



Pension Fund Committee

11 January 2024

Title	Pension Fund Investment Performance Report
Date of meeting	11 January 2024
Report of	Executive Director of Strategy and Resources (S151 Officer)
Wards	N/A
Status	Public with Exempt Appendices C & D
Urgent	No
Appendices	<p>Appendix A – Asset Allocation as of 30th November 2023</p> <p>Appendix B – Review of Investment Managers’ Performance for Q3 2023 (Hymans Robertson)</p> <p>Appendix C – Review of Fund Managers (Hymans Robertson) for Q3 2023 (exempt)</p> <p>Appendix D- LCIV Presentation on LCIV Sustainable Equity Exclusions Fund (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Exempt enclosures - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of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 30 September 2023 with an updated estimated valuation to 30 November 2023. This report also provides an update on the performance of the Fiera Real Estate Fund and LCIV Sustainable Equities Exclusion Fund.

Recommendations

1. That the Pension Fund Committee note the investment activities and performance of the Pension Fund to 30 November 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 September to November 2023 markets improved and this is reflected in the valuation increasing by an estimated £37.4m (2.5% increase). Investments in LGIM RAFI, Schroders Corporate Bonds and LCIV Private Debt are the main performers over the 2 months (4.36%, 3.5% and 3.47% respectively).
- 1.3 Hymans Robertson have provided their report for Q3 2023 (appendix B), which gives an update on the overall market in the quarter to September 2023. The fund had a return of -0.2% over the quarter, which is -1.1% below benchmark.
- 1.4 The main drivers of absolute returns continue to be listed equities.
- 1.5 The quarterly underperformance against benchmark is mainly due to CBRE Global Alpha (-6.9%) as well as LCIV Renewable Infrastructure (-5.6 %) and Barings Global Special Situations Credit (-4.3%). These funds represent 6.1% of total fund assets.

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:
 - Changes to some fund manager RAG ratings due to underperformance and credit event recovery.
 - Alignment of target returns for Insight Funds.
- 1.9 Hymans have no concerns over these updates.

Investment Managers identified at the last committee meeting

- 1.10 At the last committee meeting in November 2023 the committee identified two managers which had significant underperformance compared to their benchmark.
- 1.11 These fund managers were Fiera, and RBC (the underlying manager of the LCIV Renewables Infrastructure fund).

Context around Fiera Investment

- 1.12 Fiera's FROEF V Fund is a Real Estate Fund that the Committee agreed to invest in during 2021. The Committee papers setting out the recommendation can be accessed here- [Agenda for Pension Fund Committee on Thursday 28th October, 2021, 6.00 pm \(moderngov.co.uk\)](https://www.moderngov.co.uk/Agenda-for-Pension-Fund-Committee-on-Thursday-28th-October-2021-6.00-pm).
- 1.13 Barnet committed £30m of capital and this was deployed over 2022. FROEF V is closed ended Fund (i.e. not open to new monies) and is expected to distribute back to investors over Q1 of 2024 to Q3 of 2026.
- 1.14 The Fund was launched with a target return of between 12% - 15%. The London Borough of Barnet is one of five underlying investors and the Fund is around £175m in size.
- 1.15 The purpose of the Fund is to find short-term development opportunities across commercial and residential real estate which requires capital to either enhance or change usage of the underlying asset base which can then be sold at a profit.

Update from Fiera

- 1.16 Cllr Radford, Cllr Shooter and David Spreckley met with Fiera to discuss the underlying assets within the Fund and performance in general. Fiera gave a confident presentation. The Fund currently has 13 underlying Funds varying in size (from c£50m for a commercial site in Bishops Stortford to £1.5m for a residential site in Willingdon).
- 1.17 Whilst the presentation identified some challenges, particularly in relation to a commercial office opportunity in the Yorkshire area, Fiera are still projecting the Fund can deliver a c12% plus returns.
- 1.18 There is a risk that the actual returns turn out to be lower than this. The main risk is that the Fiera Team fail to realise full value when the underlying assets are sold or sales are not completed in line with expected timeframes.
- 1.19 The Fund has low leverage levels for a real estate type fund and so is not as exposed to increases in financing costs as other, more leveraged, funds may be.
- 1.20 There is no opportunity to exit the Fund before it distributes unless we explore Secondary Markets. Officers will keep a watching brief on the expected Internal Investment Returns. The bulk of the distributions are projected to happen over 2024 and early 2025 and so we should have a clearer idea of the expected return on the Fund over the next 9-months or so.

