



Agenda item:

**Pensions Committee**

**On 18/06/09**

Report Title. **Fund Performance update**

Report of **The Chief Financial Officer**

Signed :

Contact Officer : **John Hardy – Corporate Finance**  
**Telephone 020 8489 3726**

Wards(s) affected: **All**

Report for: Noting

**1. Purpose of the report**

1.1. To consider the latest investment performance data for the Pensions Fund and for each of the Fund's investment managers.

1.2. This report sets out fund performance to end of March 2009, compares responsible investments information provided by the Council's Fund Managers and LAPFF and reports budget management to end of April 2009 (period 1).

**2. Introduction by Cabinet Member**

2.1 Not applicable.

**3. State link(s) with Council Plan Priorities and actions and /or other Strategies:**

3.1. Not applicable.

#### **4. Recommendations**

4.1 That the Fund performance position as at end of March 2009 be noted.

4.2 That responsible investments information provided be noted.

4.3 That the budget management position to the end of April 2009 (period 1) be noted.

#### **5. Reason for recommendations**

5.1. This report is for noting.

#### **6. Other options considered**

6.1. Not applicable.

#### **7. Summary**

7.1 The annualised performance of the combined Haringey fund has declined in absolute terms by 13.60% per cent up to 31 March 2009, underperformed the gross benchmark by 2.27% and also underperformed the gross target by 3.91%.

7.2 Overall performance this quarter is above benchmark but below target.

7.3 There has been much volatility in the market over the past period due to a number of issues. These have impacted upon the performance of our portfolio, are still ongoing and the position is being monitored carefully.

7.4 In overall terms the budget is on target.

#### **8. Head of Legal Services Comments**

8.1 The Head of Legal Services has been consulted on the content of this report. The consideration of this report falls within the duties on the Committee, acting for the Administering Authority, in reviewing investment performance generally and the performance of specific investment fund managers. Such a review must always take into account the interests of stakeholders and beneficiaries.

#### **9. Equalities & Community Cohesion Comments**

9.1. There are no equalities issues arising from this report.

## **10. Consultation**

10.1. Not applicable.

## **11. Service Financial Comments**

11.1 Performance of our Fund Managers is being carefully monitored in the current volatile market conditions. Regarding our Fund Managers, Bernstein and Capital are under-performing the most.

11.2 In overall terms the budget is on target. The current surplus is being monitored carefully so that any net gain is invested at the appropriate time in line with the agreed investment strategy. The majority of the current years in-house surpluses are earmarked to fund private equity investments.

## **12. Use of appendices /Tables and photographs**

- 12.1. Appendix 1 Top ten shares held and fund holdings.
- 12.2. Appendix 2 Fund performance to 31 March 2009
- 12.3. Appendix 3 Responsible Investments (Top ten holdings)
- 12.4 Appendix 4 Responsible Investments (Other holdings)
- 12.5 Appendix 5 Budget management to end of April 2009.

## **13 Local Government (Access to Information) Act 1985**

Northern Trust performance monitoring reports

Fund performance update report to Pensions Committee on 19 March 2009

## **14 Investment performance reported at the March meeting of Pensions Committee**

14.1 The investment performance of the Pensions fund was last reported to Pensions Committee in March 2009. That report covered the period up to 31 December 2008, at which time the following points were noted:

- Since monitoring against the new benchmark commenced on 1 April 2007, the annualised performance of the combined Haringey fund has declined in absolute

terms by 11.03% per cent up to 31 December 2008, underperformed the gross benchmark by 2.73% and also underperformed the gross target by 4.37%.

- It has been a difficult time for the whole market and two of the Council's Fund Managers are under-performing in particular; namely Bernstein and Capital. There has been much volatility in the market over the past period due to a number of issues. These have impacted upon the performance of the portfolio, are still ongoing and we are monitoring the position carefully.
- It is planned to report back to the next meeting of the Committee in June regarding how Capital International have done compared with the interim targets and milestones set in December 2008.
- Up to the end of December 2008 performance by the Council's Fund Managers in annualised terms was as follows:
  - Bernstein's Global Equity and UK Equity mandates have underperformed the gross targets by 14.51% and 8.86% respectively.
  - Capital's Equity and Bond mandates are below target by 4.16% and 3.93%.
  - Fidelity's Equity and Bond mandates underperformed the gross targets by 1.45% and 1.72% respectively.
  - ING are above target by 0.21%.

