

Report for: Pensions Committee and Board 20 November 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 September 2018:
- Funding Level Update
 - Investment asset allocation
 - Investment performance

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 September 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 full valuation of the fund as at 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 September 2018, and this showed an improvement to an 90.4% funding level: the increase being mainly attributable to investment returns. This position was an improvement from 30 June 2018 which showed 89.0%.

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 £152m as at 30 September 2018.

11.4. Confidential Appendix 3 shows the funding and risk report produced by the fund actuary as at 30 September 2018, giving further detail regarding this.

12. Portfolio Allocation Against Benchmark

12.1. The value of the fund increased by £34.4m million between June and September 2018. All investments performed in line with, or above their benchmark in the quarter with the exception of the fund's multi asset absolute return investment.

12.2. The equity, multi sector credit and multi asset absolute return allocations exceed their strategic allocation, these represent funds which are yet to be called upon by the funds managers for property, private equity and renewable energy which are beneath their strategic allocation.

12.3. A higher than usual cash figure was hold as at 30 September 2018, to fund a large bulk transfer for the College of Haringey, Enfield and North East London, which is anticipated to be completed on 14 November 2018.

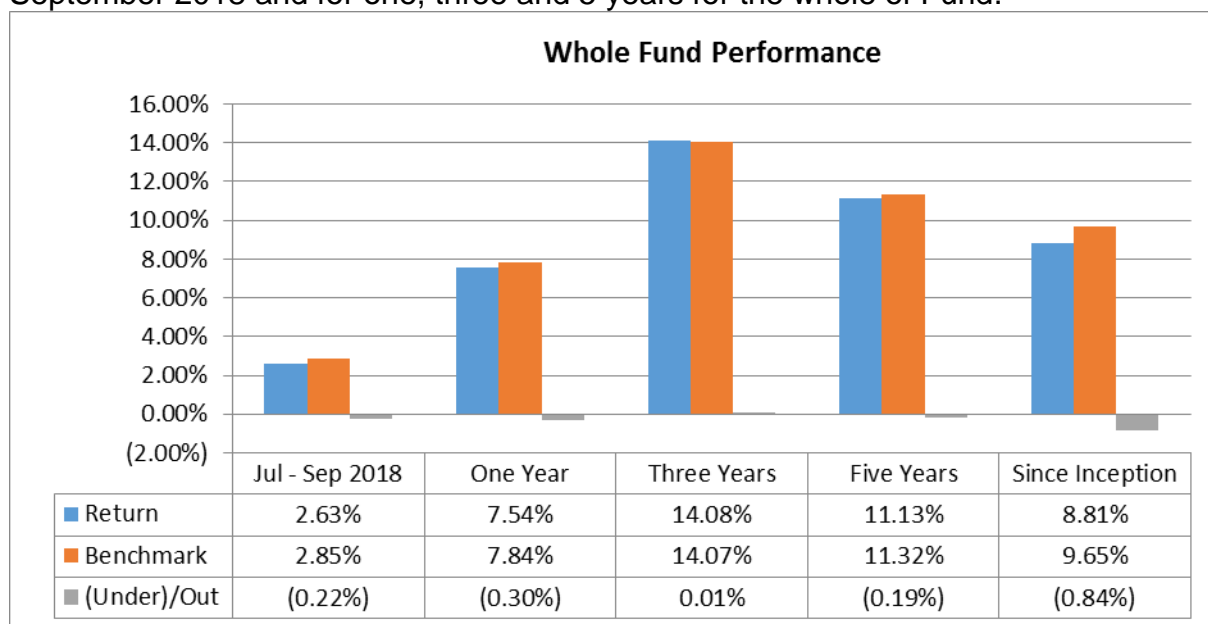
Total Portfolio Allocation by Manager and Asset Class

Value	Value	Value	Allocation	Strategic	Variance
31.03.2018	30.06.2018	30.09.2018	30.09.2018	Allocation	

