

**Haringey** Council

<b>Report for:</b>	Corporate Committee 14 <sup>th</sup> March 2013	<b>Item number</b>	
<b>Title:</b>	Pension Fund quarterly update		
<b>Report authorised by :</b>	<i>J. Parker 6/3/13</i> Director of Corporate Resources		
<b>Lead Officer:</b>	Nicola Webb, Head of Finance – Treasury & Pensions <a href="mailto:nicola.webb@haringey.gov.uk">nicola.webb@haringey.gov.uk</a> 020 8489 3726		
<b>Ward(s) affected:</b> N/A	Report for Non Key Decision		

**1. Describe the issue under consideration**

1.1 To report the following in respect of the three months to 31<sup>st</sup> December 2012:

- Investment asset allocation
- Investment performance
- Responsible investment activity
- Budget management
- Late payment of contributions
- Communications

**2. Cabinet Member Introduction**

2.1 Not applicable.

**3. Recommendations**

3.1 That the information provided in respect of the activity in the three months to 31<sup>st</sup> December 2012 is noted.

**4. Other options considered**

4.1 None.



## **5. Background information**

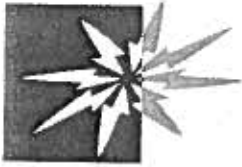
- 5.1 This report is produced on a quarterly basis to update the Committee on a number of Pension Fund issues. The Local Government Pension Scheme Regulations require the Committee to review investment performance on a quarterly basis and sections 13 and 14 provide the information for this. Appendix 1 shows the targets which have been agreed with the fund managers.
- 5.2 The Pension Fund has a responsible investment policy and section 16 of this report monitors action taken in line with it. The remainder of the report covers various issues which the Committee or its predecessor body have requested they receive regular updates on.
- 5.3 Following the request at the Committee's meeting in September, information on communication with stakeholders has been provided by officers in Human Resources and included in section 19.

## **6. Comments of the Chief Financial Officer and Financial Implications**

- 6.1 The investment performance figures in section 14 show that the short term variances from target have reduced significantly as a result of the introduction of the passive fund managers and the Fund performed above target in the quarter. The longer term figures will continue to reflect the underperformance of the previous active managers, but already the variances are reducing.

## **7. Head of Legal Services and Legal Implications**

- 7.1 The Council as administering authority for the Haringey Pension Fund ("Fund") has an obligation to keep the performance of its investment managers under review. In this respect the Council must, at least every three months review the investments made by investment managers for the Fund and any other actions taken by them in relation to it.
- 7.2 Periodically the Council must consider whether or not to retain the investment managers.
- 7.3 In carrying out its review proper advice must be obtained about the variety of investments that have been made and the suitability and types of investment.
- 7.4 All monies must be invested in accordance with the Council's investment policy and members of the Committee should keep this duty in mind when considering this report and have regard to advice given to them.



**Haringey** Council

**8. Equalities and Community Cohesion Comments**

8.1 There are no equalities issues arising from this report.

**9. Head of Procurement Comments**

9.1 Not applicable

**10. Policy Implications**

10.1 None.

**11. Use of Appendices**

11.1 Appendix 1: Investment Managers' mandates, benchmarks and targets

**12. Local Government (Access to Information) Act 1985**

12.1 Not applicable



### 13. Investment Update

#### 13.1 Fund Holdings at 31<sup>st</sup> December 2012

	BlackRock £000s	Legal & General £000s	CBRE £000s	Pantheon £000s	In-house £000s	Total £000s	% of Fund	Bench Mark %	Variance %
UK Equities	182,334	31,099	0	0	0	213,433	27.4	17.5	9.9
North America Equities	112,127	16,513	0	0	0	128,640	16.5	25.3	(8.8)
European Equities	45,096	43,221	0	0	0	88,317	11.3	8.6	2.7
Japanese Equities	11,115	30,660	0	0	0	41,775	5.4	4.1	1.3
Pacific ex Japan Equities	14,821	14,177	0	0	0	28,998	3.7	4.0	(0.3)
Emerging Markets Equities	0	41,001	0	0	0	41,001	5.3	10.5	(5.2)
Index linked Gilts	94,297	22,887	0	0	0	117,184	15.0	15.0	0
Corporate Bonds	0	28,998	0	0	0	28,998	3.7	0.0	3.7
Property	0	0	49,013	0	0	49,013	6.3	10.0	(3.7)
Private Equity	0	0	0	32,295	0	32,295	4.1	5.0	(0.9)
Cash	0	0	4,204	0	5,075	10,279*	1.3	0.0	1.3
<b>TOTAL</b>	<b>459,790</b>	<b>228,556</b>	<b>53,217</b>	<b>32,295</b>	<b>5,075</b>	<b>779,933</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

