



Pension Fund Committee 4 July 2023

Title	Pooling Update
Date of meeting	4 July 2023
Report of	Executive Director of Strategy & Resources (S151 Officer)
Wards	N/A
Status	Public
Urgent	No
Appendices	None
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Summary

The report provides an overview of Barnet's Pooling activity including details of:

- Assets invested in Pooled Funds and the future direction of how our total pooled assets will evolve going forward
- London CIV's policies around NetZero and Responsible Investment
- Performance of London CIV Funds
- Regulatory changes
- Barnet Team engagement with London CIV

Recommendations

That the Pension Fund Committee notes the importance of pooling and the update provided by Officers.

1. Why This Report is Needed

- 1.1 In November 2015 the government published guidance for LGPS Funds to pool their assets with the objective of improving governance and cost efficiency. The guidance is linked [here](#).
- 1.2 London CIV is our Pooling vehicle and is a key strategic partner. This paper provides an update on our activity with London CIV and pooling more generally (our assets held with LGIM are also classified as pooled funds).
- 1.3 Note that London CIV attended and presented to the Committee on 22 March 2023 and a detailed paper setting further context of London CIV and pooling in general was provided as a cover report for that meeting. The relevant paper can be accessed [here](#)

Proportion of assets Pooled

- 1.4 A summary of our asset holdings split into LCIV, LGIM and Other assets is shown below. Over the 12-months since 31 March 2022 our proportion of assets held in pooled assets has increased from c50% to c55%. A summary of the change in position from 31 March 2022 to 31 March 2023 is provided in the table below:

£m	31-Mar-22	%	31-Mar-23	%
London CIV	146.50	9.8%	226.90	15.4%
LGIM (pooled)	603.80	40.3%	588.00	39.9%
Balance	748.70	49.9%	657.00	44.6%
Total	1,499.00		1,471.90	

Future Allocation to Pooled assets

- 1.5 We have undertaken a strategic review of our underlying asset allocation and this is being considered within a separate item at the 4 July 2023 PFC meeting. We have recommended to the Committee that we move 20% of our liquid listed equity allocation to liquid credit. Now that review has been concluded we will be focusing time on reviewing our underlying fund managers through a NetZero and pooling lens.
- 1.6 The proposed move from liquid equity to credit would initially (marginally) reduce our allocation to pooled assets (as we would be reallocating a part of our pooled LGIM and London CIV assets to our existing Schroders fund which is not pooled). However, we are in progressed discussions with London CIV around a new longer duration, less actively managed “buy and maintain” bond fund which, in time, is likely to be more suitable for our requirements relative to the Schroders Bond fund. We therefore expect our allocation to pooled assets to substantially increase by the end of this year.
- 1.7 There is likely to be an increased focus on pooling from a central government guidance and, eventually, regulatory perspective. Pursuing strategies that do not dovetail with the wider pooling project may mean we are eventually compelled to take action without building the level of soft and hard influence that being a ‘positive’ pooling partner is likely to bring.
- 1.8 Building on this last point, being a positive voice for the London CIV is part of an overall strategy of ours to build more influence within the pooling framework and have a ‘seat at the table’. This is consistent with an objective of wanting to be a Leading Voice.

