Investment Strategic Review

Over the course of the next 3 – 6 months Officers will be undertaking a Strategic Investment review. Context is that yields have increased significantly meaning that we may be able to reduce risk substantially for a given level of return. This paper explains more background on this and how it links to our wider strategic aims

What is a "strategic review"?

A strategic review considers what proportion the Fund should invest in different asset classes (e.g. percentage in Equities versus percentage in Bonds). This is the most important aspect of strategic decision making for the Fund – typically the percentage held in different asset classes has a bigger impact than the impact a specific fund manager has in delivering a particular mandate.

This exercise will require us to take advice from Hymans as our investment consultants. We will also work with the Fund Actuary to ensure that any change in approach does not negatively impact funding requirements.

What is the current Strategic Allocation

The current strategic asset allocation is summarised below.

Asset class	Category	Current strategy
Global Equities	Growth	40.00%
Emerging Market Equities	Growth	5.00%
Private Equity	Growth	6.00%
Property	Income	5.00%
Infrastructure	Income	8.00%
Corporate bonds	Income	10.00%
Asset backed securities	Income	6.00%
Private Debt	Income	13.00%
MAC	Income	7.00%

Overall, the strategy is 50% in Growth assets and 50% in income assets. We will need to conduct analysis with Hymans, however, given current market conditions, we may expect to increase our proportion to income assets, which may also be appropriate where a Fund is maturing and becoming Cash Flow negative (i.e. benefit outgo starts to exceed contribution income).

Why are we undertaking a strategic review now?

There are broadly two reasons why we are undertaking a strategic review now:

1. Change in market conditions

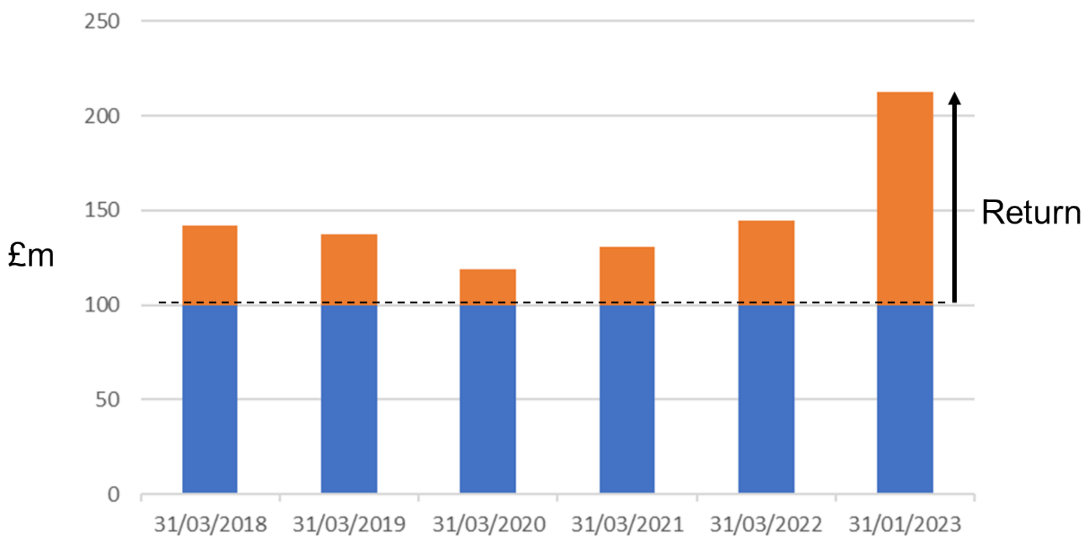
Our strategy has evolved over the years from a more fundamental strategic review undertaken in around 2018. The current strategy has been successful in improving the funding of the Fund, particularly in an environment where short and long-term bond yields were very low. The economic environment is now very different relative to what it was in 2018 and there are opportunities for us to significantly reduce our future investment risk, but also headwinds we need to be mindful of in terms of the robustness of capital values in a Qualitative Tightening and high interest rate environment and where we have inflationary pressures.

A comparison of risk free yields over the period 1 April 2018 and 31 January 2023 are summarised below

	31/03/2018	31/03/2019	31/03/2020	31/03/2021	31/03/2022	31/01/2023
20-year gilt yield	1.76%	1.60%	0.86%	1.35%	1.86%	3.84%

In terms of considering the level of return these differing yields general, the chart below illustrates the level of risk-free return (represented by the orange bar) on £100m invested over a timeframe of 20 years. It can be seen that the level of risk-free return available has increased substantially (with the return being around 2.5 –5x the level it has been over the last five years)

Fig 1 – Risk Free return on £100m invested



Valuation

It is usual to conduct a strategic investment review following a valuation as this means the investment consultants can work with up-to-date funding approach and data.

Scope of review

The review will consider the following:

- What our current level of risk / return is within the Fund from a strategic allocation perspective
- What Barnet's priorities are around taking risk within the pension fund – e.g. would we be comfortable reducing risk?
- Applying a different strategic allocation to Middlesex (c20% of our Fund)
- Simplify / reduce number of mandates we hold longer-term

We will also review the likely strategic direction we will want to take and identify where there are gaps against London CIV's offering. Where there are gaps we will engage with London CIV and other Funds to see how we can support London CIV expand its offerings to accommodate our strategy.

Using the review to further develop BarNetZero strategy

We are clear that our Fiduciary duty and overall risk / return management framework is the starting point for our strategy, but once we have established our preferred strategy we will want to see what Funds are available that support a pathway to a NetZero strategy by 2030 (or as soon as subsequent to that date). We will then assess the relative risk / return characteristics of these specific funds. This will do two things:

1) Establish a proxy BarNetZero 2030 strategy (which we can use to frame conversations around)
2) Drive decisions on the appropriateness of moving to Net Zero funds without compromising risk

Timeline

Proposal around Strategic Allocation to be brought to 4 July 2023 PFC meeting. Our priority will be to work with Middlesex University to establish a low-risk strategy for their obligations, particularly given their wider commitments and increase in contribution levels.