



## Pension Fund Committee

13 February 2020

<b>Title</b>	<b>Barnet Council Pension Fund - Performance for the Quarter to 31 December 2019</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>	Appendix A – Pension Fund Market Value of Investments as at 31 December 2019 Appendix B - Asset Allocation as at 31 December 2019 Appendix C - Review of Investment Managers Performance for 4 <sup>th</sup> quarter of 2019 ( <b>Hymans Robertson</b> )
<b>Officer Contact Details</b>	George Bruce, Head of Treasury, <a href="mailto:George.bruce@barnet.gov.uk">George.bruce@barnet.gov.uk</a> - 0208 359 7126
<b>Summary</b>	
This report summarises the Pension Fund investment managers' activity during the three months to 31 December 2019 together with fund manager performance in the quarter.	
<b>Officers Recommendations</b>	
That the Pension Fund Committee note the performance of the Pension Fund for the quarter to 31 December 2019.	

## **1. WHY THIS REPORT IS NEEDED**

- 1.1 To ensure that the Pension Fund is being invested prudently and in accordance with the Pension Fund investment strategy.

### **Fund Valuation**

- 1.2 The valuation of the fund as at 31 December 2019 was £1,242.2 million, an increase of £31.3 million (2.6%) compared with the 30 September 2019's valuation of £1,210.9 million as detailed on appendix B. The chart on appendix A indicates a mostly steady increase in valuations over the last five years.

### **Performance Summary**

- 1.3 The Fund returned 2.9% net of fees in the quarter with all mandates (other than corporate bonds) recording positive returns. The fund outperformed the benchmark by 0.3% in the quarter with long lease property being the largest contributor.
- 1.4 For the 12 months to December, the total fund return was 14.9% (1.6% above benchmark). Equities lead the way with a 23.1% annual return with Newton returning 7.1% above benchmark. The most significant underperformance was minus 1.2% from Alcentra direct lending.
- 1.5 The three year returns of 6.5% p.a. was 0.7% p.a. below benchmark with Schroders DGF's underperforming by 3.1% p.a.

### **Investment Manager Ratings**

- 1.6 Any changes to Hymans manager ratings as at 31 December 2019 will be reported at the meeting.

### **Fund Manager Transactions**

- 1.7 During the quarter the following new investments were made:

£20 million was invested in LCIV Emerging Market equities, representing one third of the £60 million investment. The balance will be invested February and May 2020.

The first drawdown by Adams Street private equity was a modest £1.6 million.

The balance of £100 million switch from unhedged to currency hedged overseas equities at LGIM was completed to achieve the 55% hedge on overseas currency.

The final capital call from IFM Infrastructure of \$6.7 million was made.

A further drawdown of £7.3 million for Partners 2019 fund.

The remaining \$16 million was drawn by CBRE for non-UK property.

- 1.8 There was a further £20 million withdrawal from Newton DGF's in the quarter and the remaining drawdowns were funded from cash and distributions from Alcentra and Partners private debt funds. Since 31 December, a further £10 million has

been realised from Newton to meet the next £20 million transfer to LCIV emerging market equities.

1.9 Outstanding commitments at the quarter end are:

Alcentra European Direct Lending	£4.4 million
Partners 2019 MAC	£13.5 million
Adam Street	\$65.6 million
LCIV Emerging Market Equities	£40 million

### **Allocations v Strategy**

1.10 Appendix B highlights the portfolio positions compared with benchmark. The target allocations have been amended to include the unfunded mandates for property and emerging and private equity and to reduce the DGF weighting to nil. The other significant difference is the underweighting for illiquid alternatives, partly due to capital being returned by Partners and Alcentra. Cash will be taken from the two diversified growth funds as required to fund other mandates.

## **2. REASONS FOR RECOMMENDATIONS**

2.1 The terms of reference of the Pension Fund Committee require the Committee to review and challenge the fund managers' quarterly investment performance against benchmarks and targets.

## **3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

3.1 None

## **4. POST DECISION IMPLEMENTATION**

4.1 The Chief Financial Officer will carry out any actions considered necessary.

## **5. IMPLICATIONS OF DECISION**

### **5.1 Corporate Priorities and Performance**

5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage to achieve the required funding level. Effective monitoring of the Pension Fund will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities.

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

5.2.1 The Pension Fund appoints external fund managers to maximise Pension Fund assets in accordance with the Fund investment strategy. The Pension Fund is a long-term investor and short-term volatility of investment return is expected. In the longer term, the appointed fund managers are expected to deliver positive returns in accordance with the Fund benchmarks. The global diversification of the Pension Fund portfolio gives some protection against the market volatility. The funding

level of the Scheme uses a valuation of the future liabilities discounted using gilt yields. The mismatch between assets held and the method of valuing future liabilities will also result in volatility of funding levels.

