples of previous Regulatory Intervention Reports, along with information about our publication policy can be found on our website at https://www.thepensionsregulator.gov.uk/en/document-library/enforcement-activity/regulatory-intervention-reports.

Until we publish our report we would welcome the receipt of the further updates detailed in your letter of 29 August 2019.

If you have any questions regarding publication, I am happy to arrange a meeting to discuss this further.

Yours sincerely

Michael Burton
Specialist
Supervision (Relationships)

Tel: 01273 648439
e-mail: michael.burton@tpr.gov.uk

Weekly Client Reporting - London Borough of Barnet

Monday 04 November 2019

Prepared By:

Capita
04/11/2019

www.capitaemployeesolutions.co.uk

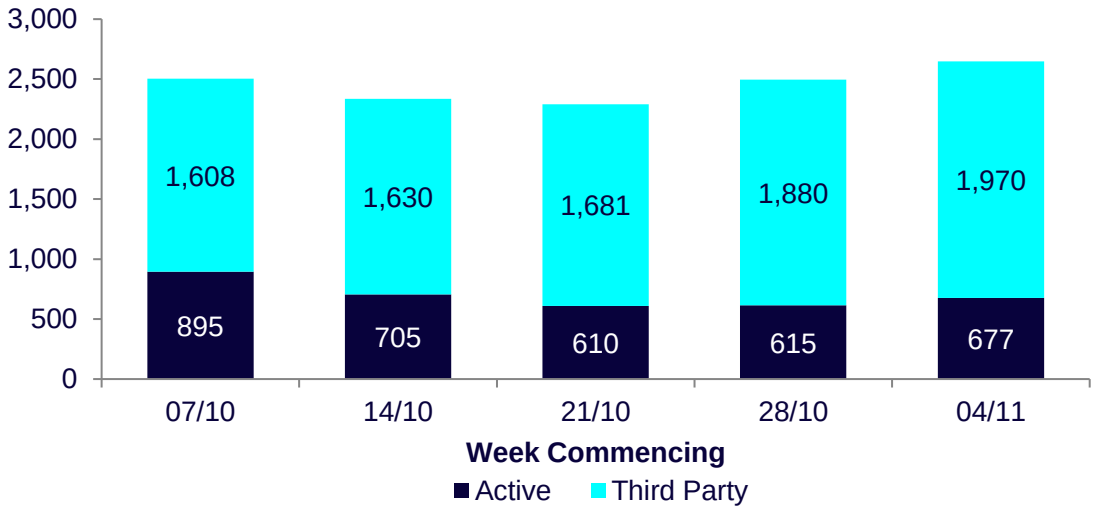
1. Work in progress (WIP)

The work position is split between active cases that are workable and third party cases that are pending an action (e.g. awaiting forms from the member). These are sub divided between the cases within SLA and the cases outside of SLA. Please note that this excludes internal SLAs that are not covered by the contract.

Active / TP	Status	05/08
Active	In SLA	201
	Out of SLA	889
Third Party	In SLA	1,357
	Out of SLA	56

Rolling five weeks

07/10	14/10	21/10	28/10	04/11
328	403	417	461	568
567	302	193	154	109
1,503	1,482	1,497	1,682	1,766
105	148	184	198	204



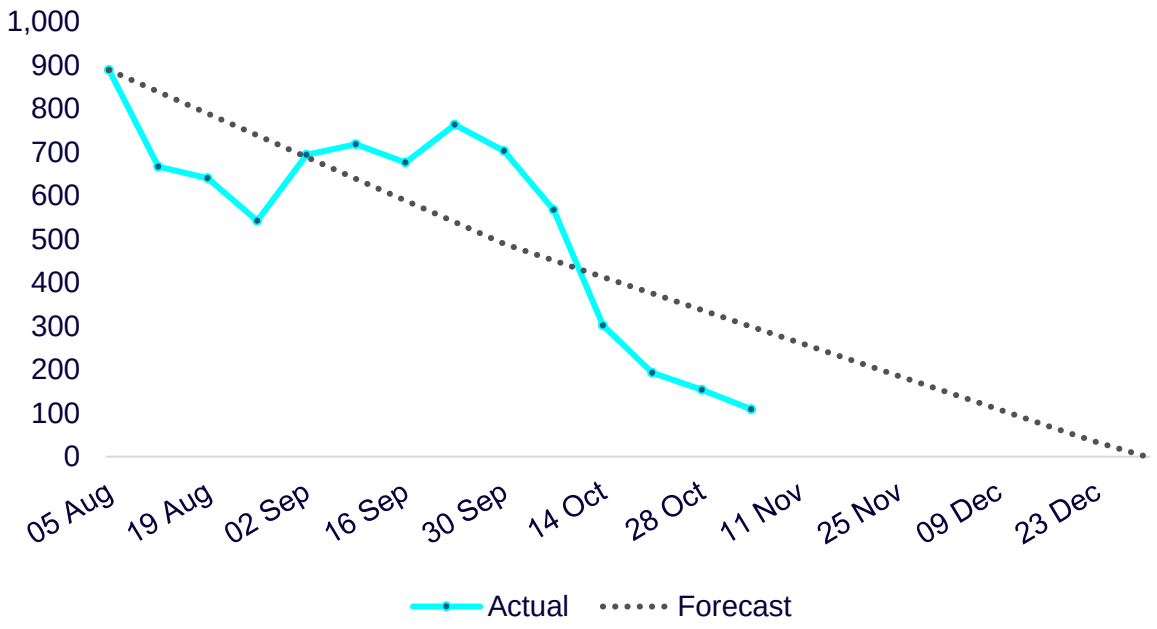
The current breakdown based on active cases is as follows:

			Fail Age Profile			
Category	Pass	Fail	0-15	16-30	31-60	61+
Deaths	9	2	0	2	0	0
Enquiries	97	26	23	3	0	0
Estimates	29	11	2	9	0	0
Leavers	49	8	4	3	0	1
Retirements	104	16	7	9	0	0
Transfers	33	20	3	17	0	0
Other	247	26	11	15	0	0
Total	**568**	**109**	**50**	**58**	**0**	**1**

2. Active Fail Position

The table below tracks the outstanding active backlog against the forecasted recovery plan:

Date	Active Fails	Forecast
05/08/2019	889	889
12/08/2019	667	839
19/08/2019	640	789
26/08/2019	542	739
02/09/2019	694	689
09/09/2019	718	639
16/09/2019	676	589
23/09/2019	763	539
30/09/2019	703	489
07/10/2019	567	451
14/10/2019	302	413
21/10/2019	193	375
28/10/2019	154	337
04/11/2019	109	299
11/11/2019		261
18/11/2019		223
25/11/2019		185
02/12/2019		147
09/12/2019		109
16/12/2019		71
23/12/2019		33
30/12/2019		0


1,000
900
800
700
600
500
400
300
200
100
0
05 Aug
19 Aug
02 Sep
16 Sep
30 Sep
14 Oct
28 Oct
11 Nov
25 Nov
09 Dec
23 Dec
Actual
Forecast

3. Operational Commentary

Progress against plan continues to be made.

Third party triage of cases is complete and we are now in a position to contact the relevant 3rd parties in an attempt to progress the cases. Initial reminders will be issued for bereavement cases, before moving onto retirements and transfers.

We are now beginning to receive responses to the letters issued to deferred members over NPA who hadn't claimed their retirement benefits. Of the 273 letters issued we have had contact from 60 members over the course of last week. The next stage of these cases is to review salary information and contact employers for any missing details. Once received we can undertake a calculation and issue options to the members.

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Mr Michael Burton
Specialist
Supervision (Relationships)
The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

London Borough of Barnet
2 Bristol Avenue
London NW9 4EW

Contact: Anisa Darr
E-mail: anisa.darr@barnet.gov.uk
Date: 11 November 2019

Your reference: C98061965
11 November 2019

Dear Michael

Local Government Pension Scheme (LGPS) -London Borough of Barnet Superannuation Fund PSR 10123044 (the Fund)

Thank you for your letter of 4 October. I was pleased that your response noted the considerable efforts that have been, and continue to be, made to improve the administration of the Barnet Pension Fund.
The improvements in our internal controls and scrutiny of our out-sourced administration service continue to identify issues and areas where further improvement is required (these are set out below), and as set out in my letter of 29 August 2019, I am writing to provide you within an update of progress in a number of areas.

Annual Benefit Statements (ABS)

As reported, ABS were issued to all member due to receive one by the statutory deadline with the exception of 930 deferred members whose cases were in progress at the time of issue.
In respect of the above, the cases have been completed in respect of 55 members and they have now received a letter confirming their deferred benefits. A further 315 members have open cases and are included in the non-actionable caseload total, and will be resolved by the end of January 2020 (please see the section below regarding the non-actionable caseload action plan).

This leaves a residual total of 560 from the original 930, for which a separate plan of action is still being developed.

With regard to the ABS that were issued, we are continuing to monitor and analyse feedback from members, and this process has already revealed a number of issues.
Following a query from a member regarding the lump sum shown on their ABS, an issue was identified regarding previously transferred in benefits, where the pension element had been picked up correctly but the lump sum element had not, resulting in the lump sum being understated on the ABS. This affected 54 members. Each have now received a corrected ABS.
704 ABS were produced manually and on review (post-issue) it was discovered that a failure in the "mail-merge" operation led to 634 statements showing incorrect data in the Lifetime Allowance (LTA) field and a further 70 had incorrect data in the Death In Service benefits field.
All of the above have now been corrected and correct ABS reissued to the affected members.

Investigating feedback from members regarding their ABS has also revealed 39 cases (affecting 20 members) where Pensions Saving Statements (PSS) were not issued to members, in some cases dating back to the 2013-14 pension input period. A full review is being undertaken to identify if there are any other cases.

We are working actively with the affected members identified to date to rectify this error and have brought in independent advisors to assist with reviewing the missing information and advising on the tax implications for those members.

We recognise that the failure to issue PSS within the required timescale constitutes a breach of The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. Given that this issue affects a significant proportion of those members that were due to receive such information, we regard this to be a material breach of those regulations and I am therefore reporting this matter to you now.

Triennial valuation data

Whilst the member level data submitted to the actuary was much improved compared to that submitted at the last valuation, there remain several discrepancies between membership data and cashflow data at individual employer level that have yet to be resolved (this centres on a large number of unprocessed joiners and leavers) Both Capita and internal resources are focussing on resolving these queries as soon as possible but regrettably we are unable to report sign-off on the data from the actuary at this point in time.

Non-actionable caseload action plan

In my letter of 29 August 2019, I referred to our plans to reduce the caseload backlog. I am pleased to report that the actionable caseload is on track to be cleared by the end of December (the latest weekly monitoring report is attached at Appendix 1). We have also now put a plan in place to bring the currently non-actionable caseload into a workable state, with a view to the backlog as of 18 October (1685 cases) being cleared by the end of January 2020 (a copy of the plan is attached at Appendix 2).

Contributions monitoring

The revised contributions monitoring processes continue to be refined, with monitoring reports being received and reviewed on a monthly basis. We are seeing a very high level of compliance from employers with regard to timeliness of payment, timeliness in the submission of data and accuracy of payment, with any variances from the expected contribution rate, and variances in excess of 10% from the past 3 month running totals, being investigated and resolved.

Members with missing Normal Pension Age

As reported in my letter of 29 August 2019, there was an issue with 1880 deferred members whose Normal Pension Age (NPA) was incorrectly held on the administration system. Following further analysis, we have determined that 272 members had passed their NPA as at April 2019. Of these:

- 48 had the correct NPA of 65 years of age held on their records – so the communication needed to focus on the fact they should have taken their benefits and should have been prompted to do so. Of these, we do not hold up-to-date addresses for 3 members and will be using tracing services to locate them.

- 65 have passed their true NPA since the 2018 ABSs were issued – so the communication needed to focus on the fact that we have been holding an incorrect NPA on record and should have prompted them that their benefits are due to be taken.

- 159 had already passed their true NPA when 2018 ABSs were issued – so the communication needed to focus on the fact we have been holding an incorrect NPA on record, and that we incorrectly sent them an ABS when we should have prompted them that their benefits are due to be taken. Of these, we do not hold up-to-date addresses for 14 members and will be using tracing services to locate them.

With the exception of the 17 members whose addresses we need to trace, we have now written to the remaining 255 members.

The remainder of the population (1608 members who had yet to reach their NPA as at April 2019) we will be writing to them in January 2020 to apologise that their previous ABS contained the incorrect NPA and assure them that this has now been corrected (the ABS issued in August 2019 did contain the correct NPA). Any of these members that attain NPA in the meantime will have their benefits put into payment in accordance with established service levels.

I am disappointed that I am not able to report more substantive progress in some areas, and that I am once again in the position of having to report further service failings but please be assured that we continue to be fully committed to resolving the above outstanding issues as quickly as possible. This includes consideration of alternative service delivery options should the service not attain the levels that the members of the Barnet Pension Fund deserve.

If you would find it helpful, I would be happy to meet to discuss the above in greater detail – please do let me know. In the meantime, if you have any questions regarding any of the above, please do not hesitate to get in touch.

