



Report for:	Corporate Committee	Item number	
Title:	Pension Fund quarterly update		
Report authorised by :	Director of Corporate Resources		
Lead Officer:	Nicola Webb, Head of Finance – Treasury & Pensions nicola.webb@haringey.gov.uk 020 8489 3726		
Ward(s) affected: N/A	Report for Non Key Decision		

1. Describe the issue under consideration

1.1 To report the following in respect of the quarter to 30th June 2011:

- Investment asset allocation
- Investment performance
- Responsible investment activity
- Budget management
- Late payment of contributions
- Reform of Local Government Pension Scheme Update
- Annual Administration Update

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the information provided in respect of the activity in the quarter to 30th June 2011 is noted.

4. Other options considered

4.1 None.



5. Background information

- 5.1 This report is produced on a quarterly basis to update the Committee on a number of Pension Fund issues. The Local Government Pension Scheme Regulations require the Committee to review investment performance on a quarterly basis and sections 13 and 14 provide the information for this. Appendix 1 shows the targets which have been agreed with the fund managers.
- 5.2 The Pension Fund has a responsible investment policy and section 15 of this report monitors action taken in line with it. The remainder of the report covers various issues which the Committee or it's predecessor body have requested they receive regular updates on.

6. Comments of the Chief Financial Officer and financial Implications

- 6.1 Volatility in the value of the Pension Fund's investments is to be expected due to the high proportion invested in equities. This volatility will not impact on the employer contribution rate payable, as the Fund Actuary takes a long term view of the Fund.
- 6.2 The reduction in contributions receivable and increase in pensions payable, which have followed the reduction in staff numbers at the Council means that unlike previous years, the Pension Fund is not expected to generate a surplus of contributions over benefits payable. A breakeven position is expected however, so this is not expected to impact on the investment strategy.

7. Head of Legal Services and Legal Implications

- 7.1 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.

8. Equalities and Community Cohesion Comments

- 8.1 There are no equalities issues arising from this report.

9. Head of Procurement Comments

- 9.1 Not applicable

10. Policy Implications



10.1 None.

11. Use of Appendices

11.1 Appendix 1: Benchmark and Target information

Appendix 2: Reform of the Local Government Pension Scheme Update

12. Local Government (Access to Information) Act 1985

12.1 Northern Trust performance monitoring reports

Fund Managers' Quarterly investment reports

Local Authority Pension Fund Forum bulletins

13. Investment Update

13.1 Fund Holdings at 30th June 2011

	Market Value £000		% of Fund
UK Equities		192,791	26.5%
held in individual shares	33,914		
held in pooled funds	158,877		
Overseas Equities		258,225	35.6%
held in individual shares	93,866		
held in pooled funds	164,359		
Index linked Gilts		106,460	14.6%
held in individual shares	46,036		
held in pooled funds	60,424		
Corporate Bonds		25,940	3.6%
held in pooled funds	25,940		
Property	51,732		7.1%
Private Equity	26,051		3.6%
Cash		65,677	9.0%
held by Fund Managers	6,676		
held in-house	59,001		
TOTAL		726,876	

13.2 Since 30th June 2011, there has been significant volatility in global stock markets. The value of the Fund varies on a daily basis, and on 6th September 2011 had fallen £54m to £673m.

14. Investment Performance Update: to 30th June 2011



Appendix 1 provides details of the benchmarks and targets the fund managers have been set.

14.1 Whole Fund

	Return	Benchmark	Target	(Under)/Out
Quarter	1.71	1.74	2.15	(0.44)
Year	18.20	18.76	20.40	(2.20)
Since 01/04/07	2.41	4.31	5.95	(3.54)

- Total Value at 30/06/11: £726.9m
- Following last quarter's on target performance, this quarter returned to underperformance mainly due to the actively managed equity portfolios.

