Haringey Council

NOTICE OF MEETING

Pensions Committee

TUESDAY, 1ST DECEMBER, 2009 at 19:00 HRS - CIVIC CENTRE, HIGH ROAD, WOOD GREEN, N22 8LE.

PLEASE NOTE: THE ADVISOR WILL BRIEF ALL MEMBERS OF THE PENSIONS COMMITTEE, PRIOR TO THE MEETING, AT 18:30HRS.

MEMBERS: Councillors C. Harris (Chair), Thompson (Vice-Chair), Beacham, Mallett, Wilson, Winskill and Cooke

IN ATTENDANCE: Howard Jones, Roger Melling, Earl Ramharacksingh and David Corran

AGENDA

1. APOLOGIES FOR ABSENCE

2. URGENT BUSINESS

The Chair will consider the admission of any late items of urgent business. Late items will be considered under the agenda item where they appear. New items of unrestricted business will be considered under agenda item 10, new items of exempt business will be considered under agenda item 13.

3. DECLARATIONS OF INTEREST

A member with a personal interest in a matter who attends a meeting of the authority at which the matter is considered must disclose to that meeting the existence and nature of that interest at the commencement of that consideration, or when the interest becomes apparent.

A member with a personal interest in a matter also has a prejudicial interest in that matter if the interest is one which a member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice the member's judgement of the public interest and if this interest affects their financial position or the financial position of a person or body as described in paragraph 8 of the Code of Conduct and/or if it relates to the determining of any approval, consent, license, permission or registration in relation to them or any person or body described in paragraph 8 of the Code of Conduct.

4. MINUTES (PAGES 1 - 12)

To confirm and sign the minutes of the Pensions Committee meetings held on 17 September and 12 October 2009.

5. FUND ADMINISTRATION UPDATE (PAGES 13 - 18)

Report of the Assistant Chief Executive, People and Organisational Development, to consider regulatory changes affecting the administration of the Local Government Pension Scheme together with relevant issues covered in circulars issued by the Local Government Pensions Committee (LGPC) and Department for Communities and Local Government (DCLG).

6. FUND PERFORMANCE REPORT (PAGES 19 - 34)

Report of the Chief Financial Officer to consider the latest investment performance data for the Pensions Fund and for each of the Fund's investment managers, to compare responsible investments information provided by our Fund Managers with that supplied by LAPFF and to report 2009/10 budget monitoring to the end of September 2009.

7. ATTENDANCE BY FUND MANAGERS

Attendance by Fund Managers for a presentation and questions from Trustees, the Advisor to Trustees and the Chief Financial Officer.

7:15pm Pantheon
7:45pm Capital

8. ANNUAL PENSION FUND REPORT FOR THE YEAR ENDED 31 MARCH 2009 (PAGES 35 - 68)

Report of the Chief Financial Officer to present the statutory Annual Pension Fund Report for the year ended 31 March 2009.

9. QUARTERLY ASSET ALLOCATION REPORT (PAGES 69 - 84)

Report of the Chief Financial Officer to review the Fund's asset allocation position.

10. NEW ITEMS OF URGENT BUSINESS

11. EXCLUSION OF PRESS AND PUBLIC

The following item is likely to be subject of a motion to exclude the press and public from the meeting as it contains exempt information as defined in Section 100a of the Local Government Act 1972; namely information relating to the business or financial affairs of any particular person (including the Authority holding that information).

12. CUSTODY FEE REVIEW (PAGES 85 - 104)

Report of the Chief Financial Officer to agree to a revised tariff of custody fees in order to achieve ongoing annual savings and to consider the introduction of a securities lending programme in order to mitigate the overall costs associated with the provision of custodial services.

13. NEW ITEMS OF EXEMPT URGENT BUSINESS

Ken Pryor
Deputy Head of Local Democracy and Member Services
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225 High Road
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London N22 8HQ

Helen Jones
Principal Committee Coordinator
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Monday, 23 November 2009

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MINUTES OF THE PENSIONS COMMITTEE
THURSDAY, 17 SEPTEMBER 2009

Councillors	C. Harris (Chair), Thompson (Vice-Chair), Winskill, Cooke and Meehan
Apologies	Councillors Beacham, Wilson and Earl Ramharacksingh
Also Present:	Howard Jones, Roger Melling and David Corran.

MINUTE NO.	SUBJECT/DECISION	ACTION BY
PRPP114.	**APOLOGIES FOR ABSENCE** Apologies for absence were received from Cllr Mallett, for whom Cllr Meehan was substituting. Apologies for absence were also received from Cllr Beacham, Cllr Wilson and Earl Ramharacksingh.	
PRPP115.	**URGENT BUSINESS** The Chair agreed to the admission of an appended letter of representation and covering report, as late items in relation to agenda item 5.	
PRPP116.	**DECLARATIONS OF INTEREST** Cllr Thompson declared a personal interest as a contributing member of the haringey Pension Scheme, as a member of the Licensing Committee and as having attended training events at which he had received hospitality from some of the Fund Managers. Cllr Winskill declared a personal interest as a contributing member of the Haringey Pension Scheme. David Corran declared a personal interest as drawing a pension from the Haringey Pension Scheme. Cllr Harris declared a personal interest as a contributing member of the Haringey Pension Scheme and as having attended a recent meeting at which a Fund Manager had been present.	
PRPP117.	**MINUTES** **RESOLVED** That the unresticted minutes of the meeting held on 18 June 2009 be approved and signed by the Chair.	

PRPP118.	**AUDIT OF FINANCIAL STATEMENTS 2008/09 AND REPORT TO THOSE CHARGED WITH GOVERNANCE IN 2008/09** The Chief Financial Officer introduced the report on the audit of financial statements and the letter of representation. It was reported that this was the first year there had been a formal separate audit of the Pension Funds accounts. Grant Thornton reported that the audit had been straightforward, and that very few adjustments had been required. The main issue raised was the Audit Commission's recommendation that the Pension Fund be held in a separate bank account to the Council's general funds, which had also been raised in the previous year. Grant Thornton had looked carefully into the position at Haringey and had concluded that there were no issues with the Fund being appropriately remunerated but it was still recommended that separate accounts be adopted. Other issues raised had been the late receipt of some contributions from scheduled and admitted bodies and the timing of benefits payments but that this had improved from last year. It was noted that no new issues had been raised, and the position in respect of all the issues raised demonstrated an improvement on the previous year. Grant Thornton commended the work of the Chief Financial Officer and his team. The Committee asked whether it was likely that a deadline would be set for the introduction of separate bank accounts, and why the recommendation from the previous year had not been implemented. It was reported that it was unlikely that a deadline would be imposed, but that the Audit Commission would continue to recommend this. The Chief Financial Officer reported that the administrative burden and cost of establishing and managing two separate accounts had been assessed against the risk posed by having a single account; as the arrangements at Haringey had been found to be managed effectively and the SAP system permitted the funds to be treated separately within the same account, it had been concluded that the drawbacks of introducing separate accounts had outweighed the potential risk at the time. The Chief Financial Officer reported that the issue of introducing separate accounts, and the potential cost to the Council, would be reviewed again in 6 months. In response to a question from the Committee regarding the reason for the recommendation, it was reported that this was to reduce the level of risk, but it was also reported that, the risk would be managed by having adequate controls in place. It was reported that the decision to implement separate bank accounts would be made by the Chief Financial Officer, and it was recommended that a report setting out the benefits and drawbacks be presented to Members before a final decision was made. In response to a request from the Committee, the Chief Financial Officer would provide Committee members with details of scheduled and admitted bodies who had submitted contributions late. It was noted that the timeliness of all contributions had improved in the past year, and it was confirmed that in the quarter ending 30th June 2009, all contributions had been received within the statutory time limits.	

	In response to a question from the Chair, Grant Thornton reported that there was no indication that the basis for the audit fees would be reviewed by the Audit Commission. **RESOLVED** i) That the content of the report and updates provided by Grant Thornton be noted. ii) That the changes to be made to the Pension Fund Accounts 2008/09 be agreed.	
PRPP119.	**QUARTERLY ASSET ALLOCATION REVIEW** The Chief Financial Officer presented the quarterly asset allocation review and the report of the Fund's investment advisors, Hewitt. It was reported that the change in asset allocation agreed by the Committee on 18 June had been implemented in early August. No change was recommended by Hewitt at the present time, and the Committee was invited to note this recommendation. In response to a question from the Committee regarding likely future market changes, the Chief Financial Officer reported that by reviewing asset allocation on a quarterly basis, the Fund would be in a position to react quickly to changes in market conditions. The Committee discussed Hewitt's opinion that opportunities to increase investment in property would arise later in the year; it was felt that further information should be sought regarding this issue and on how any proposed recommendation relating to changes relating to property could be implemented quickly. It was noted that ING were attending the next meeting of the Committee and should be asked to provide further information at that time. **RESOLVED** That the Fund's Asset Allocation position be noted.	
PRPP120.	**FUND PERFORMANCE REPORT** The Chief Financial Officer presented the fund performance report for the quarter ending 30 June 2009. It was reported that the fund had underperformed the benchmark in the last quarter by 0.85% and had underperformed the benchmark by 2.43% in annualised terms for the 27 months to the end of June 2009. The report covered the performance of the fund managers, responsible investment issues and the budget position. The Committee discussed the decline in the Fund's value within the context of the wider economic climate, and it was noted that the investment in fixed income assets had been of benefit to the Fund as the decline in equities had been more significant. In response to a question from the Committee, it was reported that the decline in value of the Fund had largely been as a result of the general economic climate, but that	

questions should be asked where fund managers had underperformed the benchmark. It was noted that the fund managers had been asked to switch to a new benchmark, and that this may have been among the contributing factors.

RESOLVED

i) That the Fund performance position as at end of June 2009 be noted.

ii) That responsible investments information provided be noted.

iii) That the budget management position to the end of July 2009 (period 4) be noted.

PRPP121. ATTENDANCE BY FUND MANAGERS

The Committee received presentations from two Fund Managers as follows:

CAPITAL

Fund performance for the equity mandate was 1.70% below the benchmark and 3.70% below the target in annualised terms in the 27-month period to the end of June 2009.

Fund performance for the fixed income mandate was 1.37% below the benchmark and 2.37% below the target in annualised terms in the 27-month period to the end of June 2009.

Capital explained the reasons for current performance and answered questions from Trustees. Capital presented some information on performance in the current quarter to date, and reported that the value of their mandates had risen to around £123m.

The Committee questioned the report that the decision in respect of asset allocation for CIF High Income Opportunities was a negative contributor to the fixed income portfolio and it was agreed that Capital would check the accuracy of this point.

The Chair thanked Capital for their presentation.

FIDELITY

Fund performance for the equities mandate was 0.6% above benchmark and 1.1% below the target in annualised terms in the 27-month period to the end of June 2009.

Fund performance for the bonds mandate was 0.1% above benchmark and 0.5% below the target in annualised terms in the 27-month period to the end of June 2009.

	Fidelity explained the reasons for current performance and answered questions from Trustees. Fidelity presented some information on performance in the current quarter to date, and reported that the value of the equities mandate had risen to £124.3m and the bond mandate to £73.1m. The Chair thanked Fidelity for their presentation. **RESOLVED** That the presentations and answers to questions given by the Fund Managers be noted.	
PRPP122.	**CONSULTATION DRAFT - 'LGPS - DELIVERING AFFORDABILITY, VIABILITY AND FAIRNESS'** The Chief Financial Officer presented a report on the consultation exercise initiated by the Communities and Local Government Department. The consultation focussed on the March 2010 valuation exercise, and possible actions to make the scheme more stable given the impact of current stock market conditions of pension funds. It was reported that this was an informal consultation for pension fund stakeholders, and the response of Hymans Robertson, the fund's actuary, was appended to the report. A draft response was set out in the report, and members were invited to comment on this draft. The draft response stated that some of the ideas set out in the consultation document were positive, but it was felt that the existing structure was capable of addressing the issues raised and that there was no significant need to alter the existing guidelines. In response to a question from the Committee, it was reported that there had been no financial cost to the Council in participating in the consultation. It was reported that if the situation were not stabilised and it was necessary to increase employer contributions to the fund, this would have a significant impact on Council Tax, and that this was an important consideration. It was reported that actuaries were looking at ways to ensure that employer contributions remained stable, and would take into account other variables as part of their assumptions in order to minimise the impact of current market conditions on fund values. The Committee commented on the possible contribution tariff set out in the consultation letter, and suggested that the reductions in contributions should be spread more evenly across the lower bands if any new system were to be introduced. It was noted that in light of the limited impact that a change in bands would achieve and that fact that bands had already been changed recently, any further change in bands would be undesirable at the present time, however, the Committee endorsed the general principle that those on higher salaries should have a higher contribution rate. In response to a question regarding the administration costs of implementing any change, it was reported that any change would require changes to be made to payroll as well as documentation related to the	

	scheme and that this would have an impact on resources. The Committee offered feedback that the language used in the DCLG consultation letter was far from clear and that this should be improved in future. **RESOLVED** That, emphasising the Committee's endorsement of the principle that those on higher salaries should pay a higher rate of contribution, the proposed basis of response to the consultation be agreed.	
PRPP123.	**FUND ADMINISTRATION REPORT (INCLUDING REVIEW OF AVC PROVIDERS)** Ian Benson, Pensions Manager, presented the fund administration update. The report set out the results of the review carried out by Hymans Robertson on AVC providers, which recommended that the current providers were retained and that further work be done to raise the profile of AVCs for scheme members. The report also covered the Local Government Employer's response to the DWP consultation on auto enrolment, which had expressed concern that a proposed auto enrolment scheme would be bureaucratic and would lead to increased employer costs. It was reported that the DWP would be issuing further guidance on this matter, which may address some of the issues raised. The report also included updates on early and flexible retirements and appeals. The Committee welcomed that there were no outstanding appeals and that all contributions from employing bodies had been received on time. In response to a question from the Committee on the findings of the AVC provider review, it was reported that a holistic approach was taken, in which performance was assessed alongside other issues such as customer service and promotion. It was reported that work was underway on how to further promote AVCs to scheme members, and that permission had now been obtain for providers to use the Haringey pension scheme database for targeted promotion of AVCs and that this was in addition to the existing work promoting pensions options for all new members of staff as part of their induction. In response to a question from the Committee, it was reported that all staff with a contract for at least three months were entitled to join the pension scheme. **RESOLVED** i) That the Administration Report update be noted. ii) That no change be made to the Fund's AVC Providers. iii) That Prudential and Clerical and Medical be invited to discuss ways in which awareness of the AVC scheme can be increased and that investment performance can be monitored.	

