

Report for: Pensions Committee and Board – 21 January 2021

Title: Pension Fund Quarterly Update and Investments Update

Report authorised by: Thomas Skeen, Assistant Director of Finance (Deputy s151 Officer)

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Ward(s) affected: Not applicable

**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 2020:

- Investment asset allocation;
- Independent Advisor’s Market Commentary;
- Update on the Fund’s accounts and annual report;
- Funding position update;
- Investment Performance;
- London Collective Investment Vehicle (LCIV) Update; and
- Stewardship 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 September 2020.

4. Reason for Decision

4.1. Not applicable.

5. Other 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 Pensions Committee and Board to review investment performance. Confidential Appendix 2 to this report provides information to this end.

6.2. This report also provides an update on the work of the London Collective Investment Vehicle (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 Chief Financial Officer (s151 Officer) has been consulted on this report and there is no direct financial impact from the contents of this report.

Legal Services

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. Confidential Appendix 3: LAPFF Interim Report on Company Engagement in the Occupied Palestinian Territories/Israeli Territories.

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

11. Market Commentary

11.1. A market commentary on quarter three of 2020 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 to the Pensions Committee and Board in July 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 2020.

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 2020. Additionally, some of the information which would be included in the fund's annual report was unavailable within normal timescales.

12.3. The auditors had completed their work ahead of the 30 November 2020 deadline and were ready to sign off and issue the audit opinion on the 2019/20 pension fund annual accounts. The audit partner informed officers in late November that they will not be issuing their audit opinion on the pension fund by 30 November 2020 as previously planned. This is due to a direction from the National Audit Office that both the audit opinion for the council and pension fund accounts have to be issued together, and given the audit of the council's will not be completed until January 2021, issuance of the audit opinion for the pension fund will also be delayed.

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 which 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 has been recovered in the quarter ending 30 June 2020.

14. Portfolio Allocation Against Benchmark

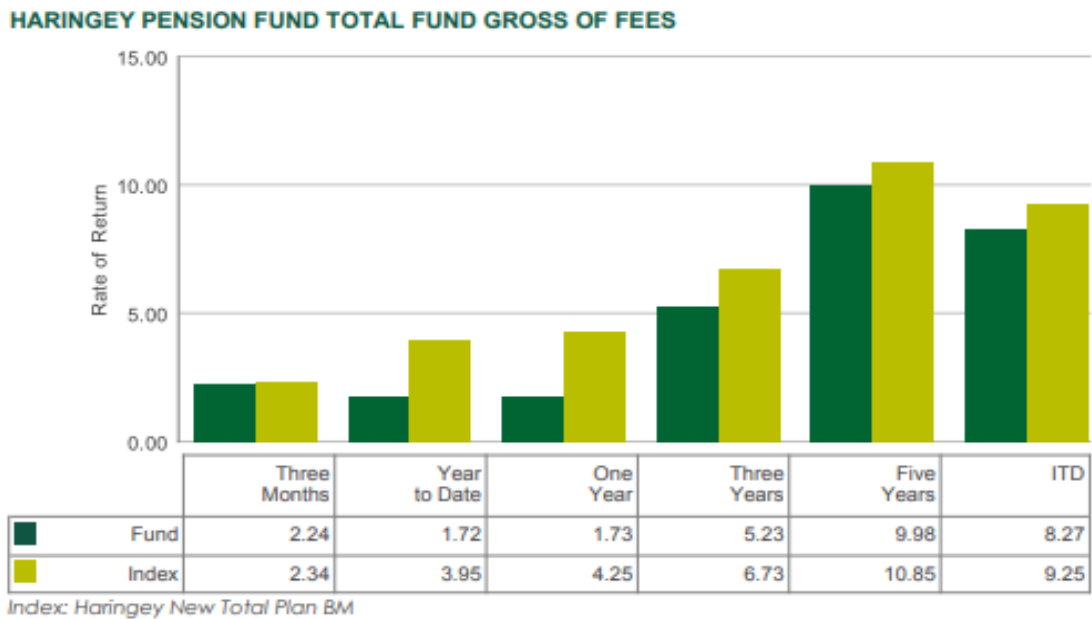
14.1. The value of the fund increased by £30.5m between June 2020 and September 2020 – further details are shown in the following table. The increase between the quarters is largely due to recovery of losses incurred when the economy was shut down due to Covid 19.

