Report for: Pensions Committee 27th March 2017

Item number: 12

Title: Pension Fund Quarterly Update

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

Lead Officer: Thomas Skeen, Head of Pensions
thomas.skeen@haringey.gov.uk 020 8489 1341

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 December 2016:

- Investment asset allocation
- Investment performance
- Investment 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 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 and sections 11 and 12 of this report 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.

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 Chief Operating Officer has been consulted on this report and there is no direct financial impact from the recommendations in this report.

Legal Services Comments

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 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 Funding Strategy Statement and the Statement of Investment Principles/Investment Strategy Statement 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 31 December 2016 was £1,248m. At 30 September 2016 the total value of the Fund was £1,199m compared to £1,112m at 30 June, £1,046M at 31 March 2016 and £1,022M at 31 December 2015. Therefore the value of the Fund increased by 22% during the calendar year 2016.

8.7. The final Quarter of 2016 (October to December) saw the election of Donald Trump as President of the United States on 8 November 2016.This was unexpected by most investors. Mr Trump's promises of corporate tax cuts, significant business deregulation and infrastructure spending has clearly excited markets following his election as exemplified by the approximate 10% increase in the main US Listed Equity Index (the S and P 500) between 8 November 2016 and 28 February 2017. Whether these promises can be/are delivered together with their long-term consequences and the extent to which President Trump erects "trade barriers" will doubtless be a significant factor in determining how both US and indeed world Listed Equity and credit markets perform in 2017 and going forward.

8.8. Supported by continuing improvements in core economic data including strong employment figures and inflation moving closer to the target of 2% the United States Federal Reserve (Central Bank) increased the Federal Funds Rate (the main interest rate) by 0.25% on 14 December 2016. This followed the previous 0.25% increase of 16 December 2015 but was only the second rate increase in a decade. This further rate increase together with indications, by the Chair of the Federal Reserve, of further rate rises in 2017 clearly indicates the period of "ultra loose Monetary Policy" seen since the Financial Crisis of 2008, and which has supported financial markets for almost a decade, is coming to an end. This together with the election of President Trump clearly suggests United States and beyond is entering a new financial/investment environment.

Equalities

8.9. 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 £49m million between October and December 2016. The equity, fixed income and multi asset credit portfolios performed largely in line with benchmark, whereas the infrastructure debt portfolio performed well above benchmark. The private equity and property portfolios performed below benchmark.

11.2. The equity allocation exceeds target by 13.19%. This is due in part to a strongly performing quarter for equities meaning that this portion of the portfolio grew disproportionately compared to other asset classes. The infrastructure debt investment manager has requested for an extension to July 2017 which the Fund has agreed to, they have also requested a further capital call for February 2017 which should increase the size of this portfolio. As the new property and renewable energy mandates are funded, the equity portfolio will fall back in line with the strategic allocation.

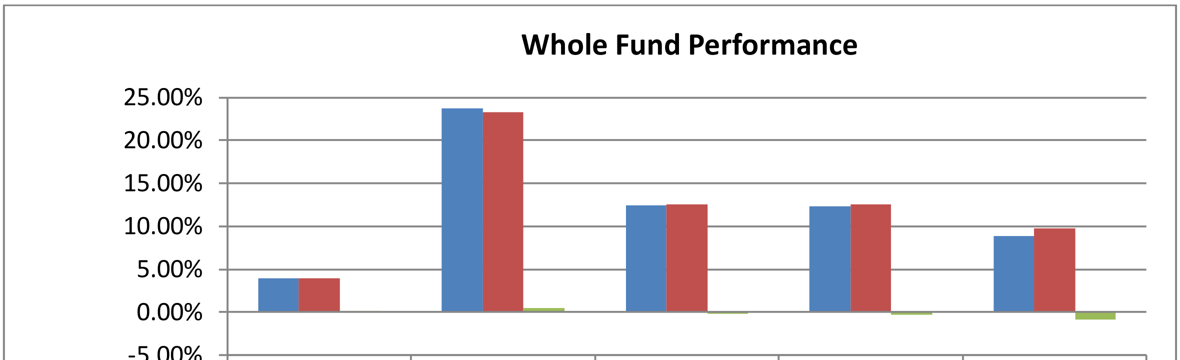
Total Portfolio Allocation by Manager and Asset Class