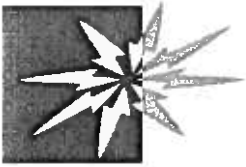
\* includes residual cash from previous fund manager portfolios, which is held at Northern Trust to fund Pantheon drawdowns



13.2 Fund Holdings at 13<sup>th</sup> February 2013 after the asset allocation changes agreed in January 2013 were made

	BlackRock £000s	Legal & General £000s	CBRE £000s	Pantheon £000s	In-house £000s	Total £000s	% of Fund	Bench Mark %	Variance %
UK Equities	189,339	20,594	0	0	0	209,933	25.2	17.5	7.7
North America Equities	141,757	17,794	0	0	0	159,551	19.2	25.3	(6.1)
European Equities	43,393	47,356	0	0	0	90,749	10.9	8.6	2.3
Japanese Equities	9,466	32,590	0	0	0	42,056	5.0	4.1	0.9
Pacific ex Japan Equities	16,220	14,935	0	0	0	31,155	3.7	4.0	(0.3)
Emerging Markets Equities	0	83,741	0	0	0	83,741	10.1	10.5	(0.4)
Index linked Gilts	96,751	23,923	0	0	0	120,674	14.5	15.0	(0.5)
Property	0	0	48,675	0	0	48,675	5.8	10.0	(4.2)
Private Equity	0	0	0	33,355	0	33,355	4.0	5.0	(1.0)
Cash	0	0	5,313	0	6,705	13,146*	1.6	0.0	1.6
<b>TOTAL</b>	<b>496,926</b>	<b>240,933</b>	<b>53,988</b>	<b>33,355</b>	<b>6,705</b>	<b>833,035</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

\* includes residual cash from previous fund manager portfolios, which is held at Northern Trust to fund Pantheon drawdowns



## 14. Investment Performance Update: to 31<sup>st</sup> December 2012

Appendix 1 provides details of the benchmarks and targets the fund managers have been set. The tables below show the performance in the quarter October to December 2012.

### 14.1 Whole Fund

	Return	Benchmark	Target	(Under)/Out
Oct - Dec 2012	3.44%	3.09%	3.12%	0.32%
One Year	9.50%	9.31%	9.82%	(0.32%)
Three Years	7.57%	7.92%	9.18%	(1.61%)
Five Years	2.70%	4.04%	5.45%	(2.75%)

- Total Value at 31/12/12: £779.9m
- The fund performed slightly above target during the quarter and the impact of the passive fund management can be seen in the improved longer term performance numbers compared to previous reports.

### 14.2 BlackRock Investment Management

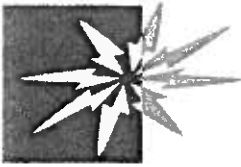
	Return	Benchmark	Variance
Oct - Dec 2012	3.38%	2.68%	0.70%

- Total Value at 31/12/12: £459.8m

### 14.3 Legal & General Investment Management

	Return	Benchmark	Variance
Oct - Dec 2012	4.52%	4.65%	(0.13%)

- Total Value at 31/12/12: £228.6m
- A variance will continue to be seen with the passive managers because the portfolios were transferred over in their existing allocations instead of at benchmark weights. Therefore the variance shows the out or under performance resulting from asset allocation being different to the benchmark.