	£'000	£'000	£'000	%	%	%
Equities						
UK	91,012	82,007	0	0.00%	0.00%	0.00%
North America	129,355	120,146	0	0.00%	0.00%	0.00%
Europe	43,877	38,249	0	0.00%	0.00%	0.00%
Japan	20,981	18,217	0	0.00%	0.00%	0.00%
Asia Pacific	20,328	18,063	0	0.00%	0.00%	0.00%
Multi Factor Global	0	0	284,607	19.94%	19.20%	0.74%
Emerging Markets	104,762	90,414	95,831	6.71%	6.60%	0.11%
Global Low Carbon Tgt	302,573	275,568	291,609	20.43%	19.20%	1.23%
Total Equities	712,888	642,664	672,047	47.09%	45.00%	2.09%
Bonds						
Index Linked	185,249	183,089	180,552	12.65%	15.00%	-2.35%
Property						
Aviva	0	0	0	0.00%	5.00%	-5.00%
CBRE	91,084	88,668	87,989	6.17%	7.50%	-1.33%
Private equity						
Pantheon	52,842	55,291	59,135	4.14%	5.00%	-0.86%
Multi-Sector Credit						
CQS	92,564	128,220	130,236	9.13%	7.00%	2.13%
Multi-Asset Absolute Return						
Ruffer	98,065	172,193	171,630	12.03%	7.50%	4.53%
Infrastructure Debt						
Allianz	37,687	40,688	41,304	2.89%	3.00%	-0.11%
Renewable Energy						
CIP	0	1,151	1,912	0.13%	2.50%	-2.37%
Blackrock	13,930	19,751	20,705	1.45%	2.50%	-1.05%
Cash & NCA						
Cash	73,216	61,042	61,676	4.32%	0.00%	4.32%
Total Assets	1,357,525	1,392,757	1,427,186	100.00%	100.00%	0.00%

13. Investment Performance Update: to 30 September 2018

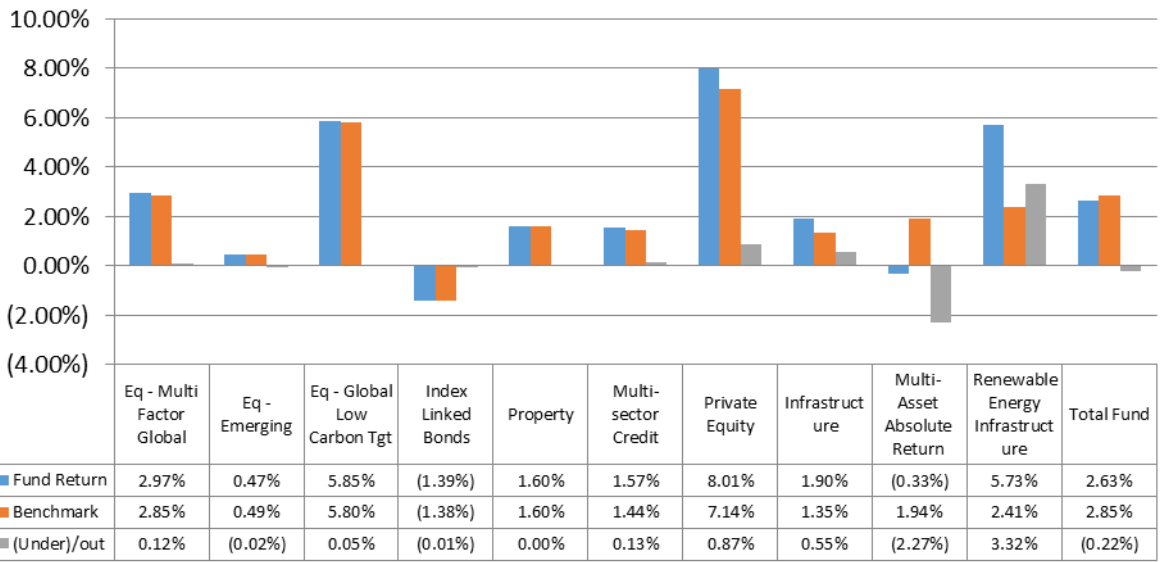
13.1. Appendix 1 provides details of the benchmarks and targets the fund managers have been set. The tables below show the performance in the quarter July to September 2018 and for one, three and 5 years for the whole of Fund.



