



Haringey Council
Agenda item:

Corporate Committee

On 20 June 2011

Report Title. Quarterly Pension Fund update including Investment Strategy Review Update

Report of Director of Corporate Resources

J. Parker 10/6/11

Signed: Julie Parker

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Wards(s) affected: All

Report for: Noting

1. Purpose of the report

1.1. To report the following in respect of the quarter to 31st March 2011:

- Investment asset allocation and strategy
- Investment performance
- Responsible investment activity
- Budget management
- Late payment of contributions

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 information provided in respect of the activity in the quarter to 31st March 2011 is 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 implementation of the revised investment strategy is underway with the advertisement placed in the Official Journal of the European Union, so is on target to meet the planned report back to Committee in September.
- 7.2 Investment performance in the quarter was on target with outperformance in bonds, property and private equity outweighing underperformance in equities.
- 7.3 The budget was overspent by £8.2m due to lower dividend income than anticipated, higher lump sums due to additional early retirements and higher than average transfer values paid. TLC are now the only employer paying late, despite monthly reminders of the statutory timescale.

8. Head of Legal Services Comments

- 8.1 The Head of Legal Services has been consulted on the content of this report. There is a duty on an administering authority, where it has appointed an investment manager, to keep their performance under review and to review the investments made by that manager for the pension fund at least once every 3 months. Members of the Committee should keep this duty in mind when considering this report and have regard to advice given to them.

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 has been reviewed and the changes introduced will address the majority of these issues.
- 11.2 The budget was overspent by £8.2m due to a combination of higher lump sums for those retiring early, a lack of recovery in dividend income during the year and higher than average transfer values paid. The higher lump sums did not arise until the final quarter of the year. Employer contributions to the Fund are not affected by this overspend.

12. Use of appendices /Tables and photographs

None

13. Local Government (Access to Information) Act 1985

Northern Trust performance monitoring reports.
Fund Managers – Quarterly investment reports
Local Authority Pension Fund Forum bulletins

14. Investment Update

14.1 Fund Holdings at 31st March 2011

	Market Value £000		% of Fund
UK Equities		193,543	27.0%
held in individual shares	36,493		
held in pooled funds	157,050		
Overseas Equities		255,405	35.6%
held in individual shares	97,318		
held in pooled funds	158,088		
Bonds		127,266	17.7%
held in individual shares	27,296		
held in pooled funds	99,970		
Property	50,606		7.1%
Private Equity	24,221		3.4%
Cash		66,188	9.2%
held by Fund Managers	4,770		
held in-house	61,418		
TOTAL		717,229	

14.2 Update on investment strategy implementation

During 2010/11 Pensions Committee undertook a review of the Pension Fund investment strategy and as a result decided to move to investing 70% of the Fund in equities on a passive basis, 15% in index linked gilts also on a passive basis and to retain the existing allocations of 10% to property and 5% to private equity.

It was reported to Pensions Committee in April 2011 that a European procurement process was required to appoint fund managers to manage equities and bonds on a passive basis. The advertisement has now been placed in the Official Journal of the European Union with a view to appointing two fund managers. Aon Hewitt are supporting officers in this process and a report recommending fund managers to appoint will be brought to the next meeting of the Committee in September 2011.

In advance of these appointments, Pensions Committee agreed to make changes to the bond mandates of the existing fund managers. It was agreed to move all of the

UK gilt exposure and half of the Corporate Bond exposure to index linked gilts. This has been carried out and Capital's bond portfolio is now entirely made up of index linked gilts and Fidelity's bond portfolio is 70% index linked gilts and 30% corporate bonds.

15. Investment Performance Update: to 31st March 2011

15.1 Whole Fund

	Return	Benchmark	Target	(Under)/Out
Quarter	1.78	1.37	1.78	0
Year	8.07	8.60	10.24	(2.17)
Since 01/04/07	2.13	4.14	5.78	(3.65)

- Total Value at 31/03/11: £717.2m
- On target performance in quarter due to outperformance in both bond portfolios, property and private equity.

15.2 Fidelity Equities

	Return	Benchmark	Target	(Under)/Out
Quarter	0.83	1.61	2.04	(1.21)
Year	6.34	7.51	9.21	(2.87)
Since 01/04/07	4.39	4.47	6.17	(1.78)

- Total Value at 31/03/11: £153.6m
- Outperformance in North American and Japanese equities was more than offset by underperformance in Europe and the Pacific and an underweight position in Emerging Markets.

15.3 Fidelity Bonds

	Return	Benchmark	Target	(Under)/Out
Quarter	0.85	0.08	0.23	0.62
Year	7.34	6.16	6.76	0.58
Since 01/04/07	7.51	5.99	6.59	0.92

- Total Value at 31/03/11: £83.0m
- In the quarter outperformance was seen in all categories, most particularly in UK gilts.

15.4 Capital Equities

	Return	Benchmark	Target	(Under)/Out
Quarter	1.03	1.62	2.12	(1.09)
Year	8.61	7.71	9.71	(1.10)
Since 01/04/07	3.60	4.71	6.71	(3.11)

- Total Value at 31/03/11: £151.6m
- Outperformance in the UK and Japan was more than offset by underperformance in other regions.