PRPP124.	**CESSATION OF ADMISSION AGREEMENT WITH WORKFORCE FACILITIES LTD** Ian Benson, Pensions Manager, presented a report on the funding position attributable to Workforce Facilities Ltd on their cessation as an admitted body to the Haringey Pension Fund at 7th May 2009. It was reported that there was a small surplus on termination of the agreement and that this would remain in the fund. **RESOLVED** That the settlement of the £6,000 surplus attributed to Workforce Facilities Ltd on the cessation of the admission agreement be noted.	
PRPP125.	**ADMISSION AGREEMENT FOR EUROPA LTD** Ian Benson, Pensions Manager, presented a report on the admission of Europa Workspace Solutions Ltd as transferee admitted body participating in the Haringey Council Pension Fund from 8th May 2009. It was reported that one active member of the scheme had been TUPE transferred to Europa Workspace Solutions Ltd. **RESOLVED** i) That the admission of Europa Workspace Solutions Ltd as a transferee admitted body to the Fund from 8th May 2009 be agreed. ii) That the agreement is a closed agreement such that no new members can be admitted. iii) That the contractor is required to provide a Bond to the value of £26,000 to be reviewed by the Fund actuary on an annual basis. iv) That final approval to the terms of the Admission Agreement be delegated to the Chief Financial Officer.	
PRPP126.	**NEW ITEMS OF URGENT BUSINESS** There were no new items of urgent business.	
PRPP127.	**EXCLUSION OF THE PRESS AND PUBLIC** **RESOLVED** That the press and public be excluded from the meeting for the following items.	
PRPP128.	**EXEMPT MINUTES** **RESOLVED**	

	That the exempt minutes of the meeting held on 18 June 2009 be approved and signed by the Chair.	
PRPP129.	**ANY EXEMPT ITEMS OF URGENT BUSINESS** There were no new exempt items of urgent business. The meeting closed at 21:15hrs.	

COUNCILLOR CATHERINE HARRIS

Chair

MINUTES OF THE PENSIONS COMMITTEE
MONDAY, 12 OCTOBER 2009

Councillors C. Harris (Chair), Thompson (Vice-Chair), Beacham, Mallett, Wilson and Winskill

Also Present: Howard Jones and Earl Ramharacksingh

MINUTE NO.	SUBJECT/DECISION	ACTION BY
PRPP120.	**APOLOGIES FOR ABSENCE** Apologies for absence were received from David Corran and Roger Melling.	
PRPP121.	**URGENT BUSINESS** There were no items of urgent business.	
PRPP122.	**DECLARATIONS OF INTEREST** Cllr Harris declared a personal interest as a contributing member of the Haringey Pension Scheme and as having attended meetings at which Fund Managers had been present. Cllr Mallett declared a personal interest as a contributing member of the Haringey Pension Scheme. Cllr Winskill declared a personal interest as a contributing member of the Haringey Pension Scheme. Cllr Wilson declared a personal interest as an employee of the National Association of Pensions Funds. Cllr Thompson declared a personal interest as a contributing member of the Haringey Pension Scheme and as having attended training events at which he had received hospitality from some of the Fund Managers.	
PRPP123.	**ATTENDANCE BY FUND MANAGERS** The Committee received presentations from two Fund Mangers as follows: **ING** Fund performance was 0.72% below the benchmark and 1.72% below the target in annualised terms in the 27 month period to the end of June 2009. ING explained the reasons for current performance and answered questions from Trustees. In response to a question from the Committee	

	regarding increasing the fund's levels of investment in property, ING reported that it was important to wait for suitable stock to become available and to ensure that this was being obtained at the appropriate price. The Committee requested that advice be sought from Hewitt and that a report be presented at the next meeting of the Committee on the best use of the £9m currently held in cash pending suitable property investment opportunities. **LEGAL AND GENERAL** Fund performance was in line with the benchmark since inception. Legal and General answered questions from Trustees regarding stock lending. It was clarified that the custodian used in relation to stock lending transactions by Legal and General indemnified against any losses, as a result of which the risk to the fund was very low. **RESOLVED** That the presentations and answers to questions given by the Fund Managers be noted.	
PRPP124.	**GOVERNANCE OPTIONS REGARDING MONITORING OF FUND MANAGERS** The Chief Financial Officer reported that, further to the report on governance considered by the Committee the previous year, it had been agreed that the frequency of attendance by Fund Managers at Committee meetings would be reviewed. It was reported that this was underway, and that a full report providing recommendations to the Committee on a reduction in the frequency of attendance by Fund Managers and an increase in the amount of time available for the Committee to consider issues such as the review of the investment strategy and the fund valuation would be presented at a future meeting. The Committee welcomed any proposal that would enable the Committee to act flexibly and to allow more time for consideration of significant issues such as the investment strategy. The Chief Financial Officer reported that the Council was planning to ensure that the Committee had the time available to fully consider all the necessary issues, and that proposals would be brought to the Committee for consideration. **RESOLVED** That the verbal update be noted.	
PRPP125.	**BUSINESS PLAN 2009/10** The Chief Financial Officer presented a report on the business plan 2009/10. It was reported that there were no significant changes to the business plan for the previous year, but that all the information within the plan had been updated. Further to consultation with Terry Crossley,	

	Communities and Local Government, it was reported that all areas of the compliance statement that had previously been recorded as partly compliant could now be updated to fully compliant . The Committee asked for an explanation of the increase in fund management costs per scheme member since 2005/06. It was reported that some of this cost was accounted for by a one-off payment made to move the mandate following the dismissal of one fund manager, but that the appointment of a passive manager meant that any such transactions in future would cost significantly less. The Committee welcomed the low administration costs. In response to a request for information on the fund management costs excluding the one-off payment for moving a mandate, it was reported that additional sources of information were being sought to enable a more meaningful comparison to be made. In response to a question from the Committee regarding the current funding level, it was reported that the target was for 100% funding. The Committee commented on the recent CLG consultation, and suggested that additional information on financing would be welcome in future business plans. The Chief Financial Officer reported that the Committee would be provided with updates on any proposals for a London-wide pension scheme. The Committee suggested that the business plan should be provided to new pension fund trustees on appointment, as it provided a very useful summary. In response to a question from the Committee on the negotiation of prices with fund managers, it was reported that this could be looked into. The Committee suggested that higher rates of interest could be sought for the funds currently held as cash. The Chief Financial Officer reported that it was necessary to adhere to Treasury Management guidance, but that he would speak with Earl Ramharacksingh outside the meeting regarding the interest rates available. **RESOLVED** i) That the 2009/10 Business Plan be approved. ii) That the revised Statement of Investment Principles be approved.	
PRPP126.	**CESSATION OF ADMISSION AGREEMENT WITH MITTIE SECURITY** The Chief Financial Officer presented a report on the funding position attributable to Mittie Security Ltd on their cessation as an admitted body to the Haringey Pension Fund at 6th April 2009. **RESOLVED** That the settlement of the £202,000 deficit attributed to Mittie Security Ltd on the cessation of the admission agreement be noted.	

PRPP127.	**NEW ITEMS OF URGENT BUSINESS** There were no new items of urgent business. The meeting closed at 21:00hrs.	

COUNCILLOR CATHERINE HARRIS

Chair

Haringey Council

Agenda item: [No.]

Pensions Committee On 1st December 2009

Report Title: Fund Administration Update
Report of Assistant Chief Executive People and Organisational Development Signed Stuart Young Assistant Chief Executive P.O.D
Contact Officer : I M Benson Pensions Manager (0208 489 3824)

Wards(s) affected: All	**Report for:** Non Key Decision

1. Purpose of the Report (That is, the decision required)

1.1 To consider regulatory changes affecting the administration of the Local Government Pension Scheme together with relevant issues covered in circulars issued by the Local Government Pensions Committee (LGPC) and Department for Communities and Local Government (DCLG).

2. Introduction by Cabinet Member (if necessary)

3. State links with Council Plan Priorities and actions and / or other Strategies

3.1 Heyday Judgement

3.1.1 The High Court has upheld the law which allows employers to force an employee to retire at age 65 without redundancy even if the employee does not want to retire. In his ruling the judge made the point that there was a compelling case to raise the retirement age.

3.1.2 The government have since announced that they will bring forward a review on the default retirement age by the year 2010. This is a move which signals the end of age 65 as the default retirement age.

3.1.3 The Normal Retirement Age in the LGPS is age 65 but pensions cannot be drawn until the member ceases employment.

3.2 Learning Skills Council.

3.2.1 Legislation awaiting royal assent will dissolve the Learning and Skills Council (LSC) following which, some 950 staff will be TUPE transferred from the LSC to Local Education Authorities throughout England on 31st March 2010. Three staff will be transferring to Haringey Council.

3.2.2 The transfer-in of staff from the Civil Service Pension Scheme will be dealt with under the Bulk Transfer arrangements negotiated between the respective fund actuaries.

3.2.3 CLG have drafted amendment regulations to ensure that the transfer complies with Fair Deal provisions. This requires amending the LGPS scheme to afford protection to those staff who retain an age 60 and in some cases an age 50 retirement date in the Civil Service Scheme.

3.2.4 Details of staff to be transferred are awaited. Pensions Committee will be kept informed of progress.

3.3 Councillors Scheme

3.3.1 Currently, pensions for councillors in England and Wales are still covered by the LGPS Regulations 1997. CLG confirmed that they intended to issue a consultation paper on councillors pensions before the end of the year (although it was not clear whether this meant before the end of the calendar year or the end of the financial year).

4 Recommendations

4.1 That the Administration Report update be noted

5 Reason for Recommendations

5.1 Not applicable

6 Other options considered

6.1 Not applicable

7 Summary

7.1 This report updates the Committee on general administration issues arising from the Local Government Pension Scheme.

8 Chief Financial Officer Comments

8.1. The Chief Financial Officer concurs with service financial implications paragraph.

9 Head of Legal Services Comments

9.1. The Head of Legal Services has been consulted on the content of this report and has no specific comment to make.

10 Head of Procurement

10.1 (Not Applicable)

11 Equalities & Community cohesion Comments

11.1 There are no equalities issues arising from the Court ruling in the Heyday case. The position will be reviewed when the Government issue their report scheduled for 2010..

12 Consultation

12.1 The employees side have been consulted.

13 Service Financial Comments

13.1 The bulk transfer of staff into the fund referred to at paragraph 3.2 above will be negotiated by the Fund actuary who will ensure that the transfer payment will cover the liabilities for the transferring-in members.

14 Use of appendices / Tables and photographs

Appendix 1 reports the number of Early Retirements and Capital Costs
Appendix 2 reports on Appeals in progress
Appendix 3 reports the receipt of Employee and Employer contributions
Appendix 4 is a compliance statement

15 Local Government (Access to Information) Act 1985

(List background documents)
(also list reasons for exemption or confidentiality (if applicable)

15.1 LGE Bulletin 63 October 2009

Appendix 1

Haringey Council Pension Fund	Early and Flexible Retirements 1 April 2009 to 30th September 2009			
Haringey Council	Number of Cases	Basic Capital Cost	Cost of Added Years	Total Cost
Early Retirement	5	£25,000	£0	**£ 25,000**
Flexible Retirement	3	£2,000		**£2,000**
Sub –Total	**8**	**£27,000**	**£0**	**£27,000**
Employing Bodies	Number of Cases	Basic Capital Cost	Cost of Added Years	Total Cost
Early Retirement	4	£205,000	£162000	£367,000
Flexible Retirement	0	£0	£0	£0
Sub-Total	**4**	**£205,000**	**£162,000**	**£367,000**
Total For Haringey Council and Employing Bodies				
Total Q2 09/10	**12**	**£232,000**	**£162,000**	**£394,000**
Total Q2 08/09	**14**	**£320,000**	**£0**	**£320,000**
The discretion to release benefits early has been exercised in accordance with the relevant employing bodies Policy Statement and the Capital costs have been paid into the Fund within the timescale agreed by the Fund actuary.				

Appendix 2

Appeals Report to Quarter ending 30th September 2009				
Appeals Process Quarterly Report	Number Open	Upheld	Not Upheld/ Closed	On Going
Stage 1 Appeal	2	0	0	0
Stage 2 Appeal	0	0	0	0
Pensions Ombudsman	0	0	0	0

Appendix 3

Receipt of contributions from employing bodies;

Employing bodies are informed that they have a statutory duty to remit pension contributions to the Fund no later then the 19th of the month following the month in which the deductions are made.

For the quarter ending **30th September 2009**, the receipt of contributions from the Employing Bodies and Schools with their own Payroll Providers has been checked by Corporate Finance and payments have been received within the statutory time-limit.

Appendix 4

Pensions Scheme Regulations Local Government Pension Scheme Regulations (as amended)	The scheme is administered in compliance with the provisions of the scheme regulations and relevant advice.
Data Protection	Data held on records maintained by the Pensions Team is registered in compliance with the relevant Data Protection Legislation
Disclosure of Information The Occupational Pensions Schemes (Disclosure of Information) Regulations 1996	The scheme is administered in compliance with the Disclosure of Information Regulations 1996 (as amended) and relevant advice.
Member Communication	Communication with members and employers is conducted in accordance with the Communications Policy approved by Pensions Panel on 23rd June 2008
Best Practice	The scheme is administered having regard to the Best Practice Principles published by the UKSC

Settlement of employee benefits:

Employee benefits are settled within 10 working days of all paperwork being received in line with performance standards approved and monitored by the Head of Human Resources

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Agenda Item 6

Haringey Council

Agenda item:

Pensions Committee **On 01December 2009**

Report Title. **Fund Performance update**	
Report of **The Chief Financial Officer** Signed :	
Contact Officer : **Colin Duck – Corporate Finance** **Telephone 020 8489 3731**	
Wards(s) affected: **All**	Report for: Noting

1. Purpose of the report

1.1. To consider the latest investment performance data for the Pensions Fund and for each of the Fund's investment managers.

1.2. To compare responsible investments information provided by our Fund Managers with that supplied by LAPFF.

1.3. To report 2009/10 budget monitoring to the end of September 2009.

2. Introduction by Cabinet Member

2.1 Not applicable.

3. State link(s) with Council Plan Priorities and actions and /or other Strategies:

3.1. Not applicable.

4. Recommendations

4.1 That the Fund performance position as at end of September 2009 be noted.

4.2 That responsible investments information provided be noted.

4.3 That the budget management position to the end of September 2009 (period 6) be noted.

5. Reason for recommendations

5.1. This report is for noting.

6. Other options considered

6.1. Not applicable.

7. Summary

7.1 The annualised performance of the combined Haringey fund has declined in absolute terms by 3.45% per cent up to 30 September 2009, underperformed the gross benchmark by 2.65% and also underperformed the gross target by 4.29%.

7.2 Overall performance this quarter is below both benchmark and target.

7.3 There has been a measure of volatility in the market over the past period but overall, markets have risen significantly.

7.4 In overall terms the budget is on target.

8. Head of Legal Services Comments

8.1 The Head of Legal Services has been consulted on the content of this report. The consideration of this report falls within the duties on the Committee, acting for the Administering Authority, in reviewing investment performance generally and the performance of specific investment fund managers. Such a review must always take into account the interests of stakeholders and beneficiaries.

