

Report for: Pensions Committee and Board 23 July 2018

Title: Pension Fund Quarterly Update

Report authorised by: Jon Warlow, Director of Finance (S151 Officer)

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

Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Non Key decision

1. Describe the issue under consideration

- 1.1. To report the following in respect of the three months to 31st March 2018:
- 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 March 2018 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 to this end. 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. As appended to this report in Appendix 2

Equalities

8.5. 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.
- 9.2. Appendix 2: Independent Advisor's Market commentary
- 9.3. Confidential Appendix 3: Funding and Risk Report from the Fund Actuary

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 March 2018, and this showed an improvement to an 84.0% funding level: the increase being mainly attributable to investment returns. This position was a deterioration from 31 December 2017 at 88.2%, following a stock market fall in the first quarter of 2018.
- 11.3. The 79.1% funding level as at 31 March 2016 corresponded to a net deficit of £277m, which has decreased to £255m as at 31 March 2018.
- 11.4. Confidential Appendix 3 shows the funding and risk report produced by the fund actuary as at 31 March 2018, giving further detail regarding this.

12. Portfolio Allocation Against Benchmark

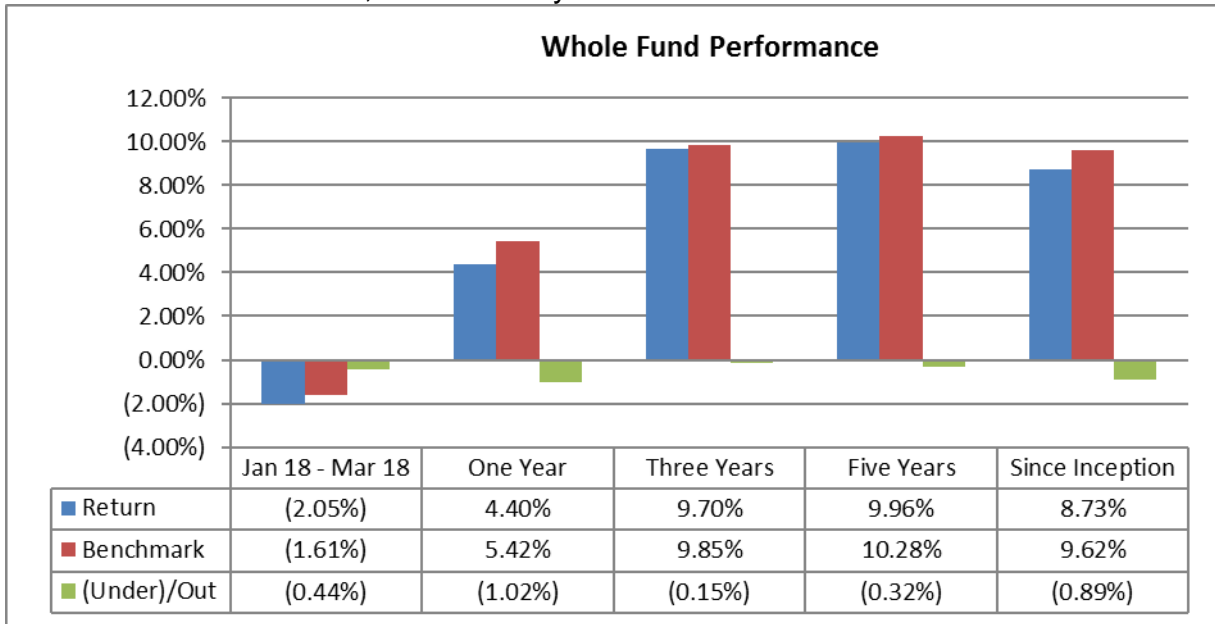
- 12.1. The value of the fund decreased by £27.9m million between December and March 2018. The private equity investments performed above benchmark during the quarter.
- 12.2. The equity allocation exceeds target by 7.51%. This partly due to equity performing more strongly than other asset classes meaning that this portion of the portfolio has grown disproportionately compared to other asset classes. At 31 March 2018, the equity portfolio also included funds allocated for investment in infrastructure debt, long lease property and private equity, which is drawn down gradually over several years. At the March 2018 committee meeting, the committee agreed that these funds should be held in multiple investments rather than only in the equity investments, so after the reporting date of this report, this overweight equity position was further reduced.
- 12.3. A higher than usual cash figure was held as at 31 March 2018, to fund two large bulk transfers from the fund, which are anticipated to be paid within coming months.