14.4 CBRE Global Investors

	Return	Benchmark	Target	(Under)/Out
Oct - Dec 2012	0.28%	0.75%	1.00%	(0.72%)
One Year	1.24%	2.27%	3.27%	(2.03%)
Three Years	4.45%	7.04%	8.04%	(3.59%)
Five Years	-3.52%	-1.74%	-0.74%	(2.78%)

- Total Value at 31/12/12: £53.2m
- Following two quarters of outperformance, the property portfolio underperformed in this quarter. The performance is still being impacted by the issues with the European holdings, which cannot be resolved quickly due to the illiquid nature of property holdings.

14.5 Pantheon

	Return	Distributions in period	Drawdowns in period	% drawdown
Oct - Dec 2012	2.45%	£1.28m	£1.98m	
One Year	5.60%	£1.57m	£3.77m	
Since inception	2.72%	£2.77m	£29.39m	63.0%

- Total Value at 31/12/12: £32.3m
- Distributions were almost as much as drawdowns during the quarter, as the funds move towards the distribution phase of their cycle.

14.6 In house cash

	Value	Average Credit Rating	Average Maturity (days)	Return
At 31/12/12	£5.08m	AAA	1	0.37%
At 30/09/12	£3.76m	AAA	1	0.38%
At 30/06/12	£30.93m	AAA	4	0.42%
At 31/03/12	£33.09m	AAA	8	0.42%

**15. Pensions Working Group Update**

15.1 The Pensions Working Group met at the end of November 2012 and again in February 2013 to take forward a review of alternative investments. Alternative investments are types of investments other than equities and bonds. The two sessions so far have been focussed on training and awareness raising on a number of asset classes – property, private equity, infrastructure, hedge funds, diversified growth funds and absolute return bond funds. The Working Group will now reflect on which, if any, of these to consider making investments in and a recommendation for the Committee will be brought forward later in 2013.



**16. Responsible Investment Activity in the three months ended 31<sup>st</sup> December 2012**

BlackRock have not provided the names of the companies they have engaged with this quarter due a change in their disclosure policy. Officers are continuing to discuss with them the release of this information for members and will provide a verbal update at the meeting.

BlackRock	Legal & General	LAPFF
<p><b>16.1 Environmental Issues</b></p> <p>BlackRock attended a group session organized by a UK-listed international oil and gas producer to discuss the company's operations in the Canadian oil sands. They discussed the timing of projects, the governance of its joint-ventures, and its strategy over the environmental impact of the operations. The company highlighted the importance of technological developments in making the business more efficient, which will in turn result in a lower environmental impact. To this end, the company is a member of Canada's Oil Sands Innovation Alliance which is a collaborative effort between the various producers in the region launched earlier in 2012. It is a forum in which members will develop and share methodologies and approaches to improve the environmental performance in the oil sands.</p>	<p>At Chevron's AGM Legal &amp; General supported a request that the company produce a report on the hydraulic fracturing risks. Legal &amp; General met with the company and explained that they would look for more transparency on the risks of fugitive methane emissions from such fracking activity and the impact these have on greenhouse gas emissions, as well as the process of capturing and selling these emissions. They also discussed the expertise on the Board of environmental issues. The company agreed that it still has some progress to make on linking environmental and health and safety issues to remuneration and Legal &amp; General will continue to work with them on this area.</p>	<p>The LAPFF are part of a group of UK charities and pension funds led by investment firm CCLA working together on an initiative called "Aiming for A".</p> <p>The focus of the initiative is on engaging high emitting utilities and extractive companies that have been identified as slower than their peers in implementing carbon reduction measures. An initial meeting was held with representatives of BP where it was discussed how companies can balance short-term demands against long-term regulatory requirements. Shareholder resolutions are planned for 2013/2014 for those companies that do not provide evidence of how they are improving.</p>

