



## Pension Fund Committee

13 February 2020

<b>Title</b>	<b>Strategy Update</b>
<b>Report of</b>	Director of Finance
<b>Wards</b>	N/A
<b>Status</b>	Public.
<b>Urgent</b>	No
<b>Key</b>	No
<b>Enclosures</b>	None
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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 the timing of the next strategy review.

### Officers Recommendations

1. That the Committee note the progress on implementing the outcomes of the previous investment strategy review.
2. That consideration is given to delaying a further strategy review until after concluding on the appointment / re-appointment of the investment advisor.

## 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.
- 1.3 So far, the strategy changes implemented are:
- Invested 5% (all percentages are approximate) equally between long lease property (Aberdeen) and overseas property (CBRE). This leaves 5% targeted as UK commercial property that is on hold due to pricing uncertainty.
  - Committed \$67.5 million to private equity (Adams Street). Less than £2m has been invested and the remainder will be drawn down over at least three years.
  - Agreed to invest 5% / £60 million with LCIV Emerging Market Equities Fund in three tranches. £20 million was invested during November and a further £20 million will be invested during February, with the balance to be invested during May 2020.
  - Increased the hedging of non-sterling assets to 55%.
- 1.4 The outcome of the last strategy review was to move the 20% invested in diversified growth funds into property (10%), private equity (5%) and emerging market equities (5%). As at the end of December, there remains £190 million invested in DGF's. Approximately £158 million is set for property, private equity and emerging market equities. The funds targeted at UK commercial property and private equity are likely to take years to be fully invested. Hymans have been asked to look out for opportunities to acquire assets consistent with the current strategy that will enable a quicker exit from DGF's.
- 1.5 The LCIV has recently announced that it intends to launch two new funds; 100% renewables fund and a London Fund. The latter will focus investments in London and its immediate surrounds, in assets such as residential property – specifically build-to-rent – and affordable housing, community regeneration projects and infrastructure, including digital infrastructure and renewable energy. The fund's aim will be to provide both a financial return and a positive contribution to improving the social and environmental issues in the area. Details are awaited to enable an evaluation of these opportunities for Barnet.
- 1.6 Normally consideration is given to reviewing investment strategy immediately after completion of a triennial valuation, particularly if there has been a significant change in the funding level. For example, if the funding level were to improve measurably, it may be that the Committee would consider a shift towards stability of assets values as against maximising expected return. As was mentioned at the last meeting, Hymans contract as investment advisor expires on 31<sup>st</sup> March 2021. It makes little sense to undertake a change of strategy immediately prior to a review of the advisor appointment as should an alternative advisor be appointed it is likely that they would have a different view of the appropriate strategy. Therefore, it is proposed that any further review of strategy is postponed until following the completion of the investment advisor contract review.

## **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 as set out in the Council's Corporate Plan for 2019-2024.

### **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, 9 September 2019 and 21 November 2019.