	Value 31.03.2016 £'000	Value 30.06.2016 £'000	Value 30.09.2016 £'000	Value 31.12.2016 £'000	Allocation 31.12.2016 %	Strategic Allocation %	Variance %
Equities							
UK	159,980	148,912	152,324	145,449	11.65%	8.80%	2.85%
North America	240,625	239,705	221,135	212,480	17.02%	12.60%	4.42%
Europe	79,122	73,496	74,110	69,369	5.56%	4.30%	1.26%
Japan	38,568	37,138	36,085	31,047	2.49%	2.00%	0.49%
Asia Pacific	39,174	36,665	34,629	30,371	2.43%	2.00%	0.43%
Emerging Markets	102,482	112,686	125,268	127,925	10.25%	7.90%	2.35%
Global Low Carbon Tgt	0	65,538	132,804	203,226	16.28%	14.90%	1.38%
Total Equities	**659,951**	**714,140**	**776,355**	**819,867**	**65.69%**	**52.50%**	**13.19%**
Bonds							
Index Linked	**150,667**	**167,547**	**185,904**	**180,381**	**14.45%**	**15.00%**	**-0.55%**
Property							
Aviva	**0**	**0**	**0**	**0**	**0.00%**	**5.00%**	**-5.00%**
CBRE	**111,024**	**101,352**	**99,939**	**91,590**	**7.34%**	**7.50%**	**-0.16%**
Private equity							
Pantheon	**44,110**	**45,649**	**47,129**	**52,801**	**4.23%**	**5.00%**	**-0.77%**
Multi-Sector Credit							
CQS	**46,529**	**47,451**	**48,899**	**49,589**	**3.97%**	**5.00%**	**-1.03%**
Infrastructure Debt							
Allianz	**21,621**	**22,457**	**24,773**	**29,266**	**2.34%**	**5.00%**	**-2.66%**
Renewable Energy							
CIP	**0**	**0**	**0**	**0**	**0.00%**	**2.50%**	**-2.50%**
Blackrock	**0**	**0**	**0**	**0**	**0.00%**	**2.50%**	**-2.50%**
Cash & NCA							
Cash	**11,665**	**13,645**	**16,396**	**24,657**	**1.98%**	**0.00%**	**1.98%**
Total Assets	**1,045,567**	**1,112,241**	**1,199,395**	**1,248,151**	**100%**	**100%**	**0.00%**

Haringey LONDON

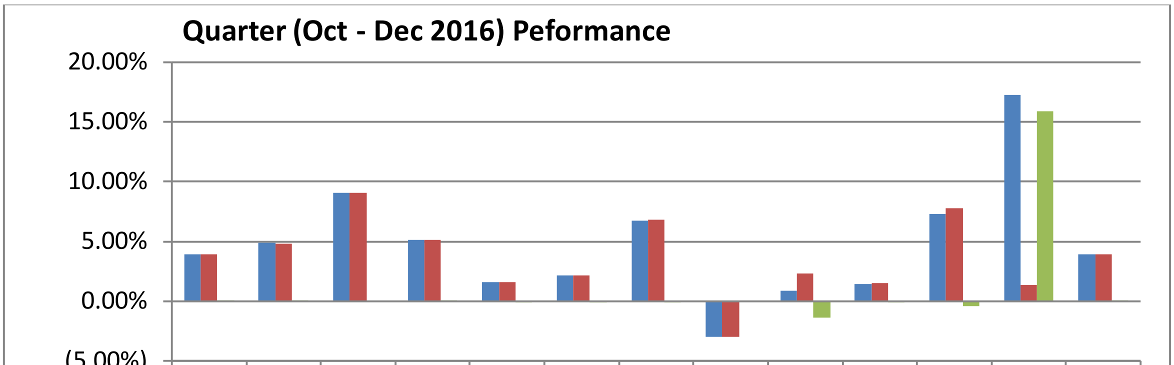
12. Investment Performance Update: to 31st December 2016

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 October to December 2016 and for one, three and 5 years for the whole of Fund.



