

Report for: Pensions Committee 9th February 2017

Item number: 14

Title: Review of CQS (Multi-Sector Credit) Performance Target

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. This report presents the result of the review of the performance target set for the multi-sector credit manager, CQS following significant changes in market environment and proposes a new target to reflect current market conditions.

2. Cabinet Member Introduction

- 2.1. Not applicable.

3. Recommendations

- 3.1. That the Committee note the content of the report and approve the new performance target for the multi sector credit manager, CQS as set out in Appendix 1 of this report.

4. Reason for Decision

- 4.1. The Committee agreed to a review of CQS's performance target at its 11th of July 2017 meeting. This paper presents the result and recommendation of the review.

5. Other options considered

- 5.1. None.

6. Background information

- 6.1. After a review of the Fund's Strategic Asset Allocation, the Pensions Committee agreed to allocate fund resources to a multi-sector credit mandate – CQS was selected and approved at the Committee meeting in August 2014 after a competitive selection exercise.
- 6.2. The Committee also agreed to set the manager a target of 5.6% (net of fees) per annum. Although, there has been some improvement in performance over the latter half of 2016, the manager significantly lagged its target in the first half of 2016 due mainly to changes in prevailing market conditions from when target was agreed and the manager's defensive position relative to other managers in the sector.
- 6.3. The more cautious approach to investment practiced by CQS was considered a plus point during manager selection. In the period since the award of the mandate, the defensive positioning has proven to be beneficial to the Fund during a period of widening credit spreads that has allowed CQS to deliver better returns in difficult market conditions for multi-sector credit managers.
- 6.4. Fund's investment consultant have expressed continued confidence in CQS to perform, but advise that the given CQS's investment style, current performance target will be difficult to achieve over a market cycle even if market conditions are favourable.

7. Contribution to Strategic Outcomes

- 7.1. None.

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

Finance and Procurement

- 8.1. The current performance target for CQS has proved difficult to achieve due to difficult macroeconomic conditions that the manager is unable to affect. Therefore, an adjustment to the target would be an appropriate action to allow the manager to continue to invest in line with the investment philosophy that was considered a positive attribute by the Committee when the manager was appointed.
- 8.2. In deciding to review the current performance target, the Committee should carefully weigh up the advice from the Fund's investment consultant, Mercer that the current performance target would be difficult to achieve even in favourable macroeconomic conditions.

Legal

8.3. The administering authority can review the investment manager's performance in accordance with the terms on which the appointment was made. There are no legal implications to the recommendation in this report.

Equalities

8.4. There are no equalities issues arising from this report.

9. Use of Appendices

9.1. Appendix 1 – Review of CQS (Multi-Sector Credit) Performance Target.

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.