

	<h2>Pension Fund Committee</h2> <h3>26 June 2018</h3>
<p style="text-align: right;">Title</p>	<p>Barnet Council Pension Fund - Performance for the Quarter to 31 March 2018</p>
<p style="text-align: right;">Report of</p>	<p>Director of Finance</p>
<p style="text-align: right;">Wards</p>	<p>n/a</p>
<p style="text-align: right;">Status</p>	<p>Public Report with Exempt Appendix C - Not for publication by virtue of paragraphs 3 and 5 of Schedule 12A of the Local Government Act 1972 as amended.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;">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 2018 Appendix B - Asset Allocation as at 31 March 2018 Appendix C – Review of Investment Managers’ Performance for first quarter of 2018 (Hymans Robertson) [EXEMPT]</p>
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<h2>Summary</h2>
<p>This report summarises the Pension Fund investment managers’ performance for the quarter to 31 March 2018, based on the performance monitoring report provided by Hymans Robertson.</p>
<h2>Recommendations</h2>
<p>That the Committee note:</p> <ol style="list-style-type: none"> 1. the performance of the Pension Fund for the quarter to 31 March 2018. 2. that Hymans Robertson has downgraded their conviction level for the Newton Real Return Fund. 3. Schroders has offered a 0.05% fee reduction.

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 March 2018 was £1,087.6 million as detailed on appendix B, a decrease of £15.6 million in the quarter. The chart on appendix A indicates a mostly steady increase in valuations over the last five years. The last quarter was volatile with equity markets giving back some of their gains of 2017. However, since the end of the quarter movements have been upwards and the UK stock markets has achieved new highs.

Performance Summary

- 5.2.3 The fund's 12-month return (appendix C – page 9) of 3.3% (after fees) is 1.3% below benchmark. Similarly, the three-year return of 5.6% lags the benchmark by 1.7% p.a. The two diversified growth funds continue to miss their benchmark returns by considerable margins over all time periods. The other mandates are either above or in line with benchmarks for three years and since inception.
- 5.2.4 The best performing asset class is equities in all four reporting periods.

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 two Schroders' mandates (DGF and Corporate Bonds) which are rated one level lower (positive) and Newton Real Return Fund that was downgraded from 'Positive' to 'Suitable – On Watch'. The primary reason behind this downgrade is due to various team changes including the lead portfolio manager (Iain Stewart) stepping back from his day-to-day duties. Further information is given on page 11 of appendix C. This mandate is monitored as part of pooling by the London CIV who also have the mandate on watch. Both Newton and the London CIV attended the February 2018 Committee meeting.

Fund Manager Transactions

- 5.2.6 During the quarter £50.2 million was invested as follows:

IFM Infrastructure	£45.4 million (\$62.5 million)
Partners 2017 MAC	£3 million
Alcentra Direct European Lending	£1.8 million

There were realisations of £45.8 million:

Schroders Strategic Bond	£25.4 million
Schroders Diversified Growth	£10 million
Newton Real Return	£5 million
Partners 2015 MAC	£5.4 million

- 5.2.7 The commitment to IFM infrastructure was fully drawn with additional funding to Alcentra European Direct Lending and Partners MAC 2017. The holding in Schroder's strategic bond fund was fully realised with additional sums drawn from the two diversified growth funds. There was also a distribution from the Partners 2015 multi-asset credit fund. The residual inflow was added to cash balances.
- 5.2.8 Outstanding commitments at the quarter end are:

Alcentra European Direct Lending	£9.1 million
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Partners Multi-Asset Credit 2017

£19.5 million

Allocations v Strategy

- 5.2.9 Appendix B highlights the portfolio positions compared with benchmark. The most significant differences are a 5.25% underweighting for illiquid alternatives mostly due to the unfunded commitments to European Direct Lending and Partners 2017 Multi-Asset Credit. When called, funds will be drawn from the overweight (4.66%) allocation to diversified growth funds.

Schroders Fee Reduction

- 5.2.10 The current Schroders fee for the Diversified Growth Fund is 0.55% p.a. Schroders have offered a fee reduction to 0.5%. This will save £70,000 p.a. based on the current fund values. Schroders recognise that compared with the fee rates payable for DGF's managed by the London CIV their fee rate is higher and that without evidence of cost savings Barnet may be challenged on its pooling plans.

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, marriage and civil partnership.

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