14.2 Fidelity Equities

	Return	Benchmark	Target	(Under)/Out
Quarter	0.57	1.17	1.60	(1.03)
Year	20.93	22.46	24.16	(3.23)
Since 01/04/07	4.27	4.49	6.19	(1.92)

- Total Value at 30/06/11: £154.3m
- Outperformance in Japan and Europe was more than offset by underperformance in all other regions.

14.3 Fidelity Bonds

	Return	Benchmark	Target	(Under)/Out
Quarter	4.06	3.44	3.59	0.47
Year	8.87	6.73	7.33	1.54
Since 01/04/07	8.06	6.48	7.08	0.98

- Total Value at 30/06/11: £86.4m
- During the quarter Pensions Committee's decision to move all UK gilts and half of corporate bonds into Index Linked gilts was implemented. As a result Fidelity now hold 70% of their portfolio in Index linked gilts and the remainder in corporate bonds. The outperformance has come from a combination of both.

14.4 Capital Equities

	Return	Benchmark	Target	(Under)/Out
Quarter	0.49	1.09	1.59	(1.10)
Year	22.36	22.65	24.65	(2.29)
Since 01/04/07	3.50	4.70	6.70	(3.20)

- Total Value at 30/06/11: £151.9m
- Outperformance in Japan and the UK was more than offset by underperformance in all other regions.

14.5 Capital Bonds



	Return	Benchmark	Target	(Under)/Out
Quarter	4.30	4.55	4.80	(0.50)
Year	8.00	8.03	9.03	(1.03)
Since 01/04/07	5.88	6.47	7.47	(1.59)

- Total Value at 30/06/11: £46.3m
- During the quarter Pensions Committee's decision to move all UK gilts and half of corporate bonds into Index Linked gilts was implemented. The result is that the whole of Capital's bonds portfolio is now invested in Index Linked Gilts.

14.6 Legal & General Equities

	Quarter	Year	Since Inception
UK Fund	1.92	25.77	22.01
World Fund	0.39	22.31	22.27

- Total Value at 30/06/11: £151.0m
- Variation from benchmark limited to -0.01% in the quarter.

14.7 ING Real Estate

	Return	Benchmark	Target	(Under)/Out
Quarter	2.20	1.80	2.05	0.15
Year	8.80	7.71	8.71	0.09
Since 01/04/07	-5.79	-5.04	-4.04	(1.75)

- Total Value at 30/06/11: £51.9m
- Positive returns against target in the last two quarters has resulted in ING out-performing their target over the last 12 months.
- The sale of the ING Real Estate team to CBRE Investors is expected to be concluded by the end of September 2011. Further details about how the new business will be structured and what it means for the portfolio should be available shortly after this.

14.8 Pantheon

	Return	Drawdowns in period	% drawdown
Quarter	2.68	£1.14m	
Year	13.93	£7.23m	
Since inception	1.86	£22.62m	46

- Total Value at 30/06/11: £26.1m
- The largest drawdown in the period was for the European fund.

14.9 In house cash



Haringey Council

	Value	Average Credit Rating	Average Maturity (days)	Return
At 30/06/11	£59.0m	AA	58	0.78%
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%



15. Responsible Investment Activity in quarter ended 30th June 2011

Fidelity	Capital International	Legal & General	LAPFF
15.1 Environmental Issues			
<p>Fidelity have been examining the impact of palm oil production and have been engaging with companies involved in this activity. The rapid growth in this industry has raised concerns about impacts such as deforestation and the loss of habitat for a number of species in Indonesia and Malaysia.</p>	<p>Capital International met with Cairn Energy during the quarter to discuss the safety procedures they have put in place for their searches for Arctic oil reserves. Capital were pleased to see that Cairn is implementing the North Sea Offshore Standards which are more stringent than international standards.</p>	<p>At the AGM of Exxon Mobil Legal & General voted in favour of a shareholder proposal to request that the company release more information to shareholders on the subject of their oil sands operations. This was given significant support by shareholders sending a clear message to the company.</p>	<p>Representatives of the LAPFF met with Royal Dutch Shell to discuss complaints filed against them by Amnesty International and Friends of the Earth. The issues discussed were measures to manage oil spill risk and engagement with local communities. LAPFF plan to continue engaging with the company to follow up on progress.</p>



