



Agenda item:

Pensions Committee

On 01 December 2009

Report Title. **Fund Performance update**

Report of **The Chief Financial Officer**

Signed :

Contact Officer : **Colin Duck – Corporate Finance**
Telephone 020 8489 3731

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. To compare responsible investments information provided by our Fund Managers with that supplied by LAPFF.
- 1.3. To report 2009/10 budget monitoring to the end of September 2009.

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 September 2009 be noted.

4.2 That responsible investments information provided be noted.

4.3 That the budget management position to the end of September 2009 (period 6) 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 3.45% per cent up to 30 September 2009, underperformed the gross benchmark by 2.65% and also underperformed the gross target by 4.29%.

7.2 Overall performance this quarter is below both benchmark and target.

7.3 There has been a measure of volatility in the market over the past period but overall, markets have risen significantly.

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 continues to be carefully monitored in the current market conditions. Capital continues to under perform both the benchmark and the target.

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 30 September 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 September 2009.

13 Local Government (Access to Information) Act 1985

Northern Trust performance monitoring reports.

Fund performance update report to Pensions Committee on 17 September 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 September 2009. That report covered the period up to 30 June 2009, at which time the following points were noted:

- Since monitoring against the new benchmark commenced on 1 April 2007, the combined Haringey fund has declined in absolute terms by 9.96% per cent up to 30 June 2009, underperformed the gross benchmark by 2.43% and also underperformed the gross target by 4.07%.

- There has been continuous uncertainty in the market over the past period due to a number of issues. These principally concern the timings and pace of economic recovery. These have impacted upon the performance of our portfolio and are still ongoing. Up to the end of June 2009 performance by our Fund Managers was as follows:
 - Fidelity's Bond mandate under performed the gross target by 0.49% and the Equity mandate under performed the gross target by 1.03% but both mandates achieved the benchmark.
 - Capital's Equity and Bond mandates are below target by 3.66% and 2.35%
 - ING are below target by 1.72%.

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

- 15.1 The last performance update to Pensions Committee on 17 September 2009 reminded trustees that our current investment structure was largely implemented on 16 March 2007. Therefore, this report shows performance monitoring against the new benchmarks from 1 April 2007.
- 15.2 Performance of the combined Haringey fund compared to benchmark and target for the three months and annualised 30 months periods to end of September 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 September 2009	30 months to end of September 2009 (annualised)
	%	%
Overall fund performance	15.99	(3.45)
Benchmark	16.88	(0.80)
Performance versus benchmark	(0.89)	(2.65)
Overall fund performance	(15.99)	(3.45)
Target	(17.29)	0.84
Performance versus target	(1.30)	(4.29)

15.3 This shows that in the 30 months period to September 2009:

- The annualised performance of the combined Haringey fund has decreased in absolute terms by 3.45%, the fund under performed the new benchmark by 2.65% and under performed the target by 4.29%;

- The annualised position has marginally deteriorated since that report to the last meeting with the under performance versus target increasing from (4.07) to (4.29).

15.4 Appendix 1 shows the following for the combined fund as at end of September 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 September 2009, compared to benchmarks and targets as supplied by our custodian, Northern Trust. This is the tenth quarter 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 below. They denote the percentage annualised return above benchmark over a rolling 3 year period. The table also includes Investec and Record for completeness. The contract with Alliance Bernstein was terminated on 16 June 2009 and the resulting assets transferred to Legal and General and invested in tracker funds as previously agreed.

16.3 We have had 26 calls on the Pantheon Asia Europe and USA funds totalling £11.2 million to date and although performance numbers are included there are not considered meaningful as a significant proportion of the portfolio is yet to be 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 30 months to September 2009	% actual annualised performance above/ (below) target in the 30 months to September 2009
Capital - equities	2.0	(1.74)	(3.74)
Capital - bonds	1.0	(1.03)	(2.03)
Fidelity - equities	1.7	0.19	(1.51)
Fidelity - bonds	0.6	0.87	0.27
ING	1.0	(0.07)	(1.07)
Pantheon – private equity	0.75	N/A	N/A
Investec – active currency	2	N/A	N/A
Record – active currency	2	N/A	N/A

16.5 The latest quarterly meetings took place on 4 November 2009 between each active Fund Manager (excluding Pantheon – where meetings are held half yearly) and the Acting Head of Finance – Budgeting, Projects & Treasury. A summary of the key issues discussed at those meetings is set out below.