Yours sincerely

Anisa Darr
Director of Finance

Enclosures

Appendix 1 – Weekly Backlog Report – 4-11-2019

Appendix 2 – Non Workable Clearance Plan

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London Borough of Barnet Pension Fund

Total outstanding non-workable cases as at 18th Oct 2019 = 1685

	RAG rating	Oct-19			Nov-19					Dec-19				Jan-20			
		w/c 14/10/19	w/c 21/10/19	w/c 28/10/19	w/c 04/11/19	w/c 11/11/19	w/c 18/11/19	w/c 25/11/19	w/c 02/12/19	w/c 09/12/19	w/c 16/12/19	w/c 23/12/19	w/c 25/02/19	w/c 30/12/19	w/c 06/01/20	w/c 13/01/20	w/c 20/01/20
Non workable cases																	
Determine age profile of outstanding cases																	
Determine status of member record																	
Review & process Bereavement cases (75)																	
Triage outstanding cases to determine if can be worked																	
Issue reminders to relevant parties																	
Complete any workable cases																	
Issue 2nd reminder afer 20 working days																	
Issue final reminder afer 15 working days																	
Close case if no response after 10 working days																	
Review & process Retirement cases (63)																	
Triage outstanding cases to determine if can be worked																	
Issue reminders to relevant parties																	
Complete any workable cases																	
Issue 2nd reminder afer 20 working days																	
Issue final reminder afer 15 working days																	
Close case if no response after 10 working days																	
Review & process Transfer cases (152)																	
Triage outstanding cases to determine if can be worked																	
Issue reminders to relevant parties																	
Complete any workable cases																	
Issue 2nd reminder afer 20 working days																	
Issue final reminder afer 15 working days																	
Close case if no response after 10 working days																	
Review & process Leaver cases (933)																	
Triage outstanding cases to determine if can be worked																	
Issue reminders to relevant parties																	
Complete any workable cases																	
Issue 2nd reminder afer 20 working days																	
Issue final reminder afer 15 working days																	
Close case if no response after 10 working days																	
Review & process other cases (462)																	
Triage outstanding cases to determine if can be worked																	
Issue reminders to relevant parties																	

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Pension Fund Committee

21 November 2019

Title	**Investment Performance for the Quarter to 30 September 2019**
Report of	Director of Finance
Wards	N/A
Status	Public except for exempt Appendix D
Urgent	No
Key	No
Enclosures	Appendix A – Pension Fund Market Value of Investments as at 30 September 2019 Appendix B - Asset Allocation as at 30 September 2019 Appendix C - Review of Investment Managers Performance for 3rd quarter of 2019 (Hymans Robertson) Appendix D - Review of Fund Managers (Hymans Robertson) (exempt) **Exempt enclosure - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of any particular person (including the authority holding that information).**
Officer Contact Details	George Bruce, Head of Treasury, George.bruce@barnet.gov.uk - 0208 359 7126

Summary

This report summarises the Pension Fund investment managers' activity during the three months to 30 September 2019 together with fund manager performance in the quarter.

Officers Recommendations

That the Pension Fund Committee note the performance of the Pension Fund for the quarter to 30 September 2019.

1. WHY THIS REPORT IS NEEDED

1.1 To ensure that the Pension Fund is being invested prudently and in accordance with the Pension Fund investment strategy.

Fund Valuation

1.2 The valuation of the fund as at 30 September 2019 was £1,210.9 million, an increase of £26.3 million (2.2%) compared with the 30 June 2019's valuation of £1,184.6 million as detailed on appendix B. The chart on appendix A indicates a mostly steady increase in valuations over the last six years.

Performance Summary

1.3 The Fund returned 2.1 % in the quarter with all mandates (other than the new Partners fund) recording positive returns. The fund underperformed the benchmark by 0.1% in the quarter with most of the newer credit mandates failing to achieve their benchmark return. Hymans will be asked to comment at the meeting.

1.4 For the 12 months to September, the total fund return was 5.3% (0.7% below benchmark). Newton, Schroders Corporate bonds and IFM exceeded benchmark, with a mixed picture for other credit mandates. The illiquid credit had high absolute returns while the liquid credit returns were both low and below benchmark. Schroder DGF was the major negative contributor compared with benchmark returns.

1.5 The three year returns of 6.5% p.a. was also 0.7% p.a. below benchmark with only Schroders Corporate Bonds meaningfully exceeding the benchmark. The two DGF's continue to underperform over long time periods.

Investment Manager Ratings

1.6 Hymans provide ratings for all the investment managers. There have been no changes since the last meeting. Most of the mandates are rated at Hymans' highest level of conviction (preferred). The exceptions are the two DGF's funds rated as suitable and the Schroders' Corporate Bonds mandate rated as positive.

Fund Manager Transactions

1.7 During the quarter £55 million was withdrawn from Schroders DGF (£20 million) and Newton (£35 million). This was used to repay the loan from the Council (£15 million) taken in June, to fund the initial commitment to Partners 2019 fund (£9.2 million) and a drawdown from IFM ($2.2 million), with the balance in cash to fund the expected drawdowns from CBRE ($16m), Adam Street and emerging market equities.

1.8 Outstanding commitments at the quarter end are:

Alcentra European Direct Lending	£4.4 million
CBRE Global Alpha	$16 million
IFM	$6.7 million
Partners 2019 MAC	£20.7 million
Adam Street	$67.5 million

Allocations v Strategy

1.9 Appendix B highlights the portfolio positions compared with benchmark. The target allocations have been amended to include the unfunded mandates for property and equity and to reduce the DGF weighting to nil. The other significant difference is the underweighting for illiquid alternatives, partly due to capital being returned by Partners and Alcentra and the unfunded commitments to the European Direct Lending Fund. The recently agreed commitment to Partner 2019 fund will add to this allocation. Cash will be taken from the two diversified growth funds as required to fund other mandates.

2. REASONS FOR RECOMMENDATIONS

2.1 The terms of reference of the Pension Fund Committee require the Committee to review and challenge the fund managers' quarterly investment performance against benchmarks and targets.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None

4. POST DECISION IMPLEMENTATION

4.1 The Chief Financial Officer will carry out any actions considered necessary.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage to achieve the required funding level. Effective monitoring of the Pension Fund will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities.

5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 The Pension Fund appoints external fund managers to maximise Pension Fund assets in accordance with the Fund investment strategy. The Pension Fund is a long-term investor and short-term volatility of investment return is expected. In the longer term, the appointed fund managers are expected to deliver positive returns in accordance with the Fund benchmarks. The global diversification of the Pension Fund portfolio gives some protection against the market volatility. The funding level of the Scheme uses a valuation of the future liabilities discounted using gilt yields. The mismatch between assets held and the method of valuing future liabilities will also result in volatility of funding levels.

5.3 Social Value

5.3.1 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 Constitution – Under article 7 one of the responsibilities of the Pension Fund Committee is 'To review and challenge at least quarterly the Pension Fund investment managers' performance against the Statement of Investment Principles [now Investment Strategy Statement] in general and investment performance benchmarks and targets in particular.'

5.4.2 Regulation 9 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 provides the power to appoint investment managers. The regulations no longer have a specific reference to monitoring investment managers but state "the authority must reasonably believe that the investment manager's ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it." Only through periodic monitoring can the Committee achieve this requirement.

5.5 **Risk Management**

5.5.1 A key risk is that of poor investment performance. The performance of the fund managers is monitored by the Pension Fund Committee every quarter with reference to reports from Hymans Robertson, the Pension Fund investment adviser. If a fund manager's performance is considered inadequate, the fund manager can be replaced.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 3) 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. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.

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 **Corporate Parenting**

5.7.1 Not applicable in the context of this report.

5.8 **Consultation and Engagement**

5.8.1 Not applicable

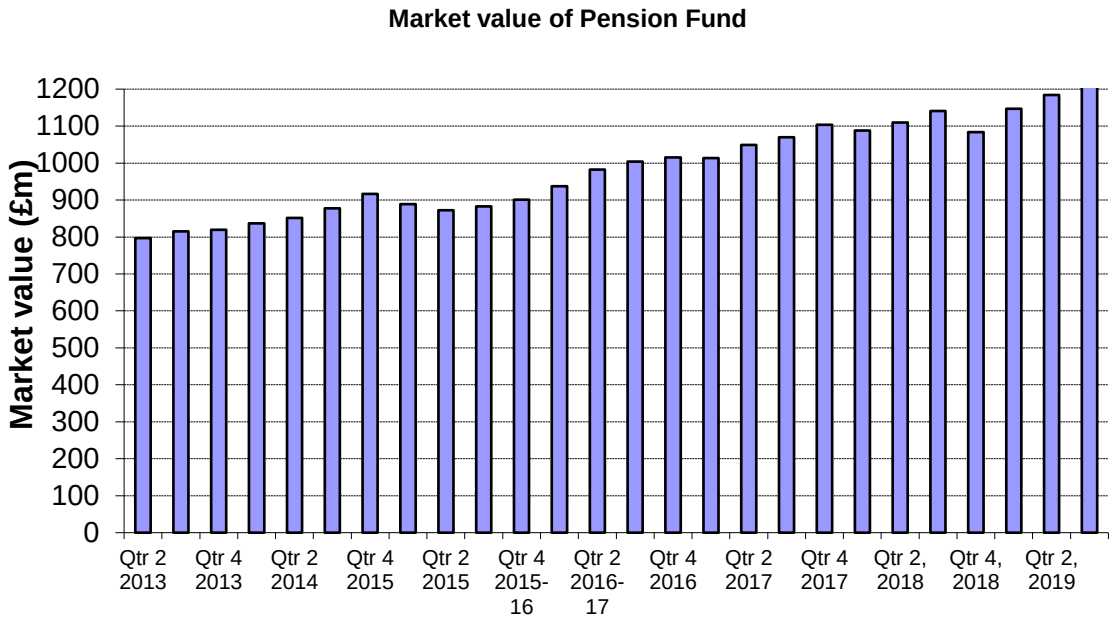
5.9 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

Appendix A – Market Value of Investments as at 30 September 2019



Appendix B - Asset Allocation as at 30 September 2019

	Allocation as at 30.9.2019				Target Allocation
	£	%	%	%	%
Equities			**39.83**		**50.00**
LGIM Global	255,630,691	21.11		20.00	
LGIM RAFI	226,592,596	18.71		20.00	
Emerging Markets	0	0.00		5.00	
Private Equity	0	0.00		5.00	
Property			**3.39**		**10.00**
Core UK Commercial	0	0.00		5.00	
Aberdeen Standard Long Lease	28,025,000	2.31		2.50	
CBRE Global	13,019,200	1.08		2.50	
Diversified Growth			**16.99**		**0.00**
Schroder	126,860,052	10.48		0.00	
BNY Mellon (Newton)	78,865,444	6.51		0.00	
Multi Credit Liquid			**9.76**		**11.00**
Baring Global High Yield	38,863,852	3.21		3.50	
Alcentra	35,972,070	2.97		3.50	
Insight Secured Finance	43,373,653	3.58		4.00	
Corporate Bonds			**10.77**		**10.00**
Schroder	130,364,736	10.77		10.00	
Illiquid Alternatives			**15.81**		**19.00**
Alcentra	31,740,619	2.62		4.00	
Partners Group	64,702,070	5.34		7.00	
M&G Lion Credit Opport	30,965,099	2.56		3.00	
IFM Global Infrastruct	64,014,778	5.29		5.00	
Cash	41,863,987	3.46	**3.46**	0.00	**0.00**
Total	**1,210,853,847**	**100.00**		**100.00**	**100.00**

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HYMANS ROBERTSON

London Borough of Barnet Pension Fund

Review of Investment Managers' Performance for the Third Quarter of 2019

Prepared By:

Nick Jellema - Senior Investment Consultant
Yoel Deal - Investment Associate Consultant
Greg Illingworth - Investment Analyst
Hansinee Khoobloll - Investment Analyst

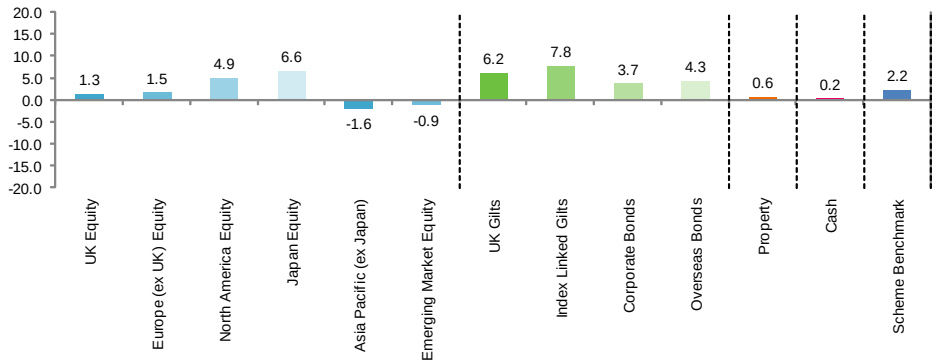
For and on behalf of Hymans Robertson LLP

November 2019

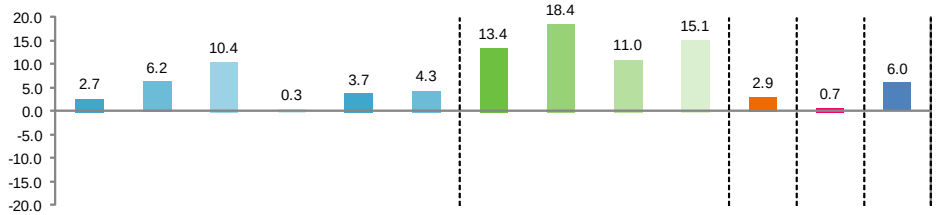
Historic Returns for World Markets to 30/09/2019

Historic Returns [1] [i]

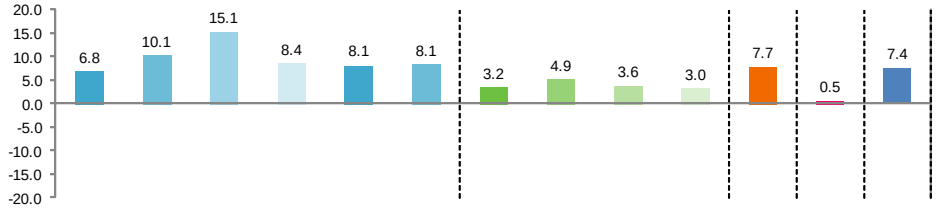
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comment

The ongoing trade war between the US and China, and its disruption to external demand and global supply chains, particularly in the manufacturing sector, continued to impact global growth. Consensus forecasts still suggest most major economies will avoid technical recession next year but GDP growth for many countries has slowed.

