



Pension Fund Committee

11 July 2022

Title	Barnet Council Pension Fund – Valuation, Transactions and Performance
Report of	Executive Director of Strategy and Resources
Wards	N/A
Status	Public, with exempt appendix D
Urgent	No
Key	No
Enclosures	<p>Appendix A – Market Value of Investments as of 31 May 2022 Appendix B - Asset Allocation as of 31 May 2022 Appendix C – Review of Investment Managers Performance for 1st quarter, 2022 Appendix D – Review of Fund Managers (Hymans Robertson) (exempt)</p> <p>Exempt enclosures - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of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)).</p>
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Summary	
This report provides an update on investment valuations, transactions and performance in the 3 months to 31 March 2022 with an updated valuation to 31 May 2022.	
Officers Recommendations	
That the Pension Fund Committee note the investment activities and performance of the Pension Fund for the quarter to 31 March 2022.	

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 declined by £16.4 million in the quarter to 31 March 2022 to £1,502.2 million (31 December 2021 £1,518.6 million) (appendix B). At 31 May 2022 the value has fallen a further £32.1 million to £1,470.1 million

Performance

- 1.3 Performance over the quarter to 31 March 2022 of -1.9% was 0.5% below benchmark (appendix C). However, the annual return of 7.4% and annualised three years return of 8.9% are respectively 0.7% and 0.3% in excess of the benchmark.

The main drivers of absolute returns continues to be listed and private equities, infrastructure and property. Apart from direct lending, returns from credit mandates have been low single digit.

The annual outperformance over benchmark has been generated by private equity, infrastructure, UK property and corporate bonds. The two new London CIV equity mandates (emerging markets and sustainable equities) have struggled in the last year, underperforming their benchmarks by -3.5% and -5.2% respectively as have most of the credit mandates.

Global equity markets have declined sharply in quarter 2; by 6.5% to 31 May 2022 and a further circa 10% during June in local currencies. The unhedged portion of the portfolio has benefited from sterling weakness. Hymans will provide an update on market conditions at the meeting.

Investment Manager Ratings

- 1.4 Hymans' manager ratings are included within their quarterly report (appendix D, page 5). All the managers are rated either preferred or positive (the top two ranking) other than three mandates ranked as suitable as highlighted in the report. The LCIV mandates are not rated by Hymans.
- 1.5 Hymans also award Responsible Investment ratings and all bar one is rated strong or good. The four London CIV mandates not rated. Two funds were uprated from adequate to good in the quarter.

Notable comments in the Hymans quarterly report (appendix D) include:

A change of benchmark (not expected to impact on performance) and a fee reduction for Schroders DGF from 0.5% to 0.43% (appendix D, page 5),

Explanations for the underperformance of the LCIV Emerging Markets and Sustainable Equities mandates are given on pages 6 & 7.

Fund Manager Transactions

- 1.6 Cash movements into and out of funds are highlighted in appendix B. The fourth phase of the equity reorganisation involved £56 million invested into LGIM Future Worlds was completed in May. Sales were from RAFI (£20 million) and Market Cap equities (£36 million) at LGIM. There are two remaining phases (October 2022 and March 2023) with £112 million due to be invested in Future Worlds and £22 million into LCIV Sustainable Equities. These amounts will require updating to achieve the target weightings of 25% Future Worlds, 10% RAFI and 5% LCIV Sustainable Equities.

An investment of £44 million was made into the Insight Secured Finance Fund II to achieve the target allocation of 6%. This was funded by realisation of the Alcentra Multi-Asset Credit mandate from which £12.991 million was received between Jan & May leaving a balance due of £9.3 million which was received during June. Alcentra have been returning funds when the underlying securities are liquidated.

The holdings in the M&G Lion fund were sold in Quarter 1, realising £31.220 million.