Pooling and Net Zero

- 1.9 London CIV have invested significant time in considering their NetZero strategy and made the following statement within their latest TCFD report:
- “Accordingly, we committed to net zero GHG (Green House Gas) emissions by 2040, becoming the first Local Authority pension pool to do so. To achieve this, the progress which will be made over the next ten years is critical. We have set interim targets which require an average carbon intensity reduction of 35% by 2025 (relative to 2020), and of 60% by 2030 across funds invested via the London CIV Fund range. Of course, we recognise that the targets of our client funds may vary. As such, our role as a local authority pension pool is to provide investment solutions which help our 32 clients meet their own net-zero or climate objectives”*
- 1.10 More details about London CIV’s NetZero thinking (including their Climate Change policies and TCFD report) can be found [here](#).
- 1.11 Over the next three years there will likely be increased efforts from Investment Managers generally to increase market share through offering NetZero “solutions” – there is already evidence of some LGPS funds diverging from the pooling agenda in the name of achieving a “Net Zero” position – this is likely to be a net negative net zero strategy and we should avoid being too individualistic in our solutions.
- 1.12 We are likely to achieve better NetZero outcomes overall by prioritising pooling over NetZero – this is consistent with our principle of wishing to be a “leading voice” around the NetZero agenda.
- 1.13 That said, 2030 is an important NetZero milestone date for the Barnet Pension Fund and we will use our BarNetZero Model Portfolio to work with London CIV to develop NetZero solutions which anchor more towards a 2030 position whilst at the same time being a vocal supporter of London CIV.

Pooling and wider ESG considerations

- 1.14 The London CIV define their Stewardship Priorities within their 2023 Stewardship Report as follows:
- “London CIV remains committed to the three key stewardship themes that were identified in 2021: climate change, diversity and inclusion (including human rights), and tax and cost transparency (within the broader theme of principles of governance). These priorities were chosen due to their significant financial impact and the potential influence we can exert. In 2021, we released our first Climate Policy, outlining our expectations of our Client Funds and other stakeholders. In 2022, we published our Voting Guidelines, setting standards for our portfolio companies’ climate, diversity and inclusion, and governance practices. We also partnered with CACEIS in January 2022 to provide improved cost transparency and benchmarking information.”*
- 1.15 London CIV will form a key pillar in our overall Responsible Investment strategy as investing through the London CIV maximises our reach and influence from a Stewardship perspective. For example, we have seen through attending Seed Investor Group meetings that ESG plays a key role in LCIV fund selections and monitoring processes.
- 1.16 As we progress with the development of our Responsible Investment strategy we will seek to leverage the expertise of LCIV to shape both our NetZero strategy and our overall Stewardship reporting framework.

1.17 A link to London CIV's Stewardship Report is [here](#)

Performance of LCIV Funds

- 1.18 Over the last 12-months our London CIV Funds have generally performed in excess of their benchmarks, apart from the London CIV Sustainable Exclusion Fund, which has significant holdings in the Financial and Banking sectors (which have generally underperformed).
- 1.19 Specifically, over the 12-month period from 1 April 2022 the Sustainable Exclusion Fund had direct exposure to both Silicon Valley Bank (which failed) and First Republic Bank (which was rescued) and both these holdings have contributed to the relatively poor performance of the Fund. Note that the Sustainable Exclusion Fund sold its holding in Silicon Valley Bank before it failed, but still suffered losses. Conversely, the Renewable Infrastructure Fund has performed significantly better than its benchmark.
- 1.20 Barnet Pension Team analysis suggests that the weighted average return of our London CIV Funds over the last 12-months has been around 1% to 2% relative to an average Benchmark return of around negative 1% (note these figures are approximate as some funds have received new contributions which distorts the calculations and excludes the LCIV MAC fund which is a new investment over 2022/23).
- 1.21 A summary of each Fund's performance relative to its Benchmark over the period 1 April 2022 to 31 March 2023 (sourced from Hymans) is provided below:

£m	Benchmark Return	Fund Return	Value at 31 March 2023
LCIV Emerging Markets	-4.90%	-1.10%	68.1
LCIV Sustainable Exclusion	-1.00%	-7.70%	42.9
LCIV Renewable Infrastructure	7.00%	34.30%	11.10
LCIV Private Debt	6.00%	12.30%	24.4
LCIV MAC (new Fund 22/23)	n/a	n/a	n/a
Total			146.5

