

London Borough of Barnet Pension Fund

Review of Investment Managers' Performance for the Second Quarter of 2019



Prepared By:

Nick Jellema - Investment Consultant

Yoel Deal - Investment Associate Consultant

For and on behalf of Hymans Robertson LLP
August 2019

Contents

	Page
Introduction	
Executive Summary	3
➤ Markets	
Historic Returns for World Markets to 30/06/2019	4
LGPS Focus	5
➤ Fund Overview	
Fund Summary	6
➤ Manager Overview	
Manager Summary	7
Performance Summary (Gross of fees)	8
Performance Summary (Net of fees)	9
➤ Managers	
Performance Calculation	10

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

Hymans Robertson LLP has relied upon third party sources and all copyright and other rights are reserved by such third party sources as follows: Hymans Robertson data: © Hymans Robertson; DataStream data: © DataStream; Fund Manager data: Fund Manager; Morgan Stanley Capital International data: © and database right Morgan Stanley Capital International and its licensors 2019. All rights reserved. MSCI has no liability to any person for any losses, damages, costs or expenses suffered as a result of any use or reliance on any of the information which may be attributed to it. Whilst every effort has been made to ensure the accuracy of such estimates or data - including third party data - we cannot accept responsibility for any loss arising from their use. © Hymans Robertson LLP 2019

Executive Summary

Valuation and Performance Summary

Fund assets totalled c.£1,185.9m at the end of Q2 2019, an increase of c.£40.6m from the end of the previous quarter.

The Fund's assets returned 3.3% (net of fees) over the quarter.

All mandates (excluding passive funds) outperformed relative to their performance targets, with the exception of Barings Multi-Credit and Schroder Life Diversified Growth.

Actions and Recommendations

The Fund implemented a 2.5% strategic allocation to Property over the quarter, investing £27m with the Standard Life Long Lease Property Fund on 3 June 2019. This has been reflected in our report by reducing the strategic allocation to Diversified Growth (BNY Mellon) by 2.5%.

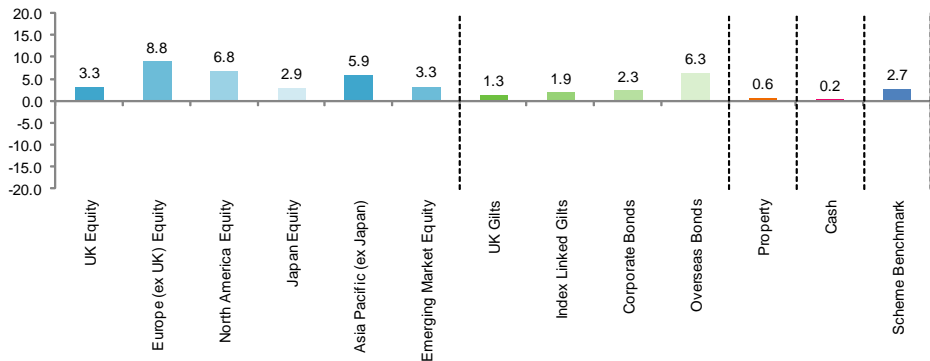
Over the quarter Newton rebranded their fund names This has been reflected in our rep to reference BNY Mellon instead of Newton.



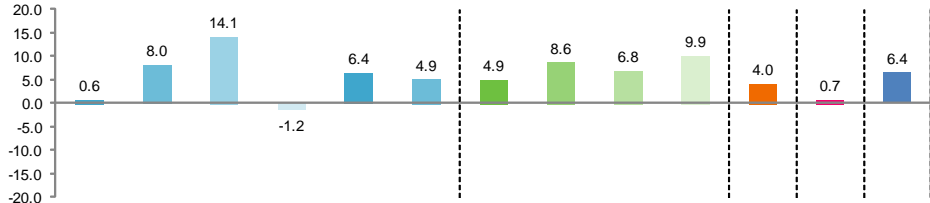
Historic Returns for World Markets to 30/06/2019

Historic Returns ^[1] [i]

