




Report for:	Corporate Committee 15 th May 2012	Item number	
Title:	Pension Fund quarterly update		
Report authorised by :	Interim Chief Financial Officer 		
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 six months to 31st March 2012:

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

1.2 To recommend an appointment to the role of independent Pension Fund adviser.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the information provided in respect of the activity in the six months to 31st March 2012 is noted.

3.2 That the appointment of John Raisin as independent Pension Fund adviser is approved.



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 14 and 15 provide the information for this. Appendix 1 shows the targets which have been agreed with the fund managers. Due to the timing of Committee meetings, this report contains update information for the six months to 31st March 2012.

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

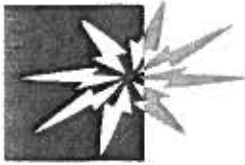
6.1 The investment performance of the Pension Fund continues to disappoint being below target over the last two quarters. The switch to passive management removes the majority of the risk of underperformance, as 85% of the fund will be managed to achieve the benchmark. CBRE have been asked to provide officers with regular updates in respect of progress with the European property portfolio.

6.2 The budget for the 2011/12 financial year is underspent for two main reasons – lower than anticipated lump sum payments to pensioners particularly in the second half of the year and the unanticipated receipt of a bulk transfer of £2.97m from the Enfield Pension Fund.

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.

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

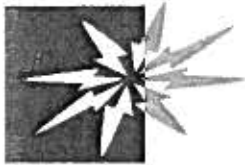
- 11.1 Appendix 1: Benchmark and Target information

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

13. Independent Pension Fund Adviser

- 13.1 The Council has been without an independent Pension Fund adviser since the previous adviser resigned last summer. Since then officers have been exploring ways of identifying an adviser with the appropriate skills.
- 13.2 The London Borough of Waltham Forest undertook a procurement process to appoint an independent adviser having sourced three possible candidates. The result of this selection process was to appoint John Raisin, who has significant local government pensions experience. In the spirit of sharing services and given Waltham Forest have satisfied procurement procedures, the Interim Chief Financial Officer recommended to the Chair of the Committee that consideration be given to appointing John Raisin to be Haringey's independent Pension Fund adviser.



13.3 A formal interview took place on 4th May 2012 with a panel consisting of the Chair of Corporate Committee, the Interim Chief Financial Officer and the Head of Finance – Treasury & Pensions. The interview panel unanimously agreed that it be recommended to the Committee that John Raisin be appointed to the role of Independent Pension Fund Adviser for Haringey for an initial 12 month period subject to a performance review at the end of this period.

14. Investment Update

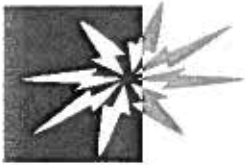
14.1 Fund Holdings at 31st March 2012

	Market Value £000		% of Fund
UK Equities held in individual shares	34,109	193,108	25.7%
held in pooled funds	158,999		
Overseas Equities held in individual shares	97,451	288,383	38.4%
held in pooled funds	190,932		
Index linked Gilts held in individual shares	53,316	121,987	16.3%
held in pooled funds	68,671		
Corporate Bonds held in pooled funds	29,029	29,029	3.9%
Property	50,187		6.7%
Private Equity	29,288		3.9%
Cash held by Fund Managers	5,478	38,572	5.1%
held in-house	33,094		
TOTAL		750,554	100.0%

14.2 The Fund has increased in value by £83m since 30th September 2011 with half of this attributable to overseas equities.

15. Investment Performance Update: to 31st March 2012

Appendix 1 provides details of the benchmarks and targets the fund managers have been set. The tables below show the performance in the quarters October to December 2011 and January to March 2012. The annual and the since 1st April 2007 figures are up to 31st March 2012.