9. Equalities & Community Cohesion Comments

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

10. Consultation

10.1. Not applicable.

11. Service Financial Comments

11.1 Performance of our Fund Managers continues to be carefully monitored in the current market conditions. Capital continues to under perform both the benchmark and the target.

11.2 In overall terms the budget is on target. The current surplus is being monitored carefully so that any net gain is invested at the appropriate time in line with the agreed investment strategy. The majority of the current years in-house surpluses are earmarked to fund private equity investments.

12. Use of appendices /Tables and photographs

12.1.	Appendix 1	Top ten shares held and fund holdings.
12.2.	Appendix 2	Fund performance to 30 September 2009.
12.3.	Appendix 3	Responsible Investments (Top ten holdings).
12.4	Appendix 4	Responsible Investments (Other holdings).
12.5	Appendix 5	Budget management to end of September 2009.

13 Local Government (Access to Information) Act 1985

Northern Trust performance monitoring reports.

Fund performance update report to Pensions Committee on 17 September 2009.

14 Investment performance reported at the March meeting of Pensions Committee

14.1 The investment performance of the Pensions fund was last reported to Pensions Committee in September 2009. That report covered the period up to 30 June 2009, at which time the following points were noted:

- Since monitoring against the new benchmark commenced on 1 April 2007, the combined Haringey fund has declined in absolute terms by 9.96% per cent up to 30 June 2009, underperformed the gross benchmark by 2.43% and also underperformed the gross target by 4.07%.

- There has been continuous uncertainty in the market over the past period due to a number of issues. These principally concern the timings and pace of economic recovery. These have impacted upon the performance of our portfolio and are still ongoing. Up to the end of June 2009 performance by our Fund Managers was as follows:

  - Fidelity's Bond mandate under performed the gross target by 0.49% and the Equity mandate under performed the gross target by 1.03% but both mandates achieved the benchmark.

  - Capital's Equity and Bond mandates are below target by 3.66% and 2.35%

  - ING are below target by 1.72%.

15. Investment performance for the combined Fund updated for this quarter

15.1 The last performance update to Pensions Committee on 17 September 2009 reminded trustees that our current investment structure was largely implemented on 16 March 2007. Therefore, this report shows performance monitoring against the new benchmarks from 1 April 2007.

15.2 Performance of the combined Haringey fund compared to benchmark and target for the three months and annualised 30 months periods to end of September 2009 are shown below. The target is shown gross of Fund Managers fees and assumes that returns above benchmark are achieved evenly throughout the year.

	3 months to end of September 2009	30 months to end of September 2009 (annualised)
	%	%
Overall fund performance	15.99	(3.45)
Benchmark	16.88	(0.80)
Performance versus benchmark	**(0.89)**	**(2.65)**
Overall fund performance	(15.99)	(3.45)
Target	(17.29)	0.84
Performance versus target	**(1.30)**	**(4.29)**

15.3 This shows that in the 30 months period to September 2009:

- The annualised performance of the combined Haringey fund has decreased in absolute terms by 3.45%, the fund under performed the new benchmark by 2.65% and under performed the target by 4.29%;

- The annualised position has marginally deteriorated since that report to the last meeting with the under performance versus target increasing from (4.07) to (4.29).

15.4 Appendix 1 shows the following for the combined fund as at end of September2009 and 2008 for comparative purposes: (1) top ten shares held and (2) fund holdings.

16. Fund Manager Performance

16.1 Appendix 2 shows for each Fund Manager investment performance to end of September 2009, compared to benchmarks and targets as supplied by our custodian, Northern Trust. This is the tenth quarter since the new benchmarks were introduced, consequently, we have limited historic data.

16.2 The performance targets for each Fund Manager's mandates are shown below. They denote the percentage annualised return above benchmark over a rolling 3 year period. The table also includes Investec and Record for completeness. The contract with Alliance Bernstein was terminated on 16 June 2009 and the resulting assets transferred to Legal and General and invested in tracker funds as previously agreed.

16.3 We have had 26 calls on the Pantheon Asia Europe and USA funds totalling £11.2 million to date and although performance numbers are included there are not considered meaningful as a significant proportion of the portfolio is yet to be invested.

16.4 Targets are set out in the table below and are gross of fees.

	% Target above benchmark	% actual annualised performance above/ (below) benchmark in the 30 months to September 2009	% actual annualised performance above/ (below) target in the 30 months to September 2009
Capital - equities	2.0	(1.74)	(3.74)
Capital - bonds	1.0	(1.03)	(2.03)
Fidelity - equities	1.7	0.19	(1.51)
Fidelity - bonds	0.6	0.87	0.27
ING	1.0	(0.07)	(1.07)
Pantheon – private equity	0.75	N/A	N/A
Investec – active currency	2	N/A	N/A
Record – active currency	2	N/A	N/A

16.5 The latest quarterly meetings took place on 4 November 2009 between each active Fund Manager (excluding Pantheon – where meetings are held half yearly) and the Acting Head of Finance – Budgeting, Projects & Treasury. A summary of the key issues discussed at those meetings is set out below.

16.5.1 **Capital International**

- Performance to date.
- Future outlook for markets.
- Review of our Responsible Investment policy.

16.5.2 **Fidelity**

- Performance to date.
- Future outlook for markets.
- Responsible Investments.

16.5.3 **ING**

- Performance to date.
- Volatility in the property market and future estimated returns.
- Investment opportunities to become fully invested to increased property benchmark.

16.5.5 Up to the end of September 2009 performance by our Fund Managers in annualised terms was as follows:

- Capital's Equity and Bond mandates are below target by 3.74% and 2.03%.
- Fidelity's Equity mandate underperformed the gross target by 1.51% but achieved the benchmark. The Bond mandate outperformed the gross target by 0.27%.
- ING are below target by 1.07%.

17. Conclusions

17.1 Since monitoring against the new benchmark commenced on 1 April 2007, the annualised performance of the combined Haringey fund has declined in absolute terms by 3.45% per cent up to 30 September 2009, under performed the gross benchmark by 2.65% and also under performed the gross target by 4.29%.

17.2 Capital and ING are underperforming against both the benchmark and the target.

17.3 Although equity and bond returns have been very positive in the last quarter there are a number of ongoing issues which are likely to impact on future performance, and we are monitoring the position carefully. These include:

- The paying down of household, corporate and sovereign debt;

- The price of oil and commodities
- The trends of inflation/deflation
- Interest rates; and,
- Property prices and rental values.

18. Responsible Investments

18.1 At Pensions Committee on 23 June 2008 a review of the Fund's Responsible Investment Policy was considered and agreed by Trustees. One of the recommendations was that officer's monitor the Fund Managers approach to the revised Responsible Investment Policy.

18.2 Appendix 3 and 4 compares responsible investments information provided by the Council's two core Fund Managers for the quarter ending 30 September 2009 with the information supplied by LAPFF over the same time period for the Fund's top ten holdings of shares (Appendix 3) and engagement with other companies (Appendix 4) Where LAPFF have raised issues in companies where Haringey do not own shares, then this information has been excluded. This comparison will be made each quarter going forward as part of this report.

19. Budget Management

19.1 The budget monitoring analysis to period 6 (end of September 2009) is attached in Appendix 5.

19.2 Significant variances to date are:

- transfer values paid £776k and received (£1.796m) where the volume will vary by year and timing within the year ;

- the amount of lump sums (£518k) paid vary by year and timing within the year;

- investment income £2.479m is dependent upon companies invested in by our Fund Managers;

- employer contributions £622k are dependent on the number and grades of staff transferring into and out of the scheme;

- investment management expenses (£1.689m) are influenced by the timing of receipt of invoices from Fund Managers and market values.

19.3 In overall terms the budget is on target. The current surplus is being monitored carefully so that any net gain is invested at the appropriate time in line with the agreed investment strategy. The majority of current year's in-house surpluses are earmarked to fund private equity investments.

20. Invested cash

20.1 Following the strategic review of the Fund in March 2007 trustees approved an increase in property holdings from 6%-10%. An amount of cash equivalent to that increased holding of £18m was invested in the money market pending the identification of suitable investment opportunities by the property manager ING. To date, £11.25m has been drawn down by ING to fund investments in both UK and European property funds. The balance of £6.75m remains invested in fixed term deposits of up to one year pending further cash calls from ING.

20.2 The downturn in the property market has impacted on the timing of future cash calls such that the mandate is unlikely to be fully funded until 2010.

20.3 The strategic review of March 2007 also recommended that cash generated annually from surplus contributions, equivalent to £10m pa be earmarked to fund a new private equity mandate managed by Pantheon. In the year to March 2009 £6.35m was transferred directly to Pantheon to fund cash calls on the mandate. The uncalled balance of £3.65 was added to the brought forward cash surplus that was set aside in 2007 to fund the mandate. As at 30 September 2009 £13.15m is invested by the Council on the Fund's behalf in fixed term deposits pending cash calls by Pantheon.

20.4 The Council's standard risk protocols are applied to all investments made on behalf of the pension fund.

APPENDIX 1

TOP TEN SHARES HELD

	As at 30 September 2009			As at 30 September 2008		
Shares	Rank	Percentage of Equities	Market Value	Rank	Percentage of Equities	Market Value
		%	£'000		%	£'000
1. Shell	1	0.65	2,454	1	3.20	10,874
2. HSBC	2	0.62	2,352	6	1.60	5,446
3. Vodafone Group	3	0.60	2,283	3	2.30	7,694
4. BP	4	0.58	2,195	2	3.00	10,110
5. Roche Holdings	5	0.49	1,860			
6. SMC Corp	6	0.40	1,550			
7. E.ON	7	0.39	1,478			
8.NTT Docomo	8	0.39	1,461			
9. Aviva	9	0.38	1,457	9	1.10	3,650
10.Pernod Ricard	10	0.31	1,192			
Glaxosmithkline				4	2.00	6,680
RBS				5	1.80	6,159
Barclays				7	1.10	3,894
Astrazeneca				8	1.10	3,884
BAE Systems				10	0.90	3,114

FUND HOLDINGS

	As at 30 September 2009		As at 30 September 2008	
Fund Holdings	Percentage of Fund	Market Value	Percentage of Fund	Market Value
	%	£'000	%	£'000
UK equities	5.1	30,221	22.2	118,836
Overseas equities	13.3	79,154	19.7	105,673
Pooled investment vehicles	63.6	377,304	40.5	217,072
Index-linked securities	2.7	16,062	1.5	7,995
Fixed interest securities	3.0	18,037	3.6	19,344
Cash	5.0	29,734	5.4	28,739
Property	5.5	32,859	6.0	32,238
Private Equity	1.7	10,319	1.2	6,243
Totals	**100.0**	**593,690**	**100.0**	**536,141**

APPENDIX 2

FUND PERFORMANCE TO 30 SEPTEMBER 2009

GROSS OF FEES

	Market valuations 31.03.08	Market valuations 31.03.09	Market valuations 30.09.09	Weighted % Fund change 1 July to 30 September 2009	% benchmark change 1 July to 30 September 2009	% target 1 July to 30 September 2009	**Under (-)/over (+) performance versus target July to 30 September 2009**	Weighted % Fund change 1 April 2007 to 30 September 2009	% benchmark change 1 April 2007 to 30 September 2009	% target 1 April 2007 to 30 September 2009	**Under (-)/over (+) annualised performance versus target 1 April 2007 to 30 September 2009**
	£'000	£'000	£'000	%	%	%	%	%	%	%	%
Capital -Equities	125,246	95,609	125,562	21.67	22.01	22.51	(0.84)	(1.90)	(0.16)	1.84	(3.74)
Capital -Fixed Income	62,451	63,111	69,321	6.72	6.18	6.43	0.29	4.85	5.88	6.88	(2.03)
Fidelity -Equities	126,566	98,171	129,139	20.63	22.05	22.48	(1.85)	(0.25)	(0.44)	1.26	(1.51)
Fidelity - Fixed Income	65,390	64,390	73,742	8.50	6.54	6.69	1.81	6.97	6.10	6.70	0.27
Bernstein -UK Equity	117,805	71,622	37	-	-	-	-			-	-
Bernstein -Global Equity	28,299	18,875	39	-	-	-	-			-	-
L & G-UK Equity	-	-	97,008	22.46	22.38	22.38	0.08	-	-	-	-
L & G-Global Equity	-	-	24,656	21.83	21.77	21.77	0.06	-	-	-	-
ING	51,505	36,000	37,435	3.92	2.10	2.35	1.57	(16.47)	(16.40)	(15.40)	(1.07)
Pantheon - private equity	2,719	11,509	10,372	(1.58)	22.45	23.20	(24.78)			N/A	N/A
Total	**579,981**	**459,287**	**567,311**	**15.99**	**16.88**	**17.29**	**(1.30)**	**(3.45)**	**(0.80)**	**0.84**	**(4.29)**
In house cash - earmarked for property	9,350	9,350	6,750								
In house cash - earmarked for private equity	9,500	9,500	13,150								
Other	544	4,154	6,479								
Total Fund	**599,375**	**482,291**	**593,690**								

Appendix 3 – Pension Fund Top Equity Ten Holdings – Responsible Investment Activity - Quarter ending 30 September 2009

Top Ten Holdings & Percentage of Total Equities of Fund	Fidelity – Details of Responsible Investment Engagement	Capital International – Details of Responsible Investment Engagement	LAPFF Engagement
1. Shell 'B' Ord (0.65%)	No specific details received but see note below.	Capital have reported that they have not undertaken any engagement on an environmental, social or governance basis in quarter 2.	No activity this quarter.
2. HSBC (0.62%)	"	"	"
3. Vodafone (0.60%)	Meeting held with the Chairman of the company to review the Group's strategy and discuss with the company the currency used for reporting purposes.	"	"
4. BP (0.58%)	No specific details received but see note below.	"	"
5. Roche Holdings (0.49%)	"	"	"
6. SMC (0.40%)	"	"	"
7. E.on (0.39%)	"	"	"
8.NTT Docomo (0.39%)	"	Two meetings held with company to discuss companies treatment of minority shareholders and the companies environmental initiatives. Company recycles old telephone handsets and is seeking to improve the energy efficiency of its IT operations.	"
9. Aviva (0.38%)	"	"	"
10. Pernod Ricard	"	"Capital advised the company that it	"

Top Ten Holdings & Percentage of Total Equities of Fund	Fidelity – Details of Responsible Investment Engagement	Capital International – Details of Responsible Investment Engagement	LAPFF Engagement
(0.31%)		intended to vote against 3 proposed resolutions to be put before the AGM in October and sought to have them removed.Specifically these dealt with the issuance of new shares without pre-emptive rights for existing shareholders, the renewal of the executive directors stock option plan and a 'Bons Bretons' (anti –takeover) resoloution. Whilst accepting Capital's viewpoint ,the resolutions were nevertheless retained by the company. As a postscript ,the meeting took place in October and all resolutions were approved but 47.5% of shareholders voted against the anti-takeover resolution ,so the company will have to consider carefully whether to seek re-approval of this next year.	

