

Report for: Pensions Committee – 11 April 2016

Item number: 9

Title: Quarterly Performance Report Q3 2015/16

Report authorised by: Tracie Evans – Chief Operating Officer.

Lead Officer: Neville Murton – Lead Finance Officer
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Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Non Key Decision

1. Describe the issue under consideration

1.1. To report the Fund Performance against the following indicators in respect of the three months to 31st December 2015:

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

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 31st December 2015 is noted.

4. Reasons for decision

4.1. The Local Government Pension Scheme Regulations require the Committee to review investment performance on a quarterly basis. This report covers various issues on which the Committee or its predecessor body have requested they receive regular updates

5. Alternative options considered

5.1. None

6. Background information

6.1. This update report is produced on a quarterly basis. Appendix 1 covers a range of performance data including in particular Appendix 2 shows the targets which have been agreed with the fund managers.

7. Contribution to strategic outcomes

7.1. Regular review of the Pension Fund performance is a key element of ensuring that the Funds objectives are being achieved.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Chief Finance Officer

8.1. This report is primarily financial in nature and no additional comments are included. However, the Independent Advisor will provide additional commentary orally at the meeting for the Committee to understand more fully the issues affecting the funds performance.

Assistant Director of Corporate Governance

8.2 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;

8.3 Periodically the Council must consider whether or not to retain the investment managers. In particular members should note the continuing negative performances compared with the target benchmarks and the reason stated in this report as to why this is the case;

8.4 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;

8.5 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.

9. Use of Appendices

Appendix 1 – Quarterly performance Data

Appendix 2 – Fund Manager Targets.

10. Local Government (Access to Information) Act 1985

Fund Performance Data

Total Portfolio Allocation by Manager & Asset Class

Qtr 3

	Value 30.09.15 £'000	Value 31.12.15 £'000	Value 31.01.16 £'000	Allocation 31.01.2016 %	Strategic Allocation %
Equities					
UK	154,398	160,652	155,664	15.46%	15.00%
North America	229,815	250,497	237,821	23.63%	21.70%
Europe	74,343	79,027	76,546	7.60%	7.40%
Japan	35,792	40,290	38,442	3.82%	3.50%
Asia Pacific	34,435	37,965	36,301	3.61%	3.40%
Emerging Markets	86,346	88,935	95,402	9.48%	9.00%
Total Equities	615,129	657,367	640,175	63.60%	60.00%
Bonds					
Index Linked	146,302	141,473	149,173	14.82%	15.00%
Property					
CBRE	98,398	108,538	109,513	10.88%	10.00%
Private equity					
Pantheon	41,044	41,563	42,730	4.24%	5.00%
Multi sector credit					
CQS	46,052	46,274	45,878	4.56%	5.00%
Infrastructure					
Allianz	20,621	12,592	12,430	1.23%	5.00%
Cash & NCA					
	6,649	6,527	6,727	0.67%	0.00%
Total Assets	974,195	1,014,335	1,006,626	100.00%	100.00%
Fund Managers					
Legal & General	761,431	798,840	789,348	78.42%	75.00%

The value of the fund increased by £40.1 million between September and December 2015. US equities and Index Linked bonds were the main contributor to the market movements.

The first drawdown on the Allianz infrastructure debt fund (£17 million) took place on 25th November.

The equity allocation exceeds target by 5%. This is mostly the unfunded Allianz mandate (3%). In addition, property and private equity are both around 1% below their benchmark weighting. It is anticipated that the Infrastructure debt mandate will be fully funded in 2015.

Investment Performance Update: to 31st December 2015

Appendix 2 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 2015 and for the 1, 3 and 5 years.

