



Haringey Council

Report for:	Corporate Committee 23 rd January 2012	Item number	
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Title:	Pension Fund quarterly update
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Report authorised by :	Director of Corporate Resources <i>J. Parker 12/1/12</i>
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Lead Officer:	Nicola Webb, Head of Finance – Treasury & Pensions nicola.webb@haringey.gov.uk 020 8489 3726
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Ward(s) affected: N/A	Report for Non Key Decision
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1. Describe the issue under consideration

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

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

2. Cabinet Member Introduction

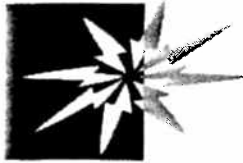
2.1 Not applicable.

3. Recommendations

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

4. Other options considered

4.1 None.



Haringey Council

5. Background information

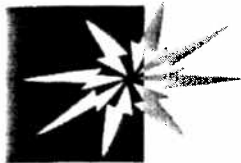
- 5.1 This report is produced on a quarterly basis to update the Committee on a number of Pension Fund issues. The Local Government Pension Scheme Regulations require the Committee to review investment performance on a quarterly basis and sections 13 and 14 provide the information for this. Appendix 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 its 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 Pension Fund budget monitoring shows an underspend at the mid point of the financial year due to a better level of investment income from dividends than anticipated at the beginning of the year.

7. Head of Legal Services and Legal Implications

- 7.1 The Council as administering authority for the Haringey Pension Fund has an obligation to keep the performance of its investment managers under review. In this respect the Council must, at least every three months review the investments made by investment managers for the Fund and any other actions taken by them in relation to it;
- 7.2 Periodically the Council must consider whether or not to retain the investment manager;.
- 7.3 In carrying out its review proper advice must be obtained about the variety of investments that have been made and the suitability and types of investment;.
- 7.4 All monies must be invested in accordance with the Council's investment policy;
- 7.5 Members of the Committee should keep this duty in mind when considering this report and have regard to advice given to them.



Haringey Council

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

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



Haringey Council

13. Investment Update

13.1 Fund Holdings at 30th September 2011

	Market Value £000		% of Fund
UK Equities held in individual shares	27,948	165,425	24.8%
held in pooled funds	137,477		
Overseas Equities held in individual shares	80,630	246,900	37.0%
held in pooled funds	166,270		
Index linked Gilts held in individual shares	49,687	113,509	17.0%
held in pooled funds	63,822		
Corporate Bonds held in pooled funds	26,830	26,830	4.0%
Property	51,357		7.7%
Private Equity	28,246		4.2%
Cash held by Fund Managers	5,933	35,233	5.3%
held in-house	29,300		
TOTAL		667,500	100.0%

13.2 The value of the fund fell by approximately £60m during the quarter to 30th September 2011 as the markets reacted to issues in the Eurozone. By the end of November 2011 the value had recovered approximately £40m of this.

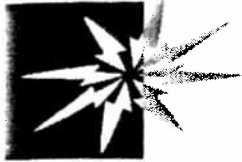
14. Investment Performance Update: to 30th September 2011

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	-9.10	-8.65	-8.24	(0.86)
Year	-0.96	-0.32	1.32	(2.28)
Since 01/04/07	0.13	1.99	3.63	(3.50)

- Total Value at 30/09/11: £667.5m
- As the reduction in market value in section 13 shows, returns in the quarter were negative in absolute terms. Poor relative returns from most of the Fund's portfolios resulted in an overall underperformance in the quarter. A positive



Haringey Council

return from the private equity portfolio partly offset the underperformance in the other portfolios.

14.2 Fidelity Equities

	Return	Benchmark	Target	(Under)/Out
Quarter	-15.50	-14.76	-14.33	(1.17)
Year	-5.34	-4.90	-3.20	(2.14)
Since 01/04/07	0.21	0.60	2.30	(2.09)

- Total Value at 30/09/11: £130.2m
- Underperformance in North America and Europe in particular was the reason for the overall underperformance in this portfolio.

14.3 Fidelity Bonds

	Return	Benchmark	Target	(Under)/Out
Quarter	5.01	7.02	7.17	(2.16)
Year	7.96	8.54	9.14	(1.18)
Since 01/04/07	8.77	7.72	8.32	0.45

- Total Value at 30/09/11: £90.6m
- 70% of this portfolio is held in index linked gilts and the remainder in corporate bonds. The underperformance this quarter was across both asset classes and has been significant enough to result in underperformance in the year, despite the previous two quarters of outperformance.

