



Agenda item:

Pensions Committee

On 20 December 2010

Report Title. **Fund Performance update**

Report of **Director of Corporate Resources**

Signed : *J. Pave 9/12/10*

Contact Officer : **Nicola Webb – 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 Pension Fund and for each of the Fund's investment managers.
- 1.2. To report on key responsible investment issues using information provided by the Fund Managers and the Local Authority Pension Fund Forum (LAPFF).
- 1.3. To report on budget monitoring against the Pension Fund budget.
- 1.4. To report on late payments of contributions to the Pension Fund.

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 2010 be noted.

4.2 That the responsible investments information provided be noted.

4.3 That the pension fund budget monitoring position be noted.

4.4 That the late payments of contributions 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 investment return achieved in the quarter to September 2010 was 8.49%, which was 0.34% behind the benchmark and 0.75% behind the target. The Fidelity bonds portfolio is the only one to have met or exceeded the target since the inception of the investment strategy in April 2007.

7.2 The budget monitor shows an overall variance of £572k at the end of September 2010.

8. Head of Legal Services Comments

8.1 The Head of Legal Services has been consulted on the content of this report and has no specific comment to make.

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 the Fund Managers continues to be carefully monitored in the current market conditions. The investment strategy of the Fund is being reviewed during this year, which will address the performance issues.
- 11.2 In overall terms the budget monitoring position at 30th September 2010 is broadly as expected, although transfers in and out and investment income continue to be volatile.

12. Use of appendices /Tables and photographs

- 12.1 Appendix 1: Fund holdings and top ten equity holdings.
- 12.2 Appendix 2: Fund performance to 30 September 2010.
- 12.3 Appendix 3: Responsible Investment update.
- 12.4 Appendix 4: Budget Management: monitoring to 30 September 2010.

12 Local Government (Access to Information) Act 1985

Northern Trust performance monitoring reports.

Fund performance update report to Pensions Committee on 16 September 2010.

14. Previous Quarter Investment performance

- 14.1 The investment performance of the Pension Fund was last reported to Pensions Committee in September 2010. That report covered the period up to 30 June 2010, at which time the following points were noted:
- Since monitoring against the new benchmark commenced on 1 April 2007, the combined Haringey fund had reduced in absolute terms by 2.01% per cent up to 30 June 2010, underperformed the gross benchmark by 2.29% and also underperformed the gross target by 3.93%.
 - The performance by the Fund Managers over the same period was as follows:
 - Fidelity's Bond mandate out performed the gross target by 0.82% and the Equity mandate under performed the gross target by 1.64% but achieved the benchmark.

- Capital's Equity and Bond mandates were below target by 3.41% and 1.76% respectively.
- ING were below target by 1.94%.

15. Total Fund investment performance for quarter to 30th September 2010

15.1 The current investment strategy was implemented on 1st April 2007 and so all the performance figures which follow show performance since that date.

15.2 Performance of the combined Haringey fund compared to benchmark and target for the three months to end of September 2010 and annualised performance from 1 April 2007 to end of September 2010 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 Sept 2010	1 April 2007 to 30 Sept 2010 (annualised)
	%	%
Overall fund performance	8.49	0.45
Benchmark	8.83	2.71
Performance versus benchmark	(0.34)	(2.26)
Overall fund performance	8.49	0.45
Target	9.24	4.35
Performance versus target	(0.75)	(3.90)

15.3 This shows that in the period to 30th September 2010:

- The annualised performance of the combined Haringey fund since 1 April 2007 was a slight increase in absolute terms of 0.45%, the fund under performed the benchmark by 2.26% and under performed the target by 3.90%;
- The annualised position has improved very marginally since the report to the last meeting with the under performance versus target decreasing from (3.93%) to (3.90%).

15.4 The cash held in-house has been invested in line with the Treasury Management Strategy Statement for 2010/11 – see the cash management below.

15.5 Appendix 1 shows how the value of the Fund was split into the various types of investments at the end of September 2010 and for comparison the end of the previous quarter. The top ten equity holdings includes the whole of the Fund's exposure to equities including both directly held shares and those in pooled funds.

16. Fund Manager Performance

16.1 Appendix 2 shows investment performance to the end of September 2010 for each Fund Manager, compared to benchmarks and targets as supplied by the custodian, Northern Trust. The data covers the period since 1 April 2007 when the current investment strategy was implemented.

16.2 The performance targets for each Fund Manager's mandate are shown below together with the fund managers' performance against those benchmarks since 1 April 2007 when the strategy was implemented. The contract with Legal & General has only been in place for one year and so long term performance data is not available. However their portfolio is invested in line with the benchmark, so the variation from the benchmark is minimal. The variation has amounted to +0.08% since the contract started.

16.3 There have been 45 calls on the Pantheon Asia, Europe and USA funds totalling £17.9 million to date. Private equity is a long term asset class and therefore performance numbers are excluded as they are not considered meaningful when the funds are still in the drawdown phase.

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

	% Target above benchmark	% annualised performance above / (below) benchmark in the period 1 Apr 07 to 30 Sep 10	% annualised performance above/ (below) target in the period 1 Apr 07 to 30 Sep 10
Capital - equities	2.0	(1.00)	(3.00)
Capital - bonds	1.0	(0.65)	(1.65)
Fidelity - equities	1.7	(0.38)	(2.08)
Fidelity - bonds	0.6	1.52	0.92
ING - property	1.0	(0.96)	(1.96)
Pantheon – private equity	0.75	N/A	N/A

16.5 The latest quarterly meetings took place in November 2010 between each active Fund Manager, the Head of Finance: Treasury & Pensions and the Independent adviser. A summary of the key issues discussed at those meetings is set out below.

