

Report for: Pensions Committee and Board – 4 March 2021

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. To report the following in respect of the three months to 31 December 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
 - 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 31 December 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 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. The Independent Advisor has been specifically consulted and involved in the preparation of the commentary relating to the PSC letter. The Independent Advisor's quarterly market commentary is appended to this report at 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: Letter from the Palestinian Solidarity Campaign
- 9.4. Appendix 4: Letter from Chairman of Responsible Investment Reference Group

10. Local Government (Access to Information) Act 1985

- 10.1. Not applicable.

11. Market Commentary

- 11.1. A market commentary on quarter four 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 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 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. 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 the bulk of their work ahead of the 30 November 2020 deadline and had committed to members of the Committee that they would sign off the accounts and issue their audit opinion on the 2019/20 pension fund annual accounts by the government deadline of 30 November 2020.
- 12.4. The audit partner informed officers in late November that they will not be issuing their audit opinion on the pension fund by 30 November as they had previously committed to doing. The reason given was that the National Audit Commission had issued a directive to auditors that both the audit opinion for the council and pension fund accounts have to be issued at the same time and given the audit of the council's accounts will not be completed until February 2021, issuance of the audit opinion for the pension fund will also be delayed accordingly. The result of the audit will be presented to the next meeting of PCB in the new municipal year, however as previously reported and confirmed by the audit partner, auditors have not identified any significant issues in their work.

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 have been recovered in the quarter ending 30 June 2020.

14. Portfolio Allocation Against Benchmark

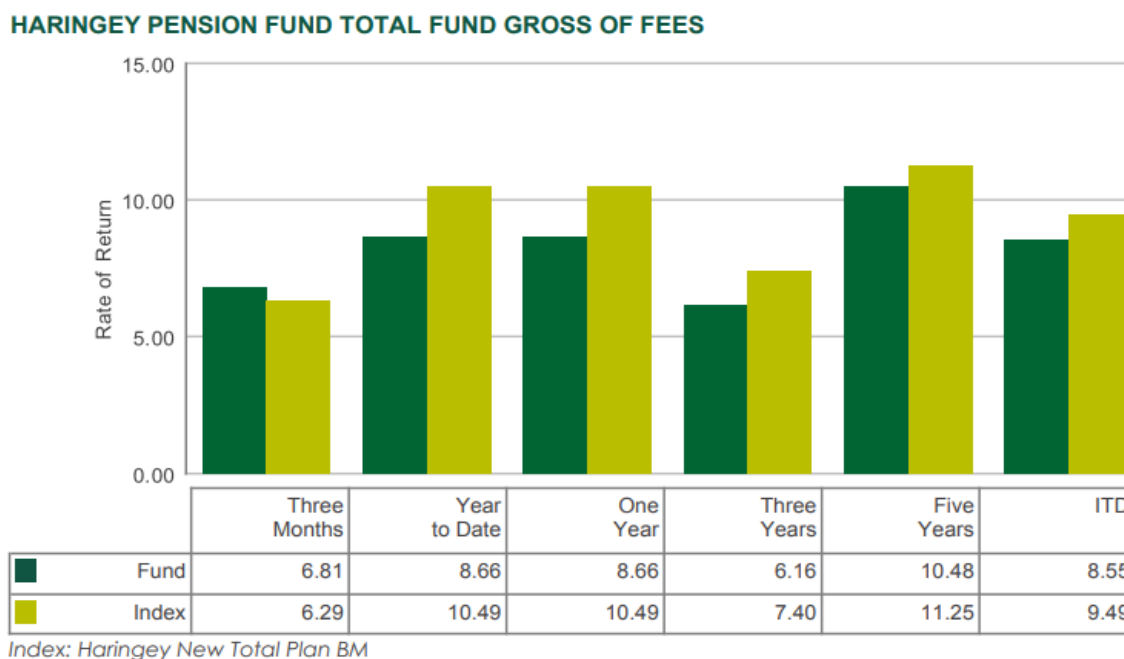
14.1. The value of the fund increased by £30.5m between June 2020 and September 2020 – further details are shown in the following table. The increase between the quarters is largely due to recovery of losses incurred when the economy was shut down due to Covid 19.

Total Portfolio Allocation by Manager and Asset Class

	Value	Value	Value	Value	Value	Allocation	Strategic	Variance
	31.12.2019	30.06.2020	30.09.2020	31.03.2020	31.12.2020	31.12.2020	Allocation	
	£'000	£'000	£'000	£'000	£'000	%	%	%
Equities								
Multi Factor Global	295,041	274,810	298,238	235,740	337,618	21.37%	20.20%	1.17%
Emerging Markets Low Carbon	102,019	103,032	107,741	86,999	121,665	7.70%	7.10%	0.60%
Global Low Carbon	293,894	293,085	307,475	245,870	338,314	21.42%	20.20%	1.22%
Total Equities	684,664	690,954	713,454	568,609	797,597	50.49%	47.50%	2.99%
Bonds								
Index Linked	199,815	217,271	175,531	217,519	158,324	10.02%	10.00%	0.02%
Property								
Aviva	50,000	47,763	48,098	47,865	72,260	4.57%	5.00%	-0.43%
CBRE	99,615	93,855	97,178	97,214	96,262	6.09%	7.50%	-1.41%
Private equity								
Pantheon	69,354	71,742	72,585	70,569	81,482	5.16%	5.00%	0.16%
Multi-Sector Credit								
CQS	114,093	108,233	143,461	96,013	157,608	9.98%	10.00%	-0.02%
Multi-Asset Absolute Return								
Ruffer	134,675	134,632	136,140	132,914	119,042	7.54%	7.50%	0.04%
Infrastructure Debt								
Allianz	44,860	41,692	46,286	42,260	46,588	2.95%	2.50%	0.45%
Renewable Energy								
CIP	7,657	16,493	18,636	15,952	18,592	1.18%	2.50%	-1.32%
Blackrock	23,198	26,686	26,474	26,493	25,149	1.59%	2.50%	-0.91%
Cash & NCA								
Cash	15,713	18,764	4,056	12,804	6,893	0.44%	0.00%	0.44%
Total Assets	1,467,390	1,451,392	1,481,899	1,328,212	1,579,799	100%	100%	

