London Borough of Barnet Pension Fund

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

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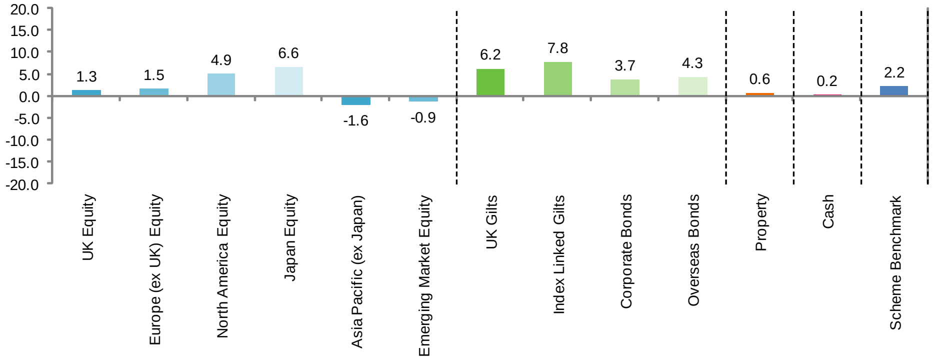
For and on behalf of Hymans Robertson LLP

November 2019

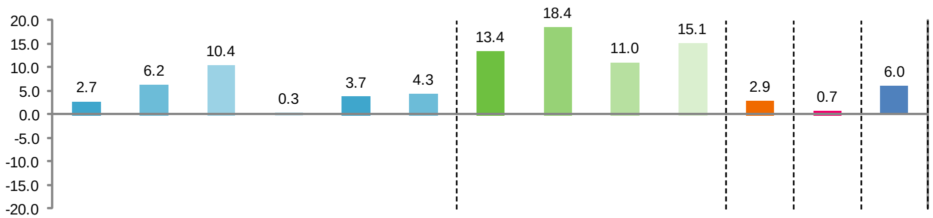
Historic Returns for World Markets to 30/09/2019

Historic Returns [1] [i]

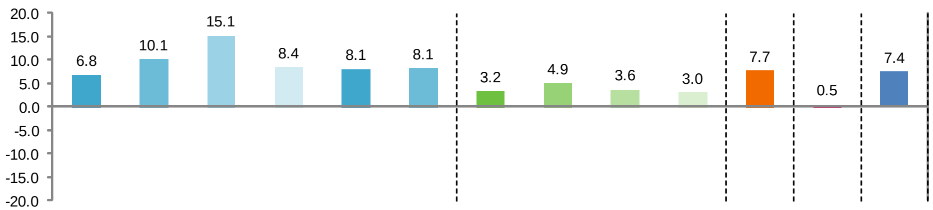
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Market Comment

The ongoing trade war between the US and China, and its disruption to external demand and global supply chains, particularly in the manufacturing sector, continued to impact global growth. Consensus forecasts still suggest most major economies will avoid technical recession next year but GDP growth for many countries has slowed.

UK GDP growth is expected to achieve a modest recovery in Q3, however forecasts have slumped, with increasing downside risk posed by acute Brexit uncertainty and its negative impact on business investment. The US economy has continued to outperform its developed market peers but its manufacturing PMI fell to its lowest level in September since June 2009.

Inflation pressures remain elusive despite real wage growth on the back of low unemployment. In-line with the weaker economic backdrop and subdued inflationary environment, sovereign bond yields continued to drift lower over the quarter. UK Implied inflation fell at longer maturities but rose at shorter terms reflecting fears of a near-term spike in inflation on the back of a potential post-Brexit sterling depreciation. Despite prices spiking significantly following an attack on Saudi production facilities, oil prices ended the quarter around 9% lower.

Investment-grade credit spreads continued to move in lock-step over the period across the US, Europe and Sterling markets and finished the period broadly unchanged. Global high yield spreads were also little changed over the quarter, though leveraged loan spreads have moved wider as interest rate cuts have made floating-rate assets less attractive to prospective investors.

Global equities ended the period in marginally positive territory as the impact of global trade relations and softening economic data was ultimately outweighed by central bank policy and supportive corporate earnings. Sterling-denominated returns were enhanced by the currency's continued depreciation amid the ongoing Brexit saga. Trade-weighted dollar was up c.3.1% over the quarter and Yen strength appears to remain a feature in-line with a bid for safe assets.

Japan was the top performing region in both local currency and Sterling terms. This was in part a reversal of some the poor performance from the first half of the year, as well as the improved performance of the value style. Asia Pacific (ex-Japan) and Emerging Market equities continued to lag global equities as the ongoing trade tensions weighed on investor sentiment.

In the two months and one year to the end of August, UK property produced total returns of 0.5% and 1.6%, respectively. Marginal positive rental growth and return from income compensated for capital declines.

[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.