Fidelity	Capital International	Legal & General	LAPFF
15.2 Governance / Remuneration Issues			
<p>During the quarter Fidelity voted at the BP plc AGM. They voted against the re-election of the Chairman, due to concerns about how he handled events following the Deepwater Horizon oil spill in 2010.</p> <p>Pearson put forward a new incentive scheme for senior executives at their AGM. Pearson engaged with investors, including Fidelity, in advance to ensure the scheme was in line with best practice.</p>	<p>Capital vote against AGM agenda items where there is insufficient disclosure to make an informed decision. In the case of Oman based Bank Muscat, they did not initially receive any information about directors or related party transactions. Following engagement with the company, they received all the information required and have met with the company to explain future requirements.</p>	<p>Legal & General voted against the remuneration levels put forward by management at the AGM. This was because they were excessive and outside best practice. They have since met with the Board Chairman, who has agreed to consult with them in advance of future meetings concerning such issues.</p>	<p>The LAPFF initiated dialogue with News Corp in June 2010 due to concerns about poor corporate governance. These concerns also led to News Corp being placed on the LAPFF's focus list of companies to prioritise engagement with. In the light of recent events the LAPFF Chairman held a conference call with the News Corp to make clear investor concerns. LAPFF will continue to engage with them to seek better governance arrangements.</p>



Fidelity	Capital International	Legal & General	LAPFF
15.3 Other Engagement activity			
<p>Following the earthquake and tsunami in Japan, Fidelity’s fund managers have been reviewing the impact on companies in the portfolio. This has included a review of nuclear energy companies, and other types of energy providers, as well as supply chain issues for a range of companies including automotive, technology and logistics companies.</p>	<p>Following reform in the US, US public companies are now required to put their executive remuneration policies to a shareholder vote. Capital have already noticed an increase in the number of companies approaching them to engage on their remuneration policies in the advance of votes.</p>	<p>Legal & General have been engaging with the Independent Commission on Banking to put forward their views about the impact of potential reform on all the asset classes.</p>	<p>LAPFF submitted a response to the consultation on the European Commission Green Paper on the European Union Corporate Governance Framework. The consultation covered issues such as boards of directors, shareholder engagement and enforcing existing national corporate governance codes. A response is expected from the European Commission in the Autumn.</p>



16. Budget Management – position at 30th June 2011

	Budget £000	Actual £000	Variance £000
Contributions & Benefit related expenditure			
Income			
Employee Contributions	1,650	1,537	113
Employer Contributions	5,917	7,397	(1,480)
Transfer Values in	1,300	1,316	(16)
Total Income	8,867	10,250	(1,383)
Expenditure			
Pensions & Benefits	(11,325)	(11,301)	(24)
Transfer Values paid	(1,000)	(722)	(278)
Administrative Expenses	(188)	(173)	(15)
Total Expenditure	(12,513)	(12,196)	(317)
Net of contributions & benefits	(3,646)	(1,946)	(1,700)
Returns on investment			
Net Investment Income	2,900	2,677	223
Investment Management Expenses	(750)	(628)	(122)
Net Return on investment	2,150	2,049	101
Total	(1,496)	103	(1,599)

- In previous years, a surplus of contribution income over benefit payments has been generated. However this is not expected to continue during 2011/12, due to the reduction in contribution income and increase in pensions payable, which both result from the staff cuts at the Council in particular.
- The key reason for the underspend at this early stage of the year is that a significant amount was received in the first quarter from the Council in respect of the capital cost of early retirements.