	Oct 16 - Dec 16	One Year	Three Years	Five Years	Since Inception
Return	3.95%	23.69%	12.43%	12.28%	8.88%
Benchmark	3.89%	23.24%	12.60%	12.53%	9.79%
(Under)/Out	0.06%	0.45%	(0.17%)	(0.25%)	(0.91%)

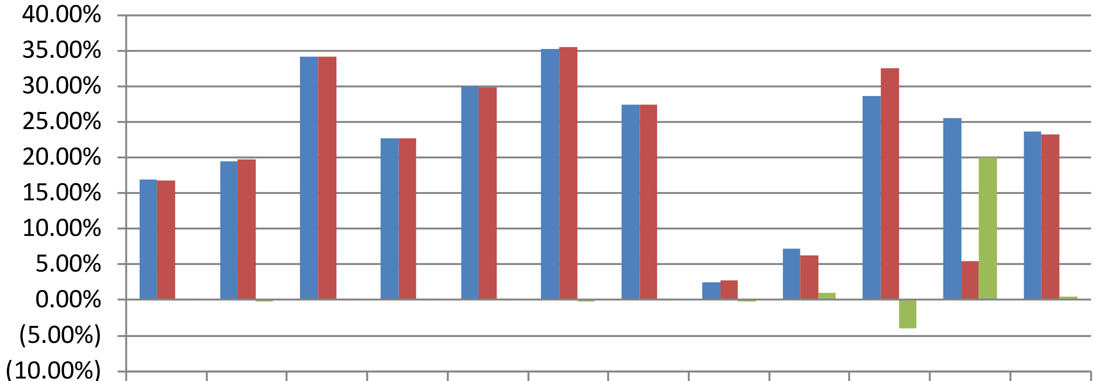
12.2. Driven by solid equity returns, the Fund returned 3.95% in the quarter and has over-performed benchmark of 3.89% by 0.06%. In terms of regional performance, North America was the strongest performer in equities achieving returns of 9.02%. Infrastructure debt and private equity also performed well, achieving returns of 17.24% and 7.33% respectively. Index linked gilts was the worst performing category at -2.97%, although it should be noted that this followed a quarter of exceptionally high performance of nearly 11%.



	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Eq - Global Low Carbon Tgt	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastructure	Total Fund
Fund Return	3.90%	4.86%	9.02%	5.15%	1.56%	2.12%	6.74%	(2.97%)	0.89%	1.41%	7.33%	17.24%	3.95%
Benchmark	3.89%	4.84%	9.02%	5.11%	1.60%	2.17%	6.78%	(2.97%)	2.30%	1.48%	7.77%	1.35%	3.89%
(Under)/out	0.01%	0.02%	0.00%	0.04%	(0.04%)	(0.05%)	(0.04%)	0.00%	(1.41%)	(0.07%)	(0.44%)	15.89%	0.06%

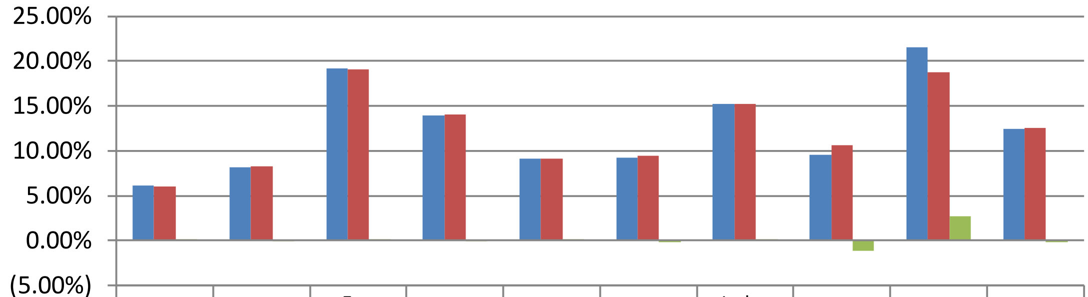
12.3. Over the last 12 months the Fund returned 23.69% and overperformed benchmark of 23.24% by 0.45%. Three and five year performance show underperformance of 0.16% and 0.25% respectively. Overall the Fund has benefitted from its overweight position in equities over the past five years.

