



## Pension Fund Committee

10 November 2022

<b>Title</b>	<b>Barnet Council Pension Fund – Valuation, Transactions and Performance</b>
<b>Report of</b>	Executive Director of Strategy and Resources
<b>Wards</b>	N/A
<b>Status</b>	Public, with exempt appendix D
<b>Urgent</b>	No
<b>Key</b>	No
<b>Enclosures</b>	<p>Appendix A - Asset Allocation as of 30 September 2022</p> <p>Appendix B – Investment Strategy overview</p> <p>Appendix C – Review of Investment Managers Performance for 2nd quarter, 2022 (Hymans Robertson) (to follow)</p> <p>Appendix D – Review of Fund Managers (Hymans Robertson) (exempt) (to Follow)</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Exempt enclosures - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of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 6 months to 30 September 2022 with an updated estimated valuation to 30 September 2022.

### Officers Recommendations

**That the Pension Fund Committee note the investment activities and performance of the Pension Fund for the quarter to 30 September 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.

### **Market Overview and Fund Performance**

- 1.2 Markets have been very volatile over the third quarter reflecting both the international and national environment. For example, over September alone, long-term interest rates fluctuated between around 2.9% and 4.6%. This represents levels of volatility that are unprecedented.
- 1.3 Of note, and due to a spike in interest rates, some Pension Funds needed to sell assets (primarily gilts) to meet margin calls on their hedging instruments. This process in itself caused interest rates to spike further and, ultimately, Bank of England intervention. The Barnet Pension Fund does not invest in the type of instruments that have been impacted and so is not directly impacted by this.
- 1.4 However, our Fund is not immune to the broader economic situation and this has been reflected in the value of our assets, which have declined by £35.492 million in the quarter to 30 September 2022 to £1,385.1 million (30 June 2022 1,420.6 million) (appendix A).
- 1.5 That said, increases in long-term interest rates are generally good for pension schemes, particularly where interest rate exposure remains unhedged, which is the position for the majority of LGPSs, including Barnet. This means that, whilst our assets have decreased in value, the amount of money we need to hold to meet the obligations promised (i.e. our liabilities) has also likely to have decreased.
- 1.6 Hymans' analysis of investment performance to 30 September 2022 was not available at the date of preparing this paper and so we summarise below statistics to 30 June 2022. Hymans will provide a verbal update of performance to 30 September 2022 at the meeting.
- 1.7 Performance over the quarter to 30 June 2022 of -5.9% was 0.8% below benchmark (appendix C), with the annual return of -3.2% 0.9% below benchmark. The annualised 3 year return was 5.7%, which is 0.2% below benchmark.

The main drivers of absolute returns continues to be private equities, infrastructure and property. Listed equities have produced negative returns in the quarter, as have the majority of credit funds.

The annual underperformance against benchmark is mainly due to the Schroders Diversified Growth Fund (-15.8%) and the Barings Multi-Credit fund (-14.5%). The relatively new LCIV Emerging Markets Equity fund and the maturing Partners 2015 Multi-Asset Credit funds have also struggled in the year (-5.0% and -5.7% respectively)

## **Investment Manager Ratings**

- 1.8 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.
- 1.9 Hymans also award Responsible Investment ratings and all bar one is rated strong or good. The four London CIV mandates not rated.

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

A change of benchmark (not expected to impact on performance) for Schroders DGF from CPI +5% to ICE BofA Sterling 3- month Gov't Bill Index +4.5% (appendix D, page 5),

Extension of the Partners 2015 MAC fund by 3 years

Barings Global High Yield becoming Article 8 compliant under the Sustainable Finance Disclosure Regulations.

## **TCFD Consultation**

- 1.10 On 1 September UK Government launched their consultation on Governance and Reporting of climate risks. The regulations are expected to come into play by April 2023. The consultation can be viewed [here](#). The key points from the consultation are summarised below:
- The consultation will require Administering Authorities to consider and report against the four key areas of governance, strategy, risk management, and metrics and targets
  - Whilst the proposals are similar to the new requirements that came into force for the private sector pension funds, there are some notable differences, namely there is no minimum size requirement with the proposals applying to all LGPS funds in England and Wales
  - Authorities will need to publish an annual climate risk report with the Scheme Advisory Board along with annual reporting
  - The consultation proposes that Authorities and pool strategies may benefit from alignment, either for consistency of analysis or bringing further benefits of scale.
- 1.11 The consultation closes on 24 November 2022. Hymans, London CIV and other key stakeholders will be preparing a response to the consultation. Officers will report back at the meeting whether they feel it would be appropriate for the Council to respond.

## **Responsible Investment Day update**

- 1.12 It was discussed at the July Committee meeting whether holding a day's worth of training to consider and develop the Fund's Responsible Investment strategy was justified. After consulting Hymans and LCIV we can confirm that the breadth and depth of the topic justifies a full day of content – an agenda for the day has previously been circulated.
- 1.13 Our preference is for a focused day rather than a series of sessions as, with focus, our output will be richer and we can move things forward at a greater pace.
- 1.14 We will consider Stewardship, but our focus will be on Net Zero and Carbon Emissions and setting targets around these.
- 1.15 Invites have been sent for the event, which will be held on 1 December at Middlesex University
- 1.16 Through the day we will consider:
- Our underlying Fiduciary Responsibility around investment and risk management
  - Our current Carbon Baseline, work done to date around RI and the levers the Barnet Pension Fund can realistically pull to make a meaningful impact on reducing Carbon Emissions
  - What our key stakeholders (LCIV and LBB) are doing around Net Zero, together with insight from one other London Borough on their approach
  - How Stewardship can make an impact and how BPF can influence this via LCIV and other means
  - The case for divestment and also the case for impact investment (e.g. in Green Technologies) as a counterpoint
  - Considering Climate Risk as a further vector within our overall risk management process
  - We will then finish the day considering appropriate targets and milestones for BPF around emissions and the areas of our Responsible Investment and risk management policy that we may want to update

