Report for: Pensions Committee and Board 20 March 2018

Item number: **12**

Title: Pension Fund Quarterly Update

Report authorised by: Jon Warlow, Chief Finance Officer (CFO and S151 Officer)

Lead Officer: Thomas Skeen, Head of Pensions
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Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1. To report the following in respect of the three months to 31st December 2017:

- Funding Level Update
- Investment asset allocation
- Investment performance
- Investment Update

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the information provided in respect of the activity in the three months to 31st December 2017 is noted.

4. Reason for Decision

4.1. N/A

5. Other options considered

5.1. None

6. Background information

6.1. This update report is produced on a quarterly basis. The Local Government Pension Scheme Regulations require the Committee and Board to review investment performance and sections 11 and 12 of this report provide the information for this. Appendix 1 shows the targets which have been agreed with the fund managers. The report covers various issues on which the Committee and Board have requested they receive regular updates.

7. Contribution to Strategic Outcomes

7.1. Not applicable

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

Finance and Procurement

8.1. The CFO (S151 Officer) has been consulted on this report and there is no direct financial impact from the contents of this report.

Legal Services Comments

8.2. The Council as administering authority for the Haringey Pension Fund must periodically review the suitability of its investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with its overall investment strategy.

8.3. All monies must be invested in accordance with the Investment Strategy and members of the Committee should keep this duty in mind when considering this report and take proper advice on the matter.

Comments of the Independent Advisor

8.4. Against a backdrop of both widespread positive corporate earnings and positive economic indicators the Quarter October to December 2017 saw yet further advances in Equity markets across the world.

8.5. The US S&P 500 index climbed further and to new highs during the Quarter. Ending the July- September Quarter at 2,519 the index passed 2,600 for the first time in late November and ended 2017 at 2,673 an increase of 6% over the Quarter, Positive corporate earnings, positive GDP figures (reported during the Quarter) together with the prospect and then confirmation of corporate tax reforms boosted markets. The US unemployment rate fell to 4.1% in October, and remained at this, its lowest level since 2001, during November and December 2017.

8.6. Economic indicators, including Third Quarter 2017 GDP figures (released in November 2017) continued to highlight a widespread recovery in the Eurozone. Eurozone unemployment continued to fall, to 8.8% in October and was 8.7% in both November and December 2017. Notwithstanding positive economic activity indicators headline inflation, however, remained low with headline inflation of 1.4% in December 2017 which was 0.1% lower than at the end of September 2017. October to December was overall a flat Quarter for European Equities. In an overall context of economic expansion and continued monetary stimulus by the European Central Bank 2017 as a whole was, however, the most positive year for European Equities since 2013.

8.7. Japanese equity markets had a very positive Quarter with the Nikkei 225 index increasing by 11%. Equity markets responded very positively to the decisive victory of the ruling Liberal Democratic Party, led by Prime Minister Shinzo Abe, in the General Election held on 22 October 2017. Robust corporate earnings announcements also supported Equity markets. The December 2017 Bank of Japan's "Tankan" survey of large manufacturers sentiment stood at its highest level for 11 years. Despite positive economic activity and huge monetary stimulus from the Bank of Japan core inflation in December 2017 was still only 0.9% compared with the Bank of Japan's target of 2%. Emerging markets, overall, also experienced a clearly positive Quarter.

8.8. UK Equities experienced another positive Quarter. Rising commodity prices boosted the shares of the large UK listed natural resource giants such as BHP Billiton and Rio Tinto. Economic data was mixed. The UK Purchasing Managers Index was clearly positive throughout the Quarter, with an average reading over the final quarter of 2017 of 57.0 which was the best since the second quarter of 2014. The official unemployment rate remained low although it rose fractionally to 4.4% compared to 4.3% for the previous Quarter. In contrast while retail sales increased by 0.4% compared with the previous three months the Office for National Statistics commented that *"the longer-term picture is one of slowing growth, with increased prices squeezing people's spending."* Inflation, in December 2017, as measured by the Consumer Price Index (CPI) was 3% while government's preferred version of the Consumer Price Index (CPIH) which includes owner occupiers housing costs was 2.7%. Therefore, inflation using both measures was well above the 2% target. Uncertainty over Brexit continued although in mid December the EU agreed that Brexit negotiations could to move to phase two, addressing Britain's future relationship with the European Union.

8.9. As expected, at the December meeting of the Federal Open Markets Committee (FOMC), the United States Federal Reserve continued its 2017 trend of gradually tightening (its ultra loose) monetary policy by increasing the target range for the federal funds rate (the official interest rate) by a further 0.25%. This was the third such increase in 2017 and this together with the decision at its September 2017 meeting not to reinvest all principal payments from its bond and debt holdings represents a clear change of direction by the Federal Open Markets Committee during 2017. However, US monetary policy remains *"accommodative"* as stated in the official press release issued after the December 2017 FOMC meeting.