Total Portfolio Allocation by Manager and Asset Class

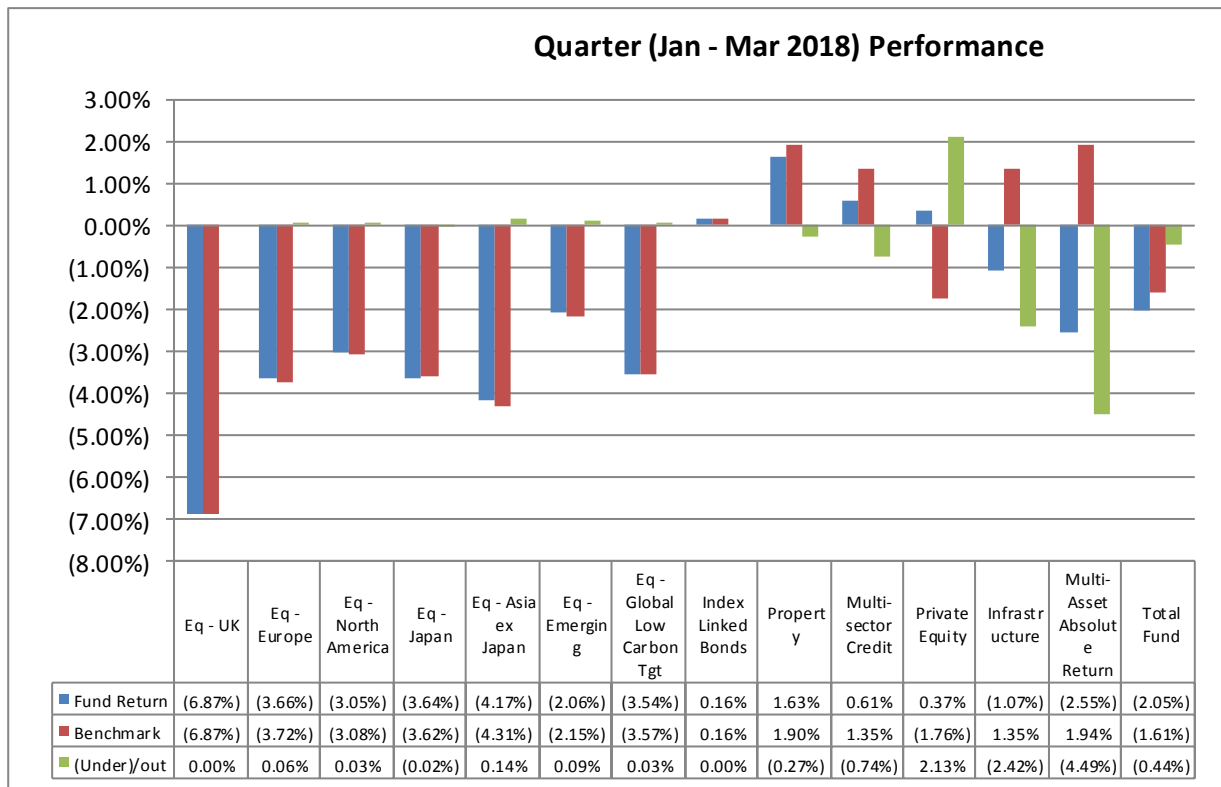
	Value 30.06.2017 £'000	Value 30.09.2017 £'000	Value 31.12.2017 £'000	Value 31.03.2018 £'000	Allocation 31.03.2018 %	Strategic Allocation %	Variance %
Equities							
UK	139,345	107,047	101,109	91,012	6.70%	5.60%	1.10%
North America	200,198	156,434	143,203	129,355	9.53%	8.20%	1.33%
Europe	71,219	52,912	47,367	43,877	3.23%	2.80%	0.43%
Japan	33,378	24,845	22,571	20,981	1.55%	1.30%	0.25%
Asia Pacific	31,981	24,041	22,984	20,328	1.50%	1.30%	0.20%
Emerging Markets	123,444	120,292	120,024	104,762	7.72%	6.60%	1.12%
Global Low Carbon Tgt	235,450	363,086	333,314	302,573	22.29%	19.20%	3.09%
Total Equities	835,015	848,657	790,572	712,888	52.51%	45.00%	7.51%
Bonds							
Index Linked	179,349	177,922	184,959	185,249	13.65%	15.00%	-1.35%
Property							
Aviva			0	0	0.00%	5.00%	-5.00%
CBRE	97,405	94,556	93,098	91,084	6.71%	7.50%	-0.79%
Private equity							
Pantheon	53,139	54,416	53,638	52,842	3.89%	5.00%	-1.11%
Multi-Sector Credit							
CQS	89,727	91,088	91,999	92,564	6.82%	7.00%	-0.18%
Multi-Asset Absolute Return							
Ruffer	0	0	100,629	98,065	7.22%	7.50%	-0.28%
Infrastructure Debt							
Allianz	36,038	35,918	34,838	37,687	2.78%	3.00%	-0.22%
Renewable Energy							
CIP	0	0	0	0	0.00%	2.50%	-2.50%
Blackrock	5,985	8,248	8,127	13,930	1.03%	2.50%	-1.47%
Cash & NCA							
Cash	13,280	33,637	27,557	73,216	5.39%	0.00%	5.39%
Total Assets	1,309,938	1,344,442	1,385,417	1,357,525	100%	100%	0.00%

