

## Pension Fund Committee

14 December 2021

<b>Title</b>	<b>Barnet Council Pension Fund – Valuation, Transactions and Performance</b>
<b>Report of</b>	Director of Finance
<b>Wards</b>	N/A
<b>Status</b>	Public, with exempt appendix
<b>Urgent</b>	No
<b>Key</b>	No
<b>Enclosures</b>	Appendix A – Market Value of Investments as of 31 October 2021 Appendix B - Asset Allocation as of 31 October 2021 Appendix C – Review of Investment Managers Performance for 3 <sup>rd</sup> quarter, 2021 (Hymans Robertson) Appendix D – Review of Fund Managers (Hymans Robertson) (exempt) <b>Exempt enclosure - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of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)).</b>
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<b>Summary</b>	
This report provides an update on investment valuations, transactions and performance in the quarter to 30 September 2021 and as at 31 October 2021.	
<b>Officers Recommendations</b>	
<b>That the Pension Fund Committee note the investment activities and performance of the Pension Fund for the quarter to 30 September 2021 and valuation as at 31 October 2021.</b>	

## **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.
- 1.2 At the October meeting, Hymans Robertson's quarterly reporting for 30 September 2021 was not available. This is now included. In addition, updated valuation, allocations and transactions to 31 October 2021 are provided. The valuations referred to in this paper are as at 31 October 2021.

### **Fund Valuation**

- 1.3 The valuation of the fund as of 31 October 2021 is estimated at £1,492.7 million (30 September 2021 £1,475.1 million) (appendix B).

### **Performance**

- 1.4 The quarterly return to 30 September was 1.0% (appendix C, page 5) The October return is estimated at 1.9%. 12-month returns to September of 19% exceed benchmark by 1.5%, while annualised three year returns of 8.4% are exactly in line with benchmark.
- 1.5 The best performing asset classes over the three years have been non-UK developed equities and infrastructure. In comparison to benchmark, long-lease property, Newton diversified growth, infrastructure and active equities are the outperformers, while overseas property and Alcentra Direct Lending have underperformed their cash targets of 9-10%, which is perhaps not surprising in the current environment. With the exception of Schroders Corporate Bonds, all the credit mandates have struggled to achieve their benchmarks.
- 1.6 The unhedged investments in infrastructure, overseas property and private equity benefited from sterling's decline against the US dollar from \$1.38 to \$1.35 in the quarter, although this reversed during October as sterling strengthened to \$1.37.

### **Investment Manager Ratings**

- 1.7 Hymans' manager ratings as at the quarter end are shown on page 6 of appendix D. Most managers are rated preferred or positive, while the four LCIV funds are unrated. Two managers are rated as suitable – Schroders DGF and Alcentra Direct Lending, with Alcentra MAC, which is currently being sold, rated negative. CBRE is rated preferred on watch, due to a staffing change that occurred in late 2020, Ivo De Wit, fund manager of the Global Alpha fund, and replaced by Elisabeth Troni. As De Wit managed the strategy since 2010, this was a significant change at the time. The 'on watch' status will be reviewed in Q1 2022

### **Fund Manager Transactions**

- 1.8 Cash movements into and out of funds are highlighted in appendix B. These comprised drawdowns from LCIV Private Debt (£1.695 million) and Renewables Infrastructure (£6.863 million). During November £9.5 million was returned from LCIV Private Debt due to the take on of new investors. This money will be re-invested. There was also a distribution from Partners of £2.004 million.

1.9 Undrawn commitments on 31 October 2021 are summarised in the table below:

	Currency	Commitment	Drawn in month	Undrawn Commitment
Adam Street Private Equity	US\$	67,500,000	0	48,518,769
Adam Street Secondary Private Equity	US\$	55,000,000	0	55,000,000
LCIV Private Debt	£	60,000,000	10,663,920	39,363,600
LCIV Renewables Infrastructure	£	40,000,000	663,080	30,122,125
Barings Special Situation Debt	Euro €	40,000,000		23,607,474
Fiera Real Estate	£	30,000,000		30,000,000
<b>Sterling equivalent</b>	<b>£</b>			<b>195,040,810</b>

NB: Drawn above excludes catch up interest charges.

1.10 During December the third phase of the equity reorganisation within Legal and General will involve £56 million being invested into Future Worlds and £22 million to LCIV Sustainable Equity Exclusion Fund, financed from sales of market cap equities (£58 million) and RAFI equities (£20m).

### **Allocations v Strategy**

1.11 Appendix B highlights the portfolio positions compared with benchmark. The overall equity allocation is close to target although the private equity element is 3.3% underweight. The underweights to property and illiquid alternatives is due to the undrawn commitments detailed in 1.9 above with cash for these currently invested in Schroders diversified growth funds.

## **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 performance of the Pension Fund's investments taking into consideration the benchmarks and targets set out in the Investment Strategy Statement and investment management contracts and to consider advice from the investment advisor(s)."

