



Pension Fund Committee

26 July 2021

Title	Annual Investment Performance Report
Report of	Director of Finance
Wards	All
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1 – Summary of Investment Returns Appendix 2 – PIRC annual report
Officer Contact Details	George Bruce, Head of Pensions, 0208 359 7126 george.bruce@barnet.gov.uk

Summary

This report summarises the findings from the 2020-21 PIRC investment performance report comparing the Barnet Pension Fund with the Local Authority average returns.

Officers Recommendations

That the Pension Fund Committee note the report.

1. WHY THIS REPORT IS NEEDED

- 1.1 To enable the Pension Fund Committee to consider the factors influencing the relative performance of the Barnet fund with other Local Authority funds.
- 1.2 The terms of reference of the Pension Fund Committee require the Committee to review and challenge the fund managers' investment performance against benchmarks and targets. The Committee has determined its own asset allocation and return targets and measures performance quarterly against these targets. Comparison against other local authority fund returns while of interest does not take into consideration of each fund's risk profile. This report does not therefore replace the quarterly monitoring undertaken by the Committee.
- 1.3 PIRC receives quarterly return data from 62 funds and has constructed performance league tables with a 30-year history. These comparators are provided at total return level and for five broad assets classes, although Barnet has only invested in all five for the last two years. A summary of the Barnet results is given on appendix 1 and the PIRC annual report for Barnet is attached at appendix 2.
- 1.4 Appendix 1 indicates that at asset class level e.g. equities, Barnet's returns have mostly exceeded the average of other local authorities. In particular, equity and diversified growth returns have exceeded the average in all time periods. Despite asset class outperformance, at total fund level the picture is more mixed due to asset allocation decisions. Barnet has for many years operated a lower than average allocation to equities; the most volatile (risky) asset class. These have in each time period been the highest returning asset class. The impact has been that in shorter time periods, 1 and 3 years, total fund performance has exceeded the average, while for longer periods it has been behind the average.
- 1.5 Interpretation of the findings is that Barnet has a good history in determining the manner in which each asset class is managed but that the lower risk approach would, as expected, lead to lower average returns over longer periods.
- 1.6 The PIRC annual report for Barnet, appendix 2, similarly notes the different approach taken to fund allocations.

2. REASONS FOR RECOMMENDATIONS

- 2.1 The report is for noting only.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None.

4. POST DECISION IMPLEMENTATION

4.1 None.

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 & 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", Regulation 9(3) . 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.

5.6.2 Ensuring the long-term financial health of the Pension Fund will benefit everyone who contributes to it. Access to and participation in the Pension Fund is open to those with and those without protected characteristics, alike, provided that the criteria set out within the relevant Regulations are met

5.7 Corporate Parenting

5.7.1 Not applicable in the context of this report.

5.8 Consultation and Engagement

5.8.1 Not required.

5.9 Insight

5.9.1 Not applicable in the context of this report.

6. BACKGROUND PAPERS

6.1 None.