16.5.1 **Capital International**

- Performance to date.
- Future outlook for markets.
- Review of our Responsible Investment policy.

16.5.2 **Fidelity**

- Performance to date.
- Future outlook for markets.
- Responsible Investments.

16.5.3 **ING**

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

16.5.5 Up to the end of September 2009 performance by our Fund Managers in annualised terms was as follows:

- Capital's Equity and Bond mandates are below target by 3.74% and 2.03%.
- Fidelity's Equity mandate underperformed the gross target by 1.51% but achieved the benchmark. The Bond mandate outperformed the gross target by 0.27%.
- ING are below target by 1.07%.

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 3.45% per cent up to 30 September 2009, under performed the gross benchmark by 2.65% and also under performed the gross target by 4.29%.

17.2 Capital and ING are underperforming against both the benchmark and the target.

17.3 Although equity and bond returns have been very positive in the last quarter there are a number of ongoing issues which are likely to impact on future performance, and we are monitoring the position carefully. These include:

- The paying down of household, corporate and sovereign debt;

- The price of oil and commodities
- The trends of inflation/deflation
- Interest rates; and,
- Property prices and rental values.

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.
- 18.2 Appendix 3 and 4 compares responsible investments information provided by the Council's two core Fund Managers for the quarter ending 30 September 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 monitoring analysis to period 6 (end of September 2009) is attached in Appendix 5.
- 19.2 Significant variances to date are:
- transfer values paid £776k and received (£1.796m) where the volume will vary by year and timing within the year ;
 - the amount of lump sums (£518k) paid vary by year and timing within the year;
 - investment income £2.479m is dependent upon companies invested in by our Fund Managers;
 - employer contributions £622k are dependent on the number and grades of staff transferring into and out of the scheme;
 - investment management expenses (£1.689m) are influenced by the timing of receipt of invoices from Fund Managers and market values.
- 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.

20. **Invested cash**

- 20.1 Following the strategic review of the Fund in March 2007 trustees approved an increase in property holdings from 6%-10%. An amount of cash equivalent to that increased holding of £18m was invested in the money market pending the identification of suitable investment opportunities by the property manager ING. To date, £11.25m has been drawn down by ING to fund investments in both UK and European property funds. The balance of £6.75m remains invested in fixed term deposits of up to one year pending further cash calls from ING.
- 20.2 The downturn in the property market has impacted on the timing of future cash calls such that the mandate is unlikely to be fully funded until 2010.
- 20.3 The strategic review of March 2007 also recommended that cash generated annually from surplus contributions, equivalent to £10m pa be earmarked to fund a new private equity mandate managed by Pantheon. In the year to March 2009 £6.35m was transferred directly to Pantheon to fund cash calls on the mandate. The uncalled balance of £3.65 was added to the brought forward cash surplus that was set aside in 2007 to fund the mandate. As at 30 September 2009 £13.15m is invested by the Council on the Fund's behalf in fixed term deposits pending cash calls by Pantheon.
- 20.4 The Council's standard risk protocols are applied to all investments made on behalf of the pension fund.

APPENDIX 1

TOP TEN SHARES HELD

Shares	As at 30 September 2009			As at 30 September 2008		
	Rank	Percentage of Equities	Market Value	Rank	Percentage of Equities	Market Value
		%	£'000		%	£'000
1. Shell	1	0.65	2,454	1	3.20	10,874
2. HSBC	2	0.62	2,352	6	1.60	5,446
3. Vodafone Group	3	0.60	2,283	3	2.30	7,694
4. BP	4	0.58	2,195	2	3.00	10,110
5. Roche Holdings	5	0.49	1,860			
6. SMC Corp	6	0.40	1,550			
7. E.ON	7	0.39	1,478			
8. NTT Docomo	8	0.39	1,461			
9. Aviva	9	0.38	1,457	9	1.10	3,650
10. Pernod Ricard	10	0.31	1,192			
Glaxosmithkline				4	2.00	6,680
RBS				5	1.80	6,159
Barclays				7	1.10	3,894
Astrazeneca				8	1.10	3,884
BAE Systems				10	0.90	3,114

