Haringey Council

NOTICE OF MEETING

Pensions Committee

THURSDAY, 15TH APRIL, 2010 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), Beacham, Mallett, Wilson, Winskill, Cooke, Jones and Whyte

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 will be considered under agenda item 9 for unrestricted items and item 13 for exempt items of urgent business.

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 - 6)**

To confirm and sign the unrestricted minutes of the Pensions Committee meeting held on 28 January 2010.

5. **FUND ADMINISTRATION UPDATE (PAGES 7 - 14)**

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 UPDATE (PAGES 15 - 36)**

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 February 2010.

7. **ATTENDANCE BY FUND MANAGER**

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

7:15pm - Capital

8. **QUARTERLY ASSET ALLOCATION REPORT (PAGES 37 - 58)**

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

9. NEW ITEMS OF UNRESTRICTED URGENT BUSINESS

10. EXCLUSION OF PRESS AND PUBLIC

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

11. EXEMPT MINUTES (PAGES 59 - 60)

To confirm and sign the exempt minutes of the meeting of the Pensions Committee held on 28 January 2010.

12. PRIVATE EQUITY - UNDERLYING INVESTMENTS (PAGES 61 - 72)

Report of the Chief Financial Officer to provide information to the Committee on the nature of the underlying investments contained in the European and Asia investment vehicles.

13. NEW ITEMS OF EXEMPT URGENT BUSINESS

Ken Pryor
Deputy Head of Local Democracy and Member Services
5th Floor
River Park House
225 High Road
Wood Green
London N22 8HQ

Helen Jones
Principal Committee Coordinator
Tel: 020 8489 2615
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Email: Helen.jones@haringey.gov.uk

Wednesday, 7 April 2010

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MINUTES OF THE PENSIONS COMMITTEE
THURSDAY, 28 JANUARY 2010

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

MINUTE NO.	SUBJECT/DECISION	ACTION BY
PRPP141.	**APOLOGIES FOR ABSENCE** Apologies for absence were received from Cllrs Beacham and Cooke.	
PRPP142.	**URGENT BUSINESS** There were no new items of urgent business.	
PRPP143.	**DECLARATIONS OF INTEREST** Cllr Mallett declared a personal interest as a contributing member of the Haring Pension Scheme. David Corran declared a personal interest as a pensioner member of the Haringey Pension Scheme. Roger Melling declared a personal interest as a pensioner member of the Haringey Pension Scheme. Cllr Winskill declared a personal interest as a contirbuting member of the Haringey Pension Scheme. 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. Cllr Harris declared a personal interest as a contributing member of the Haringey Pension Scheme and as having attended training events at which Fund Managers had been present.	
PRPP144.	**MINUTES** It was noted that, in response to a request by the Committee at the previous meeting, Pantheon had produced a report on companies in which they invested and legal clearance was awaited for this to be presented at the next meeting of the Committee. In response to a question from the Committee, the Chief Financial Officer reported that no urgent adjustments had been required to the	

	corporate bond allocation since the previous meeting. **RESOLVED** That the unrestricted minutes of the meeting held on 1 December 2009 be approved and signed by the Chair.	
PRPP145.	**GOVERNANCE OPTIONS REGARDING MONITORING OF FUND MANAGERS AND BUSINESS TIMETABLE FOR 2010/11** The Chief Financial Officer presented a report on governance options regarding the monitoring of Fund Managers and a business timetable for 2010/11. An options report had been considered by the Committee in October 2008, and it had been felt at that time that a re-focusing of the existing Committee structure to enable more time to be spent on consideration of strategic issues would be the most appropriate model. As a result of the financial climate at the time, however, the Committee had felt it was important for the fund managers to attend the Committee on a regular basis in order for monitoring of fund performance. It was reported that as the economic situation was beginning to stabilise, it was appropriate to bring the options back to the Committee for further consideration. An appendix to the report gave an indication of the matters for consideration at Pensions Committee meetings throughout the year. It was proposed that fund managers attend two meetings per year, and that the Committee would have the ability to call in any of the fund managers to any meeting if there were issues of concern for discussion. The Chief Financial Officer confirmed that officers would continue to meet with each of the fund managers on a quarterly basis, and advised that Hewitt's quarterly asset allocation report would provide Members with an opportunity to discuss general market issues. The Committee requested that all fund managers be required to address the Committee in jargon-free, plain English and also that the paperwork supplied to the Committee by fund managers be reviewed, with a view to the information being simplified. In response to a question from the Committee, it was confirmed that fund managers were provided with a template to produce the grids, and that they then supplied additional information in the form of brochures. It was suggested that the fund managers could be asked to supply no more than four pages of information, specifically relating to the Haringey portfolio, in addition to the grids, rather than the full brochures. The Chief Financial Officer agreed that the fund managers could be asked whether they could provide less information, and in a simplified format. Cllr Thompson suggested that the Committee seriously consider the option of establishing a sub-committee to monitor fund manager performance. In response to a question from the Committee regarding what the role of a sub committee would be, the Chief Financial Officer reported that they would meet with the fund managers on a quarterly basis, along with officers, and would then produce a report to the full Committee.	

A vote on the options presented in the report was moved and on a vote of three for option 1, refocusing of the existing structure and one for option 2, the introduction of a sub-committee, it was:

RESOLVED

i) That the option of a refocus of the existing structure be adopted and that the proposed business timetable for 2010/11 be agreed.

ii) That fund managers be asked to provide less general documentation for the Committee and that the information provided pertain directly to the Haringey portfolio and that fund managers be asked to address the Committee in jargon-free, plain English.

iii) That the changes agreed above would enable the Committee to focus on a more strategic view of the Fund and to fulfil their fiduciary duties as Trustees.

Howard Jones, Independent Investment Advisor to Trustees, stated that strategic asset allocation accounted for more than 90% of fund performance, and that less than 10% of fund performance was as a result of individual stock selection by managers. It was noted that the Committee at present spent more time considering individual manager performance than asset allocation, and Mr Jones agreed that the Committee should spend less time seeing fund managers and should use this additional time for consideration of strategic issues. It was felt that the quarterly reports by Hewitt on asset allocation were a move in the right direction and that the Committee should do more of this kind of work, and should also consider seeking advice from other financial experts in order to inform their decisions on asset allocation issues. Howard also suggested that consideration should be given in the future to move more funds into passive management, the active management fees saved as a result be used to seek the advice of other investment experts.

The Chief Financial Officer noted that while small adjustments to the investment strategy were being considered by the Committee on a quarterly basis, it would soon be necessary to review the investment strategy as a whole and to consider other investment strategy models.

PRPP146. SECURITIES LENDING

The Chief Financial Officer presented a report on the introduction of a securities lending programme in order to mitigate the overall costs associated with the provision of custodial services. At the previous meeting of the Committee, Members had discussed a proposal by Hewitt that stock lending be introduced and had asked for a further report on this issue from officers. As requested by the Committee, this report considered the benefits and risks associated with stock lending, how the

	risks could be mitigated and the number of other local authorities who were participating in stock lending. It was reported that 7 of the 33 London Boroughs participated in stock lending. The report found that stock lending could potentially benefit the Fund by around £80k. Significant mitigation of the associated risk was possible, but that it was not possible to eliminate all of the risk to the capital lent. Concerns were also raised regarding the issue of voting rights. The report concluded that stock lending not be entered into at this time. In response to a question from the Committee, Colin Duck, Corporate Finance, gave an explanation of market liquidity. Members expressed concern that the Committee would have no control over the nature of any collateral received as part of stock lending. It was reported that to minimise risk, the Fund would seek only government paper stocks as collateral but that as a result it would not be possible to obtain more than 105%; this would make the Fund vulnerable to any falls in value of more than 5%. **RESOLVED** That a securities lending programme would not be introduced as a means of mitigating the overall costs of custody provision.	
PRPP147.	**NEW ITEMS OF UNRESTRICTED URGENT BUSINESS** There were no new items of unrestricted urgent business.	
PRPP148.	**EXCLUSION OF PRESS AND PUBLIC** **RESOLVED** That the press and public be excluded.	
PRPP149.	**EXEMPT MINUTES** **RESOLVED** That the exempt minutes of the meeting held on 1 December 2010 be approved and signed by the Chair, subject to the Chair being added to the list of apologies. The Committee discussed matters arising from the minutes and it was: **RESOLVED** That declarations of interest and contextual information be obtained in relation to all advice provided to the Committee, that all advisers attending Committee meetings be briefed in advance by officers in respect of the requirements to provide declarations of interest and that these be recorded in the minutes of the meetings.	

PRPP150.	**NEW EXEMPT ITEMS OF URGENT BUSINESS** There were no new exempt items of urgent business. The meeting closed at 19:55hrs.	