8.10. In Europe the European Bank continued its very active policy of seeking to positively stimulate the Eurozone economy. At the October and December 2017 meetings of the Governing Council interest rates remained unchanged. Although net asset purchases are to be reduced from 60 billion to 30 billion per month from January 2018 this will continue until at least September 2018 and principal payments will continue to be reinvested *"for an extended period of time….."*

8.11. As expected in November the Bank of England increased Bank Rate by 0.25% the first rise in a decade. This however only represented a reversal of the reduction which occurred in August 2016 following the EU Referendum result.

8.12. With regard to the Haringey Fund there was a 3% increase in the value of the Fund of £41m over the Quarter from £1,344 to £1,385m. More importantly the indicative Funding level at 31 December 2017, as calculated by the Fund Actuary has improved further to 88.2%. This is a very clear increase since the last full Actuarial Valuation (as at 31 March 2017) when the Funding level was 79.1%

8.13. Due to lengthy and clearly positive Listed Equity performance the actual allocation to Listed Equities at 31 December 2017 was 57% compared to the Strategic Benchmark of 45%. Proposals to address this significant overweight position are made in a report elsewhere on this agenda.

Equalities

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

9. Use of Appendices

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

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

11. Funding Position Update

11.1. At the most recent valuation 31 March 2016, the Fund had a funding position of 79% - meaning that the fund's investment assets were sufficient to pay 79% of the pension benefits accrued at that date.

11.2. The Fund's Actuary, Hymans Robertson LLP, has calculated an indicative funding position update for 31 December 2017, and this showed an improvement to an 88.2% funding level: the increase being mainly attributable to investment returns. This position was improved slightly from 30 September 2017 at 86.5%.

11.3. The 79.1% funding level as at 31 March 2016 corresponded to a net deficit of £277m, which has decreased to £186m as at 31 December 2017 when the indicative funding level was 88.2%.

12. Portfolio Allocation Against Benchmark

12.1. The value of the fund increased by £41.0m million between September and December 2017. The property, equity and index linked gilts portfolios performed above benchmark, whereas the infrastructure debt, and private equity, multi asset credit and renewable energy infrastructure portfolios were below benchmark.

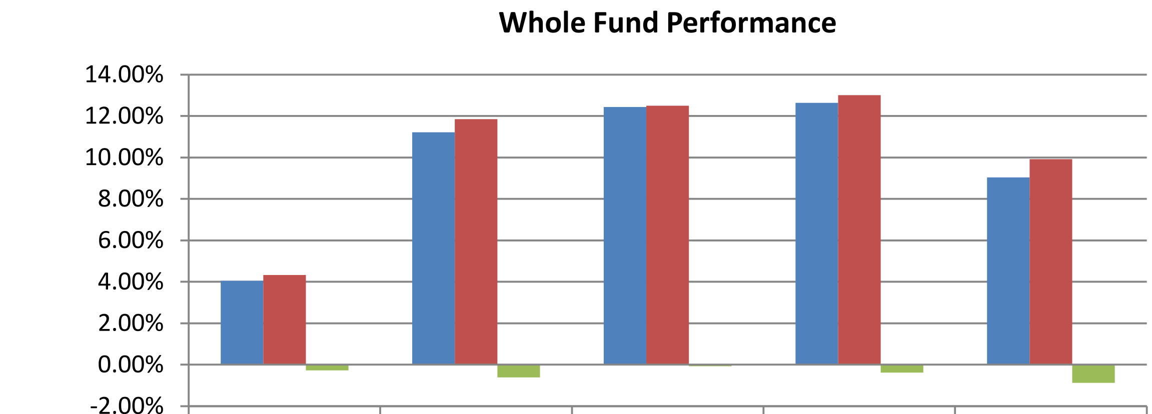
12.2. The equity allocation exceeds target by 12.06%. This is due in part to a strongly performing year for equities meaning that this portion of the portfolio has grown disproportionately compared to other asset classes. The infrastructure debt, renewable energy infrastructure and private equity, portfolios continue to be funded as the managers make capital calls when suitable assets become available for acquisition. As these real asset or private market mandates are funded, the overweight position in the equity portfolio will fall back to be more in line with the strategic allocation, however it should be noted that this may take several years to fully complete. Elsewhere in this meeting, tactical rebalancing of the portfolio is considered, to hold this overweight position in other asset classes than equity.

