

Meeting	Pension Fund Committee
Date	4 September 2012
Subject	Barnet Council Pension Fund Performance for Quarter April to June 2012
Report of	Deputy Chief Executive
Summary	This report advises the Committee of the performance of the Pension Fund for the quarter April to June 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	Council
Enclosures	Appendix A – Pension Fund Market Value of Investments Appendix B – JLT Image Report Quarterly Update 30 June 2012
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1. RECOMMENDATIONS

- 1.1 That, having considered the performance of the Pension Fund for the quarter to June 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 – 13 June 2012, Item 6

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. The Scheme benchmark is a liability driven benchmark and is dependent on the movement in gilt yield. The Growth portfolio targets of the respective DGF funds are LIBOR +5% and the RPI+5%.
- 6.3 The total value of the pension fund's investments including internally managed cash as at 31 June 2012 was £716.617million. This compares to £708.877million at 31 March 2011 and £678.876million as at 31 December 2011. The graph in Appendix A shows how the market value of the fund has appreciated since 2006. Excluding internally managed cash of £5.6 million and a £5 million funds transferred to the managers in the quarter, the total market value of externally managed investments rose by £2.3 million over the quarter.
- 6.4 At a total scheme level the Fund's externally managed investments produced a return of 0.3% over the quarter. In relative terms the Fund underperformed the liability benchmark return for the quarter by -1.6%. This was due to a combination of weak equity markets and falling bond yields which caused the expected value of liabilities to rise, (for all Local Government Pension Funds). However positive absolute return was generated, as expected, as the Diversified Growth Funds (DGF) outperformed equities in falling markets.
- 6.5 Over the 12 months to 30 June 2012, the total Scheme return (ex property) was 0.2% versus the liability benchmark return of 4.6%. The corporate bond portfolios managed by Schroders and Newton underperformed against the 'Over 15 years Gilts Index' by 3.9% and outperformed the 'Over 5 Years Index Linked Gilts Index' by 2%.
- 6.5 At a manager level, Schroders have underperformed the benchmark in the last year for both DGF and corporate bonds and Newton have underperformed on the diversified growth fund. However when compared to the 60/40 global equity benchmark over 12 months, the Newton real return fund outperformed by 3.3% but Schroders Diversified Growth Fund underperformed by 0.6%.
- 6.6 The Newton Corporate Bond portfolio marginally outperformed, returning 3.7% against its benchmark for the quarter of 3.6% and over the year the Fund returned 15.4% compared to the benchmark return of 14.7%. Schroder underperformed the benchmark for the quarter by 0.2% returning 1.9% but underperformed for the year with a 6.3% performance against benchmark return of 9.3%.

- 6.6 Over the quarter for diversified growth, the Newton DGF has underperformed, 1.1% versus a benchmark return of 1.2% while one year return was 0.2% compared to a benchmark return of 4.7%. Schroder has underperformed, -2.5% versus a benchmark return of 1.6% while one year return was -4.1% compared to a benchmark return of 7.9%.
- 6.7 Legal and General equity performance was -3.6% marginally over the benchmark of -3.7% and the fixed interest fund outperformed with a return of 2.3% compared to benchmark return of 2.1%.

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 B.).

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 30 June 2012 £5.6 million Pension Fund cash was held compared to £5.2 million as at 31 March 2012. These funds were invested internally pending transfer to the external fund managers if not required for the payment and administration of pension benefits.

10. LIST OF BACKGROUND PAPERS

10.1 None

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