COUNCILLOR CATHERINE HARRIS

Chair

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Haringey Council

Agenda item: [No.]

Pensions Committee On 15th April 2010

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 <u>LGPS (Miscellaneous) Regulations 2009</u>

3.1.1 These regulations make a number of technical amendments. The significant amendments are:-

(a) **Option to convert Compensatory Added Years and Gratuity payments to a funded payment.**

A decision to switch from a revenue funded benefit to pension funded benefit would incur a capital cost or increased employer contributions over time.

Discussions with the fund actuary concluded that there was no advantage to Haringey Council switching to a funded basis for these payments.

(b) **Option for members with a nominated co-habiting partner to purchase pre April 1988 membership to increase a survivors pension.**

A survivor's pension for a nominated cohabiting partner is limited to membership after 6th April 1998. Members have the option to pay Additional Survivor Benefit

Contributions (ASBCs) to buy-in any pre April 1988 membership they may have.

Medical Declaration

The Council has discretion to require that a declaration of good health from a member electing to buy-in any pre April 1988 membership. This is because the contract to buy-in a period of membership is honoured in full on ill-health retirement or death in service.

The Council's current policy for scheme members electing to buy-in added membership under Reg 14 of the Benefits Regulations 2007) states:-

'An application to purchase additional pension will only be accepted if the member makes a declaration that he/she is in reasonably good health and has not been seen by a medical practitioner within the last 12 months or otherwise where the member provides a report by a registered medical practitioner of the results of a medical examination undertaken at the member's own expense'

Members are asked to extend this requirement to members who elect to pay ASBCs under Regulation 14A of the above mentioned regulation.

As all scheme members are required to provide medical information in relation to their health when electing to pay additional contributions for extra pension or survivor benefits there is no conflict with the requirements of the Disability Discrimination Act. However, when considering a case of a member who has a medical condition that the DDA may apply to, the reasonable adjustments provision of the act is taken into account. Disability does not preclude members with a disability from being allowed to elect to pay additional contributions.

3.2 <u>Equitable Life</u>

3.2.1 During a Parliamentary debate, held on 21 October 2009, the Chief Secretary to the Treasury advised that a possible 1 million policyholders may now be covered by the governments planned ex gratia scheme. He went on to add that the design of the ex gratia scheme would be completed by spring of 2010 but refused to give a commitment as to when payments from the scheme would start. The government has also been silent on the total funds available to make payments to victims of the Equitable Life fiasco from the ex gratia scheme. It is possible that the inclusion of more policyholders in the ex gratia scheme will reduce the average payment to victims.

3.3 <u>Pensions Increase 2010</u>

3.3.1 Pension increases are based on the Retail Price Index (RPI) at September 2009. which this time round was a negative figure of **-1.4%.** However the rules under which public sector pensions are paid only refer to them being increased in line with RPI; there is no provision for them to be reduced. Consequently there will be no pension increase applied this year but equally, there will be no reduction made either.

3.4 **Auto-enrolment Agency Workers**

3.4.1 <u>The Agency Workers Regulations 2010 [SI 2010/93]</u> were laid before Parliament on 21 January 2010 and come into force on 1 October 2011. Under these regulations all agency workers are entitled to the same basic working and employment conditions as if they had been recruited by the employer or hirer. However, they will not have access to the employer pension scheme or to compensation for loss of office.

They will be auto enrolled into the Personal Accounts regime will apply to agency workers when it starts in April 2012. It has been announced that the Personal Accounts are to be renamed National Employment Savings Trust (NEST)

The Agency Regulations 2010 are the Government's response to EC directive of 19 November 2008 on temporary agency work.

3.5 <u>AVC Workshops</u>

3.5.1 Prudential invited Haringey employees to work shops on the AVC scheme held at the Civic Centre over two days in February

109 members registered to attend and 6 new applications were received.

3.6 CLG Guidance on Admitted Body Status

3.6.1 CLG have published guidance on "Admitted body status provisions in the Local Government Pension Scheme when services are transferred from a local authority or other scheme employer". The main purpose of the guidance is to clarify the admission body status provisions within the LGPS and to encourage employers to address pension matters as early as possible in the outsourcing process.

3.6.2 CLG propose a further consultation on making the current regulatory framework more flexible in being able to deal with situations where employing bodies are merged, wound up, become new entities or go into administration. A letter from CLG will be issued as early as possible.

3.7 Brief Guide to the LGPS.

3.7.1 The Council currently issues a pre printed Guide to all new starters joining the Fund. The constant changes to the regulations mean that a pre printed version rapidly get out of date and has to be updated with inserts.

3.7.2 To ensure that members are directed to the most up to date information the hard copy Guide is to be replaced by an A4 sheet (see Appendix A) which will direct them to the Guide on HARINET or the Pensions Web Page or invite them to contact the Pensions Team for a hard copy.

3.7.3 This will also draw scheme member's attention to the full range of leaflets and on-line pension links that are available and will encourage greater use of these facilities. Not renewing a print order to replace the current booklet will save £500 each year but will also contribute the Council's Greenest Borough Strategy.

4 Recommendations

That the Administration Report update be noted

That the medical declaration required to purchase added membership under Regulation 14 of the LGPS (Benefit Membership and Contributions) Regulations 2007 (as amended) be extended to payment of Additional Survivor Benefit Contributions under Reg 14A of those regulations.

5 Reason for Recommendations

5.1 To ensure that members electing to buy-in extra benefits do not select against the Fund

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 the Service Financial comments that are set out in paragraph 13.

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 on the majority of its content. In respect of the content of paragraph 3.1.1. of the report, the Head of Legal Services comments that the action to require a declaration of good health of all relevant members of the scheme is not one based on the grounds of a person's disability and thus is not a breach of the provisions of the Disability Discrimination Act 1995. However a decision based on these provisions of the pensions regulations must take into account the reasonable adjustments duty under the 1995 Act where required to do so by virtue of a member's disability.

10 Head of Procurement

10.1 (Not Applicable)

11 Equalities & Community cohesion Comments

11.1 The Regulations provide rights and protection for temporary agency workers based on the principle of equal treatment as set out in article 5 of the directive

..

12 Consultation

12.1.

13 Service Financial Comments

13.1 Savings of £500 per year can be expected by not ordering a reprint of the Brief Guide to the LGPS

14 Use of appendices / Tables and photographs

Appendix 1 Welcome to the LGPS Leaflet
Appendix 2 reports the number of Early Retirements and Capital Costs
Appendix 3 reports on Appeals in progress
Appendix 4 reports the receipt of Employee and Employer contributions
Appendix 5 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 Bulletins 65 to 67

WELCOME TO MEMBERSHIP OF THE LOCAL GOVERNMENT PENSION SCHEME

Enclosed Is:-

- Your Statutory Notice confirming that your are a member of the Local Government Pension Scheme (LGPS).
- An Expression Of Wish Form to nominate you want to benefit from any death grant that may become payable.
- A form to provide a survivor benefit for a nominated cohabiting partner

A Brief Guide To The LGPS can be viewed on line by logging onto **:-**

HARINET: Click Personnel > Pay and Pensions > Local Government Pension Scheme > Employee Guides. **or**

Pensions Web Page www.haringey.gov.uk/pensionfund > Advice Tax And Benefits > Pensions > Local Government Pension Scheme > Employee Guides

If you want a hard copy of the Brief Guide or any of the leaflets available contact the Pensions Team

Telephone: 020 8489 3824:

Email: Pensions.Mailbox@haringey.gov.uk

Write to: The Pensions Team, Alexandra House, 10 Station Road N22 7TR

Leaflets Available	
Pensions Policy Statement (Employer Discretions)	Your Retirement Benefits
Transferring Pension Rights into the LGPS	Pensions and divorce/dissolution of civil partnerships
Life Cover and Protecting your Family	Leaving your job before retirement
Increasing Benefits	Tax Controls and your LGPS Benefits
Leave of absence and the LGPS	Help with Pension Problems
	March 2010

Appendix 2

Haringey Council Pension Fund	Early and Flexible Retirements 1 April 2009 to 31st December 2009			
Haringey Council	Number of Cases	Basic Capital Cost	Cost of Added Years	**Total Cost**
Early Retirement	7	£75,000	£0	**£ 75,000**
Flexible Retirement	6	£47,000		**£47,000**
Sub –Total	**13**	**£122,000**	**£0**	**£122,000**
Employing Bodies	Number of Cases	Basic Capital Cost	Cost of Added Years	Total Cost
Early Retirement	5	£253,000	£162000	£415,000
Flexible Retirement	0	£0	£0	£0
Sub-Total	**5**	**£253,000**	**£162,000**	**£415,000**
Total For Haringey Council and Employing Bodies				
Total Q3 09/10	**18**	**£375,000**	**£162,000**	**£537,000**
Total Q3 08/09	**29**	**£755,000**	**£0**	**£755,000**
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 3

Appeals Report to Quarter ending 31st December 2009				
Appeals Process Quarterly Report	Number Open	Upheld	Not Upheld/ Closed	On Going
Stage 1 Appeal	3	0	0	0
Stage 2 Appeal	0	0	0	0
Pensions Ombudsman	0	0	0	0

Appendix 4

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 **31st December 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 5

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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Haringey Council

Agenda item:

Pensions Committee	On 15 April 2010

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 February 2010.