Source: [i] DataStream, Fund Manager, Morgan Stanley Capital International

LGPS Focus

Farewell Celtic Manor …

What single item should you ensure to stockpile ahead of a potential hard Brexit? How are gilts like the Government borrowing a loaf of bread from you? How is a well-run Fund like a Monopoly board? Find out the answers to these and other questions in our Conference Highlights from the last LGC Investment Summit at Celtic Manor (next year it will be in Leeds). And do get in touch if you would like a copy of the slides that our consultants Douglas Green and Nick Jellema delivered on "What does a well-run Fund look like?"

… and farewell RPI?

The Retail Prices Index is 72 years old, but will struggle to reach its centenary: various identified issues mean it is likely to be "aligned" with CPIH (our 60SS refers) in the second half of the next decade. There are many questions outstanding from the Chancellor's announcement on 4 September, for instance around what to do with current hedging strategies and whether there will be compensation to index-linked gilt holders. A consultation has been promised in January, which should help give more of a steer.

How are you engaging with your employers?

Employers are one of the key stakeholders an LGPS fund needs to liaise with during the valuation. Due to the large and diverse employer group within each fund, having an effective employer communications and engagement strategy is key to delivering a successful valuation. Together with our communications partner, Like Minds, we recently held a webinar to share our insights and practical tips on how Administering Authorities can overcome the challenges faced when engaging with employers and communicating valuation results.

Illiquidity – premium or prisoner

Illiquid assets have long been a feature of LGPS investment strategies. On the back of improved funding, increasing maturity and potential lower cost access via pooling, it is anticipated that funds' exposures to illiquids will increase. One question we have had from a couple of funds is, "what is the maximum amount we can invest in illiquids?". The short answer is, "it depends", with factors to consider including~~:~~ maturity of existing private market profile and the fund's current and future net cashflow position. While most funds will be far away from their targets, it is something to consider as part of 2019/2020 strategic discussions alongside your actuarial valuation.

Counting the cost

Over the past month, the debate over active/passive management raised its head again with several press articles. Our long-held view is that both can have a place in the LGPS, with funds' specific decisions driven by their underlying objectives and beliefs. Another long-held view is that funds must understand the costs that they pay – hence our support for the SAB's Code of Transparency. In terms of the Code, the SAB has announced the appointment of Bhyiras to develop a system to enable managers to evidence compliance and provide comparison tools for funds and pools.

TPR emerges from its LGPS deep dive with a treasure trove of recommendations

As part of its programme of engagement with public sector pension schemes, TPR conducted high level engagement sessions with 10 LGPS funds in late 2018 and into the summer of 2019. Its report into this 'deep dive' assessment has given it a strong insight into current Governance and Administration standards and practices in the LGPS. Read our recent 60SS for our thoughts on TPR's 'treasure trove' of recommendations following this near year-long engagement.

A win for our LGPS Investment team!

We're pleased to announce that we were successful in winning the award for Investment Consultancy of the Year at last month's 2019 Local Authority Pension Fund (LAPF) Investments Awards. The awards are designed to recognise the best in the UK public sector arena and are a great way to celebrate achievement within the LGPS. Congratulations to all of the other winners and nominees on the night.

Schools Out?

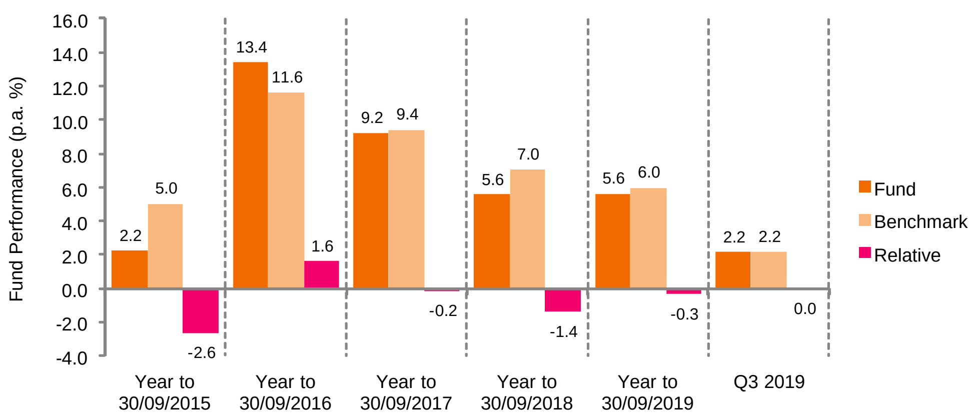
The Department for Education has launched a new consultation regarding proposed changes to participation of independent schools in the England and Wales Teachers' Pension Scheme (TPS). The latest proposal would allow independent schools to stop offering TPS to new hires, while current teachers could remain in TPS. We recently held a webinar to help independent schools understand their options when reviewing their participation in TPS. The consultation (closing on 3 November 2019) seeks views on the proposal and whether there are any alternative proposals to achieve the consultation aims.