Note:
Fidelity explain that their engagement with companies is channelled primarily through their team of equity analysts. This contact includes quarterly face-to-face meetings with the CEO or FD, monthly contact with the Investor Relations team, periodic site visits to see the company's operations and attendance at analyst days hosted by the company. Dialogue encompasses all aspects of a company's business including strategy, operations, trading, governance, shareholder rights, environmental and social policies. Where there is a divergence of views or a matter of particular importance arises, FIL's corporate finance team may become involved. Matters involving corporate finance might include board and management composition, corporate strategy, specific corporate transactions and legal matters. FIL's proxy voting function also forms part of the corporate finance team and has a particular focus on remuneration-related issues.

Appendix 4

Comparison of Responsible Investment Activity Quarter ending 30 September 2009 – Core Fund Managers and Local Authorities Pension Fund Forum (LAPFF)

Fidelity	Capital International	LAPFF
The Carbon Market Fidelity continued to monitor how EU limitations on CO_2 emissions under its Emissions Trading scheme affects companies in the portfolio. Companies that can reduce their direct and indirect CO_2 emissions will be at a competitive advantage in markets where there are limits on emissions. **Renewable Power** As part of the US Government stimulus package it is offering cash grants of 30% of capital expenditure to firms setting up wind farm operations. This has potential to benefit the US operations of a number of European companies. During Q3 Fidelity met with two such firms Iberdrola Renovables	**Vivendi** The corporate governance team met with Vivendi,a French telecoms and media company to discuss sustainable development. The company's objective is to help people communicate and provide entertainment. The company maintains a list of sustainability indicators to measure performance including protection of intellectual property and prevention of piracy. Vivendi believes cultural diversity is integrated into its business, it therefore ensures that local talent is promoted and local cultures preserved. In respect of its subsidiary in Morocco, Vivendi are promoting rights(especially employment) for women in a country which still places controls on free speech and advertising. As a responsible media company Vivendi must be careful about the content it delivers. Steps such as the	**Climate Change** LAPFF has joined other concerned investors in signing a statement expressing a collective investor perspective on climate change that will be sent to Heads of State and other key policy makers. The statement looks ahead to December in Copenhagen where world leaders will gather to try and reach a new international deal on climate change. The document states that global investors are concerned about the possible significant financial impact that climate risks and opportunities may have on individual companies and the performance of investment portfolios . The statement stresses the importance to investors of having a global agreement to

Fidelity	Capital International	LAPFF
(wind –farm developer) and Vestas (wind turbine makers) to discuss future opportunities. **Brand & Reputational risk** During Q3 Fidelity contacted Tesco and Wal-Mart to learn more about how these retailers monitor and audit their global supply chains. Tesco reported that it had strengthenened its ethical trade strategy and now conducts a greater number of unannounced audits of suppliers. If it finds examples of non compliance with ethical trading standards, suppliers are given six months to address concerns. Tesco has also set up a 'Getting to the Truth' which aims to build expert teams who have a greater understanding of supplier risk in individual markets. Wal-Mart announced plans to develop a worldwide sustainable product index.	voluntary introduction of parental ratings for computer games and concentration on the security of personal data have been taken to protect its reputation in this regard. The company is aware of its indirect sustainability impact-subscribers phones, televisions and computer games create a huge electrical footprint. Vivendi encourages the development of technology that will reduce the electrical input, and are introducing environmental labelling on equipment. Finally, Vivendi are introducing sustainability as a performance measure to help determine executive pay. **L'Oreal** Capital attended an SRI meeting with L'Oreal aimed at sharing with investors the company's vision on corporate consumer responsibility. The company's efforts at reducing energy and water usage were showcased and the challenges of maintaining these standards as it expands into markets in the developing world discussed. L'Oreal's intention was stated to be 'to be a good corporate citizen'.	underpin investor confidence in the direction of policy at regional and national levels as well as support investor engagement. **Sustainability** Earlier in the year LAPFF agreed to facilitate engagement on the issue of sustainable palm oil. LAPFF has identified potential to fulfil this role by co-ordinating a collaborative initiative on this issue. The initiative will focus on buyers of palm oil by drawing on LAPFF's previous engagement with large buyers. **Banks** LAPFF is continuing to engage with Banks in the aftermath of the Financial crisis.

Fidelity	Capital International	LAPFF
<u>Product Sustainability</u> Fidelity met with L'Oreal to discuss the companies strategies to develop the use of sustainable ingredients in its products and minimise the impact of its products on the environment and on biodiversity. Products are subjected to testing to evaluate their environmental impact. Where such products do not meet L'Oreal's standards, the company does not proceed with the submission of patent applications.	The company outlined action taken to promote research roles for women through its 'For Women in Science' national fellowship programme run in 40 countries.. Through its 'Hairdressers of the world against AIDS 'program it is aiming to spread educational information by word of mouth (through hairdressers) to the community. Research & development play a central role at L'Oreal, and it is committed to applying the same ethical and environmental considerations across all brands throughout the supply chain.	

APPENDIX 5

PENSIONS FUND

BUDGET MANAGEMENT - PERIOD 4 (END OF JU SEPTEMBER 2009)

	2009/10 Budget £'000	Plan to period 6 £'000	Actual to period 6 £'000	Over/under (-) to Period 6 £'000	Explanations of variations
Income					
Contributions and benefits:					
Employee Contributions	(10,500)	(5,250)	(5,229)	21	
Employer Contributions	(34,700)	(17,350)	(16,728)	622	Dependent on number and grade of staff transferring into and out of scheme
Transfer Values Received	(4,000)	(2,000)	(3,796)	(1,796)	Volume and timing varies
Total income	**(49,200)**	**(24,600)**	**(25,753)**	**(1,153)**	
Expenditure:					
Pensions and other benefits	26,800	13,400	12,669	(731)	
Lump sums	3,500	1,750	1,232	(518)	Dependent upon the number of staff retiring and sums due.
Transfer values paid	4,000	2,000	2,776	776	Volume and timing varies
Refunds on contributions	50	25	1	(24)	
Administrative expenses	750	375	125	(250)	
Total expenditure	**35,100**	**17,550**	**16,803**	**(747)**	
Net addition from dealings with members	**(14,100)**	**(7,050)**	**(8,950)**	**(1,900)**	
Returns on Investment:					
Investment income	(18,300)	(9,150)	(6,671)	2,479	Dependent upon companies invested in by our Fund Managers.
Taxation	200	100		(100)	
Investment management expenses	3,600	1,800	111	(1,689)	Timing of receipt of Fund Managers invoices
Net return on investments	**(14,500)**	**(7,250)**	**(6,560)**	**690**	
Totals	**(28,600)**	**(14,300)**	**(15,510)**	**(1,210)**	

Haringey Council

Agenda Item

Pensions Committee On 01December 2009

Report title: **Annual Pension Fund Report for the year ended 31 March 2009**

Report of: **Chief Financial Officer**

Ward(s) affected: All	**Report for**: Decision

1. Purpose

1.1 To present the statutory Annual Pension Fund Report for the year ended 31 March 2009.

2. Recommendations

2.1 That Pensions Committee adopt the Annual Pension Fund Report for the year ended 31 March 2009.

Report authorised by: Gerald Almeroth – Chief Financial Officer

G. Almeroth

Contact officer: Colin Duck – Corporate Finance
Telephone 020 8489 3731

3. Executive Summary

3.1 The attached Annual Pension Fund Report for the year ended 31March 2009 is submitted for adoption by the Pensions Committee in accordance with statutory requirements.

4. Reasons for any change in policy or for new policy development (if applicable)

4.1 The Local Government Pension Scheme (Amendment) (No. 3) Regulations 2007 requires that separate annual reports and audit statements are required for the Annual Report of the Pensions Fund.

5. Local Government (Access to Information) Act 1985

The following background papers were used in the preparation of this report:

5.1 Reports of Chief Financial Officer to Pensions Committee on 18 June 2009 and 17 September 2009.

6. Background

6.1 In accordance with the Audit Commission's statutory Code of Practice for Local Government bodies it is now necessary to produce a separate Annual Pension Fund Report. Pensions Committee has previously considered the Annual Governance Report of Grant Thornton and agreed a presentational amendment to the accounts.

7. Financial Implications

7.1 There are no direct financial implications arising from the recommendations in this report.

8. Recommendations

8.1 That the Committee adopt the Annual Pension Fund Report for the year ended 31 March 2009.

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10. Head of Legal Services comments

10.1 The Head of Legal Services has been consulted on the content of this report and the attached Annual Pension Fund Report 2008/09 and has no specific comment to make.

Haringey Council

Annual Pension Fund Report

For the year ended 31 March 2009

Scheme Registration 00329316RX

Scheme Registration Number:	00329316RX
Administering Authority:	London Borough of Haringey
Secretary to the Committee:	Head of Local Democracy and Member Services
Scheme Administrator:	Chief Financial Officer
Actuary:	Hymans Robertson
Investment Managers:	Alliance Bernstein Capital International Fidelity ING Pantheon Legal & General (no funds allocated)
Custodian:	Northern Trust
Investment Consultants:	Hymans Robertson (until 31 July 2008) Hewitt (from 1 August 2008) Howard Jones - Independent Advisor to Trustees
Bankers:	Royal Bank of Scotland
Legal advisors:	Head of Legal Services
AVC providers:	Equitable Life Assurance Society Prudential Assurance Clerical and Medical
Independent Auditors:	Grant Thornton UK LLP

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Pensions Committee presents its report and the audited financial statements of the Scheme for the year ended 31 March 2009. The financial statements have been prepared and audited in accordance with regulations under the Audit Commission Act 1998.

Nature of the scheme

The Scheme is a defined benefit Scheme and was established on 1 April 1965 to provide retirement benefits to all eligible employees of Haringey Council. Certain other organisations also participate in the Scheme, and are summarised below:

Organisation name	Participation type
Haringey Age Concern	Admitted
Alexandra Palace Trading Co	Admitted
Enterprise Futures London Ltd	Admitted
Urban Futures London Ltd	Admitted
Haringey CAB	Admitted
Mitte Ltd	Admitted
CONEL	Scheduled
Greig City Academy	Scheduled
Homes for Haringey	Scheduled
John Loughborough Ltd	Scheduled
TLC Ltd	Admitted
One Complete Solution Ltd	Admitted
Fortismere School	Scheduled
RM Education Ltd	Admitted

The Scheme is a Registered Pension Scheme under Chapter 2 of Part IV of the Finance Act 2004, and is contracted-out of the State Second Pension (S2P).

Management of the Scheme - Pension Committee ("The Committee")

The overall responsibility for administering the Scheme is that of the Committee, the members of which are set out below. The day-to-day running of the Scheme has been delegated to the Chief Financial Officer.

The Committee consists of seven elected Councillors, Quasi-Trustees, with full voting rights and three representatives. Trustees are selected by their respective political Groups, and their appointment is confirmed at the next meeting of the full Council. They are not appointed for a fixed term but the membership is reviewed regularly by the political groups. The three representatives are appointed by their peer groups and generally serve for a period of one year. The constituency of the Pensions Committee for 2008/09 is as follows:

Name	Status
Cllr Gmmh Rahman Khan	Trustee-Chair of Pensions Committee
Cllr Sheik G L Thompson	Trustee (appointed 19 May 2008)
Cllr Charles Adje	Trustee
Cllr Dhiren Bssu	Trustee
Cllr Toni Mallett	Trustee (until 19 May 2008)
Cllr Ron Aitken	Trustee (until 19 May 2008)
Cllr David Beacham	Trustee
Cllr Ed Butcher	Trustee
Cllr Richard Wilson	Trustee
David Fishman	Pensioner representative (appointed 24 July 2008)

Roger Melling	Employee representative
Earl Ramharacksingh	Admitted and Scheduled Bodies representative (appointed 18 September 2008)

Committee Meetings

Committee meetings are generally held 6 times a year. In the year under review the Committee met on 8 occasions.

The Chief Financial Officer's Responsibilities

The financial statements are the responsibility of the Chief Financial Officer. Pension scheme regulations require that audited financial statements for each Scheme year are made available to Scheme members, beneficiaries and certain other parties, which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year, in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), and
- contain the information specified in the Local Government Pension Scheme Regulations 1997 (As Amended), including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes'.

The Chief Financial Officer has supervised the preparation of the financial statements and has, agreed suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis.

The Chief Financial Officer is also responsible for making available certain other information about the Scheme in the form of an Annual Report.

The Chief Financial Officer is responsible for ensuring that records are kept in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the Administering Authority and other participating bodies by the due dates.

The Chief Financial Officer is responsible for the maintenance and integrity of the financial information of the Scheme included on the Authority's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The Chief Financial Officer also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

Changes to the Scheme Rules
There have been no changes in the Scheme rules during the year.

Increases in benefits
Otherwise than in accordance with legislative requirements, there were no increases to benefits in payment in the year.

Membership
There were 6,820 active (2008: 6,954), 6,122 (2008: 5,487) deferred members, and 5,771 (2008: 5657) pensioners and dependents receiving benefits.

Financial development of the Scheme

The financial statements on pages 15 to 26 show that the value of the Scheme's assets decreased by £117.6m to £487.5m as at 31 March 2009. The decrease in the value of the fund was due to a decrease in the market value of investments (£142.9m), partially offset by £10.7m of non-investment income (mainly employee and employer contributions) exceeding expenditure (mainly the cost of pension benefits) and £14.6m of income from investments (net of management expenses and taxation)

Further details of the financial development of the Scheme may be found in the audited financial statements on pages 15 to 26.

Actuarial position
The Scheme is independently valued every three years by a firm of actuaries to assess the adequacy of the Scheme's assets to meet its long term obligations.

The most recent triennial actuarial valuation of the Scheme was carried out as at 31 March 2007 in a report dated 20 March 2008.

The 2007 valuation was carried out in accordance with the Funding Strategy Statement and Guidelines GN9: Retirement Benefits Schemes – Actuarial reports published by the Institute of Actuaries. The valuation method used was the projected unit method. The resulting contribution rates reflected the cost of providing year-by- year accrual of benefits for the funded members and the level of funding for each employer's past –service liabilities.

The market value of the Fund at the time of the last triennial valuation as at 31 March 2007 was £620m. Against this sum liabilities were identified of £798m equivalent to a funding deficit of £178m. The movement in the actuarial deficit / surplus is analysed below:

Reason for change	**£'m**
Interest on surplus	(37)
Investment returns higher than expected	99
Change in demographic assumptions	(24)
Experience items	37
Change in financial assumptions	(71)
Total	4
(Deficit) brought forward	(182)
(Deficit) carried forward	(178)

The level of funding on an ongoing funding basis has increased from 69 per cent to 77.7 per cent between the triennial actuarial valuations as at end of March 2004 and as at end of March 2007. The main reasons for the increase in the funding level are an improvement in investment earnings and value, and planned stepped increases in employer's contributions since 2004.