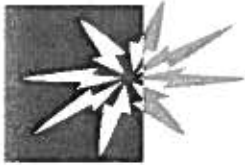




BlackRock	Legal & General	LAPFF
<p><b>16.2 Governance / Remuneration Issues</b></p> <p>BlackRock met with the board of a European airline to discuss governance, in particular board structure, tenure, and overall independence. This is a company for which BlackRock had taken voting action at the AGM because the board had a high proportion of long-serving non-executive directors. During the meeting the board announced that it had begun a refreshment process largely as recognition of its prior composition not being in line with best practice. In fact, the company had announced to the market that morning the resignation of one of its long-serving directors and the appointment of two new independent non-executive directors. BlackRock and the company discussed the quality of the search process and the timeline for board refreshment, including the necessary skill set of future non-executive directors when balanced against the existing experience on the board and the strategic direction of the company.</p>	<p>Legal &amp; General opposed the re-election of three directors at Aquarius Platinum, a small metals &amp; mining company in the UK, due to concerns about the governance arrangements at the company. In addition the company did not put forward a resolution to approve the Annual Report and Accounts or the remuneration report at the AGM. This is not in line with best practice and so Legal &amp; General are engaging with the company to improve their corporate governance arrangements.</p>	<p>LAPFF wrote to fifteen companies, listed in the UK, US, France, Spain, Switzerland and Sweden. These companies were selected for engagement by evaluating company performance on key governance issues. Companies include Société Générale where a LAPFF fund co-filed a resolution in 2011 relating to combined roles at the head of the company, and Carnival Corporation, where there are ongoing health and safety concerns. The Forum also wrote to five companies that achieved the highest scores in the evaluation in each of the markets to commend them on their good governance practices.</p>



BlackRock	Legal & General	LAPFF
<p><b>16.3 Other Engagement activity</b></p> <p>BlackRock met with a global communications company to better understand the company's efforts to comply with the new Conflict Minerals rules, and more broadly to initiate a dialogue on the management of supply chain risk and related shareholder value protection. The Conflict Minerals rules require companies to disclose whether their products contain minerals tied to violent conflicts in Africa. The company noted that no substantial changes in company actions will result from the new rule, and that it had already been seeking to minimise conflict minerals in its supply chain. BlackRock found it particularly helpful to understand how these efforts fit into the company's overall strategy of risk mitigation, shareholder value protection, and industry leadership. This engagement provided helpful context for future discussions with other companies with supply chains in exposed regions.</p>	<p>Legal &amp; General met with Holcim, a Swiss construction company to discuss their health and safety policy. This was particularly in respect of their contracted workforce but also in respect of their supply chain risks and exposure to human rights. The company responded positively to Legal &amp; General's suggestions and said this was a priority area for improvement under the new CEO. Legal &amp; General will continue to monitor the situation.</p>	<p>Engagement with National Express continued in October as LAPFF met with the company to discuss unions in the US and board diversity issues. This was a follow up to previous engagement which came about following issues about how the company deals with unions and staff who strike. Following meetings with union representatives in the US, LAPFF held a second conference call in November. LAPFF outlined its concerns regarding the company's approach to labour relations in the US and there was an agreement to meet again in the New Year</p>



**17. Budget Management – position at 31<sup>st</sup> December 2012**

	Budget £000	Actual £000	Variance (under)/ overspend £000
<b>Contributions &amp; Benefit related expenditure</b>			
<b>Income</b>			
Employee Contributions	6,600	6,650	(50)
Employer Contributions	22,800	23,875	(1,075)
Transfer Values in	4,500	3,641	859
<b>Total Income</b>	<b>33,900</b>	<b>34,166</b>	<b>(266)</b>
<b>Expenditure</b>			
Pensions & Benefits	(28,650)	(30,009)	1,359
Transfer Values paid	(5,400)	(3,585)	(1,815)
Administrative Expenses	(525)	(556)	31
<b>Total Expenditure</b>	<b>(34,575)</b>	<b>(34,149)</b>	<b>(426)</b>
<b>Net of contributions &amp; benefits</b>	<b>(675)</b>	<b>66</b>	<b>(691)</b>
<b>Returns on investment</b>			
Net Investment Income	3,375	2,899	476
Investment Management Expenses	(1,875)	(703)	(1,172)
<b>Net Return on investment</b>	<b>1,500</b>	<b>2,196</b>	<b>(696)</b>
<b>Total</b>	<b>825</b>	<b>2,212</b>	<b>(1,387)</b>

- The budget is showing an underspend of £1.4m at the end of December 2012. There are a number of reasons for this – higher employer contributions, lower transfer values paid and lower than anticipated investment management expenses following the introduction of passive fund management. Offsetting this are a lower level of transfer values in and higher than budgeted pensions and benefits paid.



