

	<h2 style="margin: 0;">Pension Fund Committee</h2> <h3 style="margin: 0;">24 October 2017</h3>
<p style="text-align: right;"><b>Title</b></p>	<p><b>Barnet Council Pension Fund Performance for the Quarter to June 2017</b></p>
<p style="text-align: right;"><b>Report of</b></p>	<p>Director of Resources</p>
<p style="text-align: right;"><b>Wards</b></p>	<p>n/a</p>
<p style="text-align: right;"><b>Status</b></p>	<p>Public</p>
<p style="text-align: right;"><b>Urgent</b></p>	<p>No</p>
<p style="text-align: right;"><b>Key</b></p>	<p>No</p>
<p style="text-align: right;"><b>Enclosures</b></p>	<p>Appendix A – Pension Fund Market Value of Investments as at 30 June 2017                  Appendix B - Asset Allocation as at 30 June 2017                  Appendix C – Review of Investment Managers’ Performance for 2<sup>nd</sup> Quarter of 2017 (Hymans Robertson)</p>
<p style="text-align: right;"><b>Officer Contact Details</b></p>	<p>George Bruce, Head of Treasury, CSG  <a href="mailto:George.bruce@barnet.gov.uk">George.bruce@barnet.gov.uk</a> - 0208 359 7126</p>

<h2 style="margin: 0;">Summary</h2>
<p>This report summarises the Pension Fund investment managers’ performance for the quarter to June 2017, based on the performance monitoring report provided by Hymans Robertson.</p>

<h2 style="margin: 0;">Recommendations</h2>
<ol style="list-style-type: none"> <li>1. Having considered the performance of the Pension Fund for the quarter to 30 June 2017, it is recommended that the Committee instructs the Director of Resources to address any issues that it considers necessary.</li> <li>2. The Committee discuss the options set out in paragraph 5.2.9 to hold annual meetings with fund managers outside of normal Committee meetings and agree an appropriate format.</li> </ol>

## **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 funding level of the Scheme uses a valuation of the future liabilities discounted using gilt yields. The mismatch between assets held and the method of valuing future liabilities will also result in volatility of funding levels.
- 5.2.2 The valuation of the fund as at 30<sup>th</sup> September 2017 was £1,071.7 million as detailed on appendix B, an increase of £22.2 million in the quarter. The chart on appendix A indicates a steady increase in valuations over the last year and indeed the last nine years post the financial crisis of 2007.
- 5.2.3 The most recent changes in strategy was the decision at March 2017 to commit additional funds to credit strategies being – Partners multi asset credit 2017 (3%), IFM Infrastructure (5%), IIFIG Secured Finance (4%) and M&G Lion Credit

Opportunities (4%). These are being funded by the realisation of the Schroders Strategic Bond Fund and by rebalancing from the overweight asset classes.

- 5.2.4 During the quarter the process of subscribing to the Partners 2017 fund was completed. The first drawdown of funds of £7.5 million (25% of the commitment) is due on 23 October 2017. Funding for the M&G and IIFIG mandates were completed in April and June respectively. The Alcentra European Direct Lending Fund is partly funded and the IFM Infrastructure fund is anticipated to be drawn in one or two instalments during 2018. A further withdrawal of £20 million from Schroder's Strategic Bond Fund was undertaken on 16<sup>th</sup> October 2017

#### **Performance Summary:**

- 5.2.5 The Hymans report discusses the performance of the Fund over various time periods to 30 June 2017. Performance, net of fees, is shown on page 10 of their report.
- 5.2.6 The longer term periods – 12 months and 3 years, record underperformance against the customised benchmarks of 0.4% and 1.0% respectively. The main drivers are the relative returns from the Newton and Schroder Diversified Growth Funds that have annualised three year underperformance of 1.2% and 2.8% respectively. The net absolute returns since inception from both managers are lacklustre at best – Newton 3.4% and Schroder 4.5%. While early days, the performance of the newer mandates and of Schroder Corporate Bonds are above their respective mandates.
- 5.2.7 Most of the mandates are rated at Hymans highest level of conviction (preferred). The three exceptions – Schroders DGF and Corporate Bonds and Newton DGF are rated one level lower (retain). Comments made on page 12 of the Hymans report concerns over changes to the management team at Newton. Hymans indicated that they planned to meet the manager in August and could revise their rating. Andrew Elliott will comment at the meeting on developments.
- 5.2.8 The Hymans report, page 7, comments on the actuarial funding level. They estimate that as at August 2017, the funding level is unchanged from March 2016 at 73% although the absolute deficit has grown by £70 million. The report does not discuss the extent to which investment performance, changes in the gilt yield and other factors (inflation, longevity etc) have contributed to the change in deficit.

#### **Fund Manager Meetings**

- 5.2.9 The fund now has 14 different mandates, and keeping track of the nature of each mandate and the performance expected in different economic environments will be difficult when the Committee does not have a regular schedule of meetings with each manager. The Committee has rightfully concluded that it has insufficient time to routinely include manager presentations on the Committee agenda. However, it is appropriate that the Committee has the opportunity to meet the managers and remind themselves of why the

manager was appointed and is being retained. Two possible approaches are suggested:

1. That a fund manager day (or two evenings) is added to the Committee diary with each manager being invited to brief the Committee on the mandate, their portfolio and performance. Each manager would be allowed circa 30 minutes and given a strict briefing to ensure they focus on the matters of importance to the Committee; or
2. Officers together with a representative of Hymans arrange to meet each manager annually for an in-depth discussion at the manager's office with Committee members able to join the meeting. A written report on each meeting would be presented to the following Committee.