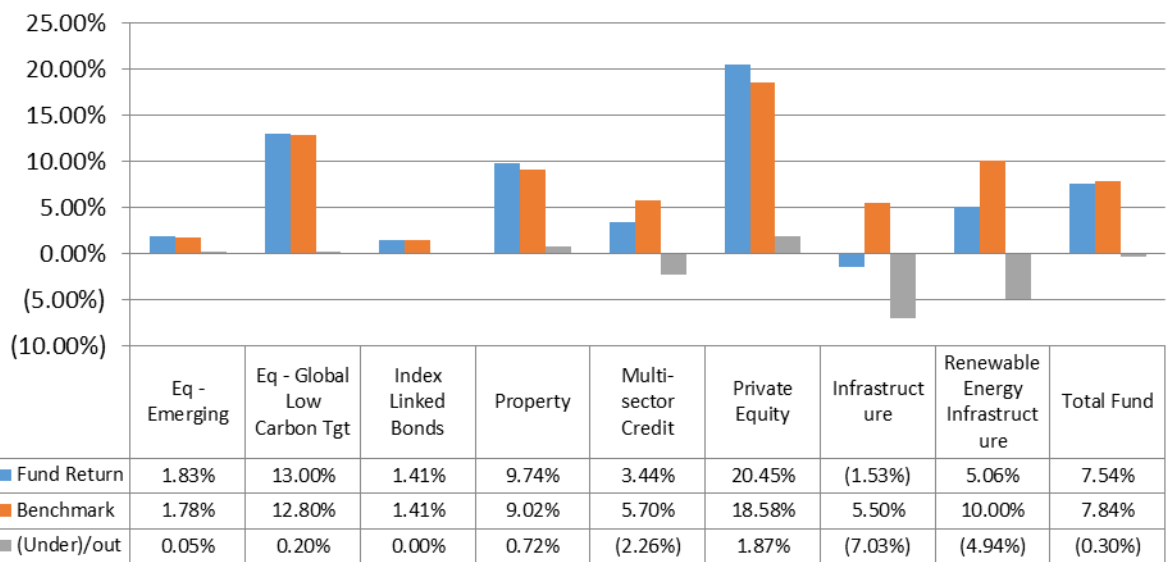
13.2. The Fund returned 2.63% in the quarter: below the benchmark of 2.85%. Almost all investments delivered positive returns over the quarter, with private equity being the best performing asset classes, with an 8.01% return.

13.3. Over the last 12 months the Fund returned 7.54%, below benchmark of 7.84%. The three year performance was in line with benchmark at 14.08%, and five year performance was slightly below benchmark with performance of 11.13% versus benchmark of 11.32%. 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 (Jul-Sep 2018) Performance



One Year Performance

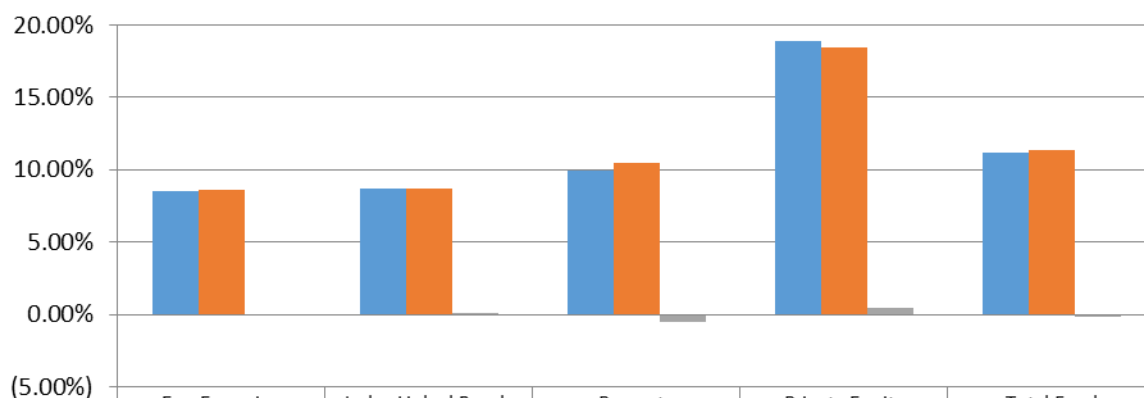


Three Year Performance



	Eq - Emerging	Eq - Global Low Carbon Tgt	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastructure	Total Fund
Return	17.35%		7.24%	7.62%	5.38%	19.00%	6.36%	14.08%
Benchmark	17.46%	19.22%	7.23%	7.18%	5.89%	23.56%	5.50%	14.07%
(Under)/out	(0.11%)	(19.22%)	0.01%	0.44%	(0.51%)	(4.56%)	0.86%	0.01%