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 21 January 2021. This meeting was attended by officers and the Chair of the Pensions Committee.

15.2. The appointment of Andrea Wildsmith as the Head of Risk and Performance was confirmed at this meeting.

15.3. The LCIV continues to implement its business plan and there continues to be a focus on expanding the portfolio of assets available to client funds. The search for private debt and a second multi asset credit managers are expected to be completed in Q1 of 2021. These funds are expected to launch in Q2 2021 soon after manager appointments are made to the mandates.

15.4. LCIV have now completed the search for sub fund managers to the Renewables Infrastructure Fund (RIF). The London CIV have appointed four managers to the mandate and assets to be split equally between all four managers. By appointing four managers, LCIV can achieve geographical and asset type diversification in line with the fund's objectives. The appointments are subject to approval by LCIV's executive committee which is scheduled to meet in early March. The suitability of the renewables mandate to the Haringey Fund is considered under a separate item on this agenda.

15.5. 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 launched in December 2020 with the London Pension Fund Authority seeding the fund with an initial amount of £100m. The LPFA has committed to investing a further £50m in the Fund in Q1 2021. There is a separate paper on the agenda which considers investment in the London Fund.

15.6. Three sub fund managers remain under enhanced monitoring one of which is CQS who have been in this position for over 12 months.

15.7. The Chair of the Responsible Investment Reference Group (RIRG) of the LCIV wrote to all London pension funds. The letter focusses on a number of issues including:

- i. The upcoming COP 26 UN Climate Change Conference that is scheduled to take place in November in Glasgow.
- ii. Update on the activities/meetings of the RIRG.
- iii. Update on LCIV appointments to responsible investment roles.
- iv. Encouraging funds to start working on carbon foot printing of their individual investment portfolio.

15.8. The letter is attached at appendix 4.

16. Stewardship Update

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

16.1. The last of the Fund's manager has confirmed that their decision to sign up to the UNPRI was not linked to a reduction in cost. The reason for joining was explained as a way to document their existing processes with the UNPRI.

Update on Companies Operating in Occupied Palestinian Territory/Israeli Settlement

16.2. The Fund has received a further letter from the Palestine Solidarity Campaign (PSC).

16.3. The latest communication from PSC acknowledged and thanked the Committee for taking this issue seriously, but also encouraged the Fund to: expressly state within its Investment Strategy or ESG policy that the Fund "...should implement adequate screening and due diligence processes to ensure that illegal activity in the settlement is considered when making investment decisions"; and commit to reducing "...exposure to companies cited in the UN Human Rights Office as active in Israeli's settlement over several years."

16.4. The Committee agreed at its last meeting to direct LAPFF, being the Fund's ESG engagement partner, to continue engaging with the companies identified in the UN Human Rights Office report. This is because the Fund's is invested in these companies as a passive investor, so not able to directly influence the choice of

stocks/shares. It was also noted that these investments form a small proportion of the Fund's overall investment portfolio.

- 16.5. The Fund has approved an Investment Strategy Statement (ISS) which details the Fund's approach to responsible investment amongst other things and also sets out the Fund's ESG policy. The ISS recognises the Fund's need to balance its fiduciary responsibility as trustees of the Haringey Pension Fund against the Fund's responsible investor status as demonstrated by being signatories to the UNPRI and UK Stewardship Code. The ISS and government guidance also makes clear where the two are in direct conflict, the fiduciary duty should take precedence.
- 16.6. Although the language in the Fund's Investment Strategy Statement does not specifically refer to the UNHR Office report on business activity in Israeli's settlement, the ISS makes clear the Fund's belief that "...the adoption by companies of positive Environmental, Social and Governance principles can enhance their long term performance and increase their financial returns" and that the Fund will pursue positive ESG outcomes where this goal does not directly conflict with the Fund's other primary responsibility of ensuring that the Fund is able to meet its obligations.
- 16.7. The Fund's equity manager, LGIM have stated that they take social and governance issues seriously which is demonstrated by their engagement with companies on UN list in the past 18 months. LGIM have also outlined that they "do not take unsolicited political positions on behalf of our clients and our investments reflect national and international laws and treaties"; and that they "...rely on specialist data providers to screen out persistent violators of internationally accepted standards on human rights and sustainability.
- 16.8. It is appropriate that the Committee and Board should continue to review the Fund's strategies and policies to ensure that they are fit for purpose and align with the long term objectives of the Fund. Officers will ensure that relevant matters that may impact on policy/strategies continue to be brought to the Committee's attention.