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 December 2009 be noted.

4.2 That responsible investments information provided be noted.

4.3 That the budget management position to the end of February 2010 (period 11) 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 2.04% per cent up to 31 December 2009, underperformed the gross benchmark by 2.54% and also underperformed the gross target by 4.18%.

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, which is detailed in Appendix 5,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 31 December 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 February 2010.

13 Local Government (Access to Information) Act 1985

Northern Trust performance monitoring reports.

Fund performance update report to Pensions Committee on 1 December 2009.

14 Investment performance reported at the December meeting of Pensions Committee

14.1 The investment performance of the Pensions fund was last reported to Pensions Committee in December 2009. That report covered the period up to 30 September 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 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%.

- 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. However, overall the fund enjoyed a recovery of approximately 17% over the fund values reported as at 30 June 2009. Up to the end of September 2009 performance by our Fund Managers was as follows:

    - Fidelity's Bond mandate out performed the gross target by 0.27% and the Equity mandate under performed the gross target by 1.51% but achieved the benchmark.

    - Capital's Equity and Bond mandates are below target by 3.74% and 2.03%

    - ING are below target by 1.07%.

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

15.1 The last performance update to Pensions Committee on 1 December 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 33 months periods to end of December 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 December 2009	33 months to end of December 2009 (annualised)
	%	%
Overall fund performance	3.15	(2.04)
Benchmark	3.44	0.50
Performance versus benchmark	**(0.29)**	**(2.54)**
Overall fund performance	3.15	(2.04)
Target	3.85	2.14
Performance versus target	**(0.70)**	**(4.18)**

15.3 This shows that in the 33 months period to December 2009:

- The annualised performance of the combined Haringey fund has decreased in absolute terms by 2.04%, the fund under performed the new benchmark by 2.54% and under performed the target by 4.18%;
- The annualised position has marginally improved since the report to the last meeting with the under performance versus target decreasing from (4.29) to (4.18).

15.4 Appendix 1 shows the following for the combined fund as at end of December 2009 and end of December 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 December 2009, compared to benchmarks and targets as supplied by our custodian, Northern Trust. This is the eleventh 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 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 31 calls on the Pantheon Asia Europe and USA funds totalling £12.3 million to date and consequently performance numbers are excluded as they 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 33 months to December 2009	% actual annualised performance above/ (below) target in the 33 months to December 2009
Capital - equities	2.0	(1.55)	(3.55)
Capital - bonds	1.0	(0.79)	(1.79)
Fidelity - equities	1.7	0.41	(1.29)
Fidelity - bonds	0.6	1.38	0.78
ING	1.0	(0.12)	(1.12)
Pantheon – private equity	0.75	N/A	N/A

16.5 The latest quarterly meetings took place on 4 March 2010 between each active Fund Manager and the Acting Head of Finance – Treasury & Pensions. A summary of the key issues discussed at those meetings is set out below.

16.5.1 **Capital International**
- o Performance to date.
- o Future outlook for markets.
- o Review of our Responsible Investment issues.

16.5.2 **Fidelity**
- o Performance to date.
- o Future outlook for markets.
- o Review of Responsible Investments Issues.

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

16.5.4 **Pantheon**
- o Performance to date.
- o Future outlook for markets.
- o Change of ownership.
- o Future pattern of cash flows.

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

- Capital's Equity and Bond mandates are below target by 3.55% and 1.79% respectively.
- Fidelity's Equity mandate underperformed the gross target by 1.29% but achieved the benchmark. The Bond mandate outperformed the gross target by 0.78%.
- ING are below target by 1.12%.

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 2.04% per cent up to 31 December 2009, under performed the gross benchmark by 2.54% and also under performed the gross target by 4.18%.

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

17.3 Although equity and bond returns have remained 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, risks of 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 31 December 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 11 (end of February 2010) is attached in Appendix 5.

19.2 Significant variances to date are:

- transfer values paid £2.180m and received (£2.287m) where the volume will vary by year and timing within the year ;

- capital cost credits, (0.548m) relate to early retirements;

- investment income £6.802m is dependent upon companies invested in by our Fund Managers;

- employer contributions £0.491m are dependent on the number and grades of staff transferring into and out of the scheme;

- investment management expenses (£2.678m) 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, £11.55m has been drawn down by ING to fund investments in both UK and European property funds. The balance of £6.45m 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 invested until the end of 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 31 December 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 31 December 2009			As at 31 December 2008		
Shares	Rank	Percentage of Equities	Market Value	Rank	Percentage of Fund	Market Value
		%	£'000		%	£'000
1. Shell	1	0.65	2,561	2	3.3	10,336
2. BP	2	0.61	2,382	1	3.3	10,359
3. Vodafone	3	0.60	2,341	3	2.8	8,860
4. HSBC	4	0.43	1,700	4	1.9	6,028
5.E.on	5	0.41	1,618			
6. Roche	6	0.40	1,557	10	0.8	2,672
7. SMC Corp	7	0.36	1,408			
8.Imperial Tobacco	8	0.35	1,360			
9. BNP Paribas	9	0.33	1,313			
10.BAE Systems	10	0.33	1,299			
Glaxosmithkline				5	1.8	5,731
Astrazeneca				6	1.2	3,672
Barclays				7	1.1	3,330
Aviva				8	1.0	3,189
BHP Biliton				9	0.9	2,928

FUND HOLDINGS

	As at 31 December 2009		As at 31 December 2008	
Fund Holdings	Percentage of Fund	Market Value	Percentage of Fund	Market Value
	%	£'000	%	£'000
UK equities	5.7	34,849	19.8	103,375
Overseas equities	13.3	80,745	18.6	96,859
Pooled investment vehicles	64.0	388,073	40.8	212,845
Index-linked securities	2.8	17,181	2.8	14,827
Fixed interest securities	2.7	16,280	3.6	18,806
Cash	3.7	22,598	5.4	27,978
Property	5.9	35,630	6.8	35,635
Private Equity	1.9	11,303	2.1	10,838
Totals	100.0	606,660	100.0	521,164

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APPENDIX 2

FUND PERFORMANCE TO 31 DECEMBER 2009

GROSS OF FEES

	Market valuations 31.03.08	Market valuations 31.03.09	Market valuations 31.12.09	Weighted % Fund change 1 October to 31 December 2009	% benchmark change 1 October to 31 December 2009	% target 1 October to 31 December 2009 2009	**Under (-)/over (+) performance versus target 1 October to 31 December 2009**	Weighted % Fund change 1 April 2007 to 31December 2009	% benchmark change 1 April 2007 to 31 December 2009	% target 1 April 2007 to 31 December 2009	**Under (-)/over (+) annualised performance versus target 1 April 2007 to 31 December 2009**
	£'000	£'000	£'000	%	%	%	%	%	%	%	%
Capital -Equities	125,246	95,609	129,425	3.08	2.93	3.43	(0.35)	(0.64)	0.91	2.91	(3.55)
Capital -Fixed Income	62,451	63,111	68,913	(0.59)	(0.94)	(0.69)	0.10	4.18	4.97	5.97	(1.79)
Fidelity -Equities	126,566	98,171	133,645	3.58	2.91	3.34	0.24	1.06	0.65	2.35	(1.29)
Fidelity - Fixed Income	65,390	64,390	74,565	1.16	(0.36)	(0.21)	1.37	6.77	5.39	5.99	0.78
Bernstein -UK Equity	117,805	71,622	36	-	-	-	-			-	-
Bernstein -Global Equity	28,299	18,875	27	-	-	-	-			-	-
L & G-UK Equity	-	-	102,334	5.49	5.47	5.47	0.02	-	-	-	-
L & G-Global Equity	-	-	25,540	3.53	3.48	3.48	0.05	-	-	-	-
ING	51,505	36,000	41,279	7.75	7.90	8.15	(0.40)	(12.76)	(12.64)	(11.64)	(1.12)
Pantheon - private equity	2,719	11,509	11,359	(1.56)	4.43	5.18	(6.74)			N/A	N/A
Total	**579,981**	**459,287**	**587,123**	**3.15**	**3.44**	**3.85**	**(0.70)**	**(2.04)**	**0.50**	**2.14**	**(4.18)**
In house cash - earmarked for property	9,350	9,350	6,450								
In house cash - earmarked for private equity	9,500	9,500	13,150								
Other	544	4,154	4								
Total Fund	**599,375**	**482,291**	**606,727**								

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Appendix 3 – Pension Fund Top Equity Ten Holdings – Responsible Investment Activity - Quarter ending 31 December 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 3.	Responsible investment group Fair Pensions is working with institutional investors to submit shareholder resolutions at Shell's AGM on 18th May & BP's AGM on 15th April . The resolutions will push Shell & BP on the long term challenges arising from their investment in controversial Canadian oil(Tar) sands. LAPFF began engaging with both companies on this issue in 2008. LAPFF will be issuing a draft statement on its position in the near future and intends issuing voting alerts to its members 15 days prior to each companies AGM. This will give LAPFF the opportunity to review each companies meeting materials which will be made available 21 days before the AGM's.