Five Year Performance

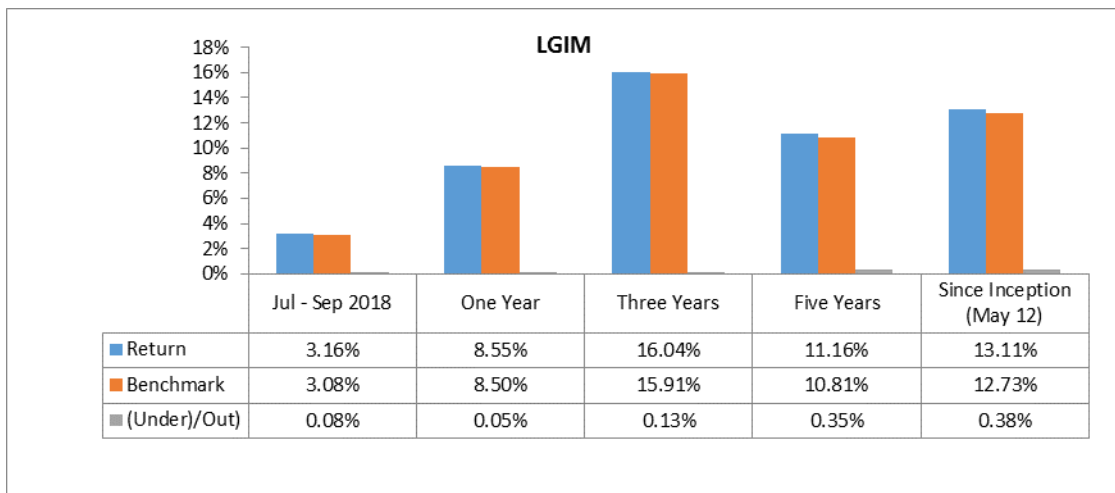


	Eq - Emerging	Index Linked Bonds	Property	Private Equity	Total Fund
Return	8.50%	8.70%	9.93%	18.89%	11.13%
Benchmark	8.60%	8.66%	10.48%	18.40%	11.32%
(Under)/out	(0.10%)	0.04%	(0.55%)	0.49%	(0.19%)

FUND MANAGER PERFORMANCE

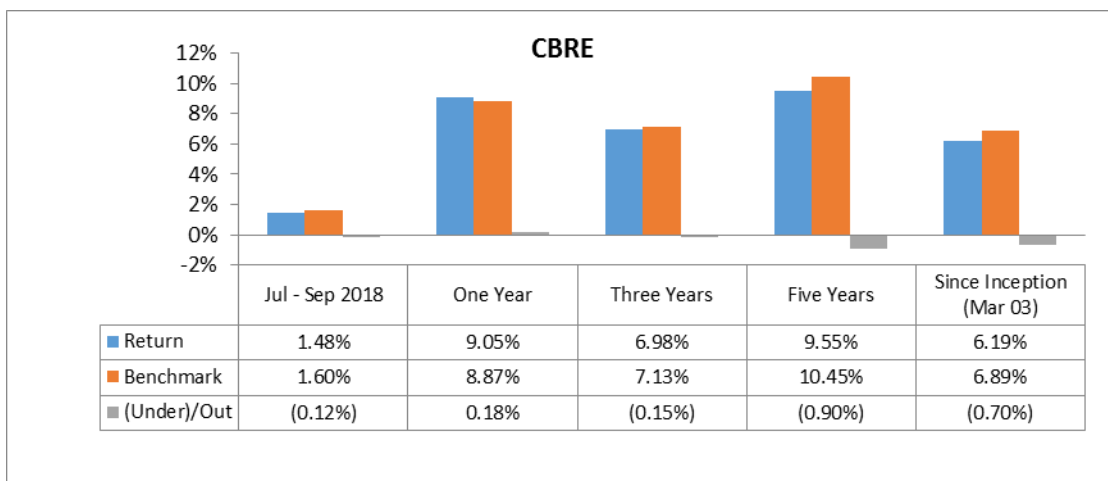
Legal & General Investment Management (LGIM)

13.4. Legal and General returned 3.16% this quarter and has slightly outperformed composite benchmark of 3.08%. As these investments are passive, performance would be expected to be very closely correlated to benchmark.



