

Report for: Pensions Committee and Board – 20 October 2020

Title: Pension Fund Quarterly Update and Investments Update

Report authorised by: Thomas Skeen, Assistant Director of Finance (Deputy Section 151 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 This report provides updates on the following matters in respect of the three months to 30 June 2020:

- Investment asset allocation
- Independent Advisor's Market Commentary
- Funding Level Update
- Investment Performance
- London Collective Investment Vehicle (LCIV) Update

2. Cabinet Member Introduction

2.1 Not applicable

3. Recommendations

The Pensions Committee and Board is asked:

3.1 To note the information provided in respect of the activity in the three months to 30 June 2020.

4. Reason for Decision

4.1 Not applicable

5. Alternative options considered

5.1 Not applicable

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 2 to this report provides information to this end.
- 6.2. This report also provides an update on the work of the London CIV and commentary on the markets from Fund's Independent Advisor.

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: Pension Fund Performance
- 9.3. Appendix 3: Independent Advisor's Annual Market Background Report (2019/20)

10. Local Government (Access to Information) Act 1985

10.1. Not applicable

11. Market Commentary

11.1. A market commentary on quarter two of 2020 prepared by the Fund's Independent Advisor is attached at appendix 1 to this report. The independent advisor has also prepared a separate report which reviews the markets for the whole of 2019/20. This report is attached at Appendix 3 of 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 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 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 June. Additionally, some of the information which would be included in the fund's annual report was unavailable within normal timescales.

12.3. Auditors have commenced their work but are not expected to conclude the audit of the pension fund accounts until late October. Officers and the auditor are working towards concluding the audit before the November Pensions Committee and Board meeting, so that the Committee can approve the accounts and annual report at this meeting.

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. This is largely due to the impact of Covid 19 on global markets, but most of the decrease have been recovered in the quarter ending 30 June 2020.

14. Portfolio Allocation Against Benchmark

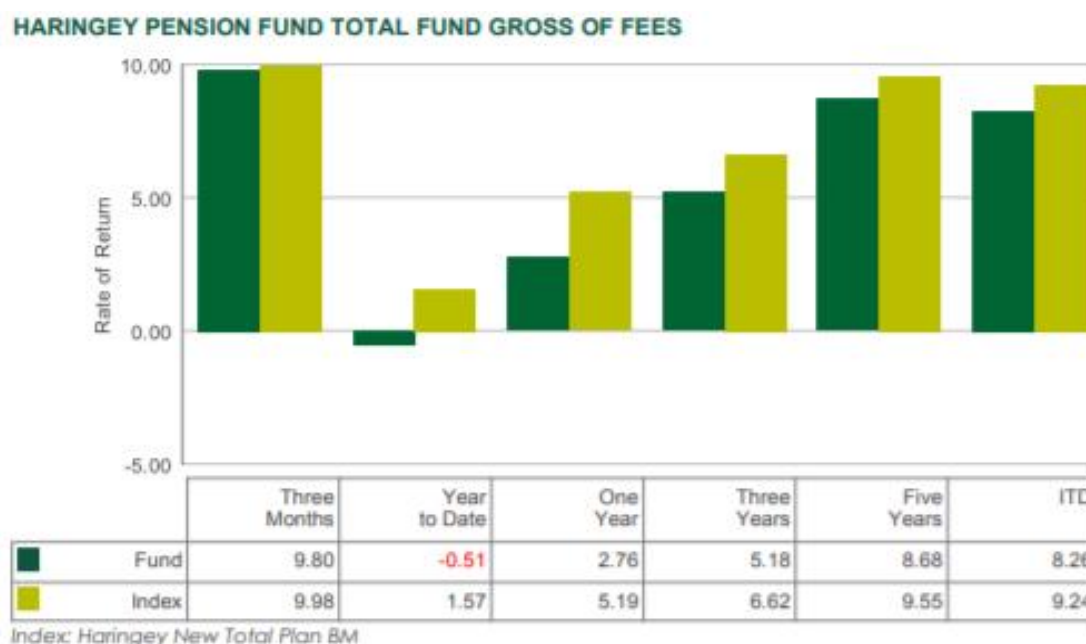
14.1. The value of the fund increased by £128.4m between March 2020 and June 2020 – further details are shown in the following table. The increase between the quarters is largely due to recovery of losses incurred when the economy was shut down due to Covid 19.

