



Pension Fund Committee

22 March 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 C
Urgent	No
Key	No
Enclosures	<p>Appendix A - Asset Allocation as of 28 February 2023</p> <p>Appendix B – Review of Investment Managers Performance for Q4, 2022 (Hymans Robertson)</p> <p>Appendix C – Review of Fund Managers (Hymans Robertson) for Q4, 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Exempt enclosures - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of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 to 28 February 2023 with an updated estimated valuation to 28 February 2023.	
Officers Recommendations	
That the Pension Fund Committee note the investment activities and performance of the Pension Fund to 28 February 2023.	

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 December 2022 markets have continued to improve and this is reflected in the valuation increasing by approximately £32.0m (2.24% increase from December 2022). Investments in equities have performed particularly well since December, as have our USD denominated funds (notably Adams Street and IFM) due to the Pound weakening against the Dollar since December 2022.
- 1.3 Hymans Robertson have provided their report for Q4 2022 (appendix B), which gives an update on the overall market in the quarter to December 2022. The fund had a return of 3.1% over the quarter, which is 0.6% below benchmark.
- 1.4 The main drivers of absolute returns continue to be private equities and infrastructure.
- 1.5 The annual underperformance against benchmark is mainly due to the now disinvested Schroders Diversified Growth Fund (-17.1%) and the Barings Multi-Credit fund (-15.4%). The relatively new LCIV Sustainable Equity fund and Barings Global Special Situations Credit fund have also struggle in the year (-8.6% and -11.1% respectively). The maturing Partners 2015 Multi-Asset Credit funds has also produced negative returns (-11.7%), however we have been advised by Hymans that this negative return is due to an unusual for Direct Lending "Cash + Lending" benchmark.

Investment Manager Ratings

- 1.6 Hymans' manager ratings are included within their quarterly report (appendix C, 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.
- 1.7 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:

The retirement of the CBRE IM CEO.

A vote to increase the maximum restriction limit on the investment in the Americas in the CBRE Global Alpha fund.

Hymans have no concerns over these updates.

Strategic Allocations

- 1.8 The Pension Fund Committee has agreed to a strategic allocation of Pension Fund Assets to particular asset types. The target percentages of these asset types can be found in the last column of Appendix 1.

1.9 Currently the fund is overweight in Equities (1.64%), Property (0.33%), and Cash (4.52%), whilst being underweight in Corporate Bonds (1.31%), and Illiquid Alternatives (5.18%).

1.10 In the January 2023 Pension Fund Committee meeting the Committee agreed to delegate the re-balancing of the pension funds assets to bring it more in line with the strategic allocation. Whilst there is a significant underweighting in Illiquid Alternatives, there are still funds of this asset type which continue to drawdown funds. As it is expected these drawdowns can be met with the overweight cash, officers do not feel there is a need to re-balance the pension funds assets.

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 2023-2026) was adopted in February 2023. To ensure that the Pension Fund is being invested prudently and to the best advantage in order 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 - Asset Allocation as of 28 February 2023

	Latest valuation date	30-Sep-22		31-Dec-22		28-Feb-22		31-Dec-22		Target Allocation	
		£'000	Transactions £'000	£'000	Transactions £'000	£'000	%	%	%	%	
Equities								51.64%			50.00
LGIM Global		134,910	(36,000)	103,425		107,542	7.38%			0.00	
LGIM RAFI		186,785	(20,000)	184,348		193,035	13.24%			10.00	
LGIM Future Worlds		201,667	56,000	268,187		279,232	19.15%			25.00	
LCIV Emerging Markets		64,007		65,448		66,456	4.56%			5.00	
LCIV Sustainable Exclusion Equity		40,115		39,787		40,362	2.77%			5.00	
Adams Street Private Equity		61,721	9,656	66,055		66,363	4.55%			5.00	
Property								6.33%			6.00
Aberdeen Standard Long Lease	Aug-22	35,159		35,159		35,159	2.41%			2.00	
CBRE Global	Jan-23	31,190		28,768		28,941	1.98%			2.00	
Fiera Real Estate Opportunities	Mar-22	28,249		28,249		28,249	1.94%			2.00	
Diversified Growth								0.00%			0.00
Schroder	Jan-23	75,829	(75,829)	0		0	0.00%			0.00	
Multi Credit Liquid								13.00%			13.00
Baring Global High Yield		37,112		37,976		39,205	2.69%			3.50	
LCIV MAC		0	30,000	30,043	30,000	60,769	4.17%			3.50	
Insight Secured Finance	May-22	89,530		89,530		89,530	6.14%			6.00	
Corporate Bonds								8.69%			10.00
Schroder	May-22	126,710		126,710		126,710	8.69%			10.00	
Illiquid Alternatives								15.82%			21.00
Alcentra European Direct Lending	Jan-23	14,375		14,281		13,444	0.92%			1.50	
Partners Group		44,913	(534)	47,062	(801)	46,261	3.17%			5.50	
LCIV Private Debt		34,368	4,096	40,069	2,715	42,784	2.93%			4.00	
Barings Special Situations Debt		23,915		24,153		32,868	2.25%			2.00	
LCIV Renewables Infrastructure		14,386	1,278	15,390	849	16,238	1.11%			3.00	
IFM Global Infrastructure		85,168		78,558		79,026	5.42%			5.00	
Cash		54,961		102,905		65,914	4.52%	4.52%		0.00	0.00
Total		1,385,070	(31,333)	1,426,103	32,763	1,458,088	100%	100.00%		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