13. Investment Performance Update: to 31st March 2018

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 January to March 2018 and for one, three and 5 years for the whole of Fund.

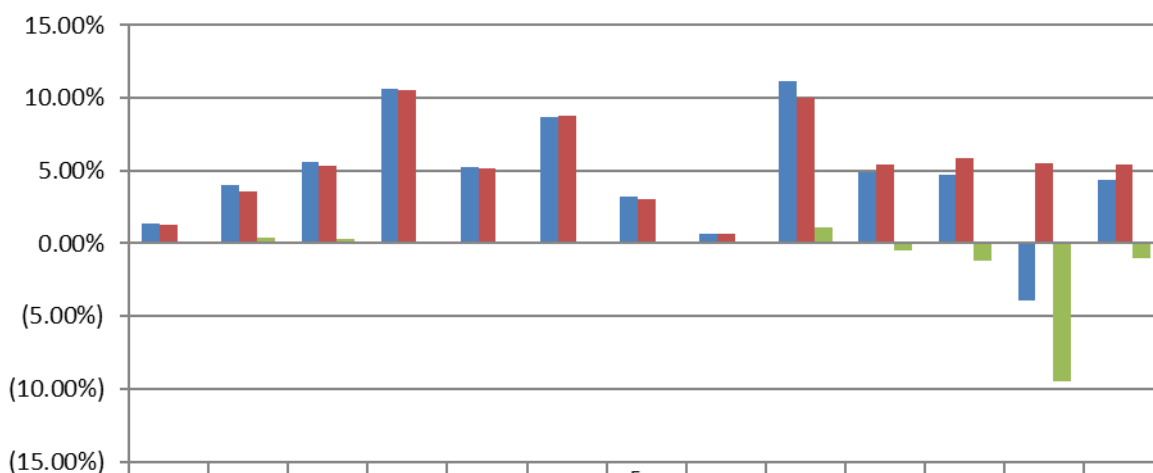


13.2. The Fund returned -2.05% in the quarter: slightly less than the benchmark of -1.61%. All equity investments performed poorly over the quarter, with UK equity showing returns of nearly -7%. Property had the best return in the quarter with 1.63%.