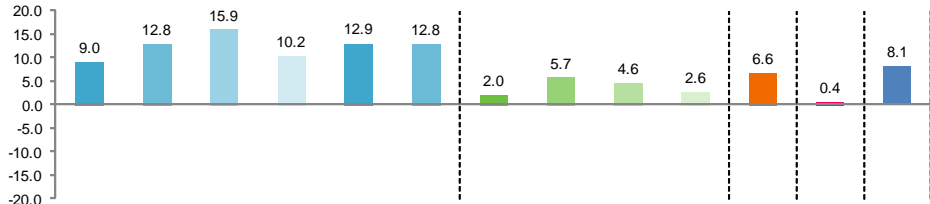
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comment

While US GDP growth remained resilient in Q1, Q2 data suggests a large share of this growth was spurred by inventory building amid trade uncertainty. Indications in the UK also suggest that the economy might stagnate or even contract in the second quarter as stockpiling provided a temporary boost to Q1 figures. Weaker external demand has impacted the large export and manufacturing oriented portions of the Eurozone and Japanese economies. Amidst the heightened UK political uncertainty, Sterling has depreciated against the major developed currencies over the quarter, weakening by around 3.5% in trade weighted terms.

A shift in the messaging from global central banks towards looser monetary policy to support their economies, if required, has been well established. The Bank of England has been more equivocal, reluctant to commit to tightening or easing amidst the Brexit uncertainty. In the US, markets continue to price in a greater extent of interest rate cuts than the most recent Fed rate-setter's voting intentions suggest.

It was a positive quarter for financial markets with both risk seeking assets and government bonds delivering a positive return to investors. Yields on UK conventional gilts and index-linked gilts continued to fall over the quarter with the later touching new record lows in early June.

Global credit markets largely ignored the latter escalation in US-China trade tensions and the potential negative implications for growth as spreads continued to narrow over the quarter. The picture was more mixed across sub investment grade credit markets with European high yield experiencing the greatest tightening in spreads across corporate credit markets.

The equity market momentum of the first quarter of 2019 continued in Q2. After a brief pull-back in May, equity markets recovered in June and the US market reached another all-time high. The equity rally was broad-based, with most major equity regions producing strong returns. European (ex UK) equities were the best performing region in local currency terms as financials posted strong returns, while Japanese and Emerging Market equities lagged global indices. Japanese equities have been hindered by the strength of the yen, while Emerging Market equities suffered from their exposure to global trade.

In the two months to the end of May, UK property produced total returns of 0.5%, with the return from income more than offsetting a fall of 0.4% in the capital growth index. Rental growth has been flat over the period.

[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: Equities – FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite; Bonds – FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds; Property – MSCI UK Monthly Property Index; Cash – UK Interbank 7 Day.



LGPS Focus

Continuing to act responsibly

Climate change continues to be a key theme for investors. Some recent updates in this area include; Simon Jones' Blog in Room 151 "Climate Change – not someone else's problem" and LGIM's decision to exclude ExxonMobil from their Future World Fund, given the stock has "has not met their key minimum requirements, including on emissions reporting and targets". We have also seen notable demand from funds to explore climate risks as part of their valuation process.

Time for reflection

The transition of assets has long been recognised as a pivotal point in the pooling process. We strongly encourage LGPS funds and Pools to reflect on the transitions that have taken place to date, particularly in light of the draft information request from MHCLG. Factors to reflect on include:

- How could the process be improved?
- What additional data analysis could be carried out to save costs?
- What was the process for signing off the investment suitability of the Pools' sub-funds?

These should improve future outcomes and ensure a suitable audit trail is in place for the process.

Good Governance in the LGPS

Earlier this year, we were appointed by the Scheme Advisory Board (SAB) to facilitate a review of governance structure for the LGPS. The SAB commissioned this report to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance. Our report, which is available on our website, sets out the results of our review, recognising the strengths and weaknesses in all governance models.

Rain drops keep falling on our heads

A lot of time and energy has been spent over the last few months resolving the impact of the McCloud case on March year end accounting. Whilst hopefully that particular storm has blown over, LGPS funds in England & Wales will need to consider how to manage the risk as part of the 2019 valuation. Our recent note, which can be found on our website, discusses this topic and considerations for Administering Authorities in more detail.

Are we still keeping Order?