Total Portfolio Allocation by Manager and Asset Class

	Value 30.06.2017 £'000	Value 30.09.2017 £'000	Value 31.12.2017 £'000	Allocation 31.12.2017 %	Strategic Allocation %	Variance %
Equities						
UK	139,345	107,047	101,109	7.30%	5.60%	1.70%
North America	200,198	156,434	143,203	10.34%	8.20%	2.14%
Europe	71,219	52,912	47,367	3.42%	2.80%	0.62%
Japan	33,378	24,845	22,571	1.63%	1.30%	0.33%
Asia Pacific	31,981	24,041	22,984	1.66%	1.30%	0.36%
Emerging Markets	123,444	120,292	120,024	8.66%	6.60%	2.06%
Global Low Carbon Tgt	235,450	363,086	333,314	24.06%	19.20%	4.86%
Total Equities	**835,015**	**848,657**	**790,572**	**57.06%**	**45.00%**	**12.06%**
Bonds						
Index Linked	**179,349**	**177,922**	**184,959**	**13.35%**	**15.00%**	**-1.65%**
Property						
Aviva			**0**	**0.00%**	**5.00%**	**-5.00%**
CBRE	**97,405**	**94,556**	**93,098**	**6.72%**	**7.50%**	**-0.78%**
Private equity						
Pantheon	**53,139**	**54,416**	**53,638**	**3.87%**	**5.00%**	**-1.13%**
Multi-Sector Credit						
CQS	**89,727**	**91,088**	**91,999**	**6.64%**	**7.00%**	**-0.36%**
Multi-Asset Absolute Return						
Ruffer	**0**	**0**	**100,629**	**7.26%**	**7.50%**	**-0.24%**
Infrastructure Debt						
Allianz	**36,038**	**35,918**	**34,838**	**2.51%**	**3.00%**	**-0.49%**
Renewable Energy						
CIP	**0**	**0**	**0**	**0.00%**	**2.50%**	**-2.50%**
Blackrock	**5,985**	**8,248**	**8,127**	**0.59%**	**2.50%**	**-1.91%**
Cash & NCA						
Cash	**13,280**	**33,637**	**27,557**	**1.99%**	**0.00%**	**1.99%**
Total Assets	**1,309,938**	**1,344,442**	**1,385,417**	**100%**	**100%**	**0.00%**

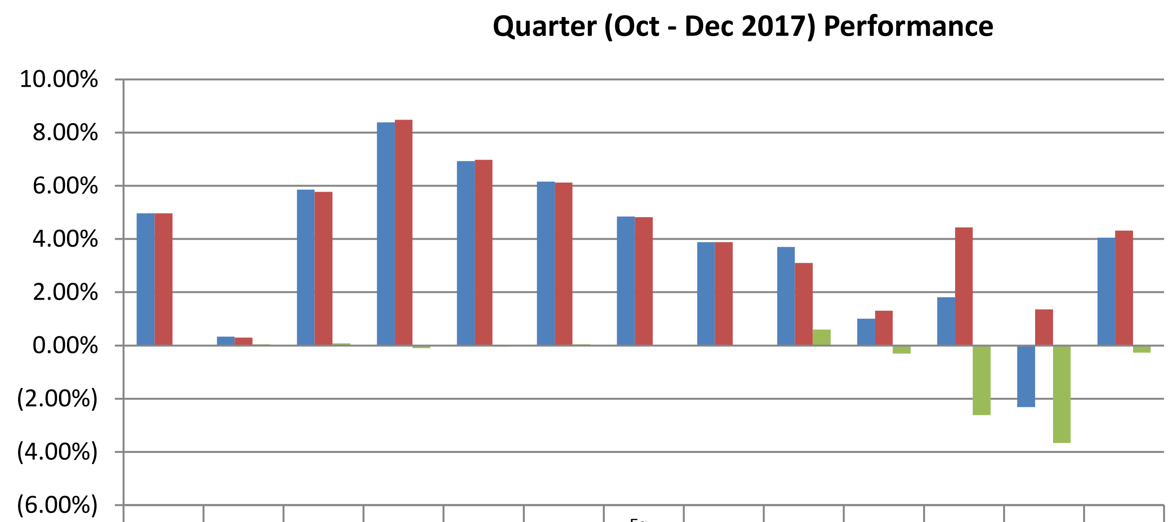
13. Investment Performance Update: to 31st December 2017

13.1. Appendix 1 provides details of the benchmarks and targets the fund managers have been set. The tables below show the performance in the quarter October to December 2017 and for one, three and 5 years for the whole of Fund.



	Oct 17 - Dec 17	One Year	Three Years	Five Years	Since Inception
Return	4.05%	11.22%	12.43%	12.63%	9.03%
Benchmark	4.32%	11.84%	12.50%	13.01%	9.91%
(Under)/Out	(0.27%)	(0.62%)	(0.07%)	(0.38%)	(0.88%)

13.2. The Fund returned 4.05% in the quarter: roughly in line with the benchmark of 4.32%. Japanese equities showed the strongest performance over the quarter with returns of over 8%.



