



Pension Fund Committee

7 October 2020

Title	Barnet Council Pension Fund - Performance for the Quarter to 30 June 2020
Report of	Director of Finance
Wards	N/A
Status	Public except for exempt Appendix E
Urgent	No
Key	No
Enclosures	<p>Appendix A – Market Value of Investments as at 31 August 2020</p> <p>Appendix B - Asset Allocation as at 31 August 2020</p> <p>Appendix C - Review of Investment Managers Performance for 2nd quarter of 2020 (Hymans Robertson)</p> <p>Appendix D – August performance update (Hymans Robertson)</p> <p>Appendix E - Review of Fund Managers (Hymans Robertson) (exempt)</p> <p>Exempt enclosure - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of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)).</p>
Officer Contact Details	George Bruce, Head of Treasury, George.bruce@barnet.gov.uk - 0208 359 7126
Summary	
This report comprises Hymans Robertson's review of the fund's performance in the quarter to 30 June 2020 together with their assessment of the individual manager's capabilities. An updated fund valuation as at 31 August 2020 is also provided.	
Officers Recommendations	
That the Pension Fund Committee note the performance of the Pension Fund for the quarter to 30 June 2020.	

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 30 June 2020 was £1,210.0 million (appendix B), an increase of £130.8 million (12.1%) compared with the 31 March 2020 valuation of £1,079.2 million. Since June valuations have continued to recover and as at 31 August were £1,246.5 million, almost identical to that recorded as at 31 December 2019 pre Covid-19 of £1,242.9 million.
- 1.3 As discussed on pages 24 & 25 of the Hymans Report (appendix D) financial markets having initially reacted badly to the spread of Covid-19 and the impact on economic activity of global lockdowns, have now started to look beyond to the expected recovery as lockdown measures are eased. Markets remain fragile and it will be no surprise to see occasional price corrections in the coming months. The chart on appendix A highlights the longer-term upward trend in fund values. The three mandates valued in US dollars (Adams Street, CBRE and IFM) all record declines in values post June as sterling strengthened from \$1.24 to \$1.335, representing a 7.5% fall in the value of US\$ denominated assets.

Performance Summary

- 1.4 The Fund returned 10.5% in the quarter (see page 6 of Hyman's report) with only one fund manager recording a negative return (Alcentra European Direct Lending) due to their valuations being one quarter out of date. In view of the dramatic market movements in the first half of 2020 it is perhaps best to focus on the longer term (three year) performance, with the annualised return of 3.7% lagging the benchmark by 1.7% p.a. Only IFM (infrastructure) and Schroders Corporate bonds have consistently exceeded benchmark.
- 1.5 The Hymans report has been revised to disclose the performance of the various components of the Legal and General portfolio. The most notable feature is the relative performance of RAFI (3-years: -0.2% p.a.) which is tilted towards value stocks compared with World ex UK (3 years: 9.5% p.a.) the latter have a higher allocation to tech stocks.

Investment Manager Ratings

- 1.6 Hymans provide ratings for all the investment managers. These are shown on page 4 of appendix D. 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. There is no change during the quarter, with the Standard Life Long Lease fund "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.

- 1.7 Hymans have added Responsible Investment ratings for each fund in the portfolio on page 4. The funds we invest in are mainly rated 'good' [defined as "reasonable evidence of good RI practices" – see page 29], with Legal & General rated 'strong' and four funds [LCIV Emerging Markets Equity, Standard Life Long Lease property, Barings and IFM] rated 'adequate'.

Fund Manager Transactions

- 1.8 Since 30 June 2020 the final £20 million has been invested with LCIV Emerging Markets equity fund and a £3 million drawdown by Partners 2019 private debt partly funded by distributions from their earlier funds. Transactions are highlighted in appendix B. There were no withdrawals other than manager initiated distributions. Outstanding commitments at 31 August 2020 are:

Alcentra European Direct Lending	£10 million [some distributions are recallable]
Partners 2019 MAC	£4.5 million
Adam Street	\$62 million

Allocations v Strategy

- 1.9 Appendix B highlights the portfolio positions compared with benchmark. The significant underweights are private equity (4.6%), property (5.7%) and illiquid credit (3.5%). 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**

