

Report for: Pensions Committee and Board 13 September 2018

Item number:

Title: Pension Fund Quarterly Update

Report authorised by: Jon Warlow, Director of Finance (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 30 June 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 30 June 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 79.1% - meaning that the fund's investment assets were sufficient to pay 79.1% 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 30 June 2018, and this showed an improvement to an 89.0% funding level: the increase being mainly attributable to investment returns. This position was an improvement from 31 March 2018 which showed 84.0%.
- 11.3. The 79.1% funding level as at 31 March 2016 corresponded to a net deficit of £277m, which has decreased to an indicative £175m as at 31 March 2018.
- 11.4. Confidential Appendix 3 shows the funding and risk report produced by the fund actuary as at 30 June 2018, giving further detail regarding this.

12. Portfolio Allocation Against Benchmark

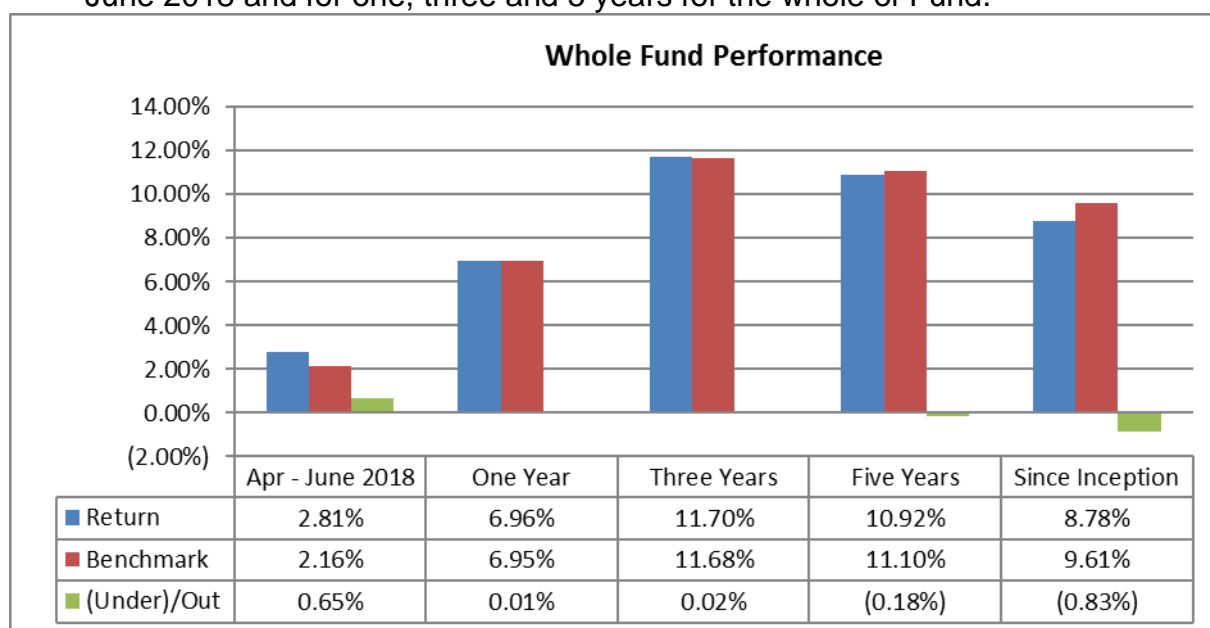
- 12.1. The value of the fund increased by £35.3m million between March and June 2018. The property, renewable energy infrastructure and multi asset absolute return investments performed above benchmark during the quarter.
- 12.2. The equity allocation exceeds target by 1.14% (down from the last quarter when the corresponding overweight position was in excess of 7%). This was due to the fund's decision in March 2018 to allocate surplus funds being held for new investments in property and renewable energy to the fund's multi asset absolute return and multi asset credit mandates. These two mandates are now showing overweight positions, and funds will be drawn from these investments over the coming years to fund the new investments.
- 12.3. The fund's property and private equity portfolios are underweight compared to target, this is dealt with in another agenda item for this meeting.
- 12.4. A higher than usual cash figure was hold as at 30 June 2018, to fund two large bulk transfers form the fund, the larger of which is anticipated to be paid by the end of September.