## 18. Late Payment of Contributions

18.1 The table below shows the employers who paid contributions relating to October to December 2012 late.

	Occasions late	Average Number of days late	Average monthly contributions
John Loughborough	1	3	£5,900
TLC	1	9	£5,000

18.2 This quarter has seen an improvement in the timeliness of contribution payments with only 2 payments received late.

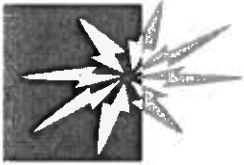
## 19. Communication Policy

19.1 Two sets of regulations govern pensions communications in the LGPS: The Disclosure of Information Regulations 1996 (as amended) and Regulation 67 of the Local Government Pensions Scheme (Administration) Regulations 2008 as amended.

19.2 In March 2011, the Council approved the Pensions Administration Strategy Statement (PASS). The PASS sets out time scales and procedures which are compliant with the requirements of the Disclosure of Information Regulations. The PASS is a framework within which the Council as the Administering Authority for the Fund can work together with its Employing Bodies to ensure that the necessary statutory requirements are being met.

19.3 In June 2008 the Council approved the Policy Statement on Communications with Scheme Members and Employing Bodies. The Policy Statement identifies the means by which the Council communicates with the fund members, the employing bodies, elected members, and other stakeholders. These cover a wide range of activities which include meetings, workshops, individual correspondence and use of the internet. In recent times, the Pensions Web Page has been developed to provide a wide range of Employee Guides; Forms; and Policy Documents. Where possible, Newsletters and individual notices are sent by email to reduce printing and postage costs.

19.4 The requirement to publish a Communications Policy Statement recognises the importance that transparent effective communication has on the proper management of the LGPS.



**Haringey** Council

Pensions Communications Q4 (1 <sup>st</sup> Jan 2013 – 31 <sup>st</sup> March 2013)		
Auto-enrolment	Individual letter to all employees to explain how they are affected by auto-enrolment. Followed by payslip message to confirm a letter was sent.	March 2013
Update to Pensions Web Page	Leaflet on Pension Reforms 2014 updated and posted on Pensions Web Page .	Feb 2013
Workshop on Auto-enrolment	Presentations to HR Staff .	Feb 2013
Employer Guide and Template Letters on Auto-enrolment	Schools not using the Haringey Payroll issued with a Guide to Auto-employment and template letters to send to staff.	March 2013



**Appendix 1 – Investment Managers mandates, benchmarks and targets**

<b>Manager</b>	<b>% of Total Portfolio</b>	<b>Mandate</b>	<b>Benchmark</b>	<b>Performance Target</b>
BlackRock Investment Management	55.7%	Global Equities & Bonds	See overleaf	Index (passively managed)
Legal & General Investment Management	29.3%	Global Equities & Bonds	See overleaf	Index (passively managed)
CBRE Global Investors	10%	Property	IPD UK Pooled Property Funds All Balanced Index	+1% gross of fees p.a. over a rolling 5 yr period
Pantheon Private Equity	5%	Private Equity	MSCI World Index plus 5%	+ 0.75% gross of fees p.a.
<b>Total</b>	<b>100%</b>			



Asset Class	Benchmark	BlackRock Investment Management	Legal & General Investment Management	Total
UK Equities	FTSE All Share	14.9%	2.6%	17.5%
Overseas Equities				
North America	FT World Developed North America GBP Unhedged	28.8%	23.7%	52.5%
Europe ex UK	FT World Developed Europe X UK GBP Unhedged	21.5%	3.8%	25.3%
Pacific ex Japan	FT World Developed Pacific X Japan GBP Unhedged	4.3%	4.3%	8.6%
Japan	FT World Developed Japan GBP Unhedged	2.0%	2.0%	4.0%
Emerging Markets	FT World Global Emerging Markets GBP Unhedged	1.0%	3.1%	4.1%
Index Linked Gilts	FTA Index Linked Over 5 Years Index	0.0%	10.5%	10.5%
		12.0%	3.0%	15.0%
		55.7%	29.3%	85.0%

