

	<h2>Pension Fund Committee</h2> <h3>26<sup>th</sup> February 2018</h3>
<p style="text-align: right;"><b>Title</b></p>	<p><b>Barnet Council Pension Fund - Performance for the Quarter to December 2017</b></p>
<p style="text-align: right;"><b>Report of</b></p>	<p>Chief Financial Officer</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 31 December 2017                  Appendix B - Asset Allocation as at 31 December 2017                  Appendix C – Review of Investment Managers’ Performance for 4<sup>th</sup> Quarter of 2017 (Hymans Robertson) <b>[EXEMPT]</b>                  Appendix D – IFM priority commitment letter                  Appendix E – correspondence with LCIV and Newton</p> <p>Exempt report - Not for publication by virtue of paragraphs 3 and 5 of Schedule 12A of the Local Government Act 1972 as amended.</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>

## Summary

This report summarises the Pension Fund investment managers’ performance for the quarter to December 2017, based on the performance monitoring report provided by Hymans Robertson. Opportunities to increase commitments to IFM Global Infrastructure and concerns raised relating to the Newton Real Return Fund are discussed.

## **Recommendations**

### **That the Committee:**

- 1. Note the performance of the Pension Fund for the quarter to 31 December 2017.**
- 2. Agree an additional allocation of \$8,905,951.31 to the IFM Global Infrastructure Fund.**
- 3. Note that the London CIV has placed the Newton Real Return Fund on watch.**

### **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 Financial 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 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 31<sup>st</sup> December 2017 was £1,103.5 million as detailed on appendix B, an increase of £33.7 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 2007/08. Subsequent to the end of December, the equity market has been volatile and given back some of its 2017 gains.

### **Performance Summary**

5.2.3 The fund's annual return (appendix C – page 9) of 9.1% (after fees) during 2017 exceeded the benchmark by 0.2%. The highest absolute returns came from passive equities (14.5%) with outperformance from multi-asset credit and corporate bonds. Under-performance was delivered by the two diversified growth funds and Schroder's strategic bonds. It should be noted that the performance of the two DGF's are very different, Schroders annual return of 8.1% compared with Newton's return of 2.7% highlighting the different strategies followed by each fund.

5.2.4 Over the longer three-year period, performance of 7.8% annually, lags the benchmark by 0.8%.

### **Investment Manager Ratings**

5.2.5 Hymans provide ratings for all the investment managers (appendix C – page 3). Most of the mandates are rated at Hymans highest level of conviction (preferred). The exceptions are the three Schroders' mandates and the Newton Real Return Fund that are rated one level lower (retain).

### **Fund Manager Transactions**

5.2.6 During the quarter £7.5 million was invested in the Partners Group 2017 multi-asset credit fund, with a further £3 million invested during January. Barnet has committed £30 million to the fund. Since the year end, IFM indicated that they will fully drawdown Barnet's Commitment of \$62.5 million (approx. £45 million) on 1<sup>st</sup> March 2018. As a consequence, the remaining holding in the Schroders Strategic Bond Fund was sold realising £25.4 million. This leaves the Barnet Fund with cash of £35 million and a requirement to realise a further £10 million to meet the drawdown request. The previous Committee meeting agreed that DGF's and corporate bonds will be sold down to benchmark to meet funding needs.

5.2.7 The Pension Fund also invested a further £1.4 million with the Clareant European Direct Lending Fund, leaving £10.9 million to be invested.

5.2.8 IFM have offered the Barnet Fund an opportunity to commit an additional £8.9 million (see appendix 2). They have established a fundraising target of US\$3 billion to invest in a range of opportunities over the next 12-18 months. It is recommended that the Barnet commitment is increased by the amount being offered.

## Newton

5.2.9 Representatives of Newton will be attending the meeting to discuss the performance and strategy of the Real Return Fund. They will be accompanied by staff from the London CIV. Barnet's investment in this fund is currently managed via the London CIV. The CIV has notified Barnet (see appendix E) that they have placed Newton on watch which means that unless their concerns relating to a change in the role of a key staff member and a regulatory breach are resolved, the LCIV may determine to terminate the relationship with Newton. The regulatory breach relates to trading in a security and the person involved has subsequently been dismissed. Newton have expressed surprise at the LCIV's reaction to what Newton see as long-term staff succession planning.

