Pension Fund Committee

21 November 2019

Title	**Strategy Update and Investment in Emerging Market Equity Fund**
Report of	Director of Finance
Wards	N/A
Status	Public, with exempt appendix 1 - Hymans report on JP Morgan Emerging Market Equity
Urgent	No
Key	No
Enclosures	Appendix 1 – Hymans report on JP Morgan Emerging Market Equity **Exempt enclosure - Not for publication by virtue of paragraphs 3 of Schedule 12A of the Local Government Act 1972 as amended (Information relating to the financial or business affairs of any particular person (including the authority holding that information).**
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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 a recommendation in respect of emerging market equities.

Officers Recommendations

1. That the Pension Fund Committee reconfirm an investment of 5% (£60 million) in the LCIV Emerging Market Equity Fund.

2. 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
- Currency hedging

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. This was translated to $67.5 million. The first drawdown of $1.9 million took place on 17th October. The remainder will be drawn as the manager identifies investment opportunities.

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 and is now fully invested with the final drawn down of $16 million on 31 October.

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 22 January 2019 to invest £30 million with the LCIV Global Private Debt Fund and reconfirmed that decision at the last meeting. Unfortunately, the manager of the fund, Ares, decided that they did not wish to proceed as only two boroughs (one being Barnet) had committed to the fund. This is annoying given the effort to provide the required documentation. LCIV is now considering its options; either to seek a new manager or shelf the fund due to the low level of interest.

Barnet currently has two managers in this asset class; Partners and Alcentra, who periodically raise new funds. If LCIV does not identify a new manager for their fund a recommendation will be made to increase our commitments to these two managers as and when they launch successor funds.

Emerging Market Equities (5% target)

1.7 The Committee decision to invest (February 2019) 5% of the fund 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. JPM have been invited to present to the members immediately before this meeting and attached is a report from Hymans Robertson stating that they consider JPM as being suitable managers for this asset class. Hymans have raised some concerns with the investment process used by JPM including potential volatility of returns. They also recommend a phasing of the investment. These issues will be explored with Hymans and LCIV prior to the meeting. If resolved, the Committee will be invited to reaffirm its commitment of 5% (£60 million).

Realisation to fund the new mandates

1.8 Currently cash is being realised from the two diversified growth mandates when required to fund any of the new mandates.

Currency Hedging

1.9 The Committee agreed to increase the level of currency hedging to 55% of assets denominated in overseas currencies. This was implemented by switching £100 million of developed market equities managed by Legal and General into a sterling hedged share

1.10 The percentage of overseas assets hedged into sterling will be reviewed annually and adjusted if significantly different from 55%.

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 to act in accordance with its principles 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. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to the public-sector equality duty.

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, 29 July 2019 and 9 September 2019.