



Pension Fund Committee

24 February 2021

Title	Barnet Council Pension Fund - Performance for the Quarter to 31 December 2020
Report of	Director of Finance
Wards	N/A
Status	Public except for exempt Appendix D
Urgent	No
Key	No
Enclosures	<p>Appendix A – Market Value of Investments as at 31 December 2020</p> <p>Appendix B - Asset Allocation as at 31 December 2020</p> <p>Appendix C - Review of Investment Managers Performance for 4th quarter of 2020 (Hymans Robertson)</p> <p>Appendix D - Review of Fund Managers (Hymans Robertson) (exempt) – (to follow)</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Exempt enclosure - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of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>
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Summary	
This report comprises Hymans Robertson’s review of the fund’s performance in the quarter to 31 December 2020 together with their assessment of the individual manager’s capabilities.	
Officers Recommendations	
That the Pension Fund Committee note the performance of the Pension Fund for the quarter to 31 December 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 31 December 2020 was £1,336.1 million (appendix B), a return of 8.1% in the quarter (Appendix C, page 5). The 31 August 2020 valuation was £1,247.5 million. Despite the dramatic falls in markets at the end of Q1, triggered by concerns over Covid-19, the value of the fund increased by £93.7 million during 2020. Allowing for the effects of benefits and contributions, this represents a return of 6.3% during the year (appendix C, page 5).
- 1.3 As discussed on pages 5 & 6 of the Hymans Report (appendix C) financial markets having initially reacted badly to the spread of Covid-19, are with the advent of effective vaccines now pricing in a return to pre Covid levels of economic activity by the end of 2021. The chart on appendix A highlights the longer-term upward trend in fund values.

Performance Summary

- 1.4 The Fund returned 8.1% in the quarter (Appendix C, page 5) with all managers recording positive returns, with the exception of CBRE (overseas property) whose negative return is due to currency movements; the strengthening of £ against US\$. RAFI had a particularly good quarter returning 5% more than currency hedged non-UK equities. The overall annual return of 6.3% reflects a wide range of returns at manager level, such as:

LCIV Emerging Market Equities	+27%
LGIM non-UK Equities	+12% to +15%
Schroders Corp Bonds	+11%
Diversified Growth Funds	+7% to +8%
Other credit mandates	-2% to +3%
Property	1% to 4%
RAFI Equities & infrastructure	0%
UK equities	-10%

- 1.5 The infrastructure holding is a US denominated fund and was also impacted by the strengthening of sterling in 2020, noting that it is still above its 10% p.a. benchmark since inception.
- 1.6 Longer term, the fund continues to return below benchmark, with an annualised return of 5.8% over three years, being 1.0% p.a. below benchmark. now driven more by the returns from the newer credit mandates than the diversified growth

funds. The property returns are unreliable as both are based on September valuations.

Investment Manager Ratings

- 1.7 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). During the quarter, Hymans placed two mandates on watch due to changes in staffing. The ratings will be highlighted at the meeting. .
- 1.8 Hymans also include 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]. .

Fund Manager Transactions

- 1.9 Cash movements into and out of funds are highlighted in appendix B. A further £10 million was withdrawn from Newton, mainly to finance the reduction in deficit contributions payable by the Council following the advance payment made in quarter 2, 2020. A final £4.5 million (total commitment £30 million) was drawn by the Partners 2019 fund. Other realisations shown on appendix B are manager-initiated distributions. Outstanding commitments at 31 December 2020 are:

Adam Street \$62 million

Allocations v Strategy

- 1.10 Appendix B highlights the portfolio positions compared with benchmark. The diversified growth portfolio represents 13.75% (nil allocation), while there are significant underweights with private equity (4.5%), property (6.0%) and illiquid alternatives (4.3%).

