



Pension Fund Committee

31 January 2023

Title	Barnet Council Pension Fund – Valuation, Transactions and Performance
Report of	Executive Director of Strategy and Resources (S151 Officer)
Wards	N/A
Status	Public, with exempt appendix D
Urgent	No
Key	No
Enclosures	<p>Appendix A - Asset Allocation as of 31 December 2022</p> <p>Appendix B- Hymans Flash Stats for Q4 2022</p> <p>Appendix C – Review of Investment Managers Performance for Q3, 2022 (Hymans Robertson)</p> <p>Appendix D – Review of Fund Managers (Hymans Robertson) for Q3, 2022 (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Exempt enclosures - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of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 6 months to 31 December 2022 with an updated estimated valuation to 31 December 2022.

Officers Recommendations

That the Pension Fund Committee note the investment activities and performance of the Pension Fund for the quarter to 31 December 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 Since September 2022 markets have improved and this is reflected in the valuation increasing by approximately £41m (2.96% increase from September 2022). Investments in equities and illiquid alternatives have performed particularly well over the quarter. Despite this our USD denominated funds (notably Adams Street and IFM) have decreased in value due to the Pound strengthening against the Dollar.
- 1.3 Hymans Robertson have provided a Flash Stats report for Q4 2022 (appendix B), which gives an update on the overall market in the quarter. The 2.96% increase in the fund is consistent with the market returns reported in this report, with markets globally returning 2.1%. As mentioned above, our funds exposed to US markets have taken a slight decrease, with US markets returning -0.2% over the quarter.
- 1.4 Due to the committee meeting being early in the quarter, there has not been sufficient time for Hymans Robertson to compile their Q4 2022 report. However, we have now received their report for Q3 2022 (appendix C, which is discussed below.
- 1.5 Performance over the quarter to 30 September 2022 of -2.1% was 0.3% above benchmark, with the annual return of -6.3% being -0.5% below benchmark. The annualised 3-year return was 4.4%, which is 0.1% above benchmark.
- 1.6 The main drivers of absolute returns continue to be private equities, infrastructure, and property. The majority of credit funds have produced negative returns over the quarter.
- 1.7 The annual underperformance against benchmark is mainly due to the Schroders Diversified Growth Fund (-18.6%) and the Barings Multi-Credit fund (-16.1%). The relatively new LCIV Sustainable Equity fund and the maturing Partners 2015 Multi-Asset Credit funds have also struggled in the year (-6.6% and -11.2% 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, and one ranked as suitable- on watch, as highlighted in the report. The LCIV mandates are not rated by Hymans.
- 1.9 Hymans also award Responsible Investment ratings and all but one is rated strong or good. The four London CIV mandates not rated.

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

The retirement of the Adams Street Head of Primary Investment, and the appointment of their successor.

An extension to the responsibilities of the Aberdeen Standard CEO of Interactive Investing.

IFM continue to expand their infrastructure team.

Movements in funds since the last Pension Fund Committee meeting.

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

1.11 Specific transactions of note since the last Pension Fund Committee meeting are:

- Sales were from RAFI (£20 million) and Market Cap equities (£36 million) at LGIM. There is one remaining phase (March 2023) with £56 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 Schrodgers DGF (£75.829m million), as well as capital distributions from Partners Group totalling £0.534 million. This completed the disposal of Schrodgers DGF.
- There were drawdowns from LCIV Private Debt (£4.096 million), LCIV Renewables Infrastructure (£1.278 million) and Adams Street (£9.656 million).
- The fund made its initial investment of £30m into LCIV Multi-Asset Credit, with a further £30m expected to be made in Q1 of 2023.

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 A - Asset Allocation as of 31 December 2022

	Latest valuation date	30-Jun-22 Transactions		30-Sep-22 Transactions		31-Dec-22	31-Dec-22		Target Allocation	
		£'000	£'000	£'000	£'000	£'000	%	%	%	%
Equities								51.00%		50.00
LGIM Global		136,555		134,910	(36,000.00)	103,425	7.25%		0.00	
LGIM RAFI		196,476		186,785	(20,000.00)	184,348	12.93%		10.00	
LGIM Future Worlds		206,619		201,667	56,000.00	268,187	18.81%		25.00	
LCIV Emerging Markets		65,248		64,007		65,448	4.59%		5.00	
LCIV Sustainable Exclusion Equity		40,338		40,115		39,787	2.79%		5.00	
Adams Street Private Equity		44,593	6,932	61,721	9,656.00	66,055	4.63%		5.00	
Property								6.46%		6.00
Aberdeen Standard Long Lease	Aug-22	34,234		35,159		35,159	2.47%		2.00	
CBRE Global		33,205		31,190		28,768	2.02%		2.00	
Fiera Real Estate Opportunities	Mar-22	28,249		28,249		28,249	1.98%		2.00	
Diversified Growth								0.00%		0.00
Schroder		145,829	(60,000)	75,829	(75,829.00)	0	0.00%		0.00	
Multi Credit Liquid								11.05%		13.00
Baring Global High Yield		37,386		37,112		37,976	2.66%		3.50	
LCIV MAC		0		0	30,000.00	30,043	2.11%		3.50	
Insight Secured Finance	May-22	89,530		89,530		89,530	6.28%		6.00	
Corporate Bonds								8.89%		10.00
Schroder	May-22	126,710		126,710		126,710	8.89%		10.00	
Illiquid Alternatives								15.39%		21.00
Alcentra European Direct Lending		16,237		14,375		14,281	1.00%		1.50	
Partners Group		50,021	(480)	44,913	(534.00)	47,062	3.30%		5.50	
LCIV Private Debt		27,919	6,737	34,368	4,096.00	40,069	2.81%		4.00	
Barings Special Situations Debt		24,811		23,915		24,153	1.69%		2.00	
LCIV Renewables Infrastructure		9,689	4,880	14,386	1,278.00	15,390	1.08%		3.00	
IFM Global Infrastructure		90,670		85,168		78,558	5.51%		5.00	
Cash		16,244	38,717	54,961		102,905	7.22%	7.22%	0.00	0.00
Total		1,420,563	(3,214)	1,385,070	(31,333)	1,426,103	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>										