



Agenda item:

Pensions Committee

On 15 April 2010

Report Title. Fund Performance update

Report of The Chief Financial Officer

Signed :

**Contact Officer : Colin Duck – Corporate Finance
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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 February 2010.

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 December 2009 be noted.

4.2 That responsible investments information provided be noted.

4.3 That the budget management position to the end of February 2010 (period 11) 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 2.04% per cent up to 31 December 2009, underperformed the gross benchmark by 2.54% and also underperformed the gross target by 4.18%.

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, which is detailed in Appendix 5, 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 December 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 February 2010.

13 Local Government (Access to Information) Act 1985

Northern Trust performance monitoring reports.

Fund performance update report to Pensions Committee on 1 December 2009.

14 Investment performance reported at the December meeting of Pensions Committee

14.1 The investment performance of the Pensions fund was last reported to Pensions Committee in December 2009. That report covered the period up to 30 September 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 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%.

- 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. However, overall the fund enjoyed a recovery of approximately 17% over the fund values reported as at 30 June 2009. Up to the end of September 2009 performance by our Fund Managers was as follows:
 - Fidelity's Bond mandate out performed the gross target by 0.27% and the Equity mandate under performed the gross target by 1.51% but achieved the benchmark.
 - Capital's Equity and Bond mandates are below target by 3.74% and 2.03%
 - ING are below target by 1.07%.

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

15.1 The last performance update to Pensions Committee on 1 December 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 33 months periods to end of December 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 December 2009	33 months to end of December 2009 (annualised)
	%	%
Overall fund performance	3.15	(2.04)
Benchmark	3.44	0.50
Performance versus benchmark	(0.29)	(2.54)
Overall fund performance	3.15	(2.04)
Target	3.85	2.14
Performance versus target	(0.70)	(4.18)

15.3 This shows that in the 33 months period to December 2009:

- The annualised performance of the combined Haringey fund has decreased in absolute terms by 2.04%, the fund under performed the new benchmark by 2.54% and under performed the target by 4.18%;
- The annualised position has marginally improved since the report to the last meeting with the under performance versus target decreasing from (4.29) to (4.18).

15.4 Appendix 1 shows the following for the combined fund as at end of December 2009 and end of December 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 December 2009, compared to benchmarks and targets as supplied by our custodian, Northern Trust. This is the eleventh 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 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 31 calls on the Pantheon Asia Europe and USA funds totalling £12.3 million to date and consequently performance numbers are excluded as they 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 33 months to December 2009	% actual annualised performance above/ (below) target in the 33 months to December 2009
Capital - equities	2.0	(1.55)	(3.55)
Capital - bonds	1.0	(0.79)	(1.79)
Fidelity - equities	1.7	0.41	(1.29)
Fidelity - bonds	0.6	1.38	0.78
ING	1.0	(0.12)	(1.12)
Pantheon – private equity	0.75	N/A	N/A

16.5 The latest quarterly meetings took place on 4 March 2010 between each active Fund Manager and the Acting Head of Finance – Treasury & Pensions. 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 issues.

16.5.2 **Fidelity**

- Performance to date.
- Future outlook for markets.
- Review of Responsible Investments Issues.

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.

16.5.4 **Pantheon**

- Performance to date.
- Future outlook for markets.
- Change of ownership.
- Future pattern of cash flows.

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

- Capital's Equity and Bond mandates are below target by 3.55% and 1.79% respectively.
- Fidelity's Equity mandate underperformed the gross target by 1.29% but achieved the benchmark. The Bond mandate outperformed the gross target by 0.78%.
- ING are below target by 1.12%.

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 2.04% per cent up to 31 December 2009, under performed the gross benchmark by 2.54% and also under performed the gross target by 4.18%.

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

17.3 Although equity and bond returns have remained 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, risks of 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 31 December 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 11 (end of February 2010) is attached in Appendix 5.

19.2 Significant variances to date are:

- transfer values paid £2.180m and received (£2.287m) where the volume will vary by year and timing within the year ;
- capital cost credits, (0.548m) relate to early retirements;
- investment income £6.802m is dependent upon companies invested in by our Fund Managers;
- employer contributions £0.491m are dependent on the number and grades of staff transferring into and out of the scheme;
- investment management expenses (£2.678m) 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, £11.55m has been drawn down by ING to fund investments in both UK and European property funds. The balance of £6.45m 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 invested until the end of 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 31 December 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.