UK GDP growth is expected to achieve a modest recovery in Q3, however forecasts have slumped, with increasing downside risk posed by acute Brexit uncertainty and its negative impact on business investment. The US economy has continued to outperform its developed market peers but its manufacturing PMI fell to its lowest level in September since June 2009.

Inflation pressures remain elusive despite real wage growth on the back of low unemployment. In-line with the weaker economic backdrop and subdued inflationary environment, sovereign bond yields continued to drift lower over the quarter. UK Implied inflation fell at longer maturities but rose at shorter terms reflecting fears of a near-term spike in inflation on the back of a potential post-Brexit sterling depreciation. Despite prices spiking significantly following an attack on Saudi production facilities, oil prices ended the quarter around 9% lower.

Investment-grade credit spreads continued to move in lock-step over the period across the US, Europe and Sterling markets and finished the period broadly unchanged. Global high yield spreads were also little changed over the quarter, though leveraged loan spreads have moved wider as interest rate cuts have made floating-rate assets less attractive to prospective investors.

Global equities ended the period in marginally positive territory as the impact of global trade relations and softening economic data was ultimately outweighed by central bank policy and supportive corporate earnings. Sterling-denominated returns were enhanced by the currency's continued depreciation amid the ongoing Brexit saga. Trade-weighted dollar was up c.3.1% over the quarter and Yen strength appears to remain a feature in-line with a bid for safe assets.

Japan was the top performing region in both local currency and Sterling terms. This was in part a reversal of some the poor performance from the first half of the year, as well as the improved performance of the value style. Asia Pacific (ex-Japan) and Emerging Market equities continued to lag global equities as the ongoing trade tensions weighed on investor sentiment.

In the two months and one year to the end of August, UK property produced total returns of 0.5% and 1.6%, respectively. Marginal positive rental growth and return from income compensated for capital declines.

[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: Equities – FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite; Bonds – FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds; Property – MSCI UK Monthly Property Index; Cash – UK Interbank 7 Day.

Source: [i] DataStream, Fund Manager, Morgan Stanley Capital International

LGPS Focus

Farewell Celtic Manor …

What single item should you ensure to stockpile ahead of a potential hard Brexit? How are gilts like the Government borrowing a loaf of bread from you? How is a well-run Fund like a Monopoly board? Find out the answers to these and other questions in our Conference Highlights from the last LGC Investment Summit at Celtic Manor (next year it will be in Leeds). And do get in touch if you would like a copy of the slides that our consultants Douglas Green and Nick Jellema delivered on "What does a well-run Fund look like?"

… and farewell RPI?

The Retail Prices Index is 72 years old, but will struggle to reach its centenary: various identified issues mean it is likely to be "aligned" with CPIH (our 60SS refers) in the second half of the next decade. There are many questions outstanding from the Chancellor's announcement on 4 September, for instance around what to do with current hedging strategies and whether there will be compensation to index-linked gilt holders. A consultation has been promised in January, which should help give more of a steer.

How are you engaging with your employers?

Employers are one of the key stakeholders an LGPS fund needs to liaise with during the valuation. Due to the large and diverse employer group within each fund, having an effective employer communications and engagement strategy is key to delivering a successful valuation. Together with our communications partner, Like Minds, we recently held a webinar to share our insights and practical tips on how Administering Authorities can overcome the challenges faced when engaging with employers and communicating valuation results.

Illiquidity – premium or prisoner

Illiquid assets have long been a feature of LGPS investment strategies. On the back of improved funding, increasing maturity and potential lower cost access via pooling, it is anticipated that funds' exposures to illiquids will increase. One question we have had from a couple of funds is, "what is the maximum amount we can invest in illiquids?". The short answer is, "it depends", with factors to consider including: maturity of existing private market profile and the fund's current and future net cashflow position. While most funds will be far away from their targets, it is something to consider as part of 2019/2020 strategic discussions alongside your actuarial valuation.

Counting the cost

Over the past month, the debate over active/passive management raised its head again with several press articles. Our long-held view is that both can have a place in the LGPS, with funds' specific decisions driven by their underlying objectives and beliefs. Another long-held view is that funds must understand the costs that they pay – hence our support for the SAB's Code of Transparency. In terms of the Code, the SAB has announced the appointment of Bhyiras to develop a system to enable managers to evidence compliance and provide comparison tools for funds and pools.

TPR emerges from its LGPS deep dive with a treasure trove of recommendations

As part of its programme of engagement with public sector pension schemes, TPR conducted high level engagement sessions with 10 LGPS funds in late 2018 and into the summer of 2019. Its report into this 'deep dive' assessment has given it a strong insight into current Governance and Administration standards and practices in the LGPS. Read our recent 60SS for our thoughts on TPR's 'treasure trove' of recommendations following this near year-long engagement.

A win for our LGPS Investment team!

We're pleased to announce that we were successful in winning the award for Investment Consultancy of the Year at last month's 2019 Local Authority Pension Fund (LAPF) Investments Awards. The awards are designed to recognise the best in the UK public sector arena and are a great way to celebrate achievement within the LGPS. Congratulations to all of the other winners and nominees on the night.

Schools Out?

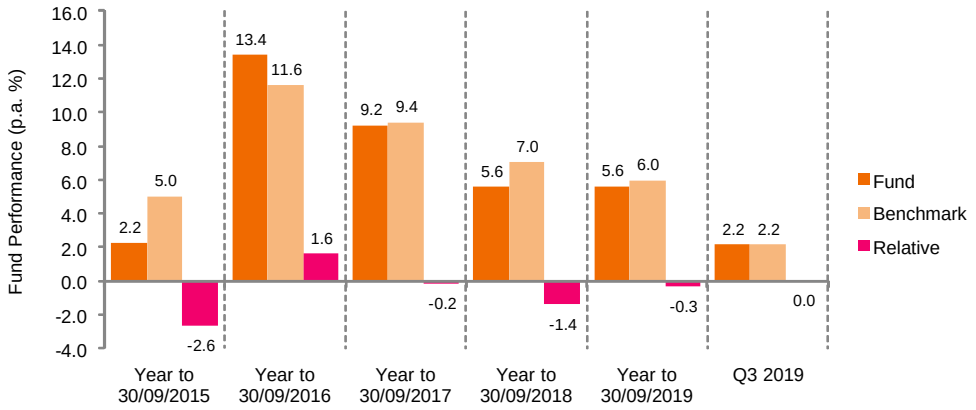
The Department for Education has launched a new consultation regarding proposed changes to participation of independent schools in the England and Wales Teachers' Pension Scheme (TPS). The latest proposal would allow independent schools to stop offering TPS to new hires, while current teachers could remain in TPS. We recently held a webinar to help independent schools understand their options when reviewing their participation in TPS. The consultation (closing on 3 November 2019) seeks views on the proposal and whether there are any alternative proposals to achieve the consultation aims.

Fund Summary

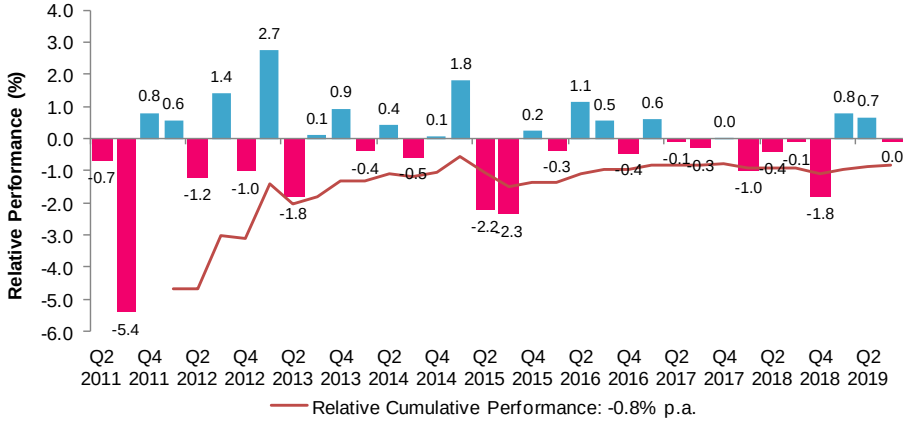
Valuation Summary [i]

Asset Class	Values (£m) Q2 2019	Q3 2019	Actual Proportion %	Target Proportion %	Difference %
Alternative Credit	74.1	74.3	6.1	7.0	-0.9
Global Equity	472.0	482.6	39.8	40.0	-0.2
Absolute Return Funds	257.0	205.7	17.0	17.5	-0.5
Multi-Credit	74.4	75.0	6.2	7.0	-0.8
Corporate Bonds	125.2	130.4	10.8	10.0	0.8
Illiquid Credit	87.9	96.4	8.0	11.0	-3.0
Infrastructure	59.8	63.8	5.3	5.0	0.3
Property	27.7	41.0	3.4	2.5	0.9
Cash	7.7	41.7	3.4	0.0	3.4
Total Client	**1185.9**	**1211.0**	**100.0**	**100.0**	

Performance Summary (Gross of fees) [ii]



Relative Quarterly and Relative Cumulative Performance (Gross of Fees) [iii]



Source: [i] Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson, [iii] DataStream, Fund Manager, Hymans Robertson

Manager Summary

Manager Valuations [i]

Manager	Value (£m) Q2 2019	Q3 2019	Actual Proportion %	Target Proportion %	Difference %
LGIM Global Equity	472.0	482.6	39.8	40.0	-0.2
Alcentra Multi-Credit	35.8	36.2	3.0	3.5	-0.5
BNY Mellon Real Return Fund	112.1	78.9	6.5	7.5	-1.0
Schroder Life Diversified Growth Fund	144.9	126.9	10.5	10.0	0.5
Barings Multi-Credit	38.7	38.9	3.2	3.5	-0.3
Insight Secured Finance Fund	43.1	43.4	3.6	4.0	-0.4
M&G ABS Alternative Credit Fund	31.1	31.0	2.6	3.0	-0.4
Schroder All Maturities Corporate Bond Fund	125.2	130.4	10.8	10.0	0.8
Alcentra Direct Lending	30.7	31.7	2.6	3.0	-0.4
Partners Group MAC 2015	25.4	23.3	1.9	2.5	-0.6
Partners Group MAC 2017	31.8	32.3	2.7	3.0	-0.3
Partners Group MAC V	0.0	9.2	0.8	2.5	-1.7
IFM Global Infrastructure	59.8	63.8	5.3	5.0	0.3
Standard Life Long Lease Property Fund	27.7	28.0	2.3	2.5	-0.2
CBRE Global Alpha Fund	0.0	13.0	1.1	0.0	1.1
Cash	7.7	41.7	3.4	0.0	3.4
Total	**1185.9**	**1211.0**	**100.0**	**100.0**	0.0

The Q3 19 valuation for Alcentra Direct Lending is as at Q2 19, due to a lag applied by the manager. The Q3 19 valuation for Alcentra Multi-Credit is as at August 19. The Q3 19 valuation for CBRE Global Alpha is estimated based on the NAV as at 30 June 2019, and converted to sterling using the exchange rate at 30 September 2019.