Regulatory changes

1.22 The following statement was made within the 2023 Spring Budget:

“The government is challenging the Local Government Pension Scheme in England and Wales to move further and faster on consolidating assets – a forthcoming consultation will propose LGPS funds transfer all listed assets into their pools by March 2025, and 96 Spring Budget 2023 set direction for the future. This may include moving towards a smaller number of pools in excess of £50 billion to optimise benefits of scale. While pooling has delivered substantial benefits so far, progress needs to accelerate to deliver and the government stands ready to take further action if needed. The Government will also consult on requiring LGPS funds to consider investment opportunities in illiquid assets such as venture and growth capital, thereby seeking to unlock some of the £364 billion of LGPS assets into long-term productive assets”

1.23 Further guidance on this will be published in due course, but the above statement is broadly consistent with Barnet's overall attitude to pooling.

Officer engagement with London CIV

- 1.24 Over the last 6-months or so the London CIV team have invested significant time with the Barnet Pension Team and we have had several sessions exploring our strategy including with our advisors.
- 1.25 This investment has led to real progress in us reaching a mutual understanding of how we can move forward in a way that drives value for both the London CIV and Barnet (and therefore also the London LGPS community as a whole). For example, through this dialogue we have made significant progress on the development of London CIV fund Sterling Credit Long Bond fund which we will likely be recommending to the Committee in November 2023.
- 1.26 Since that meeting we have attended two Seed Investment sessions where we have worked with London CIV to design a suitable fund structure that meets our needs and works with the requirements of other Funds as well – i.e. there has been progress in the spirit of collective interests which we believe will achieve positive outcomes for Barnet and London more generally.
- 1.27 Members of the committee have attended London CIV events in order to show our commitment and to establish greater personal and professional relationships with London CIV personnel.

2. Alternative Options Considered and Not Recommended

- 2.1 Not applicable in the context of this report.

3. Post Decision Implementation

- 3.1 Not applicable in the context of this report.

4. Corporate Priorities, Performance and Other Considerations

Corporate Plan

- 4.1 The Pension Fund Committee supports the delivery of the Council's strategic objectives and priorities as expressed through the Corporate Plan, by careful monitoring of the Pension Fund activities with a view to ensuring the overall sustainability of the Pension Fund.
- 4.2 Sustainability of the Pension Fund is a crucial pillar in allowing the council to fulfil its wider objectives.
- 4.3 The Pension Fund is also developing its NetZero and Stewardship policies which feed into the wider objectives around Planet, Places and People.

Corporate Performance / Outcome Measures

- 4.4 Not applicable in the context of this report.

Sustainability

- 4.5 London CIV is a key stakeholder as we progress out ESG and NetZero policies.

Corporate Parenting

- 4.6 Not applicable in the context of this report.

Risk Management

- 4.7 Risk management is central to the LGPS. LGPS pension funds are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met. Good governance is essential to managing the risks of the pension fund.

Insight

- 4.8 Not applicable in the context of this report.

Social Value

- 4.9 Not applicable in the context of this report.

5. Resource Implications (Finance and Value for Money, Procurement, Staffing, IT and Property)

- 5.1 Risks that are not mitigated or managed can have a financial penalty to the Fund.

6. Legal Implications and Constitution References

- 6.1 Government Guidance around the pooling requirements is linked in the body of this report.
- 6.2 The Council's Constitution – Part 2B section 15 includes within the responsibilities of the Pension Fund Committee.
- 6.3 The terms of reference for the committee includes:
*“To have responsibility for all aspects of the governance, investment and administration of the LB Barnet Pension fund, including, but not limited to the following:
To ensure compliance with all Local Government Pension Scheme statutes, regulations and best practice.”*

7. Consultation

- 7.1 Not applicable in the context of this report.

8. Equalities and Diversity

- 8.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 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, marriage and civil partnership.
- 8.2 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 will benefit everyone who contributes to the fund.

9. Background Papers

9.1 London CIV attended and presented to the Committee on 22 March 2023 and a detailed paper setting further context of London CIV and pooling in general was provided as a cover report to within that meeting. The relevant paper can be accessed [here](#)