
Meeting	Pension Fund Committee
Date	13 June 2012
Subject	Barnet Council Pension Fund Performance for Quarter January to March 2012
Report of Summary	Deputy Chief Executive This report advises the Committee of the performance of the Pension Fund for the quarter January to March 2012

Officer Contributors	John Hooton, Assistant Director of Strategic Finance Iain Millar, Head of Treasury and Pensions
Status (public or exempt)	Public
Wards Affected	None
Key Decision	Not Applicable
Reason for urgency / exemption from call-in	Not Applicable
Function of Enclosures	Council Appendix A – Property Unit Trust Portfolio Appendix B – Pension Fund Market Value of Investments Appendix C – JLT Image Report Quarterly Update 31 March 2012
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1. RECOMMENDATIONS

- 1.1 That, having considered the performance of the Pension Fund for the quarter to March 2012, the Committee instruct the Deputy Chief Executive and Chief Finance Officer to address any issues that it considers necessary.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Council – 11th September 2007 – Minute 64.
- 2.2 Pension Fund Committee – 4 February 2010, Item 6
- 2.3 Pension Fund Committee – 21 March 2011, Item 7
- 2.4 Pension Fund Committee – 20 December 2011, Item 8.
- 2.5 Pension Fund Committee– 15 March 2012, Item 8.

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 in providing better services, with less money.

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 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 Eurozone. 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, advancing equality and fostering good relations in the contexts of age, disability, gender reassignment, pregnancy, and maternity, religion or belief and sexual orientation
- 5.2 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.
- 6.3 The total value of the pension fund's investments including the proceeds of property unit trusts held as internally managed cash as at 31 March 2012 was £708.877million This compares to £678.876m at 31 December 2011 and £662.82m as at 31 March 2011 The graph in Appendix B shows how the market value of the fund has appreciated since 2006. In January 2012, £30 million was re-invested split equally between Newton and Schroder from the proceeds of property unit trusts and other income accumulated during the year. Excluding internally managed cash and funds transferred to the managers in the quarter, the total market value of externally managed investments rose by £15.9 million over the quarter.
- 6.4 The Fund's externally managed investments produced a return of 2.7% over the quarter and all portfolios produced positive absolute returns and in relative terms the Fund outperformed the liability benchmark return of -1.3%. Over the 12 months to 31 March 2012, the total Scheme return (ex property) was 2.4% versus the liability benchmark return of 14.0%. The Scheme benchmark is a liability driven benchmark and is dependent on the movement in gilt yield. In a rising market the Diversified Growth Funds (DGF's) underperformed the notional global equity benchmark by 4.9% but this is consistent with the investment strategy: the more defensive stance taken by both growth fund managers protected the fund from down side risk but meant that the Fund did not fully participate in equity recovery during the quarter. The corporate bond portfolios managed by Schroders and Newton out performed against the 'Over 15 years Gilts Index' by 6.6% and the 'Over 5 Years Index Linked Gilts Index' by 4.2%.
- 6.5 At a manager level, Schroders have under performed the benchmark in the last year for both DGF and corporate bonds and Newton have underperformed on the diversified growth fund.
- 6.6 The Newton Corporate Bond portfolio marginally underperformed, returning 1.4% against its benchmark for the quarter of 1.5% but over the year the Fund returned 13.3% compared to the benchmark return of 12.3%. Schroder outperformed the benchmark for the quarter by 0.4% returning 3.2% but underperformed for the year with a 5.6% performance against benchmark return of 9.1%.
- 6.6 Over the quarter for diversified growth, the Newton DGF has underperformed, 0.9% versus a benchmark return of 1.2% while underperformance for the year was 0.3% compared to a benchmark return of 4.7%. Schroder outperformed for the quarter by 2.4% against a portfolio return of 1.8%, Over the year Schroders underperformed with a fund return of -1.6% against benchmark return of 8.7% .
- 6.7 Legal and General equity performance of was consistent with expected performance but the fixed interest fund outperformed with a return of 10.3% compared to benchmark return of 8.8%, though this fund makes up only 2% of the total portfolio.

7. LEGAL ISSUES

- 7.1 This report is based on the provisions of (i) 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) 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 (Relevant section from the Constitution, Key/Non-Key Decision)

- 8.1 Constitution – Part 3 Responsibility for Functions – Section 2 – 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. 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. Implementation of the new investment strategy commenced on 19 November 2010 and is now fully completed.

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).

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 last triennial valuation took place as at 31 March 2010 and the final report has been published on the Council's website.

9.6 Investment Performance & Benchmark

9.6.1 The Fund's overall performance is measured against a liability benchmark return and includes internal property.

9.6.2 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.

9.6.3 The performance of the Fund including manager performance is outlined in Appendix C.).

9.7 Internally managed funds

9.7.1 The property unit trust portfolio accounted for 3.5% of the total market value of the fund and realised £23.9m on disposal. In accordance with Pension Fund Committee decision of, 21 March 2011, (Agenda Item 7), almost all of the property unit trust portfolio holdings were sold in the previous quarter, realising £22.850 million. The remaining units in Rockspring Hanover Property Unit Trust were valued at £1.122 million at 31 December and sold at the end of March 2012,

9.7.2 As at 31 March 2012 £33.752 million Pension Fund cash was held compared to £33.752 million as at 31 December 2011. These funds were invested internally

pending transfer to the external fund managers if not required for the payment and administration of pension benefits.

9.7.3 In accordance with Pension Fund Committee decision of 20th December 2011, (Agenda Item 8), the cash proceeds of the property unit trust sales together with other pension fund income were invested equally: £15 million to Schroder and £15 million to Newton in January 2012.

10. LIST OF BACKGROUND PAPERS

10.1 None.

Cleared by Finance (Officer's initials)	JH/MC
Cleared by Legal (Officer's initials)	TE

APPENDIX A: PROPERTY UNIT TRUST PORTFOLIO

Description	Holding	Book Value	Bid	Market Value	Market Value	Holding
	31.3.2012 Units	£	£	31 March 2012 £	31 December 2011 £	31 December 2011 Units
Rockspring Hanover Property Unit Trust	0	0	11,570	0	1,122,290	97
Hermes Property Unit Trust	0	0	0	0	0	0
Blackrock UK Property Fund	0	0	0	0	0	0
Schroder Exempt Property Unit Trust	0	0	32.11	0	1,707,417	53,174
Legal & General Index Tracker Fund	11,461,175	25,000,000	2.72849	34,190,632	31,217,700	11,461,175
Legal & General Active Corporate Bond –All Stock-Fund	8,202,074	11,000,000	1.80265	15,208,696	14,785,469	8,202,074
Cash				5,246,367	33,752,317	
Total		36,000,000		54,645,425	82,585,193	

APPENDIX B

Market value of Pension Fund