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**

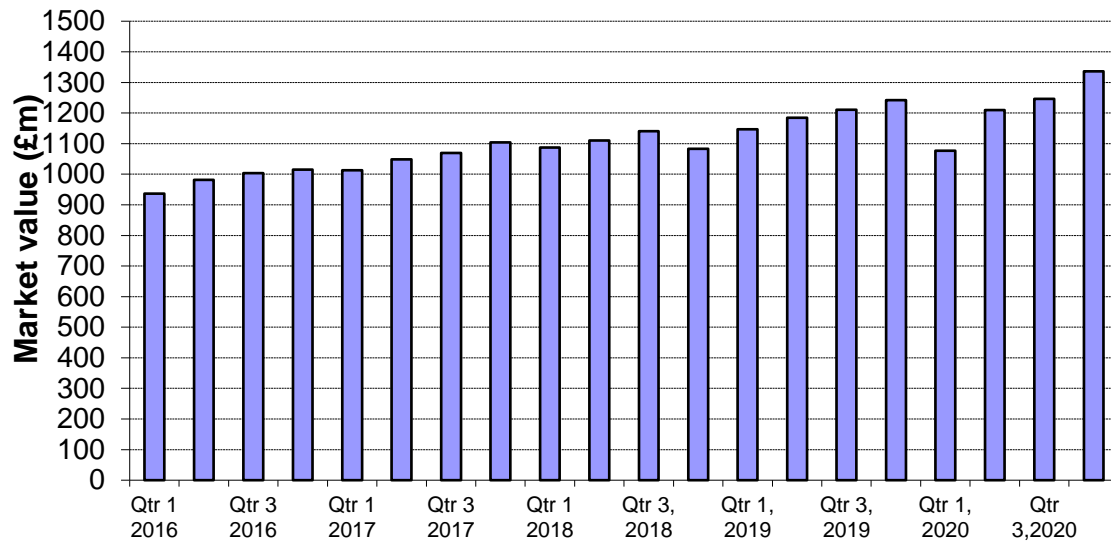
5.8.1 Not applicable

6. **BACKGROUND PAPERS**

6.1 None

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

Market value of Pension Fund



Appendix B - Asset Allocation as at 31 December 2020

		31-Aug-20	Transactions	31-Dec-20			Target Allocation		
		£	£	£	%	%	%	%	
Equities						46.59%		50.00	
	LGIM Global	Dec-20	274,261,150	299,018,734	22.38%		20.00		
	LGIM RAFI	Dec-20	212,947,653	241,521,748	18.08%		20.00		
	Emerging Markets	Dec-20	64,945,490	76,035,374	5.69%		5.00		
	Private Equity	Sep-20	4,293,979	5,972,277	0.45%		5.00		
Property						4.03%		10.00	
	Core UK Commercial						5.00		
	Aberdeen Standard Long Lease	Sep-20	29,012,830	29,243,000	2.19%		2.50		
	CBRE Global	Sep-20	24,600,915	24,619,476	1.84%		2.50		
Diversified Growth						13.75%		0.00	
	Schroder	Dec-20	132,639,120	140,796,921	10.54%		0.00		
	BNY Mellon (Newton)	Dec-20	51,315,339	-10,000,000	42,877,718	3.21%	0.00		
Multi Credit Liquid						8.98%		11.00	
	Baring Global High Yield	Dec-20	37,488,086	39,881,796	2.98%		3.50		
	Alcentra	Dec-20	33,892,170	36,302,730	2.72%		3.50		
	Insight Secured Finance	Dec-20	42,460,180	43,838,035	3.28%		4.00		
Corporate Bonds						10.78%		10.00	
	Schroder		137,566,866	144,021,817	10.78%		10.00		
Illiquid Alternatives						14.74%		19.00	
	Alcentra	Sep-20	23,736,119	-2,460,408	22,387,174	1.68%	4.00		
	Partners Group	Dec-20	73,668,261	-2,414,227	74,397,244	5.57%	7.00		
	M&G Lion Credit Opport	Dec-20	30,388,008	30,921,824	2.31%		3.00		
	IFM Global Infrastruct	Dec-20	65,818,170	69,206,350	5.18%		5.00		
Cash			8,454,651	6,607,047	15,061,698	1.13%	1.13%	0.00	0.00
Total			1,247,488,987	-8,267,588	1,336,103,916	100.00%	100.00%	100.00	100.00

NB: During quarter 4, 2020 LBB contributions were reduced by £6.8 million relating to advance payment of deficit contributions during April 2020.