Whole Fund

	Return	Benchmark	(Under)/Out	WM LA average
Oct - Dec 2015	4.42%	4.43%	(0.01%)	3.2%
One Year	3.29%	3.55%	(0.26%)	8.2%
Three Years	9.63%	10.27%	(0.64%)	11.1%
Five Years	7.70%	7.99%	(0.29%)	8.9%

One year	Return(%)	Benchmark(%)	Under/out(%)	WM LA Average
Equities				
UK	1.01	0.98	0.03	0.9
Developed				
Europe	6.01	5.99	0.02	0.6
North				
America	5.35	5.35	0.00	18.0
Japan	17.61	17.58	0.03	3.3
Asia ex				
Japan	-2.57	-2.67	0.10	7.0
Emerging	-10.43	-10.31	-0.12	6.7
Balanced				
fund	3.48	6.19	2.71	
Infrastructure	7.14	5.50	1.64	
I L gilts	-1.12	-1.21	0.09	20.1
Property	13.09	12.44	0.65	15.7
Private equity	15.38	8.95	6.43	15.5
Total	3.29	3.55	-0.26	8.2

Five years	Return(%)	Benchmark(%)	Under/out(%)	WM LA Average
Equities				
UK	5.97	6.00	-0.03	9.7
Developed				
Europe	7.33	6.12	1.21	7.0
North				
America	12.10	12.62	-0.52	15.2
Japan	6.79	6.32	0.47	8.4
Asia ex				
Japan	1.11	1.34	-0.23	7.1
Emerging	-1.95	-3.03	1.08	4.6
Index linked				
gilts	8.77	8.37	0.40	10.1
Property	8.48	9.84	-1.36	9.2
Private equity	16.60	13.28	3.32	10.4
Total	7.70	7.99	-0.29	8.9

- Investment returns from all the asset classes over the last five years have been extraordinarily favourable. WM report that the ten year average local authority return is 7.5% p.a., with equity markets generally close to or above all time highs and bond yields close to record lows.
- Compared to benchmark the fund's returns have underperformed the benchmark by approximately 0.5% over 1, 3 and 5 years.
- Equity and index linked gilts, which are passively managed, show some variability compared to the benchmarks, but not significant differences.
- The main detractor from performance is property, in particular overseas, and over the 3 & 5 years private equity. Individual manager's performance is discussed below.

Legal & General Investment Management

	Return	Benchmark	Variance
Oct - Dec 2015	4.92%	4.73%	0.19%
One Year	-0.14%	-0.10%	(0.04%)
Since inception (May 2012)	7.59%	8.04%	(0.45%)

- Total Value at 31/12/15: £798.8 million
- Variances at regional level are minimal, varying between +0.09% (UK) and -0.14% (Emerging) over the last year.
- The underperformance is due to the allocation of assets between markets being out of balance with the benchmark.

CBRE Global Investors

	Return	Benchmark	(Under)/Out
Oct - Dec 2015	4.03%	2.80%	1.23%
One Year	12.75%	12.44%	0.31%
Three Years	11.76%	12.89%	(1.13%)
Five Years	8.11%	8.97%	(0.86%)

- Total Value at 31/12/15: £110.2 million
- The relative performance of the property has been poor driven by two European holdings that have suffered significant capital loss. The UK element of the portfolio has generally exceeded benchmark.
- The two European funds have been unsuccessful. With an aggregate cost of £9.7 million, they are now valued at £0.2 million, a virtual total loss. Both funds are invested in highly leverage non prime property (German residential and Italian office / retain). The underlying holdings have suffered during the Euro crisis and the impact has been magnified on unit holders by the high levels of debt in each fund. Both funds are being rationalised which may offer an exit opportunity, but with little recovered value.
- The portfolio will lag the benchmark for many years until the impact of the two European funds passes through.