Source: [i] Fund Manager, Hymans Robertson

Performance Summary (Gross of fees)

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
LGIM Global Equity	2.3	2.2	**0.1**	3.6	3.5	**0.1**	10.4	10.3	**0.1**	9.7	9.7	**0.0**
Alcentra Multi-Credit	1.2	1.2	**0.0**	2.7	4.9	**-2.1**	5.6	4.7	**0.8**	6.3	4.7	**1.6**
BNY Mellon Real Return Fund	1.7	1.2	**0.5**	9.4	4.8	**4.4**	3.2	4.6	**-1.4**	4.2	4.6	**-0.4**
Schroder Life Diversified Growth Fund	1.4	1.7	**-0.3**	2.4	6.8	**-4.1**	4.5	7.4	**-2.8**	4.6	7.6	**-2.8**
Barings Multi-Credit	0.7	1.5	**-0.7**	2.0	6.0	**-3.8**	5.2	5.7	**-0.5**	6.2	5.7	**0.5**
Insight Secure Finance Fund	0.9	1.2	**-0.3**	3.4	4.9	**-1.5**				4.3	4.6	**-0.3**
M&G ABS Alternative Credit Fund	0.7	0.6	**0.0**	2.4	2.6	**-0.2**				3.2	2.4	**0.7**
Schroder All Maturities Corporate Bond Fund	4.1	3.7	**0.4**	11.9	10.3	**1.5**	4.3	3.3	**1.0**	7.0	6.5	**0.4**
Alcentra Direct Lending	2.1	2.3	**-0.2**	8.2	9.5	**-1.2**				8.9	9.5	**-0.6**
Partners Group MAC 2015	1.0	1.5	**-0.4**	7.8	6.0	**1.8**						
Partners Group MAC 2017	1.6	1.5	**0.2**	6.8	6.0	**0.8**						
Partners Group MAC V	-0.6	0.8	**-1.3**									
IFM Global Infrastructure	3.9	2.5	**1.4**	15.3	10.4	**4.5**				15.3	10.4	**4.5**
Standard Life Long Lease Property Fund	1.3	6.6	**-5.0**							1.6	6.9	**-5.0**
Total	2.2	2.2	**0.0**	5.6	6.0	**-0.3**	6.8	7.5	**-0.4**	6.7	7.6	**-0.8**

Partners Group MAC V – 3 month performance is from inception on 13 August 19
The Q3 19 performance for Alcentra Direct Lending is as at Q2 19, due to a lag applied by the manager

Performance Summary (Net of fees)

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
LGIM Global Equity	2.3	2.2	**0.1**	3.5	3.5	**0.1**	10.4	10.3	**0.0**	9.7	9.7	**0.0**
Alcentra Multi-Credit	1.1	1.2	**-0.1**	2.2	4.9	**-2.6**	5.0	4.7	**0.3**	5.8	4.7	**1.1**
BNY Mellon Real Return Fund	1.6	1.2	**0.4**	8.8	4.8	**3.8**	2.6	4.6	**-1.9**	3.6	4.6	**-0.9**
Schroder Life Diversified Growth Fund	1.2	1.7	**-0.5**	1.8	6.8	**-4.7**	3.9	7.4	**-3.3**	4.0	7.6	**-3.3**
Barings Multi-Credit	0.6	1.5	**-0.9**	1.4	6.0	**-4.3**	4.7	5.7	**-1.0**	5.7	5.7	**0.0**
Insight Secure Finance Fund	0.8	1.2	**-0.4**	3.0	4.9	**-1.8**				3.9	4.6	**-0.6**
M&G ABS Alternative Credit Fund	0.6	0.6	**0.0**	2.1	2.6	**-0.5**				2.9	2.4	**0.4**
Schroder All Maturities Corporate Bond Fund	4.1	3.7	**0.4**	11.7	10.3	**1.3**	4.1	3.3	**0.8**	6.8	6.5	**0.3**
Alcentra Direct Lending	1.8	2.4	**-0.6**	6.8	9.5	**-2.4**				7.5	9.5	**-2.0**
Partners Group MAC 2015	0.9	1.5	**-0.6**	7.1	6.0	**1.0**						
Partners Group MAC 2017	1.4	1.5	**0.0**	6.0	6.0	**0.1**						
Partners Group MAC V	-0.7	0.8	**-1.5**									
IFM Global Infrastructure	3.8	2.5	**1.2**	14.5	10.4	**3.7**				14.5	10.4	**3.7**
Standard Life Long Lease Property Fund	1.2	6.6	**-5.1**							1.5	6.9	**-5.1**
Total	2.1	2.2	**-0.1**	5.3	6.0	**-0.7**	6.5	7.5	**-0.7**	6.3	7.6	**-1.2**

Partners Group MAC V – 3 month performance is from inception on 13 August 19
The Q3 19 performance for Alcentra Direct Lending is as at Q2 19, due to a lag applied by the manager

Performance Calculation

Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

((1 + Fund Performance) / (1 + Benchmark Performance)) - 1

Some industry practitioners use the simpler arithmetic method as follows:

Fund Performance - Benchmark Performance

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

	Arithmetic Method			Geometric Method			Difference
Period	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	**0.10%**
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	**-1.24%**
Linked 6 months			-0.25%			0.96%	**-1.21%**
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	**0.34%**

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.
If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.
If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Pension Fund Committee

21 November 2019

Title	**Strategy Update and Investment in Emerging Market Equity Fund**
Report of	Director of Finance
Wards	N/A
Status	Public, with exempt appendix 1 - Hymans report on JP Morgan Emerging Market Equity
Urgent	No
Key	No
Enclosures	Appendix 1 – Hymans report on JP Morgan Emerging Market Equity **Exempt enclosure - Not for publication by virtue of paragraphs 3 of Schedule 12A of the Local Government Act 1972 as amended (Information relating to the financial or business affairs of any particular person (including the authority holding that information).**
Officer Contact Details	George Bruce, Head of Treasury, george.bruce@barnet.gov.uk - 0208 359 7126

Summary

The report follows on from the investment strategy discussions at recent meetings and provides an update on implementation of decisions made by the Committee and contains a recommendation in respect of emerging market equities.

Officers Recommendations

1. That the Pension Fund Committee reconfirm an investment of 5% (£60 million) in the LCIV Emerging Market Equity Fund.

2. That the Pension Fund Committee agree to delegate authority to the Finance Director to take actions to implement recommendations 1.

1. WHY THIS REPORT IS NEEDED

1.1 Acting in its capacity as Administering Authority to the Barnet Pension Fund, it is the responsibility of London Borough of Barnet to ensure that the Pension Fund complies with legislation and effectively manages the Fund's financial affairs.

1.2 At recent meetings the Committee has made decisions relating to the funding of new asset classes and the appointment of additional investment managers. Progress is discussed below. The issues discussed below are:

- Private equity
- Property
- Private debt
- Emerging market equities
- Currency hedging

Private Equity (5% target allocation)

1.3 The Committee agreed at the 29 July 2019 meeting to commit £55 million to the Adams Street 2019 Global Fund. This was translated to $67.5 million. The first drawdown of $1.9 million took place on 17th October. The remainder will be drawn as the manager identifies investment opportunities.

Property (10% target allocation)

1.4 The target is to invest 10% of the fund in property – 2.5% long lease, 2.5% overseas and 5% UK core commercial. The Fund achieved its long-lease allocation by way of the purchase of a £27 million holding in the Aberdeen Standard long lease fund on 3 June 2019. A commitment of $32 million (approximately £27 million) has been made to the CBRE Global Alpha fund and is now fully invested with the final drawn down of $16 million on 31 October.

1.5 The final element of the property proposition was an investment in UK Core commercial property. We have indicated to the LCIV our interest in investing in their property fund but as yet there is no firm timetable to when the fund will be launched and monies invested. While concerns remain that property prices may face a correction it is considered appropriate to allow the LCIV time to identify a manager for their UK commercial property fund.

Private Debt Fund

1.6 The Committee agreed at its meeting held on 22 January 2019 to invest £30 million with the LCIV Global Private Debt Fund and reconfirmed that decision at the last meeting. Unfortunately, the manager of the fund, Ares, decided that they did not wish to proceed as only two boroughs (one being Barnet) had committed to the fund. This is annoying given the effort to provide the required documentation. LCIV is now considering its options; either to seek a new manager or shelf the fund due to the low level of interest.

Barnet currently has two managers in this asset class; Partners and Alcentra, who periodically raise new funds. If LCIV does not identify a new manager for their fund a recommendation will be made to increase our commitments to these two managers as and when they launch successor funds.

Emerging Market Equities (5% target)

1.7 The Committee decision to invest (February 2019) 5% of the fund in the LCIV Emerging Markets Equity Fund was put on hold when the investment team announced that they were leaving the manager of the fund, Janus Henderson. The LCIV has recently appointed JP Morgan (JPM) to manage this fund. JPM have been invited to present to the members immediately before this meeting and attached is a report from Hymans Robertson stating that they consider JPM as being suitable managers for this asset class. Hymans have raised some concerns with the investment process used by JPM including potential volatility of returns. They also recommend a phasing of the investment. These issues will be explored with Hymans and LCIV prior to the meeting. If resolved, the Committee will be invited to reaffirm its commitment of 5% (£60 million).

Realisation to fund the new mandates

1.8 Currently cash is being realised from the two diversified growth mandates when required to fund any of the new mandates.

Currency Hedging

1.9 The Committee agreed to increase the level of currency hedging to 55% of assets denominated in overseas currencies. This was implemented by switching £100 million of developed market equities managed by Legal and General into a sterling hedged share

1.10 The percentage of overseas assets hedged into sterling will be reviewed annually and adjusted if significantly different from 55%.

2. REASONS FOR RECOMMENDATIONS

2.1 The LGPS (Management and Investment of Funds) Regulations 2016 (Regulation 7(7)) requires the Committee to periodically (at least every three years) review the investment strategy. The proposal recognises that the strategy has been enhanced in 2015, 2016 and 2017. Modelling presented to the Committee at the June 2018 meeting indicated that the current strategy, while expected to achieve the funding objective, can be enhanced.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 The various alternatives are discussed in the paper and within the Hymans Robertson reports. The recommendations are based on modelling results.

4. POST DECISION IMPLEMENTATION

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

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 Good management of the Pension Fund will minimise the cost of providing benefits thus enabling funds to be directed to Council priorities.

5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 There are no direct resources issues for the council however changes in the financial performance of the pension fund affects the pension fund deficit reflected in the Authority's accounts and the level of contributions payable by the Council and other employers.

5.3 Social Value

5.3.1 The Public Services (Social Value) Act 2012 came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits.

5.3.2 Before they start the procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders.

5.3.3 The Act is a tool to help commissioners get more value for money out of procurement. It also encourages commissioners to talk to their local provider market or community to design better services, often finding new and innovative solutions to difficult problems.

5.3.4 There are no specific social value issues arising out of this report, however membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 Legal and Constitutional References

5.4.1 The LGPS (Management and Investment of Funds) Regulations 2016 (Regulation 7(7)) requires the Committee to periodically (at least every three years) to review the investment strategy.

5.4.2 The Council's Constitution – Article 7 – includes within the responsibilities of the Pension Fund Committee, (1) the approval of the Investment Strategy Statement and to act in accordance with its principles and (2) the appointment of investment managers. This paper considers alterations to the asset allocation set out in the ISS.

5.5 Risk Management

5.5.1 Risk management is central to the LGPS; which are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

5.5.2 Understanding the causes of sources and variabilities of scheme returns informs the management of investment and funding risk.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to the public-sector equality duty.

5.7 **Corporate Parenting**

5.7.1 Not applicable in the context of this report.

5.8 **Consultation and Engagement**

5.8.1 Not applicable.

5.9 **Insight**

5.9.1 Not applicable

6. BACKGROUND PAPERS

6.1 See investment strategy papers and minutes of the Committee meetings on 22 January 2019, 26 March 2019, 30 May 2019, 29 July 2019 and 9 September 2019.

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of the Local Government Act 1972.

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Pension Fund Committee

21 November 2019

Title	**Responsible Investing**
Report of	Director of Finance
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1 – Summary of views and comments from training session **(to follow).** Appendix 2 – Hymans Robertson background paper to Responsible Investing
Officer Contact Details	George Bruce, Head of Treasury, george.bruce@barnet.gov.uk - 0208 359 7126

Summary

Committee members attended a training day on 11 November to consider issues relating to responsible investing (RI). This agenda item is designed to offer an opportunity to record any issues raised at the meeting. It is proposed that a survey of Committee and Board Member investment beliefs is undertaken as a first step to developing RI polices.

Officers Recommendations

1. That the Pension Fund Committee agree to undertake a survey of Committee and Board Member investment beliefs.

1. WHY THIS REPORT IS NEEDED

1.1 Acting in its capacity as Administering Authority to the Barnet Pension Fund, it is the responsibility of London Borough of Barnet to ensure that the Pension Fund complies with legislation and effectively manages the Fund's financial affairs.

1.2 The Committee members attended a training session on responsible investing on 11th November. A summary of the issues raised at the training session is attached (appendix 1). Also attached (appendix 2) is Hymans Robertson background paper on Responsible Investing. Hymans and the other presenters at the training recommended as an initial step the development of investment beliefs that will inform the Committee's policies. It is therefore recommended that a survey of Committee and Board member beliefs is undertaken and the results used to propose a Responsible Investment policy.

2. REASONS FOR RECOMMENDATIONS

2.1 The LGPS (Management and Investment of Funds) Regulations 2016 (Regulation 7(7)) requires the Committee to periodically (at least every three years) review the investment strategy. The Regulations also require the Scheme's Investment Strategy Statement to the Committee's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Alternatives will be considered when developing RI proposals.

4. POST DECISION IMPLEMENTATION

4.1 N/A.

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 however changes in the financial performance of the pension fund affects the pension fund deficit reflected in the Authority's accounts and the level of contributions payable by the Council and other employers.

5.3 Social Value

5.3.1 The Public Services (Social Value) Act 2012 came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits.

5.3.2 Before they start the procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders.

5.3.3 The Act is a tool to help commissioners get more value for money out of procurement. It also encourages commissioners to talk to their local provider market or community to design better services, often finding new and innovative solutions to difficult problems.

5.3.4 There are no specific social value issues arising out of this report, however membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 **Legal and Constitutional References**

5.4.1 The LGPS (Management and Investment of Funds) Regulations 2016 (Regulation 7(7)) requires the Committee to periodically (at least every three years) to review the investment strategy.

