

	<h2>Pension Fund Committee</h2> <h3>18 January 2017</h3>
<p style="text-align: right;">Title</p>	<p>Barnet Council Pension Fund Performance for Quarter July to September 2016</p>
<p style="text-align: right;">Report of</p>	<p>Chief Executive Officer/Section 151 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 30 September 2016 Appendix B – Hymans Robinson Performance Report to 30 September 2016 Appendix C - Asset Allocation to 31 December 2016 (to be tabled at meeting)</p>
<p style="text-align: right;">Officer Contact Details</p>	<p>Iain Millar, Head of Treasury Services Iain.Millar@barnet.gov.uk - 0208 359 7126</p>

<h2>Summary</h2>
<p>This report summarises the Pension Fund investment managers' performance for the July to September quarter 2016, based on the performance monitoring report provided by Hymans Robertson. An update on fund performance to 31 December 2016 will be tabled at the Committee meeting</p>

<h2>Recommendations</h2>
<p>1. That having considered the performance of the Pension Fund for the quarter to 30 September 2016, the Committee instruct the Chief Executive Officer (Interim) and Chief Finance Officer to address any issues that it considers necessary.</p>

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.

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 Executive 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 ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities (2015-2020).

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 extreme market volatility experienced in June 2016. The Scheme benchmark is a liability driven benchmark and is dependent on the movement in gilt yields
- 5.2.2 On 22 October 2015 (Item 11), Pension Fund Committee reviewed and revised the pension fund asset allocation. It 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 fund the asset re-allocation by reducing the weighted allocation in diversified growth funds and corporate bonds .This included selling the Newton Corporate Bond fund to re-invest in the Schroder Strategic Bond Fund.

5.2.3 On 15 March 2016, the Pension Fund Committee considered proposals for allocating funds to illiquid credit and multi asset liquid credit. The Committee resolved to make an allocation of 8% of the fund to illiquid credit strategies through investing with new fund managers, 4% to Partnership Group and 4% to Alcentra. The Committee also agreed an allocation of 7% to multi-asset credit strategies through investing 3.5% with Babson Capital and 3.5% with Alcentra. Officers were instructed to implement the re-allocation. The May 2016 funding target dates with the new credit managers were met. The asset re-allocation was made from the sale of Corporate Bonds.

5.2.4 The total market value of externally managed investments rose by £45.2 million over the quarter from £937.5 million to £982.7 million. The graph in Appendix A shows how the market value of the fund has grown since 2008. The total market value of externally managed investments as at 31 December was £1,003.9 million.

5.2.5 **Performance Summary:** Over the quarter, at a total scheme level, the Fund's externally managed investments returned 4.8% (gross of fees), outperforming the combined benchmark for the period by 0.5% (excluding passive investments). See performance summary page 6, of the attached Hymans Robertson performance report for Quarter 3, 2016. All mandates (excluding passive investments) outperformed their respective benchmarks in the quarter, with the exception of Newton's real return fund which produced a positive absolute return though slightly below benchmark, reflecting its current defensive position.

5.2.6 The Performance fees are shown gross.

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 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.

5.5.2 Risks around safeguarding of pension fund assets are highlighted in the current economic climate following the Brexit decision in the UK. Fund managers need to have due regard to longer term investment success, in the context of significant market volatility. A report on the impact to date of the Brexit decision will be made to the March meeting of Pension Fund Committee.

5.6 Equalities and Diversity

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

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

5.7 Consultation and Engagement

5.7.1 Not applicable

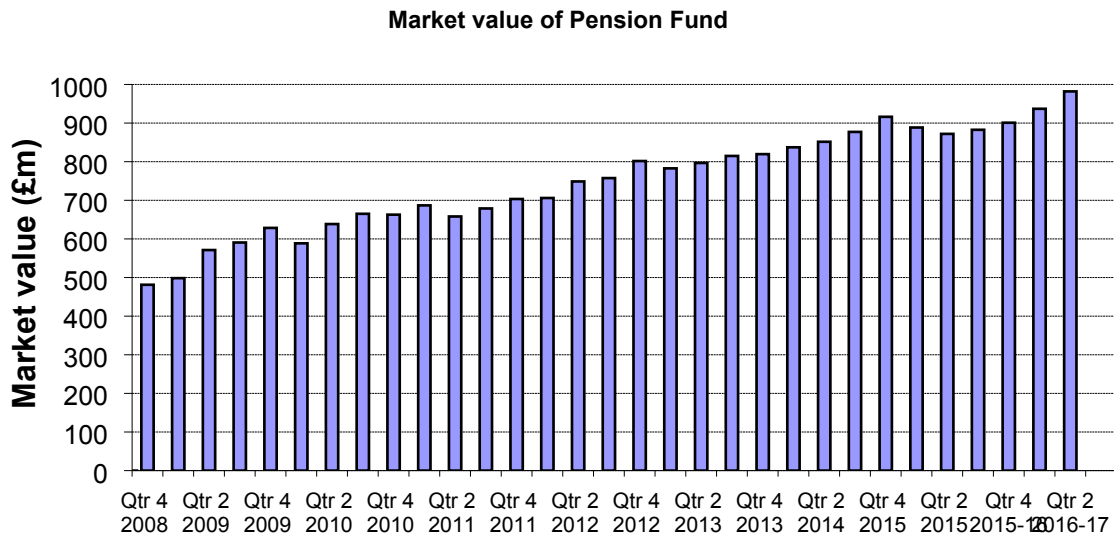
5.8 Insight

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

Appendix A – Pension Fund Market Value of Investments as at 30 September 2016.



Appendix B – Hymans Robinson Performance Report to 30 September 2016

Appendix C Asset Allocation to 31 December 2016

Appendix C					
LB Barnet Pension Fund					
<u>Total value of externally managed Investments as at 31.12.2016</u>					
	Allocation as at 30.9.2016			Target Allocation	
	£	%	%	£	
Equities			41.4		36.0
			2		0
LGIM Global	213,331,916	21.25		180,699,623	18.00
LGIM RAFI	202,514,837	20.17		180,699,623	18.00
Diversified Growth			27.1		22.0
			2		0
Schroder	141,129,149	14.06		110,427,548	11.00
Newton	131,087,654	13.06		110,427,548	11.00
Multi Credit Liquid			15.2		17.0
			9		0
Schroder	93,699,701	9.33		100,388,680	10.00
Babson Capital	28,146,133	2.80		35,136,038	3.50
Alcentra	31,649,160	3.15		35,136,038	3.50
Corporate Bonds			11.1		12.0
			1		0
Schroder	111,554,249	11.11		120,466,416	12.00
Illiquid Alternatives			5.06		13.0
					0
Alcentra Partners Group	13,640,970	1.36		40,155,472	4.00
Manager X	37,133,027	3.70		40,155,472	4.00
TBC	0	0.00		50,194,340	5.00
Total	1,003,886,79	100.00	100.0	1,003,886,79	

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