The funding policy of the Scheme is to be fully funded. As this policy had not been achieved at the valuation date it has been agreed with the actuary that the past service deficit will be recovered over a period not exceeding 20 years. This maximum recovery period is considered prudent for a statutory body with tax raising powers. Concerning the identified past service deficits of the admitted and scheduled bodies (with the exception of Best Value Admission Bodies) these are to be recovered over the expected future lifetime of the remaining scheme members. Past service deficits in respect of Best Value Admission Bodies should be recovered over the period of the employer's contract. The main economic assumptions are set out below.

Following the valuation as at 31 March 2007, the actuary agreed that the Council's contribution rate can remain at the 2007/08 rate of 22.9 per cent of pensionable salaries. The 2008/09 contribution rate is split 8.8 per cent between the past service adjustment to fund the deficit over 20 years and the future service rate of 14.1 per cent.

The actuary has recently undertaken an interim actuarial valuation. The funding level has reduced to 53 per cent as at 31 March 2009 and improved to 58 per cent as at 8 May 2009.

The above deterioration is largely due to the fall in the funding level mainly because investment performance was lower than expectations due to stock market volatility.

The actuary does not propose to revise the minimum level of employer contribution rates as a result of this funding update even though the position has worsened significantly.

The Actuary advises that there is no power in the LGPS regulations to increase employer's contributions between triennial valuations due to market conditions (other than for admitted bodies whose admission agreement is to end soon)

The need for any changes to the contribution rate will be fully assessed as part of the triennial valuation as at 31 March 2010. Results will be available by early 2011.

The main assumptions used in the 2007 valuation were:

Investments	**Annual nominal rate of return %**
Equities	6.5
Bonds	4.9

Rate of pensionable salary increases (excluding increments)	**Annual change %**
Compound	4.7
RPI/pension increases	3.2

Advisors
From time to time the Committee reviews its advisors. During the year a review was undertaken into the provision of actuarial services and the provision of investment advice. Following tendering, Hymans Robertson were retained as the Scheme actuary but were replaced as the investment advisor. Hewitt were appointed as investment advisors with effect from 1 August 2008.

A complete list of all scheme advisors may be found at the front of this report.

Disputes and queries
Members of pension schemes have statutory rights to ensure that complaints, queries and problems concerning pension rights are properly resolved.

To facilitate this process, an Internal Disputes Resolution Procedure has been established. In the first instance, members are expected to take up matters with the Pensions Manager, Ian Benson at the following address: Level 2, Alexandra House, 10 Station Road, Wood Green, London, N22 7LR. If the matter remains unresolved, a stage 1 appeal may be made to Steve Davies, Head of Human Resources and thereafter, if necessary a further appeal may be made to David Burn, Senior Lawyer, Legal Services.

If the problem remains unresolved, members then have the facility to refer the matter to The Pensions Advisory Service (TPAS) which has a network of pension advisers who will try to resolve problems before they are referred on to the Pensions Ombudsman. However, the TPAS service may be invoked at any stage of the appeal process. Both TPAS and the Pensions Ombudsman can be contacted at:

11, Belgrave Road
London
SW1V 1RB

The statutory body responsible for the regulation of pension schemes in the United Kingdom is The Pensions Regulator (tPR) and can be contacted at the following address:

The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

A central tracing agency exists to help individuals keep track of deferred pension entitlements from previous employers' pension schemes. An application for a search can be submitted to:

Pension Tracing Service
The Pension Service
Whitley Road
Newcastle upon Tyne
NE98 1BA

The Scheme has registered its details.

Further information

For information about the Scheme generally, further information about resolving disputes, or an individual's entitlement to benefit, please / refer to the member's booklet issued to all members of the Scheme or contact the Pensions Team, 2nd Floor, Alexandra House, 10

Station Road, Wood Green, N22 7TR / telephone 020 8489 5919 / refer to the Council's website: www.haringey.gov.uk/pensionfund

Additionally, members are entitled to inspect copies of documents giving information about the Scheme which can be found on the Council's website as above.

- The Statement of Investment Principles explains how the Committee invests the money paid into the Scheme;
- The full report on the Actuarial Valuation following the actuary's examination of the Scheme's funding position as at 31 March 2007;
- The Funding Strategy Statement sets out a prudent long-term approach to meeting the funds liabilities.
- The Governance Compliance Statement seeks to make the administration and stewardship of the scheme more transparent and accountable to stakeholders.
- The communications policy sets out a framework within which the Council will communicate with Scheme members and employers.
- The Scheme's handbook (you will have been given a copy when you joined the Scheme, but we can let you have a copy of the current booklet);
- Annual Benefit Statement - if you are not receiving a pension from the Scheme (and have not received a benefit statement in the previous 12 months), you can ask for a statement that provides an illustration of your likely pension.

On behalf of the Committee

Catherine Harris
(Chair)

Investments

The overall management of the Scheme's investments is the responsibility of the Committee. However, the day-to-day execution of investment related transactions has been delegated to the fund managers listed at the front of this report. The overall strategy of each of the fund managers is set out below:

	Mandate	Benchmark return/index	Target over 3 year rolling periods
Capital International	Global Equity	Customised	+2% (gross) of fees p.a.
Capital International	Bonds	Customised	+1% (gross) of fees p.a.
Fidelity Pensions Management	Global Equity	Customised	+1.7%(gross) of fees p.a.
Fidelity Pensions Management	Bonds	Customised	+0.6% (gross) of fees p.a.
Alliance Bernstein	UK Equities	FTSE All Share	+2 % (gross) of fees p.a.
Alliance Bernstein	Global Equity	MSCI World Index	+3% (gross) of fees p.a.
ING Real Estate	Property	HSBC/APUT Balance Funds Index	+1 % (gross) of fees p.a.
Pantheon Private Equity	Private Equity	MSCI World Index + 5%	+0.75% (gross) of fees p.a.

This strategy is formalised in a statement of investment principles which has been prepared in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998. The investment principles were consistently applied during the year.

The investment strategy has remained unchanged since the prior year.

At the year end, the asset allocation, compared to the Statement of Investments Principles was as follows:

Asset class	Asset allocation %	Target Allocation per SIP %
UK Equities	25.0	30.5
Overseas Equities	37.3	34.5
UK Index linked Bonds	7.3	6.0
Property	7.3	10.0
Private Equity	2.5	5.0
UK Fixed Interest Bonds	9.1	7.0
Corporate Bonds	11.5	7.0
Total	**100.0**	**100.0**

Investment performance

The performance of the investment managers is reviewed periodically at Committee meetings. The Committee meets with each of the core fund managers four times each year. Meetings with the Property and Private Equity managers are held annually.

The percentage return on the Scheme's investments, on an annualised basis, compared to the targets is set out below. Performance data reflects the returns achieved on the current investment strategy which was largely implemented in March 2007. Regarding investments made in Pantheon's private equity funds, performance numbers received from the custodian are included in fund aggregate figures but are not shown separately as they are not meaningful until a significant proportion of the allocation to this asset class has been invested.

Investment performance to 31 March 2009

	Absolute fund performance over 1 year %	Absolute annualised fund performance over 2 years %
Alliance Bernstein - UK Equity	(39.20)	(26.60)
Alliance Bernstein - Global Equities	(33.31)	(22.38)
Capital - Equities	(23.66)	(14.83)
Capital - Bonds	1.05	1.24
ING - Real Estate	(30.13)	(19.46)
Fidelity - Bonds	(1.30)	1.61
Fidelity - Equities	(21.61)	(12.82)
Pantheon - Private Equity	n/a	n/a
Total Fund Performance	**(21.65)**	**(13.60)**

	Performance target for 1 year %	Annualised performance target over 2 years %	Annualised performance versus target (under)/over 1 year %	Annualised performance versus target (under)/over 2 years %
Alliance Bernstein - UK Equity	(27.33)	(17.25)	(11.87)	(9.35)
Alliance Bernstein - Global Equities	(17.38)	(15.82)	(15.93)	(12.56)
Capital Equities	(20.80)	(11.29)	(2.86)	(3.54)
Capital Bonds	1.22	(3.78)	(0.48)	(2.54)
ING - Real Estate	(26.12)	(18.55)	(4.01)	(0.91)
Fidelity - Bonds	1.37	3.31	(2.67)	(1.70)
Fidelity - Equities	(21.13)	(11.80)	(0.48)	(1.02)
Pantheon - Private Equity	n/a	n/a	n/a	n/a
Total Fund	**(17.70)**	**(9.69)**	**(3.95)**	**(3.91)**

Fees for the provision of Investment Management and related administrative services are levied by the investment managers based on scale charges linked to the market values of the portfolio under management. Fees are calculated quarterly in arrears and the Council invoiced in the month following the quarter end. Where managers invest in in-house investment vehicles e.g. unit trusts where management fees are covered in the price of the units, the market value of such holdings are deducted from the portfolio value at the quarter end before calculating chargeable fees. The fund management fees paid in 2008/09 amounted to £3.265m (2007/08: £2.247m)

A detailed review of the investment performance of the investments held in the year is set out below:

Bernstein

UK and Global equities

Pensions Committee on 30 April 2009 agreed to cease using Alliance Bernstein and to move the UK and Global equities managed to the new passive manager, Legal and General (L&G), as soon as possible pending completion of a tendering exercise to appoint a new active Fund Manager. Transfer of assets to L&G is taking place in the second half of June 2009

Capital International

Equities

Global stock markets tumbled during the reporting period, losing more than a fifth of their value. This followed on from the US mortgage market crisis that began in early in 2007 when a loss of investor confidence in US sub prime mortgage-backed bonds spread to all securitised debt and structured investment vehicles. The credit crisis accelerated in 2008 as credit evaporated, investment banks went bust, housing and consumer spending slumped and automakers were pushed to the brink of failure. The US, UK, Japan and the euro zone were all in recession by the end of the period. Crude oil rose to a record US$145 a barrel in the summer of 2008 then fell back well below US$50 a barrel, easing the pressure on consumers. The US dollar rose against most major currencies, retaining its safe haven status, while sterling fell against most major currencies.

In the Haringey portfolio over the year ending 31 March 2009, stock selection was the main detraction on results while sector and country allocation was broadly positive. In particular, stock selection in financials was the biggest detractor to relative returns, though this was partly offset by the underweight position in the sector as financial stocks plunged. Positions held in Royal Bank of Scotland along with the US mortgage finance companies Fannie Mae and Freddie Mac were the largest negatives. Within the consumer services sector, media stocks such as Yell and Gannett also weighed on returns during the period. On the positive side, exposure to emerging markets via the Capital International Emerging Markets Fund was beneficial to overall returns as this fund performed strongly despite emerging markets being the worst affected region during most of 2008.

Capital made changes to both the management of its global institutional business and to some of its investment teams in order to address the underperformance during the last few years. Results during the second half of this review period indicate the changes have had a positive effect.

Capital International

Bonds

During 2008, developed market government bonds outperformed corporate debt as investors retreated from riskier securities amid a financial crisis that at one point threatened to devastate the banking system and tip the global economy into a deep recession. Investors holding bonds rather than equities experienced better returns during this period of economic recession.

Returns for sterling-based investors investing overseas were boosted with the weakening sterling. Faced with an unprecedented deterioration in the health of the banking industry and a sharp contraction in economic activity, fiscal and monetary authorities implemented a series of drastic and unconventional measures in late 2008 to prevent a protracted slump. Interest rates were slashed to historic lows in the US, UK and the euro zone and measures designed to increase the supply of money – known as quantitative easing – were adopted by the Bank of England and the US Federal Reserve.

Mounting evidence that the recession might prove to be longer than initially forecast coupled with worries over a pick-up in default rates on corporate bonds weighed on sentiment in the credit markets over much of the period. The less cyclical utilities sector outperformed while financials saw the heaviest falls. The first quarter of 2009 saw investors make a cautious return to corporate debt: the primary bond market was especially lively, playing host to a flurry of new deals from all regions and sectors.

Absolute returns from UK corporate bonds were negative on portfolio returns but compared favourably with those of the benchmark. However, the portfolio's preference to invest more in corporate bonds than government issued debt was detrimental to absolute returns for much of this period until the recovery in corporate debt in early 2009. The decision to be below benchmark weight in inflation-linked bonds was unhelpful for the first part of this period as inflation continued to rise but a fall in inflation levels as global economic growth slowed down dramatically in the second half of this period was beneficial to returns. Holdings in global investment grade and high yield bonds (via two pooled funds) was also a good decision.

Fidelity

Equities

Global equities fell over the 12 months to March 2009 as the financial turmoil, which began with US mortgage defaults in 2007, plunged major economies into recession. The crisis reshaped the banking landscape, with several financial institutions failing or requiring the infusion of government funds, and prompted several countries to rethink their monetary policies. The pace of decline, however, slowed in the first quarter of 2009, as governments' efforts to revive the global economy and some unexpectedly strong data on the US economy provided support. Against this backdrop, Japan declined the least in sterling terms; its performance was also aided by a rise in the value of the yen. Equities in the traditionally defensive US market, Pacific ex-Japan, emerging markets, the UK and Continental Europe followed.

Bonds

UK government bonds (gilts) ended higher over the 12 month review period, buoyed by significant cuts in base rates and on uncertainty about the severity of the economic slowdown and the financial crisis. Rising inflationary risks, led by higher oil prices triggered a change in expectations for higher interest rates for a brief period. However, the period saw the failure of several prominent financial institutions including Lehman Brothers thereby prompting the UK government to increase its equity stake in several High Street banks. Nevertheless, credit spreads widened dramatically and volatility soared across markets. On the macroeconomic front, headline inflation continued to decline from its high of 5.2% in September. Hit by the global financial market turmoil, collapse of the domestic housing market and contraction in demand, the UK economy slipped into a recession. Deteriorating economic outlook, coupled with weakness in the financial markets, led the Bank of England to lower interest rates to 0.5% and embark on an aggressive quantitative easing program to the tune of £75 billion aimed at reviving the economy. Against this backdrop, government debt outperformed corporate bonds. High-yield bonds were the worst performers.

All major government bond markets generated positive returns over the last one year, buoyed by significant cuts in base rates and uncertainty about the severity of the economic slowdown and the financial crisis. The review period was marked by a shift from rising inflationary pressures to slowing growth globally. Although the rescue of Bear Stearns prompted a brief recovery in credit earlier in the period, spreads widened significantly as the credit market crisis intensified amid unprecedented events including bank failures and bailouts by governments. Nevertheless, short-term money market rates eased by the end of the period following several government measures which helped improve liquidity in key segments of the market. In view of slowing economic growth and receding inflationary pressures, central banks of key economies, particularly, the US and the UK, significantly lowered interest rates to close to zero. Moreover, to thaw the credit markets, governments embarked on a quantitative easing program by buying government bonds. Against this backdrop, investment-grade bonds underperformed government debt while high-yield was the worst performing fixed-income asset class.