14.4 Capital Equities

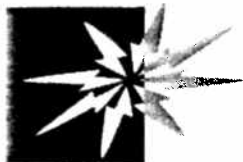
	Return	Benchmark	Target	(Under)/Out
Quarter	-15.03	-15.12	-14.62	(0.41)
Year	-6.42	-5.23	-3.23	(3.19)
Since 01/04/07	-0.37	0.69	2.69	(3.06)

- Total Value at 30/09/11: £129.0m
- The most significant contributor to the underperformance in this portfolio was in Japanese equities.

14.5 Capital Bonds

	Return	Benchmark	Target	(Under)/Out
Quarter	7.66	7.76	8.01	(0.35)
Year	10.77	11.14	12.14	(1.37)
Since 01/04/07	7.29	7.88	8.88	(1.59)

- Total Value at 30/09/11: £49.8m
- 100% of this portfolio is now held in index linked gilts and therefore the underperformance in the quarter is attributed to stock selection.



Haringey Council

14.6 Legal & General Equities

	Quarter	Year	Since Inception
UK Fund	-13.46	-4.25	12.07
World Fund	-14.73	-4.03	11.56

- Total Value at 30/09/11: £158.6m
- Variation from benchmark limited to 0.03% in the quarter.

14.7 ING Real Estate – CBRE Global Investors from 1st October 2011

	Return	Benchmark	Target	(Under)/Out
Quarter	-1.03	1.70	1.95	(2.98)
Year	4.92	7.50	8.50	(3.58)
Since 01/04/07	-5.70	-4.41	-3.41	(2.29)

- Total Value at 30/09/11: £51.7m
- The European element of the portfolio has again resulted in an overall underperformance against target, despite the UK element outperforming the target.
- The sale of the ING Real Estate team to CBRE Global Investors concluded on 1st October 2011. Representatives of CBRE have met with the Assistant Director of Finance and other officers to discuss what the impact will be on the portfolio. The new team have confirmed that they are happy with the majority of the current portfolio and there are only a limited number of changes they will make when possible.

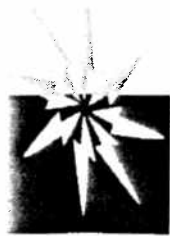
14.8 Pantheon

	Return	Distributions in period	Drawdowns in period	% drawdown
Quarter	0.46	£0.55m	£1.62m	
Year	9.11	£0.55m	£5.87m	
Since inception	1.86	£0.55m	£24.24m	49

- Total Value at 30/09/11: £28.3m
- The first distribution from the private equity portfolio was received from the US fund during the quarter.

14.9 In house cash

	Value	Average Credit Rating	Average Maturity (days)	Return
At 30/09/11	£29.3m	AA	6	0.72%
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%

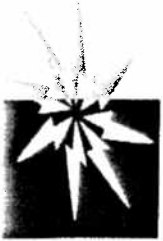


15. Responsible Investment Activity in quarter ended 30th September 2011

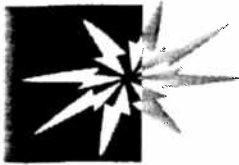
Fidelity	Capital International	Legal & General	LAPFF
<p>15.1 Environmental Issues</p> <p>Fidelity have been having discussions with an Australian oil & gas company, Santos Ltd., about the impact Liquefied Natural Gas projects are having on the environment, in terms of the water table, the ability to grow crops on the land and on the communities living in the areas. Fidelity have been encouraged by the dialogue the company is having with local farmers.</p>	<p>Capital International met with Oil Search, an energy company with significant operations in Papua New Guinea. The operations are spread throughout the country and so the company has built extensive road networks. Capital were pleased to see this has been done in conjunction with the local people, many of whom now work for Oil Search and the company have also built a community school and given financial support to the local hospital.</p>	<p>As part of Legal & General's ongoing dialogue with Vedanta Resources on environmental and social issues facing their operations in India, they met with the CEO and Chief Sustainability Officer. Greater transparency and harmonisation of policies surrounding water management, Health & Safety, biodiversity, local and resettlement management, waste management and grievance mechanisms were requested. The company highlighted to Legal & General that there will be an immediate alignment of Environmental Impact Assessments to international standards.</p>	<p>LAPFF updated its best practice framework for ranking airlines in terms of their climate change strategy. British Airways was at the top of this but Iberia who they have now merged with was a "laggard". LAPFF representatives met with the new International Airlines Group to discuss how they plan implement good practice across the group.</p>