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 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. ENVIRONMENTAL IMPACT**

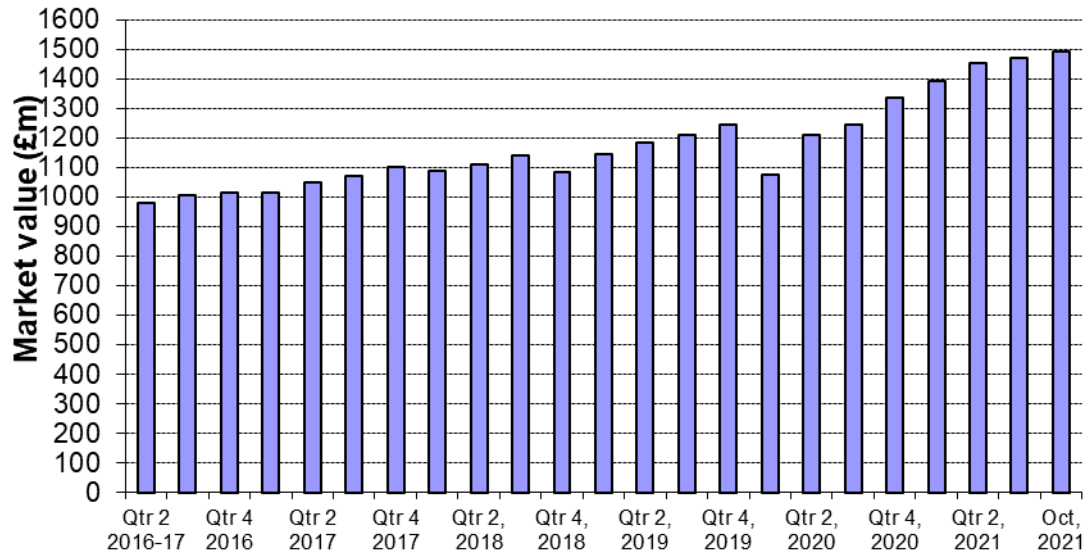
6.1 Not relevant to this report.

## **7. BACKGROUND PAPERS**

7.1 None

## Appendix A – Market Value of Investments as of 31 October 2021

Market value of Pension Fund



## Appendix B - Asset Allocation as of 31 October 2021

		30 Sept 2021 (as previously reported)		Transactions	31-Oct-21		Target Allocation	
		£'000	£'000		£'000	%	%	%
<b>Equities</b>							<b>50.18%</b>	<b>50.00</b>
	LGIM Global	240,994			250,826	16.80%		0.00
	LGIM RAFI	244,871			252,481	16.91%		10.00
	LGIM Future Worlds	116,488			121,435	8.14%		25.00
	LCIV Emerging Markets	75,821			74,806	5.01%		5.00
	LCIV Sustainable Exclusion Equity	23,604			24,649	1.65%		5.00
	Adams Street Private Equity	25,224			24,818	1.66%		5.00
<b>Property</b>							<b>3.95%</b>	<b>6.00</b>
	Aberdeen Standard Long Lease		September	30,757		32,062	2.15%	2.00
	CBRE Global		June	27,413		26,972	1.81%	2.00
	Fiera Real Estate Opportunities Fund	0			0			2.00
<b>Diversified Growth</b>							<b>10.20%</b>	<b>0.00</b>
	Schroder	149,976			152,213	10.20%		0.00
	LCIV Real Return (Newton)	0			0	0.00%		0.00
<b>Multi Credit Liquid</b>							<b>8.55%</b>	<b>11.00</b>
	Baring Global High Yield	42,615			42,354	2.84%		3.50
	Alcentra Multi Credit	38,967			39,214	2.63%		3.50
	Insight Secured Finance	45,899			45,983	3.08%		4.00
<b>Corporate Bonds</b>							<b>9.49%</b>	<b>10.00</b>
	Schroder	140,900			141,712	9.49%		10.00
<b>Illiquid Alternatives</b>							<b>15.19%</b>	<b>23.00</b>
	Alcentra European Direct Lending		September	18,083		18,448	1.24%	1.50
	Partners Group		September	53,982	-2,004	52,316	3.50%	5.50
	LCIV Private Debt			18,942	1,695	20,636	1.38%	4.00
	Barings Special Situations Debt		September	14,687		16,211	1.09%	2.00
	M&G Lion Credit Opportunity			31,235		31,302	2.10%	2.00
	LCIV Renewables Infrastructure			3,024	6,853	9,878	0.66%	3.00
	IFM Global Infrastructure			78,928		77,871	5.22%	5.00
<b>Cash</b>		49,893		-13,423	36,470	2.44%	<b>2.44%</b>	<b>0.00</b>
<b>Total</b>		<b>1,472,303</b>		<b>-6,879</b>	<b>1,492,657</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00</b>
<p>Due to report timings, there will be small valuation differences with Hymans reports  Prior month valuations are adjusted for cash and foreign exchange rate movements  The net cash invested represents the balance of contributions, benefits and income  During October, the Pension Fund returned £7.574 million to the Council relating to advance payment of deficit contributions</p>								