## **Investment Strategy overview**

- 1.17 Appendix B summarises the key strategic considerations for the Fund since the last Pension Fund Committee meeting held on 11 July 2022.
- 1.18 In summary, the key considerations have been:
- Accelerate the disinvestment of the Schroders' Diversified Growth Fund. The reasons for this were to reduce risk and bring the overall asset allocation more in line with the 50% Income / 50% growth target, which is

set out in the Investment Strategy Statement

- Due to the disinvestment of the Schroders' Diversified Growth Fund the Fund has significant levels of cash balances which is likely to continue until the undrawn commitments have been made. Officers are working with LGIM and Hymans to optimise the return on these cash balances subject to our liquidity requirements.
- Whether an alternative can be found for the RAFI fund, which whilst providing important diversification benefits, is heavily contributing towards our overall level of tCO2e emissions – Hymans have analysed this and recommend that we switch to a variant of the RAFI fund that has been modified to address some of the concerns around emissions. Officers have deferred detailed consideration of whether to switch to after the Responsible Investment Day.
- The possibility of switching a portion of the assets into Index Linked gilts given the substantial rise in Index Link gilt yields witnessed over the last 6-months (and specifically since mid-September). Switching to Index Link gilts at the current level of relatively high yield could allow the fund to reduce risk without compromising our expected return. Hymans are preparing analysis that will consider what proportion of assets could be switched to Index Linked gilts and will report on this at the meeting.

1.19 Further details of each of these points, together with a summary of proposed future transactions, which are detailed are also provided in Appendix B.

### **Movements in funds since the last Pension Fund Committee meeting.**

1.20 Cash movements into and out of funds are highlighted in Appendix A.

1.21 Specific transaction of note since the last Pension Fund Committee meeting are:

- 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.
- In the Quarter to September 2022 there were sales in Schroders DGF (£60 million), as well as capital distributions from Partners Group totalling £0.480 million. The sale of all Schroders DGF holdings will continue into Q3, with a further £75 million due to be withdrawn in October and November 2022. This will reduce holdings in the Schroders DGF down to the target allocation of 0%.
- There were drawdowns from LCIV Private Debt (£6.737 million), LCIV Renewables Infrastructure (£4.880 million) and Adams Street (£6.932 million).

million).

## **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 The current corporate plan (Barnet Plan 2021-2025) was adopted in March 2021. Following the May 2022 elections, the council now has a new administration and a new corporate plan, consistent with the new administration's priorities will be brought forward shortly.

### **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 B - Asset Allocation as of 30 September 2022

		Latest valuation									
	date	31-Mar-22 Transactions		30-Jun-22 Transactions		30-Sep-22	30-Sep-22		Target Allocation		
		£'000	£'000	£'000	£'000	£'000	%	%	%	%	
Equities							49.76%			50.00	
	LGIM Global	192,352	-36,000	136,555		134,910	9.74%		0.00		
	LGIM RAFI	239,054	-20,000	196,476		186,785	13.49%		10.00		
	LGIM Future Worlds	171,948	56,000	206,619		201,667	14.56%		25.00		
	LCIV Emerging Markets	68,142		65,248		64,007	4.62%		5.00		
	LCIV Sustainable Exclusion Equity	42,946		40,338		40,115	2.90%		5.00		
	Adams Street Private Equity	Jun-21	41,604	8,355	44,593	6,932	61,721	4.46%	5.00		
Property							6.83%			6.00	
	Aberdeen Standard Long Lease	Aug-22	34,234		34,234	35,159	2.54%		2.00		
	CBRE Global	Mar-22	30,730		33,205	31,190	2.25%		2.00		
	Fiera Real Estate Opportunities	Mar-22	0	28,249	28,249	28,249	2.04%		2.00		
Diversified Growth							5.47%			0.00	
	Schroder	May-22	148,264		145,829	-60,000	75,829	5.47%	0.00		
Multi Credit Liquid							9.14%			13.00	
	Baring Global High Yield		40,922		37,386	37,112	2.68%		3.50		
	Alcentra Multi Credit		19,310	-20,000	0	0	0.00%		3.50		
	Insight Secured Finance	May-22	90,057		89,530	89,530	6.46%		6.00		
Corporate Bonds							9.15%			10.00	
	Schroder	May-22	132,630		126,710	126,710	9.15%		10.00		
Illiquid Alternatives							15.68%			21.00	
	Alcentra European Direct Lending	Mar-22	16,237		16,237	14,375	1.04%		1.50		
	Partners Group	Apr-22	49,506	-1,680	50,021	-480	44,913	3.24%	5.50		
	LCIV Private Debt		24,414	4,436	27,919	6,737	34,368	2.48%	4.00		
	Barings Special Situations Debt	Mar-22	19,780	7,395	24,811		23,915	1.73%	2.00		
	LCIV Renewables Infrastructure		11,066	-537	9,689	4,880	14,386	1.04%	3.00		
	IFM Global Infrastructure		84,949		90,670		85,168	6.15%	5.00		
Cash			44,093	-27,849	16,244	38,717	54,961	3.97%	3.97%	0.00	
Total			1,502,238	(1,631)	1,420,562	(3,214)	1,385,070	100%	100.00%	100.00	
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											