

	<p>Pension Fund Committee</p> <p>15 March 2016</p>
<p style="text-align: right;">Title</p>	<p>Barnet Council Pension Fund Performance for Quarter October to December 2015</p>
<p style="text-align: right;">Report of</p>	<p>Chief Operating Officer</p>
<p style="text-align: right;">Wards</p>	<p>n/a</p>
<p style="text-align: right;">Status</p>	<p>Public</p>
<p style="text-align: right;">Urgent</p>	<p>No</p>
<p style="text-align: right;">Key</p>	<p>No</p>
<p style="text-align: right;">Enclosures</p>	<p>Appendix A – Pension Fund Market Value of Investments as at 31 December 2015 Appendix B – Hymans Robinson Performance Report to 31 December 2015 Appendix C – WM Local Authority Universe Comparison to 31 December 2015 (to follow)</p>
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Summary

This report summarises Pension Fund investment manager performance for the October to December quarter 2015 based on the performance monitoring report provided by Hymans Robertson.

Recommendations

1. That having considered the performance of the Pension Fund for the quarter to 31 December 2015, the Committee instruct the Chief Operating Officer and Chief Finance Officer to address any issues that it considers necessary.

1. WHY THIS REPORT IS NEEDED

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

2. REASONS FOR RECOMMENDATIONS

2.1 The terms of reference of the Pension Fund Committee require review and challenge of 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 Operating Officer and Chief Finance 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 in order to achieve the required funding level. Effective monitoring of the Pension Fund will provide support towards the Council's corporate priorities.

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

5.2.1 On 22nd October 2015, Pension Fund Committee received an update report on progress report on the establishment of the London CIV. At that meeting Pension Fund Committee delegated authority to the Chief Operating Officer in consultation with the Chair of Pensions Committee to sign the CIV Articles of Association, the Shareholders Agreement and subsequent deeds of agreement and delegated authority to the Chief Operating Officer in consultation with the Chair of Pensions Committee to invest £150,000 required for regulatory capital to the London CIV to meet the requirements for Financial Conduct Authority (FCA) authorisation.

5.2.2 The Company (London CIV) was authorised by the FCA on 15th October 2015 and the Fund was authorised by the FCA on 13th November 2015 as an Alternative Investment Fund Manager (AIFM). This is the first in local government and the first to be authorised to be operate an Authorised Contractual Scheme Fund (ACS). The ACS Fund will be structured as an umbrella fund with a range of sub-funds providing access over time, to the full range of asset classes that the boroughs require to implement their investment strategies.

- 5.2.3 The London CIV's ambition *is to be, the investment vehicle of choice for Local Authority Pension Funds, through successful collaboration and delivery of compelling performance.*
- 5.2.4 The Pension Fund appointed external fund managers to maximise pension fund assets in accordance with the fund investment strategy in 2010. 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%.
- 5.2.5 On October 22 2015, (Item 11), Pension Fund Committee reviewed and revised the pension fund asset allocation and agreed to adopt an investment strategy based on 36% overseas equity, 21.5% diversified growth, 12% corporate bonds, 0.5% cash; 20% 'multi asset credit; and 10% illiquid alternatives. Pension Fund Committee agreed to increase the move of the fund out of Corporate Bonds from 15% to 20% and that 10% of the proceeds of the Corporate Bonds be invested in the Schroder Strategic Bond Fund with the Investment Advisors to recommend additional fund managers for the Committee to select to invest the balance of 10%.
- 5.2.6 The total value of the pension fund's investments including internally managed cash was £882.557 million as at 31 December 2016 compared to £872.014 million as at 30 September 2015, and £888.469 million as at 30 June 2015. The total market value of externally managed investments rose by £13 million over the quarter. The graph in Appendix A shows how the market value of the fund has grown since 2008. Following the equity rally in the quarter to December 2015, there has been significant market volatility and the total market value of the fund as at 31 January 2016 was £877.869 million.
- 5.2.7 Following the asset allocation rebalancing decision on 22 October 2015, £180 million has been transferred to Legal and General to end January 2016 (£90 million from Newton Investment Management Real Return and £90 million from Schroders Diversified Growth Fund). In addition £90 million has been transferred from Newton Corporate Bonds to the Schroder Strategic Bond Fund.
- 5.2.8 LGIM passive equity funds over the period, as well as to Bond fund. benefited from the equity rally over the quarter whilst the Schroder's ISF Strategic Bond posted a small negative return for the month of December. Both Newton Real Return and Schroder DGF outperformed their respective performance targets. The Fund's three corporate bond mandates all posted positive absolute returns but each lag their performance objectives over the longer term.
- 5.2.9 **Performance Summary:** Over the quarter at a total scheme level the Fund's externally managed investments returned 1.4% (net of fees) over the quarter, in line with the combined benchmark for the period and comfortably ahead of index-linked gilts by c. 4.3%. The attached performance report is the third monitoring report from Hymans Robertson.

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 This report is based on the provisions of Regulation 10 Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 made under the powers conferred by section 7 and Schedule 3 of the Superannuation Act 1972.

5.4.2 Constitution, Under Part 15, Annex A Responsibility for Functions one of the terms of reference 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 in general and investment performance benchmarks and targets in particular.'

5.5 Risk Management

5.5.1 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 Hymans Robertson, 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.

5.5.2 Risks around safeguarding of pension fund assets are highlighted in the current economic climate following the sovereign debt crises in the Euro zone. Fund managers need to have due regard to longer term investment success, in the context of significant market volatility.

5.6 Equalities and Diversity

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

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with this public sector equality duty. Good governance arrangements and monitoring of the pension fund 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

5.9 BACKGROUND PAPERS

5.10 None