



## Pension Fund Committee

27 July 2020

<b>Title</b>	<b>Barnet Council Pension Fund - Performance for the Quarter to 31 March 2020</b>
<b>Report of</b>	Director of Finance
<b>Wards</b>	N/A
<b>Status</b>	Public except for exempt Appendix D
<b>Urgent</b>	No
<b>Key</b>	No
<b>Enclosures</b>	<p>Appendix A – Pension Fund Market Value of Investments as at 30 June 2020</p> <p>Appendix B - Asset Allocation as at 30 June 2020</p> <p>Appendix C - Review of Investment Managers Performance for 1<sup>st</sup> quarter of 2020 (Hymans Robertson)</p> <p>Appendix D - Review of Fund Managers (Hymans Robertson) (exempt)</p> <p><b>Exempt enclosure - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of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)).</b></p>
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<b>Summary</b>	
This report summarises the Pension Fund investment managers' activity during the three months to 31 March 2020 together with fund manager performance in the quarter, together with an update on investment values as at 30 June 2020	
<b>Officers Recommendations</b>	
<b>That the Pension Fund Committee note the performance of the Pension Fund for the quarter to 31 March 2020.</b>	

## **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 March 2020 was £1,076.8 million (appendix B), a decrease of £165.6 million (13.3%) compared with the 31 December 2019's valuation of £1,242.9 million. As discussed on pages 24 and 25 of the Hymans Report (appendix C) financial markets reacted badly to the spread of Covid-19 and the impact on economic activity of global lockdowns. However, in quarter two optimism returns to financial markets and most of the Q1 losses were recovered and the June valuation is £1,205.9 million, which is 2.9% lower than the peak of 31 December 2019. From a funding perspective, the end June value is 5% above that at the last triennial valuation (March 2019), being close to the long-term returns required by the funding plan. The chart on appendix A highlights the longer-term upward trend in fund values.

### **Performance Summary**

- 1.3 The Fund returned -13.4% in the quarter (see page 6 of Hymans report) with all but two funds recording negative returns. The two funds with positive returns are due to valuations being based as at 31 December 2019. As most of the mandates are based on cash plus return targets it is unsurprising that virtually all recorded returns below target. The exceptions being LGIM equities and Schroders corporate bonds.
- 1.4 In view of the dramatic market movements in quarter one and two perhaps it is best to avoid drawing too many conclusions from the Q1 performance. However, Hymans have been asked to comment on two aspects. Firstly some of the credit mandates dropped as sharply as equities (Alcentra and Barings multi-credit) which suggests that they are not adding diversification to the portfolio. Secondly, the since inception returns of some of the newer mandates (the above two funds plus Insight and M&G) are anaemic at best. Are these funds making sufficient contributions to the overall Fund target returns?
- 1.5 We will endeavour to provide estimates of June returns at the meeting.

### **Investment Manager Ratings**

- 1.6 Hymans provide ratings for all the investment managers. These are shown on page 4 of their report. Most of the mandates are rated at Hymans' highest level of conviction (preferred). The exceptions are the two DGF's funds rated as suitable and the Schroders' Corporate Bonds mandate rated as positive. The one change during the quarter is that the Standard Life Long Lease fund is shown as "on watch". This is explained on page 12 of their report as due to changes in the management team at Aberdeen Standard Investments, although they continue to have a preferred rating on the fund.

### **Fund Manager Transactions**

- 1.7 During the quarter to March 2020 the major transaction was a further £20 million

investment with the LCIV emerging equity fund and a £6 million drawdown by Partners private debt using £10 million proceeds from Newton and existing cash balances. In the June quarter there was a £21 million advance payment of contributions by the Council that was added to cash balances and a \$3.6 million drawdown by Adam Street. There continues to be periodic distributions from Partners and Alcentra direct lending funds.

1.8 Outstanding commitments at 30 June 2020 are:

Alcentra European Direct Lending	£9.2 million
Partners 2019 MAC	£7.5 million
Adam Street	\$62 million
LCIV Emerging	£20 million

### **Allocations v Strategy**

- 1.9 Appendix B highlights the portfolio positions compared with benchmark. The significant underweights are the unfunded and partially funded property, emerging market and private equity mandates. The cash for these commitments are currently invested in the two diversified growth 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**

