



Pension Fund Committee

4 July 2023

Title	Investment Strategy and Manager Appointments
Date of meeting	4 July 2023
Report of	Executive Director of Strategy and Resources (S151 officer)
Wards	N/A
Status	Public
Urgent	No
Appendices	<p>Appendix 1- Summary of Outstanding Transactions</p> <p>Appendix 2 – Barnet Briefing paper on Consolidating the Surplus</p> <p>Appendix 3 – Hymans Strategy Review paper (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Exempt enclosures - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of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 a summary of the investment transactions made in the 3 months from February 2023 to May 2023, and an overview of the planned investment transactions in 2023.

Recommendations

- 1. In order to consolidate the Fund's surplus position the Committee is asked to agree to the recommendation to switch the Fund's Strategic Allocation from 50% growth assets / 50% income assets to 30% growth assets / 70% income assets.**
- 2. The Pension Fund Committee note other investment transactions that have occurred so far in 2023, and the further planned transactions for 2023.**

1. Reasons for the Recommendations

1.1 Acting in its capacity as Administering Authority to the Barnet Pension Fund, it is the responsibility of London Borough of Barnet to ensure that the Pension Fund complies with legislation and effectively manages the Fund’s financial affairs.

1.2 The matters covered in this paper are:

- A recommendation to amend the Fund’s strategic allocation between Income and Growth assets
- Investment transactions that have occurred in February 2023 to May 2023
- The planned further investment transactions in 2023 (in addition to the strategic move recommended)

Strategic Allocation

1.3 At the 22 March 2023 Pension Fund Committee meeting, Officers notified the Committee that they would be working with their advisors to review the Fund’s strategic asset allocation, in particular, because the level of return that could be achieved through a “risk free” government bond has increased substantially (reflecting the general increase in interest rates witnessed globally). Because the level of risk free return on government bonds have increased, the return available on other bond like assets has also increased – i.e. we may now be able to achieve a more stable level of return for a given level of risk.

1.4 We have concluded this review and now propose to move 20% of our assets from our liquid assets held with LGIM and London CIV and investment them towards our Schroder and London CIV liquid credit Funds. A briefing cover paper and Hymans report (exempt) is included as appendices to this paper and both provide greater detail on the rationale and considerations around this proposal.

1.5 However, in summary, the analysis shows that our Funding Level has increased substantially (estimated at around 115% at 31 March 2023 from 95% at 31 March 2022) and the proposed recommendation reduces our downside risk (at a 1 in 20 assessment) over a three-year period by £80m and marginally increases the probability that we will remain fully funded in 20 years – i.e. the proposal’s primary rationale is to consolidate our surplus position.

1.6 We may utilise our Trade Finance Funds to facilitate transition and manage overall transaction costs.

1.7 As a next phase we will be providing a more in-depth review of our Fund to finesse our risk / return position within the 30% Growth / 70% Income allocation and also to reflect our desire to increase assets with the London CIV (where appropriate) and also to recognise our NetZero and wider ESG objectives.

Investment Transactions from February 2023 to May 2023

1.8 Below is a summary of the investments made by the Pension Fund from February 2023 to May 2023:

Fund Name	Amount Invested
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LGIM Future Worlds (Hedged)	64.525m
LGIM Future Worlds (Unhedged)	43.017m
LCIV Renewable Infrastructure	2.841m
Barings Special Situations	1.568m
Adams Street Private Equity 2019	3.531m
Adams Street Secondaries	1.797m
Allianz ALWOCA	18.500m
Pemberton Trade Finance Fund	18.500m
Total	£154.279m

1.9 Below is a summary of the disinvestments the Pension Fund made from February 2023 to May 2023:

Fund Name	Amount Disinvested
LGIM UK Equity Index	5.478m
LGIM World ex UK Dev Equity Index	56.250m
LGIM World EM Equity Index	5.525m
LGIM World ex UK Dev Equity Index (Hedged)	40.288m
Fiera Real Estate	1.287m
Alcentra European Direct Lending	0.283m