Last month, we highlighted that an Order by the Competition and Markets Authority had established new requirements affecting LGPS funds. The Scheme Advisory Board ("SAB") has since published two briefing notes on the LGPS Board website, which discuss the subject in more detail (the SAB's most recent note includes reference to the DWP's Consultation on the Order).

TPR push for better governance with new consultation

TPR announced a new consultation on the future of trusteeship and governance stating the vision that all savers are "in schemes that have excellent standards of governance that deliver good value". In an accompanying blog post, TPR signposts clearly that it intends to "make life more uncomfortable" for those DB and DC schemes where governance is not up to standard, including levying fines for breaches of regulation. As an indication on TPR's direction of travel, this consultation is another reminder to LGPS funds that the Regulator has ever increasing expectations on those managing schemes/funds. Using the words of TPR, trundling along and being blissfully ignorant as there have been no current problems has never been allowed and will not be accepted. Our advice is to make sure you have the evidence at hand to confirm that is not the case for your fund.

Potential LGPS impact of recent Armed Forces appeal case

The Court of Appeal Armed Force case – Langford vs Secretary of State – found that the refusal to pay a survivor's pension on the basis that the appellant had remained married to another person was an unlawful discrimination. On the face of it, this decision could have a similar impact to recent cases such as Brewster on the Death benefit rules of the LGPS. However, the concluding remarks of Lord Justice McCombe leave open the possibility that this 'exclusionary rule' may be justified and proportionate in other cases – such as other public service schemes.

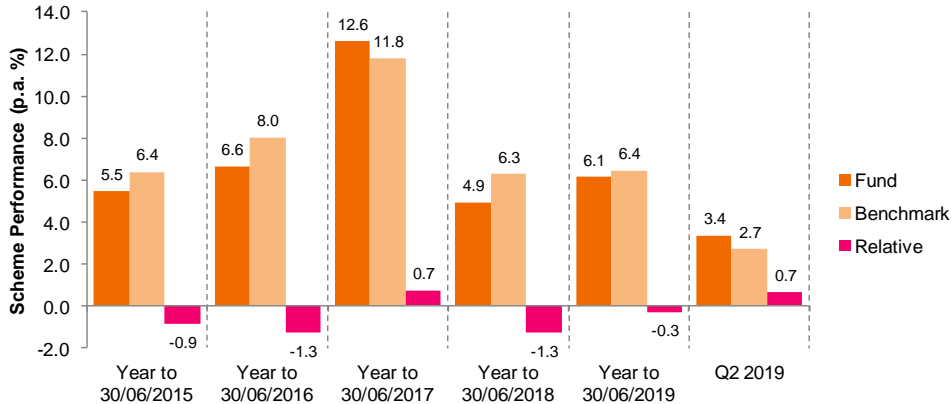


Fund Summary

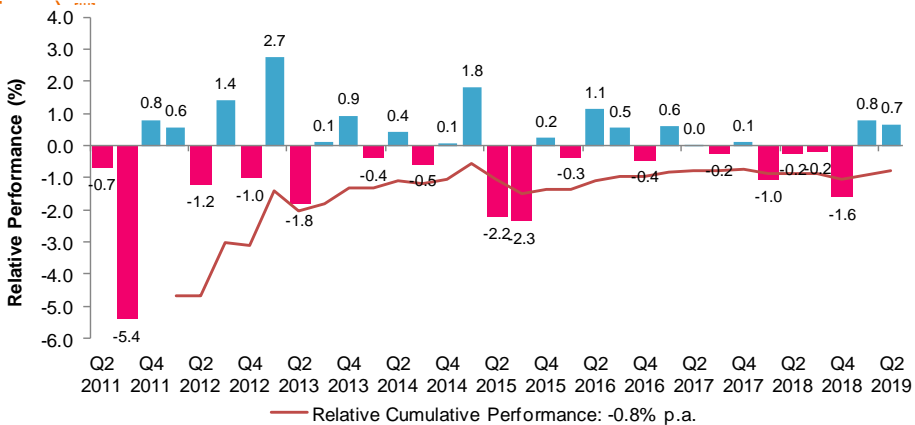
Valuation Summary ^[i]

Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q1 2019	Q2 2019			
Alternative Credit	73.3	74.1	6.3	7.0	-0.8
Global Equity	452.7	472.0	39.8	40.0	-0.2
Absolute Return Funds	262.8	257.0	21.7	17.5	4.2
Multi-Credit	73.6	74.4	6.3	7.0	-0.7
Corporate Bonds	121.8	125.2	10.6	10.0	0.6
Illiquid Credit	88.0	87.9	7.4	11.0	-3.6
Infrastructure	56.3	59.8	5.0	5.0	0.0
Property	0.0	27.7	2.3	2.5	-0.2
Cash	16.9	7.7	0.7	0.0	0.7
Total Client	1145.3	1185.9	100.0	100.0	

Performance Summary (Gross of fees) ^[ii]



Relative Quarterly and Relative Cumulative Performance (Gross of fees)



Source: [i] Fund Manager, [ii] DataStream, Fund Manager, Hymans Robertson, [iii] DataStream, Fund Manager, Hymans Robertson



Manager Summary

Manager Summary ^[1]

Manager	Investment Style	Benchmark Description	Annual Fee (bps)
LGIM Global Equity	Passive	FTSE World Net Tax (UKPN)	3
Alcentra Multi-Credit	Active	3 month £ LIBOR + 4% p.a.	50
BNY Mellon Real Return Fund	Active	1 month £ LIBOR + 4% p.a.	59
Schroder Life Diversified Growth Fund	Active	CPI + 5% p.a.	55
Barings Multi-Credit	Active	3 month £ LIBOR + 5% p.a.	53
Insight Secured Finance Fund	Active	3 month £ LIBOR + 4% p.a.	36
M&G ABS Alternative Credit Fund	Active	3 month £ LIBOR +1.75% p.a.	30
Schroder All Maturities Corporate Bond Fund	Active	Merrill Lynch Sterling Non-Gilts Index	18
Alcentra Direct Lending	Active	7%-12% p.a. net IRR	125
Partners Group MAC 2015	Active	3 month £ LIBOR + 4-6% p.a.	73
Partners Group MAC 2017	Active	3 month £ LIBOR + 4-6% p.a.	73
IFM Global Infrastructure	Active	8-12% p.a.	77
Standard Life Long Lease Property Fund	Active	FT British Government All Stocks Index plus 2%	49

Manager Valuations ^[1]

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q1 2019	Q2 2019			
LGIM Global Equity	452.7	472.0	39.8	40.0	-0.2
Alcentra Multi-Credit	35.3	35.8	3.0	3.5	-0.5
BNY Mellon Real Return Fund	120.4	112.1	9.5	7.5	2.0
Schroder Life Diversified Growth Fund	142.4	144.9	12.2	10.0	2.2
Barings Multi-Credit	38.3	38.7	3.3	3.5	-0.2
Insight Secured Finance Fund	42.5	43.1	3.6	4.0	-0.4
M&G ABS Alternative Credit Fund	30.8	31.1	2.6	3.0	-0.4
Schroder All Maturities Corporate Bond Fund	121.8	125.2	10.6	10.0	0.6
Alcentra Direct Lending	30.4	30.7	2.6	4.0	-1.4
Partners Group MAC 2015	26.3	25.4	2.1	4.0	-1.9
Partners Group MAC 2017	31.3	31.8	2.7	3.0	-0.3
IFM Global Infrastructure	56.3	59.8	5.0	5.0	0.0
Standard Life Long Lease Property Fund	0.0	27.7	2.3	2.5	-0.2
Cash	16.9	7.7	0.7	0.0	0.7
Total	1145.3	1185.9	100.0	100.0	0.0

[1] The Q2 19 valuation for Alcentra Direct Lending is as at Q1 19, due to a lag applied by the manager. [2] Weighted average fee of 3bps for LGIM is based on the underlying funds held.