FUND HOLDINGS

Fund Holdings	As at 30 September 2009		As at 30 September 2008	
	Percentage of Fund	Market Value	Percentage of Fund	Market Value
	%	£'000	%	£'000
UK equities	5.1	30,221	22.2	118,836
Overseas equities	13.3	79,154	19.7	105,673
Pooled investment vehicles	63.6	377,304	40.5	217,072
Index-linked securities	2.7	16,062	1.5	7,995
Fixed interest securities	3.0	18,037	3.6	19,344
Cash	5.0	29,734	5.4	28,739
Property	5.5	32,859	6.0	32,238
Private Equity	1.7	10,319	1.2	6,243
Totals	100.0	593,690	100.0	536,141

Appendix 3 – Pension Fund Top Equity Ten Holdings – Responsible Investment Activity - Quarter ending 30 September 2009

Top Ten Holdings & Percentage of Total Equities of Fund	Fidelity – Details of Responsible Investment Engagement	Capital International – Details of Responsible Investment Engagement	LAPFF Engagement
1. Shell 'B' Ord (0.65%)	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 2.	No activity this quarter.
2. HSBC (0.62%)	“	“	“
3. Vodafone (0.60%)	Meeting held with the Chairman of the company to review the Group's strategy and discuss with the company the currency used for reporting purposes.	“	“
4. BP (0.58%)	No specific details received but see note below.	“	“
5. Roche Holdings (0.49%)	“	“	“
6. SMC (0.40%)	“	“	“
7. E.on (0.39%)	“	“	“
8.NTT Docomo (0.39%)	“	Two meetings held with company to discuss companies treatment of minority shareholders and the companies environmental initiatives. Company recycles old telephone handsets and is seeking to improve the energy efficiency of its IT operations.	“
9. Aviva (0.38%)	“	“	“
10. Pernod Ricard	“	“Capital advised the company that it	“

Top Ten Holdings & Percentage of Total Equities of Fund (0.31%)	Fidelity – Details of Responsible Investment Engagement	Capital International – Details of Responsible Investment Engagement	LAPFF Engagement
		intended to vote against 3 proposed resolutions to be put before the AGM in October and sought to have them removed. Specifically these dealt with the issuance of new shares without pre-emptive rights for existing shareholders, the renewal of the executive directors stock option plan and a 'Bons Bretons' (anti –takeover) resolution. Whilst accepting Capital's viewpoint ,the resolutions were nevertheless retained by the company. As a postscript ,the meeting took place in October and all resolutions were approved but 47.5% of shareholders voted against the anti-takeover resolution ,so the company will have to consider carefully whether to seek re-approval of this next year.	

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.

Appendix 4

Comparison of Responsible Investment Activity Quarter ending 30 September 2009 – Core Fund Managers and Local Authorities Pension Fund Forum (LAPFF)

Fidelity	Capital International	LAPFF
<p>The Carbon Market Fidelity continued to monitor how EU limitations on CO2 emissions under its Emissions Trading scheme affects companies in the portfolio. Companies that can reduce their direct and indirect CO2 emissions will be at a competitive advantage in markets where there are limits on emissions.</p> <p>Renewable Power As part of the US Government stimulus package it is offering cash grants of 30% of capital expenditure to firms setting up wind farm operations. This has potential to benefit the US operations of a number of European companies. During Q3 Fidelity met with two such firms Iberdrola Renovables</p>	<p>Vivendi The corporate governance team met with Vivendi, a French telecoms and media company to discuss sustainable development. The company's objective is to help people communicate and provide entertainment. The company maintains a list of sustainability indicators to measure performance including protection of intellectual property and prevention of piracy. Vivendi believes cultural diversity is integrated into its business, it therefore ensures that local talent is promoted and local cultures preserved. In respect of its subsidiary in Morocco, Vivendi are promoting rights (especially employment) for women in a country which still places controls on free speech and advertising. As a responsible media company Vivendi must be careful about the content it delivers. Steps such as the</p>	<p>Climate Change LAPFF has joined other concerned investors in signing a statement expressing a collective investor perspective on climate change that will be sent to Heads of State and other key policy makers. The statement looks ahead to December in Copenhagen where world leaders will gather to try and reach a new international deal on climate change. The document states that global investors are concerned about the possible significant financial impact that climate risks and opportunities may have on individual companies and the performance of investment portfolios. The statement stresses the importance to investors of having a global agreement to</p>