	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emergin g	Eq - Global Low Carbon Tgt	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastru cture	Total Fund
Fund Return	4.96%	0.33%	5.85%	8.38%	6.93%	6.16%	4.84%	3.88%	3.70%	1.00%	1.81%	(2.32%)	4.05%
Benchmark	4.96%	0.29%	5.77%	8.48%	6.97%	6.12%	4.82%	3.88%	3.10%	1.31%	4.43%	1.35%	4.32%
(Under)/out	0.00%	0.04%	0.08%	(0.10%)	(0.04%)	0.04%	0.02%	0.00%	0.60%	(0.31%)	(2.62%)	(3.67%)	(0.27%)

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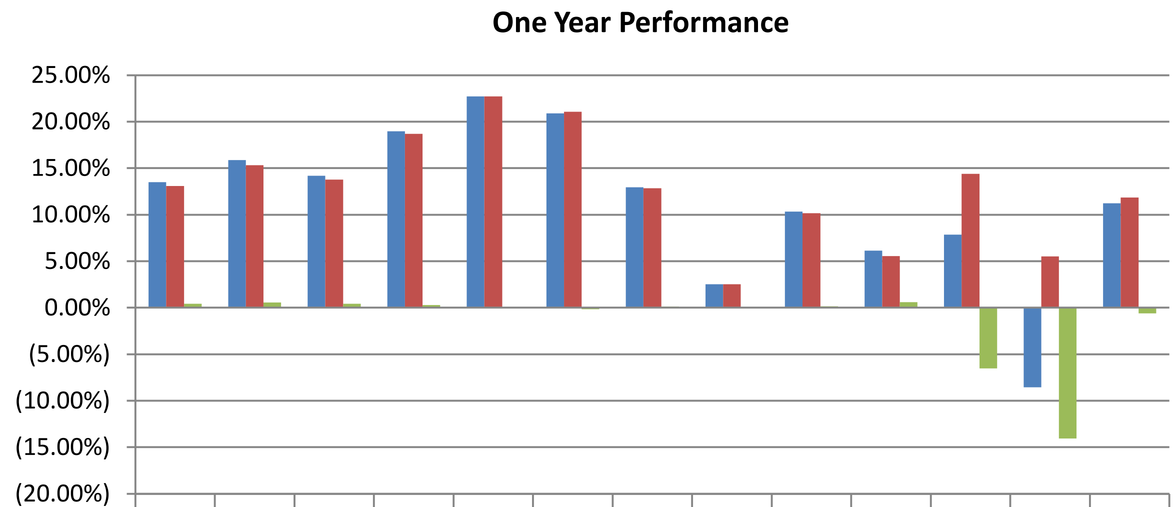
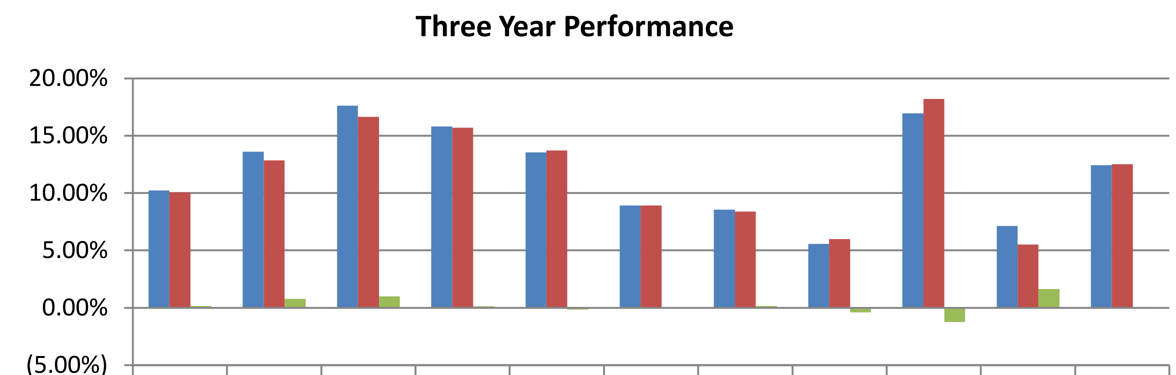
13.3. Over the last 12 months the Fund returned 11.22% against a benchmark of 11.84%, i.e. an underperformance of 0.62%. Three and five year underformance is 0.07% and 0.38% respectively. As much of the fund is invested passively, one would expect returns to be largely in line with benchmark. The Fund has benefitted from its overweight position in equities over the past five years.