17. Late Payment of Contributions

17.1 The table below shows the employer who paid contributions relating to April to June 2011 late.

	Occasions late	Average Number of days late	Average monthly contributions
TLC	2	35	£5,980



18. Reform of the Local Government Pension Scheme update

18.1 Appendix 2 sets out the latest information on the proposed reforms to the Local Government Pension Scheme. More detailed reports will be presented to the Committee when further details become available.

19. Annual Pensions Administration update

19.1 Employees retired early by their Employing Body on Redundancy/Business Efficiency grounds have immediate entitlement to payment of pension benefits. Benefits are also released early to employees who are allowed Flexible Retirement i.e. they remain in post on a lower grade or reduced hours and have access their pension benefits.

19.2 In either case a Capital Cost may be incurred which the employing body must pay to the Pension Fund. Haringey Council's policy is not to award Added Years. The schedule below shows the number of Early/Flexible Retirements for 2010/11 and the Capital Costs incurred. The total equivalent data for 2009/10 is also shown for comparison.

Early and Flexible Retirements by the Council and Employing Bodies 1 April 2010 to 31st March 2011				
Haringey Council	Number of Cases	Basic Capital Cost	Cost of Added Years	Total Cost
Early Retirements	29	£577,000	£0	£577,000
Flexible Retirements	10	£13,000		£13,000
Sub –Total	39	£590,000	£0	£590,000
Employing Bodies				
	Number of Cases	Basic Capital Cost	Cost of Added Years	Total Cost
Redundancy Retirement	7	£181,000	£0	£181,000
Flexible Retirement	1	£0	£0	£0
Sub-Total	8	£181,000	£0	£181,000
Total For Haringey Council and Employing Bodies				
Total 10//11	47	£771,000	£0	£771,000
Total 09/10	31	£608,000	£162,000	£770,000
The discretion to release benefits early has been exercised in accordance with the relevant employing bodies' Policy Statement and the Capital costs have been paid into the Fund within the timescale agreed by the Fund actuary.				



Haringey Council

19.3 Internal Disputes Resolution Procedure

Scheme members have a right to appeal against a decision of their Employing Body or the Council as the Administering Authority on any matter arising from the Pension Scheme.

Stage 1 appeals are referred to Steve Davies Head of Human Resources

Stage 2 appeals are referred to Bernie Ryan (Acting Head of Legal Services)

There were no appeals opened or in progress during 2010/11.



Appendix 1 – Benchmark and Target information

Whole Fund Benchmark

Asset Class	Benchmark	Percentage
UK Equities	FTSE All Share Index	30.5
European Equities	FTSE All World Developed Europe ex UK index	10.5
North American Equities	FTSE All World North America index	12.6
Japanese Equities	FTSE All World Japan index	5.7
Pacific Equities	FTSE All World Developed Asia Pacific ex Japan index	2.6
Emerging Markets Equities	MSCI Emerging Markets Free Index	3.1
UK Gilts	FTSE Gilt Blended Index	7.0
Corporate Bonds	Merrill Lynch non gilt blended Index	7.0
Index Linked Gilts	FTSE Index linked (over 5 years)	6.0
Property	IPD Monthly Property Index	10.0
Private Equity	MSCI World GDR plus 500bps	5.0

Target: Benchmark plus 1.64% per annum

Fund Managers Benchmarks and targets

Manager	Mandate	Benchmark	Performance Target
Capital International	Global Equities	Customised see (a) below	+2.0% gross of fees p.a over a rolling 3 yr period
Capital International	Bonds	Customised see (b) below	+1.0% gross of fees p.a over a rolling 3 yr period
Fidelity International	Global Equities	Customised see (c) below	+1.7% gross of fees p.a over a rolling 3 yr period
Fidelity International	Bonds	Customised see (d) below	+0.6% gross of fees p.a over a rolling 3 yr period
Legal & General	UK Equities	FTSE All Share	Index (passively managed)
Legal & General	Global Equities	FTSE AW World Index	Index (passively managed)
ING Real Estate	Property	IPD UK Pooled Property Funds All Balanced Index	+1% gross of fees p.a. over a rolling 5 yr period



