

London Borough of Barnet Pension Fund

Q3 2023 Investment Monitoring Report

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Executive Summary

Fund assets totalled c.£1,503.2m at the end of Q3 2023, an increase of c.£1.5m from the end of the previous quarter.

The Fund's assets recorded slightly negative returns of -0.2% (net of fees) over the quarter, underperforming the benchmark by c.1.1%.

The slight discrepancy in valuation and performance figures is caused by a c.£2.2m net inflow into the Fund over the quarter.

Key Actions

The following transitions took place over the quarter:

Disinvestments

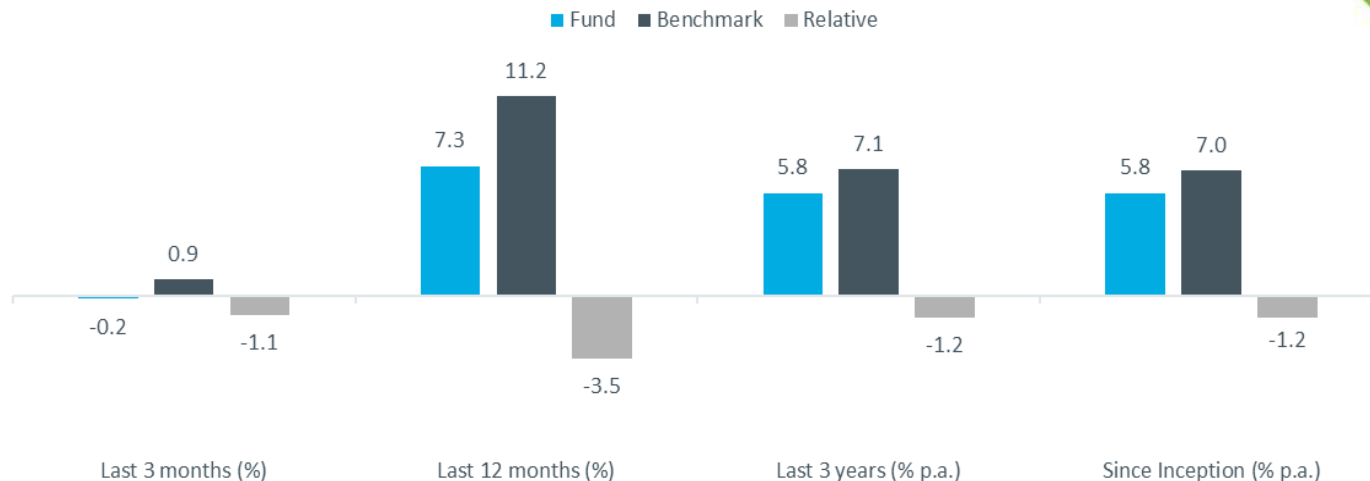
- £217m from LGIM Future World Global Equity Index
- £111m from LGIM RAFI Carbon Pathway
- £21m from LCIV Emerging Markets Equity

Investments

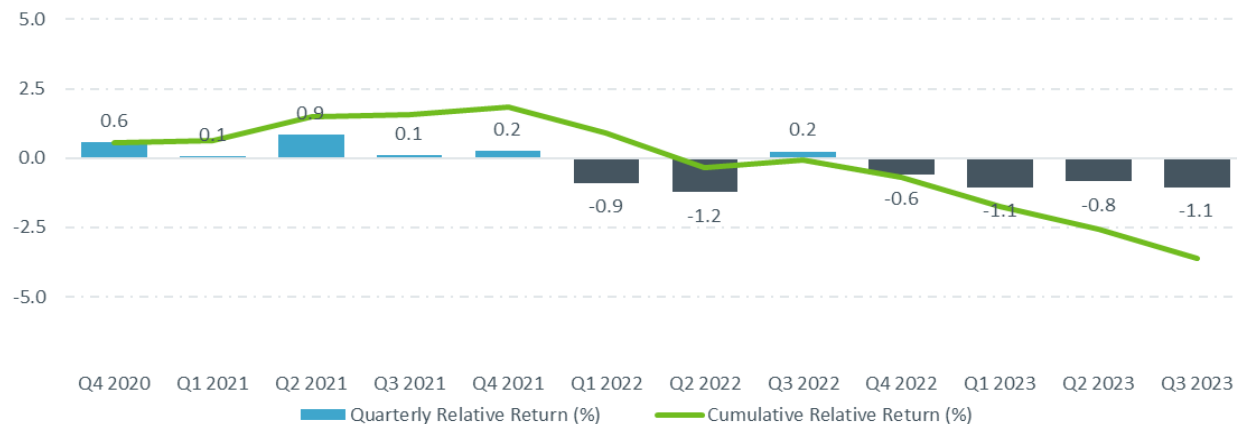
- £225m into LCIV Global ESG Bond
- £112m into Schroder Corporate Bond
- £7.5m into Pemberton Trade Finance
- £7.5m into Allianz Trade Finance