CBRE

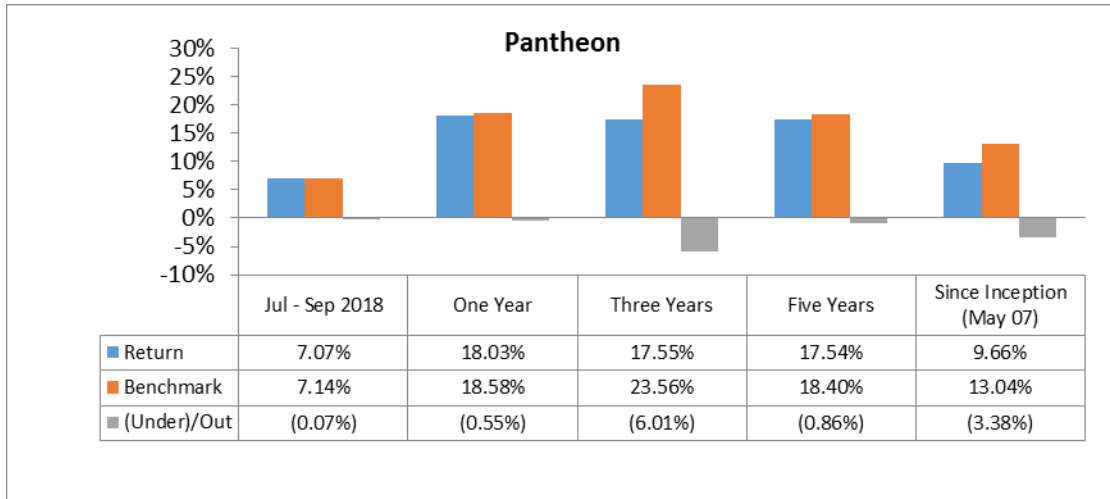
13.5. The manager saw a positive total return of 1.48% in the quarter, below benchmark of 1.60%. CBRE is very close to benchmark over 1 and 3 years, but lags slightly behind benchmark over 5 years, as well as since portfolio inception. This position has been steadily improving over recent quarters.



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.

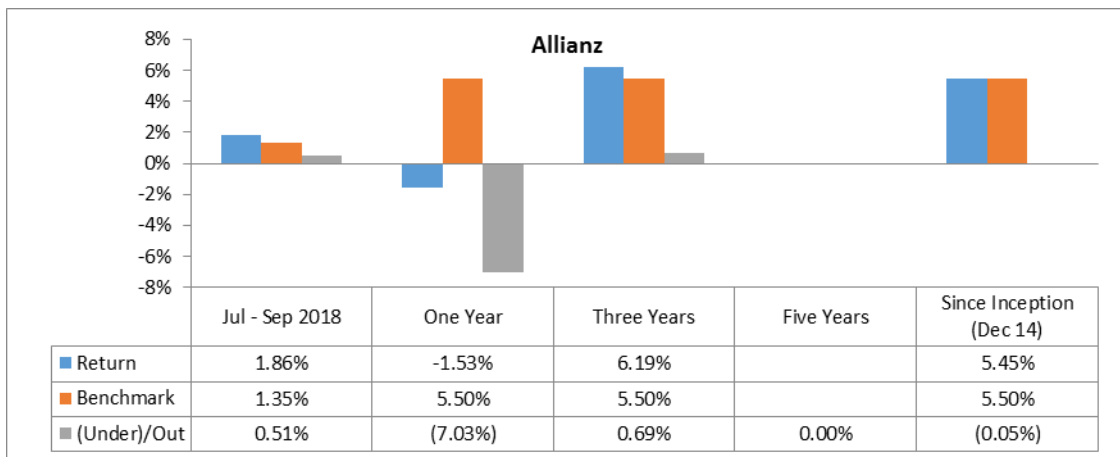
Pantheon Private Equity

12.5 Pantheon Private Equity underperformed their benchmark by 0.07%, but performance was in excess of 7%. The manager is showing underperformance over timescales measured.



