



## Pension Fund Committee

4 July 2023

<b>Title</b>	Pension Fund Investment Performance Report
<b>Date of meeting</b>	4 July 2023
<b>Report of</b>	Executive Director of Strategy and Resources (S151 Officer)
<b>Wards</b>	N/A
<b>Status</b>	Public with Exempt Appendix C
<b>Urgent</b>	No
<b>Appendices</b>	<p>Appendix A – Asset Allocation as of 31<sup>st</sup> May 2023</p> <p>Appendix B – Review of Investment Managers’ Performance for Q1 2023 (Hymans Robertson)</p> <p>Appendix C – Review of Fund Managers (Hymans Robertson) for Q1 2023 (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Exempt enclosures - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of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 31 March 2023 with an updated estimated valuation to 31 May 2023.

### Recommendations

1. That the Pension Fund Committee note the investment activities and performance of the Pension Fund to 31 May 2023.

## 1. Reasons for the Recommendations

### 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 From March to May 2023 markets continued to improve and this is reflected in the valuation increasing by an estimated £4.6m (0.2% increase). Investments in LGIM Future World equities are the main outperformers over the 2 months (1.2%).
- 1.3 Hymans Robertson have provided their report for Q1 2023 (appendix B), which gives an update on the overall market in the quarter to March 2023. The fund had a return of 2.3% over the quarter, which is 1.2% below benchmark.
- 1.4 The main drivers of absolute returns continue to be listed equities and infrastructure.
- 1.5 The quarterly underperformance against benchmark is mainly due to Adams Street Private Equity (-14.9 %) as well as CBRE Global Alpha Property (-8.8%) and Standard Life Long Lease Property (-8.2%). The relatively new LCIV Sustainable Equity fund has also struggled in the quarter (-5.0%).

### Investment Management Ratings

- 1.6 Hymans' manager ratings are included within their quarterly report (appendix C, page 4). All the managers are rated either preferred or positive (the top two rankings) 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.
- 1.8 Notable comments in the Hymans quarterly report (appendix C) include:
- The resignation of CFO of Abdrn with their successor to be announced in due course.
  - The resignation of the Manager of CBRE Investment Management Fund, with their successor already appointed.
- 1.9 Hymans have no concerns over these updates.

### Strategic Allocations

- 1.10 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.
- 1.11 We have brought a significant proposal to amend the Fund's mix of income and growth assets so that 70% is held in growth assets and 30% is held in income assets. The detail of this and the rationale for proposing the move is provided in the Investment Strategy paper covered under item 9.

### Re-balancing

- 1.12 Under the current allocation and at 31 May 2023, the fund is currently overweight in Equities (by 1.57%) and Cash (4.64%). Whilst being overweight in Corporate Bonds (2.05%) and Illiquid Alternatives (3.9%).

- 1.13 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.
- 1.14 We will take an opportunity to rebalance towards our overall strategic allocation as part of the larger shift in strategic allocation considered under item 9.

## **2. Alternative Options Considered and Not Recommended**

- 2.1 None.

## **3. Post Decision Implementation**

- 3.1 The Chief Financial Officer will carry out any actions considered necessary.

## **4. Corporate Priorities, Performance and Other Considerations**

### **Corporate Plan**

- 4.1 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.

### **Corporate Performance / Outcome Measures**

- 4.2 Effective management of Pension Fund assets which leads to good performance, has a positive effect on wider council finances through potential reduction in contribution payments.

### **Sustainability**

- 4.3 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 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.

### **Corporate Parenting**

- 4.4 Not applicable in the context of this report.

### **Risk Management**

- 4.5 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.

### **Insight**

- 4.6 Not Applicable

## **Social Value**

- 4.7 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 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 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.

## **6. Legal Implications and Constitution References**

- 6.1 The Council's Constitution – Part 2B section 16 includes within the responsibilities of the Pension Fund Committee.
- 6.2 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.

## **7. Consultation**

- 7.1 Not Applicable

## **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.
- 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 and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

8.3

## **9. Background Papers**

9.1 None.

## Appendix A- Asset Allocation as at 31 May 2023

	31-Dec-22 Transactions		31-Mar-23 Transactions		31-May-23		Target Allocation		
	£'000	£'000	£'000	£'000	£'000	%	%	%	%
<b>Equities</b>							<b>51.57%</b>		<b>50.00</b>
LGIM Global	103,425	-107,542	0		0	0.00%		0.00	
LGIM RAFI	184,348		193,092		192,680	13.09%		10.00	
LGIM Future Worlds	268,187	107,542	394,606		399,403	27.13%		25.00	
LCIV Emerging Markets	65,448		67,305		64,922	4.41%		5.00	
LCIV Sustainable Exclusion Equity	39,787		39,652		39,373	2.67%		5.00	
Adams Street Private Equity	66,055	5,328	62,841		62,841	4.27%		5.00	
<b>Property</b>							<b>5.86%</b>		<b>6.00</b>
Aberdeen Standard Long Lease	35,159		26,753		26,753	1.82%		2.00	
CBRE Global	28,768		31,873		31,948	2.17%		2.00	
Fiera Real Estate Opportunities Fund	28,249	-1,287	27,577		27,577	1.87%		2.00	
<b>Multi Credit Liquid</b>							<b>12.87%</b>		<b>13.00</b>
Baring Global High Yield	37,976		38,975		39,065	2.65%		3.50	
LCIV MAC	30,043	30,000	60,214		60,869	4.13%		3.50	
Insight Secured Finance	89,530		89,530		89,530	6.08%		6.00	
<b>Corporate Bonds</b>							<b>7.95%</b>		<b>10.00</b>
Schroder	126,710		117,087		117,087	7.95%		10.00	
<b>Illiquid Alternatives</b>							<b>17.10%</b>		<b>21.00</b>
Alcentra European Direct Lending	14,281	-283	13,164		13,164	0.89%		1.50	
Partners Group	47,062	-1,120	46,586	-3,114	43,472	2.95%		5.50	
LCIV Private Debt	40,069	1,973	41,797		41,797	2.84%		4.00	
Barings Special Situations Debt	24,153	1,567	35,586		35,586	2.42%		2.00	
LCIV Renewables Infrastructure	15,390	1,987	17,896	1,810	19,706	1.34%		3.00	
IFM Global Infrastructure	78,558		98,001		98,001	6.66%		5.00	
<b>Cash</b>	102,905		64,901		68,323	4.64%	<b>4.64%</b>	0.00	<b>0.00</b>
<b>Total</b>	<b>1,426,103</b>	<b>38,165</b>	<b>1,467,436</b>	<b>(1,304)</b>	<b>1,472,097</b>	<b>100%</b>	<b>100.00%</b>	<b>100.00</b>	<b>100.00</b>

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