<p>Fidelity (wind –farm developer) and Vestas (wind turbine makers) to discuss future opportunities.</p> <p>Brand & Reputational risk During Q3 Fidelity contacted Tesco and Wal-Mart to learn more about how these retailers monitor and audit their global supply chains. Tesco reported that it had strengthened its ethical trade strategy and now conducts a greater number of unannounced audits of suppliers. If it finds examples of non compliance with ethical trading standards, suppliers are given six months to address concerns. Tesco has also set up a ‘Getting to the Truth’ which aims to build expert teams who have a greater understanding of supplier risk in individual markets.</p> <p>Wal-Mart announced plans to develop a worldwide sustainable product index.</p>	<p>Capital International voluntary introduction of parental ratings for computer games and concentration on the security of personal data have been taken to protect its reputation in this regard. The company is aware of its indirect sustainability impact-subscribers phones, televisions and computer games create a huge electrical footprint. Vivendi encourages the development of technology that will reduce the electrical input, and are introducing environmental labelling on equipment. Finally, Vivendi are introducing sustainability as a performance measure to help determine executive pay.</p> <p>L’Oreal Capital attended an SRI meeting with L’Oreal aimed at sharing with investors the company’s vision on corporate consumer responsibility. The company’s efforts at reducing energy and water usage were showcased and the challenges of maintaining these standards as it expands into markets in the developing world discussed. L’Oreal’s intention was stated to be ‘to be a good corporate citizen’.</p>	<p>LAPFF underpin investor confidence in the direction of policy at regional and national levels as well as support investor engagement.</p> <p>Sustainability Earlier in the year LAPFF agreed to facilitate engagement on the issue of sustainable palm oil. LAPFF has identified potential to fulfil this role by coordinating a collaborative initiative on this issue. The initiative will focus on buyers of palm oil by drawing on LAPFF’s previous engagement with large buyers.</p> <p>Banks LAPFF is continuing to engage with Banks in the aftermath of the Financial crisis.</p>
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<p>Fidelity</p> <p>Product Sustainability Fidelity met with L'Oreal to discuss the companies strategies to develop the use of sustainable ingredients in its products and minimise the impact of its products on the environment and on biodiversity. Products are subjected to testing to evaluate their environmental impact. Where such products do not meet L'Oreal's standards, the company does not proceed with the submission of patent applications.</p>	<p>Capital International</p> <p>The company outlined action taken to promote research roles for women through its 'For Women in Science' national fellowship programme run in 40 countries.. Through its 'Hairdressers of the world against AIDS' program it is aiming to spread educational information by word of mouth (through hairdressers) to the community. Research & development play a central role at L'Oreal, and it is committed to applying the same ethical and environmental considerations across all brands throughout the supply chain.</p>	<p>LAPFF</p>
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APPENDIX 5

PENSIONS FUND

BUDGET MANAGEMENT - PERIOD 4 (END OF JU SEPTEMBER 2009)

	2009/10 Budget £'000	Plan to period 6 £'000	Actual to period 6 £'000	Over/under (-) to Period 6 £'000	Explanations of variations
Income					
Contributions and benefits:					
Employee Contributions	(10,500)	(5,250)	(5,229)	21	
Employer Contributions	(34,700)	(17,350)	(16,728)	622	Dependent on number and grade of staff transferring into and out of scheme
Transfer Values Received	(4,000)	(2,000)	(3,796)	(1,796)	Volume and timing varies
Total income	(49,200)	(24,600)	(25,753)	(1,153)	
Expenditure:					
Pensions and other benefits	26,800	13,400	12,669	(731)	
Lump sums	3,500	1,750	1,232	(518)	Dependent upon the number of staff retiring and sums due.
Transfer values paid	4,000	2,000	2,776	776	Volume and timing varies
Refunds on contributions	50	25	1	(24)	
Administrative expenses	750	375	125	(250)	
Total expenditure	35,100	17,550	16,803	(747)	
Net addition from dealings with members	(14,100)	(7,050)	(8,950)	(1,900)	
Returns on Investment:					
Investment income	(18,300)	(9,150)	(6,671)	2,479	Dependent upon companies invested in by our Fund Managers.
Taxation	200	100		(100)	
Investment management expenses	3,600	1,800	111	(1,689)	Timing of receipt of Fund Managers invoices
Net return on investments	(14,500)	(7,250)	(6,560)	690	
Totals	(28,600)	(14,300)	(15,510)	(1,210)	