5.4.2 The Council's Constitution – Article 7 – includes within the responsibilities of the Pension Fund Committee, (1) the approval of the Investment Strategy Statement and (2) the appointment of investment managers. This paper considers alterations to the asset allocation set out in the ISS.

5.5 **Risk Management**

5.5.1 Risk management is central to the LGPS; which are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

5.5.2 Understanding the causes of sources and variabilities of scheme returns informs the management of investment and funding risk.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to the public-sector equality duty.

5.7 **Corporate Parenting**

5.7.1 Not applicable in the context of this report.

5.8 **Consultation and Engagement**

5.8.1 Including Local Pension Board members in training and in the beliefs survey will enable the Committee to consider the views of scheme member and employer representatives.

5.9 **Insight**

5.9.1 Not applicable

6. BACKGROUND PAPERS

6.1 Papers presented to the Responsible Investment training day have been circulated to Members of the Committee.

LB Barnet Pension Fund

Responsible Investment – Considering the LGPS requirements and Your approach to RI

Nick Jellema, Senior Investment Consultant
Yoel Deal, Associate Investment Consultant

November 2019

HYMANS ROBERTSON

Agenda

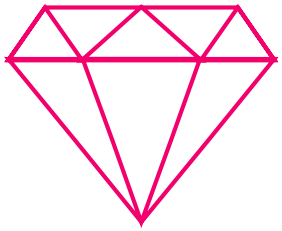
- Background
- LGPS Regulations and Guidance
- Considering your current RI approach
- Developing your RI approach

Background - RI

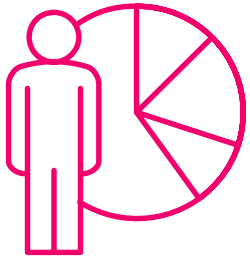
HYMANS ROBERTSON

What is Responsible Investment?

Responsible investment refers to investment practices that integrate the consideration of environmental, social and governance (ESG) factors into **investment management processes** and **ownership practices**, recognising that these factors can have a **material impact** on financial performance.



Sustainable investment: Investors should recognise the potential financial impact of ESG factors in investment decision making.



Effective stewardship: Investors should act as responsible and active owners, through considered voting of shares, and engagement with company management when required.

Why consider Responsible Investment? The four R's…

ESG factors can be a source of financial risk within different asset classes

Environmental factors	Social factors	Governance factors
Climate Change	Customer satisfaction	Board Structure
Resource scarcity	Community relations	Accounting & Audit
Water stress	Working conditions	Executive remuneration
Biodiversity	Diversity	Bribery & corruption
Pollution	Health & Safety	Shareholder rights
Energy efficiency	Employee wellbeing	Transparency
Waste management	Data protection	Political contributions

Sources of risk… …can have a financial impact

- Increased input costs
- Higher environmental taxes
- Environmental liabilities

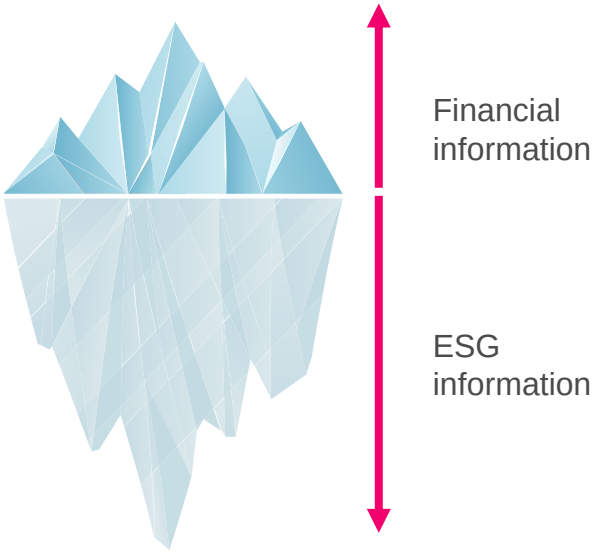
- Brand value
- Company reputation
- Productivity

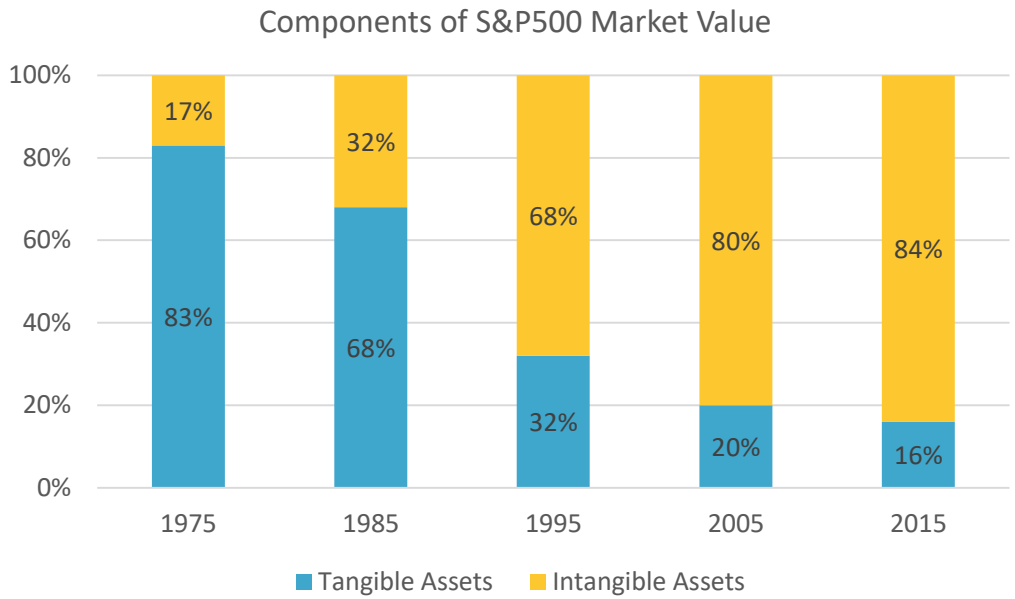
- Well managed company more successful
- Cost/risk controls
- Stable share price

Operational risks: managed through effective stewardship

Systemic risks: strategic approach

The intangible component of value is increasing





How well do you understand the value of your intangible assets?

Source: http://www.oceantomo.com/intangible-asset-market-value-study/

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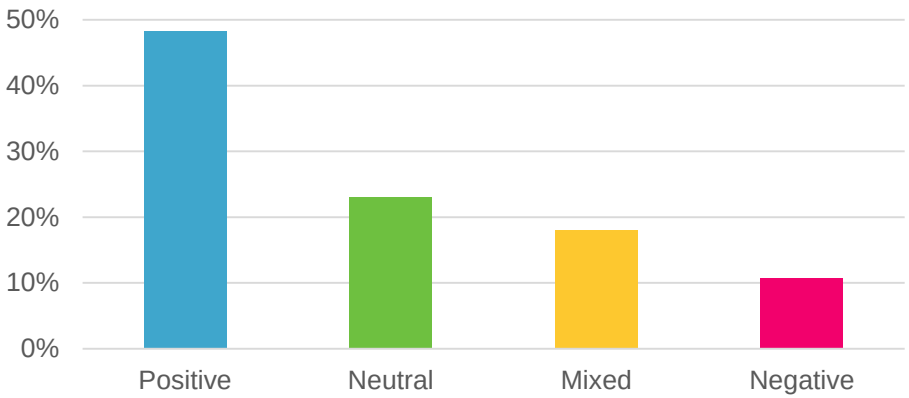
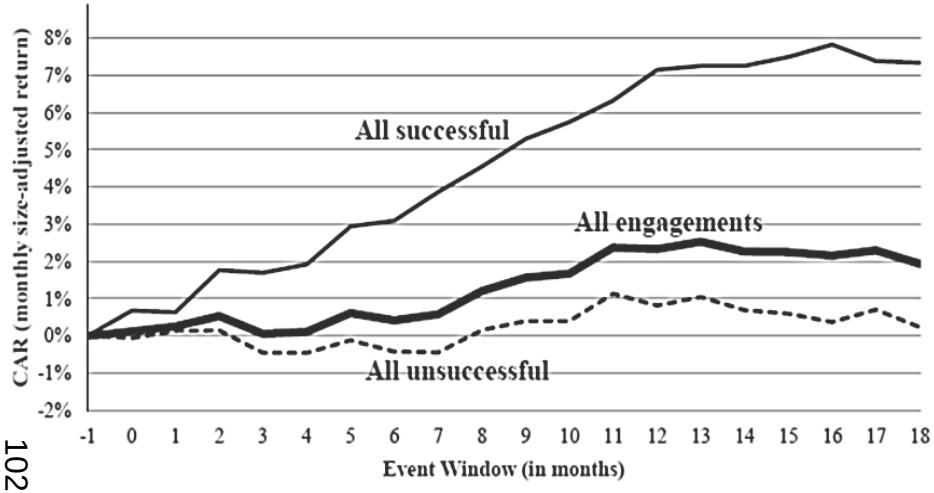
Studies demonstrate that responsible investment activity adds value

Relationship between ESG criteria and corporate financial performance in published studies



Comparison of performance between successful and unsuccessful engagements



Sources: Freide et al (2015); Dimson et al (2015)

- "Will it impact our returns" is a commonly posed question
- Consideration of ESG factors is fundamentally a risk management exercise, rather than for return generation
- Differences in approach mean that there is no simple answer, but research demonstrates that RI practices do not harm return
- This applies to both integration and stewardship activity

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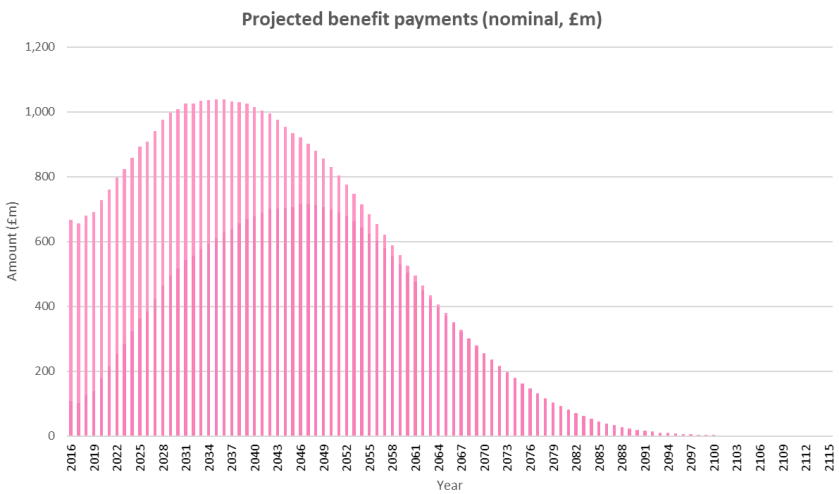
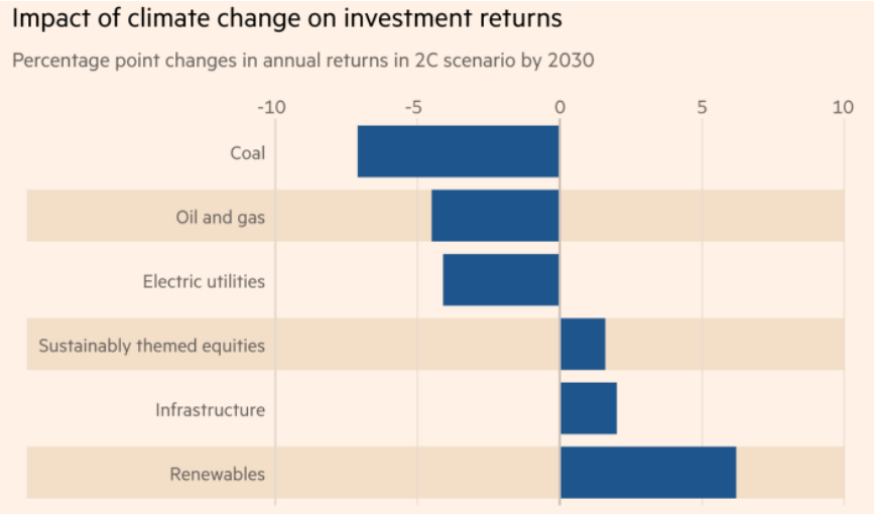
Climate change has been singled out as a particular consideration for asset owners…with good reason





- The impact of climate change is unknown given its dependence on the actions of humans, but policy response is inevitable
- Pension fund liabilities are long-term spanning many decades meaning that climate risks fall within the time horizon of decision making
- Climate change represents an uncertainty for funding and investment decisions and can be considered within your approach to risk management

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LGPS Regulations and Guidance

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Guidance requires that Responsible Investment is considered in your decision making

The law is generally clear that schemes should **consider any factors that are financially material** to the performance of their investments, including social, environmental and corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.

Although schemes should make the pursuit of a financial return their predominant concern, they **may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment** to the scheme and where they have good reason to think that scheme members would support their decision.

The long-term investment interests of administering authorities are **enhanced by the highest standards of corporate governance and corporate responsibility** amongst the companies in which they invest. Poor governance can negatively impact shareholder value.