Over the quarter the following funds continued to call capital from the Fund's commitments: Adams Street Global 2019, Adams Street Global Secondaries, LCIV Private Debt and LCIV Renewable Infrastructure.

Historic quarterly performance (net of fees)



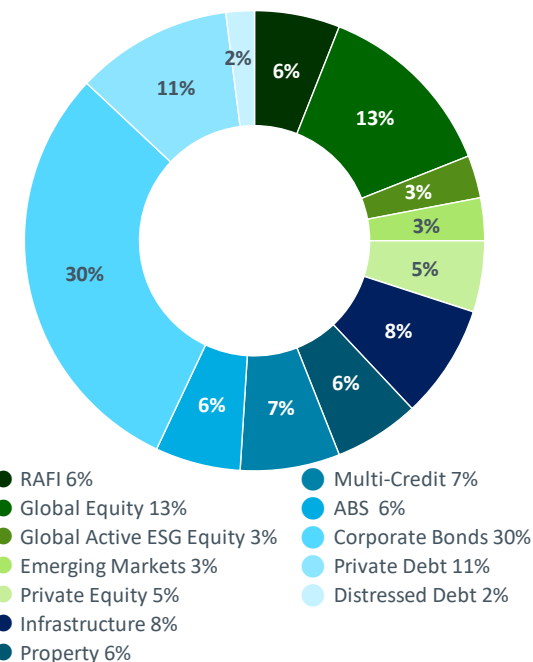
Relative quarterly and relative cumulative performance 3yr (net of fees)



Asset allocation

Manager	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q2 2023	Q3 2023			
LGIM RAFI Carbon Pathway Index GBP Hdgd	203.3	93.5	6.2%	6.0%	0.2%
LGIM Future World Global Equity Index	176.3	79.7	5.3%	5.2%	0.1%
LGIM Future World Global Equity Index GBP Hdgd	239.2	117.0	7.8%	7.8%	0.0%
LCIV Sustainable Exclusion Global Equity	39.6	38.9	2.6%	3.0%	-0.4%
LCIV Emerging Markets Equity	65.5	43.7	2.9%	3.0%	-0.1%
Adams Street 2019 Global	54.0	54.6	3.6%	5.0%	-0.3%
Adams Street Global Secondaries	12.7	15.5	1.0%		
Total Growth	790.8	443.0	29.5%	30.0%	-0.5%
IFM Global Infrastructure	98.9	102.5	6.8%	5.0%	1.8%
LCIV Renewable Infrastructure	20.8	20.1	1.3%	3.0%	-1.7%
Standard Life Long Lease Property	26.5	25.9	1.7%	2.0%	-0.3%
CBRE Global Alpha	31.9	30.4	2.0%	2.0%	0.0%
FREOF V	26.7	25.9	1.7%	2.0%	-0.3%
Barings Multi-Credit	39.7	40.5	2.7%	3.5%	-0.8%
LCIV MAC	61.4	62.0	4.1%	3.5%	0.6%
Insight Secured Finance	94.2	95.5	6.4%	6.0%	0.4%
LCIV Global ESG Bond	0.0	219.8	14.6%	15.0%	-0.4%
Schroder All Maturities Corporate Bond	112.1	227.1	15.1%	15.0%	0.1%
Alcentra Direct Lending	13.0	11.3	0.7%	1.5%	-0.8%
Partners Group MAC 2015	3.3	2.7	0.2%	0.0%	0.2%
Partners Group MAC 2017	10.5	9.4	0.6%	1.0%	-0.4%
Partners Group MAC V	28.9	28.2	1.9%	4.5%	-2.6%
LCIV Private Debt	43.3	44.5	3.0%	4.0%	-1.0%
Barings Global Special Situations Credit	35.5	34.7	2.3%	2.0%	0.3%
Total Income	646.7	980.6	65.2%	70.0%	-4.8%
Allianz Trade Finance	18.6	26.5	1.8%	0.0%	1.8%
Pemberton Trade Finance	18.8	26.6	1.8%	0.0%	1.8%
Cash	26.9	26.5	1.8%	0.0%	1.8%
Total Fund	1,501.7	1,503.2	100.0%	100.0%	0.0%

Strategic allocation



The Q3 23 valuation for Alcentra Direct Lending, Adams Street, CBRE Global Alpha and Barings Global Special Situations are as at Q2 23, due to a lag applied by the manager. We have also adjusted the valuations to allow for cash in transit at the quarter end (in relation to the £7.5m investment in the Pemberton Trade Finance fund, which settled on 3 October).