Top Ten Holdings & Percentage of Total Equities of Fund	Fidelity – Details of Responsible Investment Engagement	Capital International – Details of Responsible Investment Engagement	LAPFF Engagement
2. BP (0.61%)	"	"	"
3. Vodafone (0.60%)	"	"	No engagement this quarter.
4. HSBC (0.43%)	"	"	"
5. E.ON (0.41%)	"	"	"
6. Roche Holdings (0.40%)	"	"	"
7. SMC Corp (0.36%)	"	"	"
8. Imperial Tobacco(0.35%)	"	"	"
9. BNP Paribas (0.33%)	"	Meeting held October. Discussed microfinance(offering small personal loans)Paribas interested in acting in an intermediary capacity, but its agengy network negated more direct provision of small personal loans. Management advised that a recent rights issue would be used to repay the French state for support provided during the banking crisis. Regarding shareholder representation and influence on the board-BNP advised that shareholder representatives were present at every board meeting and were entitled to voice their opinion. Capital advised BNP that their voting decisions were taken internally rather	"

Top Ten Holdings & Percentage of Total Equities of Fund	Fidelity – Details of Responsible Investment Engagement	Capital International – Details of Responsible Investment Engagement	LAPFF Engagement
		than following recommendations of a third party provider, any questions on resolutions would be sent to the company, that said Capital requested direct communication from the company ahead of the AGM.	
10. BAE Systems (0.33%)	"	Capital have reported that they have not undertaken any engagement on an environmental, social or governance basis in quarter .	"

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.

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Appendix 4

Comparison of Responsible Investment Activity Quarter ending 30 September 2009 –31 December 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 CO2 emissions under its Emissions Trading scheme affects companies in the portfolio. Companies that can reduce their direct and indirect CO2 emissions will be at a competitive advantage in markets where there are limits on emissions. Fidelity has identified this scheme as a key impetus for utility companies to move their portfolio of energy producing assets away from coal based power stations towards those that are less polluting such as hydro-power. During the quarter, Fidelity examined efforts by European utilities Eon and Iberdola to diversify in this	**Climate Change** Several of Capital's analysts and portfolio managers met with five environment and energy experts in Washington in October to discuss issues facing US policy makers. At the meeting the likelihood of a legislative outcome was discussed, probably via the Kerry Boxer Bill, to reduce greenhouse gas emissions. Capital enquired about technologies that currently exist and those that would be required to help meet greenhouse gas reduction targets. The importance of Carbon trading to achieving emission reductions was also discussed. The purpose of the meeting was to deepen Capital's understanding of the US approach to combating climate change, which in turn will significantly impact on industries and Capita's investment decisions.	**Climate Change** LAPFF has expressed its support for the Carbon Disclosure Standards Board(CDSB).The aim of this initiative is to provide a single framework for climate-change related disclosure within a company'smainstream reporting. LAPFF believes such a framework is essential to further initiatives seeking a concensus on the global action required to tackle climate change and to compare company practice across sectors and geographic regions. **Banks** LAPFF has made submissions to the Walker Review of the corporate governance of banks and other financial institutions. And to the Financial Reporting

Fidelity	Capital International	LAPFF
way. Fidelity also attended a presentation by Total who are actively seeking ways to improve the energy efficiency of its operations ahead of the introduction of carbon trading. **Renewable Power** Fidelity's renewables analyst held talks with wind turbine producers Vestas Wind Systems, to discover the potential longer term advantages of wind power over other alternative energies. Solar companies may require highly water-intensive processes in comparison to wind power generation and thus may face regulatory constraints on water use in future. Fidelity held meetings with various solar companies to discover the extent of potential government support for solar energy.	**Corporate Incentives** Capital met with UK technology company CSR in November in relation to proposed changes to their executive long term incentive scheme. Capital had some concerns around the timing of awards and the targets set for executives. The meeting discussed the difficulty of setting appropriate performance targets for a company which has had very cyclical earnings. Dialogue with the company is continuing ahead of the company's AGM. **DSG International-New Chairman** Capital analysts and managers met with the new chief executive of UK retail group DSG (owners of Currys and Dixons) in October to learn about his approach and philosophy on Corporate Governance.	Council(FRC). LAPFF's policy engagement reflects a desire to ensure that shareholders are meeting the challenges arising from the financial crisis and the determination to achieve real reform in order to reduce the risk of a similar event in future. LAPFF have emphasised the need for a focus on non-financial performance indicators and suggested to the FRC that the Combined Code be amended to encourage greater disclosure of directors' pension entitlements. LAPFF also raised the issue of annual elections for all directors. The final recommendations of the Walker review were released in November. These included: o greater disclosure by company's in relation to pay. In particular the disclosure of the number of employees earning over £1million in a series

Fidelity	Capital International	LAPFF
Brand & Reputational risk Fidelity contacted Carrefour to learn how the retailer manages reputational risk through the monitoring and auditing of its global supply chain. The company carries out risk assessments of the countries in which suppliers are based, the types of product supplied, the suppliers and individual sites in order to determine which suppliers should be audited. The company recently focused on auditing the Chinese textile, shoe and toy suppliers where it identified non compliance with its social charter relating to working hours, salaries and freedom of association. The company provided training to those suppliers who fell short of acceptable practice.		of bands. ○ The boards of banks and financial institutions should consider transitioning to annual election for all directors, a position advocated by LAPFF ○ greater emphasis on the role of institutional shareholders as the owners of companies. **Sustainability** In November LAPFF participated in the French oil giant Total's corporate and social responsibility(CSR) briefing. At the briefing Total's chief executive emphasised that CSR issues are central to its business strategy. The company had suffered reputational damage due to its continuing operational presence in Burma and environmental damage caused by its operations. Total are keen to create a more positive image for

Fidelity	Capital International	LAPFF
		itself in relation to CSR, particularly in relation to improving its role and operations in Burma for the benefit of the local population. LAPFF view Total's revised actions as a good example to others in the industry. Total's CSR practices could be held up to other companies as a model of how to improve their own CSR practices.

APPENDIX 5

PENSIONS FUND

BUDGET MANAGEMENT - PERIOD 11 (END OFFEBRUARY 2010)

	2009/10 Budget £'000	Plan to period11 £'000	Actual to period 11 £'000	Over/under (-) to Period11 £'000	Explanations of variations
Income					
Contributions and benefits:					
Employee Contributions	(10,500)	(9,625)	(9,678)	(53)	
Employer Contributions	(34,700)	(31,808)	(31,317)	491	Dependent on number and grade of staff transferring into and out of scheme
Transfer Values Received	(4,000)	(3,667)	(5,954)	(2,287)	Volume and timing varies
Capital Costs			(548)	(548)	Early retirements
Total income	**(49,200)**	**(45,100)**	**(47,497)**	**(2,397)**	
Expenditure:					
Pensions and other benefits	26,800	24,567	23,444	(1,123)	
Lump sums	3,500	3,208	3,261	53	Dependent upon the number of staff retiring and sums due.
Transfer values paid	4,000	3,667	5,847	2,180	Volume and timing varies
Refunds on contributions	50	46	4	(42)	
Administrative expenses	750	688	376	(312)	
Total expenditure	**35,100**	**32,176**	**32,932**	**756**	
Net addition from dealings with members	**(14,100)**	**(12,924)**	**(14,565)**	**(1,641)**	
Returns on Investment:					
Investment income	(18,300)	(16,775)	(9,973)	6,802	Dependent upon companies invested in by our Fund Managers.
Taxation	200	183		(183)	
Investment management expenses	3,600	3,300	622	(2,678)	Timing of receipt of Fund Managers invoices
Net return on investments	**(14,500)**	**(13,292)**	**(9,351)**	**3,941**	
Totals	**(28,600)**	**(26,216)**	**(23,916)**	**2,300**	

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Agenda Item 8

Haringey Council

Agenda item:

Pensions Committee On 15 April 2010

Report Title. **Quarterly Asset Allocation review**	
Report of **The Chief Financial Officer** Signed :	
Contact Officer : **Colin Duck – Corporate Finance** **Telephone 0208 489 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 recommendations for changes to the 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 2009 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 six months of August 2009 to January 2010 amounts to approximately £660,000. Future reports will continue to monitor the performance of that decision.

