

	<h2>Pension Fund Committee</h2> <h3>18 July 2017</h3>
<p style="text-align: right;">Title</p>	<p>Barnet Council Pension Fund Performance for the Quarter January to March 2017</p>
<p style="text-align: right;">Report of</p>	<p>Director of Resources</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 March 2017 Appendix B – Review of Investment Managers’ Performance for the First Quarter of 2017 (Hymans Robertson) Appendix C - Asset Allocation as at 31 March 2017</p>
<p style="text-align: right;">Officer Contact Details</p>	<p>Gillian Clelland, Assistant Director of Finance, CSG gillian.clelland@barnet.gov.uk - 0208 359 5310</p>

<h2>Summary</h2>
<p>This report summarises the Pension Fund investment managers’ performance for the quarter January to March 2017, based on the performance monitoring report provided by Hymans Robertson. An update on fund performance to 30 June 2017 will be tabled at the Committee meeting if available.</p>

<h2>Recommendations</h2>
<p>1. Having considered the performance of the Pension Fund for the quarter to 31 March 2017, it is recommended that the Committee instructs the Director of Resources 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 Director of Resources 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 market volatility. 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), the 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. The Committee agreed to fund the asset reallocation by reducing the weighted allocation in diversified growth funds and corporate bonds. This included selling the Newton Corporate Bond fund to reinvest 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 reallocation. The May 2016 funding target dates with the new credit managers were met. The asset reallocation was made from the sale of corporate bonds.

5.2.4 The total market value of externally managed investments rose by £4.5 million over the quarter from £1,008.7 million to £1,013.2 million. The graph in Appendix A shows how the market value of the fund has grown since 2009.

Performance Summary:

5.2.5 Over the quarter, at a total scheme level, the Fund's externally managed investments returned 3.4% (gross of fees), outperforming the combined scheme benchmark for the period by 0.6% (see performance summary on page 6 of the attached Hymans Robertson performance report for quarter 1 of 2017). All of the active mandates outperformed their respective benchmarks.

5.2.6 The performance fees are shown gross.

5.2.7 On 18 December 2016, the diversified growth funds held in the Newton Real Return Fund (£131 million) were transitioned into the London Collective Investment Vehicle (LCIV). In September 2016, the £415 million Legal and General Investment Management pooled funds moved to a reduced fee rate negotiated through LCIV with new fee scales backdated to 1 July 2016. Combined, these represent fee reductions on over 54% of the externally managed fund investments and annual fee savings of over £0.330 million.

5.2.8 Following a fund manager selection process and manager interview process, on 14 March 2017, the Pension Fund Committee agreed to make direct fund manager appointments in accordance with the following allocations of total fund investments:

- 10% to be invested in liquid multi-asset credit strategies:
 - (i) a further allocation of 3% (circa £30 million) to Partners Group
 - (ii) 4% (circa £40 million) to Insight Investment
 - (iii) 3% (circa £30 million) to M&G Investments High Grade Asset Backed Securities Fund.

These were to be funded from the sale of the Schroder Strategic Bond Fund.

- 5% to be invested to invested in infrastructure:
 - (i) 5% (circa £50 million) to IFM Global Infrastructure Fund

This was to be funded from the sale of Diversified Growth Funds.

5.2.9 The Pension Fund Committee approved the asset reallocation and instructed the Section 151 Officer to implement the asset allocation set out in 5.2.8.

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 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.

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's managers will benefit everyone who contributes to the fund.

5.7 Consultation and Engagement

5.7.1 Not applicable

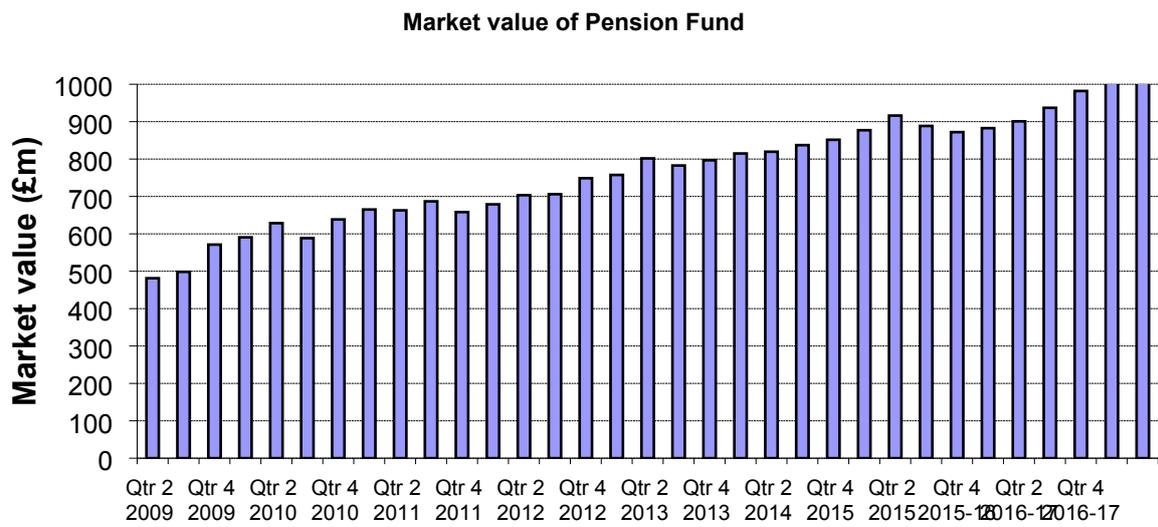
5.8 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

Appendix A – Pension Fund Market Value of Investments as at 31 March 2017



Appendix B – Review of Investment Managers’ Performance for the First Quarter of 2017 (Hymans Robertson)

Appendix C - Asset Allocation to 31 March 2017

LB Barnet Pension Fund					
<u>Total value of Externally Managed Investments as at 31.3.2017</u>					
	Allocation as at 31.03.2017			Target Allocation	
	£	%	%	£	
Equities			40.03	36.00	
LGIM Global	204,214,060	20.15		18.00	182,379,605
LGIM RAFI	201,360,225	19.87		18.00	182,379,605
Diversified Growth			27.46	22.00	
Schroder	144,585,525	14.27		11.00	111,454,203
Newton	133,673,210	13.19		11.00	111,454,203
Multi Credit Liquid			16.14	17.00	
Schroder	94,500,034	9.33		10.00	101,322,003
Babson Capital	36,198,691	3.57		3.50	35,462,701
Alcentra	32,836,620	3.24		3.50	35,462,701
Corporate Bonds			11.32	12.00	
Schroder	114,693,762	11.32		12.00	121,586,403
Illiquid Alternatives			5.05	13.00	
Alcentra	13,623,241	1.34		4.00	40,528,801
Partners Group	37,534,658	3.70		4.00	40,528,801
Manager X TBC	0	0.00		5.00	50,661,001
Total	<u>1,013,220,026</u>	<u>100.00</u>		<u>100.00</u>	<u>1,013,220,026</u>