	Pension Fund Committee **4 May 2021**
Title	**Barnet Council Pension Fund - Performance for the Quarter to 31 March 2021**
Report of	Director of Finance
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Market Value of Investments as at 31 March 2021 Appendix B - Asset Allocation as at 31 March 2021 Appendix C - Review of Investment Managers Performance for 1st Quarter 2021 (Hymans Robertson) **(To Follow)** Appendix D – Market Commentary (Flash Stats)
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Summary

This report provides an update on investment valuations, transactions and returns in the quarter to 31 March 2021.

Officers Recommendations

That the Pension Fund Committee note the investment activities and performance of the Pension Fund for the quarter to 31 March 2021.

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 2021 was £1,388.2 million (31 December £1,336.1 million) (appendix B), an estimated return of 3.5% in the quarter. The timing of the meeting does not allow Hymans Robertson sufficient time to prepare their normal quarterly reporting, however they will provide the meeting with a summary of quarterly valuations and returns. The fund value has increased by £311.4 million in the twelve months, an estimated return of 26.7%. Even taking into consideration the coronavirus impacted return of -13.4% for quarter 1, 2020, returns in the last 15 months have been spectacular. Equity markets in US and Continental Europe, continue to reach all-time highs into April.

Performance Summary

1.3 Hymans 'flash stats' market commentary (appendix D) discusses market returns in the last three and twelve months. Global equity returns, led by the United States and Emerging Markets have returned 40% in the last year. Government bond yields, although still historically low, have been increasing and this in the last quarter had a negative impact on corporate bond yields.

1.4 Notable returns in the last quarter include RAFI equities, which returned 12.4% (53.3% in last twelve months) as 'value' orientated stocks benefited from the improved economic outlook. LGIM report that our portfolio has returned 48% in twelve months and annualised 11.2% and 13.0% over three and five years. Schroders Corporate Bonds had an estimated return of -4% being impacted by rising yields on government bonds. The strength of sterling detracted from emerging market and US$ private equity valuations. Returns from diversified growth fund and credit mandates were mostly in the 1 – 3% range.

Investment Manager Ratings

1.5 Hymans' manager ratings as at the quarter end are not currently available, although they report no changes for Barnet managers in the quarter.

Fund Manager Transactions

1.6 Cash movements into and out of funds are highlighted in appendix B. The first of six transitions of the Legal & General Equity portfolio was completed at the end of March, with sales of £58 million of market cap equities and £20 million from RAFI. This cash was used to make the first investment into Future Worlds (£56 million) and the remainder (£22 million) was held in cash at the quarter end and invested into LCIV Sustainable Equity Exclusion Fund on 16 April.

1.7 Other notable transactions comprised a drawdown for Adam Street private equity (£3.5 million) and distributions from the private debt funds (Partners and Alcentra) of £10.0 million

1.8 The new commitments to Adams Street Secondary and LCIV Private Debt have been completed but no funds are drawn as yet. Undrawn commitments awaiting investment as at 31 March 2021 are:

Adams Street Private equity	$57.2 million

Adams Street Secondary Private Equity	$55 million
LCIV Private Debt	£60 million

Allocations v Strategy

1.9 Appendix B highlights the portfolio positions compared with benchmark. The diversified growth portfolio represents 13.4% (nil allocation), while there are significant underweights with private equity (4.4%), property (6.0%) and private debt (4.7%).

Carbon Intensity Measures

1.10 At the February Committee. a question was asked on the impact on carbon emissions of the changes in the equity portfolio following completion of the switch to LGIM Future Worlds and LCIV Sustainability Exclusion Fund.

1.11 Data has been provided on both carbon emission and carbon reserve intensity for each component of the equity holdings (ignoring LCIV Emerging Markets which has not changed). Emissions intensity are calculated based on tonnes of CO2 produced per £1 million of sales. Reserves intensity is calculated based on tonnes of CO2 produced if both proven and probably fossil fuel reserves were burned per £1 million invested.

1.12 The reductions in carbon intensity following completion of the equity reorganisation are:

Emissions 39% [moving from 210t to 128t CO2 per £1m sales]

Reserves 49% [moving from 2,600t to 1,834t CO2 per £1m invested]

1.13 The emissions values assume that the relationship between sales and market value is the same across all the portfolios, which is unlikely. If RAFI has on average more sales per £ of market value than market capitalised equities, then the reduction in emissions will be understated. As part of the implementation of the TCFD Climate Reporting requirement, we will be required to measure emissions across all asset classes from 2023, hopefully in the process tackling data challenges.