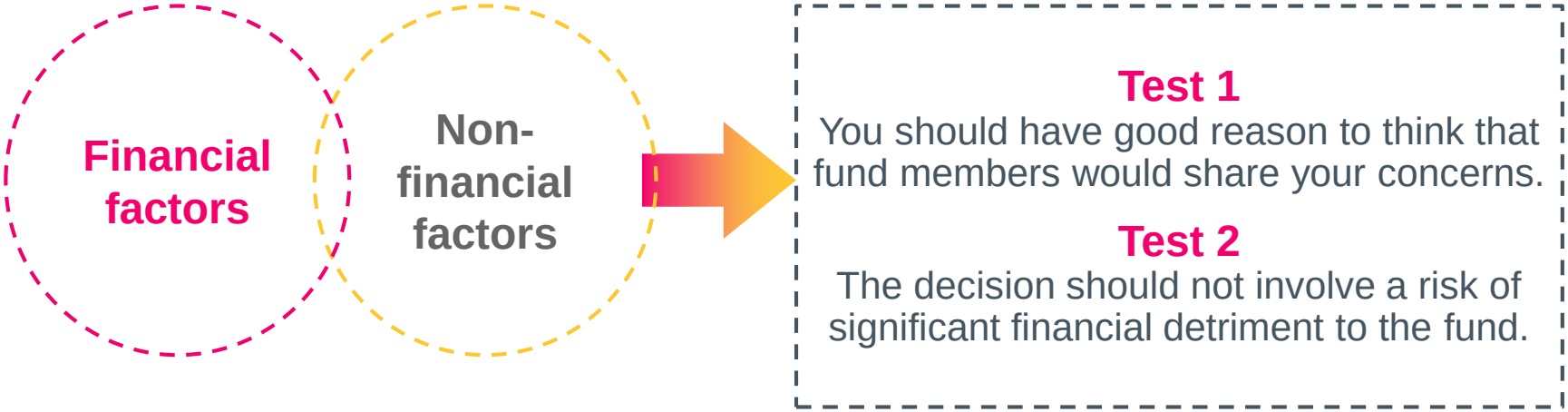
Stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper.

DCLG: Guidance on Preparing and Maintaining an Investment Strategy Statement – June 2017

Financial and non financial factors

"The most important distinction is between the factors relevant to increasing returns or reducing risk (financial factors) and those which are not (non-financial factors)"

Law Commission, 2014



Law Commission found barriers to social investment were structural and behavioural rather than legal or regulatory

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2016 Investment Regulations - 7(e) and (f)

Regulation 7 requires an administering authority to formulate an investment strategy statement in accordance with guidance issued by the Secretary of State.

The ISS required by Regulation 7 must include:

e) **The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments**; and

f) **The authority's policy on the exercise of rights (including voting rights) attaching to investments.**

Source: DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement, July 2017

2016 Regulations - 7(e) Guidance

In **formulating and maintaining their policy on social, environmental and corporate governance factors**, an administering authority:

- Must take proper **advice**
- Should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an **investment decision based on non-financial factors**
- Must explain the extent to which non-financial factors will be taken into account in the **selection, retention and realisation of investments**
- Should explain their **approach to social investments**

Source: DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement, July 2017

2016 Regulations - 7(f) Guidance

In formulating their policy on the exercise of rights, administering authorities:-

- Must **give reasons in their ISS** for not adopting a policy of exercising rights, including voting rights, attaching to investments
- Should, where appropriate, **explain their policy on stewardship** with reference to the Stewardship Code
- Should strongly **encourage their fund managers, if any, to vote** their company shares in line with their policy under Regulation 7(2)(f)
- May wish to **appoint an independent proxy voting agent** to exercise their proxy voting and monitor the voting activity of the managers, if any, and for reports on voting activity to be submitted annually to the administering authority
- Should **publish a report of voting activity** as part of their pension fund annual report under Regulation 57 of the 2013 Regulations

Source: DCLG Guidance on Preparing and Maintaining an Investment Strategy Statement, July 2017

2016 Investment Regulations

Administering authorities are encouraged to consider the best way to engage with companies to promote their long-term success, either directly, in partnership with other investors or through their investment managers, and explain their policy on stewardship with reference to the **Stewardship Code**. Administering authorities should become Signatories to the Code and state how they implement the seven principles and guidance of the Code, which apply on a “comply or explain” basis.

DCLG guidance, September 2016

UK Stewardship Code

The **2012 Code** comprises a set of 7 ‘apply and explain’ Principles for asset managers and asset owners.

The FRC launched its update on the 2012 UK Stewardship Code in October 2019, which will take effect from 1 January 2020.

The **2019 Code** comprises a set of 12 ‘apply and explain’ Principles for asset managers and asset owners, and six Principles for service providers, including investment consultants.

Existing signatories will need to submit a Stewardship Report by 31 March 2021 in order to continue as a signatory to the Code.

The majority of investment managers are signatories to the UK Stewardship Code and therefore this addition to the Code will help align manager behaviour with revised ISS wording.

Source: Financial Reporting Council.

Considering your current RI approach

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Current LBB ISS wording on RI (1)

The LB Barnet Investment Strategy Statement (ISS) (March 2017):

1. defines ‘ESG risk’ as *the risk that ESG related factors reduce the Fund’s ability to generate the long-term returns*

2. states *the Committee consider the Fund’s approach to RI in* ***two key areas****:*
   - *Sustainable investment / ESG factors; and*
   - *Stewardship and governance*.

Current LBB ISS wording on RI (2)

The ISS also notes that:

- *ESG factors can influence LT performance and ability to achieve LT returns*
- *The Panel take training on a regular basis, including on ESG matters, and seeks advice from managers with the requisite knowledge and skill*
- *The Fund requires its investment managers to integrate all material financial factors including ESG and ethical considerations, into decision making*
- *The Fund expects managers to:*
  - *promote good practice and use their influence to promote good practice in the investee companies and markets.*
  - *monitor managers on their policies and practices on all material financial issues including ESG.*
- *Voting rights are delegated to investment managers. The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.*
- *The Fund fully endorses the Stewardship Code. The Fund will review this position in 2017-18 with a view to formally adopt the Code.*

Developing your RI approach

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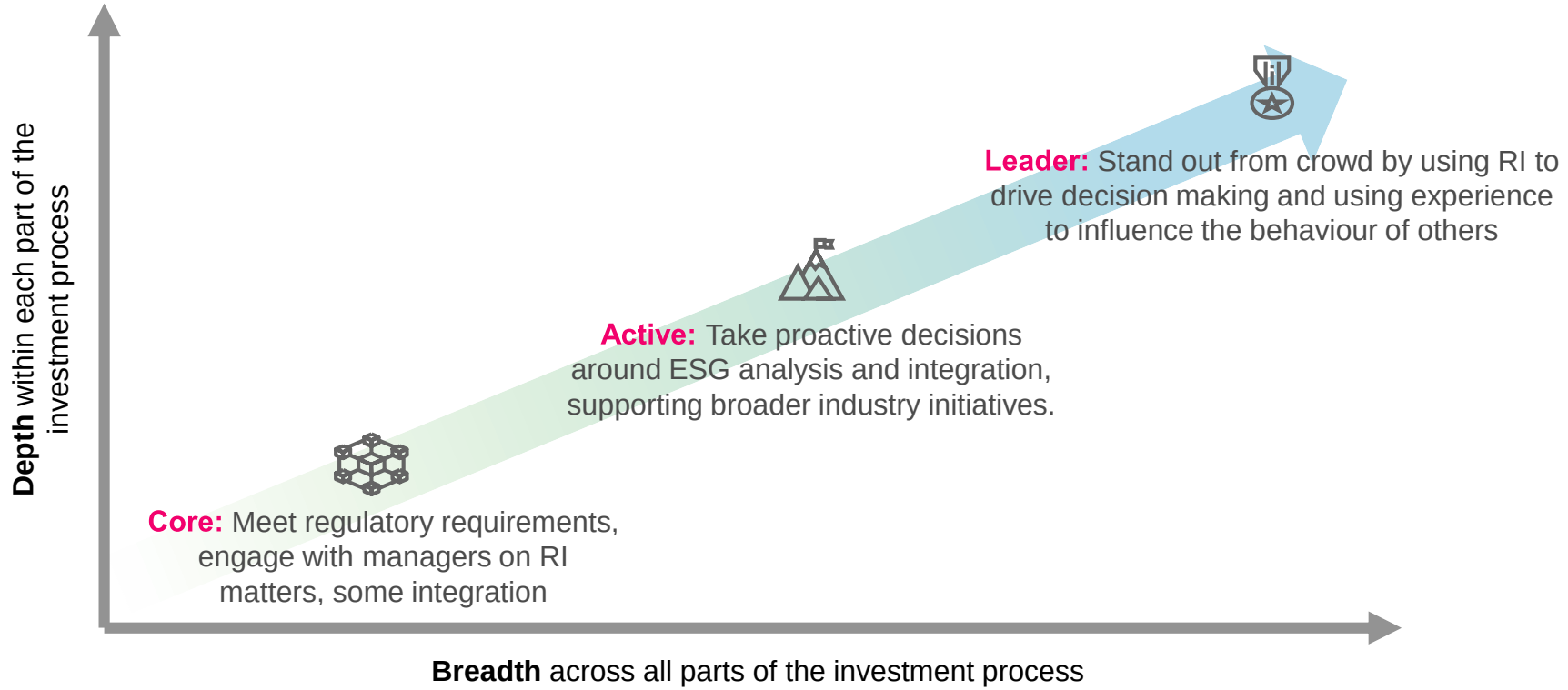
What sort of responsible investor are you going to be?



Various factors influence the sort of responsible investor you will be including

- Views and investment beliefs
- Investment time horizon
- Means of implementation
- Governance budget
- Asset size and the associated complexity of the investment arrangements
- Potential scrutiny of the investment arrangements

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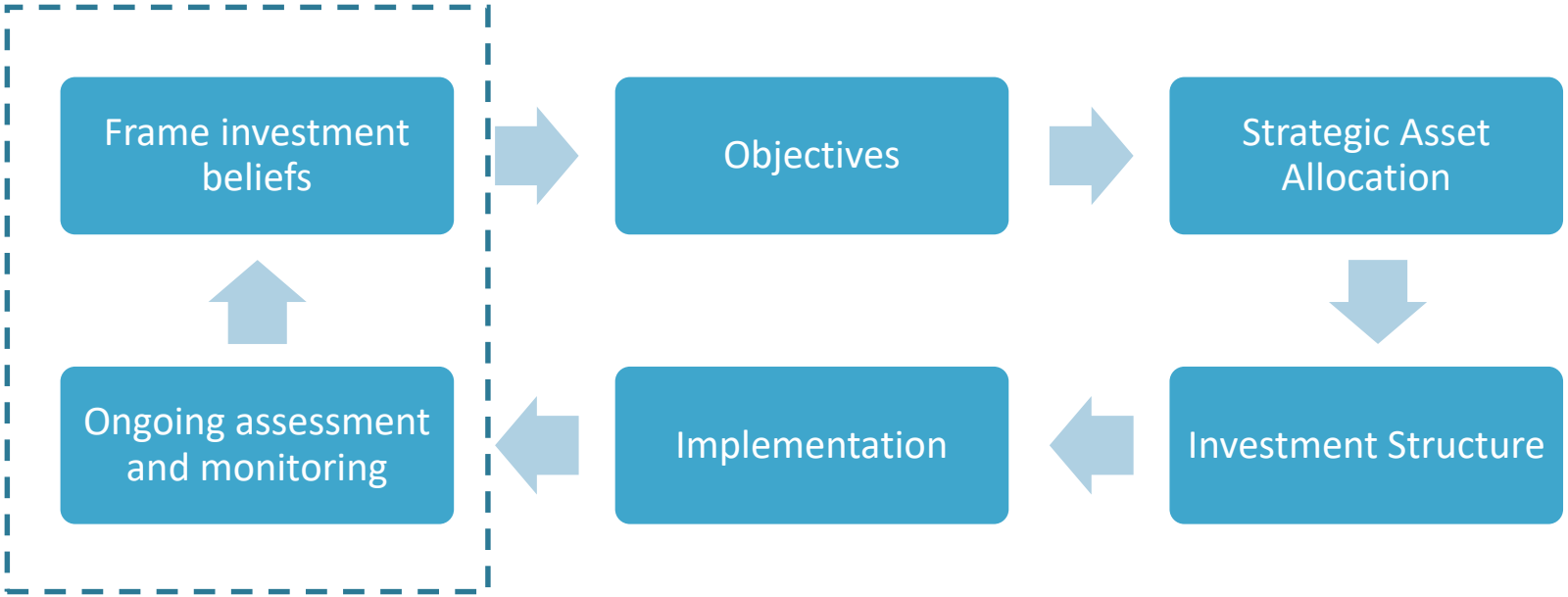
Responsible Investment is relevant and should be addressed at each stage of the investment process



Start by:

- Determining your investment beliefs, including RI beliefs
- Understanding the extent and quality of RI practices in your current arrangements

Three aspects of responsible investment are relevant in decision making

Impact

Where you want to invest your money, i.e. what mandate, asset class. Do you just want a financial return or do you want a financial return with broader impact

Integration

How your money is invested , i.e. the processes your manager uses to assess the risks and opportunities presented by individual ESG factors

Stewardship

How your money is looked after once invested , i.e. the exercise of the rights and responsibilities that come as an asset owner and associated reporting

RI Integration: What it isn't, and what it is

- × Prohibiting investment in sectors, countries, and companies
- × Ignoring traditional financial factors
- × Assessing every ESG issue for every asset
- × Every investment decision
- × Major changes to investment process
- × Sacrificing portfolio returns

- ✓ Analysing **financial and ESG** information
- ✓ Identifying **materiality**
- ✓ **Assessing impact** on economy, country, sector, and company performance
- ✓ **Making investment decisions** that include considerations of all material factors, including ESG factors.