Total Portfolio Allocation by Manager and Asset Class

	Value	Value	Value	Allocation	Strategic	Variance
	31.12.2017	31.03.2018	30.06.2018	30.06.2018	Allocation	
	£'000	£'000	£'000	%	%	%
Equities						
UK	101,109	91,012	82,007	5.89%	5.60%	0.29%
North America	143,203	129,355	120,146	8.63%	8.20%	0.43%
Europe	47,367	43,877	38,249	2.75%	2.80%	-0.05%
Japan	22,571	20,981	18,217	1.31%	1.30%	0.01%
Asia Pacific	22,984	20,328	18,063	1.30%	1.30%	-0.00%
Emerging Markets	120,024	104,762	90,414	6.49%	6.60%	-0.11%
Global Low Carbon Tgt	333,314	302,573	275,568	19.79%	19.20%	0.59%
Total Equities	790,572	712,888	642,664	46.14%	45.00%	1.14%
Bonds						
Index Linked	184,959	185,249	183,089	13.15%	15.00%	-1.85%
Property						
Aviva	0	0	0	0.00%	5.00%	-5.00%
CBRE	93,098	91,084	88,668	6.37%	7.50%	-1.13%
Private equity						
Pantheon	53,638	52,842	55,291	3.97%	5.00%	-1.03%
Multi-Sector Credit						
CQS	91,999	92,564	128,220	9.21%	7.00%	2.21%
Multi-Asset Absolute Return						
Ruffer	100,629	98,065	172,193	12.36%	7.50%	4.86%
Infrastructure Debt						
Allianz	34,838	37,687	40,688	2.92%	3.00%	-0.08%
Renewable Energy						
CIP	0	0	1,151	0.08%	2.50%	-2.42%
Blackrock	8,127	13,930	19,751	1.42%	2.50%	-1.08%
Cash & NCA						
Cash	27,557	73,216	61,042	4.38%	0.00%	4.38%
Total Assets	1,385,417	1,357,525	1,392,757	100%	100%	0.00%

13. Investment Performance Update: to 30 June 2018

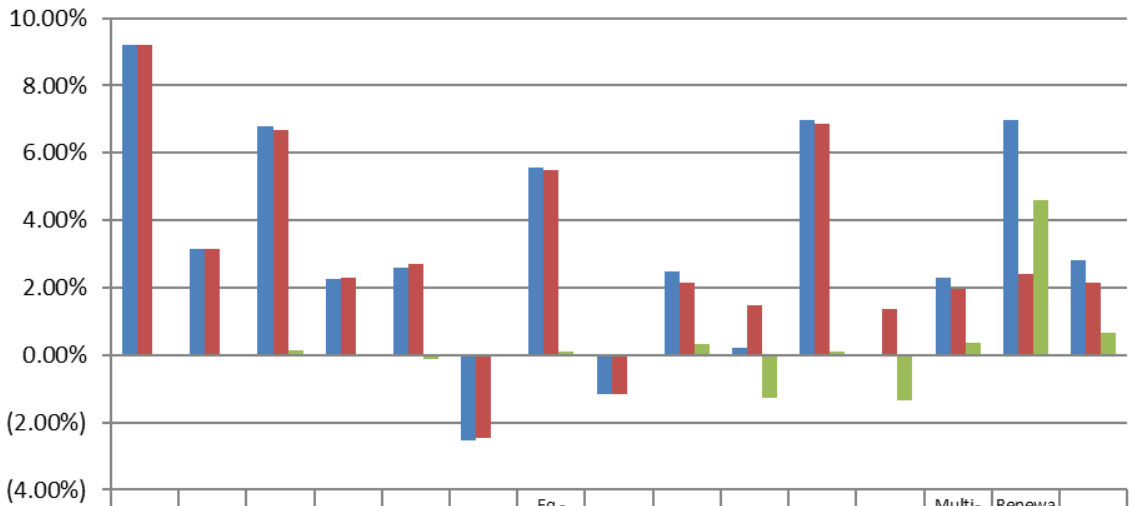
13.1. Appendix 1 provides details of the benchmarks and targets the fund managers have been set. The tables below show the performance in the quarter April to June 2018 and for one, three and 5 years for the whole of Fund.



13.2. The Fund returned 2.81% in the quarter: above the benchmark of 2.16%. Almost all investments delivered positive returns over the quarter, with private equity and renewable energy being the best performing asset classes, with over 6% returns each.