(a) Capital International Global Equities

Asset Class	Benchmark	Percentage
UK	FTSE All Share	25
North America	FTSE AW Developed North America	25
Europe –Ex UK	FTSE AW Developed Europe (ex UK)	24
Japan	FTSE AW Developed Japan	13
Pacific(Ex Japan)	MSCI Pacific (ex Japan)	6
Emerging Markets	MSCI Emerging Markets	7

(b) Capital International Bonds

Since 1st June 2011:

Asset Class	Benchmark	Percentage
Index Linked	FTSE Index linked (over 5 years)	100

Previously:

Asset Class	Benchmark	Percentage
UK Gilts	FTSE All Stock over 15 year gilts	30
Corporate Bonds	Merrill Lynch Sterling non gilt all maturities	20
Index Linked	FTSE Index linked (over 5 years)	50

(c) Fidelity Global Equities

Asset Class	Benchmark	Percentage
UK	FTSE All Share Index	25.3
US	S&P 500	25.4
Europe –Ex UK	MSCI Europe ex UK Index	23.9
Japan	Topix Index	12.7
Pacific(Ex Japan)	MSCI Pacific ex Japan index	6.0
Emerging Markets	MSCI Emerging Markets Index	6.7

(d) Fidelity Bonds

Since 1st June 2011:

Asset Class	Benchmark	Percentage
Corporate Bonds	Merrill Lynch Eurosterling over 10 year index	30
Index Linked	FTSE Index linked (over 5 years)	70

Previously:

Asset Class	Benchmark	Percentage
UK Gilts	FTSE All Stock over 15 year gilts	20
Corporate Bonds	Merrill Lynch Eurosterling over 10 year index	50
Index Linked	FTSE Index linked (over 5 years)	30

Appendix 2 – Reform of the Local Government Pension Scheme update



Latest Developments

On 27th June 2011 in a statement concerning the public service pension talks with the TUC, Minister for the Cabinet office Francis Maude and the Chief Secretary to the Treasury Danny Alexander said:

“We recognise that the funding basis for the Local Government Pension Scheme is different. There are important implications for how the contributions and benefits interact, as both Lord Hutton and the Unions have set out. On that basis, we have agreed to have a more in depth discussion with local government unions and the TUC about how we take these factors into account.”

On 19th July 2011 the Chief Secretary to the Treasury issued a written statement on public service pensions, which included:

“For Local Government, the government recognises that the funded nature of the scheme puts it in a different position and will discuss whether there are alternative ways to deliver some or all of the savings.”

Following these statements, the Secretary of State for Communities and Local Government, Local Government employers and trade unions are meeting to develop a package of measures to deliver short term savings by 2014/15 with legislation in place by 1st April 2012.

Background

In March 2011 the Public Sector Pensions Commission led by Lord Hutton delivered a number of recommendations for the future of public sector pension schemes including the LGPS. Implementation of these recommendations is being considered by government. In the short term however it was announced that pension schemes should implement an average 3.2% increase in employee contributions starting from 1st April 2012. In doing this, schemes were advised to ensure that the low paid were protected.

The LGPS would be particularly hard hit by an increase in employee contributions, as it has a much larger proportion of low paid employees than other public sector schemes. This means in order to achieve an average increase of 3.2% while protecting the low paid, middle and higher earners would need to increase contributions significantly more than this.

It is feared that such increases in employee contribution rates would lead to significant opt-outs from the LGPS, particularly in the current environment of a pay freeze and high inflation. In addition to the damage to long term employees' retirement planning, they will lose life cover for their families.

Increases in the number of opt-outs would accelerate the point at which benefit payments exceed contribution income. Reaching this point would restrict Pension Funds' investment policies and could lead to employers having to pay in more to recover the deficit.