Following strategic decisions agreed in the May 2023 meeting, the Officers agreed to implement the de-risk of 20% of assets from Growth (equity) to Income (bonds).

The de-risk was implemented in a phased manner over the quarter; all the disinvestment proceeds from the LGIM RAFI Carbon Pathway Index fund and the LGIM Future World funds have now been fully transitioned to the Schroders Corporate Bond fund as well as the newly invested LCIV Global ESG Bond fund. The benchmark target allocations have also been updated to reflect the strategy agreed in May.

The Officers have invested the high cash balance in line with the agreed Cash management policy.

The strategic allocation chart (right) shows a diverse range of assets invested across Growth and Income mandates.

Manager performance (net of fees)

		Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
		Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Growth													
LGIM RAFI Carbon Pathway Index GBP Hdgd	◆	-0.2	-0.2	0.0	21.2	20.8	0.3	15.1	14.7	0.3	8.2	8.1	0.1
LGIM Future World Global Equity Index	◆	0.1	0.0	0.1	10.8	10.5	0.2	-	-	-	5.8	5.6	0.2
LGIM Future World Global Equity Index GBP Hdgd	◆	-2.8	-2.9	0.1	18.0	17.7	0.3	-	-	-	2.4	2.2	0.2
LCIV Sustainable Exclusion Global Equity	◆	-1.8	0.6	-2.3	-3.0	11.5	-13.0	-	-	-	-2.2	5.3	-7.2
LCIV Emerging Markets Equity	◆	-1.7	1.1	-2.8	0.6	2.2	-1.5	-0.2	0.2	-0.4	3.2	1.8	1.3
Adams Street 2019 Global	◆	-	-	-	-	-	-	23.8	14.8	7.9	31.6	13.2	16.3
Income													
IFM Global Infrastructure	■	3.6	1.9	1.6	5.0	8.0	-2.8	14.3	8.0	5.8	12.9	8.0	4.6
LCIV Renewable Infrastructure	■	-3.9	1.7	-5.6	7.1	7.0	0.1	-	-	-	12.9	7.0	5.5
Standard Life Long Lease Property	◆	-2.3	-0.1	-2.2	-24.1	-0.3	-23.8	-3.9	-9.3	6.0	-1.4	-3.8	2.5
CBRE Global Alpha	■	-4.9	2.2	-6.9	3.3	9.0	-5.2	6.2	9.0	-2.6	3.3	9.0	-5.2
FREOF V	■	-0.3	2.9	-3.1	-2.8	12.0	-13.3	-	-	-	0.2	12.0	-10.5
Barings Multi-Credit	■	2.0	2.5	-0.5	9.1	8.6	0.4	2.7	6.4	-3.5	3.1	5.9	-2.7
LCIV MAC	■	1.1	2.4	-1.3	-	-	-	-	-	-	5.2	7.5	-2.1
Insight Secured Finance	■	1.3	2.3	-0.9	7.2	8.2	-0.9	4.5	5.6	-1.1	3.3	5.2	-1.8
LCIV Global ESG Bond	◆	-	-	-	-	-	-	-	-	-	-2.6	-2.6	0.0
Schroder All Maturities Corporate Bond	◆	2.5	2.2	0.3	7.4	7.4	0.0	-6.2	-5.9	-0.3	3.5	3.2	0.3
Alcentra Direct Lending	■	-0.8	1.7	-2.5	0.5	7.0	-6.1	5.6	7.0	-1.4	6.1	7.0	-0.8
Partners Group MAC 2015	■	Fund is winding up			Fund is winding up			Fund is winding up			4.7	5.7	-0.9
Partners Group MAC 2017	■	Fund is winding up			Fund is winding up			Fund is winding up			5.7	5.7	0.0
Partners Group MAC V	■	3.8	2.3	1.5	11.0	8.2	2.6	6.2	6.1	0.1	5.7	5.8	-0.1
LCIV Private Debt	■	2.0	1.5	0.5	2.6	6.0	-3.2	-	-	-	6.8	6.0	0.8
Barings Global Special Situations Credit	■	-1.1	3.3	-4.3	2.8	13.8	-9.6	-	-	-	9.7	13.8	-3.6
Allianz Trade Finance	■	2.3	1.8	0.5	-	-	-	-	-	-	3.0	3.4	-0.4
Pemberton Trade Finance	■	2.0	1.9	0.1	-	-	-	-	-	-	3.4	3.5	-0.1
Total		-0.2	0.9	-1.1	7.3	11.2	-3.5	5.8	7.1	-1.2	5.8	7.0	-1.2

