



Pension Fund Committee

2 November 2023

Title	Pension Fund Investment Performance Report
Date of meeting	2 November 2023
Report of	Executive Director of Strategy and Resources (S151 Officer)
Wards	All
Status	Public with Exempt Appendix C Exempt enclosures - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of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)).
Urgent	No
Appendices	Appendix A – Asset Allocation as of 30th September 2023 Appendix B – Review of Investment Managers’ Performance for Q2 2023 (Hymans Robertson) Appendix C – Review of Fund Managers (Hymans Robertson) for Q2 2023 (Exempt)
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Summary

This report provides an update on investment valuations, transactions and performance to 30 June 2023 with an updated estimated valuation to 30 September 2023.

Recommendations

1. That the Pension Fund Committee note the investment activities and performance of the Pension Fund to 30 September 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 June to September 2023 markets stabilised and this is reflected in the valuation increasing by an estimated £0.09m (0.01% increase). Investments in Schroders Corporate Bonds and LCIV Private Debt are the main performers over the 3 months (2.6% and 1.6% respectively).
- 1.3 Hymans Robertson have provided their report for Q2 2023 (appendix B), which gives an update on the overall market in the quarter to June 2023. The fund had a return of 1.8% over the quarter, which is 0.7% 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 Partners MAC 2015 (-6.8%) as well as Fiera Real Estate Fund (-5.7%). The relatively new LCIV Sustainable Equity fund has also struggled in the quarter (-3.8%).

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 four 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, except for one rated as adequate. The four London CIV mandates not rated.
- 1.8 Notable comments in the Hymans quarterly report (appendix C) include:
- LCIV Chief Investment Officer stepping down, with the current LCIV Chief Executive Officer stepping in to the CIO role as an interim.
 - Appointments of CEO and CIO at ABRDN Standard Life Property Fund
 - Departure of client portfolio manager, and other roles, at Barings Multi-Credit.
- 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.

Re-balancing

- 1.11 Under the current allocation and at 30 September 2023, the fund is currently underweight in all asset classes, most notably Illiquid Alternatives (-4.19%). The fund is currently overweight in cash by 5.31%.
- 1.12 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, however the underweight asset

classes have significant committed funds not yet drawn, but once drawn will address the underweight position.

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 – The Council's Constitution – Part 2B- The Pension Fund Committee has 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.
- To consider approval and act in accordance with statutory Pension Fund documents:
 - Investment Strategy Statement
 - Funding Strategy Statement
 - Governance Policy Statement
 - Pension Administration Strategy
 - Communication Policy Statement.

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 30 September 2023

	31-Mar-23 Transactions		30-Jun-23 Transactions		30-Sep-23		Target Allocation		
	£'000	£'000	£'000	£'000	£'000	%	%	%	%
Equities							29.61%		30.00
LGIM RAFI	193,092		203,220	-111,000	93,440	6.24%		6.00	
LGIM Future Worlds	394,606		415,329	-217,000	196,594	13.14%		13.00	
LCIV Emerging Markets	67,305		65,526	-21,000	43,715	2.92%		3.00	
LCIV Sustainable Exclusion Equity	39,652		39,627		38,921	2.60%		3.00	
Adams Street Private Equity	62,841		65,792	4,667	70,505	4.71%		5.00	
Property							5.55%		6.00
Aberdeen Standard Long Lease	26,753		26,453		26,753	1.79%		2.00	
CBRE Global	31,873		30,499		30,520	2.04%		2.00	
Fiera Real Estate Opportunities Fund	27,577		26,726	-776	25,855	1.73%		2.00	
Multi Credit Liquid							12.83%		13.00
Baring Global High Yield	38,975		39,705		40,493	2.71%		3.50	
LCIV MAC	60,214		61,362		61,970	4.14%		3.50	
Insight Secured Finance	89,530		89,230		89,530	5.98%		6.00	
Corporate Bonds							29.86%		30.00
Schroder	117,087		112,129	112,000	227,067	15.17%		15.00	
LCIV Global Bond Fund	0		0	225,000	219,821	14.69%		15.00	
Illiquid Alternatives							16.81%		21.00
Alcentra European Direct Lending	13,164		12,913	-1,644	11,269	0.75%		1.50	
Partners Group	46,586	-3,114	46,786	-4,033	43,028	2.88%		5.50	
LCIV Private Debt	41,797		43,297	558	44,529	2.98%		4.00	
Barings Special Situations Debt	35,586		34,819		34,637	2.31%		2.00	
LCIV Renewables Infrastructure	17,896	1,810	20,806	724	20,134	1.35%		3.00	
IFM Global Infrastructure	98,001		98,001		98,001	6.55%		5.00	
Cash	64,901		64,306	15,000	79,833	5.33%	5.33%	0.00	0.00
Total	1,467,436	(1,304)	1,496,526	2,496	1,496,615	100%	100.00%	100.00	100.00
Due to report timings, there will be small valuation differences with Hymans reports					-1				
Prior month valuations are adjusted for cash and foreign exchange rate movements									