Pension Fund Committee

26 July 2021

Title	**LCIV Pooling update**
Report of	Director of Finance
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix 1 – Pooling Forecast Appendix 2 - Training slides for LCIV London Fund
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Summary

The London CIV has requested a forecast on the assets that Barnet will have invested with the London CIV. This report considers the impact of current decisions on levels of pooled assets. Also discussed is options for switching assets into LCIV pooled products and reservations expressed on investing in the LCIV London Fund.

Officers Recommendations

That the Pension Fund Committee:

(1) Note the projection for pooled investments (appendix 1);
(2) Agree to Hymans Robertson reviewing the impact on the Pension Fund of pooling most or all of the credit mandates,
(3) Decide whether the Committee wishes to attend a LCIV London Fund training session.
(4) Agree that a representative of LCIV provides an update to the next meeting.

BARNET
LONDON BOROUGH

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 Pooling is a term introduced by Government in 2015 that requires Local Government Penson Funds to collectively appoint fund managers. The purpose of pooling is primarily to reduce costs, but the Government also expect improved investment decision making. The draft guidance issued by Government in 2019 requires each LGPS to:

- Appoint a company to implement investment strategy, including fund selection and terms. For Barnet this is the London CIV.
- Regularly review the balance of active and passive investments and consider whether active management has added value.
- Take a long-term approach to cost minimisation (another way of saying should disregard pooling setup costs).
- Enable decisions on the distinction between strategic and implementation decisions to be made collectively by the pool.
- Transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period. The time period for illiquid assets should take into account transaction costs.
- Only hold assets outside the pool on a temporary basis if transaction costs are high. A rationale should be provided for assets not pooled.
- Review at least every three years pooling plans (LBB last review was undertaken July 2020)
- Make new investments outside the pool in only very limited circumstances e.g. local investments.
- Set targets for infrastructure investments.
- Report on assets pooled and investment costs annually.

1.3 LB Barnet has selected the London CIV as its pooled vehicle as have the other 32 local government bodies in London. We are now being asked by the London CIV to provide a 4-year projection of our pooled assets to support their annual reporting to MHCLG.

1.4 In recent months Barnet has committed to invest in three additional LCIV funds: Sustainable Equities, Private Debt and Renewables infrastructure. We now have five pooled products including Real Return (Newton DGF) and Emerging Market Equities. Real Return will be fully realised as new commitments are invested. The passive equities with Legal and General are also treated as pooled as the terms were agreed by the LCIV. Thus slightly less than half of the Barnet investments by value are not pooled and some of the recent new mandates; Adams Street Secondaries and the current recommendation for Barings distressed Debt were made outside the LCIV as no suitable pooling vehicles was available.

1.5 Appendix 1 set out the proportion of the Fund's assets that are pooled, passive and non-pooled projected over the next five years based on current commitments. The only non-approved commitment is to a successor LCIV private debt fund assumed to launch in 2024.

1.6 Currently 10.6% of the assets are pooled and this is expected to increase to 20.0% based on current commitments. That will leave by 2025, 42.1% of the assets that are either not pooled or not passive. The analysis of non-pooled & non-passive assets using actual values and not targets is:

Unpooled Exposures as at 31 March 2025

	%	%
Property		3.8%
Diversified Growth		6.2%
Corporate Bonds	9.8%	
Multi asset Credit	8.7%	
Private Debt (Partners)	0.3%	
Illiquid alternatives (M&G)	2.1%	
		20.9%
Private equity		4.7%
Infrastructure (IFM)		5.0%
Cash		1.4%
		42.1%

1.7 With LCIV having no commercial property or private equity vehicles in place or planned and with DGF's scheduled to be realised, should the Committee wish to consider switching from current manager to available pooled products, the place to start is the various credit mandates that are expected to comprise 20.9% of the portfolio as at March 2025.

1.8 The LCIV is currently designing a sterling credit fund and in additional to private debt has two other credit funds; multi asset credit (12 LBs and £1.2bn invested) and Global Bonds (4 LBs and £400 million invested). It is proposed that the Committee invite Hymans to review these funds and identify the impact on the Barnet Fund of switching most or all our current credit exposures into these three funds.

1.9 At the current time no action is proposed for property, private equity and infrastructure. Although the LCIV does have an infrastructure fund (6 LBs and £400 million invested) it's a multi fund approach that on launch was not deemed particularly appealing. It is suggested that we focus on credit initially as these have the least barriers to switching into pooled products.

<u>The London Fund</u>

1.10 We have been intending to run a training session to introduce the recently launch LCIV London Fund. Unfortunately, at the last two training sessions we ran out of time to discuss this fund. As a reminder, the fund intends to invest in residential property, infrastructure and capital for small businesses in London. In addition to making an economic return it aims to support job creation, area regeneration and positive environmental impact. A copy of the presentational slides that we didn't manage to discuss at training is attached (appendix 2).

1.11 Concern was raised at a prior meeting that investing in a London focused fund was inappropriate as this would add to the Council's (not the Fund) exposure to the London environment in that the Council is the ultimate backer of the Pension Fund should investment returns be insufficient. If the London economy were to suffer an economic shock this could impact on the Council's finances and the Pension Fund investing in London would potentially be increasing the impact of a London focused economic shock. It is not intended to ask the LCIV to present on the London Fund if it's the Committee's view that such an investment is inappropriate. Comments supportive of making an allocation to the London Fund are:

- Barnet Pension Fund is highly diversified and the likely commitment is 2-3%, thus the performance of the London Fund is unlikely to significantly impact on level of contributions payable by the Council.
- The London Fund will invest in areas that we have no current exposure e.g. provide asset class diversification.
- The Fund will be invested across the whole of London and not just within Barnet.
- The London Fund aims to make a positive social impact on London and this will benefit Barnet residents.

1.12 The Initial investment in the London Fund comprise a portfolio of private sector rented properties both built and under development mainly in London but including assets in Leeds, Manchester and Glasgow.

1.13 The Committee is asked to consider whether it wishes to receive a training session on the LCIV London Fund.

Other LCIV Matters

1.14 It's been a year since a representative of the LCIV attended a Committee meeting to provide a general update on LCIV activities and it is proposed that they attend the next meeting. Barnet Pension fund continues to have representation via Cllr shooter on the LCIV's Shareholders Committee whose role is to offer a consultation opportunity to Borough representatives on the LCIV's strategy and business plan (MTFS), financial and corporate performance matters etc.

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. Pooling guidance requires regular reviews of pooling plans.

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 Officers will take the appropriate actions arising from the Committee's decisions, including submission of the pooling forecast to the London CIV.

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.

Local Government Pension Scheme: Investment Reform Criteria and Guidance (November 2015) includes a Government expectation that all administering authorities will pool their investments to achieve economies of scale and the wider benefits of sharing best practice.

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 None.