14.3 The fourth 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 31 January 2010.

Quarterly Asset Allocation review

14.4 Hewitt's report shows the Fund's asset allocation and benchmark weightings as at 26 January 2010 as provided by the Custodian, Northern Trust. Summary numbers are as follows. The last column shows Hewitt's suggested range.

	Actual allocation as at 26/01/10 %	Benchmark %	Suggested range %
UK equities	27.2	30.5	25 – 35
Overseas equities	34.7	34.5	30 – 40
UK gilts	4.6	7.0	0 – 10
Index linked gilts	6.3	6.0	0 – 20
Corporate bonds	12.4	7.0	0 – 15
Private equity	2.0	5.0	2 – 5
Property	6.7	10.0	5 – 15
Cash	6.1	0	0 - 10
Totals	**100**	**100.0**	

14.5 Hewitts view is that the benign environment that has strongly boosted asset prices is ending. A reversal of easy monetary conditions is about to begin.

14.6 High budget deficits, the end of Bank of England bond purchases and cyclical factors will push gilt yields higher, even as short-term interest rates stay low.

14.7 Hewitts are of the view that equities are losing support, impacted by the changed monetary environment, higher bond yields and a challenging profits outlook.

14.8 Despite a recently strong showing by property, Hewitts still favour this asset class.

14.9 Concerning the Pension Fund Hewitt advise that:

- Equities have had a good run but will struggle from here. Consequently, Hewitts are comfortable with the 3.3% underweight position overall.
- Corporate bonds have done very well over the last six months and gilts are looking expensive. Hewitts' advice is to reduce gilts by 2.0% (approximately £12.5m), index linked by 0.3% (approximately £2m) and corporates by 2.4% (approximately £15m) holding this in cash for the moment. Hewitts' recommendations is that the cash raised is made available to be invested in property up to the benchmark weighting.
- Concerning property, Hewitts remain convinced that opportunities will come and that the underweight position in property will be closed through active purchasing by the property manager in due course.
- The Fund's private equity allocation should not be increased at this time

Conclusions

14.10 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.

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

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APPENDIX 1

Hewitt

Asset Allocation Report – February 2010
London Borough of Haringey

22 February 2010

Prepared for

Pensions Committee

Prepared by

Emily McGuire

David Page

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

Contents

Executive Summary

Investment Outlook

- The benign environment that has strongly boosted asset prices is ending. A reversal of easy monetary conditions is about to begin.
- High budget deficits, the end of Bank of England bond purchases and cyclical factors will push gilt yields higher, even as short-term interest rates stay low.
- Equities are losing support, impacted by the changed monetary environment, higher bond yields and a challenging profits outlook.
- Despite a recently strong showing by property, we still like this asset class, together with hedge funds within the "alternatives" area.

Asset Allocation and Fund Benchmark

The Fund's asset allocation and benchmark weightings at 26 January 2009 are shown in the table below:

	Value £m	Total %	Bmark %	Suggested Range
UK Equities	169.5	27.2	30.5	25 - 35
Overseas Equities	216.2	34.7	34.5	30 - 40
UK Gilts	28.7	4.6	7.0	0 - 10
Index Linked Gilts	39.4	6.3	6.0	0 - 20
Corporate Bonds	77.4	12.4	7.0	0 - 15
Private Equity	12.3	2.0	5.0	2 - 5
Property	41.8	6.7	10.0	5 - 15
Cash (in custody accounts)	3.6	0.6	-	0 - 10
Cash (internal)	34.3	5.5	-	
Total	623.2	100.0	100.0	-

Source: Northern Trust and Haringey

What this means for the Fund

- ***Equities*** – equities have had a good run but we believe they will struggle from here. We are comfortable with the 3.1% underweight position overall.
- ***Bonds*** – Corporate bonds have done very well over the last six months, and gilts are still looking expensive. Our advice is to reduce gilts by 2.0%, index-linked gilts by 0.3% and corporates by 2.4%, holding this in cash for the moment. **Given the time sensitive nature of this advice at the date of the report, we recommend it is implemented immediately**. We recommend that the cash raised is made available to be invested in property up to the benchmark weighting. We are comfortable with holding a relatively high proportion in cash pending the outcome of the upcoming investment strategy review.
- ***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.
- ***Private Equity*** – we do not believe that the Fund's private equity allocation should be increased at this time.

Success of implemented advice so far

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 one 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 benchmark to which they manage assets.

As a result, approximately £10 million was transferred from UK gilts to corporate bonds in early August.

The returns for the six month period from August - January, are as follows:

Six months to 31 January 2010

	Fund	Benchmark
UK Gilt Fund	5.1%	2.5%
UK Corporate Bond Fund	11.8%	9.1%

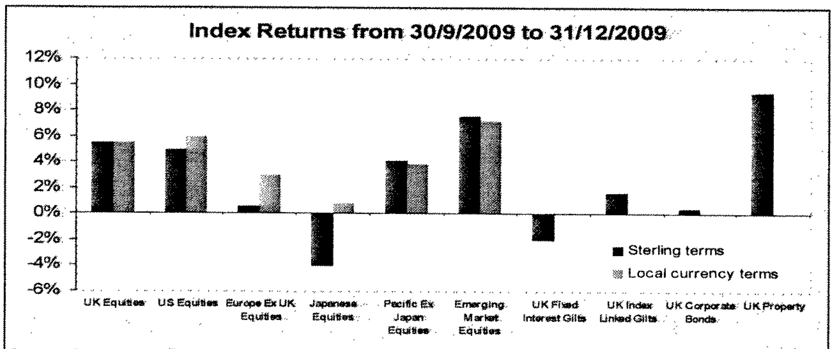
Source: Fidelity

Using the benchmark returns shown above, the move from gilts to corporate bonds generated an additional return of approximately £660,000 over the six month period. Clearly this has been a beneficial asset allocation move for the Fund.

Quarterly Investment Outlook

Summary

- The benign environment that has strongly boosted asset prices is ending. A reversal of easy monetary conditions is about to begin.
- High budget deficits, the end of Bank of England bond purchases and cyclical factors will push gilt yields higher, even as short-term interest rates stay low.
- Equities are losing support, impacted by the changed monetary environment, higher bond yields and a challenging profits outlook.
- Despite a recently strong showing by property, we still like this asset class, together with hedge funds within the "alternatives" area. Commodity returns are likely to disappoint.



Source: Datastream/IPD

Benign market environment to be challenged

Equities and other "risky" assets have benefited from an economic rebound. Coming from very low levels of activity, there has been little immediate worry over inflation or an early end to stimulatory economic policy. However, such a benign environment is now under challenge on two fronts. First, the economic turnaround so far has relied on strong budgetary and monetary stimulus everywhere, from China to the USA. As this is withdrawn, the ability of private spending (consumers and companies) to step up and fully compensate is doubtful. Second, even though spare capacity resulting from the recession should keep inflation low for some time, concern over inflation has risen. This is evident from higher long term inflation forecasts in consensus surveys, a growing gap in yields between fixed interest and inflation-linked bonds, and firm commodity prices. This leaves central banks with the difficult challenge of doing enough to maintain credibility over inflation, while still ensuring that economic activity is not hindered by any premature monetary tightening.