Source: Fund performance provided by Investment Managers and is net of fees. Benchmark performance provided by Investment Managers and DataStream. Please note the Fund has a substantial amount of transitions activity over Q3 and Q4 2022, which was a period of heightened market volatility. Reasonable endeavours have been made to ensure the performance data is accurate. However, there may be a lower level of accuracy in the performance data, as a result of this significant increase in transition activity.

The table shows a summary of the Fund performance, net of investment management fees, over selected time periods.

Benchmark Indicator

- ◆ Market-based
- Cash-based / Absolute return

Details of the managers' benchmarks can be found in the Appendix.

'UNDER THE SPOTLIGHT':

To focus discussion, the contents of the remaining slides relate to a selection of funds whose performance is of particular interest this quarter:

- LCIV Sustainable Exclusion P6
- CBRE P7
- Fiera FREOF V P8
- Barings Multi-Credit P9
- Barings Special Sit's Credit P10
- Market Background P11
- Appendix P13

Hymans Robertson has estimated the Fund's total performance in Q3 to allow for the de-risking activity that took place during the quarter.

The Q3 23 performance for Alcentra and CBRE are as at Q2 23, due to a lag applied by the manager. Hymans estimates the performance for Alcentra, LCIV Renewable Infra, LCIV Private Debt, IFM and Barings Global Special Situations Credit mandates. As such these may differ to the managers' net IRRs.

The shorter-term performance of funds in wind-up has been omitted, as immaterial short-term volatility can be an unnecessary governance distraction.

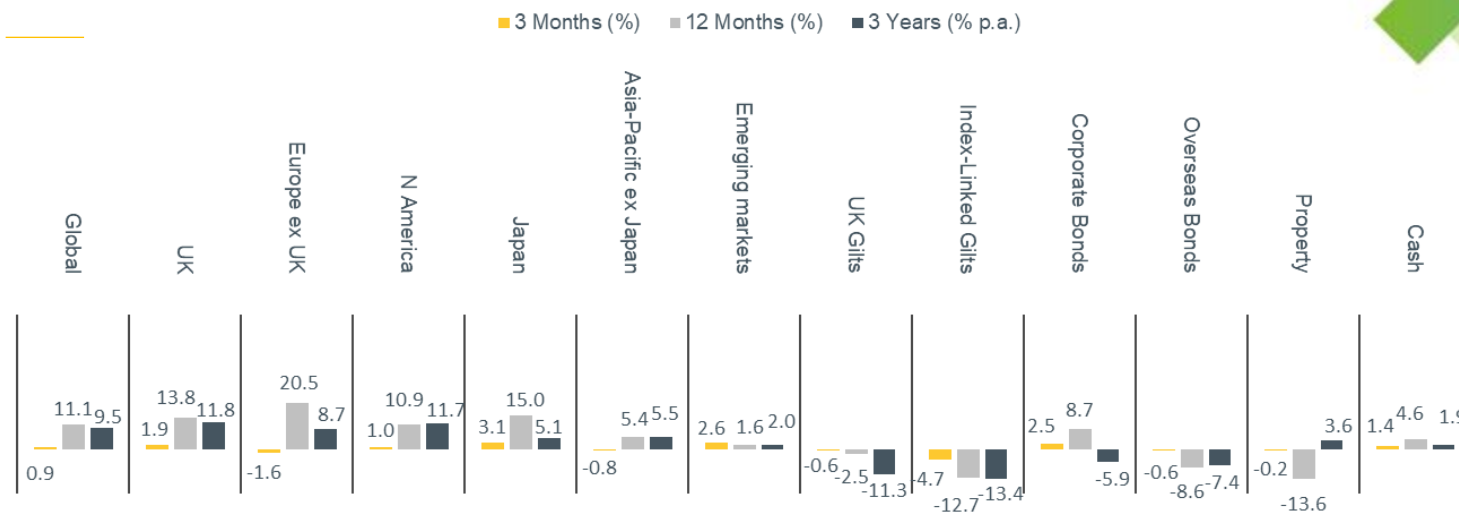
Better-than-expected Q2 data, released in Q3, led to further upwards revisions to 2023 global growth forecasts in Q3. However, survey indicators suggest that economic activity weakened throughout Q3, as services activity lost steam and the manufacturing sector remained in contraction. Europe looks a particular weak spot.