There were drawdowns from LCIV Private Debt (£6.245 million), Adams Street (£2.859 million) and Barings (£1.855 million). Realisations were received from Partners Group (£3.517 million) and Alcentra European Lending (£1.540 million) as these funds continue to wind down. A net realisation was also received from LCIV renewables Infrastructure (£0.767 million) as capital was temporarily returned to allow new investors to join the fund.

During June 2022, the Fiera Property called (£28.2 million) representing most of the £30 million commitment. There was also the first call from Adams Street Secondaries Fund of \$5.5 million and a further call of \$4.725 million from Adams Street Global Private Equity. As a consequence £20 million will be realised from Schroders Diversified Growth Fund.

LCIV Global Bonds and Multi-Asset Credit

- 1.7 At the Committee meeting held on 14 December 2021, a decision was made (agenda item 16) to invest in two LCIV funds:
- (1) Invest 5% of the Fund with LCIV Global Bonds and reduce the Schroders Corporate Bond Fund to 5%, both equivalent to approximately £75 million but defer implementation until after completion of the LCIV Global Bonds ESG transformation.
 - (2) Invest 3.5% (Circa £50 million) of the Fund to LCIV Multi-asset Credit using proceeds from the realisation of Alcentra MAC and existing cash balances but defer implementation until after the reorganisation of the LCIV MAC fund.

In both cases the investment was deferred pending ongoing reorganisations of the two funds. In the case of Global Bonds this was to integrate ESG criteria to its investment process, which is aligned with the Committee's responsible investment goals. For Multi-asset credit the reorganisation was to add an

additional manager (PIMCO) to the fund, which was regarded as offering beneficial diversification. Implementation of these decisions was delegated to officers and as the reorganisations will be completed by mid-July 2022 the approved transactions will now be progressed. These transactions will involve disposals from Schroders Corporate Bonds and Diversified Growth Fund holdings.

1.8 Undrawn commitments on 31 May 2022 are summarised in the table below:

	Currency	Commitment	Drawn January to May 2022	Undrawn Commitment 31 May 2022
Adam Street Private Equity	US \$	67,500,000	2,987,611	40,262,520
Adam Street Secondary Private Equity	US \$	55,000,000	-	55,000,000
LCIV Private Debt	£	60,000,000	6,245,340	34,655,069
LCIV Renewables Infrastructure	£	40,000,000	(767,783)	30,310,808
Barings Special Situation Debt	Euro €	40,000,000	2,188,450	19,811,550
Fiera Real Estate	£	30,000,000	-	30,000,000
Sterling Equivalent	£			187,446,307

Allocations v Strategy

1.9 Appendix B highlights the portfolio positions compared with benchmark. The overall equity allocation is close to target although the private equity element is 2.05% underweight. The underweights to property and illiquid alternatives is due to the undrawn commitments detailed in 1.8 above with cash for these currently invested in Schroder's 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

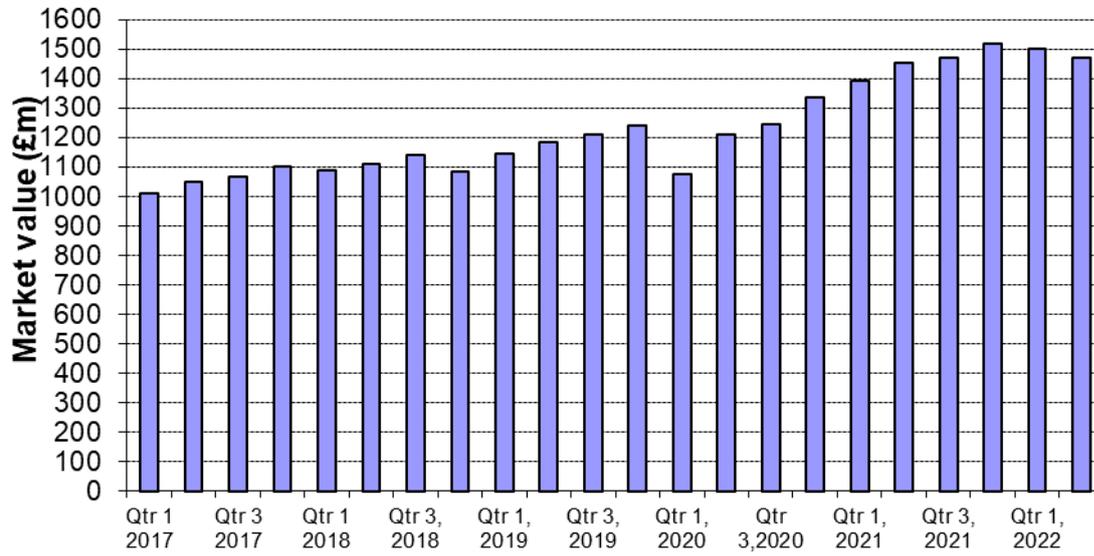
6.1 Not relevant to this report.