15.1 Whole Fund

	Return	Benchmark	Target	(Under)/Out
Oct – Dec 2011	6.75%	6.51%	6.92%	(0.17%)
Jan – Mar 2012	5.26%	5.44%	5.85%	(0.59%)
Year	3.89%	4.37%	6.01%	(2.12%)
Since 01/04/07	2.48%	4.18%	5.82%	(3.34%)

- Total Value at 31/03/12: £750.55m
- The returns in both quarters under consideration were positive, the reverse of the negative returns in the previous quarter. However the performance of the Fund continues to be below target due to below target performance from Capital and CBRE.

15.2 Fidelity Equities

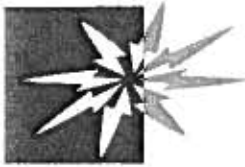
	Return	Benchmark	Target	(Under)/Out
Oct – Dec 2011	6.79%	6.26%	6.69%	0.10%
Jan – Mar 2012	9.72%	8.45%	8.88%	0.84%
Year	-0.44%	-0.62%	1.08%	(1.52%)
Since 01/04/07	3.41%	3.43%	5.13%	(1.72%)

- Total Value at 31/03/12: £152.3m
- Fidelity's equity performance was above target over the last two quarters reversing the previous trend of below target performance. The main reason for this was good performance in European equities.

15.3 Fidelity Bonds

	Return	Benchmark	Target	(Under)/Out
Oct – Dec 2011	8.80%	7.92%	8.07%	0.73%
Jan – Mar 2012	-0.86%	-0.91%	-0.76%	(0.10%)
Year	17.87%	18.39%	18.99%	(1.12%)
Since 01/04/07	9.51%	8.36%	8.96%	0.55%

- Total Value at 31/03/12: £97.7m
- The performance in the latest quarter is above target which is a continuation of the good longer term performance. This is the only portfolio to show above target performance over the last four years.



15.4 Capital Equities

	Return	Benchmark	Target	(Under)/Out
Oct – Dec 2011	5.94%	6.05%	6.55%	(0.61%)
Jan – Mar 2012	8.98%	8.48%	8.98%	0.0%
Year	-1.42%	-1.29%	0.71%	(2.13%)
Since 01/04/07	2.57%	3.48%	5.48%	(2.91%)

- Total Value at 31/03/12: £148.9m
- The performance in the latest quarter was on target, which is a change from the long term underperformance seen in this portfolio. The main contributor to this was UK equities.

15.5 Capital Bonds

	Return	Benchmark	Target	(Under)/Out
Oct – Dec 2011	9.68%	9.76%	10.01%	(0.33%)
Jan – Mar 2012	-1.92%	-1.97%	-1.72%	(0.20%)
Year	20.80%	21.23%	22.23%	(1.43%)
Since 01/04/07	8.11%	8.65%	9.65%	(1.54%)

- Total Value at 31/03/12: £53.6m
- 100% of this portfolio is now held in index linked gilts and therefore the underperformance in the quarter is attributed to stock selection.

15.6 Legal & General Equities

UK Fund

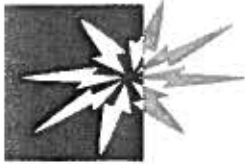
	Return	Benchmark	(Under)/Out
Oct – Dec 2011	8.40%	8.39%	0.01%
Jan – Mar 2012	6.18%	6.10%	0.08%
Year	1.51%	1.39%	0.12%
Since inception	15.47%	15.32%	0.15%

- Total Value at 31/03/12: £63.6m

World Fund

	Return	Benchmark	(Under)/Out
Oct – Dec 2011	7.69%	7.67%	0.02%
Jan – Mar 2012	8.92%	8.96%	(0.04%)
Year	0.41%	0.45%	(0.04%)
Since inception	15.82%	15.87%	(0.05%)

- Total Value at 31/03/12: £120.1m



15.7 CBRE Global Investors

	Return	Benchmark	Target	(Under)/Out
Oct – Dec 2011	0.70%	1.60%	1.85%	(1.15%)
Jan – Mar 2012	-0.74%	0.80%	1.05%	(1.79%)
Year	1.40%	5.72%	6.72%	(5.32%)
Since 01/04/07	-5.15%	-3.58%	-2.58%	(2.57%)

- Total Value at 31/03/12: £51.8m
- The performance in the European element of the portfolio continues to disappoint and drag down the overall performance. It is not easy to sell property holdings as it is a very illiquid market, particularly when the holdings are underperforming, so it is not possible to change this performance quickly. CBRE are working with the management at the companies to try and improve matters and turn around the performance.