	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Eq - Global Low Carbon Tgt	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastructure	Total Fund
Fund Return	13.51%	15.87%	14.18%	18.98%	22.71%	20.90%	12.96%	2.54%	10.32%	6.13%	7.86%	(8.57%)	11.22%
Benchmark	13.10%	15.32%	13.76%	18.70%	22.72%	21.06%	12.86%	2.54%	10.16%	5.55%	14.38%	5.50%	11.84%
(Under)/out	0.41%	0.55%	0.42%	0.28%	(0.01%)	(0.16%)	0.10%	0.00%	0.16%	0.58%	(6.52%)	(14.07%	(0.62%)



	Eq - UK	Eq - Europe	Eq - North America	Eq - Asia ex Japan	Eq - Emerging	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastructure	Total Fund
Return	10.24%	13.61%	17.63%	15.81%	13.55%	8.91%	8.55%	5.58%	16.96%	7.13%	12.43%
Benchmark	10.07%	12.85%	16.64%	15.69%	13.71%	8.91%	8.39%	5.98%	18.20%	5.50%	12.50%
(Under)/out	0.17%	0.76%	0.99%	0.12%	(0.16%)	0.00%	0.16%	(0.40%)	(1.24%)	1.63%	(0.07%)

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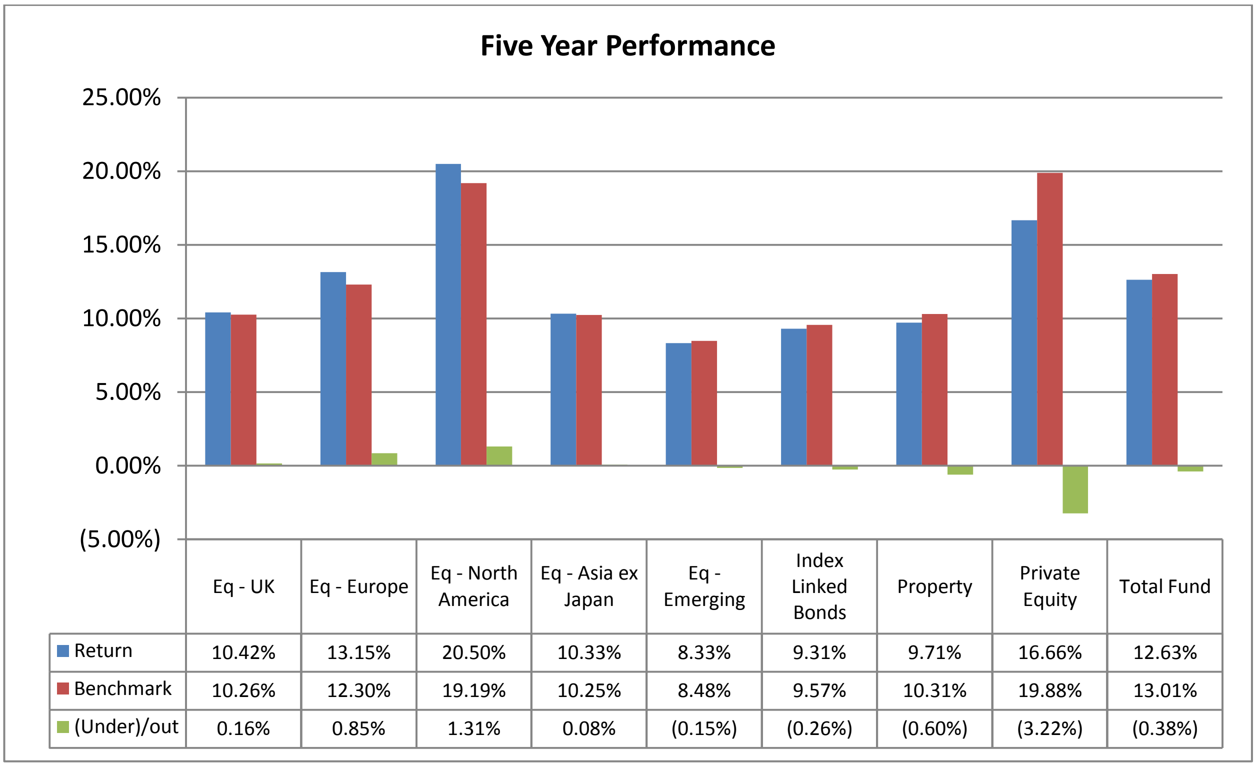
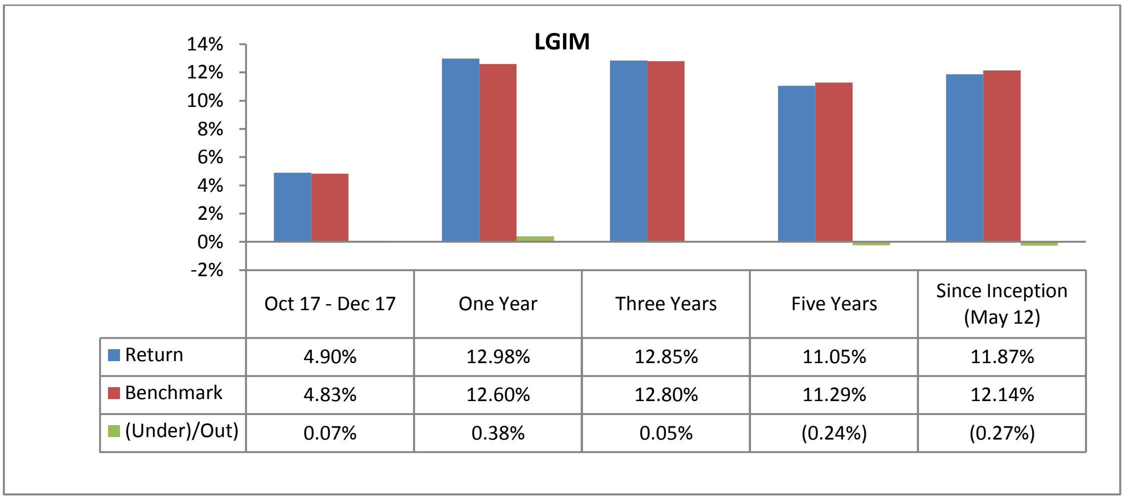