ING

The portfolio under-performed the new Investment Target principally for two reasons:

An overweight position relative to the new benchmark to the retail warehouse and central London office sectors:

These have underperformed the wider market: The Manager was targeting an exit from the central London office market in 2009, which was in line with its forecasts of office supply increases, however the market fell much earlier, faster and harder than anticipated with the almost complete drying up of demand for space caused by the credit crunch. Rental growth from the retail warehouse sector had been the strongest and investment yields had been bid down to reflect this. The impact of the economic slowdown with marked softening of both retailer and investor demand has led to a rapid rise in yields and therefore drop in values. This particular impacted on the lower yielding sectors such as retail warehousing.

i) The manager recommended that the benchmark for the portfolio be changed from the original benchmark (IPD All Pooled Funds Index) to a newer benchmark namely the IPD All Balanced Funds Index. This recommendation was because the old benchmark was seen as containing too much risk relative to the Pension Fund's risk/return requirements. In particular the level of gearing in the underlying funds that made up the benchmark had become skewed to particular sectors such as shopping centres and retail warehouses. To continue tracking such an index was perceived as too high a risk.

ii) When the recommendation to change benchmarks and hence strategies was made the manager anticipated that it would take circa 12 months to re-balance the portfolio into line with the new benchmark. In reality the large falls in value and extreme market illiquidity meant that even after 24 months the portfolio had yet to be fully re-balanced. The result is that during the last two years the portfolio has suffered from higher gearing than the new benchmark and whilst it has out-performed the old benchmark it has under-performed the new benchmark.

Custodial arrangements

The Council employs Northern Trust to act as custodian of the Scheme's investments. As professional custodians, they employ a rigorous system of controls to ensure safekeeping of assets entrusted to them. The custodian is responsible for the settlement of all day-to-day investment transactions, collection of investment income, and the safe custody of the investments custody with the Scheme's bankers.

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Basis of Preparation
The financial statements have been prepared in accordance with the Local Government Pension Scheme Regulations 2007 (As Amended) and with the guidelines set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2008, having regard to the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007). 'The SORP (May 2007)'.

The principal accounting policies of the Scheme are set out below.

The SORP (May 2007) is being adopted for the first time this year, which has required certain changes to be made to the disclosures in the accounts summarised below: The previous years accounts only need to be restated if changes are material.

- investments that were valued using the mid-market prices are now required to be valued at bid prices;
- derivatives are required to be valued at fair value. These were previously accounted for by using an effective economic exposure basis;
- new classifications of Employer contributions have been established;
- direct transaction costs are required to be separately disclosed.

The purpose of these changes is to provide a fairer reflection of the balances and transactions in the accounts. Unless the change in presentation is material:

- changes to comparative figures have not been made but there have been some reclassifications made particularly in respect of the analysis of investments (see note 8);
- opening balances to the net asset statement have not been re-stated;
- no comparative figures are provided for information being disclosed for the first time;
- where the impact on Fund Account items, has resulted in re-analysis of the comparative figures, no explanation is given.

This approach is in accordance with the SORP (May 2007).

Fund account
The following items are included on the accruals basis as follows:

Employer normal contributions - amounts relating to wages and salaries for the Scheme year.

Employer additional contributions - amounts receivable in accordance with actuarial advice.

Member normal contributions - amounts deducted from wages and salaries during the Scheme year.

Benefits - amounts due in respect of the year.

Dividends - accrued by reference to the ex-dividend date.

Withholding tax - accrued on the same basis as the income to which it relates.

Rent - amounts earned in accordance with the terms of the lease during the year.

Interest on fixed interest investments, index linked securities, cash and short-term deposits are accounted for on an accruals basis.

Income from derivatives contracts is recognised as follows:

- Futures contracts - All realised and unrealised gains and losses are included within change in market value. All interest receivable is accrued on a daily basis;

- Forward foreign exchange contracts - All realised and unrealised gains and losses are included within change in market value. All interest receivable is accrued on a daily basis.

Transfers in and out - accounted for when the transfer value is paid or received.

Administrative expenses - amounts payable in respect of the year.

Investments
Investments are stated at fair value on the final working day of the accounting year as follows:

- Listed securities are stated at bid value. Previously listed securities were shown at mid value. As the change in valuation methodology is not material, the 2007/08 values have not been restated (see note 8).

- Unquoted securities are stated at the estimate of fair value provided by the investment manager.

- Units in managed funds and pooled investment vehicles are stated at bid value

Derivatives are valued at fair value as follows:

- Futures contracts are valued at the relevant exchange prices at the accounting date.

- Forward foreign exchange contracts are valued by establishing the gain or loss that would arise on closing out the contract at the accounting date by entering into an equal and opposite contract on that date.

Additional voluntary contributions ("AVCs")
Members of the Scheme are able to make AVCs in addition to their normal contributions. The related assets are invested separately from the main fund, and in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998, are not accounted for within the financial statements. If on retirement members opt to enhance their Scheme benefits using their AVC funds, the amounts returned to the Scheme by the AVC providers are disclosed within transfers-in.

Further details about the AVC arrangements are disclosed in note 15 to the financial statements.

Members participating in these arrangements each receive an annual statement made up to 31 March (Prudential and Clerical and Medical) or 5 April (Equitable Life) confirming the amounts held to their account and the movements in the year.

Fund account

Pension Fund Account	Note	2008/09 £'000	2007/08 £'000
Contributions and benefits			
Contributions receivable	1	(44,239)	(41,332)
Transfers in	2	(2,562)	(5,418)
Other income		0	(5)
		(46,801)	(46,755)
Benefits payable	3	28,846	26,696
Payments to and on account of leavers	4	6,612	4,484
Administrative expenses	5	673	595
		36,131	31,775
Net additions from dealings with members		**(10,670)**	**(14,980)**
Returns on investments			
Investment income	6	(18,339)	(18,026)
Change in market value of investments	8	142,861	45,083
Taxation	7	197	254
Investment management expenses	9	3,541	2,605
Net returns on investments		**128,260**	**29,916**
Net decrease in the fund during the year		**117,590**	**14,936**
Net assets brought forward as at 1 April 2008		(605,103)	(620,039)
Net assets carried forward as at 31 March 2009		**(487,513)**	**(605,103)**

The accompanying accounting policies and notes form an integral part of these financial statements.

Net assets statement

	Note	2008/09 £000	2007/08 £000
Investment assets	8	482,291	600,141
Current assets	10	5,916	5,456
Current liabilities	11	(694)	(494)
		5,222	**4,962**
Net assets as at 31 March		**487,513**	**605,103**

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Committee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations is dealt with in the Statement from the Actuary on pages 27 to 28, and these financial statements should be read in conjunction with it.

The financial statements for 2008/09 were approved by Pensions Committee on 1 December 2009.

Committee Member

Committee Member

The accompanying accounting policies and notes form an integral part of these financial statements.

1 Contributions receivable

	2008/09 £'000	2007/08 £'000
Employers' normal contributions	33,015	31,896
Employers' deficit funding contributions	66	125
Employers' other contributions	900	523
Members' normal contributions	10,258	8,788
	44,239	**41,332**

Employers' deficit funding contributions relate to payments by Haringey CAB, Mitte Limited and Alexandra Palace Trading. These are to cover the deficit positions of employers who do not admit new members and whose payroll is thought likely to decrease in the inter-valuation period. Employers' other contributions relate to capital cost payments and cover the cost to the Fund of members awarded early retirement before age 60, or otherwise after 60, but before their normal protected retirement age. Contributions are further analysed as follows:

	2008/09 £'000	2007/08 £'000
Administering authority	37,717	34,400
Scheduled bodies	5,375	5,478
Admitted bodies	1,147	1,454
	44,239	**41,332**

2 Transfers in

	2008/09 £'000	2007/08 £'000
Individual transfers from other schemes	2,562	5,418
	2,562	**5,418**

3 Benefits payable

	2008/09 £'000	2007/08 £'000
Pensions	23,603	22,143
Commutations and lump sum retirement benefits	4,195	3,974
Lump sum death benefits	1,048	579
	28,846	**26,696**

Benefits payable are further analysed as follows:

	2008/09 £'000	2007/08 £'000
Administering authority	26,410	24,451
Scheduled bodies	1,470	1,438
Admitted bodies	966	807
	28,846	**26,696**

4 Payments to and on account of leavers

	2008/09 £'000	2007/08 £'000
Refunds to members leaving service	9	13
Group transfers to other schemes	2,439	0
Individual transfers to other schemes	4,164	4,471
	6,612	**4,484**

Group transfers in 2008/09 relate to the transfer of Magistrates Court staff to the London Pensions Fund Authority (LPFA) scheme.

5 Administrative expenses

	2008/09 £'000	2007/08 £'000
Administration and processing	630	542
Legal and professional fees	43	53
	673	**595**

Other than costs disclosed, all administrative costs of running the Scheme are borne by the Administering Authority.

6 Investment income

	2008/09 £'000	2007/08 £'000
Income from fixed interest securities	535	2,004
Dividends from equities	9,141	9,743
Income from index-linked securities	143	535
Income from pooled investment vehicles	6,743	4,015
Interest on cash deposits	1,777	1,729
	18,339	**18,026**

7 Taxation

	2008/09 £'000	2007/08 £'000
Irrecoverable with-holding tax on investment income	**197**	254
	197	**254**

8 Investments

	Value at 1 April 2008 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Changes in market value £'000	Value at 31 March 2009 £'000
Fixed interest securities	42,336	44,350	(46,540)	(21,481)	18,665
Equities	259,510	114,546	(111,842)	(91,048)	171,166
Index-linked securities	27,421	9,476	(2,146)	(20,478)	14,273
Pooled investment vehicles	240,542	123,484	(113,232)	(7,281)	243,513
Derivative contracts	0	34	(30)	(4)	0
	569,809	**291,890**	**(273,790)**	**(140,292)**	**447,617**
Cash deposits	25,886			(2,084)	31,852
Other investment balances	4,446			(485)	2822
	600,141			**(142,861)**	**482,291**

The changes in market value during the year comprise all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £469k (2007/08: £479k). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Scheme.

The following investments (other than UK government securities) each exceed 5% of the total value of the net assets of the Scheme:

Fidelity Institutional Exempt America OEIC £28.4m (5.7%) and Capital International UK Corporate Bond Fund £26.442m (5.4%).

Investments held at the year end are further analysed as follows:

Fixed interest securities

	2008/09 £'000	2007/08 £'000
United Kingdom public sector quoted	18,612	41,876
United Kingdom corporate quoted	53	460
	18,665	**42,336**

Equities

	2008/09 £'000	2007/08 £'000
United Kingdom quoted	87,800	141,412
United Kingdom unquoted	0	59
Overseas quoted	83,180	117,567
Overseas unquoted	186	472
	171,166	**259,510**

Index-linked securities

	2008/08 £000	2007/08 £000
United Kingdom quoted	14,141	27,260
Overseas quoted	132	161
	14,273	**27,421**

Pooled investment vehicles

	2008/09 £'000	2007/08 £'000
Unit trusts:		
- property	24,674	39,415
- other	37,505	40,983
Other managed funds:		
- property	7,779	9,375
- other	173,555	150,769
	243,513	**240,542**

The managed funds in which the Scheme has invested are all operated or managed by companies registered in the United Kingdom

Derivative contracts

	2008/09 £'000	2007/08 £'000
Forward foreign exchange	(4)	0
Futures-Foreign Equities exchange traded	4	0
	0	**0**

A summary of the forward foreign exchange contracts in set our below:-

CURRENCY	BOUGHT £000	SOLD £000	NET ASSET £000
Australian Dollar	41	89	(48)
British Pound Sterling	1,707	430	1,277
Canadian Dollar	2	-	2
Japanese Yen	194	379	(185)
Singapore Dollar	-	8	(8)
Swedish Krona	186	231	(45)
Swiss France	-	997	(997)
	2,130	2,134	(4)

Futures	**Expiration**	**Economic exposure value £'000**	**Market value £'000**
Foreign Equities exchange traded	1 year	155	4
		155	**4**

Derivative receipts and payments represent the realised gains and losses on futures contracts. The Scheme's objective is to decrease risk in the portfolio by entering into futures positions to match assets that are already in the portfolio without disturbing the underlying assets.

The Pension Fund managers are permitted to use certain derivatives in managing their portfolios, including warrants, futures, convertible securities and swaps. As at 31 March 2009 the economic value of Futures contracts held was £155k, outstanding margin settlement was £4k. The Pension Fund did not hold any options as at 31 March 2009.

Cash deposits

	2008/09 £,000	**2007/08 £'000**
Sterling	30,790	25,067
Foreign currency	1,062	819
	31,852	**25,886**

Other investment balances

	2008/09 £'000	2008/09 £'000
Amounts due from brokers		
Outstanding dividend entitlements	1,586	3,368
Interest received/receivable	1,007	766
Outstanding sales proceeds	3,889	1,328
Unsettled investment purchases	(3,660)	(1,016)
	2,822	**4,446**

9 Investment Management Expenses

	2008/09 £'000	2007/08 £'000
Fund managers fees	3,265	2,247
Custodian fees	139	151
Trustee Advisor fees	85	122
Investment consultant fees	15	17
Other	37	68
	3,541	**2,605**

10 Current assets

	2008/09 £'000	2007/08 £'000
Contributions due from the Administering Authority in respect of the Council	91	87
Contributions due from Admitted Bodies in respect of the employers	55	61
Contributions due from Scheduled Bodies in respect of the employers	71	81
Contributions due from the Administering Authority in respect of members	25	23
Contributions due from Admitted Bodies in respect of members	25	18
Contributions due from Scheduled Bodies in respect of members	15	22
Cash balances	5,489	4,996
Reimbursement of Advisor Fees	8	0
Reimbursement of Fund management expenses (Fidelity)	137	168
	5,916	**5,456**

All contributions due to the Scheme relate to the month of March and were paid in full to the Scheme within the timescales required by the Scheme Rules.

11 Current liabilities

	2008/09	2007/08
	£000	£000
Unpaid benefits in respect of the Administering Authority	289	0
Fund manager and advisor fees	405	494
	694	**494**

12. Contingent assets
There were no contingent assets at 31 March 2009 or at 31 March 2008.

13. Contingent liabilities
There were no contingent liabilities at 31 March 2009 or at 31 March 2008.

14. Related party transactions
In 2008/09 the Pension Fund paid £0.630m to the Council for administration (£0.542m in 2007/08). As at 31 March 2009 £10.125m was due from the Council to the fund (£4.996m in 2007/08). During 2008/09 four trustees were also members of the Pension Fund. There were no other material related party transactions.