Fund Summary

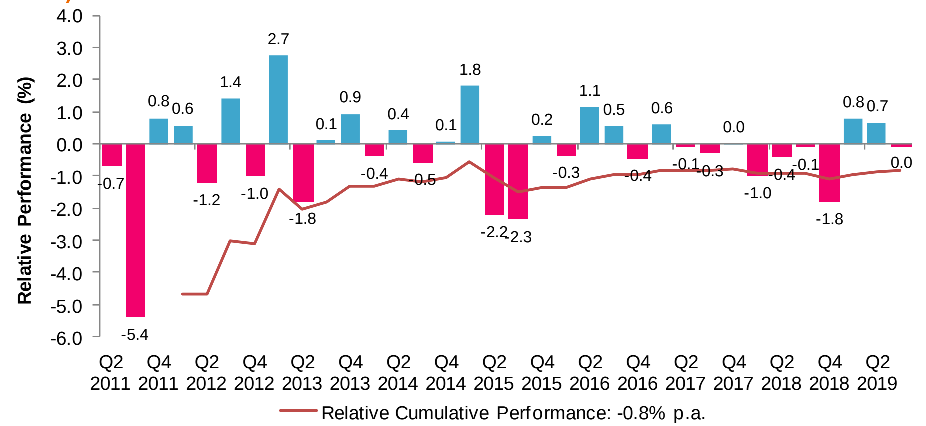
Valuation Summary [i]

Asset Class	Values (£m) Q2 2019	Q3 2019	Actual Proportion %	Target Proportion %	Difference %
Alternative Credit	74.1	74.3	6.1	7.0	-0.9
Global Equity	472.0	482.6	39.8	40.0	-0.2
Absolute Return Funds	257.0	205.7	17.0	17.5	-0.5
Multi-Credit	74.4	75.0	6.2	7.0	-0.8
Corporate Bonds	125.2	130.4	10.8	10.0	0.8
Illiquid Credit	87.9	96.4	8.0	11.0	-3.0
Infrastructure	59.8	63.8	5.3	5.0	0.3
Property	27.7	41.0	3.4	2.5	0.9
Cash	7.7	41.7	3.4	0.0	3.4
Total Client	**1185.9**	**1211.0**	**100.0**	**100.0**	

Performance Summary (Gross of fees) [ii]



Relative Quarterly and Relative Cumulative Performance (Gross of Fees) [iii]



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

Manager Summary

Manager Valuations [i]

Manager	Value (£m) Q2 2019	Q3 2019	Actual Proportion %	Target Proportion %	Difference %
LGIM Global Equity	472.0	482.6	39.8	40.0	-0.2
Alcentra Multi-Credit	35.8	36.2	3.0	3.5	-0.5
BNY Mellon Real Return Fund	112.1	78.9	6.5	7.5	-1.0
Schroder Life Diversified Growth Fund	144.9	126.9	10.5	10.0	0.5
Barings Multi-Credit	38.7	38.9	3.2	3.5	-0.3
Insight Secured Finance Fund	43.1	43.4	3.6	4.0	-0.4
M&G ABS Alternative Credit Fund	31.1	31.0	2.6	3.0	-0.4
Schroder All Maturities Corporate Bond Fund	125.2	130.4	10.8	10.0	0.8
Alcentra Direct Lending	30.7	31.7	2.6	3.0	-0.4
Partners Group MAC 2015	25.4	23.3	1.9	2.5	-0.6
Partners Group MAC 2017	31.8	32.3	2.7	3.0	-0.3
Partners Group MAC V	0.0	9.2	0.8	2.5	-1.7
IFM Global Infrastructure	59.8	63.8	5.3	5.0	0.3
Standard Life Long Lease Property Fund	27.7	28.0	2.3	2.5	-0.2
CBRE Global Alpha Fund	0.0	13.0	1.1	0.0	1.1
Cash	7.7	41.7	3.4	0.0	3.4
Total	**1185.9**	**1211.0**	**100.0**	**100.0**	0.0

The Q3 19 valuation for Alcentra Direct Lending is as at Q2 19, due to a lag applied by the manager. The Q3 19 valuation for Alcentra Multi-Credit is as at August 19. The Q3 19 valuation for CBRE Global Alpha is estimated based on the NAV as at 30 June 2019, and converted to sterling using the exchange rate at 30 September 2019.