Performance Summary (Gross of fees)

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
LGIM Global Equity	4.3	4.2	0.1	6.2	6.1	0.1	12.2	12.1	0.1	9.8	9.7	0.1
Alcentra Multi-Credit	1.4	1.2	0.2	3.6	4.9	-1.2	6.6	4.6	1.9	6.4	4.6	1.7
BNY Mellon Real Return Fund	4.4	1.2	3.2	9.8	4.8	4.8	2.8	4.5	-1.6	4.1	4.6	-0.5
Schroder Life Diversified Growth Fund	1.8	2.1	-0.3	1.7	7.0	-5.0	4.9	7.5	-2.4	4.5	7.6	-2.9
Barings Multi-Credit	1.2	1.5	-0.3	3.0	5.9	-2.7	6.8	5.7	1.0	6.5	5.7	0.8
Insight Secure Finance Fund	1.4	1.2	0.2	3.4	4.9	-1.4	/	/	/	4.4	4.6	-0.2
M&G ABS Alternative Credit Fund	1.0	0.6	0.4	1.7	2.6	-0.9	/	/	/	3.2	2.4	0.8
Schroder All Maturities Corporate Bond Fund	2.8	2.0	0.8	7.3	6.0	1.2	5.2	4.0	1.2	6.7	6.2	0.5
Alcentra Direct Lending	2.8	2.4	0.4	/	/	/	/	/	/	4.6	4.8	-0.2
Partners Group MAC 2015	2.3	1.5	0.8	6.9	4.4	2.4	/	/	/	/	/	/
Partners Group MAC 2017	1.8	1.5	0.3	5.3	4.4	0.9	/	/	/	/	/	/
IFM Global Infrastructure	6.3	2.5	3.7	/	/	/	/	/	/	7.4	5.1	2.2
Standard Life Long Lease Property Fund	/	/	/	/	/	/	/	/	/	0.4	0.3	0.1
Total	3.4	2.7	0.7	6.1	6.4	-0.3	7.8	8.1	-0.3	6.6	7.5	-0.8



Performance Summary (Net of fees)

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
LGIM Global Equity	4.3	4.2	0.1	6.1	6.1	0.0	12.1	12.1	0.0	9.7	9.7	0.0
Alcentra Multi-Credit]	1.3	1.2	0.1	3.1	4.9	-1.7	6.0	4.6	n/a	5.9	4.6	1.2
BNY Mellon Real Return Fund	4.2	1.2	3.0	9.2	4.8	4.2	2.2	4.5	-2.2	3.5	4.6	-1.1
Schroder Life Diversified Growth Fund	1.6	2.1	-0.5	1.2	7.0	-5.4	4.3	7.5	-3.0	4.0	7.6	-3.4
Barings Multi-Credit	1.0	1.5	-0.5	2.5	5.9	-3.2	6.3	5.7	0.6	6.2	5.7	0.5
Insight Secure Finance Fund	1.3	1.2	0.1	3.0	4.9	-1.8	/	/	/	4.0	4.6	-0.6
M&G ABS Alternative Credit Fund	0.9	0.6	0.3	1.4	2.6	-1.2	/	/	/	2.9	2.4	0.5
Schroder All Maturities Corporate Bond Fund	2.7	2.0	0.7	7.1	6.0	1.0	5.0	4.0	1.0	6.5	6.2	0.3
Alcentra Direct Lending	2.5	2.4	0.1	/	/	/	/	/	/	4.0	4.8	-0.8
Partners Group MAC 2015	2.1	1.5	0.6	6.2	4.4	1.7	/	/	/	/	/	/
Partners Group MAC 2017	1.6	1.5	0.1	4.5	4.4	0.1	/	/	/	/	/	/
IFM Global Infrastructure	6.1	2.5	3.5	/	/	/	/	/	/	7.0	5.1	1.8
Standard Life Long Lease Property Fund	/	/	/	/	/	/	/	/	/	0.3	0.3	0.0
Total	3.3	2.7	0.6	5.8	6.4	-0.6	7.5	8.1	-0.6	6.2	7.5	-1.2



Performance Calculation

Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\left(\left(1 + \text{Fund Performance} \right) / \left(1 + \text{Benchmark Performance} \right) \right) - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

Period	Arithmetic Method			Geometric Method			Difference
	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	0.10%
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	-1.24%
Linked 6 months			-0.25%			0.96%	-1.21%
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	0.34%

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.

If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.

If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.

