



Pension Fund Committee

18 April 2024

Title	Pension Fund Investment Performance Report
Date of meeting	18 April 2024
Report of	Interim Executive Director of Resources (S151 officer)
Wards	N/A
Status	Public with Exempt Appendices C
Urgent	No
Appendices	<p>Appendix A – Asset Allocation as of 29th February 2023</p> <p>Appendix B – Review of Investment Managers’ Performance for Q4 2023 (Hymans Robertson)</p> <p>Appendix C – Review of Fund Managers (Hymans Robertson) for Q4 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Exempt enclosures - Not for publication by virtue of paragraphs 3 of Part 1 of Schedule 12A of the Local Government Act 1972 as amended (information relating to the financial or business affairs of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 December 2023 with an updated estimated valuation to 29 February 2024.

Recommendations

- 1. That the Pension Fund Committee note the investment activities and performance of the Pension Fund to 29 February 2024.**

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 November 2023 to February 2024 markets continued to improve and this is reflected in the valuation increasing by an estimated £76.2m (5.0% increase). Investments in LCIV Sustainable Equities, LGIM Future Worlds and LGIM RAFI were the main performers over the 3 months (11.8%, 10.6%, and 8.8% respectively).
- 1.3 Hymans Robertson have provided their report for Q4 2023 (appendix B), which gives an update on the overall market in the quarter to December 2023. The fund had a return of 5.3% over the quarter, which is 0.3% above benchmark.
- 1.4 The main drivers of absolute returns continue to be listed equities and Multi-Asset Credit funds.
- 1.5 The quarterly underperformance against benchmark is mainly due to Abrdn Long Lease Property (-11.5%) as well as IFM Global Infrastructure (-1.6 %). These funds represent 8.1% 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:
- New CFO appointed at Adams Street.
 - Re-opening of Insight Secured Finance fund to existing investors.
- 1.9 Hymans have no concerns over these updates.

Abrdn Standard Life Long Lease Property Fund

- 1.10 Following the receipt of the Hymans report, officers visited Abrdn and met with their Long Lease Property fund's Client Manager, and Fund Manager.
- 1.11 The Pension Fund invested £27m into the fund in June 2019, and has since returned -2.2% which is -0.2% below its benchmark.
- 1.12 Officers discussed this with Abrdn, and they advised officers that the fund has been facing challenges, including having to sell more assets due to investor redemptions, which has led to short-term underperformance. This selling activity, coupled with market conditions such as oversupply and falling capital values, has contributed to the fund's underperformance against the broader real estate market. Additionally, the fund missed out on the recovery of certain sectors it does not invest in, such as multi-let industrial, retail warehouse, and private residential, causing it to lag behind the broader real estate market.

1.13 Despite this recent underperformance Abrdn expect a recovery in rental demand, especially in high-grade offices. They are also expecting investment activity in capital stocks to increase when the interest rates are expecting to fall in late 2024.

1.14 A document which contains more details about the discussions, the fund, and Abrdn will be circulated to committee members in due course.

Strategic Allocations

1.15 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

1.16 Under the current allocation as at 29 February 2024, the fund is currently underweight in all but one asset class, most notably Illiquid Alternatives (-5.02%). The fund is currently overweight in Equities (1.13%), Trade Finance (3.43%), and Cash (3.13%).

1.17 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.

9. Background Papers

- 9.1 None

Appendix A- Asset Allocation as at 29 February 2024

	30-Sep-23 Transactions		30-Nov-23 Transactions		29-Feb-24		Target Allocation		
	£'000	£'000	£'000	£'000	£'000	%	%	%	%
Equities							31.13%		30.00
LGIM RAFI	93,440		96,599		105,141	6.58%		6.00	
LGIM Future Worlds	196,594		205,156		226,970	14.21%		13.00	
LCIV Emerging Markets	43,715		43,370		44,206	2.77%		3.00	
LCIV Sustainable Exclusion Equity	38,921		40,039		44,762	2.80%		3.00	
Adams Street Private Equity	70,505		70,727	5,572	76,115	4.77%		5.00	
Property							5.23%		6.00
Aberdeen Standard Long Lease	26,753		26,753		26,753	1.67%		2.00	
CBRE Global	30,520		30,050		29,969	1.88%		2.00	
Fiera Real Estate Opportunities Fund	25,855		25,855		26,741	1.67%		2.00	
Multi Credit Liquid							12.26%		13.00
Baring Global High Yield	40,493		41,382		42,909	2.69%		3.50	
LCIV MAC	61,970		63,719		63,327	3.96%		3.50	
Insight Secured Finance	89,530		89,530		89,530	5.61%		6.00	
Corporate Bonds							28.85%		30.00
Schroders Corporate Bonds	227,067		235,013	-240,470	0	0.00%		0.00	
LCIV Global Bond Fund	219,821		227,453		234,421	14.68%		15.00	
LCIV Long Duration Buy & Maintain Credit	0		0	225,000	226,331	14.17%		15.00	
Illiquid Alternatives							15.98%		21.00
Alcentra European Direct Lending	11,269	98	11,326		11,326	0.71%		1.50	
Partners Group	43,028	-1,628	43,028	-3,671	37,678	2.36%		5.50	
LCIV Private Debt	44,529		44,529		46,876	2.93%		4.00	
Barings Special Situations Debt	34,637		34,909		34,642	2.17%		2.00	
LCIV Renewables Infrastructure	20,134	295	20,483	1,826	22,658	1.42%		3.00	
IFM Global Infrastructure	98,001		98,001		102,065	6.39%		5.00	
Trade Finance							3.43%		0.00
Allianz ALWOCA	26,549		26,890		27,362	1.71%		0.00	
Pemberton Trade Finance	26,633		26,952		27,438	1.72%		0.00	
Cash	26,651		31,053		50,075	3.13%	3.13%	0.00	0.00
Total	1,496,615	(1,235)	1,532,817	(11,743)	1,597,295	100%	100%	100	100

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