7. BACKGROUND PAPERS

7.1 None

Appendix A – Market Value of Investments as of 31 May 2022

Market value of Pension Fund



Appendix B - Asset Allocation as of 31 May 2022

	Latest valuation date	31-Dec-21	Transactions	31-Mar-22	Transactions	31-May-22	31-May-22		Target Allocation	
		£'000	£'000	£'000	£'000	£'000	%	%	%	%
Equities							49.52%			50.00
LGIM Global		199,100		192,352	-36,000	145,546	9.90%		0.00	
LGIM RAFI		237,808		239,054	-20,000	214,057	14.56%		10.00	
LGIM Future Worlds		180,626		171,948	56,000	219,426	14.93%		25.00	
LCIV Emerging Markets		72,560		68,142		65,248	4.44%		5.00	
LCIV Sustainable Exclusion Equity		47,204		42,946		40,338	2.74%		5.00	
Adams Street Private Equity	Dec-21	32,488	2,859	41,604		43,387	2.95%		5.00	
Property							4.51%			6.00
Aberdeen Standard Long Lease	Mar-22	32,062		34,234		34,234	2.33%		2.00	
CBRE Global	Mar-22	27,804		30,730		32,047	2.18%		2.00	
Fiera Real Estate Opportunities		0		0		0	0.00%		2.00	
Diversified Growth							9.92%			0.00
Schroder		151,081		148,264		145,829	9.92%		0.00	
Multi Credit Liquid							9.38%			11.00
Baring Global High Yield		42,461		40,922		39,050	2.66%		3.50	
Alcentra Multi Credit		22,339	-2,991	19,310	-10,000	9,310	0.63%		3.50	
Insight Secured Finance		46,164	44,000	90,057		89,530	6.09%		4.00	
							0.00%			
Corporate Bonds							8.62%			10.00
Schroder		141,682		132,630		126,710	8.62%		10.00	
Illiquid Alternatives							14.14%			23.00
Alcentra European Direct Lending	Mar-22	17,916	-1,540	16,237		16,237	1.10%		1.50	
Partners Group	Apr-22	51,216	-2,582	49,506	-935	49,085	3.34%		5.50	
LCIV Private Debt		19,100	5,314	24,414	931	25,345	1.72%		4.00	
Barings Special Situations Debt	Mar-22	17,447	1,855	19,780		19,999	1.36%		2.00	
M&G Lion Credit Opportunity		31,350	-31,220	0		0	0.00%		2.00	
LCIV Renewables Infrastructure		10,457	610	11,066	-1,377	9,689	0.66%		3.00	
IFM Global Infrastructure		81,382		84,949		87,509	5.95%		5.00	
Cash		56,330	-12,237	44,093	13,438	57,531	3.91%	3.91%	0.00	0.00
Total		1,518,577	4,068	1,502,238	2,057	1,470,107	100%	100.00%	100.00	100.00
<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</p>										