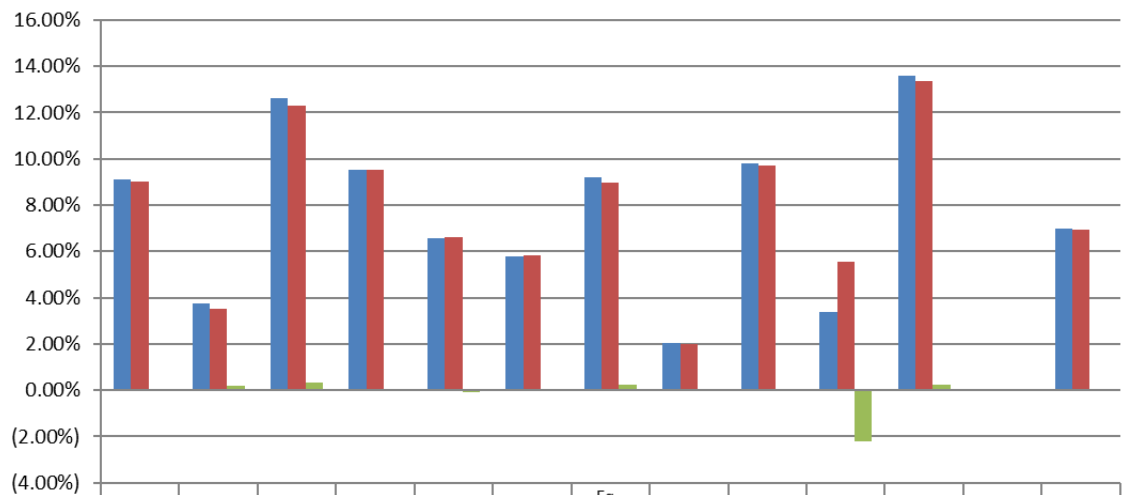
13.3. Over the last 12 months the Fund returned 6.96%, almost exactly in line with benchmark of 6.95%. The three year performance was similarly in line with benchmark at 11.70%, and five year performance was slightly below benchmark with performance of 10.92% versus benchmark of 11.10%. As much of the fund has historically been 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.

Quarter (Apr-Jun 2018) Performance



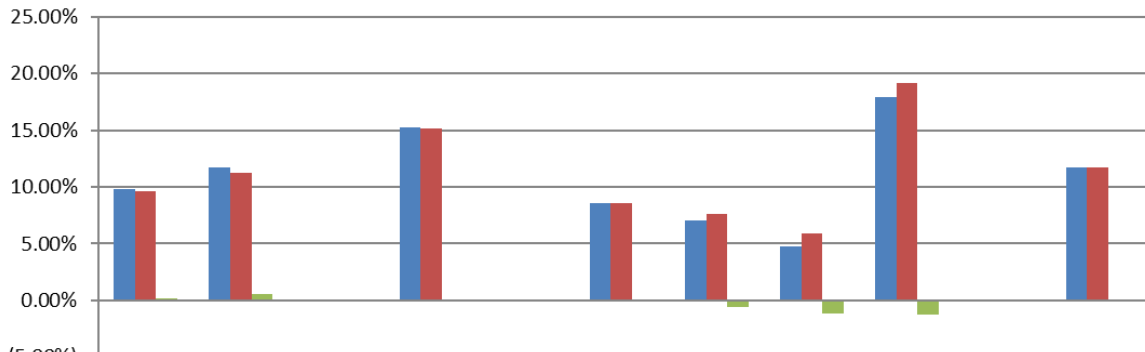
	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Eq - Global Low Carbon Tgt	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastructure	Multi-Asset Absolute Return	Renewable Energy Infrastructure	Total Fund
Fund Return	9.21%	3.15%	6.78%	2.26%	2.59%	(2.52%)	5.58%	(1.17%)	2.48%	0.21%	6.98%	0.00%	2.30%	6.99%	2.81%
Benchmark	9.20%	3.13%	6.66%	2.28%	2.71%	(2.46%)	5.48%	(1.16%)	2.14%	1.49%	6.87%	1.35%	1.94%	2.41%	2.16%
(Under)/out	0.01%	0.02%	0.12%	(0.02%)	(0.12%)	(0.06%)	0.10%	(0.01%)	0.34%	(1.28%)	0.11%	(1.35%)	0.36%	4.58%	0.65%