One Year Peformance

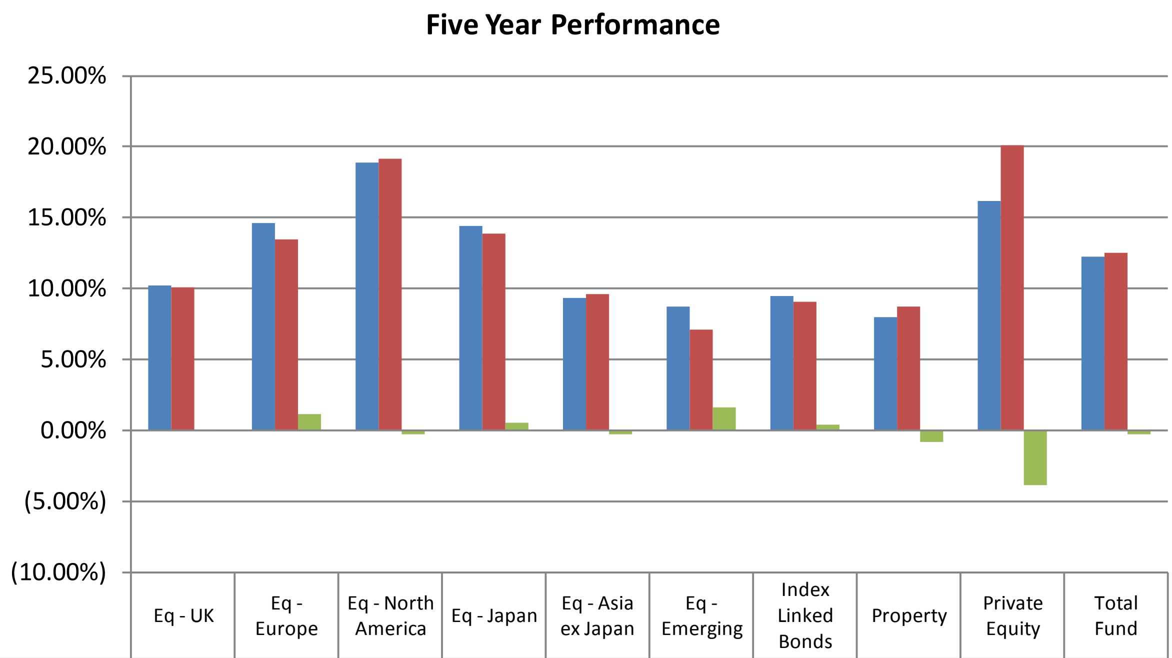


	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastructure	Total Fund
Fund Return	16.84%	19.43%	34.13%	22.72%	29.92%	35.20%	27.41%	2.52%	7.16%	28.56%	25.53%	23.69%
Benchmark	16.75%	19.67%	34.11%	22.68%	29.85%	35.43%	27.39%	2.80%	6.20%	32.51%	5.50%	23.24%
(Under)/out	0.09%	(0.24%)	0.02%	0.04%	0.07%	(0.23%)	0.02%	(0.28%)	0.96%	(3.95%)	20.03%	0.45%

Three Year Performance



	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Index Linked Bonds	Property	Private Equity	Total Fund
Return	6.16%	8.16%	19.17%	13.90%	9.14%	9.27%	15.23%	9.55%	21.49%	12.44%
Benchmark	6.05%	8.26%	19.10%	14.01%	9.13%	9.42%	15.17%	10.65%	18.74%	12.60%
(Under)/out	0.11%	(0.10%)	0.07%	(0.11%)	0.01%	(0.15%)	0.06%	(1.10%)	2.75%	(0.16%)

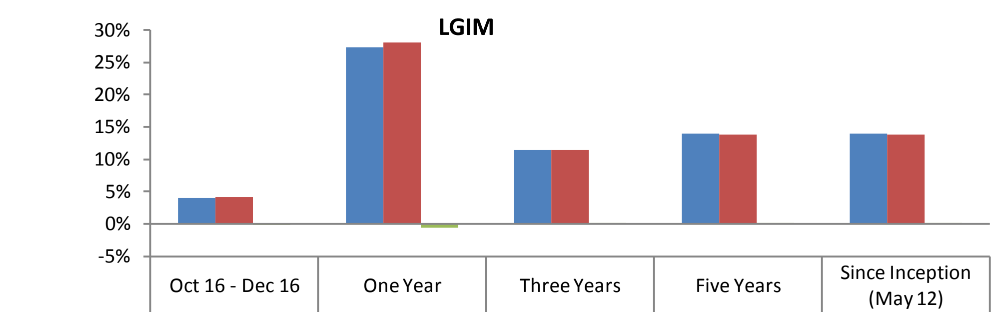


	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Index Linked Bonds	Property	Private Equity	Total Fund
Return	10.19%	14.61%	18.87%	14.38%	9.32%	8.73%	9.49%	7.96%	16.18%	12.28%
Benchmark	10.11%	13.48%	19.14%	13.86%	9.61%	7.10%	9.08%	8.74%	20.07%	12.53%
(Under)/out	0.08%	1.13%	(0.27%)	0.52%	(0.29%)	1.63%	0.41%	(0.78%)	(3.89%)	(0.25%)