Capital International

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

Fidelity

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

ING

- Performance to date.
- Volatility in the property market and future estimated returns.

Pantheon

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

17. Conclusions

- 17.1 Since monitoring against the new benchmark commenced on 1 April 2007, the annualised performance of the combined Haringey fund has shown a small increase in absolute terms of 0.45% up to 30 September 2010. During this period the Fund under performed the gross benchmark by 2.26% and under performed the gross target by 3.90%.
- 17.2 Capital and ING are underperforming against both the benchmark and the target. Fidelity have outperformed the benchmark and target in the bonds portfolio, but the equity portfolio performance has been below both the benchmark and target.
- 17.3 Investment returns in the equity markets were positive in the quarter, which was a reversal of the negative returns seen in the previous quarter. There are a number of ongoing issues which are likely to impact on future performance, and the situation will continue to be monitored carefully. These include:
- Sovereign debt issues, particularly in the Eurozone;
 - The price of oil and commodities;
 - The trends of inflation and risks of deflation;
 - Interest rates;
 - 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 members. One of the recommendations was that officers monitor the fund managers' approach to the revised Responsible Investment Policy. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which provides information about responsible investment issues and undertakes engagement with companies on these issues on behalf of local authorities.
- 18.2 Appendix 3 compares responsible investment information provided by the Council's two core Fund Managers for the quarter ending 30 September 2010 with the information supplied by LAPFF over the same time period. This highlights engagement work on environmental and governance issues.

19. Budget Management

- 19.1 The budget monitoring analysis to the end of September 2010 is shown in detail in Appendix 4. In overall terms the variance was £572,000.
- 19.2 The significant variances to date are:
- Transfers in and out of the Fund continue to be volatile, as the volume and timing varies throughout the year;
 - Investment income was £1.6m less than budgeted as the value of dividends paid by companies continues to remain low in the current economic climate;
 - Investment management expenses are significantly lower than budgeted at this stage in the year due to the timing of the receipt of invoices from fund managers.

20. Cash Management

- 20.1 The Pension Fund is holding cash in-house for a number of reasons:
- Funding property investments – it was agreed in 2007 at the last investment strategy review to increase the allocation of the Fund to property. An amount of £18m was invested in cash to fund this. The balance still to be drawn down is £2.2m.
 - Funding private equity investments – at the last investment strategy review it was agreed that in addition to the original allocation, £10m a year be allocated to private equity and that this should be funded from cash surpluses and kept in cash pending drawdown. To date £17.9m has been drawn down and £17.7m remains in cash.
 - Reduction in bond holdings – at the Committee meeting on 15th April 2010, it was decided to reduce the Fund's holdings in bonds and invest in cash. Bonds were sold and cash of £29.5m was transferred to the in-house account.

- 20.2 The elements of the cash invested in-house cash held at the end of September 2010 can be summarised as follows:

Property allocation	£2.2m
Private equity allocation	£17.7m
Sale of bonds	£29.5m
Other surplus of contributions over benefits	£16.9m
Total	£66.3m

- 20.3 The table below shows key statistics, which are used for the Council's treasury management reporting, applied to the pension fund cash investments during the quarter. Descriptions of the statistics are provided below:

		Q 30 Jun	Q 30 Sept
A	Credit score – value weighted	2.88	3.55
B	Credit score – time weighted	4.12	4.26
C	Weighted Average Maturity (days)	81	85
D	Interest Rate earned	0.64%	0.65%

A & B: These measure score credit risk on a scale of 0 to 10 on both a value weighted and a time weighted basis and the table below demonstrates how to interpret the scores:

Above target	AAA to AA+	Score 0 - 2
Target score	AA to A+	Score 3 - 5
Below target	Below A+	Score over 5

C: This is a measure of how liquid the portfolio is. It shows the weighted average maturity of the fixed term deposits. In addition the Fund holds instant access funds in money market funds.

D: This is the interest rate earned in the quarter on the deposits placed.

- 20.4 The credit scores have increased during the quarter. The reason for this is that Clydesdale Bank (rating A+) was reinstated onto the list of banks with whom investments can be placed and a maturing investment with the Debt Management Office (rating AAA) was reinvested with Clydesdale Bank.
- 20.5 The statistics show that the cash is invested in highly rated institutions with an average maturity of 85 days, up slightly from 81 days at the end of the previous quarter. This level of liquidity allows the Pension Fund to pay drawdowns to the property and private equity managers as required while investing long enough to achieve a reasonable rate of return. 0.65% was the rate earned which was 0.15% higher than the Bank of England base rate.

21. Late payment of contributions to the Pension Fund

21.1 It was agreed by the Committee at the last meeting that those employers paying contributions after the deadline of no more than 19 days after the end of the month in which they were deducted, would be reported in this report on a quarterly basis.

21.2 The table below shows the late payment of contributions relating to the period July to September 2010:

	Occasions late	Number of days late	Average monthly contributions
John Loughborough	1	7	£5,200
Europa	1	17	£600
TLC	1	13	£7,200

21.3 Officers have written to these employers to explain the requirements of the Pension Fund legislation. The contributions for the months following the late payments have been made on time. The situation will continue to be monitored and reported back to the Committee.