15.5 Capital Bonds

	Return	Benchmark	Target	(Under)/Out
Quarter	0.15	(0.36)	(0.11)	0.26
Year	6.12	7.09	8.09	1.97
Since 01/04/07	5.15	5.71	6.71	1.56

- Total Value at 31/03/11: £44.2m
- The outperformance achieved was due to investment in corporate bonds.

15.6 Legal & General Equities

	Quarter	Year	Since Inception
UK Fund	1.11	8.88	24.12
World Fund	2.18	8.16	25.47

- Total Value at 31/03/11: £148.6m
- Variation from benchmark limited to 0.06% in the quarter.

15.7 ING Real Estate

	Return	Benchmark	Target	(Under)/Out
Quarter	2.27	1.90	2.15	0.12
Year	6.01	9.09	10.09	(4.08)
Since 01/04/07	(6.72)	(5.77)	(4.77)	(1.95)

- Total Value at 31/03/11: £50.6m
- Outperformance in the quarter due to an improvement in the performance of the European holdings, which had been a drag on performance over the last year.
- The sale of the ING Real Estate team to CBRE Investors is anticipated to be concluded in 3-6 months time. No further details are available yet.

15.8 Pantheon

	Return	Drawdowns in period	% drawdown
Quarter	24.91	£1.56m	
Year	10.64	£8.66m	
Since inception	1.28	£21.48m	44%

- Total Value at 31/03/11: £24.2m
- Majority of funds drawdown in the quarter were in relation to the US and European funds.

15.9 In house cash

	Value	Average Credit Rating	Average Maturity (days)	Return
At 31/03/11	£61.4m	AA -	76	0.74%
At 31/12/10	£62.2m	AA	90	0.75%
At 30/09/10	£66.3m	AA	85	0.65%
At 30/06/10	£66.5m	AA+	81	0.64%

16. Responsible Investment Activity in quarter ended 31st March 2011

Fidelity	Capital International	Legal & General	LAPFF
<p>Environmental Issues</p> <p>During the quarter Fidelity have been examining the potential impact of the Carbon Floor tax which will be introduced in the UK in April 2013 on energy companies in particular Drax, which operates a number of coal fired power stations.</p>	<p>Capital met with Stora Enso, the paper and packaging company. They discussed their progress in increasing the proportion of wood they source from sustainable sources in Europe and South America.</p>	<p>A meeting was held with the newly appointed Chief Sustainability Officer of Vedanta Resources. They discussed the strategy that has been developed to improve the environmental impact and health & safety standards of the company.</p>	<p>The LAPFF is part of an international investor coalition urging the US Environmental Protection Agency to exercise its authority over a proposed pebble mine in Alaska. This threatens an area already under threat from a planned copper mine.</p>
<p>Governance / Remuneration Issues</p> <p>During the quarter Fidelity voted on a number of remuneration policies including for Lonmin, Imperial Tobacco and Beazley. All these companies engaged Fidelity in advance of the meetings so that they could be satisfied that the remuneration policy was related to performance.</p>	<p>Capital engaged with the major UK banks – HSBC, Barclays and Lloyds with regard to their remuneration policies. They were keen to see evidence of how they were planning to implement the new Code issued by the Financial Services Authority.</p>	<p>Legal & General voted against or abstained on votes concerning remuneration policies in a number of companies including Aberdeen Asset Management, Tui Travel and Johnson Controls. This was due to concerns about the lack of bonus caps and no link to performance.</p>	<p>The LAPFF is a signatory to a letter to the US regulator, the Securities & Exchange Commission to urge them to require companies to disclose median compensation for US and global employees to contain the differences.</p>
<p>Other Engagement activity</p> <p>Fidelity have been continuing analysis and engagement with BP plc in relation to their health and safety practices.</p>	<p>Capital took part in a seminar with companies including Kazakhmys and Acelor Mittal with regard to the safety in the mining sector in Kazakhstan.</p>	<p>Legal & General followed up previous engagement with National Express and discussed their plan to implement new labour rights policies.</p>	<p>A response has been submitted to the European Commission on the subject of its consultation on improving governance.</p>

17. Budget Management – position at 31st March 2011

	Budget £000	Actual £000	Variance £000
Contributions & Benefit related expenditure			
Income			
Employee Contributions	10,700	10,580	120
Employer Contributions	36,000	34,992	1,008
Transfer Values in	5,100	6,034	(934)
Total Income	51,800	51,606	194
Expenditure			
Pensions & Benefits	(30,000)	(32,240)	2,240
Transfer Values paid	(5,300)	(7,687)	2,387
Administrative Expenses	(800)	(688)	(112)
Total Expenditure	(36,100)	(40,615)	4,515
Net of contributions & benefits	15,700	10,991	4,709
Returns on investment			
Net Investment Income	15,010	11,381	3,629
Investment Management Expenses	(3,300)	(3,200)	(100)
Net Return on investment	11,710	8,181	3,529
Total	27,410	19,172	8,238

- Transfer values are unpredictable and vary considerably from year to year.
- Lump sum benefits were higher than anticipated due to early retirements resulting from redundancies in the last quarter.
- The budget for investment income was set on the expectation of an increase in dividend income back to average levels, however dividends have remained at 2009/10 as the economy is growing slowly.

18. Late Payment of Contributions

The table below shows the employer who paid contributions relating to January to March 2011 late.

	Occasions late	Average Number of days late	Average monthly contributions
TLC	3	3	£6,500