Headline inflation has generally stayed on a downwards trend, and came in at 3.7%, 6.7%, and 5.2% year on year in the US, UK, and eurozone, respectively. Core CPI inflation, which excludes volatile energy and food prices, has been falling more slowly, coming in at 4.3%, 6.2%, and 5.3%, in the US, UK and eurozone, respectively.

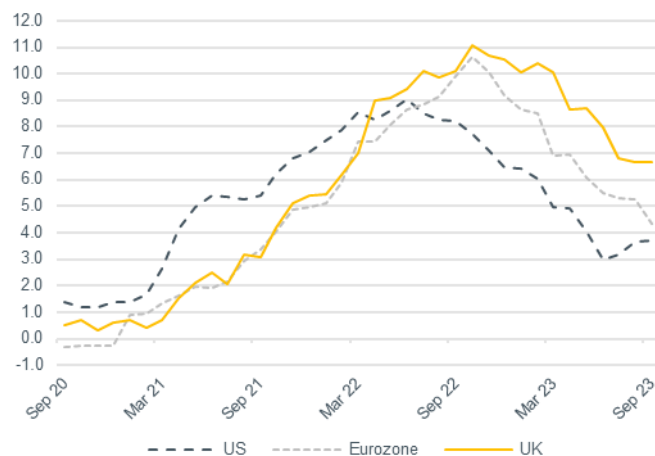
The Federal Reserve and Bank of England (BoE) raised rates 0.25% pa in Q3, to 5.5% pa and 5.25% pa. Both then left rates unchanged, unexpectedly so in the case of The BoE, at their September meetings. Meanwhile, the European Central Bank raised its deposit rate twice, to 4.0% p.a. The tone of central bank comments and market pricing suggest that policy rates are at, or close to peaking, but subsequent cuts will be more gradual than previously thought.

As a result, long-term sovereign bond yields rose. Heavy issuance amplified moves in 10-year US treasury yields which rose 0.7% pa to 4.6% pa. Equivalent German yields rose 0.5% p.a., to 2.8% p.a. Japanese government bond yields rose 0.4% pa, to 0.8% pa, as the Bank of Japan (BoJ) loosened its yield curve control policy in July. Short-term gilt yields fell, while longer-term yields rose – the 10-year yield saw more muted moves, rising 0.1% pa to 4.4% pa.

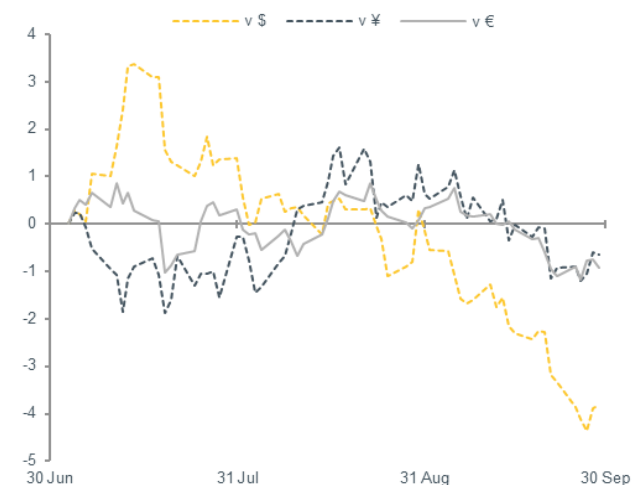
Historic returns for world markets [1]



Annual CPI Inflation (% p.a.)