The phases of monetary tightening

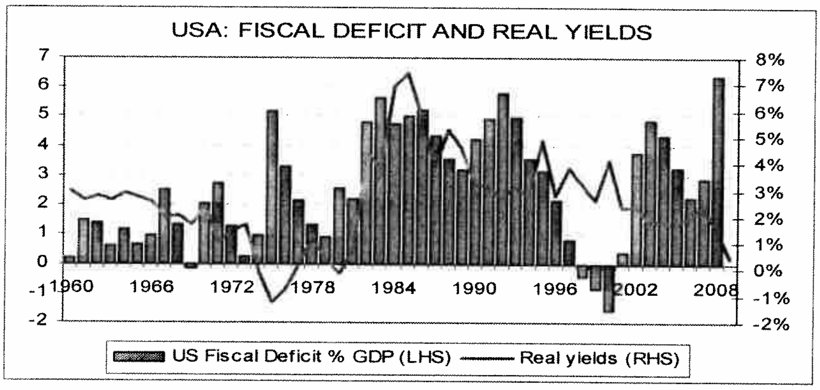
We expect the process and mechanics of monetary tightening to occur in four phases as follows:

Phase 1: Quantitative easing will end. This has already begun in the USA and the UK where it has been an important part of policy. Bank of England gilt purchases will soon be complete. In the USA, various emergency lending facilities are being withdrawn, offsetting asset purchases.
Phase 2: The second phase is the active roll back of the extra money put into the system – draining the large commercial banks' reserve balances that are the counterpart of the central bank asset purchases. Though idle now, these reserves are large and there is a need to drain some of this away this year to forestall inflationary pressures later. Central banks will do this using a variety of money market management tools available.
Phase 3: The third phase is raising short-term policy interest rates. Currently, consensus sees UK base rates rising in the second half of this year, approaching 3% by the end of 2011.
Phase 4: This phase sees central banks return to more normal balance sheets, involving the sale of bonds purchased under quantitative easing. It is unlikely to feature soon, as it could create major problems for bond markets struggling with large issuance. In fact, it could be several years before central bank balance sheets are fully unwound.

Though all of this will take time to be completed, we expect investors to anticipate the effects of these changes and markets to be on the defensive as the reversal of the easy monetary stance takes effect.

Bond yields to move higher

For some years, global bond markets and gilts in particular have been expensive on our valuation metrics. This can be attributed initially to the desire of Asian and Middle Eastern central banks to recycle their trade surpluses into the US Treasury bond market with knock-on effects elsewhere. The credit crisis and consequent desire for 'safe haven' assets then continued the downward pressure on yields. Recently, quantitative easing has been a dominant influence on gilt yields with huge issuance of gilts in 2009/2010 more or less offset by Bank of England gilt purchases.



We believe this period of expensive bond markets is now at an end. As shown in the chart above, real bond yields (adjusting nominal bond yields for inflation) should broadly track budget deficits and the discrepancy in the trends at present is all too obvious. As quantitative easing ends, real yields should increase on a sustained or secular basis. More cyclically, increasing capacity utilisation in the industrial sector and a bottoming out in unemployment rates should lead to a rise in real yields, if history is any guide. However, short term interest rates close to zero have made the US yield curve as steep as at any time since 1992, restraining the upward move in long term yields for the time being. The bottom line is that we believe that fixed income gilt yields have further to rise and preferably we would not make purchases until longer dated UK yields reach 5%.

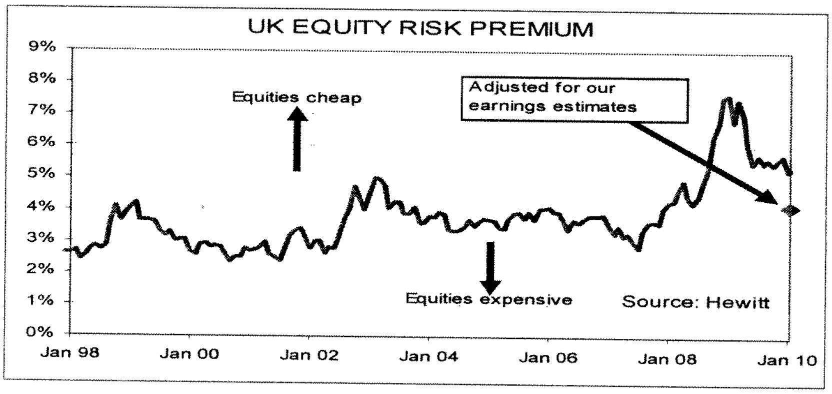
Similar story for index-linked yields

The same factors apply to index-linked gilts where yields are also clearly below our long term 'fair value' estimates so here too we would wait before committing cash to index-linked gilt purchases. We believe 'break-even' inflation rates (the difference between fixed interest and index-linked gilt yields of the same maturity) should be around 3.5% at present. This comprises a long-term inflation expectation of 3% and an inflation risk premium (the amount investors are prepared to pay for insurance against inflation risk) which has historically been around 0.5%. Current break-evens still offer opportunities to switch from fixed income to index-linked gilts to terms of 15 years or so, where liabilities are inflation-linked.

Corporate bonds still attractive versus fixed interest gilts

Greater confidence in the economic outlook has caused the earlier undervaluation of corporate bonds to reduce. Gilt yields are also set to rise. Nevertheless, we still see corporate bonds as attractive relative to gilts, although we have turned to a more neutral stance against cash.

Equities likely to lose support



The equity rally since last March has gone well beyond our expectations, with the move in the S&P 500 having entered the record books as the largest upward move within a year in the past century. However, equities now face formidable obstacles in taking the rally forward. Higher financial system liquidity from quantitative easing clearly helped asset prices, but this monetary stimulus is now ending, with a reversal to follow. This pull-back of easy monetary conditions is likely to exert some pressure.

Additionally, rising bond yields will dent the valuation attractiveness of equities. In calculating the equity risk premium (the additional return equity investors require over gilts) we already allow for the likely shortfall of corporate profits relative to consensus expectations (see chart), but higher bond yields would take the premium into outright unattractive territory. Other measures of valuation show equity markets now are close to long term averages: forward looking price to earnings ratios are only marginally lower than average and the current UK price to book value ratio of 2x is slightly higher than the average since the 1970s. Our assessment is that valuation support for a continuation of the equity rally is now thin.

Equities: a sellers' market

Most of the factors which drive equity markets forward are likely to offer limited support from here on. The changed monetary environment, with the four stages of tightening discussed earlier, is an important source of discomfort. Corporate profits are rebounding, but the increase over 2010-11 as a whole will be weaker than the market currently expects. Weighing up these factors, we believe this is a sellers' equity market rather than one for buyers and we stay on the sidelines.

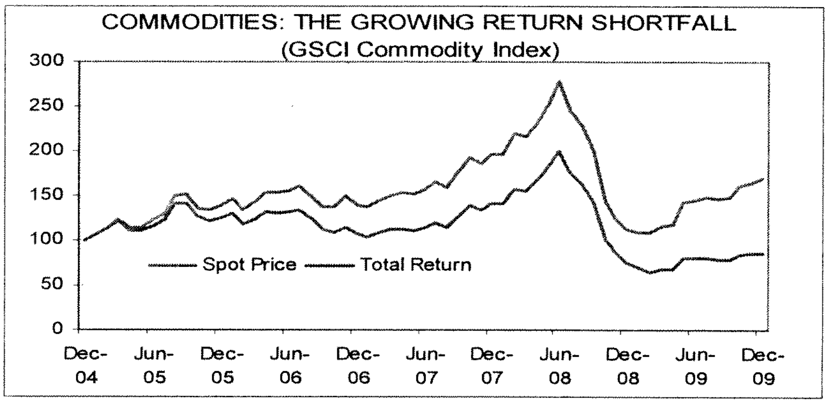
Within equities, we prefer lower risk large capitalisation stocks in developed markets. Higher 'beta' areas of small cap and emerging markets have been strong, unsurprisingly, given the strength of equity markets in general, but a mood of greater caution among investors could easily lead to a disorderly reversal. Our regional focus has favoured Japanese equities and this remains.

Hedge funds and property preferred within alternatives

Ongoing market volatility and greater than usual valuation anomalies suggest attractive opportunities for hedge funds. We believe attractive risk-adjusted returns are available without the need for high leverage or rising equity markets. A stressed economic and financial environment should mean that global macro and distressed debt strategies will have scope to deliver strong returns.

Almost alone among 'directional' asset classes (those which depend on a rising market), property remains undervalued and attractive in our opinion, However even here, we would exercise some caution in making purchases. Very strong demand for desirable properties at this time is pushing up prices too sharply, and a relapse in investor optimism could see prices fall back somewhat. The next section of this report provides a more in-depth look at the property market.

Commodities: disappointments likely



For several years, spot commodity prices have been a poor guide to returns achieved. Prices have risen by 70% (on the widely-used GSCI index) but returns are negative (-15%) over the last five years. Negative roll returns (selling shorter dated futures contracts to buy longer dated contracts) across a range of commodities, particularly energy, are to blame. Given prices are above marginal cost in energy and metals at this time and slowing Chinese demand, the outlook for commodity prices is not strong. Unless roll returns reverse very substantially, which we consider unlikely, medium term commodity returns will disappoint.