	Eq - UK	Eq - Europe	Eq - North America	Eq - Asia ex Japan	Eq - Emerging	Index Linked Bonds	Property	Private Equity	Total Fund
Return	10.42%	13.15%	20.50%	10.33%	8.33%	9.31%	9.71%	16.66%	12.63%
Benchmark	10.26%	12.30%	19.19%	10.25%	8.48%	9.57%	10.31%	19.88%	13.01%
(Under)/out	0.16%	0.85%	1.31%	0.08%	(0.15%)	(0.26%)	(0.60%)	(3.22%)	(0.38%)

FUND MANAGER PERFORMANCE

Legal & General Investment Management (LGIM)

13.4. Legal and General returned 4.90% this quarter and has slightly outperformed composite benchmark of 4.83%.



	Oct 17 - Dec 17	One Year	Three Years	Five Years	Since Inception (May 12)
Return	4.90%	12.98%	12.85%	11.05%	11.87%
Benchmark	4.83%	12.60%	12.80%	11.29%	12.14%
(Under)/Out)	0.07%	0.38%	0.05%	(0.24%)	(0.27%)

CBRE

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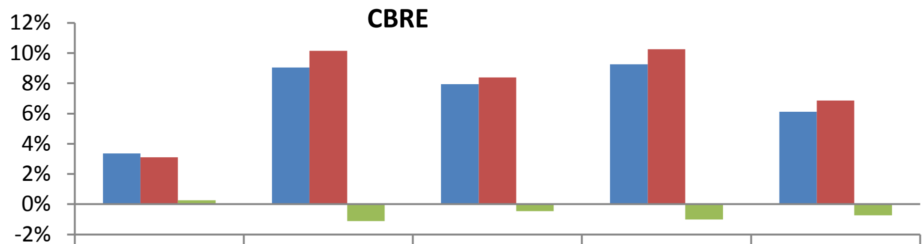
13.5 The manager saw a positive total return of 3.37% in the quarter and out-performed benchmark of 3.10% by 0.27%. CBRE lags behind benchmark over 1, 3, and 5 years, as well as since portfolio inception: however, this position is improving.

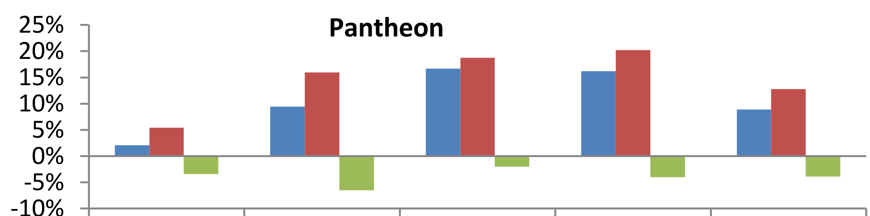


	Oct 17 - Dec 17	One Year	Three Years	Five Years	Since Inception (Mar 03)
Return	3.37%	9.04%	7.94%	9.26%	6.12%
Benchmark	3.10%	10.16%	8.39%	10.26%	6.86%
(Under)/Out	0.27%	(1.12%)	(0.45%)	(1.00%)	(0.74%)

13.6 The relative performance of the property portfolio was affected by two European funds that suffered significant loss, the final holdings in which were sold in 2017: the effects of this will still show a lag in performance for some time to come..

