	Pension Fund Committee **4 May 2021**
Title	**Investment Strategy and Manager Appointments**
Report of	Director of Finance
Wards	N/A
Status	Public with Exempt appendices
Urgent	No
Key	No
Enclosures	Appendices (**all exempt**):– (A) Hymans Robertson's Research Note – Renewable Infrastructure (B) Hymans's Robertson Strategy Update **(to follow)** (C) Suitability Note –LCIV Renewables Infrastructure **Exempt enclosures - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of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).**
Officer Contact Details	George Bruce, Head of Pensions, george.bruce@barnet.gov.uk - 0208 359 7126

Summary

The report provides an update on recent investment strategy discussions and includes a recommendation to invest £40 million (3%) into the LCIV Renewables Infrastructure Fund.

Officers Recommendations
That the Pension Fund Committee agree to: (1) commit £40 million to the LCIV Renewables Infrastructure Fund. (2) increase the infrastructure target allocation from 5% to 8% and reduce the property allocation from 10% to 7% (2) Delegate authority to officers to complete the necessary processes to enable investment.

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 Recent Pension Fund Committee meetings involved discussions on a number of strategy proposals including:

- ESG / Sustainable equities
- Private Debt
- Private equity secondaries
- Opportunities at the London CIV (renewables Infrastructure and the London Fund)
- Distressed Debt
- Distressed / Opportunistic property

1.3 Decisions have been made by the Committee on the first three with the first phase of the equity switch completed and new commitments made to LCIV Private Debt and Adams Street Private Equity Secondaries as discussed in the quarterly performance paper. Hymans will discuss their current thoughts on distressed debt and opportunistic property at the meeting but any proposals and training are held over to a subsequent meeting.

1.4 This paper concentrates on the LCIV Renewables Infrastructure Fund. LCIV have being invited to provide a repeat introduction to this fund immediately prior to the Committee meeting together with a brief overview of the London Fund.

1.5 There are three Hymans Robertson papers attached to this report, which are discussed below.

<u>Renewables Infrastructure – An Overview</u>

1.6 Appendix A provides background information on renewable infrastructure as an asset class. Comments made include:

- Renewables refers to a sub-set of infrastructure that is focused on harnessing energy from renewable sources. Main components are generation, storage and distribution of solar, wind and hydro energy.
- Government commitments to reduce carbon emissions is driving demand for these sources of power.

- The cost of generating energy from solar and wind has fallen substantially making them economic without subsidy.
- Renewables now represent more than half of all infrastructure transactions.
- Assets initially had a life expectancy of around 25 years although these timescales are starting to lengthen.
- Returns depend on willingness to take on development, planning and construction risk and vary between 5% and low double digit.
- Choices are available whether to use a specialist renewables fund or a broader infrastructure fund, such as our current investment with IFM. Renewables returns may be lower than other sectors of the infrastructure market.
- Hymans view renewable infrastructure as an attractive addition to an investment portfolio and complementary to traditional infrastructure investing.

Strategy Allocation

1.7 Appendix B proposes changes to the strategy to enable an allocation to renewables infrastructure by switching 3% from property, currently unused, to the illiquid alternatives allocation. Funding will be from the two diversified growth mandates that have a nil allocation and are being realised to meet funding needs from other investments.

LCIV Renewables Infrastructure Suitability Report

1.8 Hymans Robertson have reviewed the LCIV Renewables Infrastructure fund and the LCIV's ability to manage the fund. The executive summary is:

"In our view, the Renewable Infrastructure sub-fund is a suitable investment for the Fund. This view reflects our confidence in the investment philosophy and process utilised within the London CIV, along with our favourable view of the four funds initially selected for investment."

1.9 The proposed commitment to the fund is 3% / £40 million.

1.10 Reservations are expressed within the report concerning employee retention given the small investment team size and high staff turnover of LCIV and its lack of track record as a fund manager.

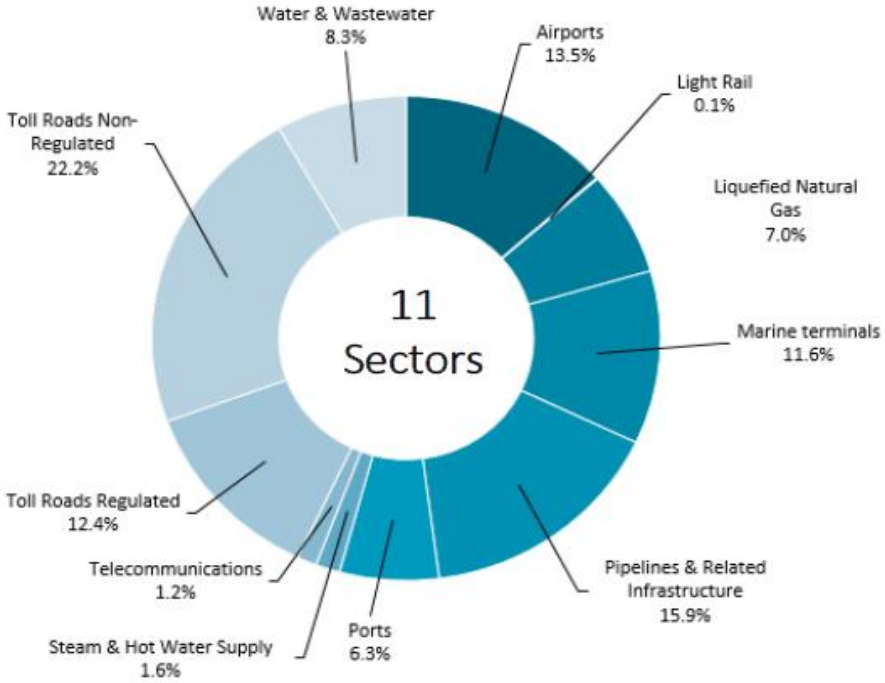
1.11 The report discussed the fund structure, including:

- The fund is open ended meaning that the LCIV will retain realisations and seek to apply to new opportunities. If will not be possible to withdraw funds in the first five years. Investors who join after the first close will be required to pay 'interest' on prior drawdowns of CPI + 3%.
- Initially the fund will have four underlying fund managers. These are discussed on pages four and five of Hymans' report. The funds were selected with the assistance of an external consultant, Redington. These funds are closed ended, meaning that they have limited lives and will distribute realisations. See the comment above that LCIV will reinvest these distributions in new funds.
- The target return is to generate an IRR of 7-10% in local currency terms (net of fees), with a target yield of 3-5% p.a.

- This will be a global fund. Indicative exposures are broadly equal to UK, rest of Europe, North America and Asia Pacific encompassing solar and wind generation, transmission, distribution and storage (page seven).
- The fee levels are competitive (pages eight & nine).

1.12 LCIV anticipate that the initial four funds will fully invest their capital within three years.

1.13 Barnet currently has 5% of the fund invested with IFM Infrastructure. As can be seen from the sector allocations below, IFM has not invested in renewables. Therefore, there will be no initial overlap between LCIV and IFM.



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 officers 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 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.

5.7 **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