The Case for Property

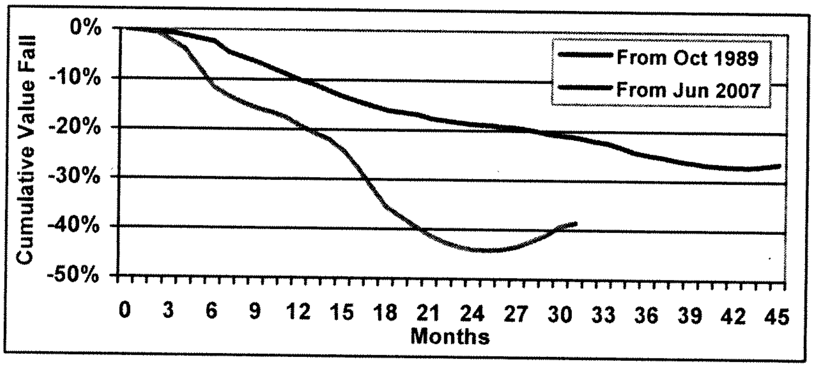
UK property market

The UK property market experienced a dramatic fall in prices since the peak of the market in June 2007, with capital values falling over 44% over 24 months to mid 2009.

Although there has been a rally in property yields for good quality stock over the second half of 2009, capital values still remain 36% below their peak (based on the Investment Property Databank Monthly Index as at end-January 2010).

The re-pricing of property yields which started in mid-2007 was initially driven by a deterioration of investor sentiment (driven by low yields), joined later by a decline in rents achievable on new lettings and lease renewals, as tenant demand weakened.

Both the rate and extent of this decline is unprecedented - it has been twice as fast and almost twice as deep as the 1990s property crash as shown by the chart below.



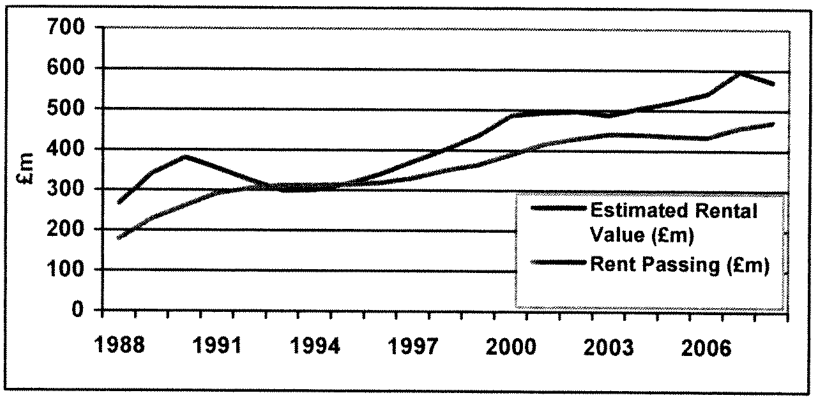
Source: IPD Monthly Index

Unlike the 1990s property crash, this downturn has not been preceded by a property development boom. For example, over three times as much floor space was delivered to the City of London office market in 1989-1992 as is due for delivery over the period 2008-11. Furthermore, the proportion of property sitting vacant has not increased to the same levels as the early 1990s.

Commercial property rental values continue to decrease with the IPD Monthly Index having already recorded a 10% fall since rental values peaked in Q2 2008. While there are certainly further rental value declines to come, the structure of UK commercial property leases provides some insulation from these declines feeding into investors' income streams. This is principally due to:

- Upward only rent reviews – these remain common market practice and essentially prevent the rent payable falling back to market levels until the lease expires.
- Long leases – the average length of the new leases granted in 2007/08 was 11.7 years to expiry or the first break option for the tenant to terminate.

The impact of lease structures can be seen in IPD Annual Index data during the last two periods of rental value decline in the early 1990s and 2002-03 in the chart below. Over both periods, rental income to investors remained stable instead of falling.



Source: IPD Annual Index held sample

We currently have a preference for UK property as opposed to overseas exposure. The primary reasons for this are as follows:

- The UK property market is substantial and has a high level of transparency. It has been attractive to both UK and foreign investors on a long term basis.
- In our experience, manager fees and fund running costs are materially higher overseas.
- It is not possible to gain access to overseas property without investing in funds that use gearing which can result in increased performance volatility.
- Whilst commercial property markets outside the UK have also experienced price declines, for the most part, the UK is further advanced in its price correction cycle.
- The characteristics of some overseas property markets have greater similarities to index linked bonds due to the market structure.

Even with the scale of the fall in UK property prices there are still questions to ask:

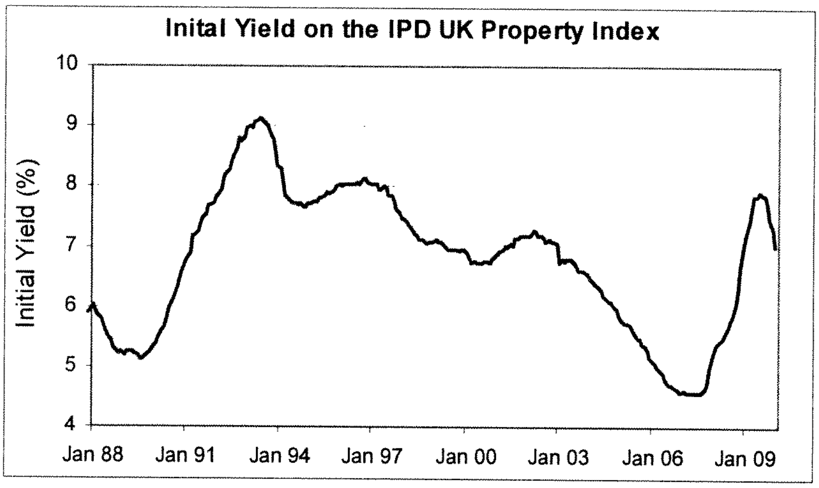
- Are UK property valuations attractive? If so,
- Is there a strong strategic case for investment in UK property? and
- Is the timing right to increase allocations to UK property?

Are property valuations attractive?

The rate of decline in UK commercial property values slowed towards the end of Q2 2009 with valuation yields stabilising and then declining over the second half of 2009. The IPD Monthly Index initial yield is now 7.0% compared to a long run average of 6.4% from IPD Indices back to the early 1970s.

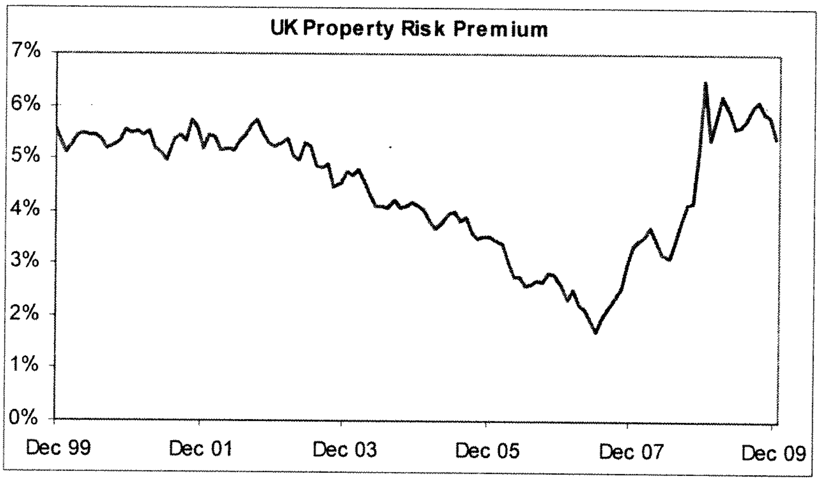
For the best quality "prime" properties, evidence from transactions over the second half of 2009 demonstrate that yields have improved significantly, with capital values rising as a consequence. However, properties where tenant quality, lease length, building or location quality are somewhat impaired are unlikely to benefit from material yield compression in the short-term, although investors are now showing increased interest in these assets too.

Using initial yields as a valuation measure, UK property appears to be the most attractively valued it has been for around ten years.



Source: IPD

However, our preferred property valuation measure is the Property Risk Premium ("PRP"), which is the additional return that investors expect over gilts. It reflects the additional risk investors perceive investing in property, such as the potential for rents to fall and increases in void levels if tenants fail or do not renew tenancies.



Source: Hewitt Associates Limited

The chart shows that investors currently expect property to return just below 6% p.a. more than index-linked gilts (compared to the long term average of 4% p.a.) The message is that property appears to be attractively priced relative to gilts.

The strategic case for investment in property

UK property valuations are clearly looking more attractive now but we should also compare the outlook for property against other asset classes.

In the table below, we set out our in-house long-term assumptions for the expected returns and risks of various asset classes as at 31 December 2009.

Our expected return for new property investment as at 31 December 2009 was 8.4% p.a. Our calculations incorporate rental values falling by around 10% over the short to medium term due to depressed property demand. Thereafter, rental income is taken to increase in line with inflation, assumed to be 2.4% p.a.