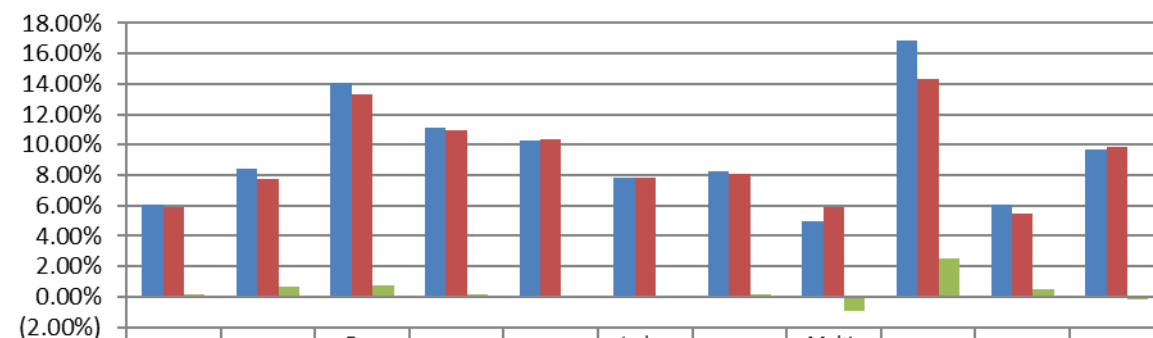
13.3. Over the last 12 months the Fund returned 4.40% and under performed benchmark of 5.42% by 1.02%. Three and five year underperformance is 0.15% and 0.32% respectively. As much of the fund is invested passively, one would expect returns to be largely in line with benchmark. The Fund has benefitted from its overweight position in equities over the past five years.