Update on RBC

- 1.21 RBC is the underlying investment manager of London CIV's Sustainable Equity Exclusion Fund. The Barnet Pension Fund currently has a 2.5% allocation to this fund agreed in February 2021 (£40m as at 30 November 2023).
- 1.22 Whilst the overall allocation to this Fund is relatively small, the performance of the Fund has been concerning, tracking c15% below its benchmark over the 12-months to 30 September 2023 and c4% below its benchmark since inception.
- 1.23 London CIV has completed an in-depth investment due diligence ('IDD') review of RBC and updated the RAG scores and monitoring status in accordance with their eight criteria RAG (Red, Amber, Green) assessment system and monitoring framework.
- 1.24 The recommendation to maintain RBC's monitoring status to 'Normal' was reviewed and approved by the London CIV Investment Committee on 18 July 2023.
- 1.25 The monitoring status for the LCIV Sustainable Equity Exclusion Fund remains 'Normal' but with a six-month review period. At this stage we assess the performance gap as recoverable, but RBC

will need to turn numbers around before too long to avoid a further downgrade. The next Due Diligence meeting is scheduled for February 2024.

- 1.26 London CIV are attending the 11 January 2023 meeting to give more background to the Committee on the reasons for RBC's poor performance and to explain the steps they are taking to address the position. Depending on the outcome of London CIV's review, Officers may make a further recommendation to the Committee in relation to the Fund's investments towards this Fund. LCIV's presentation on this is attached as Exempt Appendix D.

Strategic Allocations

- 1.27 The Pension Fund Committee has agreed to protocols to allow Officers to rebalance towards its 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

- 1.28 Under the current allocation as at 30 November 2023, the fund is currently underweight in all but one asset class, most notably Illiquid Alternatives (-4.54%). The fund is currently overweight in corporate bonds (0.17%) and cash (5.31%).
- 1.29 At the January 2023 Pension Fund Committee meeting the Committee agreed protocols to allow rebalancing of assets towards the Fund's strategic allocation if Officers felt appropriate. Officers are not proposing any rebalancing at this time.

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 15.1.5 includes within the responsibilities of the Pension Fund Committee, namely, to 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).

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 Pension Fund Committee- 28th October 2021- Item 7 Investment strategy. Approval for Investment into Fiera Real Estate. [Agenda for Pension Fund Committee on Thursday 28th October, 2021, 6.00 pm \(moderngov.co.uk\)](#)
- 9.2 Pension Fund Committee- 24th February 2021- Item 14 Investment Strategy Report. Approval for Investment into LCIV Sustainable Equities Exclusion Fund. [Agenda for Pension Fund Committee on Wednesday 24th February, 2021, 6.00 pm \(moderngov.co.uk\)](#)

Appendix A- Asset Allocation as at 30 November 2023

	30-Jun-23 Transactions		30-Sep-23 Transactions		30-Nov-23		Target Allocation		
	£'000	£'000	£'000	£'000	£'000	%	%	%	%
Equities							29.74%		30.00
LGIM RAFI	203,220	-111,000	93,440		96,599	6.30%		6.00	
LGIM Future Worlds	415,329	-217,000	196,594		205,156	13.38%		13.00	
LCIV Emerging Markets	65,526	-21,000	43,715		43,370	2.83%		3.00	
LCIV Sustainable Exclusion Equity	39,627		38,921		40,039	2.61%		3.00	
Adams Street Private Equity	65,792	4,667	70,505		70,727	4.61%		5.00	
Property							5.39%		6.00
Aberdeen Standard Long Lease	26,453		26,753		26,753	1.75%		2.00	
CBRE Global	30,499		30,520		30,050	1.96%		2.00	
Fiera Real Estate Opportunities Fund	26,726	-776	25,855		25,855	1.69%		2.00	
Multi Credit Liquid							12.70%		13.00
Baring Global High Yield	39,705		40,493		41,382	2.70%		3.50	
LCIV MAC	61,362		61,970		63,719	4.16%		3.50	
Insight Secured Finance	89,230		89,530		89,530	5.84%		6.00	
Corporate Bonds							30.17%		30.00
Schroder	112,129	112,000	227,067		235,013	15.33%		15.00	
LCIV Global Bond Fund	0	225,000	219,821		227,453	14.84%		15.00	
Illiquid Alternatives							16.46%		21.00
Alcentra European Direct Lending	12,913	-1,644	11,269	98	11,326	0.74%		1.50	
Partners Group	46,786	-4,033	43,028	-1,628	43,028	2.81%		5.50	
LCIV Private Debt	43,297	558	44,529		44,529	2.91%		4.00	
Barings Special Situations Debt	34,819		34,637		34,909	2.28%		2.00	
LCIV Renewables Infrastructure	20,806	724	20,134	295	20,483	1.34%		3.00	
IFM Global Infrastructure	98,001		98,001		98,001	6.39%		5.00	
Cash	64,306	15,000	79,833		84,895	5.54%	5.54%	0.00	0.00
Total	1,496,526	2,496	1,496,615	(1,235)	1,532,817	100%	100.00%	100.00	100.00
					36,201				
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									