



Pension Fund Committee

2 November 2023

Title	Investment Strategy and Manager Appointments
Date of meeting	2 November 2023
Report of	Executive Director of Strategy and Resources (\$151 officer)
Wards	All
Status	Public with Exempt enclosure (Appendix 2) Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of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 1- Summary of Outstanding Transactions Appendix 2- Hymans Recommendation on the London Collective Investment Vehicle Long Duration Buy and Maintained Credit Fund (Exempt) Appendix 3- Updated Investment Strategy Statement
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Summary

This report provides a summary of the investment transactions made in the 4 months from June 2023 to September 2023, and an overview of the planned investment transactions in 2023.

Recommendations

1. The Pension Fund Committee note other investment transactions that have occurred in the four months from June to September 2023, and the further planned transactions for 2023.
2. Approve the proposed move of assets in the Schroders Corporate Bond Fund to the LCIV Long Duration Buy and Maintained Credit Fund (pending Hymans Suitability Report)
3. Approve the updates to the Investment Strategy Statement

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:

- Investment transactions that have occurred in June 2023 to September 2023
- The planned further investment transactions in 2023
- Proposal to move the assets in the Schroders Corporate Bond fund, to the LCIV Long Duration Buy and Maintained Credit Fund
- Updated Investment Strategy Statement (ISS) for committee approval.

Investment Transactions from June 2023 to September 2023

1.3 Below is a summary of the investments made by the Pension Fund from June 2023 to September 2023:

Fund Name	Amount Invested (£m)
Schroders Corporate Bonds	£112.000
LCIV Global Bonds	£225.000
LCIV Private Debt	£0.410
LCIV Renewable Infrastructure	£0.148
Adams Street 2019	£1.994
Adams Street Secondaries	£2.673
Allianz Trade Finance	£7.5000

Pemberton Trade Finance	£7.5000
Total	£357.225

1.4 Below is a summary of the disinvestments the Pension Fund made from June 2023 to September 2023:

Fund Name	Amount Disinvested (£m)
LGIM RAFI	£111.000
LGIM Future Worlds (Unhedged)	£97.000
LGIM Future Worlds (Hedged)	£120.000
LCIV Emerging Markets	£21.000
Partners MAC 2015	£0.324
Partners MAC 2017	£1.629
Partners MAC 2019	£1.280
Fiera Real Estate	£0.776
Alcentra European Direct Lending	£1.644
Total	£354.653

Planned Investment Transactions for 2023

- 1.5 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 and 2024.
- 1.6 The Pension Fund is also asking the committee for an investment into the new LCIV Long Duration Buy and Maintained Credit Fund, planned to replace the current allocation to Schroders Corporate Bonds.
- 1.7 In order 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 and 2024.

- 1.8 Appendix 1 shows a summary of these outstanding transactions, with expected timings, methods, drivers, and funding sources (under the current 30% equity / 70% growth allocation).

Proposal to move assets in Schroders Corporate Bond Fund to LCIV Long Duration Buy and Maintained Credit Fund

Background

- 1.9 At the 4 July 2023 Pension Fund Committee meeting it was agreed to switch 20% of Pension Fund assets from listed equity towards investment grade credit. The purpose of this was to stabilise and protect our funding position (Hymans' analysis suggested the Pension Fund was 115% funded at 31 March 2023 and that by making this switch we would reduce risk substantially).
- 1.10 As set out in this report, officers implemented this change very swiftly after the July meeting by switching out of our LGIM passively managed and LCIV equity funds towards our two Investment Grade credit funds, namely our LCIV Global Bond Fund and our Schroders Sterling Credit Bond Fund. We implemented this quickly because we wanted to reduce our equity risk immediately.

"Locking in" returns over a longer period

- 1.11 Our investment grade credit funds are "all duration", this means that the investment manager is required to purchase bonds of various time periods and the average period of investment within these funds is typically 3 – 6 years. When we were considering stabilisation strategies to lock in the surplus we believe we could further stabilise the Pension Fund position by investing in longer duration credit funds that take advantage of the relatively high interest rates we are seeing over 10 years or more (in this context a potential problem with an "all duration" fund is that if interest rates fall, then so does the expected return of the Fund).
- 1.12 Given the high-level of interest rates seen generally we think it is a good point to "lock in" to the higher long-term interest rates (10 year yields on Investment Grade Bonds were 6.15% p.a. at 29 September 2023). If long-term yields reduce then the Fund would have missed an opportunity to further stabilise the Fund. For this reason Officers are keen to make the switch before the year-end.

Working with London CIV to create a longer-duration Bond Fund

- 1.13 We have had extensive discussions with Hymans and LCIV about how we could achieve this and the result is that LCIV have developed a fund known as a "buy and maintain" credit fund. The idea of this fund is that the investment manager picks good quality (investment grade) long-term bond assets with a view to holding them for the longer term (say 10 years or more), only selling if there are credit concerns. In this way we would be able to lock in investment returns over a longer period.

Hymans Recommendation

- 1.14 Hymans have considered the impact of moving to the proposed LCIV Buy and Maintain fund and, subject to them completing their suitability report on the underlying manager delivering the LCIV mandate, recommend the Fund switches from Schroders Sterling Bond Fund to the LCIV Buy and Maintain mandate. Hymans report (exempt) is included as Appendix B.
- 1.15 The Hymans report notes the following benefits:

- Significantly progresses the Fund’s pooling ambitions by pooling a further 15% of assets directly invested with the London CIV, taking the total proportion of Fund assets pooled to c.47% (c.65% after allowing for passive LGIM investments)
- Helps stabilise the funding position by better aligning the interest rate risk (duration) of the assets to the liabilities.
- Does not impair the Committee’s Net Zero ambitions.
- Has no material impact on the expected return.
- Reduces the overall management fees.

1.16 Hymans Recommendation is included in this paper as appendix 2.

Impact on ISS

1.17 The change would also require a change to our Investment Strategy Statement, replacing the Benchmark for 15% of our allocation from:

Current Benchmark	New Benchmark
BAML Non-Gilts (Gross Total Return) Index	iBoxx Sterling Collateralized & Corporates Index 10+ years

1.18 Officers are requesting Pension Fund Committee approval for this switch.

Update to Investment Strategy Statement

1.19 Pension Fund officers have updated the fund’s Investment Strategy Statement, this can be found in Appendix 3.

1.20 Below is a summary of the changes:

Change Introduced	Date PFC approval made	Version Effective
Introduces the Fund’s Cash Management Strategy	31 January 2023	Vs1.1
Introduces delegation protocols for re-balancing and urgent situations	31 January 2023	Vs1.1
Updates the strategic allocation to reflect a 20% shift in assets from liquid equity to investment grade credit*	4 July 2023	Vs1.1
Re-format template into Barnet headed paper	n/a	Vs1.1
Added principles around NetZero	31 January 2023	Vs1.1
Adds section numbers and other minor wording adjustments	n/a	Vs1.1
Update references to dates / allocations to reflect the position in 2023	n/a	Vs1.1

1.21 Officers are requesting approval from the Pension Fund Committee to publish the updated ISS.

2. Alternative Options Considered and Not Recommended

2.1 None

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

Sustainability

4.3 Not applicable in the context of this report

Corporate Parenting

4.4 Not applicable in the context of this report.

Risk Management

4.5 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.

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

Insight

4.7 Not applicable in the context of this report

Social Value

4.8 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.

4.9 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.

4.10 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.

4.11 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 LGPS (Management and Investment of Funds) Regulations 2016 (Regulation 7(7)) requires the Committee to periodically (at least every three years) to review and if necessary, revise the investment strategy.

6.2 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.

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 None