Pantheon Private Equity

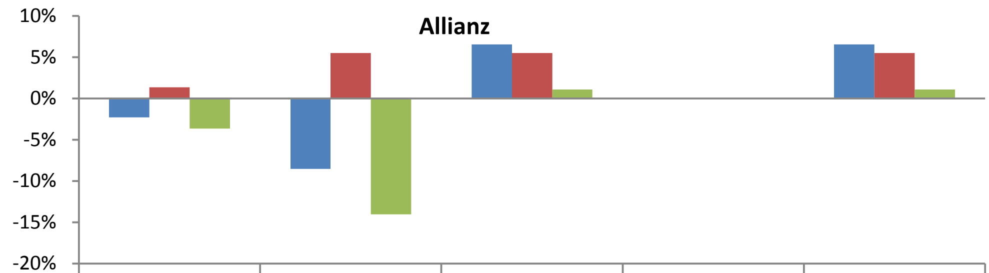
13.7 Pantheon Private Equity underperformed their benchmark by 3.38%. Over all time horizons measured below the manager is showing a negative return compared to benchmark, however, in absolute terms, returns of over 16% over the past five years have added significantly to the fund's asset base and overall performance metric. It should also be noted that the final valuations for the Pantheon holdings as at 31 December will not be finalised until April 2018, therefore the performance statistics calculated for the last quarter of 2017 will not yet reflect the final valuation of the investments.



	Oct 17 - Dec 17	One Year	Three Years	Five Years	Since Inception (May 07)
Return	2.06%	9.42%	16.70%	16.17%	8.87%
Benchmark	5.44%	15.92%	18.72%	20.20%	12.76%
(Under)/Out	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Allianz Infrastructure Debt

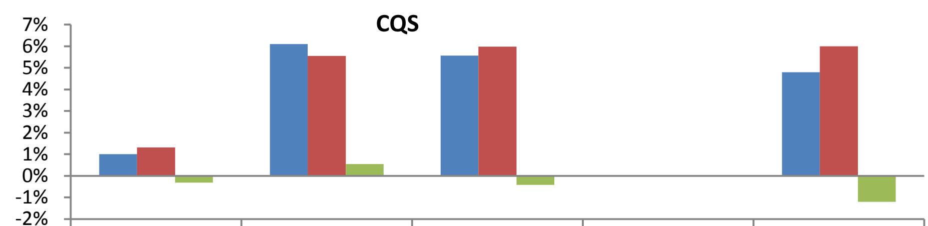
13.8 Allianz has returned -3.65% against benchmark in the quarter. This performance measure does not include the final December valuation of assets, as this was not finalised at the time of writing, and therefore may understate their performance. The manager is still significantly ahead of benchmark since portfolio inception.



	Oct 17 - Dec 17	One Year	Three Years	Five Years	Since Inception (Dec 14)
Return	-2.30%	-8.54%	6.58%		6.58%
Benchmark	1.35%	5.50%	5.50%		5.50%
(Under)/Out	(3.65%)	(14.04%)	1.08%	0.00%	1.08%

CQS Multi Sector Credit

13.9 The manager had a slight under-performance relative to benchmark in the quarter achieving a return of 1.00% against the benchmark of 1.31%. Over the past 12 months the manager is ahead of benchmark by 0.55%.



	Oct 17 - Dec 17	One Year	Three Years	Five Years	Since Inception (Aug 14)
Return	1.00%	6.10%	5.57%		4.80%
Benchmark	1.31%	5.55%	5.98%		6.00%
(Under)/Out	(0.31%)	0.55%	(0.41%)	0.00%	(1.20%)

BlackRock – Renewable Energy

13.10 The manager had a slight under-performance relative to benchmark in the quarter achieving a return of -1.40% against the benchmark of 2.41%. The Blackrock investment is a private equity style investment where returns are expected to lag in the initial years of the investment, and then grow significantly as the investment becomes more mature. It is therefore too early in the investment to be able to meaningfully assess performance.

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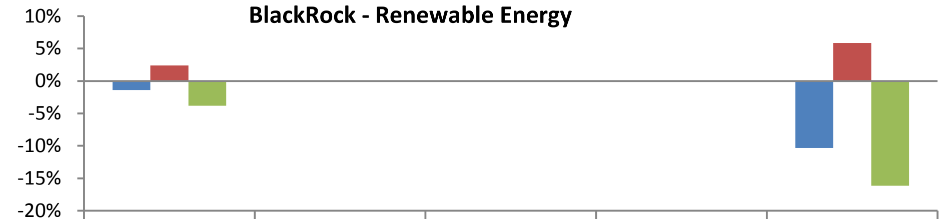

	Oct 17 - Dec 17	One Year	Three Years	Five Years	Since Inception (May 17)
Return	-1.40%				-10.31%
Benchmark	2.41%				5.86%
(Under)/Out	(3.81%)	0.00%	0.00%	0.00%	(16.17%)

<u>Investment Related Update</u>

14. Pooling (London CIV)

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

14.2. The LCIV continues with its programme of opening sub funds and recruiting fund managers to operate these sub funds. In setting up the single manager sub funds, LCIV will prioritise commonality of mandates among its members; quantum of assets under management; and conviction of funds in the manager. To this end, the procurement of active global equities managers and multi asset managers is currently being undertaken. Ten sub funds have currently been set up, with further fixed income funds to follow shortly. The CIV now has offerings in a number of global equity and multi asset or diversified growth fund products.