15.8 Pantheon

	Return	Distributions in period	Drawdowns in period	% drawdown
Oct – Dec 2011	1.58%	£0.6m	£1.38m	
Jan – Mar 2012	0.66%	0	£0.71m	
Year	5.48%	£1.15m	£4.84m	
Since inception	2.14%	£1.15m	£26.3m	55.3%

- Total Value at 31/03/12: £29.5m
- There was limited activity in the private equity portfolio over the two quarters with only 2 small distributions and just over £2m of drawdowns. 55% of the commitments made in 2007 have now been drawdown.

15.9 In house cash

	Value	Average Credit Rating	Average Maturity (days)	Return
At 31/03/12	£33.09m	AAA	8	0.42%
At 31/12/11	£28.54m	AAA	1	0.58%
At 30/09/11	£29.3m	AA	6	0.72%
At 30/06/11	£59.0m	AA	58	0.78%



16. Responsible Investment Activity in the six months ended 31st March 2012

Fidelity	Capital International	Legal & General	LAPFF
<p>16.1 Environmental Issues</p> <p>Fidelity's Aviation analyst has been examining the potential impact of the European Emission Trading Scheme on airlines and discussing it with them. The proposals will see airlines being required to pay for carbon emissions. Several non EU airlines are objecting to the proposal and stating they should not be required to pay if their flights start outside the EU area. The dispute is escalating with China blocking the purchase of Airbus planes by Chinese companies in reaction to the proposals.</p>	<p>Capital have been focusing their engagement on Chinese companies during the quarter with their analysts paying visits to a number of companies including visits to factories and shipyards. They have found that although there are improvements in governance arrangements in Chinese companies, the focus is on increasing employment to increase GDP. This results in environmental issues getting less attention and so Capital focused on these in the engagements.</p>	<p>Legal & General attended a roundtable event with board members from Rio Tinto plc and sustainability was one of the key issues they focused on. They found that the company calculates the amount of carbon used in its processes and this is one of a number of production costs regularly reviewed. The company also informed Legal & General that they had appointed PwC to carry out an assurance review of guidelines for employees and contractors to aiming at minimising environmental impact.</p>	<p>The Forum had conference calls or meetings with four automotive and freight companies including Fiat and Stobart Group to discuss their climate change policies and responses to EU regulation of greenhouse gas emissions. The Forum discovered that the level of demand, particularly from China, was pushing them to consider new technologies and all the companies have strategies in this direction.</p>



Fidelity	Capital International	Legal & General	LAPFF
16.2 Governance / Remuneration Issues			
<p>Apple's Annual General Meeting took place in February 2012. Fidelity supported two shareholder resolutions at the meeting. One was to request more disclosure of the company's political contributions and expenditure. Fidelity believe the company do not provide enough disclosure to shareholders on this matter. The second was to require a majority of votes in the case of uncontested elections of directors. Before the AGM only one vote was required for such elections which is out of line with best practice. The second proposal was implemented and the other will continue to be pursued in engagement with the company.</p>	<p>Capital have been engaging with the Polish Ministry of Treasury on the privatisation of state owned companies. The privatisation programme has involved the sale of 208 companies since 2008. Capital have been engaging with the Ministry to ensure that the governance arrangements put in place are in line with best practice.</p>	<p>Following engagement with Novartis by Legal & General staff as well as other investors, Novartis made a number of positive changes to their remuneration policy. This includes improved disclosures, the elimination of severance payments and a cap on the short and long term incentive plans.</p>	<p>The Forum took part in a conference call with other investors with one of the non-executive directors of Gazprom, who is seeking re-election. The investors pressed him on a number of issues and received a positive response about developing a corporate ethics policy and an environmental policy. However the company did not make any commitments to address the lack of independent representation on the Board or to review the remuneration policy to reflect sustainability.</p>