FUND MANAGER PERFORMANCE

Legal & General Investment Management (LGIM)

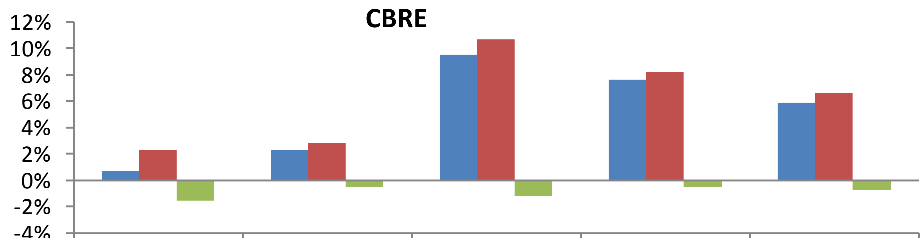
12.4. Legal and General returned 3.95% this quarter and has slightly underperformed composite benchmark of 4.16% by 0.21%. The Fund underperformed benchmark in Asia (excluding Japan) and emerging. Looking beyond a year, LGIM is slightly ahead of benchmark returning 11.42% over 3 years; 13.93% over 5 years and 14.00% since inception. The fund manager's performance is comparable to benchmark as expected.



	Oct 16 - Dec 16	One Year	Three Years	Five Years	Since Inception (May 12)
Return	3.95%	27.39%	11.42%	13.93%	13.91%
Benchmark	4.16%	28.00%	11.36%	13.74%	13.83%
(Under)/Out)	(0.21%)	(0.61%)	0.06%	0.19%	0.08%

CBRE

12.5 The manager saw a positive total return of 0.74% in the quarter and under-performed benchmark of 2.30% by 1.56%. CBRE lags behind benchmark over 1, 3, and 5 years, as well as since portfolio inception: however this underperformance is less than 1.00% in most cases.



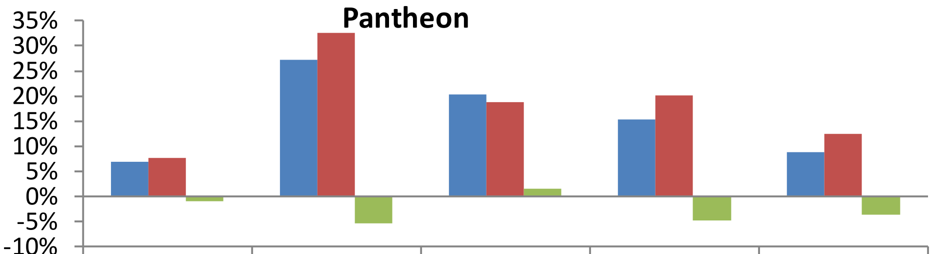
	Oct 16 - Dec 16	One Year	Three Years	Five Years	Since Inception (Mar 03)
Return	0.74%	2.30%	9.51%	7.65%	5.91%
Benchmark	2.30%	2.80%	10.66%	8.19%	6.63%
(Under)/Out	(1.56%)	(0.50%)	(1.15%)	(0.54%)	(0.72%)

12.6 The relative performance of the property portfolio has been affected by two European funds that have suffered significant loss. With an aggregate purchase cost of £9.7 million, they are now valued at close to nil - a virtual total loss. Both funds are invested in highly leverage non prime property (German residential and Italian office / retain). The underlying holdings suffered during the Euro crisis and the impact has been magnified on unit holders by high levels of debt in each fund. Both funds are being rationalised which may offer an exit opportunity, but with little recovered value.

12.7 Adjusting for the European investment would put the manager significantly ahead of benchmark in terms of performance. However, the portfolio is expected to lag the benchmark for many years until the impact of the two European funds is diluted sufficiently with several years of outperformance.