One Year Performance



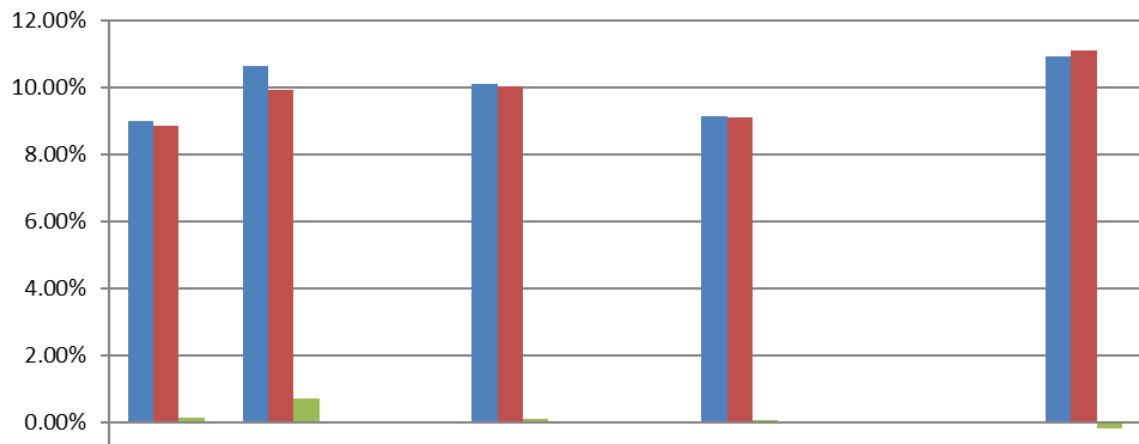
	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Eq - Global Low Carbon Tgt	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Multi-Asset Absolute Return	Total Fund
Fund Return	9.09%	3.74%	12.62%	9.53%	6.56%	5.79%	9.19%	2.02%	9.78%	3.38%	13.58%		6.96%
Benchmark	9.02%	3.53%	12.30%	9.51%	6.63%	5.83%	8.96%	2.01%	9.73%	5.57%	13.35%		6.95%
(Under)/out	0.07%	0.21%	0.32%	0.02%	(0.07%)	(0.04%)	0.23%	0.01%	0.05%	(2.19%)	0.23%	0.00%	0.01%

Three Year Performance



	Eq - UK	Eq - Europe	Eq - Japan	Eq - Asia ex Japan	Eq - Global Low Carbon Tgt	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Multi-Asset Absolute Return	Total Fund
Return	9.77%	11.77%		15.29%		8.57%	7.04%	4.79%	17.92%		11.70%
Benchmark	9.59%	11.24%		15.20%		8.55%	7.62%	5.92%	19.17%		11.68%
(Under)/out	0.18%	0.53%		0.09%		0.02%	(0.58%)	(1.13%)	(1.25%)		0.02%