Pantheon

	Return	Benchmark	(Under)/Out	Net drawdowns/(distributions)
Oct - Dec 2015	0.87%	9.21%	(8.34%)	£520m
One Year	14.15%	8.95%	5.20%	(£585m)
Three Years	14.96%	17.77%	(2.81%)	(-£5,600m)
Five Years	16.00%	13.28%	(2.72%)	£224m

- Total Value at 31/12/15: £46.4 million
- Distributions have exceeded drawdowns during the quarter and the prior year years as the funds moved into the distribution phase of their cycles.
- The performance target is the MCSI Worlds plus 3.5%. The funds are still relatively young for long term returns to emerge. As yet only 75% of the committed funds have been invested and only a quarter of funds invested have been realised. Private equity valuations tend to underestimate exit prices. It is only when the fund is substantially realised will a more accurate picture of performance emerge.

CQS (multi sector credit)

The CQS mandate was funded in Q3 2014. The portfolio valuation was little changed from September 2015 valuation and stood at £46.3 million as at 31st December 2015.

Allianz (infrastructure debt)

The initial drawdown of £17 million was completed in Q4. It is anticipated that most of the allocation will be drawn during 2015.

In house cash

	Value	Average Credit Rating	Average Maturity (days)	Return
At 31/12/15	£3.1M	AAA	1	0.43%
At 30/09/15	£0.2M	AA	1	0.45%
At 30/06/15	£0.2M	AA	1	0.45%
At 31/03/15	£3.92M	AAA	1	0.38%

	Prior year 2014-15 £'000	Current year 2015-16 £'000	Change in expenditure £'000
Contributions & Benefit related expenditure			
Income			
Employee Contributions	6,705	6,806	101
Employer Contributions	25,185	25,183	(2)
Transfer Values in	2,294	1,451	(843)
Total Income	34,184	33,440	(744)
Expenditure			
Pensions & Benefits	(32,322)	(33,530)	(1,208)
Transfer Values Paid	(2,765)	(2,109)	656
Administrative Expenses	(618)	(687)	(69)
Total Expenditure	(35,705)	(36,326)	(621)
Net of Contributions & Benefits	(1,521)	(2,886)	(1,365)
Returns on investment			
Net Investment Income	3,158	2,672	(486)
Investment Management Expenses	(1,809)	(671)	1,138
Net Return on Investment	1,349	2,001	652
Total	(172)	(885)	(713)

The fund had in the previous year moved into a position in which expenditure exceeds income as active membership falls and numbers of pensioners' increases. This has reversed this year through higher contributions from members (post 2014 reforms) and employers (impact of tri-annual valuation) together with rising distributed property income.

The income shown is virtually all from property as income from other asset classes is automatically re-invested and shown within the change in market value.

Late Payment of Contributions

The table below provides details of the employers who have made late payments during the last quarter. These employers have been contacted and reminded of their obligations to remit contributions on time.

Employer	Occasions late	Average Number of days late	Average monthly contributions(£)
Lunchtime UK	1	2	10,002
TLC	2	4	3,539
Cofely	1	4	10,675

Communication Policy

Two sets of regulations govern pension 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.

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.

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.

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

Investment Managers mandates, benchmarks and targets

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
Legal & General Investment Management	75.0%	Global Equities & Bonds	See overleaf	Index (passively managed)
CQS	5%	Multi Sector Credit	3 month libor + 5.5% p.a	Benchmark
Allianz	5%	Infrastructure Debt	5.5% p.a.	Benchmark
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 3.5%	Benchmark
Total	100%			

Asset Class	Benchmark	Legal & General Investment Management	Total
UK Equities	FTSE All Share	15.0%	15.0%
Overseas Equities		45.0%	45.0%
North America	FT World Developed North America GBP Unhedged	21.7%	21.7%
Europe ex UK	FT World Developed Europe X UK GBP Unhedged	7.4%	7.4%
Pacific ex Japan	FT World Developed Pacific X Japan GBP Unhedged	3.4%	3.4%
Japan	FT World Developed Japan GBP Unhedged	3.5%	3.5%
Emerging Markets	FT World Global Emerging Markets GBP Unhedged	9.0%	9.0%
Index Linked Gilts	FTA Index Linked Over 5 Years Index	15.0%	15.0%
		75.0%	75.0%