Sterling trend chart (% change)



Source: DataStream. [1]Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, ICE BofA Global Government Index, MSCI UK Monthly Property; UK Interbank 7 Day

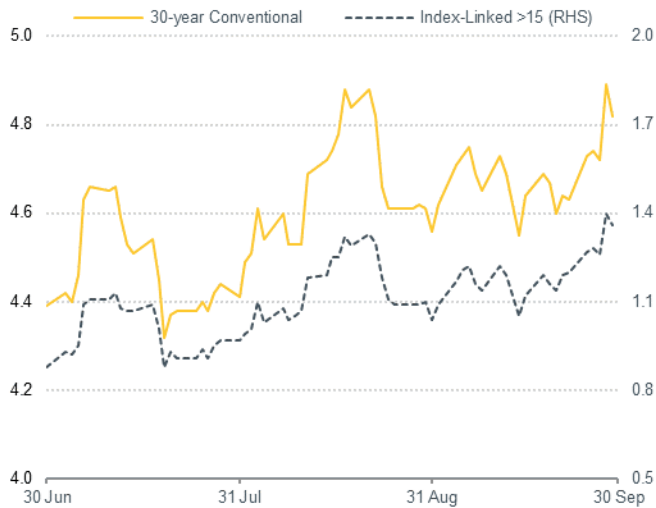
UK investment grade credit recorded positive total returns as short-term gilts yields and credit spreads fell. Global investment-grade spreads fell 0.1% pa to 1.3% pa. Speculative grade spread movements were muted with the US little changed, at 4.0% pa, and euro spreads tightening 0.1% to 4.4%.

The FTSE All World Total Return Index erased July's gains to end the quarter 2.1% lower, in local currency terms, as sovereign bond yields rose, and surveys indicated weaker global economic activity in Q3. Europe ex-UK underperformed, given weak business surveys and a large exposure to the struggling manufacturing sector. Above-average exposure to the tech sector saw North American equities also underperform. Japan outperformed as yen weakness lent support to the earnings of the export-heavy market. UK equities outperformed too, given above-average exposure to the energy sector.

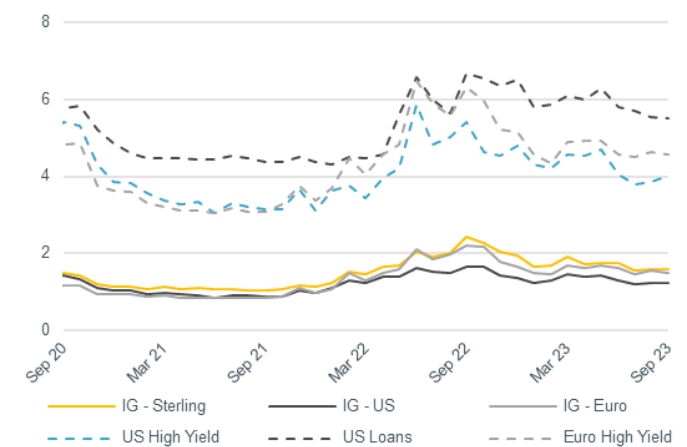
Oil prices rose 28% over the quarter on the back of supply shortfall fears, climbing close to \$100 per barrel. On a year-over-year basis, oil prices are up 8.1%. Trade-weighted sterling fell 2.1% as near-term interest rate expectations fell, while the equivalent US dollar measure rose 2.0% and the Japanese yen fell a further 1.7%.

The MSCI UK Monthly Property Total Return Index returned -0.2% over the quarter as capital value declines in the office and retail sectors more than offset income. Over 12-months, capital values are down around 14%, 20%, and 23% in the retail, industrial, and office sectors, respectively. The office and retail sectors continue to see month-on-month capital value declines, while the industrial sector has recorded seven consecutive months of growth, though the pace has eased.

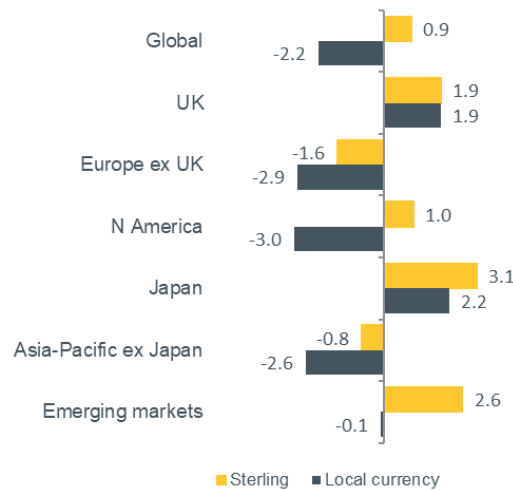
Gilt yields chart (% p.a.)