Fidelity	Capital International	Legal & General	LAPFF
<p>16.3 Other Engagement activity</p> <p>Fidelity has been examining health and safety issues at oil and gas companies as they believe a safe and healthy environment in a company contributes to operational efficiency. In particular Fidelity have engaged with Total following the Elgin Franklin incident on 27th March. The company are still investigating exactly what happened, but have confirmed there was no human error and all workers have been removed from the site. Engagement will continue.</p>	<p>Capital has been discussing with consumer goods companies the need to ensure they take responsibility for all stages of the supply chain from sourcing, processing to distribution and eventually consumption. In particular they have been in discussion with H & M about their response to health and safety issues which have arisen in a factory in Cambodia which supplies the company. As a result of the engagement, Capital are confident that H & M are taking their responsibilities seriously and working with the supplier to address the issues.</p>	<p>Legal & General is the second largest shareholder in BP and due to this, they have been able to meet with them seven times in the last year to discuss various issues including corporate governance, Board structure and operational performance. In particular Legal & General have been consulted on key appointments including Chairman of the Safety, Ethics & Environment Assurance Committee and a new non executive director. Legal & General feel these moves to refresh the Board are positive.</p>	<p>The Forum is working with other Pension Funds worldwide to continue to put pressure on News Corp to improve the governance arrangements in the company. Following phone hacking scandal, the Forum have also engaged with Pearson, owners of the Financial Times and with Trinity Mirror Group to seek reassurance about their governance arrangements.</p>



17. Budget Management – position at 31st March 2012

	Budget £000	Actual £000	Variance £000
Contributions & Benefit related expenditure			
Income			
Employee Contributions	9,900	9,370	530
Employer Contributions	35,500	34,625	875
Transfer Values in	5,200	9,168	(3,968)
Total Income	50,600	53,163	(2,563)
Expenditure			
Pensions & Benefits	(45,300)	(42,226)	(3,074)
Transfer Values paid	(4,000)	(4,221)	221
Administrative Expenses	(750)	(701)	(49)
Total Expenditure	(50,050)	(47,148)	(2,902)
Net of contributions & benefits	550	6,015	(5,465)
Returns on investment			
Net Investment Income	11,600	12,099	(499)
Investment Management Expenses	(3,000)	(3,276)	276
Net Return on investment	8,600	8,823	(223)
Total	9,150	14,838	(5,688)

- The underspend of £5.6m in the year is due to two main factors – transfers in being higher than anticipated and pension benefits being lower than anticipated.
- Transfers in are always unpredictable, but most of this year's underspend is due to a bulk transfer value of £2.97m being received from London Borough of Enfield Pension Fund in March 2012 relating to the transfer of staff from Enfield College to CHENEL. This was received following long periods of negotiations between actuaries to achieve agreement to a settlement acceptable to all.
- The budget for pensions & benefits underspent in the year due to lump sums not being as much as anticipated. The value of lump sums being paid dropped significantly during the second half of the year



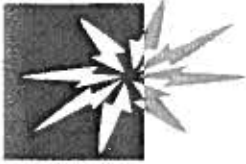
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18. Late Payment of Contributions

18.1 The table below shows the employers who paid contributions relating to October 2011 to March 2012 late.

	Occasions late	Average Number of days late	Average monthly contributions
TLC	6	4	£5,700
Mulberry School	3	12	£13,600
John Loughborough	2	2	£5,500

18.2 Discussions are on-going with these employers to ensure their contributions are received on time.



Appendix 1 – Benchmark and Target information

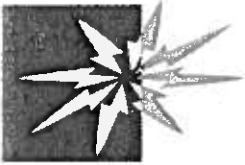
Whole Fund Benchmark

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



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(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