## 15. Investment performance for the combined Fund updated for this quarter

- 15.1 This report shows performance monitoring against the new benchmarks from 1 April 2007 as the Fund's current investment structure was largely implemented on 16 March 2007.
- 15.2 Performance of the combined Haringey fund compared to benchmark and target for the three months and annualised 24 months periods to end of March 2009 are shown below. The target is shown gross of Fund Managers fees and assumes that returns above benchmark are achieved evenly throughout the year.

	3 months to end of March 2009	2 years to end of March 2009 (annualised)
	%	%
Overall fund performance	(8.41)	(13.60)
Benchmark	(8.50)	(11.33)

<b>Performance versus benchmark</b>	<b>0.09</b>	<b>(2.27)</b>
Overall fund performance	(8.41)	(13.60)
Target	(8.09)	(9.69)
<b>Performance versus target</b>	<b>(0.32)</b>	<b>(3.91)</b>

15.3 This shows that in the 24 months period to March 2009:

- The annualised performance of the combined Haringey fund has decreased in absolute terms by 13.60%, the fund under performed the new benchmark by 2.27% and under performed the target by 3.91%;
- The annualised position has marginally improved since that report to the last meeting with the under performance versus target reducing from (4.37) to (3.91).

15.4 Appendix 1 shows the following for the combined fund as at end of March 2009 and 2008 for comparative purposes: (1) top ten shares held and (2) fund holdings.

## 16. Fund Manager Performance

- 16.1 Appendix 2 shows for each Fund Manager investment performance to end of March 2009, compared to benchmarks and targets as supplied by the Fund's custodian, Northern Trust. It is two years since the new benchmarks were introduced; consequently we have limited historic data.
- 16.2 The performance targets for each Fund Manager's mandates are shown on the next page. They denote the percentage annualised annual return above the benchmark over a rolling 3 year period. The table excludes active currency as we have not invested in this yet.
- 16.3 Regarding investments made in Pantheon's private equity funds, performance numbers received from the custodian are included in Appendix 2 but these performance numbers are not meaningful until a significant proportion has been invested.

16.4 Targets are set out in the table below and are gross of fees.

	% Target above benchmark	% actual annualised performance above/(below) benchmark in the two years to March 2009	% actual annualised performance above/(below) target in the two years to March 2009
Bernstein – global equities	3.0	(9.56)	(12.56)
Bernstein – UK equities	2.0	(7.35)	(9.35)
Capital - equities	2.0	(1.54)	(3.54)
Capital - bonds	1.0	(1.54)	(2.54)
Fidelity - equities	1.7	0.68	(1.02)
Fidelity - bonds	0.6	(1.10)	(1.70)
ING	1.0	0.09	(0.91)
Pantheon – private equity	0.75	N/A	N/A

16.5 Appendix 2 shows that the Capital's mandates and the equities mandate for Fidelity have performed above target in the latest quarter. However the fixed income mandate for Fidelity and Bernstein's mandates were below benchmark in the latest quarter.

16.6 The latest quarterly meetings took place on 6 May 2009 between each Fund Manager and John Hardy from Corporate Finance. A summary of the key issues discussed at those meetings is set out below.

16.6.1 **Bernstein**

- Performance to date.
- Volatility in markets (e.g. credit crunch, inflation, bank rate, oil).
- Future outlook for markets.
- Responsible Investments.

16.6.2 **Capital International**

- Performance to date.
- Volatility in markets (e.g. credit crunch, inflation, bank rate, oil).
- Future outlook for markets.
- Responsible Investments.

16.6.3 **Fidelity**

- Performance to date.
- Volatility in the market (e.g. credit crunch, inflation, bank rate, oil).
- Future outlook for markets.
- Responsible Investments.

#### 16.6.4 **ING**

- Performance to date.
- Volatility in the property market and future estimated returns.
- Investment opportunities to become fully invested to increased property benchmark.

#### 16.6.5 Up to the end of March 2009 performance by our Fund Managers in annualised terms was as follows:

- Bernstein's Global Equity and UK Equity mandates have underperformed the gross targets by 12.56% and 9.35% respectively.
- Capital's Equity and Bond mandates are below target by 3.54% and 2.54%.
- Fidelity's Equity and Bond mandates underperformed the gross targets by 1.02% and 1.70% respectively.
- ING are below target by 0.91%.

### 17. **Conclusions**

17.1 Since monitoring against the new benchmark commenced on 1 April 2007, the annualised performance of the combined Haringey fund has declined in absolute terms by 13.60% per cent up to 31 March 2009, underperformed the gross benchmark by 2.27% and also underperformed the gross target by 3.91%.