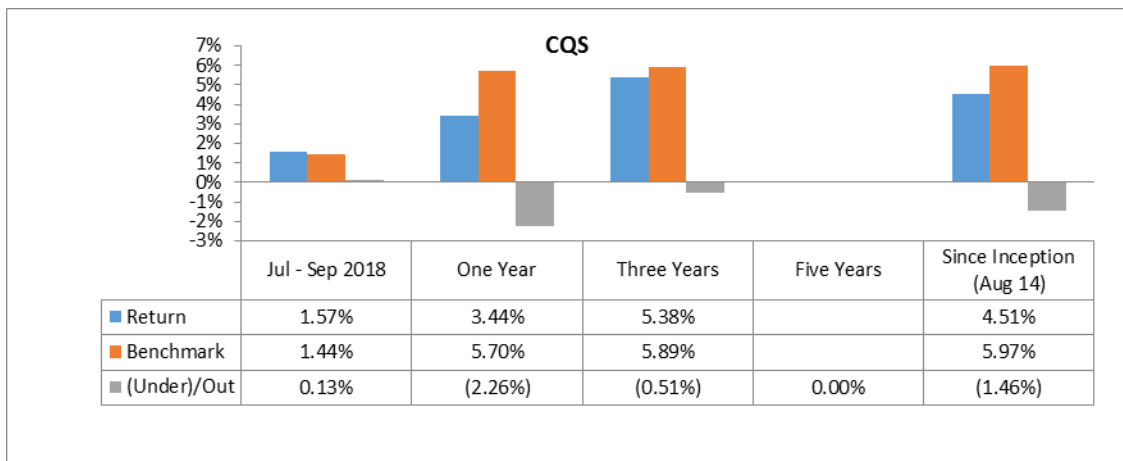
Allianz Infrastructure Debt

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%.