Pantheon Private Equity

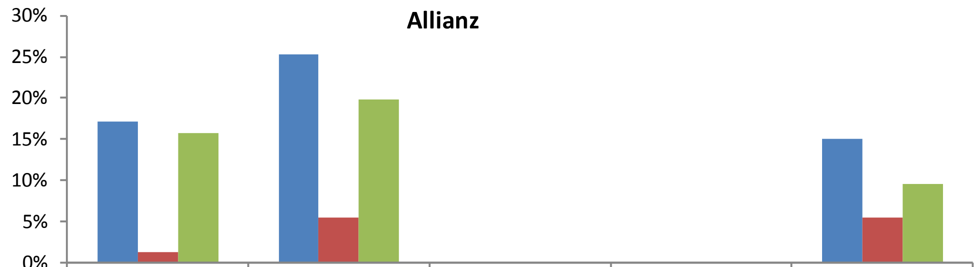
12.8. Pantheon Private Equity underperformed their benchmark by 0.85%, despite having positive returns of 6.92%. Over a 3 year period the manager's performance has been positive compared to benchmark, however over the 1 and 5 year ranges and since portfolio inception performance lags behind benchmark.



	Oct 16 - Dec 16	One Year	Three Years	Five Years	Since Inception (May 07)
Return	6.92%	27.25%	20.31%	15.34%	8.81%
Benchmark	7.77%	32.51%	18.74%	20.07%	12.44%
(Under)/Out	(0.85%)	(5.26%)	1.57%	(4.73%)	(3.63%)

Allianz Infrastructure Debt

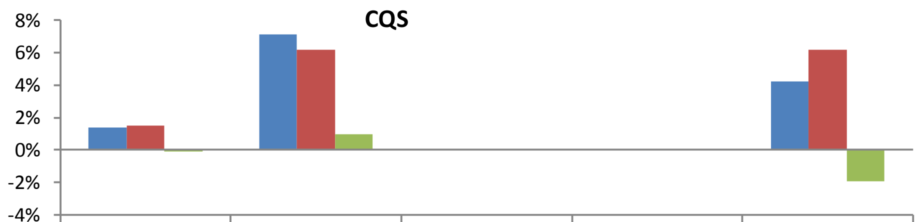
12.9. Allianz has returned 17.09% against benchmark of 1.35% giving an over-performance of 15.74% in the quarter. The manager is now significantly ahead of benchmark in the one year period and since inception.



	Oct 16 - Dec 16	One Year	Three Years	Five Years	Since Inception (Dec 14)
Return	17.09%	25.31%		0	15.04%
Benchmark	1.35%	5.50%		0	5.50%
(Under)/Out	15.74%	19.81%		0.00%	9.54%

CQS Multi Sector Credit

12.10 The manager had a slight under-performance relative to benchmark in the quarter achieving a return of 1.41% against the benchmark of 1.48%. Over the past 12 months means the manager is ahead of benchmark by 0.96%, however since portfolio inception they lag behind benchmark by 1.94%. It should be noted however that this is a cash linked benchmark and returns have clearly been positive, in absolute terms, during the last Quarter and the last year.



	Oct 16 - Dec 16	One Year	Three Years	Five Years	Since Inception (Aug 14)
Return	1.41%	7.16%		0	4.25%
Benchmark	1.48%	6.20%		0	6.19%
(Under)/Out	(0.07%)	0.96%		0.00%	(1.94%)

13. Budget Management – Quarter Ending 31st December 2016

13.1. The Fund is entering a period of increasing maturity, where benefits payable will be more than contributions received – this is reflected in the latest actual spend to date in 2016/17. Consequently, as the Fund further matures, it will be necessary to increase cash yielding assets to ensure that the Fund is always able to meets its obligations to retired members.

13.2. The Funding Strategy is currently being revised to reflect the need for more investment in cash yielding assets, such as is being targeted for the renewable energy mandate, to provide greater liquidity in the Fund in order to prevent liquidation of assets to pay benefits.

13.3. The below table sets how the fund’s contributions and benefits income and expenditure compare between the current period and the same period in last financial year.