One Year Performance

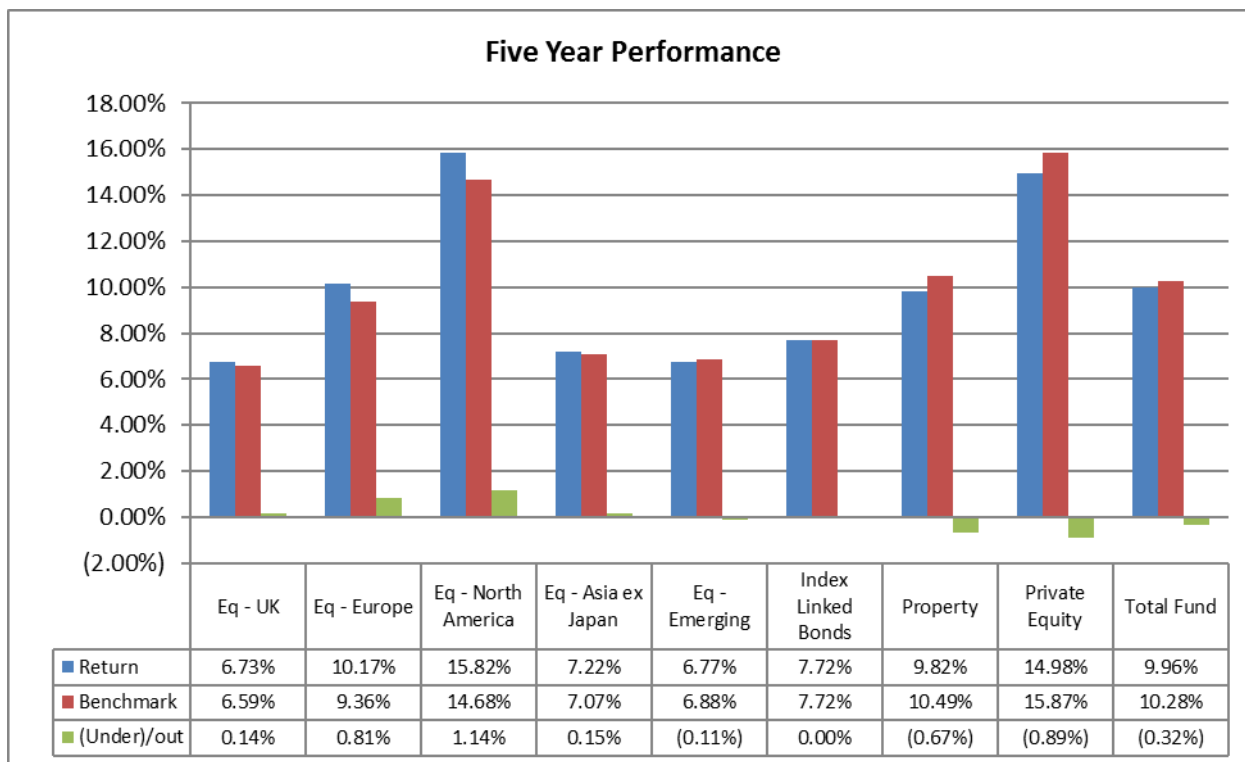


	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Eq - Global Low Carbon Tgt	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastructure	Total Fund
Fund Return	1.33%	4.00%	5.61%	10.65%	5.24%	8.70%	3.21%	0.70%	11.16%	4.93%	4.72%	(3.94%)	4.40%
Benchmark	1.25%	3.59%	5.34%	10.54%	5.16%	8.75%	3.07%	0.70%	10.05%	5.42%	5.88%	5.50%	5.42%
(Under)/out	0.08%	0.41%	0.27%	0.11%	0.08%	(0.05%)	0.14%	0.00%	1.11%	(0.49%)	(1.16%)	(9.44%)	(1.02%)

Three Year Performance



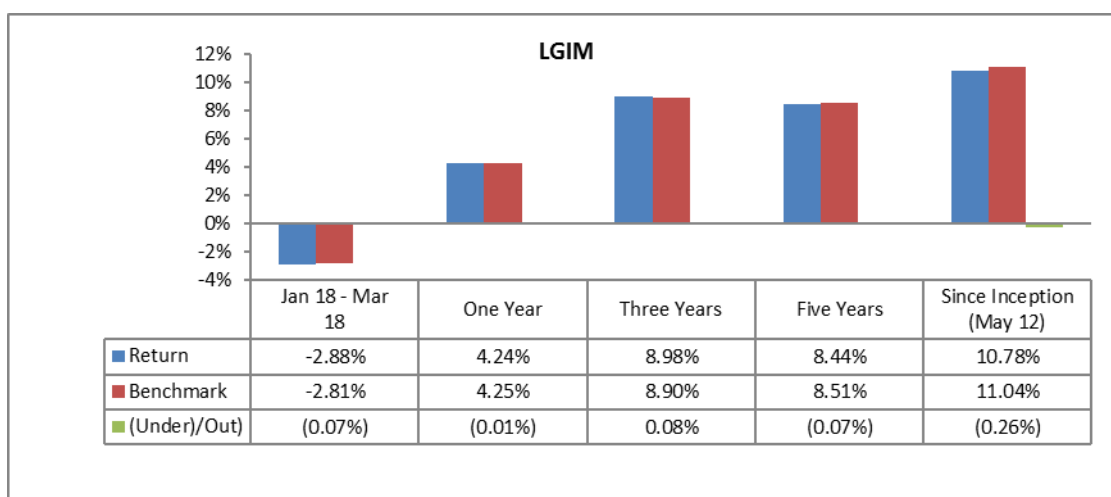
	Eq - UK	Eq - Europe	Eq - North America	Eq - Asia ex Japan	Eq - Emerging	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastructure	Total Fund
Return	6.03%	8.41%	14.08%	11.09%	10.25%	7.79%	8.23%	4.99%	16.89%	6.02%	9.70%
Benchmark	5.86%	7.72%	13.31%	10.92%	10.36%	7.79%	8.07%	5.92%	14.36%	5.50%	9.85%
(Under)/out	0.17%	0.69%	0.77%	0.17%	(0.11%)	0.00%	0.16%	(0.93%)	2.53%	0.52%	(0.15%)