Fidelity	Capital International	Legal & General	LAPFF
<p>15.2 Governance / Remuneration Issues</p>			
<p>Fidelity met with Tesco management in advance of their AGM to discuss their plans for their senior executive remuneration policy, in particular the performance measures being used for the long term incentive plan. The policy subsequently proposed at the AGM was in line with best practice and was approved at the meeting.</p>	<p>At the Cable & Wireless AGM Capital was joined by 40% of shareholders in voting against the company's proposed long term incentive plan questioning the generosity of it. Despite this level of opposition, the company went ahead. Since then Capital has been engaging with the company to discuss best practice in remuneration policies.</p>	<p>Legal & General voted against a motion at the First Group plc AGM to pay a retention award to the new CEO. In total 38% of shareholders voted against this motion. Since then Legal & General have been engaging with the company and they have now agreed that non-executives and the CEO receive part of their pay in the form of shares, which more closely aligns them with shareholder interests.</p>	<p>Dialogue has continued with News Corp over its poor governance arrangements. News Corp has been on the LAPFF's focus list of companies to prioritise engagement with since 2010. LAPFF representatives have had a number of calls and meetings with News Corp in the light of the phone hacking scandal. At the recent AGM 75% of independent shareholders voted against the re-election of Rupert Murdoch as combined chairman and CEO, however due to the number of shares held by family members, he was re-elected. Engagement will continue.</p>



Fidelity	Capital International	Legal & General	LAPFF
<p>15.3 Other Engagement activity</p> <p>Fidelity have been examining the impact of the German government's decision to phase out the country's nuclear reactors on energy companies directly impacted. In addition to examining the impact on energy companies directly affected, Fidelity have also been considering the impact on companies who's operations will be significantly impacted by increases in energy prices which are likely to arise as a result.</p>	<p>Since 2010 it has been a requirement for voting results in AGMs in Japan to be disclosed. Capital are seeing more pressure being brought to bear on companies by shareholders as a result of this. A particular example is Keyence, an electronics company, which has been paying very low dividends to shareholders in spite of a strong balance sheet and free cashflow. At the last AGM, 43% of shareholders voted against the low dividend rate and this action has assisted Capital in progressing engagement with the company.</p>	<p>Legal & General opposed the remuneration policy at Thomas Cook's AGM and had concerns about poor performance. Following this they met with the Board Chair to discuss the issues. The following day the company announced that the CEO would be stepping down and a full review of operations would be undertaken.</p>	<p>The LAPFF met with Greggs, the bakery company, to discuss with them how they incorporate public nutrition concerns into their business strategy. The company provided information about how they are working behind the scenes to reduce the fat and salt content of their products. They have adopted this subtle approach as they find that direct labelling alienates their customers.</p>



16. Budget Management – position at 30th September 2011

	Budget £000	Actual £000	Variance £000
Contributions & Benefit related expenditure			
Income			
Employee Contributions	4,125	3,847	278
Employer Contributions	14,792	14,995	(203)
Transfer Values in	2,600	3,137	(537)
Total Income	21,517	21,979	(462)
Expenditure			
Pensions & Benefits	(22,650)	(24,094)	1,444
Transfer Values paid	(2,000)	(2,422)	422
Administrative Expenses	(375)	(249)	(126)
Total Expenditure	(25,025)	(26,765)	1,740
Net of contributions & benefits	(3,508)	(4,786)	1,278
Returns on investment			
Net Investment Income	5,800	7,975	(2,175)
Investment Management Expenses	(1,500)	(1,527)	27
Net Return on investment	4,300	6,448	(2,148)
Total	792	1,662	(870)

- The key reason for the underspend at the mid point of the financial year is a better than anticipated level of investment income.

17. Late Payment of Contributions

17.1 The table below shows the employer who paid contributions relating to July to September 2011 late.

	Occasions late	Average Number of days late	Average monthly contributions
John Loughborough	2	31	£5,500

17.2 John Loughborough School paid their July and August contributions late due to the school being closed over the summer, but contributions in the following months were paid on time.



Appendix 1 – Benchmark and Target information

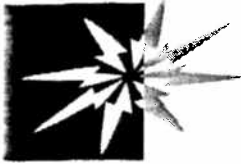
Whole Fund Benchmark

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)
CBRE Global Investors (previously ING Real Estate)	Property	IPD UK Pooled Property Funds All Balanced Index	+1% gross of fees p.a. over a rolling 5 yr period



Haringey Council

(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