

Report for: Pensions Committee 11th July 2016

Item number: 10

Title: Pension Fund Quarterly Update

Report authorised by: Tracie Evans, Chief Operating Officer (COO)

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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 following in respect of the three months to 31st March 2016:
- 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 March 2016 is noted.

4. Reason for Decision

4.1. N/A

5. Other options considered

5.1. None

6. Background information

- 6.1. This update report is produced on a quarterly basis. 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. The report covers various issues on which the Committee or its predecessor body have requested they receive regular updates.
- 6.2. Information on communication with stakeholders has been provided by officers in Human Resources and included in section 18.
- 6.3. An additional section (19) has been added containing an update on the funding level and actuarial deficit.

7. Contribution to Strategic Outcomes

- 7.1. Not applicable

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

Finance and Procurement

- 8.1. The investment performance figures in section 12 show the impact of the introduction of passive fund managers in that generally the variance from target has reduced. The negative performance over three and five years reflects mainly the loss of value from the European property portfolio.
- 8.2. Based on figures provided by London CIV, the transfer of assets to the London CIV passive mandate will result in an increase in investment management fees. However, the Fund will benefit from some savings overall once the effect of withholding tax claim is taking into account.
- 8.3. The circumstances surrounding (i.e. two existing fund managers competing to retain and increase asset under management) the negotiation of existing fee rate must also be taking into consideration when weighing value added by the London CIV mandate. Furthermore, it is expected that the CIV fund management fees will reduce over time.
- 8.4. The Fund will incur further costs in order to facilitate the transfer of fund assets from existing mandate to the London CIV mandate.

Legal Services Comments

- 8.5. 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;
- 8.6. 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;
- 8.7. 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;
- 8.8. All monies must be invested in accordance with the Funding Strategy Statement and 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.

Comments of the Independent Advisor

- 8.6. The total value of the Fund at 31st March 2016 was £1,046m. At 31st December 2015 the total value of the Fund was £1,014m compared to £974m at 30th September 2015. The Fund value at 31st March 2016 is similar to the value at 31 March 2015 (£1,045m).
- 8.7. The overall performance of the Fund over the last Quarter, Year and Three Years is close to benchmark (see section 12.1) primarily due to the fact that the majority of the Fund is managed on a passive basis.
- 8.8. A particular issue has, however, been the inclusion within the property portfolio of European investments which have performed extremely poorly now having nil value compared to a purchase cost of £9.7m. Unfortunately the Fund diversified into European property in the period not long prior to the beginning of the financial crisis which began in 2007. This was not unusual, as at this time a number of LGPS Funds seeking to diversify their investments entered into European property investment. Very few people anticipated the events which began to unfold in 2007 and consequently an approach which should have benefitted the long term interest of the Fund has clearly not done so.
- 8.9. In accordance with the Fund’s manager monitoring procedures Officers together with the Independent Advisor met with the Fund’s active investment manager LGIM on 16th June 2016.

Equalities

8.10 The Local Government Pension Scheme is a defined benefit open scheme enabling all employees of the Council to participate. There are no impacts in terms of equality from the recommendations contained within this report.

9. Use of Appendices

9.1. Appendix 1: Investment Managers' mandates, benchmarks and targets.

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

11. Portfolio Allocation Against Benchmark

11.1. The value of the fund increased by £24 million between January and March 2016. Emerging markets saw the biggest gains along with Asia, but this was offset by losses in other regions.

11.2. The equity allocation exceeds target by 3%. This is mostly due to the unfunded Allianz mandate. It is anticipated that the Infrastructure debt mandate will be fully funded in 2016, which is later than originally planned.

Total Portfolio Allocation by Manager and Asset Class

	Value 30.09.2015 £'000	Value 30.12.2015 £'000	Value 31.03.2106 £'000	Allocation 31.03.2016 %	Strategic Allocation %
Equities					
UK	154,691	162,900	159,980	15.30%	15.00%
North America	229,907	250,342	240,625	23.01%	21.70%
Europe	74,440	78,954	79,122	7.57%	7.40%
Japan	35,843	39,398	38,568	3.69%	3.50%
Asia Pacific	34,583	36,961	39,174	3.75%	3.40%
Emerging Markets	86,649	89,343	102,482	9.80%	9.00%
Total Equities	616,113	657,898	659,951	63%	60%
Bonds					
Index Linked	146,405	146,547	150,667	14.41%	15.00%
Property					
CBRE	99,061	104,378	111,024	10.62%	10.00%
Private equity					
Pantheon	41,939	40,476	44,110	4.22%	5.00%
Multi-Sector Credit					

CQS	46,052	46,425	46,529	4.45%	5.00%
Infrastructure Debt					
Allianz	20,624	22,648	21,621	2.07%	5.00%
Cash & NCA					
Cash	5,840	3,152	11,665	1.12%	0.00%
Total Assets	976,034	1,021,524	1,045,567	100%	100%

12. Investment Performance Update: to 30th September 2015

12.1. Appendix 1 provides details of the benchmarks and targets the fund managers have been set. The tables below show the performance in the quarter January to March 2016 and for one and 5 years.