FUND MANAGER PERFORMANCE

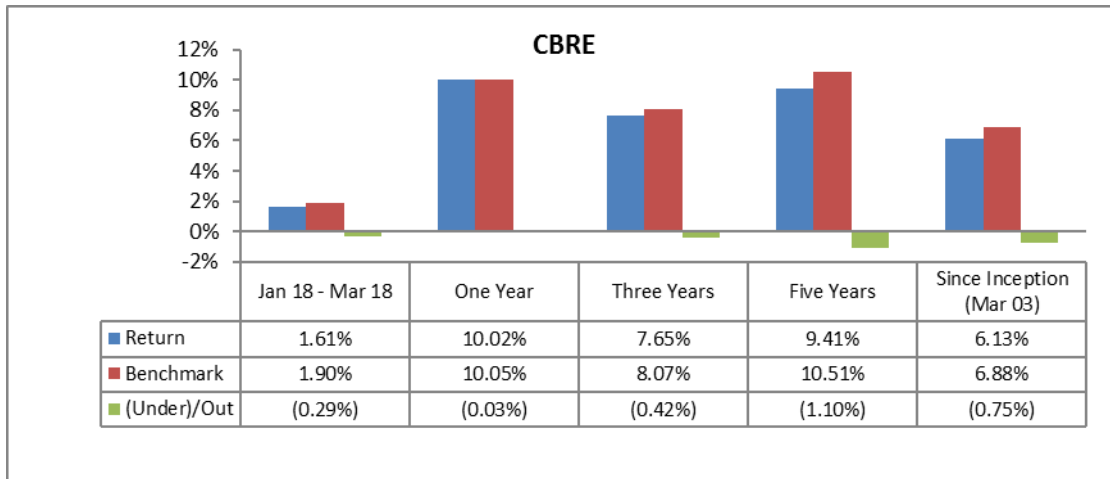
Legal & General Investment Management (LGIM)

13.4. Legal and General returned -2.88% this quarter and has slightly underperformed composite benchmark of -2.81%.



CBRE

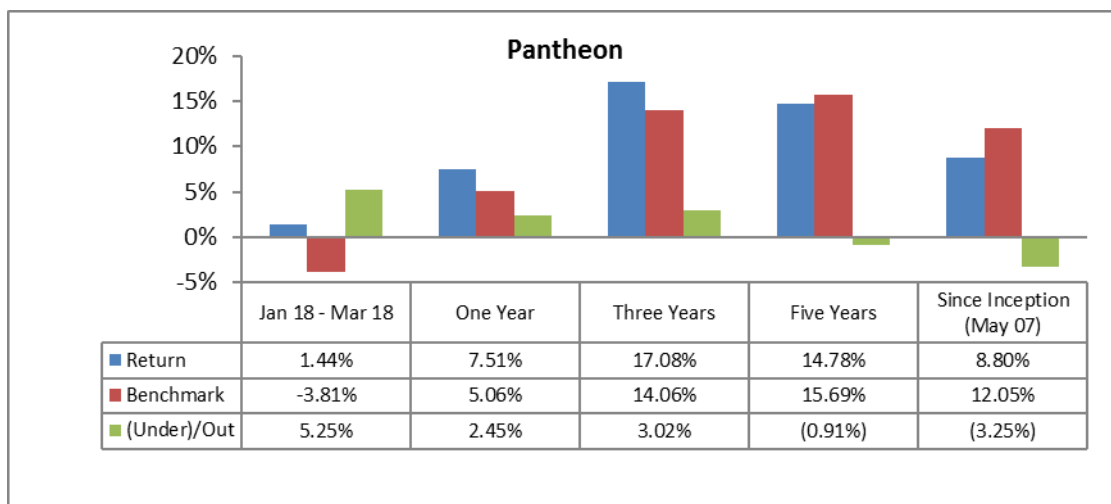
13.5 The manager saw a positive total return of 1.61% in the quarter and underperformed benchmark of 1.90% by 0.29%. CBRE lags slightly behind benchmark over 1, 3, and 5 years, as well as since portfolio inception: however, this position has been steadily improving over recent quarters.



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 on performance for some time to come.