Five Year Performance

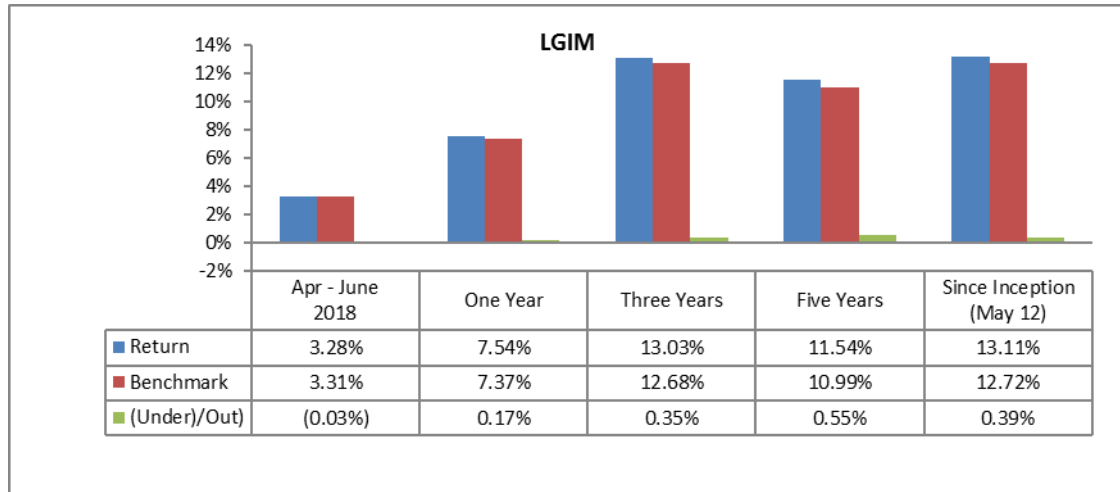


	Eq - UK	Eq - Europe	Eq - Japan	Eq - Asia ex Japan	Eq - Global Low Carbon Tgt	Index Linked Bonds	Multi-sector Credit	Multi-Asset Absolute Return	Total Fund
Return	8.97%	10.64%		10.11%		9.13%			10.92%
Benchmark	8.84%	9.92%		10.01%		9.08%			11.10%
(Under)/out	0.13%	0.72%		0.10%		0.05%			(0.18%)

FUND MANAGER PERFORMANCE

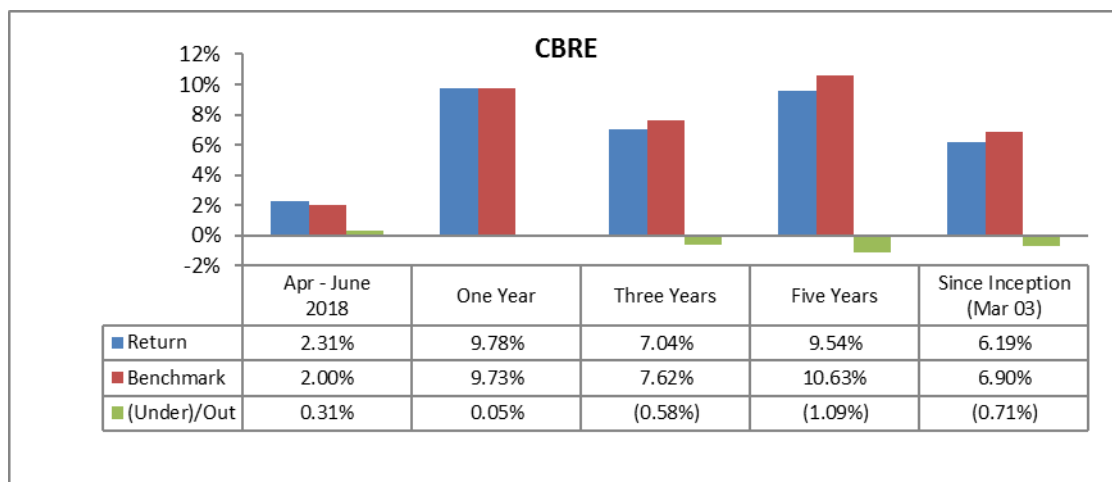
Legal & General Investment Management (LGIM)

13.4. Legal and General returned 3.28% this quarter and has slightly outperformed composite benchmark of 3.31%.



CBRE

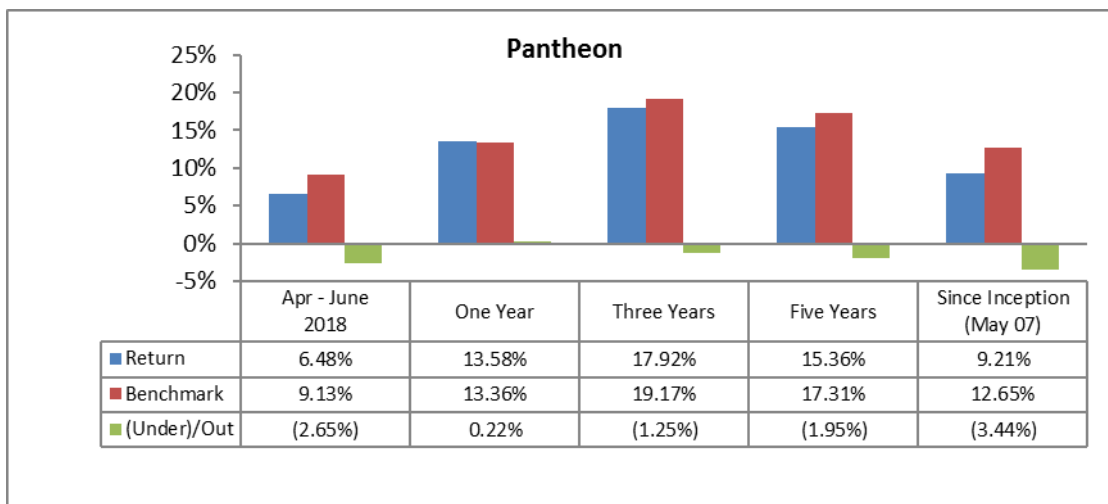
13.5. The manager saw a positive total return of 2.31% in the quarter and outperformed benchmark of 2.00% by 0.31%. CBRE lags slightly behind benchmark over 3, and 5 years, as well as since portfolio inception: however, this position has been steadily improving over recent quarters.