Total Portfolio Allocation by Manager and Asset Class

	Value	Value	Value	Value	Value	Value	Allocation	Strategic	Variance
	30.06.2019	30.09.2019	31.12.2019	30.06.2020	30.03.2020	30.09.2020	30.09.2020	Allocation	
	£'000	£'000	£'000	£'000	£'000	£'000	%	%	%
Equities									
Multi Factor Global	284,769	295,041	300,675	274,810	235,740	298,238	20.13%	20.20%	-0.07%
Emerging Markets Low Carbon	103,074	102,019	106,392	103,032	86,999	107,741	7.27%	7.10%	0.17%
Global Low Carbon	296,821	293,894	306,198	293,085	245,870	307,475	20.75%	20.20%	0.55%
Total Equities	655,351	684,664	690,954	670,927	568,609	713,454	48.14%	47.50%	0.64%
Bonds									
Index Linked	199,815	217,271	196,822	220,605	217,519	175,531	11.85%	10.00%	1.85%
Property									
Aviva	0	50,000	49,792	47,763	47,865	48,098	3.25%	5.00%	-1.75%
CBRE	99,581	99,615	99,277	93,855	97,214	97,178	6.56%	7.50%	-0.94%
Private equity									
Pantheon	67,763	69,354	67,376	71,742	70,569	72,585	4.90%	5.00%	-0.10%
Multi-Sector Credit									
CQS	113,411	114,093	115,625	108,233	96,013	143,461	9.68%	10.00%	-0.32%
Multi-Asset Absolute Return									
Ruffer	155,325	134,675	136,012	134,632	132,914	136,140	9.19%	7.50%	1.69%
Infrastructure Debt									
Allianz	43,068	44,860	46,976	41,692	42,260	46,286	3.12%	2.50%	0.62%
Renewable Energy									
CIP	5,086	7,657	8,127	16,493	15,952	18,636	1.26%	2.50%	-1.24%
Blackrock	23,318	23,198	23,355	26,686	26,493	26,474	1.79%	2.50%	-0.71%
Cash & NCA									
Cash	31,730	15,713	16,763	18,764	12,804	4,056	0.27%	0.00%	0.27%
Total Assets	1,384,168	1,423,761	1,467,390	1,451,392	1,328,212	1,481,899	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:



15. London Collective Investment Vehicle (LCIV) Update

15.1. The London CIV held a business update meeting on 19 November 2020. This meeting was attended by the Chair of the Pensions Committee and Board.

15.2. There have been two key permanent appointments at the LCIV in the past few months:

- Vanessa Shia – Head of Private Markets;
- Gus Loriot – Responsible Investment Manager.

15.3. The LCIV continues to implement its business plan. There continues to be a focus on expanding the portfolio of assets available to client funds. Redington have been appointed to be the advisor in the manager selection of Renewables and ISIO have been appointed in the equivalent role for the selection of a Private Debt manager. These two funds are expected to launch toward the end of Q1 2021.

15.4. The LCIV continues to collaborate with the Local Pension Partnership to establish the London Fund that will focus on investments in the London. The Fund has now received approval from the FCA and is expected to launch in December 2020.

15.5. Three sub fund managers remain under enhanced monitoring one of which is CQS who have been in this position for over 10 months. Following the decision by the LCIV executive committee to appoint a second multi asset credit (MAC) manager, further detail on the process for doing this and how the two managers will operate is summarised below.

15.6. The LCIV plan to retain CQS as a High yield and Leveraged Loans Fund manager and appoint another manager that will focus on the whole of market for multi asset credit. Members of the Pensions Committee and Board will recall a discussion on this topic at the October 2020 meeting which London CIV officers attended. At the time, the LCIV position was that the Fund had to transfer 50% of investment assets to the new manager or disinvest from the LCIV MAC fund altogether. The latest solution means that the Haringey Pension Fund will not be forced to divest 50% of its assets to a new, yet to be appointed, manager unless the Fund wishes to do so.

16. Stewardship Update

Signatories to the United Nations Principles of Responsible Investment (UNPRI)

16.1. The Committee enquired why one of the Fund's investment managers was still a non-signatory to the UNPRI charter and asked officers to pursue this with the affected manager. The manager has now confirmed to the Fund that it has submitted the relevant documentation to be a signatory and would be a recognised signatory from February 2021.

Update on Companies Operating in Occupied Palestinian Territory/Israeli Settlement

16.2. It was agreed at the last Committee meeting that the Fund would allow LAPFF in their role as Environmental, Social, and Governance (ESG) engagement lead for the Fund to start engaging with the companies where the Fund hold investments and have been identified as carrying out specific business activities related to the Israeli settlements in the Occupied Palestinian Territory by the United Nations Human Rights Council (UNHRC). As previously reported, the Haringey Pension Fund holds no shares directly but has some exposure to the listed companies via pooled investment vehicles. This limits direct actions that can be taken by the Fund to effectively pressure these companies which was why the Committee agreed to pursue this through the LAPFF.

16.3. The LAPFF had in fact engaged with companies operating in the Israeli settlements/occupied territories prior to the issuance of the UNHRC report – especially those in which LAPFF member funds collectively hold a high number of shares. Following the issuance of the report, LAPFF has committed to continuing the process of engagement using the UNHR report as a point of reference for their engagement activities going forward.

16.4. So far, the main thrust of engagement with these companies has focussed on requesting that the companies produce robust, independent and credible human rights impact assessments in line with the UN Guiding Principles on Business and Human Rights. The LAPFF will continue with this approach for now and use it as a way to ensure the Fund has sufficient information to continue to challenge these companies and hold them to account both in respect of their human rights and financial performance.

- 16.5. As a next step to the above, in the case where these companies are not either engaging or making required progress, the LAPFF will be willing to consider escalation strategies such as providing voting recommendations at AGMs, exploring instigating collective investor engagement initiatives and using targeted press coverage to facilitate accountability.
- 16.6. An interim report issued by the LAPFF on engagement activities with companies operating in the Occupied Territory is attached at Confidential Appendix 3 of this report.