14.3. Following the governance review completed at the end of 2017, the CIV has undertaken a consultation exercise with the 32 stakeholders in the CIV in January and February 2018. Further details of this are given in the governance paper which will be tabled at this meeting.

14.4. The London CIV has appointed CQS to manage a liquid multi asset credit mandate: this is the same fund that Haringey currently invests in with CQS. The LCIV CQS subfund will be set up on an ACS platform, and will be under the oversight of the CIV. The CIV currently estimate that this will be up and running in May 2018. Haringey's current investment with CQS will therefore come under the CIV's oversight. The set up of the investment via ACS platform means there is no need to sell or legally transfer the fund's existing investments, there are therefore no transaction costs associated with this, and Haringey will immediately be able to enjoy the various efficiencies associated with having funds which are invested via the CIV pool. This is similar to Haringey's investments with LGIM which are also under the CIV's oversight.

15. Aviva Long Lease Property Mandate

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

15.2. Members may recall that the waiting time to invest had moved from the initial range of 6-9 months that was pitched to the Committee during the selection process. Although, Aviva’s deal pipe is strong with the team working on “a lot of deals”, the pace of decision making within counterparties that Aviva are dealing with has slowed down the investment process. Currently, there is £270m of committed funds ahead of LB Haringey in the queue. Aviva have confirmed that funding commitment from LB Haringey will likely be drawn down in Q2 or possibly later in 2018.

Appendix 1 – Strategic Asset Allocation (as at 31.12.17)

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
Legal & General Investment Management	60.0%	Global Equities & Bonds	See overleaf	Index (passively managed)
CQS	7.0%	Multi Sector Credit	3 month libor + 5.5% p.a	Benchmark
Allianz	3.0%	Infrastructure Debt	5.5% p.a.	Benchmark
CBRE Global Investors	7.5%	Property	IPD UK Pooled Property Funds All Balanced Index	+1% gross of fees p.a. over a rolling 5 yr period
Pantheon Private Equity	5.0%	Private Equity	MSCI World Index plus 3.5%	Benchmark
London CIV - Ruffer Global Long	7.5%	Multi Asset Absolute Return	8.00% p.a.	Benchmark
Aviva	5.0%	Long Lease Property	50% FTSE Actuaries 5-15 Year Gilt Index, 50% FTSE 15 Years + Gilt Index*	+1.50% p.a. over the medium to long term
Copenhagen Investment Partners	2.5%	Renewable Energy	10.0% p.a.	Benchmark
Blackrock	2.5%	Renewable Energy	10.0% p.a.	Benchmark
Total	**100.0%**			

* The Fund will invest in the Aviva Lime Property Fund, which invests in a diversified portfolio of UK Real Estate assets with long leases and strong covenants. The official performance objective is to outperform the composite benchmark in the table above by 1.5% over the medium to long term. In practice, the shorter term performance of the benchmark has the scope to perform very differently to the underlying property assets. Over shorter periods (less than 5 years), the Officers will assess the performance of this part of the portfolio on a total return basis, whereby around 60% to 80% of this is expected to be derived from rental income (with capital appreciation being the balance).

Asset Class	Benchmark	Legal & General Investment Management
UK Equities	FTSE All Share	5.60%
North America	FT World Developed North America Index (Unhedged)	4.10%
North America	FT World Developed North America Index (Hedged)	4.10%
Europe ex UK	FT World Developed Europe ex-UK Index (Unhedged)	1.40%
Europe ex UK	FT World Developed Europe ex-UK Index (Hedged)	1.40%
Pacific ex Japan	FTSE Developed Asia Pacific (ex-Japan) Index (Unhedged)	0.65%
Pacific ex Japan	FTSE Developed Asia Pacific (ex-Japan) Index (Hedged)	0.65%
Japan	FTSE Japan Index (Unhedged)	0.65%
Japan	FTSE Japan Index (Hedged)	0.65%
Emerging Markets	FTSE Emerging Markets Index (Unhedged)	6.60%
Global Low Carbon Equities	MSCI World Low Carbon Target Index (Unhedged)	9.60%
Global Low Carbon Equities	MSCI World Low Carbon Target Index (Hedged)	9.60%
Index Linked Gilts	FTA Index Linked Over 5 Years Index	15.00%
Total L&G		**60.00%**

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