17.2 It has been a difficult time for the whole market and two of the Council's Fund Managers are under-performing in particular; namely Bernstein and Capital. There has been much volatility in the market over the past period due to a number of issues. These have impacted upon the performance of the Fund's portfolio, are still ongoing and we are monitoring the position carefully.

17.3 A separate report is on the agenda at this meeting regarding how Capital International have done compared with the interim targets and milestones set in December 2008.

### 18. **Responsible Investments**

18.1 At Pensions Committee on 23 June 2008 a review of the Fund's Responsible Investment Policy was considered and agreed by Trustees. One of the recommendations was that officer's monitor the Fund Managers approach to the revised Responsible Investment Policy. In addition at the September meeting of the Committee it was requested that in future Fund Managers detail engagement for the Fund's top ten holdings of shares.

18.2 Appendices 3 and 4 compare responsible investments information provided by the Council's core Fund Managers for the quarter ending 31 March 2009 with the information supplied by LAPFF over the same time period for the Fund's top ten holdings of shares (Appendix 3) and engagement with other companies (Appendix 4). Where LAPFF have raised issues in companies where Haringey do not own shares, then this information has been excluded. This comparison will be made each quarter going forward as part of this report.

## **19. Budget Management**

19.1 The budget management analysis to period 1 (end of April 2009) is attached in Appendix 5. In overall terms this shows an under-spend to period 1 of £128k against the budget profile (plan).

19.2 Significant variances to date are as follows:

- transfer values paid, (£212k), and received, £108k, where the volume will vary by year and timing within the year ;
- lump sums, (£120k), that is dependent on the number of staff retiring and sums payable;
- employer contributions, £197k, that are dependent on the number and grades of staff transferring into and out of the scheme;
- investment management expenses, (£293k), that are influenced by the timing of receipt of invoices from Fund Managers and market values;
- investment income, £419k, that is dependent upon companies invested in by our Fund Managers.

19.3 In overall terms the budget is on target. The current surplus is being monitored carefully so that any net gain is invested at the appropriate time in line with the agreed investment strategy. The majority of current year's in-house surpluses are earmarked to fund private equity investments calls.



## APPENDIX 1

## TOP TEN SHARES HELD

Shares	As at 31 March 2009			As at 31 March 2008		
	Rank	Percentage of Fund	Market Value	Rank	Percentage of Fund	Market Value
		%	£'000		%	£'000
1. Shell	1	3.1	8,733	1	3.1	12,739
2. BP	2	3.1	8,654	2	2.3	9,546
3. Vodafone	3	2.7	7,528	3	2.0	8,244
4. Glaxosmithkline	4	2.0	5,688	6	1.5	5,958
5. HSBC	5	1.7	4,683	7	1.3	5,457
6. Astrazeneca	6	1.4	3,961			
7. BHP Billiton	7	0.9	2,625			
8. Roche	8	0.9	2,484			
9. Tesco	9	0.8	2,372			
10. Aviva	10	0.8	2,307	9	1.1	4,562
Royal Bank of Scotland				4	1.6	6,442
HBOS				5	1.6	6,389
Barclays				8	1.3	5,402
BAE Systems				10	1.0	4,038

## FUND HOLDINGS

Fund Holdings	As at 31 March 2009		As at 31 March 2008	
	Percentage of Fund	Market Value	Percentage of Fund	Market Value
	%	£'000	%	£'000
UK equities	18.2	87,800	23.7	142,113
Overseas equities	17.3	83,366	19.6	117,397
Pooled investment vehicles	50.5	243,513	40.1	240,542
Index-linked securities	3.0	14,273	4.6	27,421
Fixed interest securities	3.9	18,665	7.1	42,336
Cash	6.6	31,852	4.3	25,886
Other investments	0.6	2,822	0.7	4,446
<b>Totals</b>	<b>100.0</b>	<b>482,291</b>	<b>100.0</b>	<b>600,141</b>