Whole Fund

	Return (%)	Benchmark (%)	(Under)/Out (%)
Jan 2015 - Mar 2016	2.89%	3.11%	-0.22%
One Year	0.80%	1.05%	-0.25%
Three Years	7.08%	7.53%	-0.45%
Five Years	7.94%	8.36%	-0.42%

One year	Fund Return(%)	Benchmark(%)	Under/out(%)
Equities			
UK	-3.90	-3.92	0.02
Europe	-4.27	-4.26	-0.01
North America	3.63	3.62	0.01
Japan	-3.23	-3.25	0.02
Asia ex Japan	-5.20	-5.39	0.19
Emerging	-8.96	-8.85	-0.11
Index Linked Bonds	1.92	1.86	0.06
Property	10.76	10.58	0.18
Multi-sector Credit	1.70	6.21	-4.51
Private Equity	19.73	3.66	16.07
Infrastructure	3.59	5.50	-1.91
Total	0.80	1.05	-0.25

Five years	Return(%)	Benchmark(%)	Under/out(%)
Equities			
UK	5.64	5.69	-0.05
Europe	6.48	5.00	1.48
North America	12.46	12.76	-0.30
Japan	7.09	6.92	0.17
Asia ex Japan	2.38	2.15	0.23
Emerging	-0.21	-1.32	1.11
Index Linked Bonds	10.08	9.79	0.29
Property	8.06	9.58	-1.52
Multi-sector Credit	-	-	-
Private Equity	12.46	13.25	-0.79
Infrastructure	-	-	-
Total	7.94	8.36	-0.42

12.2. The Fund returned 2.89% over the quarter and has underperformed benchmark by 0.22%. Stock selection, Property, Multi-Sector Credit and Infrastructure were detractors to performance. The overweight position in asset allocation to equities in UK and Japan also had a negative impact on performance along with underweighting in Index Linked Gilt which performed strongly in the quarter.

12.3. Over the 12 months the Fund return 0.80% and now trails the benchmark by 0.24%; five year performance shows underperformance of 0.42%.

Legal & General Investment Management

	Return	Benchmark	Variance
Jan 2016 - Mar 2016	3.40%	3.59%	-0.19%
One Year	-4.26%	-4.20%	-0.06%
Three years	3.51%	3.73%	-0.22%
Since inception (May 2012)	8.02%	8.49%	-0.47%

12.4. Legal and General returned 3.4% this quarter and has underperformed composite benchmark by 0.18% - most of the underperformance is mainly driven by asset allocation. The overweight position in Japan resulted and a reduction in exposure to Index Linked Gilts contributed to losses.

CBRE

	Return	Benchmark	(Under)/Out
Jan - Mar 2016	0.41%	1.10%	-0.69%
One Year	10.52%	10.58%	-0.06%
Three Years	11.57%	13.02%	-1.45%
Five Years	7.71%	8.80%	-1.09%

12.5. The manager saw a positive total return of 0.41% in the quarter, but underperformed benchmark by 0.68%. Since inception the manager has underperformed benchmark by 0.72%.

12.6. The relative performance of the property portfolio over the longer term has been driven by two European holdings that have suffered significant capital loss. The UK element of the portfolio, in particular the retail element has struggled in the last 12 months.

12.7. 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.

12.8. The portfolio will lag the benchmark for many years until the impact of the two European funds passes through.

Pantheon Private Equity

	Return	Benchmark	(Under)/Out
Jan - Mar 2016	3.96%	3.21%	0.75%
One Year	18.12%	3.66%	14.46%
Three Years	13.61%	13.13%	0.48%
Five Years	11.81%	13.25%	-1.44%

Pantheon Private Equity has outperformed benchmark by 0.75% during the quarter. But the manager's long term (5 years) lags benchmark by 1.44%.

CQS Multi Sector Credit

	Return	Benchmark	(Under)/Out
Jan - Mar 2016	0.44%	1.53%	-1.09%
One Year	1.70%	6.21%	-4.51%
Three Years	-	-	-
Since Inception	2.13%	6.20%	-4.07%

12.9. The manager has underperformed over the quarter, returning 0.55% against the benchmark return of 1.53%. Since inception, an underperformance of 3.83% has been achieved.

Allianz Infrastructure Debt

	Return	Benchmark	(Under)/Out
Jan - Mar 2016	-1.29%	1.35%	-2.64%
One Year	2.44%	5.50%	-3.06%
Three Years	-	-	-
Since Inception	3.39%	5.50%	-2.11%

12.10. Allianz has returned -1.29% for the quarter ending 31st March 2016 against a benchmark of 1.35%, registering underperformance of 2.6%. Since inception, the manager has underperformed benchmark by 2.11%.