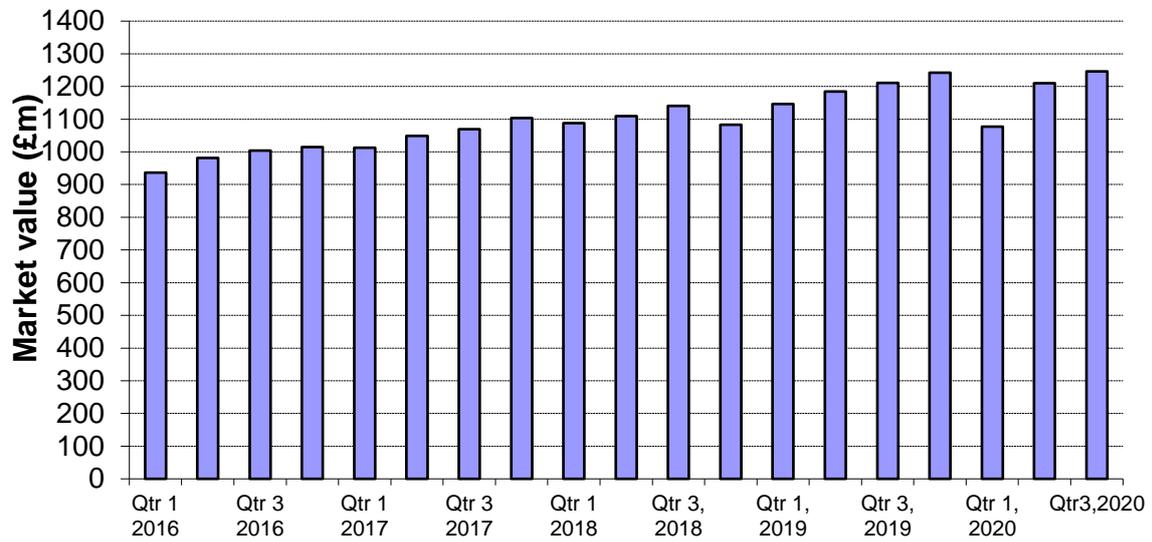
5.8.1 Not applicable

6. **BACKGROUND PAPERS**

6.1 None

Appendix A – Market Value of Investments as at 31 August 2020

Market value of Pension Fund



Appendix B - Asset Allocation as at 31 August 2020

		30-Jun-20	Transactions	31-Aug-20				Target
		£	£	£	%	%	%	Allocation
								%
Equities						44.64%		50.00
LGIM Global	Aug-20	259,317,532		274,261,150	22.00%		20.00	
LGIM RAFI	Aug-20	202,425,476		212,947,653	17.08%		20.00	
Emerging Markets	Aug-20	40,942,108	20,000,000	64,945,490	5.21%		5.00	
Private Equity	Mar-20	4,622,953		4,293,979	0.34%		5.00	
Property						4.30%		10.00
Core UK Commercial							5.00	
Aberdeen Standard Long Lease	Jun-20	28,933,000		29,012,830	2.33%		2.50	
CBRE Global	Jun-20	26,341,409		24,600,915	1.97%		2.50	
Diversified Growth						14.76%		0.00
Schroder	Aug-20	126,936,055		132,639,120	10.64%		0.00	
BNY Mellon (Newton)	Aug-20	48,892,475		51,315,339	4.12%		0.00	
Multi Credit Liquid						9.13%		11.00
Baring Global High Yield	Aug-20	36,170,929		37,488,086	3.01%		3.50	
Alcentra	Jul-20	32,347,860		33,892,170	2.72%		3.50	
Insight Secured Finance	Aug-20	41,769,334		42,460,180	3.41%		4.00	
Corporate Bonds						11.04%		10.00
Schroder		136,730,533		137,566,866	11.04%		10.00	
Illiquid Alternatives						15.53%		19.00
Alcentra	Jun-20	24,060,007		23,736,119	1.90%		4.00	
Partners Group	Jul-20	71,141,277	-1,318,764	73,668,261	5.91%		7.00	
M&G Lion Credit Opport	Aug-20	29,945,061	-270,836	30,388,008	2.44%		3.00	
IFM Global Infrastruct	Aug-20	68,915,256		65,818,170	5.28%		5.00	
Cash		30,520,238		7,454,651	0.60%	0.60%	0.00	0.00
Total		1,210,011,503	18,410,400	1,246,488,987	100.00%	100.00%	100.00	100.00