The Committee is invited to discuss whether these formats (or others) are suitable.

### **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 [now Investment Strategy Statement] in general and investment performance benchmarks and targets in particular.'
- 5.4.2 Clause 9 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 provides the power to appoint investment managers. The regulations no longer have a specific reference to monitoring investment managers but state "the authority must reasonably believe that the investment manager's ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it." Only through periodic monitoring can the Committee achieve this requirement.

### **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**

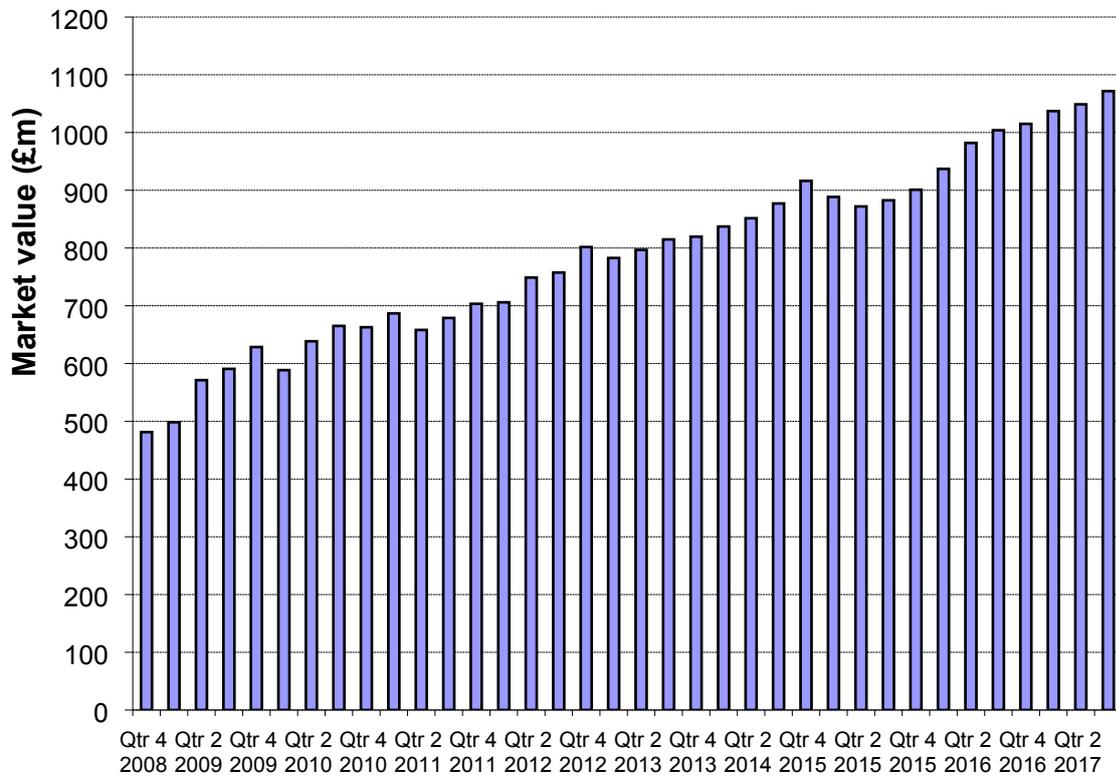
5.8.1 Not applicable

## **6. BACKGROUND PAPERS**

6.1 None

## Appendix A – Market Value of Investments as at 30 September 2017

Market value of Pension Fund



## Appendix B - Asset Allocation to 30 September 2017

### Total value of Externally Managed Investments as at 30 Sept 2017

	Valuation as at 30.09.2017			Target Allocation		
	£	%	%	%	%	£
<b>Equities</b>						
LGIM Global	208,983,825	19.50		18.00		192,904,691
LGIM RAFI	212,640,068	19.84		18.00		192,904,691
	<u>421,623,893</u>		<b>39.34</b>		<b>36.00</b>	
<b>Diversified Growth</b>						
Schroder	148,644,345	13.87		11.00		117,886,200
Newton	134,078,867	12.51		11.00		117,886,200
	<u>282,723,212</u>		<b>26.38</b>		<b>22.00</b>	
<b>Multi Credit Liquid</b>						
Schroder Strategic Bond	45,274,621	4.22		0.00		0
Barings Global High Yield	37,318,428	3.48		3.50		37,509,246
Alcentra Clareant Global Multi Credit	33,630,930	3.14		3.50		37,509,246
Insight IIFIG Secured Finance	40,506,621	3.78		4.00		42,867,709
	<u>156,730,600</u>		<b>14.62</b>		<b>11.00</b>	
<b>Corporate Bonds</b>						
Schroder Corp Bond	<u>118,658,757</u>		<b>11.07</b>		<b>12.00</b>	128,603,127
<b>Illiquid Alternatives</b>						
Alcentra Clareant European Direct Lending	18,777,325	1.75		4.00		42,867,709
Partners MAC 2015	37,891,161	3.54		4.00		42,867,709
Partners MAC 2017	0	0.00		3.00		32,150,782
M&G Lion Credit Opportunities Fund	30,481,793	2.84		3.00		32,150,782
IFM Global Infrastructure	0	0.00		5.00		53,584,636
	<u>87,150,279</u>		<b>8.13</b>		<b>19.00</b>	
Internally held Cash	4,805,988		<b>0.45</b>			
<b>Total</b>	<u><b>1,071,692,729</b></u>		<u><b>100.00</b></u>		<u><b>100.00</b></u>	<u><b>1,071,692,729</b></u>

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