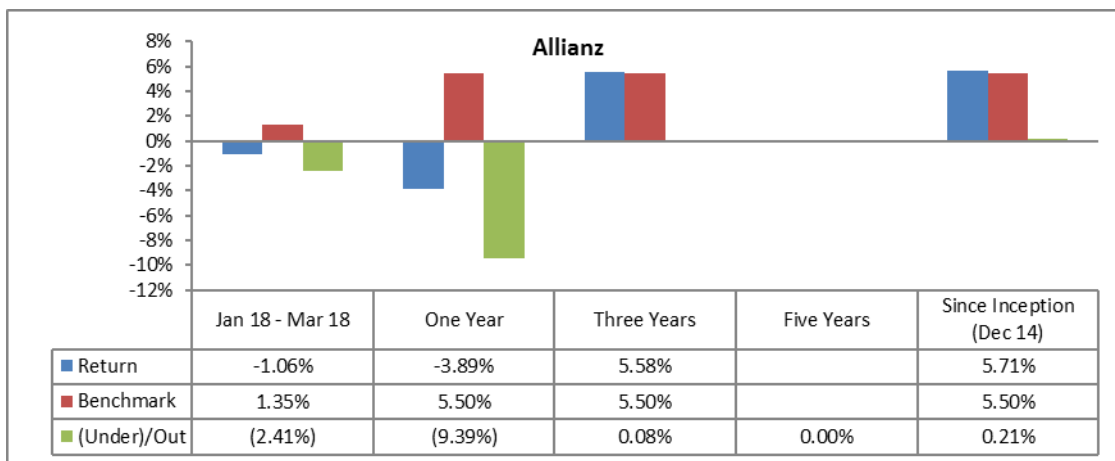
Pantheon Private Equity

13.7 Pantheon Private Equity outperformed their benchmark by 5.25%. The manager is showing a positive return above benchmark over a 1 and 3 year time period, but underperformance over longer timescales.



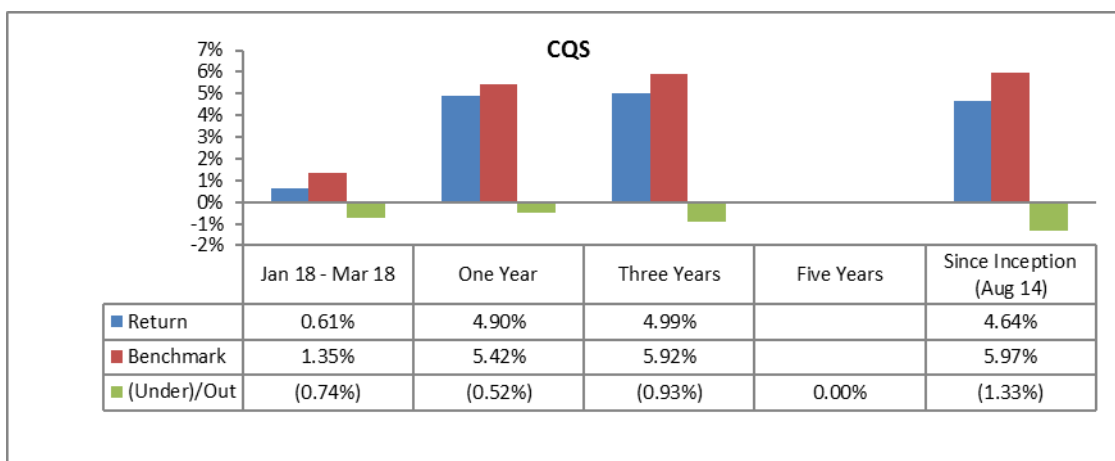
Allianz Infrastructure Debt

13.8 Allianz has returned -2.41% against benchmark in the quarter, and underperformed over the past 12 months. However, the manager remains above benchmark over a 3 year time horizon, and since inception.