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.

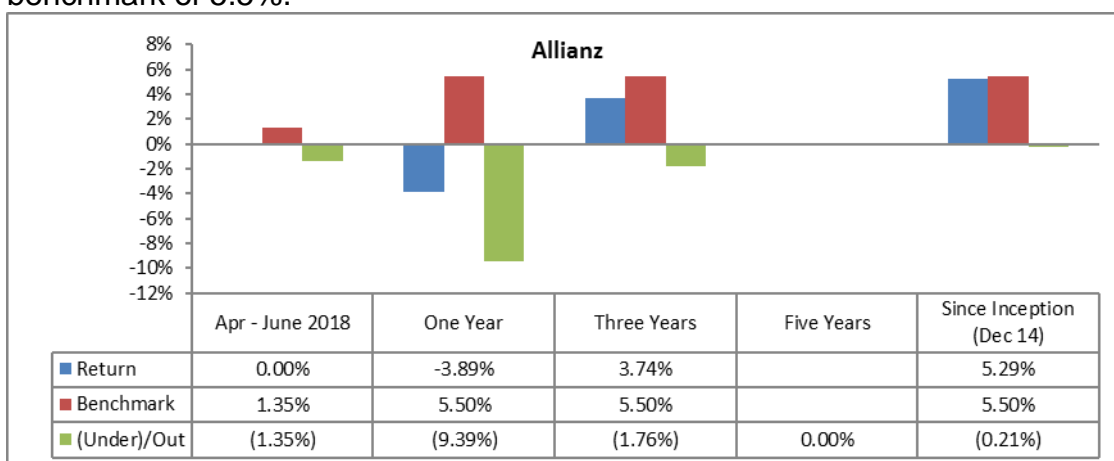
Pantheon Private Equity

12.5 Pantheon Private Equity underperformed their benchmark by 2.65%, however officers would note this is likely due to delays in issuing valuations for the investments and therefore not being included in the June performance figures. The manager is showing a positive return above benchmark over a 1 year time period, but underperformance over longer timescales.



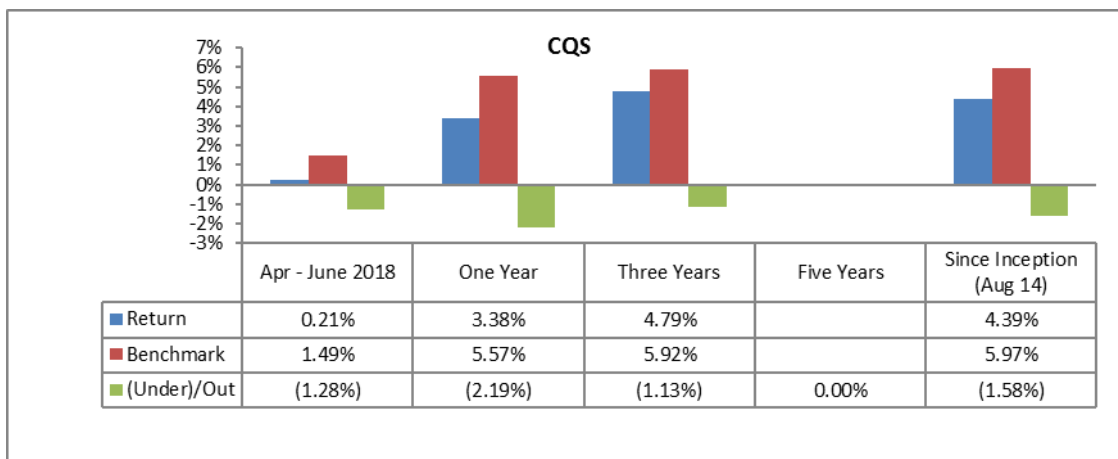
Allianz Infrastructure Debt

12.6 Allianz has performed poorly compared to benchmark over the past 1 year, however, since portfolio inception the performance is very similar to benchmark of 5.5%.