### **5.3 Social Value**

5.3.1 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 Constitution – Under article 7 one of the responsibilities of the Pension Fund Committee is ‘To review and challenge at least quarterly the Pension Fund investment managers’ performance against the Statement of Investment Principles [now Investment Strategy Statement] in general and investment performance benchmarks and targets in particular.’

5.4.2 Regulation 9 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 provides the power to appoint investment managers. The regulations no longer have a specific reference to monitoring investment managers but state “the authority must reasonably believe that the investment manager’s ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it.” Only through periodic monitoring can the Committee achieve this requirement.

### **5.5 Risk Management**

5.5.1 A key risk is that of poor investment performance. The performance of the fund managers is monitored by the Pension Fund Committee every quarter with reference to reports from Hymans Robertson, the Pension Fund investment adviser. If a fund manager’s performance is considered inadequate, the fund manager can be replaced.

### **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 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant ‘protected characteristic’ and those who do not share it; and 3) 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 parts 2) and 3) (above) of the public-sector equality duty.

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**

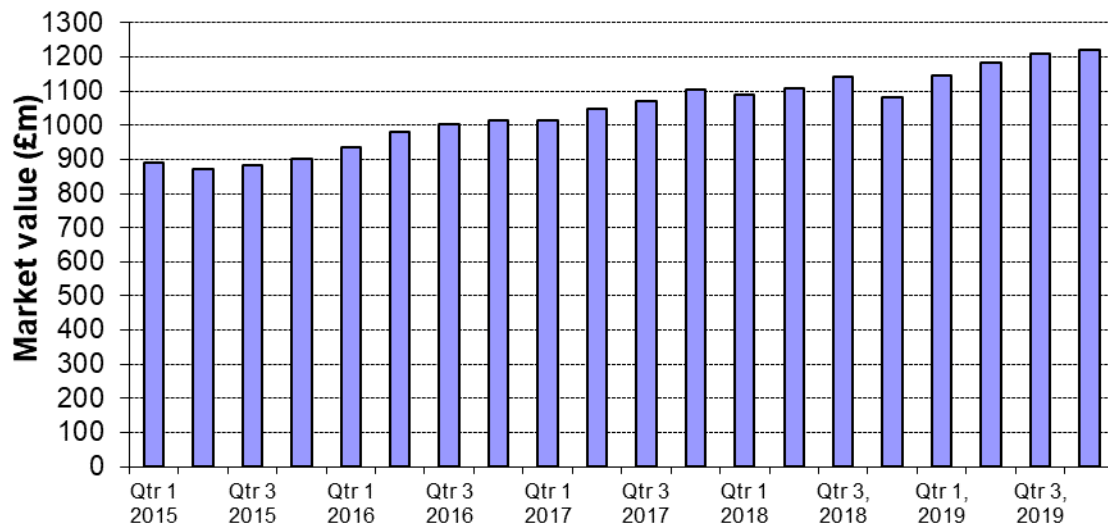
5.8.1 Not applicable

## 6. **BACKGROUND PAPERS**

6.1 None

## Appendix A – Market Value of Investments as at 31 December 2019

Market value of Pension Fund



## Appendix B - Asset Allocation as at 31 December 2019

	Allocation as at 31.12.2019			Target Allocation	
	£	%	%	%	%
<b>Equities</b>			<b>42.64</b>		<b>50.00</b>
LGIM Global	265,504,464	21.37		20.00	
LGIM RAFI	241,509,584	19.44		20.00	
Emerging Markets	21,015,775	1.69		5.00	
Private Equity	1,589,978	0.13		5.00	
<b>Property</b>			<b>4.19</b>		<b>10.00</b>
Core UK Commercial	0	0.00		5.00	
Aberdeen Standard Long Lease	28,024,666	2.26		2.50	
CBRE Global	24,078,562	1.94		2.50	
<b>Diversified Growth</b>			<b>15.27</b>		<b>0.00</b>
Schroder	129,936,654	10.46		0.00	
BNY Mellon (Newton)	59,726,681	4.81		0.00	
<b>Multi Credit Liquid</b>			<b>9.62</b>		<b>11.00</b>
Baring Global High Yield	39,678,207	3.19		3.50	
Alcentra	35,931,690	2.89		3.50	
Insight Secured Finance	43,899,443	3.53		4.00	
<b>Corporate Bonds</b>			<b>10.46</b>		<b>10.00</b>
Schroder	129,955,916	10.46		10.00	
<b>Illiquid Alternatives</b>			<b>16.22</b>		<b>19.00</b>
Alcentra	30,719,076	2.47		4.00	
Partners Group	69,880,807	5.63		7.00	
M&G Lion Credit Opport	31,162,770	2.51		3.00	
IFM Global Infrastruct	69,675,644	5.61		5.00	
<b>Cash</b>	19,889,119	1.60	<b>1.60</b>	0.00	<b>0.00</b>
<b>Total</b>	<b>1,242,179,036</b>	<b>100.00</b>		<b>100.00</b>	<b>100.00</b>