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Actions we are seeing from other LGPS

- Developing Responsible Investment Policy and monitoring manager adherence to codes and policies.

Set general investment and responsible investment beliefs and policy

Challenge managers - ask them to report on RI matters at meetings. Seek to understand the different approaches to RI that your managers have adopted.

Ensure investment managers are using their delegations sustainably

Understand how RI influences different assets (e.g. equities vs. bonds)

Determine what ESG factors your investments are exposed to and discuss which may be financial factors (e.g. carbon risk)

RI decisions should be broader than manager monitoring alone

Steps for you to consider in future…

- Develop investment beliefs (including RI beliefs)

- Develop and agree a process with managers on monitoring and reporting RI related issues

- Update ISS to take account of any new regulations and consider how you will monitor adherence to your own policies

- Consider Impact and Local Investing

- Consider carbon footprinting & low carbon or pro-ESG equity

Responsible Investment is a part of good investment decision making

Appendix

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Hymans' view on RI

We want to support behavioural change amongst our clients, encouraging them to think as responsible asset owners, whose actions make a difference in shaping the future developments of their investments in a sustainable way and at the same time influence public policy and positive change.

The application of RI is a part of Committee' fiduciary duty to protect and enhance the long term value of investments.

Climate change is a systemic risk factor which is likely to impact economic growth, asset returns and longevity.

Core-Active-Leader framework (1)

	RI Criteria	Core Position	Active Position	Leader Position
Objectives	Training	Committee have a **basic understanding of RI** and its impact on investments. **Training received periodically** on RI matters from advisers and/or managers	Committee have a **clear understanding of RI** and good awareness of market developments. **Training is regularly provided**, including by industry specialists	Committee have an **excellent understanding of RI** and will actively seek further more detailed knowledge on RI matters **Market developments are regularly considered** and inform decision making.
	Beliefs	**RI-related risks** are **clearly represented** in Committee investment beliefs	Committee have identified and **well documented RI beliefs**. Committee will **consider how beliefs are used** in the determination and implementation of investment strategy.	Committee have clearly identified RI **beliefs** which are **developed to a more granular level**. Committee will **publicly disclose** their investment **beliefs**
	Policy	Committee have clear, scheme-specific **policies** on stewardship and sustainable investment to **meet regulatory requirements** RI related risks (e.g. climate risk) included where appropriate in the risk register	Committee **recognise the sponsor's attitude** to RI and will ensure, where appropriate, consistency with scheme-specific policies Committee have **clear RI policy priorities** Committee publicly disclose support for industry-wide RI initiatives (e.g. PRI, UK Stewardship Code, TCFD)	Committee have clear RI policies in place and develop **issue specific policies**. Committee will seek **means of actively implementing their policies**. Committee comment publicly using their activity as a benchmark for others
Strategy/Structure	Strategy	Where there is an appropriate investment horizon, **Committee will consider the potential impact of ESG factors on risk and return**	Committee **seek to explicitly model ESG risks** in the determination of investment strategy. Committee will seek **direct input from advisers and/or managers** on the financial impact of particular ESG issues	**Financially material ESG themes are identified** and used to drive strategy decisions
	Structure	Committee **recognise the influence of benchmarks** on the selection of assets by investment managers Committee **consider alternative approaches** in some asset classes	Committee **actively consider alternative benchmarks and products** in the determination of strategy Committee **consider investments that are consistent with RI beliefs** **Strategic ESG targets** e.g. lower carbon exposure are set for the portfolio	Investment in opportunities from identification of ESG risks e.g. renewable energy infrastructure and impact investments

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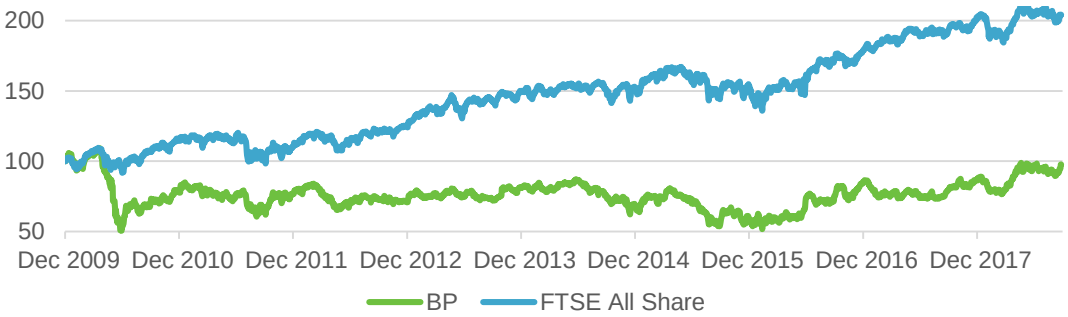
Core-Active-Leader framework (2)

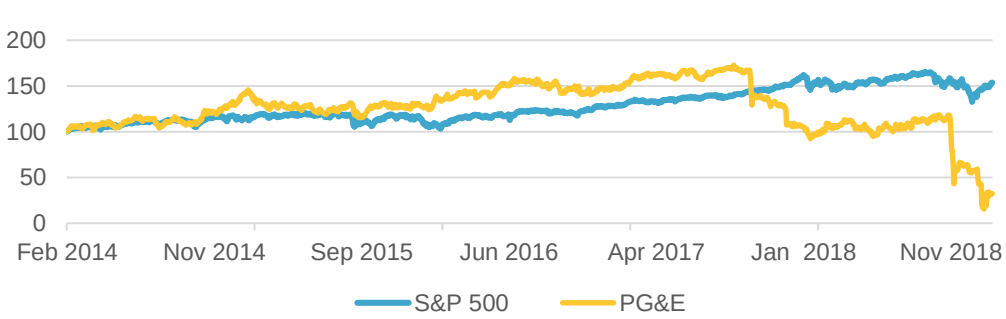
	RI Criteria	Core Position	Active Position	Leader Position
Implementation	Manager selection and appointment	RI **criteria explicitly included** as a consideration **in manager selection process** Committee **understand the extent to which managers take account of ESG issues** in their investment processes	**ESG issues/minimum RI criteria** are **a key consideration** in the selection of managers **Managers demonstrating weaker practices will not be considered** for appointment.	**ESG issues are an integral consideration** in the selection of managers Committee explicitly **aim to appoint managers with strong or improving practices** Committee agree **specific RI related KPIs** with the manager.
	Collaboration	Collaboration is achieved **via investment managers only**	Committee **participate In collaborations** initiated by other investors.	Committee will **engage with industry partners** to advance the RI agenda Committee **lead or participate in specific collaborative engagements** with other investors
Monitoring/Governance	Reporting	Committee will **request RI issues be included** in reporting by advisers and managers Committee **receive quarterly reporting on stewardship** (voting and engagement) activities Committee include **high level RI information in their own reporting** to members.	Committee require greater levels of ESG information from managers, e.g. reporting on carbon exposure, as standard Committee receive quarterly reporting on stewardship activity and use this to actively challenge managers Committee provide **detailed RI information in their own reporting** to members.	**Monitor RI 'hot topics'** and take any required action to protect long term value Committee **drive improvements** in reporting
	Monitoring	**Managers** RI credentials and changes in house policies are **reviewed annually** Managers' **adherence to RI policies is considered and questioned** in meetings Committee **question managers on particular RI issues**	Committee develop and **monitor the scheme against explicit RI related KPIs**	Committee identify and **monitor** the scheme against **specific 'red flags'** on ESG issues Committee use **monitoring as a means for reframing objectives** and will actively seek areas for change
	Adherence	**Adherence** to beliefs/policy **is checked** as part of review of ISS	**RI implications documented when changes made** to strategy / structure	**Current approach benchmarked** e.g. relative to peer group Committee will **actively engage with managers to drive improvement**

Failing to recognise material ESG issues risks a permanent loss of capital

BP Deepwater horizon 2010



PG&E 2018



Source: Bloomberg

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Reputation and peer pressure is also focusing attention on RI considerations

Company reputation can be a source of risk

Best practice standards are being raised for asset owners and asset managers

PRI Principles for Responsible Investment

TCFD

FRC

Asset owners are being scrutinised and challenged

ShareAction»

ClientEarth

Friends of the Earth

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Stewardship Code

The **2012 Code** comprises a set of 7 ‘apply and explain’ Principles for asset managers and asset owners, which states that institutional investors should:

1. publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
3. monitor their investee companies.
4. establish clear guidelines on when and how they will escalate their stewardship activities.
5. be willing to act collectively with other investors where appropriate.
6. have a clear policy on voting and disclosure of voting activity.
7. report periodically on their stewardship and voting activities.

Source: Financial Reporting Council September 2012 UK Stewardship Code

LCIV policy (selected extracts)

Area	Policy
Principles/ Beliefs	• Belief that suppliers should be held to account on exercise of ownership rights (1.1.2) • Responsible investing reduces risk over the long term (1.1.3) • Responsible investment is relevant to investment performance across asset classes (1.1.3) • Preference for engagement over exclusion (1.1.4)
Integration	• Expectation that managers will consider material ESG factors • Ensure managers operate RI policies and are accountable for these • Hold managers to account for improving integration (3.1.1)
Stewardship	• Expectation that managers will vote (consistency?) (4.1) • Vote in line with LAPFF guidance (comply or explain) (4.2.1) • Expectation of compliance with corporate governance codes (3.2.1)
Manager selection & monitoring	• Ability to demonstrate integration and evidence practices (3.3.1) • Consideration of manager reporting on ESG (3.3.1) • Manager compliance with policies will influence use of manager by LCIV • Pool will monitor extent to which external managers incorporate ESG issues into processes (3.1.1)

London CIV looking to hire permanent head of ESG and additional resource into investment team

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Effective stewardship

Voting

Are managers using the voting rights attached to shares? What are their policies and are you comfortable with them?

Engagement

Are managers communicating with companies to effect improvements in practice? Are managers collaborating with other like minded investors

Monitoring

Are managers setting objectives and monitoring progress against these objectives? Are asset owners monitoring what their managers are doing and asking questions

FRC Financial Reporting Council

September 2012

The UK Stewardship Code

Climate Action 100+

Global Investors Driving Business Transition

Stewardship best practice begins with strong governance structures and clearly defined objectives and beliefs

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We can assess the overall importance, and quality of RI in your strategy

Importance of attributes by asset class

	Impact	Integration	Stewardship
Listed equity (Active)	✓	✓	✓
Listed equity (Passive)	?	✗	✓✓
Multi-Asset (DGF)	✗	?	✓
Investment Grade Credit	✗	?	?
Real Estate	✓	✓✓	✓

Impact is a function of the mandate objectives. For example, sustainable equities have a greater "impact"

Integration and stewardship are a function of the manager employed and the quality of their processes

A portfolio health check can provide information on your current approach to responsible investment and identify areas for future focus

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Thank you

General risk warning

Please note the value of investments, and income from them, may fall as well as rise. You should not make any assumptions about the future performance of your investments based on information contained in this document. This includes equities, government or corporate bonds, currency, derivatives, property and other alternative investments, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the full amount originally invested. Past performance is not necessarily a guide to future performance.

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Pension Fund Committee

21 November 2019

Title	**Review of the Performance of Advisors**
Report of	Director of Finance
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	None
Officer Contact Details	George Bruce, Head of Treasury, george.bruce@barnet.gov.uk - 0208 359 7126

Summary

The Pension Fund is supported by external advisors and service providers. These appointments are periodically renewed. This paper notes the contract expiry dates for the service providers and advisors, includes officer opinion on their performance and seeks the views of the Committee on feedback that should be provided to the providers.

Officers Recommendations

1. That the Pension Fund Committee identifies any feedback that it wishes to give to the service providers.

1. WHY THIS REPORT IS NEEDED

1.1 Acting in its capacity as Administering Authority to the Barnet Pension Fund, it is the responsibility of London Borough of Barnet to ensure that the Pension Fund complies with legislation and effectively manages the Fund's financial affairs.

1.2 The Pension Fund utilises the service of many service providers. The significant ones are:

Various Fund Managers
London CIV
Capita (scheme administrator)
Hymans Robertson (actuary)
Hymans Robertson (investment advisor)
BDO (auditor)
JP Morgan (custodian)
PIRC (performance measurement)
LAPFF (corporate engagement)

1.3 It is appropriate for the Committee to periodically discuss the quality of the services provided, both so that appropriate feedback can be provided and plans made in advance of the expiry of contracts. Apart from fund managers and Capita, the paper notes the termination dates of the various contracts and reviews from an officer perspective the quality of the services received. Fund managers are excluded as they are monitored quarterly. Capita is excluded as their performance is actively being monitored by this Committee and by other committees of the Council.

<u>London CIV</u>

1.4 The Council is a shareholder in the London CIV and committed to using them as part of pooling. They provide fund management services. There are no expiry provisions in the relationship and limited scope to switch pooling vehicle. The costs of the LCIV are recovered via both fixed charges to boroughs and a percentage fee on pooled assets.