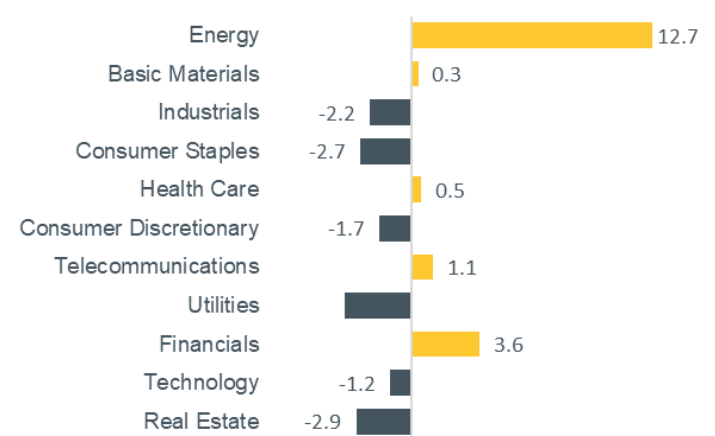
Investment and speculative grade credit spreads (% p.a.)



Regional equity returns [1]



Global equity sector returns (%) [2]



Source: DataStream, Barings, ICE [1] FTSE All World Indices. Commentary compares regional equity returns in local currency. [2] Returns shown in Sterling terms and relative to FTSE All World.

Mandate profiles

Mandate	Date Appointed	Benchmark/Target Description	Annual Fee (bps)
LGIM RAFI Carbon Pathway Index GBP Hdgd	08-Oct-15	RAFI Global Reduced Carbon Pathway 3.5% - GBP Hdgd	4.8
LGIM Future World Global Equity Index	31-Mar-21	Solactive L&G ESG Global Markets Net	3
LGIM Future World Global Equity Index GBP Hdgd	31-Mar-21	Solactive L&G ESG Global Markets Net - GBP Hdgd	6
LCIV Sustainable Exclusion Global Equity	16-Apr-21	MSCI World Index Net (Total Return)	38
LCIV Emerging Markets	03-Dec-19	MSCI Emerging Markets Index (TR) Net	49.5
Adams Street 2019 Global	17-Oct-19	MSCI ACWI TR Index + 4% p.a.	52
Adams Street Global Secondaries	23-Jun-21	Net IRR of 15% p.a.	100
IFM Global Infrastructure	01-Mar-18	8% - 12% p.a.	77
LCIV Renewable Infrastructure	30-Sep-21	Net IRR of 7 - 10% p.a.	103.5
Standard Life Long Lease Property	03-Jun-19	FT British Govt All Stocks Index Plus 2%	49
CBRE Global Alpha	01-Jul-19	9% - 11% p.a. over 3 year rolling period	45
FREOF V	09-Jun-22	12% - 15% p.a.	107
Barings Multi-Credit	10-Jun-16	3 month SOFR + 5% p.a. hedged to GBP	53
LCIV MAC	30-Nov-22	Cash + 4 -5% p.a.	36
Insight Secured Finance	31-May-17	SONIA + 4% p.a.	36
LCIV Global ESG Bond	17-Jul-23	Bloomberg Global Aggregate Credit Index - GBP Hedged	16
Schroder All Maturities Corporate Bond	31-Dec-10	Merrill Lynch Sterling Non-Gilts Index	18
Alcentra Direct Lending	06-May-16	7% - 12% p.a. net IRR	125
Partners Group MAC 2015	03-May-16	SONIA + 4% - 6% p.a.	73
Partners Group MAC 2017	12-Oct-17	SONIA + 4% - 6% p.a.	73
Partners Group MAC V	13-Aug-19	SONIA + 4% - 6% p.a.	73
LCIV Private Debt	22-Jun-21	Net IRR of 6 - 8% p.a.	80
Barings Global Special Situations Credit	30-Sep-21	Gross return of 15 - 20% p.a.	125
Allianz Trade Finance	31-Mar-23	SONIA + 2% p.a.	28
Pemberton Trade Finance	31-Mar-23	US LIBOR + 2.5 - 3% p.a.	30

Adams Street Partners' Annual Fee is based on the annual projected fee over the lifetime of the fund as a proportion of the total commitment, all in USD.

Source: Investment Managers

Risk warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

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Geometric v arithmetic performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + \text{Fund Performance})}{(1 + \text{Benchmark Performance})} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.