15. Additional voluntary contributions ("AVCs")
Separately invested AVCs are held with the Equitable Life Assurance Society, Prudential, and Clerical Medical in a combination of With Profits, Unit Linked or Building Society accounts, securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions.

Movements by provider are summarised below:

Equitable Life Assurance Society

	2008/09 £	2007/08 £
Value as at 6 April 2008	474,753	519,418
Contributions received	9,046	11,165
Retirement benefits and charges	(40,550)	(101,985)
Change in market value	(19,119)	46,155
Value at 5 April 2009	**424,130**	**474,753**
Equitable with-profits	230,420	248,917
Equitable Building Society Pension Fund	90,328	86,974
Equitable unit-linked	103,382	138,862
Total	**424,130**	474,753
Number of active members	43	47
Number of members with preserved benefits	18	29

Prudential Assurance

	2008/09 £	2007/08 £
Value as at 1 April 2008	743,097	613,107
Contributions received	177,475	99,023
Retirement benefits and charges	(133,330)	(20,003)
Change in market value	(45,671)	50,970
Value at 31 March 2009	**741,571**	**743,097**
Prudential with-profits cash accumulation	490,936	510,672
Prudential Deposit Fund	14,749	16,328
Prudential unit-linked	235,886	216,097
Total	**741,571**	**743,097**
Number of active members	97	98
Number of members with preserved benefits	16	16

Clerical and Medical

	2008/09 £	2007/08 £
Value as at 1 April 2008	29,866	26,256
Contributions received	5,948	4,913
Change in market value	(6,154)	(1,303)
Value at 31 March 2009	**29,660**	**29,866**
Clerical Medical with-profits	3,459	3,879
Clerical Medical unit -linked	26,201	25,987
Total	**29,660**	**29,866**
Number of active members	2	2
Number of members with preserved benefits	2	2

Actuarial Statement

As required by Regulation 77 of the Local Government Pension Scheme Regulations 1997, an actuarial valuation of the assets and liabilities of the London Borough of Haringey Pension Fund ("the Fund") was carried out as at 31 March 2007.

Security of prospective rights

In my opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund as required by the Regulations. In giving this opinion, I have assumed that the following amounts will be paid to the Fund:

- Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997, then in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007; and
- Contributions by employers in accordance with the Rates and Adjustments Certificate dated March 2005 for the year ending 31 March 2008. Thereafter, for the three years commencing 1 April 2008, as specified in our Rates and Adjustments certificate dated 20 March 2008.

Summary of methods and assumptions used

Full details of the method and assumptions are described in our valuation report dated 20 March 2008. The valuation was carried out in accordance with the Funding Strategy Statement.

Copies of these documents are available on request from the London Borough of Haringey, administering authority to the Fund.

My opinion on the security of the prospective rights is based on:

- the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer; or
- the attained age valuation method for employers who were closed to new entrants.

These methods assess the cost of benefits accruing to existing members during:

- the year following the valuation; or
- the remaining working lifetime, respectively

allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the market value of assets.

Since I have taken assets into account at their market value, it is appropriate for me to take my lead from the market when setting the financial assumptions used to value the ongoing liabilities. This ensures the compatibility of the asset and liability valuation bases.

The key financial assumptions adopted for this valuation are as follows:

Financial Assumptions	March 2007 % p.a. Nominal	% p.a. Real
Discount Rate	6.1%	2.8%
Pay Increases	4.7%	1.5%
Price Inflation / Pension Increases	3.2%	-

The 2007 valuation revealed that the Fund's assets had a market value at 31 March 2007 of £620 million. These assets were sufficient to meet approximately 78% of the liabilities accrued up to that date.

Individual employers' contributions have been set in accordance with the Fund's Funding Strategy Statement. The deficits for each individual employer are being spread over a period up to a maximum of 20 years.

Experience since April 2007

Market conditions since the previous formal valuation have been extremely volatile and the valuation position is likely to have worsened over the period to 31 March 2009. Assets have significantly underperformed relative to the assumptions set at the valuation causing a decrease in assets. In addition a fall in bond yields has increased the value placed on liabilities. My opinion on the security of prospective rights above is dependent upon any increased contributions required being met by employers, although this statement should be read in the context of the statutory nature of the Fund.

Accordingly, this is likely to cause upward pressure on the level of employer contributions if a valuation were carried out at a current date.

The employer contribution rates and Funding Strategy Statement will be reviewed at the next valuation of the Fund, which will be carried out as at 31 March 2010.

Bryan T Chalmers FFA

27 July 2009

For and on behalf of Hymans Robertson LLP

AUDITOR'S REPORT TO LONDON BOROUGH OF HARINGEY PENSION FUND

Independent auditor's report to the Members of London Borough of Haringey Pension Fund

We have audited the pension fund accounts for the year ended 31 March 2009. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Haringey Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

The Chief Financial officer is responsible for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008. In preparing the pension fund accounts, the Responsible Financial Officer is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Our responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. We also report to you whether, in our opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounts. That information comprises the Statement of Investment Principles, the Funding Strategy Statement, the Communications policy, and the Governance Compliance Statement.

We review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of Regulation 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information we are aware of from the audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the remaining elements of the Pension Fund Annual Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

Opinion

In our opinion:

- the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounts.

Paul Dossett
Senior Statutory Auditor

For and behalf of Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP

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Agenda Item 9

Haringey Council

Agenda item:

Pensions Committee	On 01 December 2009

Report Title. Quarterly Asset Allocation review	
Report of The Chief Financial Officer Signed :	
Contact Officer : Colin Duck – Corporate Finance Telephone 020 8489 3731	
Wards(s) affected: All	Report for: Non key decision

1. Purpose of the report
   1.1. To review the Fund's asset allocation position.

2. Introduction by Cabinet Member

   2.1 Not applicable.

3. State link(s) with Council Plan Priorities and actions and /or other Strategies:
   3.1. This report links in with the need to regularly monitor the performance of the Pension Fund.

4. Recommendation
   4.1 That changes to the Fund's Asset Allocation position be considered.

5. Reason for recommendation
   5.1 The Council's external investment advisors, Hewitt, advise that value can be obtained by making some changes to the current asset allocation.

6. Other options considered
   6.1. None.

7. Summary
   7.1. This report considers the latest Asset Allocation advice received from the Fund's external investment advisors. This will be updated further at the meeting taking account of up to date market data and views.

8. Head of Legal Services Comments
   8.1. The Head of Legal Service has been consulted on the content of this report and comments that the Committee should give full consideration to the financial advice received concerning the recommendation on current asset allocation. Members are reminded of the duty on an administering authority to conduct a coherent overview of investment activity and performance of the Pension Fund in order to ensure the suitability of investments and types of investments.

9. Equalities & Community Cohesion Comments

   9.1 There are no equalities issues arising from this report.

10. Consultation
   10.1. Not applicable.

11. Service Financial Comments
   11.1. The Pension Fund receives Hewitt's quarterly active asset re-balancing proposals as produced by their Asset Allocation team at a cost of £30k per annum. This cost includes presenting these proposals at meetings of Pensions Committee.

   11.2. The cost of the quarterly investment outlook updates should be more than offset by additional performance returns made by the Fund by following an active asset re-balancing strategy.

12. Use of appendices /Tables and photographs

   12.1. Appendix 1 - report by Hewitt.

13. Local Government (Access to Information) Act 1985

13.1 Update on Asset Allocation issues report and presentation by Hewitt to Pensions Committee on 29 January 2009.

14. Background

14.1 Pensions Committee on 30 April 2009 considered a report on Asset Allocation and
agreed that:

- an active asset allocation rebalancing strategy be introduced on a quarterly basis;

- that the asset allocation review service be provided by Hewitt and that the budget be amended to reflect this;

- that decisions be delegated to the Chief Financial officer in consultation with the Chair of Pensions Committee, if any asset allocation changes need revising urgently in between quarterly meetings of Pensions Committee.

14.2 At the 18 June meeting of Pensions Committee, following consideration of Hewitts first quarterly Asset Allocation report it was agreed that a 2% switch be made from conventional gilts to corporate bonds. That switch (equivalent to £9.95m) was made on 6 August 2009 within Fidelity's fixed income portfolio. Hewitts now advise that the beneficial effect on the Fund of that switch based on unaudited data for the months of August, September and October amounts to approximately £500,000. Future reports will continue to monitor the performance of that decision.

14.3 The third Quarterly Asset Allocation report is appended from the Pension Fund's external investment advisors. This report gives an executive summary, quarterly investment outlook and a market update as at 30 October.

Quarterly Asset Allocation review

14.4 Hewitt's report shows the Fund's asset allocation and benchmark weightings as at 30 October 2009 as provided by the Custodian, Northern Trust. Summary numbers are as follows. The last column shows Hewitt's suggested range.

	Actual allocation as at 30/10/09 %	Benchmark %	Suggested range %
UK equities	33.2	30.5	25 – 35
Overseas equities	32.6	34.5	30 – 40
UK gilts	5.1	7.0	0 – 10
Index linked gilts	7.1	6.0	0 – 20
Corporate bonds	13.5	7.0	0 – 15
Private equity	3.1	5.0	2 – 5
Property	4.5	10.0	5 – 15
Cash	0.9	0	
Totals	100	100.0	

14.5 Hewitts view is that large injections of cash by central banks have strongly boosted markets but this beneficial effect is unlikely to be sustained as projected corporate earnings have overtaken reality in equity markets.

14.6 Although corporate bonds are still attractive compared to gilts little upside potential is seen in either asset class at present. Should inflation fears emerge consideration should be given to switching from fixed interest gilts to index-linked gilts.

14.7 Property valuations are attractive at present prices although caution should be exercised concerning the timing of further investments.

14.8 Concerning the Pension Fund Hewitt advise that:

- At present the equity weighting should be left unchanged,

- Holdings of corporate bonds and gilts should be reduced by 2% (equivalent to approximately £20m) and the proceeds retained in cash at present. Hewitt's recommend that this realised sum should be used to augment underweight property holdings through active purchases by the property manager at the appropriate time. Hewitts have discussed the timing of the property investment with ING (the funds property manager) who will determine the timing of the proposed switch into property. At present, a time horizon of approximately six months is likely. In the meantime, the switch from gilts and corporate bonds will result in a fall in income to the fund of approximately £400,000 (i.e. combined bond and gilt yields 5% minus money market earnings 1%). However, Hewitts are of the view that failure to effect the proposed switches in a timely manner could result in a significantly greater capital loss.

- the Fund's Private equity allocation should not be increased at present.

Conclusions

14.9 Hewitt have provided their latest Quarterly Asset Allocation review report as appended. The report makes recommendations for considering changes to the Fund's current asset allocation with suggested ranges for asset allocation also given.

14.10 Hewitt will attend Pensions Committee and give specific recommendations, if necessary after taking account of up to date market data.

APPENDIX 1

Asset Allocation Report - November 2009
London Borough of Haringey

Hewitt

17 November 2009

Prepared for
Pensions Committee

Prepared by
Hewitt Associates Limited

Hewitt Associates Limited
Registered in England No. 4396810
Registered office: 6 More London Place London SE1 2DA

Contents

Executive Summary

Investment Outlook

Optimism over economic recovery and the large injections of funds by central banks have strongly boosted markets, but this benign backdrop will not last.

After recent spectacular returns, corporate bonds look likely to take a breather, but they still look attractive against gilts.

Corporate earnings optimism is now overtaking reality. We expect this to be one of the drags on equity markets going into 2010.

Property valuations are attractive, although we would advise some restraint when investing in pooled funds where the commitment to the market is immediate.

Asset Allocation and Fund Benchmark

The Fund's actual asset allocation and benchmark weightings as at 30 October 2009 (using information provided by Northern Trust) are shown in the table below:

	Value £m	Total %	Bmark %	Suggested Range
UK Equities	185.2	33.2	30.5	25 - 35
Overseas Equities	181.5	32.6	34.5	30 - 40
UK Gilts	28.6	5.1	7.0	0 - 10
Index Linked Gilts	39.8	7.1	6.0	0 - 20
Corporate Bonds	75.3	13.5	7.0	0 - 15
Private Equity	17.4	3.1	5.0	2 - 5
Property	25.0	4.5	10.0	5 - 15
Cash	4.7	0.9		
Total	557.5	100.0	100.0	-

What this means for the Fund

Equities – whilst UK equities are slightly overweight, this position is broadly balanced by the slight underweight position in Overseas equities. Therefore, at this moment in time we are comfortable with leaving the equity weighting unchanged.

Bonds – Corporate Bonds have done very well in the last quarter, and Gilts are looking expensive. Our advice is to reduce each by 2%, holding this in cash for the moment. We recommend that these funds are made available to be invested in property.

Property – we remain convinced that opportunities will come, and we would look for the underweight position in property to be closed through active purchases by the property manager, using the cash raised from bonds.

Private Equity – we do not believe that the Fund's private equity allocation should be increased at this time.

Success of our advice so far

When putting the framework in place for providing the Fund with medium term asset allocation advice, it was agreed that we would monitor the advice implemented, and try to track the success – or otherwise – of the advice.

So far, there has only been once recommendation that has been implemented. We suggested that the Fund increase its exposure to Corporate Bonds, by reducing its exposure to UK Gilts. This advice was given at the end of July 2009, and arrangements were made with Fidelity to amend the Fixed Interest Benchmark to which they manage assets.

As a result, approximately £10 million was transferred from UK Gilts to Corporate Bonds in early August.

The unaudited returns for August, September and October, as stated by Fidelity, are as follows:

	August		September		October	
	Fund	Bmark	Fund	Bmark	Fund	Bmark
UK Gilts	4.05	3.67	0.82	0.18	0.01	-0.27
Corp Bonds	6.75	7.06	2.44	1.55	0.90	0.26

Therefore, for the three month period to end October UK Gilts returned +3.6%

UK Corporate Bonds returned +9.0%

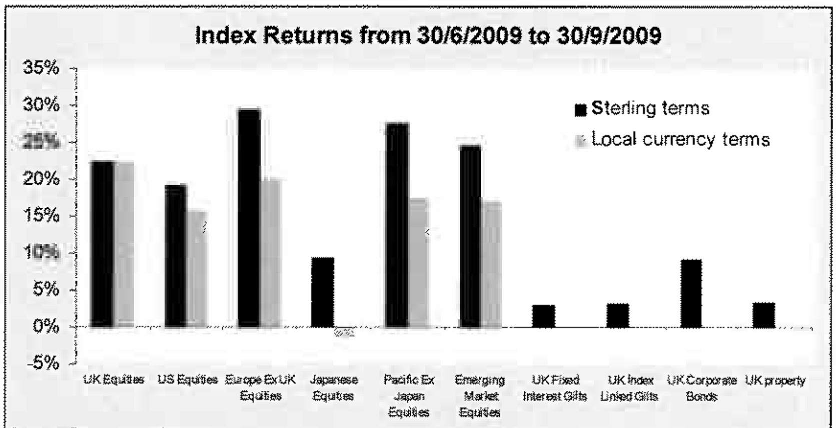
Using the returns shown above, the move from Gilts to Corporate Bonds generated an additional return of approximately £500,000 over the three months. Clearly this has been a beneficial asset allocation move for the Fund.

