



Pension Fund Committee

18 March 2021

Title	Investment Strategy and Manager Appointments
Report of	Director of Finance
Wards	N/A
Status	Public except for exempt Appendices.
Urgent	No
Key	No
Enclosures	Appendices (all exempt):- (A) Hymans Private Debt Allocation (B) Suitability Note –LCIV Private Debt (to follow) Exempt enclosures - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of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)).
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Summary

A recommendation to invest with London CIV's private debt fund was held over from the February meeting as Hymans Robertson's review of the fund was not finalised. Periodic new commitments are required to maintain the Committee's existing allocation to private debt. Using the London CIV for private debt is in accordance with our pooling obligations.

Officers Recommendations

That the Pension Fund Committee agree to commit £60 million to the LCIV Private Debt Fund.

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 The Pension Fund has an existing 11% target allocation to private debt. As at 31 December 2020 £98 million (7.3%) is currently invested with Partners Group and Alcentra European Direct Lending Fund. These funds have a limited life (around 8 years) and distribute Capital when the underlying investments are sold. As an example, the Partners 2015 fund has now distributed 70% of its initial capital. Thus to maintain an allocation requires regular new commitment, which is why we are invested in the 2015, 2017 and 2019 funds from Partners Group. To progress towards the target allocation, Hymans are recommending an additional commitment of £60 million (appendix A – Private Debt Allocation).
- 1.3 Hymans second paper “London CIV Private Debt sub-fund – Suitability Note” (appendix B) considers the suitability of the private debt fund being launched by the London CIV. As noted in the report, the Committee previously agreed (July 2019) to commit £30 million to the LCIV private debt fund. Unfortunately, the fund was never launched as only two boroughs were willing to commit. However, LCIV are now confident that there is sufficient demand to re-launch this fund. Hymans have determined that this fund is suitable for investing and therefore in light of the Committees wish that opportunities to pool are considered, it is recommended that the £60 million commitment is placed with the LCIV Private Debt Fund. Fee savings are available if a sufficient level of interest (circa €200 million) is achieved by the end of March, which is why this additional Committee meeting has been requested.
- 1.4 Hymans first paper (Appendix A – Private Debt Allocation) discussed recent rating changes for both Partners Group and Alcentra that moves these managers from Preferred to Positive (now one notch below Hyman's top preferred rating). We have not asked Hymans to review the capability of the LCIV's underlying managers, Pemberton and Churchill, rather to focus on the fund strategy and appointment process, for which LCIV was assisted by an external consultant, ISIO. We have not invited Pemberton or Cambridge to the meeting but have asked LCIV to attend.

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 and if necessary, revise 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.

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 The Committee supports the delivery of the Council's strategic objectives and priorities, as expressed through the 2019-2024 Corporate Plan, to be an efficient and effective Council through managing our finances and contracts robustly, by assisting in maintaining the integrity of the Pension Fund by monitoring the investments and administration of the Pension Fund.

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 and if necessary, revise 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 Investment Strategy, agenda item 8, Pension Fund Committee 24 February 2021.

<https://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=191&MId=10151&Ver=4>