13. Budget Management – Quarter Ending 31st March 2016

	Prior Year	Reporting Period	Change in expenditure
	2014-15	2015-16	
	£'000	£'000	£'000
Contributions & Benefit related expenditure			
Income			
Employee Contributions	8,938	9,122	184
Employer Contributions	33,580	34,729	1,149
Transfer Values in	3,058	1,741	-1,317
Total Income	45,576	45,592	16
Expenditure			
Pensions & Benefits	-43,060	-44,321	-1,261
Transfer Values Paid	-3,722	-3,790	-68
Administrative Expenses	-686	-722	-36
Total Expenditure	-47,468	-48,833	-1,365
Net of Contributions & Benefits	-1,892	-3,241	-1,349
Returns on investment			
Net Investment Income	4,322	4,675	353
Investment Management Expenses	-3,236	-4415	-1,179
Net Return on Investment	1,086	260	-826
Total	-806	-2,981	-2,175

13.1. The Fund is entering a period of maturity, where benefits payable is more than contributions received. As the Fund further matures, it will be necessary to increase liquid asset holdings to ensure that the Fund is always able to meet its obligations to retired members.

13.2. The income shown in the above table is property income from the Property mandate as income from other asset classes are re-invested and shown within the overall fund asset value.

14. Late Payment of Contributions

14.1. 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
Cooperscroft Homes	2	2	654
Lunchtime UK	1	2	1,804
ABM Catering	1	1	285
Octagon	3	2	1,793

15. Communications Policy

- 15.1. 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.
- 15.2. 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.
- 15.3. 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.
- 15.4. The requirement to publish a Communications Policy Statement recognises the importance that transparent effective communication has on the proper management of the LGPS.

Investment Related Issues Update

16. Pooling (London CIV)

16.1. The Fund was one of the early investors in the London CIV.

16.2. An officer meeting of members of the London CIV was held on 24 April where LGIM gave a presentation on their mandate. Other announcements of information include the following:

- Target launch date was initially set for second week in July 2016 now moved to September 2016;
- On-boarding workshops to assist boroughs with the transfer of assets into the CIV will take place in July;
- Transfer of assets into the CIV will be coordinated to share/minimise cost of transitioning assets into the CIV mandate;
- Hillingdon, the last of the London boroughs not currently in the CIV has requested to join the CIV – final documentation has now been completed and Hillingdon have now been accepted into the London CIV.

16.3. The Committee also agreed to transfer the Fund's passive equity portfolio (other than Emerging Markets) to the London CIV mandate. As mentioned above, the timing of transfers will be coordinated so that the bulk of transfers take place on the same date.

16.4. The London CIV has modelled the possible ongoing cost (annual fund management fees) of transitioning assets into the CIV passive mandate. It has been estimated that the Haringey Pension Fund will save £123k on investment management fees annually after adjusting for withholding tax. It is worth noting that current commission rate for investment management is less than what has been negotiated by the London CIV.

16.5. The cost of transitioning Fund assets from existing LGIM fund into the London CIV fund has been estimated at £184k.

17. Aviva Long Lease Property Mandate

17.1. The Committee at its meeting on 11 April 2016 approved to invest £50m in the Aviva Long Lease Property Fund. The instruments of the Lime Trust Fund and information memorandum for the Lime Property Fund have been received from the manager. Following review of the Trust/Fund documents, Haringey Pension Fund are in the process of completing draft subscription agreements. Once completed, these will be sent off to initiate the final stages of investing in the Lime Property Fund.

17.2. The next steps are as follows:

- KYC (Know Your Customer) checks will be carried out.
- The Jersey Manager will hold a board meeting to approve the subscription agreement once the original hard copy is received and KYC checks are complete. Once approved the Fund will formally join the queue.

17.3. It is anticipated that the Fund will join the queue of investors by September 2016.

17.4. The manager has confirmed that the result of Brexit will not have an impact on the ability of the Fund to continue to invest in the Lime property Fund.

18. Low Carbon Index Update

18.1. The Committee agreed at its meeting of 14 January 2016 to shift one third of its equities portfolio or approximately 20% of total fund assets to low carbon target. Committee also agreed that the switch should be implemented in tranches to mitigate the risk of unfavourable market timing on oil prices.

18.2. The first tranche of asset switching worth approximately £60m was completed on 3 May 2016 at a cost of £51k (0.086%). The cost of transferring has been kept low by some internal switching of assets within the overall fund and coordinating with the sale of some assets by the Environment Protection Agency who were exiting the Index.

18.3. The second and third tranches are provisionally scheduled for 1 August and 1 November 2016 respectively.

Appendix 1

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
Legal & General Investment Management	75.00%	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	15.00%	15.00%
Overseas Equities		45.00%	45.00%
North America	FT World Developed North America GBP Unhedged	21.70%	21.70%
Europe ex UK	FT World Developed Europe X UK GBP Unhedged	7.40%	7.40%
Pacific ex Japan	FT World Developed Pacific X Japan GBP Unhedged	3.40%	3.40%
Japan	FT World Developed Japan GBP Unhedged	3.50%	3.50%
Emerging Markets	FT World Global Emerging Markets GBP Unhedged	9.00%	9.00%
Index Linked Gilts	FTA Index Linked Over 5 Years Index	15.00%	15.00%
Total		75.00%	75.00%