



Pension Fund Committee

9 September 2019

Title	Strategy Update
Report of	Director of Finance
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1 – Brexit Slides Appendix 2 – Currency Hedging Proposal
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Summary

The report follows on from the investment strategy discussions at recent meetings and provides an update on implementation of decisions made by the Committee and contains two recommendations in respect of private debt and currency hedging.

Officers Recommendations

1. That the Pension Fund Committee reconfirm an investment of £30 million in the LCIV Global Private Debt Fund.
2. That the Pension Fund Committee agree to a 50% strategic currency hedge, with implementation proposals to be brought back to the Committee.
3. That the Pension Fund Committee agree to delegate authority to the Finance Director to take actions to implement recommendations 1.

1. WHY THIS REPORT IS NEEDED

- 1.1 Acting in its capacity as Administering Authority to the Barnet Pension Fund, it is the responsibility of London Borough of Barnet to ensure that the Pension Fund complies with legislation and effectively manages the Fund's financial affairs.
- 1.2 At recent meetings the Committee has made decisions relating to the funding of new asset classes and the appointment of additional investment managers. Progress is discussed below. The issues discussed below are:
- Private equity
 - Property
 - Private debt
 - Emerging market equities

Private Equity (5% target allocation)

- 1.3 The Committee agreed at the 29 July 2019 meeting to commit £55 million to the Adams Street 2019 Global Fund. Completion of the legal agreements to participate in the fund is underway. Further commitments in 2020 and beyond will be required to achieve and maintain a 5% private equity allocation.

Property (10% target allocation)

- 1.4 The target is to invest 10% of the fund in property – 2.5% long lease, 2.5% overseas and 5% UK core commercial. The Fund achieved its long-lease allocation by way of the purchase of a £27 million holding in the Aberdeen Standard long lease fund on 3 June 2019. A commitment of \$32 million (approximately £27 million) has been made to the CBRE Global Alpha fund, with 50% (\$16 million) invested on 28th June. The remainder is expected to be called during Q3, 2019.
- 1.5 The final element of the property proposition was an investment in UK Core commercial property. We have indicated to the LCIV our interest in investing in their property fund but as yet there is no firm timetable to when the fund will be launched and monies invested. While concerns remain that property prices may face a correction it is considered appropriate to allow the LCIV time to identify a manager for their UK commercial property fund.

Private Debt Fund

- 1.6 The Committee agreed at its meeting held on 30 May 2019 to invest £30 million Partners Group MAC (multi asset credit) 2019. Documentation to support the Partners investment has been submitted and it is expected that part of the funds will be called later in 2019. The Committee also agreed at its meeting on 22 January 2019 to invest £30 million into the LCIV Global Private Debt Fund. The launch of this fund has been delayed but will shortly open for subscriptions. The fund's manager, Ares, presented to the Committee on the manager monitoring day (6th March 2019). In view of the passage of time, the Committee are asked to reconfirm their decision to invest £30 million in the LCIV Global Private Debt Fund.

Emerging Market Equities (5% target)

- 1.7 The Committee decision to invest (February 2019) £54 million in the LCIV Emerging Markets Equity Fund was put on hold when the investment team announced that they were leaving the manager of the fund, Janus Henderson. The LCIV has recently appointed JP Morgan (JPM) to manage this fund. They are expected to reorganise the holdings and be able to take new commitments during October. In line with regulations, the Committee should consider advice from Hymans Robertson before making an investment with a new fund manager. This advice will be presented to the November meeting at which JPM have been invited to attend.

Realisation to fund the new mandates

- 1.8 Currently funds are being realised from the Newton mandate when required to fund any of the new funds. This will continue and when the Newton fund is fully realised, the Schroders diversified growth fund will be realised to meet cash requirements.

Brexit Implications

- 1.9 There was a brief discussion on the implication of Brexit at the last Committee. Hymans have shared slides considering the implications (appendix 1). The themes arising from a 'no deal' Brexit are:
- Short term decline in economic growth,
 - Weakness in sterling
 - Tightening of Government bond yields,
 - Widening of credit spreads,
 - Property correction / loss of liquidity
 - Weakening of domestically based UK businesses with implications for the FTSE250.
- 1.10 Other than currency hedging, considered below, there are no recommendations arising from the slide back. The delay in gaining exposure to UK core property is supported by the possible impact on commercial property values. Whether anything can or should be done in relation to scheme liabilities that are somewhat linked to gilt yields will be explored with the Actuary.

Currency Hedging

- 1.11 Hymans were asked to comment on the benefit of additional currency hedging in view of the weakness in sterling since the Brexit referendum and the ability to lock in recent gains. Their paper is attached (appendix 2). Their recommendation is that a 50% currency hedge is suitable to manage currency risk. At the present time the portfolio is more than 50% sterling hedged and Hymans are not advocating any immediate action. They are particularly wary of making long-term currency decisions in periods of high volatility. The Committee is asked to confirm a 50% strategic currency hedge.

2. REASONS FOR RECOMMENDATIONS

- 2.1 The LGPS (Management and Investment of Funds) Regulations 2016 (Regulation 7(7)) requires the Committee to periodically (at least every three years) review the investment strategy. The proposal recognises that the strategy has been enhanced in 2015, 2016

and 2017. Modelling presented to the Committee at the June 2018 meeting indicated that the current strategy, while expected to achieve the funding objective, can be enhanced.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 The various alternatives are discussed in the paper and within the Hymans Robertson reports. The recommendations are based on modelling results.

4. POST DECISION IMPLEMENTATION

- 4.1 Delegation is requested to the S151 officer to implement the agreed actions.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1 Good management of the Pension Fund will minimise the cost of providing benefits thus enabling funds to be directed to Council priorities.

5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)

- 5.2.1 There are no direct resources issues for the council however changes in the financial performance of the pension fund affects the pension fund deficit reflected in the Authority's accounts and the level of contributions payable by the Council and other employers.

5.3 Social Value

- 5.3.1 The Public Services (Social Value) Act 2012 came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits.

- 5.3.2 Before they start the procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders.

- 5.3.3 The Act is a tool to help commissioners get more value for money out of procurement. It also encourages commissioners to talk to their local provider market or community to design better services, often finding new and innovative solutions to difficult problems.

- 5.3.4 There are no specific social value issues arising out of this report, however 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 The LGPS (Management and Investment of Funds) Regulations 2016 (Regulation 7(7)) requires the Committee to periodically (at least every three years) to review the investment strategy.

5.4.2 The Council's Constitution – Article 7 – includes within the responsibilities of the Pension Fund Committee, (1) the approval of the Investment Strategy Statement and (2) the appointment of investment managers. This paper considers alterations to the asset allocation set out in the ISS.

5.5 Risk Management

5.5.1 Risk management is central to the LGPS; which are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

5.5.2 Understanding the causes of sources and variabilities of scheme returns informs the management of investment and funding risk.

5.6 Equalities and Diversity

5.6.1 Pursuant to the Equality 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 Corporate Parenting

5.7.1 Not applicable in the context of this report.

5.8 Consultation and Engagement

5.8.1 Not applicable.

5.9 Insight

5.9.1 Not applicable

6. BACKGROUND PAPERS

6.1 See investment strategy papers and minutes of the Committee meetings on 22 January 2019, 26 March 2019, 30 May 2019 and 29 July 2019.