How does UK property compare to other asset classes?
Hewitt Assumptions at 31 December 2009

	UK Property	UK Equity	Fixed Interest Gilts	ILG	Corporate Bonds
Expected return (%)	8.4	8.0	4.3	3.3	5.4
Volatility of return (%)	18	25	11	9	12
Correlation with Property	1.0	0.2	0.1	0.1	0.1

From the table above it can be seen that we expect property returns to be greater than those for (passively managed) UK equities but with much less volatility. We also expect property to comfortably outperform corporate bonds.

Combined with other assets, we believe that property provides a good diversification of returns with low correlations to equities, corporate bonds and index-linked gilts. From a liability perspective, property can also provide a partial hedge against rises in inflation over the long term.

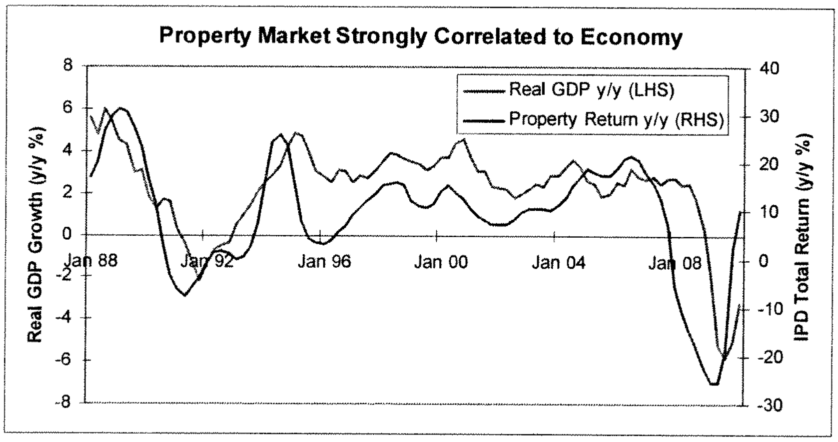
On the downside, property can be very illiquid with high transaction costs (around 7% for the combination of buying and selling a property) and physical property management costs are much higher than the management costs for equities or bonds although this is reflected in the figures above.

Timing

But is it the timing right to invest? In this section, we consider some factors which help to judge an appropriate time to invest in property.

Economic Growth

Property returns are cyclical and tend to follow the business cycle as shown in the chart below. Property prices tend to rise when GDP is growing. This is intuitive as an expanding economy creates employment, increasing demand for office space and industrial units, and greater wealth tends to be spent in shops, increasing the demand for retail space.



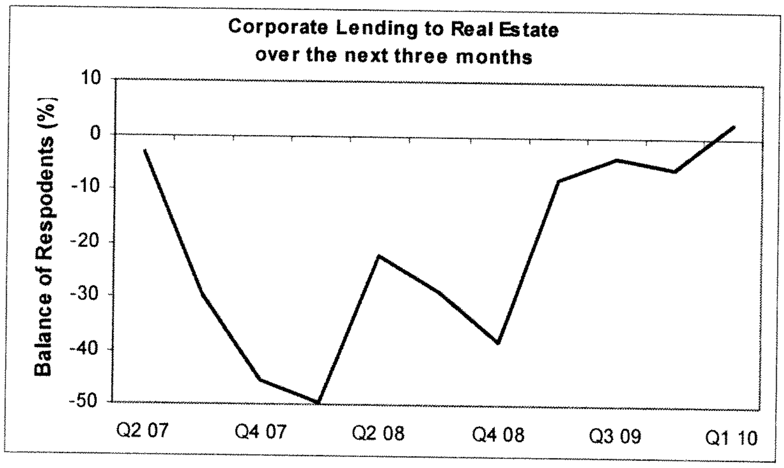
Source: Thomson Datastream

With the economy expected to bottom over 2009/10, even if we see an anaemic recovery, investment in property may prove timely - particularly with the strong yield underpin available.

Credit

The cost of credit, and hence credit spreads, and interest rates influence the return on property investment. This is because they determine the cost of financing property investment for a large number of investors. Five year UK swap rates are often used as a proxy for financing costs and currently stand at circa 3.1%. At this level, even after allowing for still significant bank lending margins, property has again become self-financing.

The property market is also affected by the ease of obtaining new credit, as well as by the cost of credit. We use the Bank of England's Credit Conditions Survey as an indicator of credit availability (a positive balance indicating that more credit is available) and this is shown below.



Source: Bank of England

The enormous support offered by the Government to banks has now helped to slow the contraction in credit availability, although banks are still fairly reluctant to lend. Nevertheless the trend is upwards, albeit the process may well be slow as banks rebuild their balance sheets.

Commercial property loan books

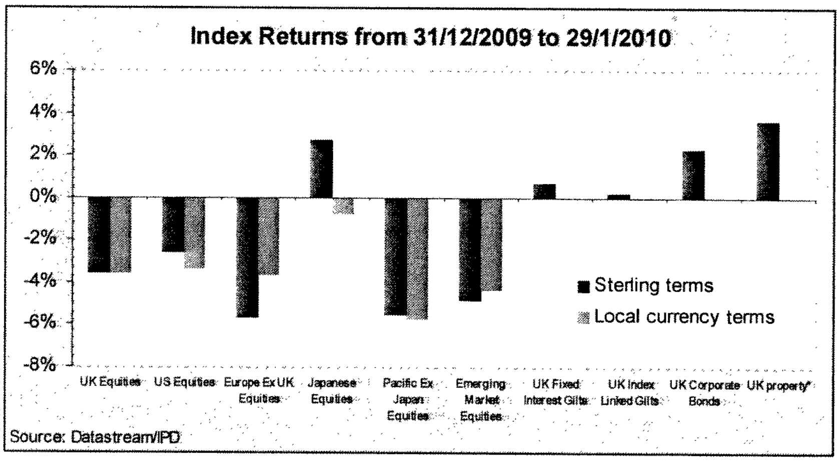
The strategy of the UK and Irish banks at the moment is to 'extend and amend' in terms of their commercial property loans book. In the vast majority of cases, the banks do not want the assets back on their balance sheets and are seeking to extend expiring loans or amend terms in other ways. Banks will of course take tougher action where there has been a breakdown in the lender-borrower relationship, property income is failing to cover interest costs, or where the bank has lost faith in the borrower as an asset manager.

The banks may of course release more stock over time. However, banks are much more focused on bringing in new advisors/asset managers to work out the assets over the medium term rather than flood the market with distressed sales.

Conclusion

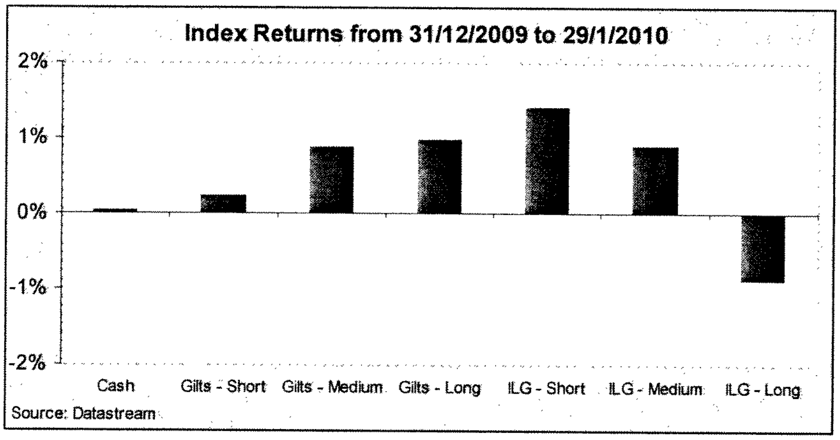
The strategic case for property investment remains strong and, almost alone among 'directional' asset classes, property remains undervalued and attractive in our opinion. Some selectively is need however as there is a risk that strong demand for desirable properties at this time is pushing up prices too sharply, and a relapse in investor optimism could see prices fall back somewhat.

January Market Update



* Property relates to the month of December 2009

- Equity markets fell over the first month of the year with Pacific ex Japan equities (-5.8%) registering the worst performance in local currency terms. Japanese equities returned +2.7% over the month as sterling weakened against the yen.
- Over January, sterling strengthened against the euro (2.4%), even though it weakened against the yen (-3.4%) and broadly held level against the dollar (-0.8%).



- Fixed gilt yields fell across all maturities in January, with long dated gilts outperforming short and medium dated gilts. Real yields on short and medium dated index-linked gilts fell over the month but rose on longer dated index-linked gilts.
- Corporate bond returns were positive in January as fixed interest yields fell and spreads tightened a little further.
- Property returned 3.6% over December, the sixth successive month of positive performance.

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