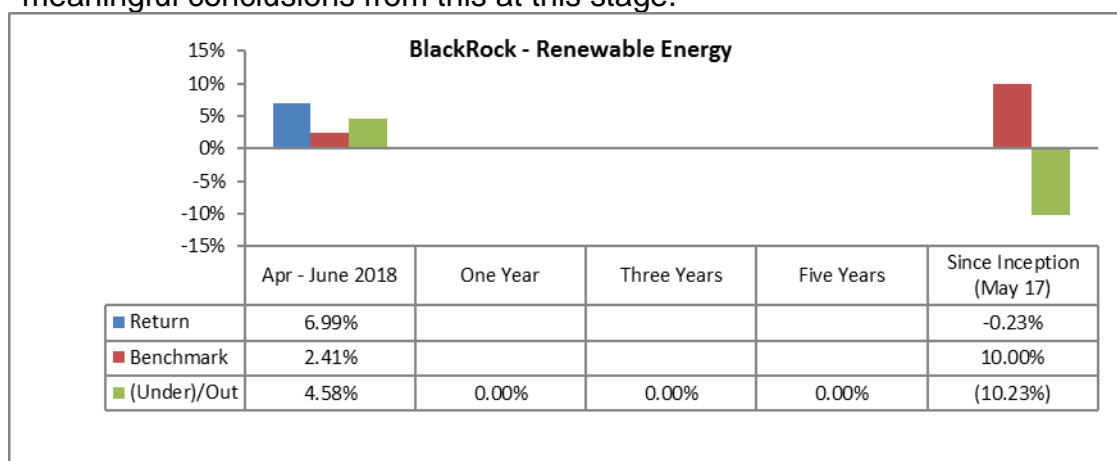
CQS Multi Sector Credit

12.7 The manager under-performance relative to benchmark in the quarter achieving a return of 0.21% against the benchmark of 1.49%. The manager lags behind benchmark over all time horizons measured.



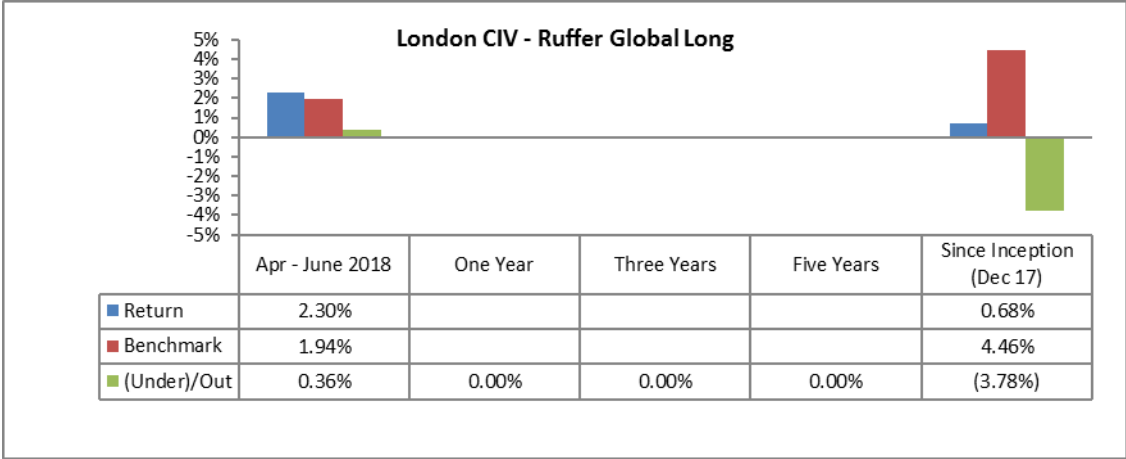
BlackRock – Renewable Energy

13.7. The manager had outperformed relative to benchmark in the quarter achieving a return of 6.99% 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 conclusions from this at this stage.



London CIV – Ruffer Multi Asset Absolute Return Strategy

13.8. The investment was originally made in December 2017. The manager delivered a performance of 2.30% over the quarter, outperforming benchmark slightly.



Appendix 1 – Strategic Asset Allocation (as at 30.06.18)

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
Legal & General Investment Management	60.0%	Global Equities & Bonds	See overleaf	Index (passively managed)
London CIV - CQS Subfund	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 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%