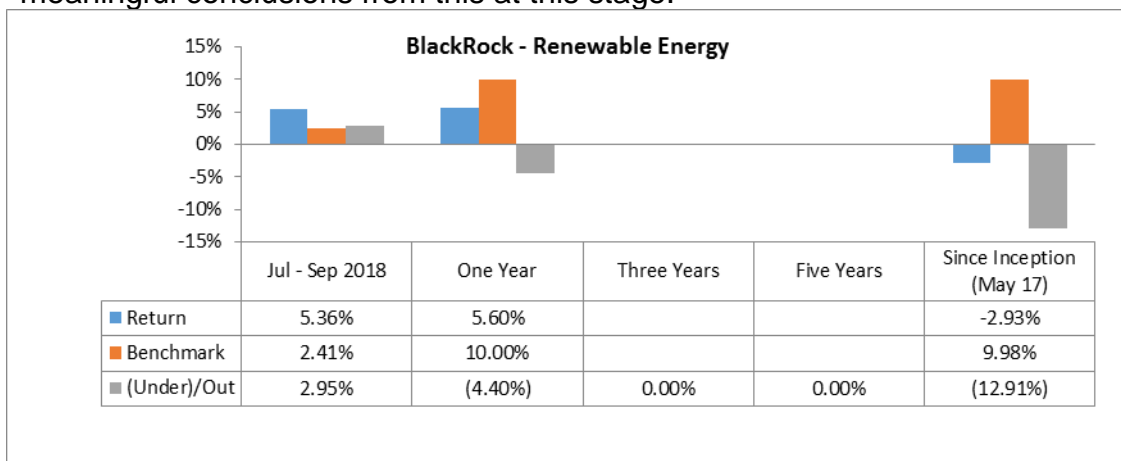
CQS Multi Sector Credit

12.7 The manager outperformed their benchmark in the quarter slightly, but lags behind benchmark over other timescales.



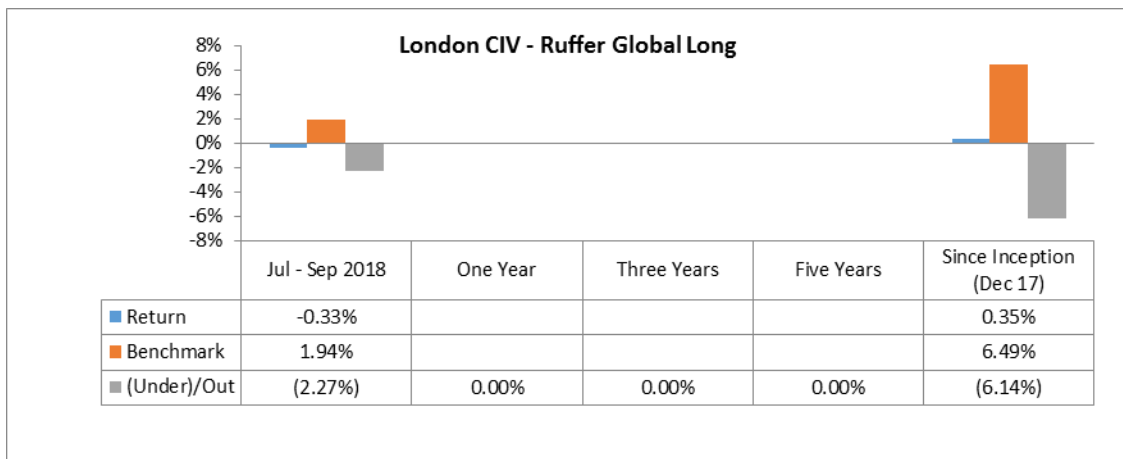
BlackRock – Renewable Energy

13.7. The manager had outperformed relative to benchmark in the quarter achieving a return of 5.36% 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.



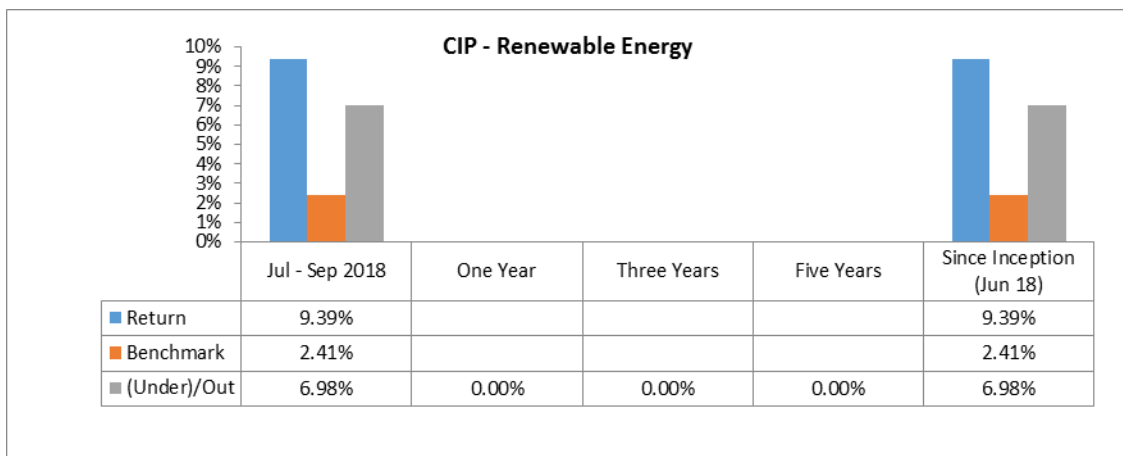
London CIV – Ruffer Multi Asset Absolute Return Strategy

13.8. The investment was originally made in December 2017. The manager delivered a performance of -0.33% over the quarter, underperforming benchmark. As the investment is still relatively new to the portfolio. The performance data to date is not sufficient to draw conclusions on the manager's performance.



CIP – Renewable Energy

13.9. The manager had outperformed relative to benchmark in the quarter achieving a return of 9.39% 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.



Appendix 1 – Strategic Asset Allocation (as at 30.09.18)

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
Multi Factor Global	RAFI Multi Factor (Unhedged)	9.6%
Multi Factor Global	RAFI Multi Factor (Hedged)	9.6%
Emerging Markets	FTSE Emerging Markets Index (Unhedged)	6.6%
Global Low Carbon Equities	MSCI World Low Carbon Target Index (Unhedged)	9.6%
Global Low Carbon Equities	MSCI World Low Carbon Target Index (Hedged)	9.6%
Index Linked Gilts	FTA Index Linked Over 5 Years Index	15.0%
Total L&G		60.0%