Source: [i] Fund Manager, Hymans Robertson

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	2.3	2.2	**0.1**	3.6	3.5	**0.1**	10.4	10.3	**0.1**	9.7	9.7	**0.0**
Alcentra Multi-Credit	1.2	1.2	**0.0**	2.7	4.9	**-2.1**	5.6	4.7	**0.8**	6.3	4.7	**1.6**
BNY Mellon Real Return Fund	1.7	1.2	**0.5**	9.4	4.8	**4.4**	3.2	4.6	**-1.4**	4.2	4.6	**-0.4**
Schroder Life Diversified Growth Fund	1.4	1.7	**-0.3**	2.4	6.8	**-4.1**	4.5	7.4	**-2.8**	4.6	7.6	**-2.8**
Barings Multi-Credit	0.7	1.5	**-0.7**	2.0	6.0	**-3.8**	5.2	5.7	**-0.5**	6.2	5.7	**0.5**
Insight Secure Finance Fund	0.9	1.2	**-0.3**	3.4	4.9	**-1.5**				4.3	4.6	**-0.3**
M&G ABS Alternative Credit Fund	0.7	0.6	**0.0**	2.4	2.6	**-0.2**				3.2	2.4	**0.7**
Schroder All Maturities Corporate Bond Fund	4.1	3.7	**0.4**	11.9	10.3	**1.5**	4.3	3.3	**1.0**	7.0	6.5	**0.4**
Alcentra Direct Lending	2.1	2.3	**-0.2**	8.2	9.5	**-1.2**				8.9	9.5	**-0.6**
Partners Group MAC 2015	1.0	1.5	**-0.4**	7.8	6.0	**1.8**						
Partners Group MAC 2017	1.6	1.5	**0.2**	6.8	6.0	**0.8**						
Partners Group MAC V	-0.6	0.8	**-1.3**									
IFM Global Infrastructure	3.9	2.5	**1.4**	15.3	10.4	**4.5**				15.3	10.4	**4.5**
Standard Life Long Lease Property Fund	1.3	6.6	**-5.0**							1.6	6.9	**-5.0**
Total	2.2	2.2	**0.0**	5.6	6.0	**-0.3**	6.8	7.5	**-0.4**	6.7	7.6	**-0.8**

Partners Group MAC V – 3 month performance is from inception on 13 August 19
The Q3 19 performance for Alcentra Direct Lending is as at Q2 19, due to a lag applied by the manager

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	2.3	2.2	**0.1**	3.5	3.5	**0.1**	10.4	10.3	**0.0**	9.7	9.7	**0.0**
Alcentra Multi-Credit	1.1	1.2	**-0.1**	2.2	4.9	**-2.6**	5.0	4.7	**0.3**	5.8	4.7	**1.1**
BNY Mellon Real Return Fund	1.6	1.2	**0.4**	8.8	4.8	**3.8**	2.6	4.6	**-1.9**	3.6	4.6	**-0.9**
Schroder Life Diversified Growth Fund	1.2	1.7	**-0.5**	1.8	6.8	**-4.7**	3.9	7.4	**-3.3**	4.0	7.6	**-3.3**
Barings Multi-Credit	0.6	1.5	**-0.9**	1.4	6.0	**-4.3**	4.7	5.7	**-1.0**	5.7	5.7	**0.0**
Insight Secure Finance Fund	0.8	1.2	**-0.4**	3.0	4.9	**-1.8**				3.9	4.6	**-0.6**
M&G ABS Alternative Credit Fund	0.6	0.6	**0.0**	2.1	2.6	**-0.5**				2.9	2.4	**0.4**
Schroder All Maturities Corporate Bond Fund	4.1	3.7	**0.4**	11.7	10.3	**1.3**	4.1	3.3	**0.8**	6.8	6.5	**0.3**
Alcentra Direct Lending	1.8	2.4	**-0.6**	6.8	9.5	**-2.4**				7.5	9.5	**-2.0**
Partners Group MAC 2015	0.9	1.5	**-0.6**	7.1	6.0	**1.0**						
Partners Group MAC 2017	1.4	1.5	**0.0**	6.0	6.0	**0.1**						
Partners Group MAC V	-0.7	0.8	**-1.5**									
IFM Global Infrastructure	3.8	2.5	**1.2**	14.5	10.4	**3.7**				14.5	10.4	**3.7**
Standard Life Long Lease Property Fund	1.2	6.6	**-5.1**							1.5	6.9	**-5.1**
Total	2.1	2.2	**-0.1**	5.3	6.0	**-0.7**	6.5	7.5	**-0.7**	6.3	7.6	**-1.2**

Partners Group MAC V – 3 month performance is from inception on 13 August 19
The Q3 19 performance for Alcentra Direct Lending is as at Q2 19, due to a lag applied by the manager

Performance Calculation

Geometric vs Arithmetic Performance

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

((1 + Fund Performance) / (1 + Benchmark Performance)) - 1

Some industry practitioners use the simpler arithmetic method as follows:

Fund Performance - Benchmark Performance

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

	Arithmetic Method			Geometric Method			Difference
Period	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.