

**Report for:** Pensions Committee and Board 7 July 2020

**Title:** Pension Fund Quarterly Update and Investments Update

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

**Lead Officer:** Thomas Skeen, Assistant Director of Finance (Deputy S151 Officer)  
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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 31 March 2020:

- Investment asset allocation
- Independent Advisor's Market Commentary
- Funding Level Update
- Investment Performance

1.2. This report also provides members with various updates regarding on how the Coronavirus pandemic has impacted upon the fund's investments, and annual report and accounts.

## **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 31 March 2020 is noted.

3.2 That the information provided in respect how Coronavirus has impacted on the fund 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. Appendix 3 to this report provides information to this end.
- 6.2. This report would usually focus solely on the quarter in question, however given the wide ranging impacts of Coronavirus, this report gives further information to members in respect of the period since 31 March 2020.

## **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 Statement (as required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016) 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 1

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

## **10. Local Government (Access to Information) Act 1985**

10.1. Not applicable.

## **11. Market Commentary**

11.1. A market commentary prepared by the Fund's Independent Advisor is attached at appendix 1 to this report.

## **12. Update on the Fund's Accounts and Annual Report**

12.1. The Fund's accounts and annual report are usually presented in the July Pensions Committee and Board meeting for the committee's approval. This would normally be expected to take place prior to 31<sup>st</sup> July in line with government deadlines. However, for 2019/20, exceptionally, the government has delayed the deadline by which it is expected that audits are concluded and accounts approved to 30<sup>th</sup> November.

12.2. The Fund's annual accounts were delayed in being produced (compared to previous years), due to delays in receiving valuation information for some of the fund's assets, the draft accounts were published at the same time as the Council's accounts on 29<sup>th</sup> June. Additionally, some of the information which would be included in the fund's annual report was unavailable within normal timescales, so the so the annual report would not have been able to be produced in time for the July meeting.

12.3. Officers have been informed by the Fund's auditor, BDO, that the audit of the accounts will not begin until August 2020. Officers and the auditor are working towards concluding the audit by September so that the Pensions Committee and Board are able to approve the accounts and annual report in the September meeting, however this will be a challenging deadline.

## **13. Funding Position Update**

13.1. At the most recent valuation 31 March 2019, the Fund had a funding position of 100.4% - meaning that the fund's investment assets were sufficient to pay all pension benefits accrued at that date, based on the underlying actuarial assumptions used.

13.2. The Fund's Actuary, Hymans Robertson LLP, has calculated an indicative funding position update for 31 March 2020, and this showed a decrease to a 92.8% funding level. This position was down from 31 December 2019 showed 104.6%.

13.3. The 100.4% funding level as at 31 March 2019 corresponded to a net surplus of £6m, which has decreased to an indicative deficit of £102m as at 31 March 2020.

13.4. Confidential Appendix 2 shows the funding and risk report produced by the fund actuary as at 31 March 2020, giving further detail regarding this.

## 14. Portfolio Allocation Against Benchmark

14.1. The value of the fund decreased by £145.2m between December 2019 and March 2020, further details are shown in the following table. However, it should be noted that much of this decrease was regained within the months of April and May, with the fund increasing by an indicative £113.3m by the end of May.