5.2.10 The implication of the LCIV terminating their relationship with Newton appears to be that Barnet's holdings will either be sold and cash returned or our holdings will be returned to be managed by Barnet outside of the LCIV. Andrew Elliott will update the Committee on Hymans' rating of the Fund at the meeting.

### **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 article 7 one of the responsibilities 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 Regulation 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**

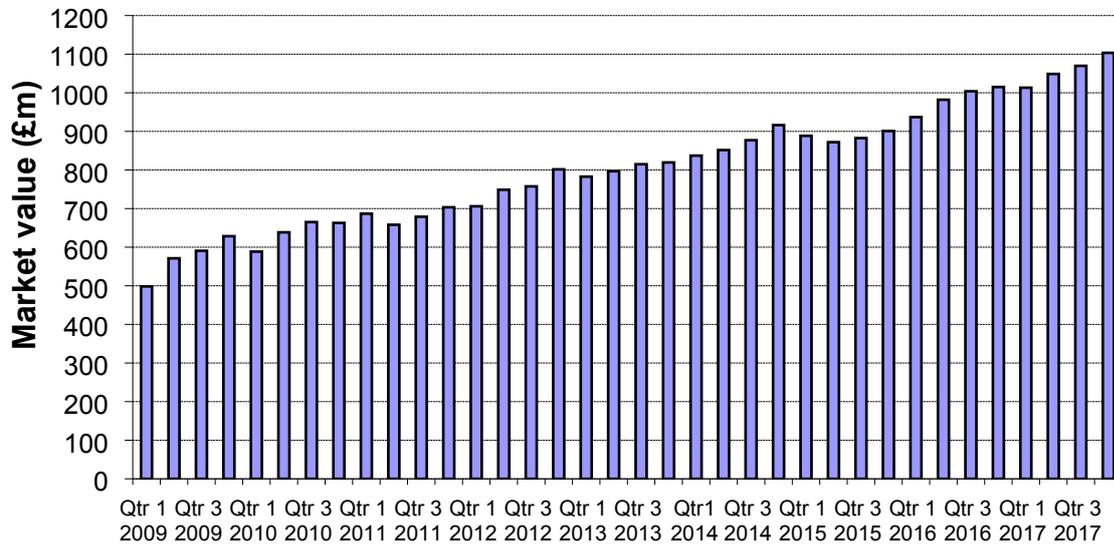
5.8.1 Not applicable

## **6. BACKGROUND PAPERS**

6.1 None

## Appendix A – Market Value of Investments as at 31 December 2017

Market value of Pension Fund



## Appendix B - Asset Allocation to 31 December 2017

LB Barnet Pension Fund					
<u>Total value of Externally Managed Investments as at 31.12.2017</u>					
	Allocation as at			Target Allocation	
	31.12.2017				
	£	%	%	£	
<b>Equities</b>			<b>40.14</b>	<b>40.00</b>	
LGIM Global	219,635,857	19.91		20.00	220,639,718
LGIM RAFI	223,148,342	20.23		20.00	220,639,718
<b>Diversified Growth</b>			<b>26.10</b>	<b>20.00</b>	
Schroder	153,427,337	13.91		10.00	110,319,859
Newton	134,470,529	12.19		10.00	110,319,859
<b>Multi Credit Liquid</b>			<b>12.46</b>	<b>11.00</b>	
Schroder	24,972,628	2.26		0.00	0
Baring Global High Yield	37,451,070	3.39		3.50	38,611,951
Alcentra	33,955,560	3.08		3.50	38,611,951
Insight Secured Finance	41,086,164	3.72		4.00	44,127,944
<b>Corporate Bonds</b>			<b>10.79</b>	<b>10.00</b>	
Schroder	118,989,378	10.79		10.00	110,319,859
<b>Illiquid Alternatives</b>			<b>9.06</b>	<b>19.00</b>	
Alcentra	23,303,450	2.11		4.00	44,127,944
Partners Group	45,716,103	4.14		7.00	77,223,901
M&G Lion Credit Opportunities	30,958,673	2.81		3.00	33,095,958
IFM Global Infrastructure	0	0.00		5.00	55,159,929
<b>Cash</b>	16,083,497	1.46	<b>1.46</b>	0.00	0
<b>Total</b>	<b><u>1,103,198,588</u></b>	<b><u>100.00</u></b>		<b><u>100.00</u></b>	<b><u>1,103,198,588</u></b>