**Appendix 3 – Pension Fund Top Equity Ten Holdings – Responsible Investment Activity - Quarter ending 31 March 2009**

<b>Top Ten Holdings &amp; Percentage of Total Fund</b>	<b>Fidelity – Details of Responsible Investment Engagement</b>	<b>Capital International – Details of Responsible Investment Engagement</b>	<b>LAPFF Engagement</b>
1. Royal Dutch Shell 'B' Ord Euro 07 (3.1%)	No specific details received but see note below.	Capital have reported that they have not undertaken any engagement on an environmental, social or governance basis in quarter 4.	No activity this quarter.
2. BP Ord USDO.25 (3.1%)	Fidelity have raised certain issues with the Board about its succession planning.	"	"
3. Vodafone Group Ord USDO.11428571 (2.7%)	No specific details received but see note below.	"	"
4. Glaxosmithkline Ord GBPO.25 (2.0%)	"	"	"
5. HSBC Holdings Ord USDO USDO. 50 (UK REG) (1.7%)	"	"	"
6. Astrazeneca Ord USDO.25 (1.4%) No specific details received but see note below.	"	"	"
7. . BHP Billiton PLC USDO. 50 (0.9%)	Fidelity held discussions with the company and its advisers about its future strategy and in particular its policy towards Rio Tinto Zinc.	"	"
8. Roche Hldgs AG Genusscheine NPV (0.9%)	No specific details received but see note below.	"	"
9. Tesco Ord GBPO.05 (0.8%)	Fidelity raised certain issues with the Board	"	"

Top Ten Holdings & Percentage of Total Fund	Fidelity – Details of Responsible Investment Engagement	Capital International Responsible Investment Engagement	LAPFF Engagement
10. Aviva Ord GBPO.25 (0.8%)	about its succession planning. No specific details received but see note below.	“	“

Note:

Fidelity explain that their engagement with companies is channelled primarily through their team of equity analysts. This contact includes quarterly face-to-face meetings with the CEO or FD, monthly contact with the Investor Relations team, periodic site visits to see the company's operations and attendance at analyst days hosted by the company. Dialogue encompasses all aspects of a company's business including strategy, operations, trading, governance, shareholder rights, environmental and social policies. Where there is a divergence of views or a matter of particular importance arises, FIL's corporate finance team may become involved. Matters involving corporate finance might include board and management composition, corporate strategy, specific corporate transactions and legal matters. FIL's proxy voting function also forms part of the corporate finance team and has a particular focus on remuneration-related issues.

In the period 1<sup>st</sup> January – 31<sup>st</sup> March 2009, FIL's corporate finance team had the involvement with three of the companies listed above as shown.

Appendix 4

Comparison of Responsible Investment Activity Quarter ending 31 March 2009 – Core Fund Managers and Local Authorities Pension Fund Forum (LAPFF)

Fidelity	Capital International	LAPFF
<p><b>The Carbon Market</b>            During this quarter, Fidelity held discussions with <b>RWE</b> and <b>CEZ</b> on the developing carbon market and its implications for those companies. Fidelity analysts highlighted that reduced economic activity as a result of the global downturn, has resulted in lower carbon emissions across Europe. This has depressed the price of carbon credits thereby aiding companies with the largest carbon emissions. Fidelity's discussions also focused on the RWE's and CEZ's long term renewable investment programmes which largely centre around the construction of wind parks.</p>	<p><b>Siemens</b>            In February, a group of investment analysts and portfolio managers met with Siemens executives. The company has paid fines of more than US\$1 billion in December to settle bribery claims to secure overseas telecoms and power contracts. This resulted in total settlement costs of more than US\$2.5 billion, including legal fees. During the meeting, Capital International asked the Siemens representatives several questions about bribery and culture change. They explained the substantial management changes that had been made, with seven of 11 members of the management board departing since 2007. The new leadership, they added, stressed a zero-tolerance approach to bribery. Capital sought assurances that the changes made would still be enforced despite the tougher economic environment, especially when competitors in other markets may not have the same</p>	<p><b>M &amp; S</b>            Following further engagement with M &amp; S which has not resolved the issue of Sir Stuart Rose's combination of roles of chair and chief executive roles, the Forum has decided to proceed with the filing of a shareholder resolution. The resolution calls for the company to do everything possible to appoint an independent chair by July 2010. The resolution will be voted on at the company's AGM in July. In the meantime LAPFF will be contacting other shareholders to build support for the initiative.</p> <p><b>Global engagement</b>            The Forum is increasing its shareholder activism on the global stage. At the start of the year Forum members agreed a global focus list of companies from the USA, continental</p>