### Total Portfolio Allocation by Manager and Asset Class

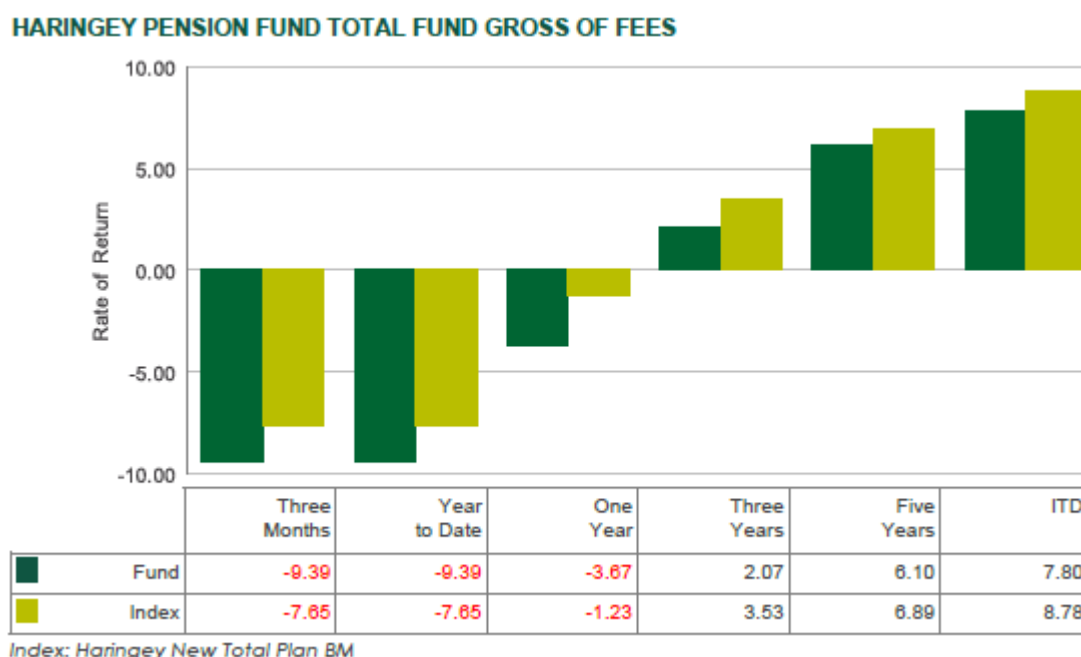
	Value	Value	Estimated Value	Estimated Value	Allocation	Strategic	Variance
	31.03.2019	31.12.2019	31.03.2020	31.05.2020	31.05.2020	Allocation	
	£'000	£'000	£'000	£'000	%	%	%
<b>Equities</b>							
Multi Factor Global	274,055	300,675	235,740	270,677	18.78%	19.20%	-0.42%
Emerging Markets Low Carbon	99,382	106,392	86,999	96,048	6.66%	6.60%	0.06%
Global Low Carbon	281,914	306,198	245,870	285,846	19.83%	19.20%	0.63%
<b>Total Equities</b>	<b>655,351</b>	<b>713,265</b>	<b>568,609</b>	<b>652,571</b>	<b>45.27%</b>	<b>45.00%</b>	<b>0.27%</b>
<b>Bonds</b>							
Index Linked	195,855	196,822	217,519	224,592	15.58%	15.00%	0.58%
<b>Property</b>							
Aviva	0	49,792	47,865	47,865	3.32%	5.00%	-1.68%
CBRE	97,136	99,277	97,214	96,394	6.69%	7.50%	-0.81%
<b>Private equity</b>							
Pantheon	65,489	67,376	70,569	73,396	5.09%	5.00%	0.09%
<b>Multi-Sector Credit</b>							
CQS	126,267	115,625	96,013	104,915	7.28%	7.00%	0.28%
<b>Multi-Asset Absolute Return</b>							
Ruffer	152,887	136,012	132,914	134,398	9.32%	7.50%	1.82%
<b>Infrastructure Debt</b>							
Allianz	43,611	46,976	42,260	41,692	2.89%	3.00%	-0.11%
<b>Renewable Energy</b>							
CIP	3,538	8,127	15,952	16,238	1.13%	2.50%	-1.37%
Blackrock	21,066	23,355	26,493	28,568	1.98%	2.50%	-0.52%
<b>Cash &amp; NCA</b>							
Cash	22,968	16,763	12,804	20,912	1.45%	0.00%	1.45%
<b>Total Assets</b>	<b>1,384,168</b>	<b>1,473,390</b>	<b>1,328,211</b>	<b>1,441,541</b>	<b>100%</b>	<b>100%</b>	<b>0.00%</b>

14.2. The fund's investment valuations at the end of March 2020 were reviewed by the Head of Pensions, Independent advisor, and Investment Consultant Mercer in early April. At this point, there was some concern that the coronavirus pandemic might impact on financial markets to the extent that trading in listed markets could cease, meaning that investors would be unable to liquidate investments potentially. This would have posed a significant risk for the fund as it is cashflow negative – i.e. it pays out more in pension benefits than it collects in employer and

employee contributions. To meet this ongoing cashflow need to pay pension benefits, officers liquidate small values of investments several times each year (usually £3m 3 or 4 times per year dependent on cashflows). Arrangements were therefore made to liquidate investments in April such that the fund would have enough cash to cover the fund's day to day cashflows for the remainder of the calendar year, in case this risk of markets ceasing to trade materialised. The fund sold its investments from the two portfolios which gained value in the quarter to March 2020, so as not to crystallise losses on the fund's investments which lost value following the pandemic.

## 15. Investment Performance

15.1. A performance strategy report is attached to this report at confidential appendix 3, this is prepared by the Fund's Custodian, Northern Trust. The Fund's overall returns for the quarter are summarised in the table below:



15.2. The Fund's annual report is usually produced and approved by the Pensions Committee and Board in the July meeting, alongside the Fund's annual accounts. The annual report includes comparative performance information that benchmarks the fund against its group of peers of other LGPS funds. In recent years, the fund has compared well to its peer group, with performance over the long term generally being within the top quartile. This benchmarking exercise has not yet concluded this year, but the indicative initial results show that an average LGPS Fund delivered performance of around -5.1% over the course of 2019/20, which means Haringey's performance of -3.67% is very likely to be in the top half of funds, unless the initial indicative benchmarking results change significantly.