Partners MAC 2015	0.673m
Partners MAC 2017	1.453m
Total	£111.237

Planned Investment Transactions for 2023

- 1.10 The Pension Fund has a number of investments where the commitments have not been fully drawn. Whilst fund managers do not provide a detailed schedule as to the scale and timings of the remaining drawdowns, it is expected that the majority of these funds will be invested during 2023.
- 1.11 The Pension Fund also has a new investment into LCIV Global ESG Bonds (agreed at December 2021 meeting) with an original commitment of 5% of assets towards that Fund. The proposed strategic allocation would increase our allocation to this Fund to 15% of the Pension Fund's assets.
- 1.12 To fund these new investments, the Pension Fund is also expected to make a variety of disinvestments from a number of funds. The timing of these disinvestments will depend on the timing of the drawdowns mentioned above; as a result it is expected that the majority of these disinvestments will occur in 2023.
- 1.13 Appendix 1 shows a summary of these outstanding transactions, with expected timings, methods, drivers, and funding sources (under the current 50% equity / 50% growth allocation).

2. Alternative Options Considered and Not Recommended

- 2.1 As you will see from the Hymans report, Officers considered a range of other allocation profiles between 30% Income / 70% Income and 50% Growth / 50% Income. The proposal represents the optimal amongst the range considered. We did not want to consider allocations of equity lower than 30% as we feel it is important to retain a meaningful exposure to growth assets.
- 2.2 We also considered whether we could utilise Index-linked gilt funds to facilitate the transition but felt that the governance and delegations required to set a gilts fund up would not enable us to do this before the 4 July meeting when we needed to make the proposal. Utilising an Index-linked gilt fund may reduce transition risk (particularly around interest rate exposure).

3. Post Decision Implementation

- 3.1 None

4. Corporate Priorities, Performance and Other Considerations

Corporate Plan

- 4.1 The current corporate plan (Barnet Plan 2023-2026) was adopted in February 2023.

4.2 Effective monitoring of the Pension Fund's investment performance will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities.

Corporate Performance / Outcome Measures

4.3 This report allows the committee to have oversight of the investment transactions of the Pension Fund.

Sustainability

4.4 Not applicable in the context of this report

Corporate Parenting

4.5 Not applicable in the context of this report.

Risk Management

4.6 Risk management is central to the LGPS; which 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.

4.7 Understanding the causes of sources and variabilities of scheme returns informs the management of investment and funding risk.

Insight

4.8 Not applicable in the context of this report

Social Value

4.9 The Public Services (Social Value) Act 2012 came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits.

4.10 Before they start the procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders.

4.11 The Act is a tool to help commissioners get more value for money out of procurement. It also encourages commissioners to talk to their local provider market or community to design better services, often finding new and innovative solutions to difficult problems.

4.12 There are no specific social value issues arising out of this report, however membership of the Pension Fund ensures the long-term financial health of contributing employees on retirement.

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

5.1 There are no direct resources issues for the council however changes in the financial performance of the pension fund affects the pension fund deficit reflected in the Authority's accounts and the level of contributions payable by the Council and other employers.

6. Legal Implications and Constitution References

6.1 The Council's Constitution - Part 2B - Terms of Reference & Delegation of Duties to Committees and Sub-Committees includes in the Terms of Reference for the Pension Fund Committee the responsibility for the 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).

(<https://barnet.moderngov.co.uk/documents/s78121/Part%20B%20and%20C%20-%20Terms%20of%20Reference%20of%20Committees.pdf> p.20).

The Council's Constitution – Article 7 – includes within the responsibilities of the Pension Fund Committee, (1) the approval of the Investment Strategy Statement and to act in accordance with its principles and (2) the appointment of investment managers. This paper considers alterations to the asset allocation set out in the ISS.

7. Consultation

7.1 Not required

8. Equalities and Diversity

8.1 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.

9. Background Papers

9.1 All recent Committee meetings have included an agenda item on investment strategy.