Cost Comparison Qtr 3 2015 v Qtr 3 2016

	Prior Year 2015-16 £'000	Reporting Period 2016-17 £'000	Change in expenditure £'000
Contributions & Benefit related expenditure			
Income			
Employee Contributions	6,649	6,753	104
Employer Contributions	24,249	25,307	1,058
Transfer Values in	1,451	2,113	662
Total Income	32,349	34,173	1,824
Expenditure			
Pensions & Benefits	-33,580	-33,561	19
Transfer Values Paid	-2,109	-3,058	-949
Administrative Expenses	-665	-650	15
Total Expenditure	-36,354	-37,269	-915
Net of Contributions & Benefits	**-4,005**	**-3,096**	**909**

13.4. There is a decrease of £909k in net expenditure up to Dec 2016 compared to the same time last year. Whilst expenditure on pensions benefits has remained largely similar, the income from employers and employees has increased, as have transfers into the fund. In the longer term, however, the excess of benefits payable over contributions received is expected to increase.

<u>Investment Related Update</u>

14. Pooling (London CIV)

14.1. The Fund was one of the early investors in the London CIV (LCIV). As previously notified the Fund has achieved fee savings in the region of £130k based as a result of being part of the LCIV.

14.2. The LCIV continues with its programme of opening sub funds and recruiting fund managers to operate these sub funds. In setting up the single manager sub funds, LCIV will prioritise commonality of mandates among its members; quantum of assets under management; and conviction of funds in the manager. To this end, the procurement of active global equities managers and multi asset managers is currently being undertaken. Six sub funds have currently been set up. Haringey is not expected for now to invest in any of

Haringey LONDON

these funds given Committee's decision that strategic allocation to equities should be passive.

14.3. LCIV has also undertaken its annual business planning and the 2017/18 budget was approved in 2017/18. LCIV has indicated that all London Funds will have to contribute a £25k service change, plus approximately £75k in development funding costs. This reflects the increased work of the operator and to ensure that the operator meets FCA regulatory requirement around fund management and ensure that adequate resources are in place to deliver value to members of LCIV.

15. Aviva Long Lease Property Mandate

15.1. The Committee at its meeting on 11 April 2016 approved the investment of £50m in the Aviva Long Lease Property Fund. Following submission and completion of the 'know your client' due diligence process by Aviva, the fund has now been approved by the trustees of the Fund to join the queue of investors waiting to invest in the Fund.

15.2. Members may recall that the waiting time to invest had moved out to 9-12 months from initial range of 6-9 months that was pitched to the Committee during the selection process. Although, Aviva's deal pipe is strong with the team working on "a lot of deals", the pace of decision making within counterparties that Aviva are dealing with has slowed down the investment process. Currently, there is £325m of committed funds ahead of LB Haringey in the queue. However, Aviva have confirmed that funding commitment from LB Haringey will likely be drawn down at the end of 2017.

16. Low Carbon Index Update

16.1. The Committee agreed at its meeting of 14 January 2016 to move one third of its equities portfolio or approximately 20% (at that date) 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.

16.2. The first tranche of asset switching worth approximately £60m was completed on 3 May 2016 at a cost of £51k (0.086%). The transfer of the second tranche of assets was executed on 1st August 2016 at a cost £25k (0.042%).

16.3. The third switch was executed on 1 November 2016, the cost of the switch was £39k (0.07%). This completed the switch and allocation to the low carbon index by the Fund. The revised strategic allocation is reflected in appendix 1 to this report.

Appendix 1 – Strategic Asset Allocation

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
Legal & General Investment Management	67.5%	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	8%	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
Aviva	5%	Long Lease Property	Investment has not yet taken place with these fund managers	
Copenhagen Investment Partners	2.5%	Renewable Energy		
Blackrock	2.5%	Renewable Energy		
Total	**100%**			

*will change to LIBOR + 5.0% per annum from 1st April 2017 as agreed in the February 9th 2017 Pensions Committee Meeting

Haringey LONDON

Asset Class	Benchmark	Legal & General Investment Management
UK Equities	FTSE All Share	**8.80%**
North America	FT World Developed North America GBP Unhedged	12.60%
Europe ex UK	FT World Developed Europe X UK GBP Unhedged	4.30%
Pacific ex Japan	FT World Developed Pacific X Japan GBP Unhedged	2.00%
Japan	FT World Developed Japan GBP Unhedged	2.00%
Emerging Markets	FT World Global Emerging Markets GBP Unhedged	7.90%
Global Low Carbon Target	MS World Low Carbon Target Index	14.90%
Total Overseas Equity	**FTA Index Linked Over 5 Years Index**	**43.70%**
Index Linked Gilts	**FTA Index Linked Over 5 Years Index**	**15.00%**
Total L&G		**67.50%**