Total Portfolio Allocation by Manager and Asset Class

	Value	Value	Value	Value	Allocation	Strategic	Variance
	31.03.2019	31.12.2019	30.03.2020	30.06.2020	30.06.2020	Allocation	
	£'000	£'000	£'000	£'000	%	%	%
Equities							
Multi Factor Global	274,055	300,675	235,740	274,810	18.93%	19.20%	-0.27%
Emerging Markets Low Carbon	99,382	106,392	86,999	103,032	7.10%	6.60%	0.50%
Global Low Carbon	281,914	306,198	245,870	293,085	20.19%	19.20%	0.99%
Total Equities	655,351	713,265	568,609	670,927	46.23%	45.00%	1.23%
Bonds							
Index Linked	195,855	196,822	217,519	220,605	15.20%	15.00%	0.20%
Property							
Aviva	0	49,792	47,865	47,763	3.29%	5.00%	-1.71%
CBRE	97,136	99,277	97,214	93,855	6.47%	7.50%	-1.03%
Private equity							
Pantheon	65,489	67,376	70,569	71,742	4.94%	5.00%	-0.06%
Multi-Sector Credit							
CQS	126,267	115,625	96,013	108,233	7.46%	7.00%	0.46%
Multi-Asset Absolute Return							
Ruffer	152,887	136,012	132,914	134,632	9.28%	7.50%	1.78%
Infrastructure Debt							
Allianz	43,611	46,976	42,260	41,692	2.87%	3.00%	-0.13%
Renewable Energy							
CIP	3,538	8,127	15,952	16,493	1.14%	2.50%	-1.36%
Blackrock	21,066	23,355	26,493	26,686	1.84%	2.50%	-0.66%
Cash & NCA							
Cash	22,968	16,763	12,804	18,764	1.29%	0.00%	1.29%
Total Assets	1,384,168	1,473,390	1,328,212	1,451,392	100%	100%	0.00%

Investment Performance

14.2. A performance strategy report is attached to this report at confidential appendix 2, this is prepared by the Fund's Custodian, Northern Trust. The Fund's overall returns for the quarter are summarised in the chart below:



14.3. The Fund's annual report will be presented for approval to Pensions Committee and Board at the November 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 in the top quartile. The benchmarking exercise for this show that an average LGPS Fund delivered performance of around -4.8% over the course of 2019/20. At -3.7% performance for the year, Haringey ranked 38 out of 100 funds putting it in the second quartile in terms of performance relative to other local authority pension funds.

15. London Collective Investment Vehicle (LCIV) Update

15.1. The London CIV held its Annual General Meeting (AGM) on 16 July 2020. The annual review presentation at the AGM can be found [here](#).

15.2. The Chair of the PCB was unable to attend the AGM due to access restrictions on the Council's standard issued laptop. The restriction on the Chair's profile has now been lifted following discussions with the Council's Digital Services team. LCIV have been made aware of this issue and have provided alternative means of connection for future meetings as backup to direct access from a standard council issued laptop.

15.3. There have been three key permanent appointments at the LCIV in the past few months:

- Jason Fletcher – Chief Investment Officer;
- Jacqueline Jackson – Head of Responsible Investment; and
- Cameron McMullen – Client Relations Director.

15.4. The LCIV continues to implement its business plan. There continues to be a focus on expanding the portfolio of assets available to client funds. 'Request For Providers' were completed in September 2020 for advisors to help select investment managers for two funds, renewable infrastructure and private debt. Also, the London Fund which is a collaboration between LCIV and LPP, another LGPS pool, is progressing and on track to be launched in line with the business plan.

15.5. Three sub fund managers remain under enhanced monitoring one of which is CQS who have been in this position for over 6 months. A decision has been taken by the LCIV executive committee to appoint a second multi asset credit (MAC) manager that will allow the fund to have exposure to all parts of the credit market.

15.6. The LCIV have made clear that they will mandate a 50/50 split between the two managers once the second manager has been appointed. Historically, LCIV appoint sub fund managers and client funds such as Haringey are left to decide which manager they wish to invest with. There is concern that the approach taken by the LCIV in mandating a 50/50 split could set a dangerous precedent and is potentially usurping the powers of pension committees.

15.7. The Deputy Chief Investment Officer of LCIV has been invited to this meeting to brief the Committee on its rationale for electing to appoint a second multi credit asset manager and address concerns about the 50/50 split mandate that they are imposing on client funds that wish to invest in the LCIV's MAC fund.

16. RAFI Multi Factor Climate Transition Strategy

16.1. The PCB agreed in principle in the March 2020 meeting to utilise a low carbon variant of the RAFI multifactor strategy, subject to implementation considerations once this is launched. The RAFI Multi Factor Climate Transition strategy has been created at the request of the Fund and will be ready to launch at the end of October 2020.

16.2. A meeting has been scheduled between all parties involved in the implementation of this strategy for 16 October. The Committee will be briefed on the outcome of the officers/advisors' meeting scheduled for 16 October which will finalise details of how the strategy will be implemented. Following the launch of the strategy, a paper will be presented to the November Committee meeting asking for approval to invest.