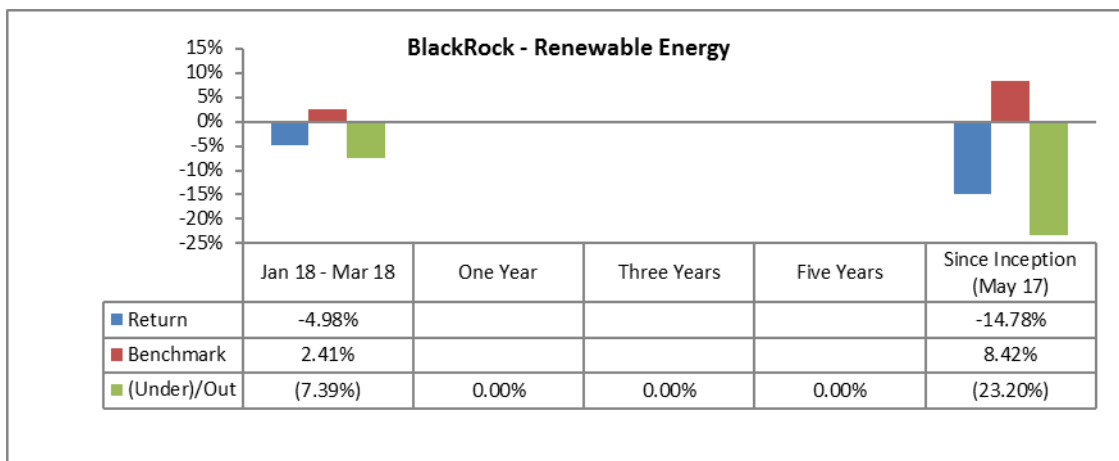
CQS Multi Sector Credit

13.9 The manager had a slight under-performance relative to benchmark in the quarter achieving a return of 0.61% against the benchmark of 1.35%. The manager lags behind benchmark over all time horizons measured.



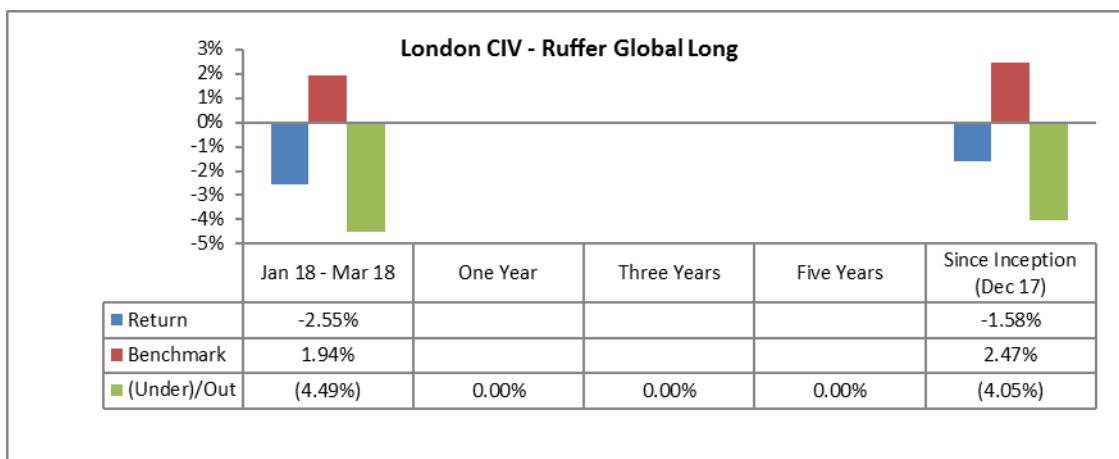
BlackRock – Renewable Energy

13.10 The manager had under-performance relative to benchmark in the quarter achieving a return of -4.98% against the benchmark of 2.41%, however the portfolio is in the very early stages, and is not fully invested, so it is too early to draw any meaningful results from this at this stage.



London CIV – Ruffer Multi Asset Absolute Return Strategy

13.11 The investment was originally made in December 2017. manager delivered a negative performance over the quarter of -2.55%. The investment was originally made to deliver less volatile returns than those in the fund’s equity portfolio. All investments should be measured over longer time horizons than single quarters, however it is pleasing to note that this return compares favourably to the equity performance over the quarter.



Investment Related Update

14. Pooling (London CIV)

- 14.1. The Fund was one of the early investors in the London CIV (LCIV). The Fund has achieved substantial fee savings 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. The CIV now has 8 operational global equity subfunds with a range of different mandates, 4 multi asset subfunds, and 5 fixed income subfunds (4 of which are shortly to be launched). Haringey is invested with the Ruffer multi asset absolute return subfund, and the CQS Multi Asset Credit subfund (one of the 5 fixed income funds).
- 14.3. Details of the London CIV's governance structure is given within the Governance Report which will be tabled at this meeting.

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 31.03.18)

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 Subfund	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%			

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 Japan ex	FTSE Developed Asia Pacific (ex-Japan) Index (Unhedged)	0.65%
Pacific Japan ex	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%