We will continue to monitor this move, and any future moves, on an ongoing basis.

Quarterly Investment Outlook

Summary

- Optimism over economic recovery and the large injections of funds by central banks have strongly boosted markets, but this benign backdrop will not last.
- Inflation protection through index-linked gilts can be purchased on reasonable terms by switching from fixed interest gilts.
- After recent spectacular returns, corporate bonds look likely to take a breather, but they still look attractive against gilts.
- Corporate earnings optimism is now overtaking reality. We expect this to be one of the drags on equity markets going into 2010.
- Property valuations are attractive, although we would advise some restraint when investing in pooled funds where the commitment to the market is immediate.



Source: Datastream/IPD

Markets' sweet spot

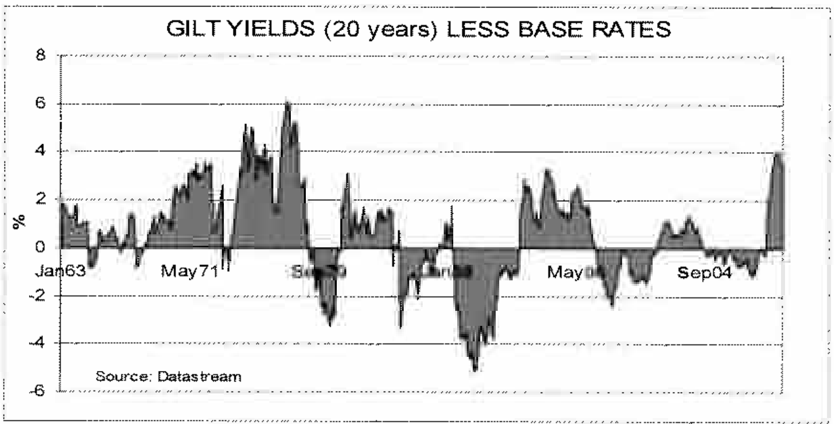
With hindsight, it is now apparent that the onset of "quantitative easing" in the spring in the major economies provided a powerful jolt to markets. Bank lending has not increased, but liquidity in banking systems has been greatly boosted, helping markets. The continuation of the market rebound during the third quarter was broad-based, encompassing equities, government bonds, corporate bonds and property. The simultaneous rally in government bonds and equities was particularly striking, suggesting a market sweet spot – confidence in the economic recovery together with sufficient reassurance from central banks that current extraordinarily low interest rates and bond purchase programmes would be maintained.

Benign environment unlikely to last

Our view, however, is that this benign market environment for all asset classes is likely to be transitory. Beyond the US fiscal boost which is now fading and the inventory bounce in GDP in many economies (companies no longer running their stocks down counts as positive economic growth), economic prospects are still cloudy. We believe there is limited fuel for a consumer or business spending recovery in the major economies. If, on the other hand, the recovery is more vigorous than we expect, there will be a more prompt withdrawal of fiscal and monetary stimulus than markets currently expect. Either way, the benign environment would end.

Gilts are expensive

Fixed income gilt yields, in common with global government bond markets, have attracted increased support of late. Reassuring talk from central banks about the likely period of low interest rates and continuation of gilt and other asset purchase programmes have helped. Doubts about economic growth in 2010 have also become more evident. Though gilt yields are at very low levels, relative to the current level of short-term interest rates, yields do not appear low at all (see chart).



The downward pull on yields of very low short-term rates should not obscure the fact that gilts are unusually expensive. Both fixed gilt yields and index-linked gilts are highly unattractive relative to the levels we would consider reasonable, the latter showing the lowest yields since issuance began in the 1980s. However, the *difference* between yields on fixed income gilts and index-linked gilts of similar maturity (referred to as the 'break-even inflation rate') looks reasonable against our expectations of inflation. This suggests that inflation protection component of gilts can be purchased on reasonable terms.

Consider switching fixed gilts to index-linked

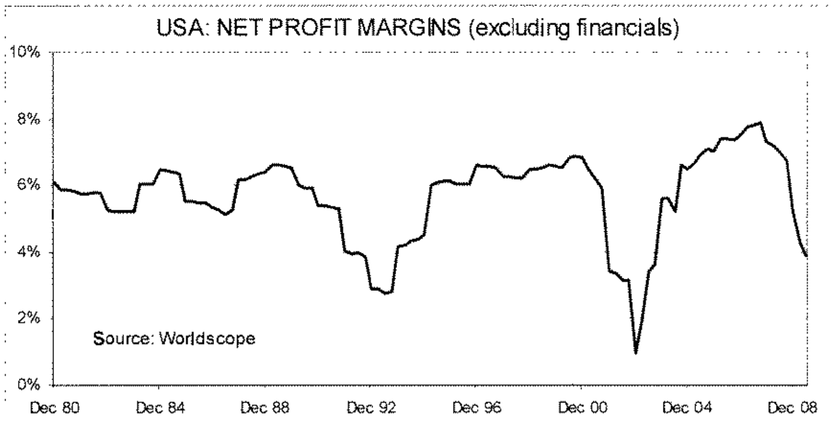
Taking this and our view that there is a risk of much higher inflation over the long-term, it seems sensible to consider switching allocations from fixed interest gilts towards index-linked. Where liabilities are more inflation-linked and portfolios are underweight inflation protection, the argument strengthens. Duration should also be considered, however, as the generally longer duration of index-linked relative to fixed income gilts could imply a stronger price impact if yields faced upward pressure.

Credit - now more a 'relative' than an 'absolute' case

Corporate bonds have rallied hard, delivering equity-like returns during the quarter as spreads against gilts came down sharply alongside falling gilt yields. The average yield on corporate bonds (Merrill Lynch non-gilt index) fell by 1.2% in the third quarter alone. It is clear that the rapidity of spread tightening has been driven by the same revival in risk appetites that has delivered such strong equity market gains. The onset of a less benign market environment could therefore see a setback. However, our view is that the impact of this is unlikely to be particularly marked. Spreads are still high enough to be discounting fairly bad newsflow on credit quality. This means that the relative case against gilts is still good. In absolute terms, however, expected returns from corporate bonds now look less appealing than a few months ago.

Profit margins fall, but less than expected

As we have highlighted before, profit margins in major equity markets were at record highs in 2007, before the onset of a harsher economic environment. Profit margins have been squeezed substantially as a result (see chart on US trends).



Underlying profitability trends are better captured by focusing on the non-financial sectors. This avoids the distortion of large falls resulting from the lurch to big losses in the financial sector. US profit margins have fallen substantially from their peak on this basis. Though margin contraction (on an ex-financials basis) this time has not reached the pace of the post dotcom bubble downturn of 2001-2, the severity of the fall in the previous period mainly reflected the special problems of write-downs in the telecom and technology sectors.

A better comparison is with the 1991-2 recession. We find that net profit margins outside the financial sector have broadly halved in this downturn, compared with a decline of 60% in the early 1990s recession. Considering that both the USA and the rest of the world have endured a much deeper economic downturn than the early 1990s, this counts as a good performance. Unlike the early 1990s, sales have fallen, but deep cost cutting has protected margins to some degree.

Equities risk disappointment

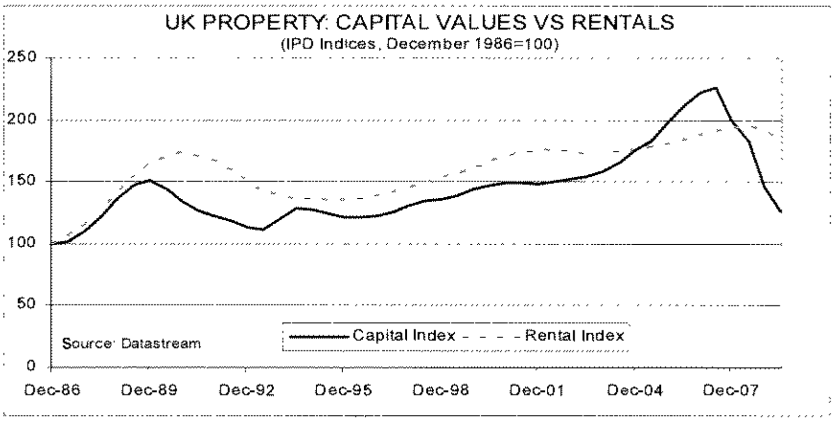
With profitability having held up better than expected, our view is that expectations are now at risk of running ahead of what is achievable in the year ahead. Current consensus earnings forecasts (US earnings growth expectations range from 20-35% in calendar 2010) imply a substantial recovery, taking profitability back most of the way to its earlier peak by 2011. Such a vigorous recovery in earnings and profit margins did happen in the early 1990s. This time, with a backdrop of a likely weak economic rebound, such a recovery appears much less likely. Alongside the risk of earnings disappointments, we also note other unsupportive factors for equity markets such as booming share issuance and strong selling by directors of companies. Taken together, these indicate to us that equities face a struggle to make further headway. We would not advise adding to equity positions now. Indeed, we regard it as a good time for some funds to trim overweight positions back.

Sterling hedging conditions improve

Sterling has weakened again, more noticeably against the euro and the yen than the US dollar. Sterling's renewed downward lurch has improved conditions for implementing new hedges where portfolios are below their normal hedging exposure. We are not aware of the Committee's views on currency hedging, and so now may be an opportune moment to discuss this area further.

Keep some ammunition back in property

Property valuations are attractive. Capital values had more or less halved (the official indices understating the falls slightly) taking yields to over 8%. These yields look attractive even after allowing for further falls in rents to come (see chart).



Though valuations are attractive, some care needs to be taken in raising property allocations. Supply shortages are in danger of boosting transaction prices too quickly. Also, property has benefited from the strong rally in risk assets which we can see being reversed for a period of time. Therefore we are happy to invest with property managers at present that will take some time to invest the funds but would advise some caution if investing in pooled vehicles where the commitment to the property market would be immediate.

Hedge funds preferred to other alternatives

For alternative classes, our preference remains for hedge funds, with an emphasis on strategies that are not market directional. At the other end of the spectrum, our least favoured asset class is still private equity. We believe that returns in private equity (in the dominant buy-out sector) will be undermined by curtailed and costlier leveraged finance and high debt burdens in the companies which have been taken into private ownership.

Commodities are unattractive at this time

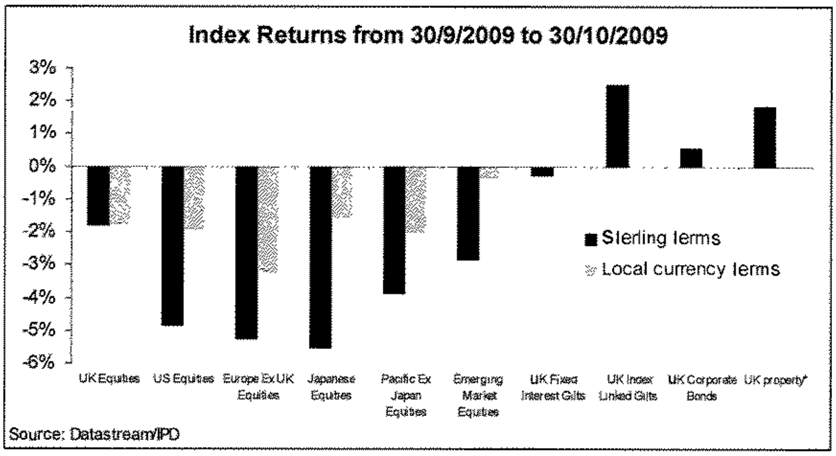
At this time we remain negative on commodities as an asset class for a number of reasons:

- 'Risky'/economically cyclical investments have performed exceptionally strongly since the lows this year, to a considerable extent because of the enormous liquidity poured into the system by central banks and because of the improved economic environment. The timing of the withdrawal of this liquidity by central banks has now become a negative factor affecting markets while, in our view, the economic recovery will be less robust than many envisage. In short, we believe that 'Risky'/economically cyclical investments such as commodities have moved too far, too fast.

- Our arguments for a rather subdued economic recovery include the very low levels of capacity utilisation and continued de-leveraging required in the western world which will restrain final demand. These features should have a subduing impact on commodity prices, even if China continues to steam ahead. Another negative factor for commodities is the high level of inventories which appears to have been built up in China.

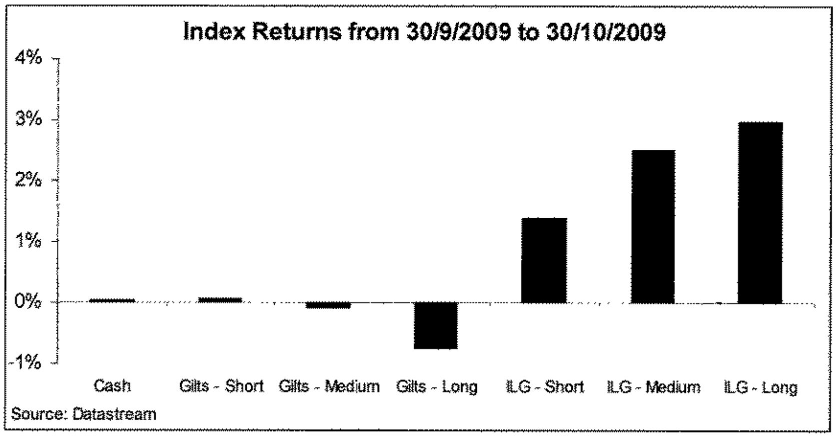
- Many of the major commodity prices are trading well above their marginal costs of production so 'valuations' are not supportive. Roll returns are also a negative factor for commodity returns.

October Market Update



* Property relates to end of August 2009 to end of September 2009

- In October the broad equity market rally showed signs of fatigue, every major market ended the month lower. In local currency terms, Emerging Markets performed best and European ex UK equities performed worst.
- Sterling strengthened in October dragging down the performance of overseas markets in sterling terms. In sterling terms the best performing market was the UK and the worst was Japan.



- Short and medium dated fixed interest gilts were flat over the month outperforming longer dated gilts where performance was negative. Index-linked prices rose across all maturities; long dated gilts returned the most and short dated gilts the least.
- Corporate bonds returned 0.6% continuing their run of positive returns which began in April 2009. Credit spreads have continued to fall and yields remained fairly flat over the month.
- Property returned 1.8% over October, the third successive month it has generated a positive performance.

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