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Meeting	Pension Fund Committee
Date	9 September 2013
<b>Subject</b>	<b>Barnet Council Pension Fund Performance for Quarter April to June 2013</b>
Report of	Chief Operating Officer
Summary	This report is on Pension Fund investment manager performance for the April to June quarter 2013.

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Officer Contributors	John Hooton, Deputy Chief Operating Officer Iain Millar, Head of Treasury
Status (public or exempt)	Public
Wards Affected	Not Applicable
Key Decision	Not Applicable
Reason for urgency / exemption from call-in	Not Applicable
Function of	Council
Enclosures	Appendix A – Pension Fund Market Value of Investments Appendix B – JLT Image Report Quarterly Update 30 June 2013 Appendix C – WM Local Authority Universe Comparison to 30 June 2013. ( to follow)
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## **1. RECOMMENDATIONS**

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

## **2. RELEVANT PREVIOUS DECISIONS**

- 2.1 Council – 11<sup>th</sup> September 2007 – Minute 64.
- 2.2 Pension Fund Committee – 4 February 2010, (Decision Item 6) –The Pension Fund Committee adopted the revised investment strategy.
- 2.3 Pension Fund Committee – 6 June 2013, Item 6.The Pension Fund Committee instructed that any additional funding from contributions be invested equally with both fund managers reversing the decision made at the December meeting to restrict new funding to Newton.

## **3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS**

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

## **4. RISK MANAGEMENT ISSUES**

- 4.1 A key risk is that of poor investment performance. The performance of Fund managers is monitored by the committee every quarter with reference to reports from JLT Investment Consulting, the Pension Fund investment adviser, and the WM Company Ltd, a company that measures the performance of pension funds. If fund manager performance is considered inadequate, the fund manager can be replaced.
- 4.2 Risks around safeguarding of pension fund assets are highlighted in the current economic climate following sovereign debt crisis in the Euro zone. Fund managers need to have due regard to longer term investment success, in the context of significant market volatility. Both Newton's and Schroder's will attend this Committee to update on their approach in this context.

## **5. EQUALITIES AND DIVERSITY ISSUES**

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

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

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

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

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

6.3 The total value of the pension fund's investments including internally managed cash was £782.172 million as at 30 June 2013, down from £801.692 million as at 31 March 2013. The total market value of externally managed investments fell by £15.7 million over the quarter. The graph in Appendix A shows how the market value of the fund has grown since 2006.

6.4 Over the quarter at a total scheme level, the Fund's externally managed investments produced a negative return of -2.0% but outperformed the liability benchmark return for the quarter by 1.7%. All the growth and bond funds produced negative absolute returns with the exception of Legal and General overseas equities.

6.5.1 Both the Newton and Schroder diversified growth funds underperformed equities (surprisingly as DGF Funds are expected to outperform against equities in falling markets). The Newton Real Return DGF underperformed, -2.5% return versus a benchmark return of 1.1%. One year return was 5.3% compared to a benchmark return of 4.5%. Schroder DGF also underperformed for the quarter, -1.1% versus a benchmark return of 1.6%. One year return was stronger 11.4% versus the benchmark return of 8.4%.

6.6 For the quarter, the Newton Corporate Bond portfolio marginally outperformed, returning -2.7% against its benchmark of -4.2% and over the year the Fund slightly outperformed the benchmark with a 6.5% return against a benchmark return of 5.4%. Schroder's Corporate Bond portfolio marginally outperformed the benchmark for the quarter returning -2.6% and against benchmark return of -2.9%. Over the year the Schroder corporate bond return was 7.3% versus the benchmark return of 6.5%.

6.7 For Legal and General, overseas equities outperformed strongly by 0.5%, against the benchmark of 0.1%, and the fixed interest performance of -2.9% tracked the benchmark of -2.9%.

## **6.8 Investment Performance & Benchmark**

- 6.8.1 The Fund's overall performance is measured against a liability benchmark return and includes internal property.
- 6.8.2 The Growth portfolio return is the combined Newton and Schroder Diversified Growth Fund portfolios and is measured against a notional 60/40 global equity benchmark and underlying benchmarks of each fund for comparison.
- 6.8.3 The performance of the Fund including manager performance is outlined in Appendix B.
- 6.8.4 Fund Return compared with the Local Authority Universe over the quarter to 30 June 2013 for one, three and five years is set out in Appendix C.

## **7. LEGAL ISSUES**

- 7.1 This report is based on the provisions of Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009) which have their basis in the Superannuation Act 1972.
- 7.2 Other statutory provisions are referred to in the body of this report.

## **8. CONSTITUTIONAL POWERS**

- 8.1 Council's Constitution – Responsibility for Council Functions delegated to the Pension Fund Committee through the Pension Fund Governance Compliance Statement.

## **9 BACKGROUND INFORMATION**

### **9.1 History**

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

### **9.2 Tax Status**

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

### **9.3 Operation and Administration**

- 9.3.1 The Fund is operated and administered by the London Borough of Barnet. Day to day investment management of the Fund's assets is delegated to expert investment advisors in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended). The Fund is managed on a balanced (excluding property and cash) basis. The current fund managers are Schroder Investment Management Ltd and Newton Investment Management Limited.
- 9.3.2 At the Pension Fund Committee meeting held on the 4 February 2010, the Committee agreed to implement a 70/30 diversified growth and bonds portfolio using the existing managers. The implementation of the new investment strategy commenced on 19 November 2010 .
- 9.3.3 Actuarial services are provided by Barnett Waddingham and the fund receives investment advice from JLT Investment Consulting.

### **9.4 Scheme Governance**

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

The Fund's investment objectives and policies are published in a Statement of Investment Principles, details of this statement can be found on the Council's Web Site:

[http://www.barnet.gov.uk/statement\\_of\\_investment\\_principles\\_oct\\_2010.pdf](http://www.barnet.gov.uk/statement_of_investment_principles_oct_2010.pdf)).

### **9.5 Funding**

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

## **10. LIST OF BACKGROUND PAPERS**

- 10.1 None