1.5 While relations between Barnet and LCIV are good, with the Committee Chairman being a member of the Shareholder Committee, LCIV have expressed disappointment at the collective pace of pooling, mainly the lack of interest in the new mandates they have proposed. Barnet's willingness to pool has been held back by manager changes for private debt and Emerging Market equities and delays in introducing offerings for property and private equity. Other London Boroughs have expressed concerns at the LCIV's unwillingness to pool their preferred managers. While that has slowed down the growth of pooled assets, it does demonstrate a desire to develop a coherent investment offering.

1.6 The inability of the LCIV to retain senior staff e.g. the departures of Chief Executives, CIO's and others has led to a loss of confidence. It's likely that another governance review will be undertaken to seek to improve relationship across all London Boroughs. The CEO of the LCIV will be invited to attend a 2020 Committee meeting.

<u>Hymans Robertson (Scheme Actuary)</u>

1.7 Hymans were appointed Scheme Actuary on 1st April 2016 for three years with an option to extend for an additional 21 months. The contract was extended to 31 December 2020 with the intention to undertake a full tender in the summer of 2020 when the triennial valuation has been completed.

1.8 The quality of service received from Hymans Robertson has been extremely high. Their willingness to engage with the administrator and challenge when the information received is inadequate is exemplary. The team supporting Barnet has been unchanged throughout the contract and working relationships are excellent. Procurement rules require a re-tender to be undertaken and it will be important to ensure that quality of service and appropriateness of actuarial processes are significant factors in the tender evaluation.

Hymans Robertson (Investment Advisor)

1.9 Hymans Robertson were appointed investment advisor 10 June 2015 with the contract expiring 31 March 2021. The appoint was via a mini tender using a national framework and a similar approach is proposed during the second half of 2020. Changing investment advisors brings 'challenges' in that each advisor has a 'house view' and apt to make recommendations that reflect this e.g. changes to strategy and fund managers that would not have occurred had the previous advisor been retained. However, this can be managed during a tender and subsequently.

1.10 The team at Hymans has changed since the appointment but is currently considered to be providing good support to officers and the Committee. The nature of the role; strategy setting and implementation, can raise concerns that changes might be partially influenced by fee consideration but there is no evidence of this being the case. Costs to undertake reviews are high and it is important that due consideration is given before commissioning work. The one concern is that timeliness of reports is not always in line with Barnet's timetables but that is partially due to unclear expectation at the outset. A minor observation is that written (but not verbal) advice is heavily caveated.

BDO (Auditor)

1.11 BDO have been auditor for three years. Their appointment by the Council also extends to the Pension Fund. They will remain auditor for another two (and potentially five) audits. Relations are good with officers and the quality of the audit work and reports are high. Occasionally, they take tenacity to unnecessary levels. One concern is resource levels at manager and partner level with signing off the accounts apparently delayed as other local authority clients have the same audit deadline. Monitoring of additional fees is difficult with a lack of clarity on the cause – poor supporting information from Barnet or inefficient audit. Although the Committee does not control this appointment, they can make representations to the Finance Director.

JP Morgan (custodian)

1.12 JP Morgan provides custody services for the Schroders mandate at an annual cost of £15,000. The appointment is unseen by the Committee and we are looking at alternative structures to avoid this cost. No issues have arisen in the performance of the service.

PIRC (performance management)

1.13 PIRC provide an annual performance report benchmarking Barnet against other local authority pension funds. Their report for 2018-19 was presented to the September Committee meeting. They are the only organisation providing such a service. PIRC are available to attend meetings and if time permits will be invited to present the 2019-20 annual report. The annual cost is £9,400.

Local Authority Pension Fund Forum

1.14 LAPFF undertake collective corporate engagement and voting advice on behalf of most UK local authority pension funds. Barnet joined in 2017 to demonstrate our commitment to engagement with the companies in which we invest. LAPFF will be attending our Responsible investment training day to discuss their activities. Annual fee is £6,750.

2. REASONS FOR RECOMMENDATIONS

2.1 The Committee spend a considerable sum on service providers and are required to consider the advice provided when making decisions. It is therefore vital that performance of service providers is reviewed.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None necessary for this report.

4. POST DECISION IMPLEMENTATION

4.1 Any feedback from the Committee will be relayed to the service providers. Plans for retenders will be discussed with the Committee before these commence.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 Good management of the Pension Fund will minimise the cost of providing benefits thus enabling funds to be directed to Council priorities.

5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 There are no direct resources issues for the council however changes in the financial performance of the pension fund affects the pension fund deficit reflected in the Authority's accounts and the level of contributions payable by the Council and other employers.

5.3 Social Value

5.3.1 The Public Services (Social Value) Act 2012 came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits.

5.3.2 Before they start the procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders.

5.3.3 The Act is a tool to help commissioners get more value for money out of procurement. It also encourages commissioners to talk to their local provider market or community to design better services, often finding new and innovative solutions to difficult problems.

5.3.4 There are no specific social value issues arising out of this report, however membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

5.4 **Legal and Constitutional References**

5.4.1 There are no legal references.

5.4.2 The Council's Constitution – Article 7 – includes within the responsibilities of the Pension Fund Committee the appointment of various service providers. Monitoring is an essential element of the appointment and re-appointment process.

5.5 **Risk Management**

5.5.1 Pension schemes are established to ensure that sufficient assets are available to meet the promised pension obligation to staff by creating a reserve from which future liabilities will be met.

5.5.2 The Committee relies on its service providers and good performance from these will help to identify and manage risks.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to the public-sector equality duty.

5.7 **Corporate Parenting**

5.7.1 Not applicable in the context of this report.

5.8 **Consultation and Engagement**

5.8.1 Not applicable.

5.9 **Insight**

5.9.1 Not applicable

6. BACKGROUND PAPERS

6.1 None.

Pension Fund Committee

21 November 2019

Title	**Pension Fund Costs and Expenses**
Report of	Director of Finance
Wards	n/a
Status	Public with exempt appendices
Urgent	No
Key	No
Enclosures	Appendix 1 - Pension scheme costs up to 30.09.19 and estimates for year. Appendix 2 – Notes on costs and expenses **Exempt enclosures - Not for publication by virtue of paragraphs 3 of Schedule 12A of the Local Government Act 1972 as amended.**
Officer Contact Details	George Bruce, Head of Treasury, George.bruce@barnet.gov.uk - 0208 359 7126

Summary

This report summarises the Pension Fund costs incurred up to 30th September 2019, and the estimate costs for the year to 31st March 2020.

Recommendations

(1) That the Committee note the scheme costs to 30.09.19, and the estimate up to 31.03.2020.

1. WHY THIS REPORT IS NEEDED

1.1 Pension fund costs are significant, £8.074 million in the year to March 2019. The attached breakdown of costs is to enable the Committee to monitor scheme expenditure.

1.2 Attached to the paper are two appendices detailing costs incurred up to 30th September 2019, with an estimate of the total cost up to 31st March 2020 and a comparison to the previous year. The estimated costs for 2019-20 are £8.382 million. The increase of £0.308 million compared with prior year is explained below.

1.3 Traditionally, fund managers invoiced Barnet and there was a high level of oversight of costs incurred. With the current investment structure, most investment costs (£5.41 million for 2019-20) are charged internally to the funds in which we invest, which is less transparent and more difficult to monitor. In particular, we are reliant on the fund managers to report the fund transaction costs. The positive news is that there is greater guidance on the disclosure of costs, which is leading to consistency of reporting between managers.

1.4 Costs which are invoiced, are reviewed by the Pension Finance team and if necessary discussed with the Director of Finance.

1.5 The estimated increase in projected costs for 2019-20 is due to the following:

Partners Costs- £0.551 million. New investment in 2019 fund has led to an increase in fees for management, performance and transactions, including a one off establishment fee.

IFM costs - £(0.183) million. Estimate reliant on performance of USD to GBP exchange rate. Fund not performing as well as last year, therefore decrease in performance costs.

Hymans actuarial charges include preparation for the triennial valuation, advice on pension administration (£25,000) and advice relating to Barnet Southgate College (£13,100).

The internal costs have not been estimated for the year. Costs from Barnet HR department will decrease as they perform no Scheme Manager functions. The additional resources added to monitor the administration function will result in overall costs increasing. However, this was necessary to address the deficiencies in the administration service and liaise with the Regulator.

1.6 Reporting of costs to the Committee will help to ensure that these are properly scrutinised and challenged by officers prior to payment.

2. REASONS FOR RECOMMENDATIONS

2.1 The report is for noting.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None

4. POST DECISION IMPLEMENTATION

4.1 N/A.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 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 ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities.

5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 The Pension Fund costs are ultimately reflected in the employers' contribution rates and good management of costs will help to control contribution rates.

5.3 Social Value

5.3.1 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 Constitution – Under article 7 one of the responsibilities of the Pension Fund Committee is 'To meet review and consider approval of the Pension Fund Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts'. A review of expenses falls within that remit.

5.4.2 There are no relevant legal references.

5.5 Risk Management

5.5.1 Monitoring of expenditure is a key element of protecting the assets of the pension fund.

5.6 Equalities and Diversity

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of

marriage and civil partnership even though this does not apply to the public-sector equality duty.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The public sector equality duty requires public authorities in carrying out their functions to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

5.7 **Consultation and Engagement**

5.7.1 Not applicable

5.8 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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London Borough of Barnet

Pension Fund Committee Work Programme

December 2019 – February 2021

AGENDA ITEM 15

Title of Report	Overview of decision	Report Of *(officer)*	Issue Type (Non- key/Key/Urgent)
26 February 2020			
Quarterly performance report to December 2019	Review the performance of the fund and investment managers.	Chief Financial Officer	Non-Key
External Audit plans	To comment on the work programme of the external auditors for the 2019-20 accounts.	Chief Financial Officer	Non-Key
Funding strategy statement	Approval the revised FSS	Chief Financial Officer	Non-Key
Triennial valuation	To receive the actuary's valuation report and rates and adjustments schedule.	Chief Financial Officer	Non-Key
Strategy review	To review the continued appropriateness of the investment strategy and ability to support the funding target	Chief Financial Officer	Non-Key
Admission Agreement and Bonds	To provide an update on admissions, cessations and bond renewals.	Chief Financial Officer	Non-key
Administration report	To update he Committee on the progress of the remediation plan and the performance of the Pension Administrator.	Chief Financial Officer	Non-key
Annual report of the Local Pension Board	Consider any recommendations from the Local Pension Board, comment on their workplan and approve their budget.	Chief Financial Officer	Non-Key

Subject	Decision requested	Report Of	Issue Type (Non-key/Key/Urgent
Annual report - Training Policy and Knowledge Understanding and Skills	Consider the adequacy of training provided to the Committee and future training plans. Consider whether members are making adequate use of training opportunities.	Chief Financial Officer	Non-Key
Risk Management Review	To review the scheme risk register	Chief Financial Officer	Non-key
20 May 2020			
Quarterly performance report to March 2020	Review the performance of the fund and investment managers.	Chief Financial Officer	Non-Key
Strategy Update	To review progress on investment strategy decisions	Chief Financial Officer	Non-Key
Admission Agreement and Bonds	To provide an update on admissions, cessations and bond renewals.	Chief Financial Officer	Non-key
Annual report on scheme costs	To report on scheme costs and expenses year to 31 March 2019	Chief Financial Officer	Non-key
Administration report	To update he Committee on the progress of the remediation plan and the performance of the Pension Administrator.	Chief Financial Officer	Non-key
LCIV update	To note developments in pooling and to review Barnet's pooling plan.	Chief Financial Officer	Non-Key
27 July 2020			
Annual accounts for the year to 31st March 2019	Approve the Pension Funds Annual Accounts.	Chief Financial Officer	Non-Key
Auditors report on annual accounts	To note the auditor's report on the annual accounts	Chief Financial Officer	Non-Key

Subject	Decision requested	Report Of	Issue Type (Non-key/Key/Urgent
Quarterly performance report to March 2020	Review the performance of the fund and investment managers.	Chief Financial Officer	Non-Key
Admission Agreement and Bonds	To provide an update on admissions, cessations and bond renewals.	Chief Financial Officer	Non-key
7 September 2020			
Quarterly performance report to 30 June 2019	Review the performance of the fund and investment managers.	Chief Financial Officer	Non-Key
Admission Agreement and Bonds	To provide an update on admissions, cessations and bond renewals.	Chief Financial Officer	Non-key
Annual Benefit Statement	Update on issue of ABS.	Chief Financial Officer	Non-key
Administration report	To update he Committee on the progress of the remediation plan and the performance of the Pension Administrator.	Chief Financial Officer	Non-key
19 November 2020			
Quarterly performance report to September 2019	Review the performance of the fund and investment managers.	Chief Financial Officer	Non-Key
Annual report of the Local Pension Board	Consider any recommendations from the Local Pension Board, comment on their workplan and approve their budget.	Chief Financial Officer	Non-Key
Review of scheme expenses	To review the scheme costs incurred in the six months to 30 September 2019.	Chief Financial Officer	Non-Key
Admission Agreement and Bonds	To provide an update on admissions, cessations and bond renewals.	Chief Financial Officer	Non-key

Subject	Decision requested	Report Of	Issue Type (Non-key/Key/Urgent
Annual review of the performance of advisors	Provide feedback to advisers on their performance.	Chief Financial Officer	Non-Key
24 February 2021 – items to be allocated			

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