<p><b>Fidelity</b></p>	<p><b>Capital International</b></p>	<p><b>LAPFF</b></p>
<p><b>Energy efficiency</b> Fidelity analysts have monitored companies such as <b>Holcim, Lafarge, Buzzi Unicem,</b> and <b>Italcementi</b>, which have made substantial progress over the past few years in reducing energy consumption.</p>	<p>The vigour of their response to our questions was reassuring and they admitted it hadn't made good business sense — in fact, they had actually lost money on the projects where bribes had been paid. Capital will continue to meet with the company to develop our assessment.</p>	<p>Europe and the UK, where poor performance in remuneration practice and other core corporate governance areas are cause for concern over these companies' abilities to generate sustainable returns in the long term.</p>
<p><b>Sustainable transport</b> Fidelity have explored during the quarter strategies developed by <b>Umicore</b> and <b>Johnson Matthey</b>; both of these companies produce catalysts for cars which reduce emissions. Tyre manufacturers can also contribute to reducing CO2 emissions through product innovation. In this regard, Fidelity held discussions with <b>Nokian Tyres</b> and <b>Tomkins</b>. Commentators have identified that investments in rail transportation are set to increase as a consequence of the EU automobile emission reduction targets. During the quarter Fidelity</p>	<p><b>Freeport McMoran</b> Capital began dialogue with copper and gold miner Freeport McMoran during the quarter in relation to the progress it had made on external environmental monitoring of its Grasberg mine in Papua, Indonesia. Certain SRI advisers claim that Freeport has adequately assessed human rights violations in connection with security arrangements at the mine and has improved environmental risk management but that regular external monitoring needs verification. The company confirmed that the triennial external audit had been conducted successfully in 2008. Each year, Freeport collects 7,000 environmental samples and conducts 50,000 separate analyses on each. In addition, there is an annual external audit by the International Certification</p>	<p>In February LAPFF wrote to every company on the focus list, setting out the concerns that the Forum has over their corporate governance practices, and making specific proposals for improved practices. During the year, this will be followed by further action where this is considered necessary and useful.</p>

<p><b>Fidelity</b></p>	<p><b>Capital International</b></p>	<p><b>LAPFF</b></p>
<p>analysts have identified <b>Ansald</b> and <b>Vossloh</b> which produce rail equipment as companies that may benefit from such investments.</p> <p><b>Retail supply chain issues</b></p> <p>During the quarter Fidelity analysts engaged with <b>Danone</b> on sustainability issues related to its bottled water business.</p>	<p>Services Division of Societe Generale de Surveillance (SGS), a Geneva-based International Standardization Organisation 14001 registration body. (It also has offices in Indonesia that conducts another annual environmental management system audit of the mine as a requirement for maintaining the ISO 14001 certification.) This certification has been maintained after the most recent audit.</p> <p><b>Capital's associates have also participated in the following corporate governance and SRI efforts during the quarter:</b></p> <p>Company meetings: In addition to the meetings recorded above, Capital engaged with a number of companies to review a range of governance issues. Companies that consulted Capital on proposed changes to their executive remuneration policies include Yell, Vodafone and HSBC. Capital discussed governance and potential voting issues with BHP Billiton and Koninklijke KPN.</p>	

## APPENDIX 5

## PENSIONS FUND

## BUDGET MANAGEMENT - PERIOD 1 (END OF APRIL 2009)

	2009/10 Budget £'000	Plan to period 1 £'000	Actual to period 1 £'000	Over/under (-) to Period 1 £'000	Explanations of variations
<b>Income</b>					
Contributions and benefits:					
Employee Contributions	(10,500)	(875)	(866)	9	
Employer Contributions	(34,700)	(2,892)	(2,695)	197	Dependent on number and grade of staff transferring into and out of scheme
Transfer Values Received	(4,000)	(333)	(441)	(108)	Volume and timing varies
<b>Total income</b>	<b>(49,200)</b>	<b>(4,100)</b>	<b>(4,002)</b>	<b>98</b>	
<b>Expenditure:</b>					
Pensions and other benefits	26,800	2,233	2,250	17	
Lump sums	3,500	292	172	(120)	Dependent upon the number of staff retiring and sums due.
Transfer values paid	4,000	333	121	(212)	Volume and timing varies
Refunds on contributions	50	4	47	(4)	
Administrative expenses	750	63		(16)	
<b>Total expenditure</b>	<b>35,100</b>	<b>2,925</b>	<b>2,590</b>	<b>(335)</b>	
<b>Net addition from dealings with members</b>	<b>(14,100)</b>	<b>(1,175)</b>	<b>(1,412)</b>	<b>(237)</b>	
<b>Returns on Investment:</b>					
Investment income	(18,300)	(1,525)	(1,106)	419	Dependent upon companies invested in by our Fund Managers.
Taxation	200	17		(17)	
Investment management expenses	3,600	300	7	(293)	Timing of receipt of Fund Managers invoices
<b>Net return on investments</b>	<b>(14,500)</b>	<b>(1,208)</b>	<b>(1,099)</b>	<b>109</b>	
<b>Totals</b>	<b>(28,600)</b>	<b>(2,383)</b>	<b>(2,511)</b>	<b>(128)</b>	