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

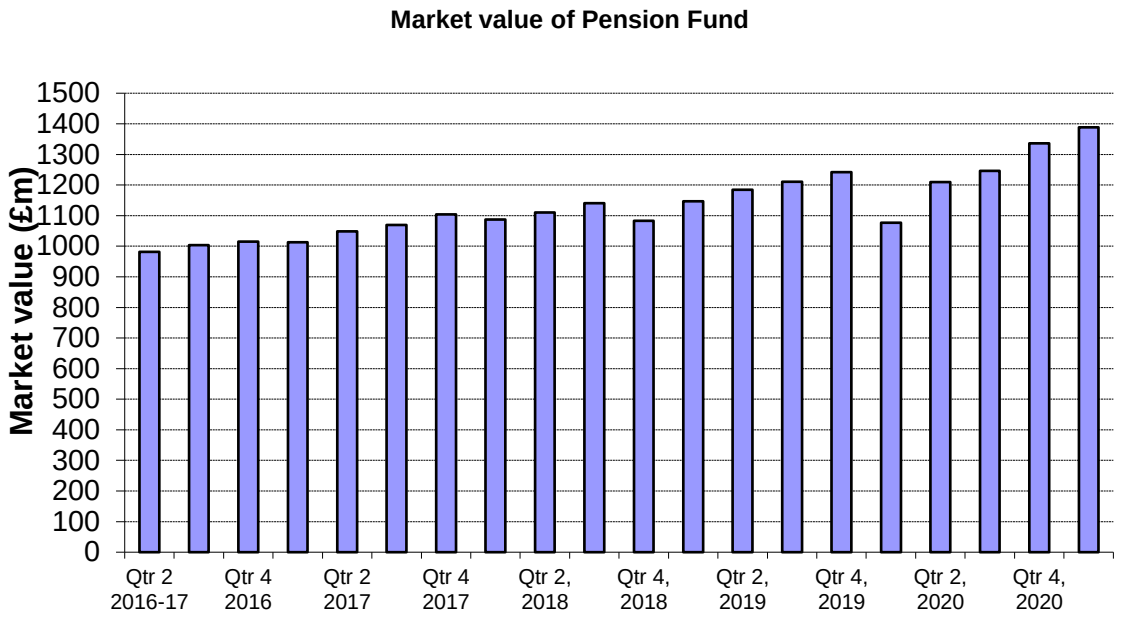
5.9 **Insight**

5.8.1 Not applicable

6. BACKGROUND PAPERS

6.1 None

Appendix A – Market Value of Investments as at 31 March 2021



Appendix B - Asset Allocation as at 31 March 2021

	valuation date	31-Dec-20	Transactions	31-Mar-21			Target Allocation	
		£	£	£	%	%	%	%
Equities						**46.68%**		**50.00**
LGIM Global		299,018,734	-58,000,000	255,743,273	18.42%		0.00	
LGIM RAFI		241,521,748	-20,000,000	251,393,656	18.11%		10.00	
LGIM Future Worlds			56,000,000	55,942,498	4.03%		25.00	
LCIV Emerging Markets		76,035,374		75,904,478	5.47%		5.00	
LCIV Sustainable Exclusion Equity		0		0	0.00%		5.00	
Adams Street Private Equity	Dec-20	5,972,277	3,528,988	8,977,467	0.65%		5.00	
Property						**3.98%**		**10.00**
Core UK Commercial							5.00	
Aberdeen Standard Long Lease		29,243,000		29,622,119	2.13%		2.50	
CBRE Global		24,619,476		25,649,025	1.85%		2.50	
Diversified Growth						**13.44%**		**0.00**
Schroder		140,796,921		143,172,047	10.31%		0.00	
BNY Mellon (Newton)		42,877,718		43,362,247	3.12%		0.00	
Multi Credit Liquid						**8.89%**		**11.00**
Baring Global High Yield		39,881,796		41,140,344	2.96%		3.50	
Alcentra	Feb-21	36,302,730		37,250,100	2.68%		3.50	
Insight Secured Finance		43,838,035		45,004,798	3.24%		4.00	
Corporate Bonds						**9.99%**		**10.00**
Schroder		144,021,817		138,726,359	9.99%		10.00	
Illiquid Alternatives						**13.58%**		**19.00**
Alcentra	Dec-20	22,387,174	-1,812,784	20,292,543	1.46%		4.00	
Partners Group	Feb-21	74,397,244	-8,179,717	67,776,864	4.88%		7.00	
M&G Lion Credit Opport		30,921,824	-197,922	31,057,450	2.24%		3.00	
IFM Global Infrastruct		69,206,350		69,443,088	5.00%		5.00	
Cash		15,061,698	32,696,209	47,757,907	3.44%	**3.44%**	0.00	**0.00**
Total		**1,336,103,916**	**4,034,774**	**1,388,216,263**	**100.00%**	**100.00%**	**100.00**	**100.00**

NB: Prior month valuations are adjusted for cash and currency movements.
The cash inflow was partly due to a high level of transfer in receipts during the quarter.