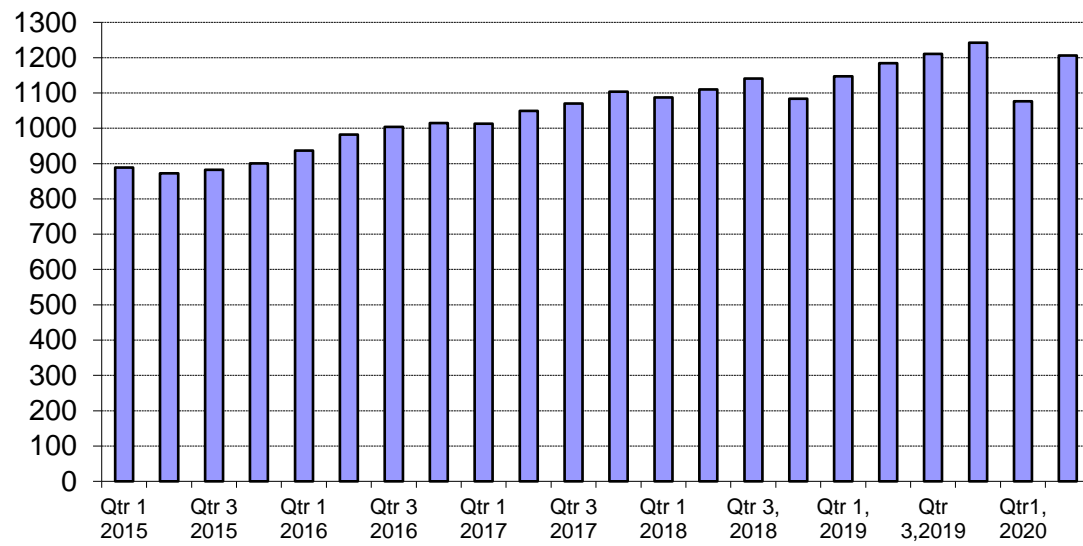
5.8.1 Not applicable

## **6. BACKGROUND PAPERS**

6.1 None

## Appendix A – Market Value of Investments as at 30 June 2020

Market value of Pension Fund



## Appendix B - Asset Allocation as at 30 June 2020

		31-Dec-19	31-Mar-20	30-Jun-20	30-Jun-20	30-Jun-20	Target Allocation
		£	£	£	%	%	%
<b>Equities</b>						<b>42.07%</b>	<b>50.00</b>
LGIM Global	Jun-20	265,504,464	217,638,744	259,317,532	21.50%		20.00
LGIM RAFI	Jun-20	241,509,584	176,988,049	202,425,476	16.79%		20.00
Emerging Markets	Jun-20	21,015,775	33,770,718	40,942,108	3.40%		5.00
Private Equity	Mar-20	1,589,978	2,165,316	4,622,953	0.38%		5.00
<b>Property</b>						<b>4.58%</b>	<b>10.00</b>
Core UK Commercial							5.00
Aberdeen Standard Long Lease	Mar-20	28,471,000	28,932,280	28,933,000	2.40%		2.50
CBRE Global	Jun-20	24,078,562	26,341,408	26,341,409	2.18%		2.50
<b>Diversified Growth</b>						<b>14.58%</b>	<b>0.00</b>
Schroder	Jun-20	129,936,654	115,239,144	126,936,055	10.53%		0.00
BNY Mellon (Newton)	Jun-20	59,726,681	45,288,193	48,892,475	4.05%		0.00
<b>Multi Credit Liquid</b>						<b>9.15%</b>	<b>11.00</b>
Baring Global High Yield	Jun-20	39,678,207	32,324,336	36,170,929	3.00%		3.50
Alcentra	May-20	36,418,320	29,789,070	32,347,860	2.68%		3.50
Insight Secured Finance	Jun-20	43,899,443	40,663,980	41,769,334	3.46%		4.00
<b>Corporate Bonds</b>						<b>11.34%</b>	<b>10.00</b>
Schroder		129,955,916	127,404,996	136,730,533	11.34%		10.00
<b>Illiquid Alternatives</b>						<b>16.09%</b>	<b>19.00</b>
Alcentra	Mar-20	28,825,472	25,292,717	24,060,007	2.00%		4.00
Partners Group	May-20	70,003,615	69,835,000	71,131,277	5.90%		7.00
M&G Lion Credit Opport	May-20	31,162,770	28,753,277	29,945,061	2.48%		3.00
IFM Global Infrastruct	Jun-20	69,675,644	67,638,059	68,915,256	5.71%		5.00
<b>Cash</b>		19,889,119	8,720,890	26,420,238	2.19%	<b>2.19%</b>	<b>0.00</b>
<b>Total</b>		<b>1,241,341,204</b>	<b>1,076,786,177</b>	<b>1,205,901,504</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00</b>

