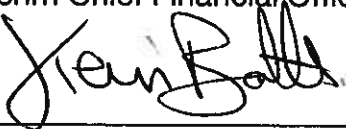


Haringey Council

Report for:	Corporate Committee 15 th May 2012	Item number	
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Title:	Pension Fund: Investment Strategy Update
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Report authorised by :	Interim Chief Financial Officer 
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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 This report summarises the stages of the investment strategy review, provides an update on the implementation process and sets out a draft revised Statement of Investment Principles for approval.

2. Cabinet Member Introduction

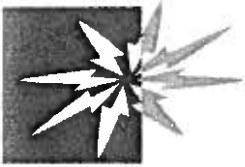
- 2.1 Not applicable.

3. Recommendations

- 3.1 That the draft revised Statement of Investment Principles set out in Appendix 2 is approved.
- 3.2 That the second stage of the investment strategy review considering non equity and bond asset classes is commenced with detailed work being carried out by the Working Group before recommendations are presented to the full Committee.

4. Other options considered

- 4.1 None.



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5. Background information

- 5.1 A review of the Pension Fund's investment strategy took place in response to concerns about the poor performance compared to target of the existing strategy.
- 5.2 A working group of members of the Pensions Committee and later the Corporate Committee met regularly throughout the process to enable detailed discussions to take place.
- 5.3 A summary of the key decisions taken has been requested to ensure all Committee members have a clear understanding of the new strategy.

6. Comments of the Chief Financial Officer and financial implications

- 6.1 The majority of the transition of the equity and bond assets to the new investment strategy will have taken place by the time the Committee meets and so an update on the process and the costs will be tabled at the meeting. The cost of the transition needs to be viewed in the context of the on-going saving in investment management fees of £1m per annum and the removal of the risk of underperformance, which in the last 12 months alone has cost the Fund approximately £1.1m.

7. Head of Legal Services and Legal Implications

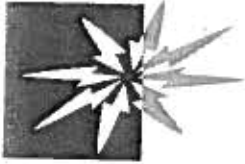
- 7.1 This review is in line with the Council's statutory obligations as administering authority for the Haringey Pension Fund. The funds must be invested in accordance with the Council's investment policy;
- 7.2 In considering this report members of the Committee should keep this responsibility in mind and have regard to advice given to them.

8. Equalities and Community Cohesion Comments

- 8.1 Not applicable.

9. Head of Procurement Comments

- 9.1 Not applicable.



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10. Policy Implications

10.1 None.

11. Use of Appendices

11.1 Appendix 1: Aon Hewitt – Summary of Transition (Exempt item)

11.2 Appendix 2: Draft Revised Statement of Investment Principles

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

13. Key Decisions taken in setting new investment strategy

13.1 Asset Classes

In the light of the funding position of the Pension Fund, and the actuary's advice that employer contributions can be kept reasonably stable, it was decided that the focus should be on generating returns from the Fund's investments. It was accepted that short term volatility in returns would be a consequence of this.

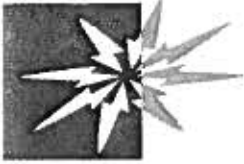
The actuary has assumed an investment return of 6.1% in setting employer contributions and so Pensions Committee decided to target a return above this – in the region of 7-8%. Following examination of the results of the modelling of various possible portfolios provided by Aon Hewitt, it was determined that an allocation of 70% to equities would be most appropriate.

To reduce the volatility across the portfolio as a whole to some extent, it was decided to allocate 15% of the Fund to bonds. It was decided to invest this allocation in index linked bonds in the medium term as a protection against inflation at a time when bond yields generally are low.

The Fund already had commitments to private equity and property investments and given the illiquid nature of these investments, it was decided to leave these allocations untouched and return to reviewing alternative classes of investments once the equity and bond positions were in place.

13.2 UK vs Global

In the UK equity market, ten companies make up approximately 40% of the market as measured by the FTSE All Share Index, leading to the potential for significant company specific risk. As a



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result the Pensions Committee decided to reduce the exposure to the UK equity market and increase the exposure to the other regions of the world.

Increasing the Fund's exposure to global markets will result in an increased exposure to foreign currencies. However in the long term, changes in exchange rates take account of differing economic growth and other factors, so that exposure to faster growing economies can be beneficially reflected over time through overseas currency exposure. Given the Pensions Committee's view that long term return is of prime importance, it was decided that the global equity portfolio should remain unhedged.

13.3 Active vs Passive Management

The Pensions Committee and working group spent a significant amount of time debating the merits of active management of investment assets over passive management, particularly in the light of poor performance of the Fund's active managers. Although it was accepted that there are some fund managers who can achieve better than market performance by investing on an active basis, it was determined that the only way this could be captured by the Fund would be by selecting the right managers at exactly the right times. Given the time it takes to make and implement decisions in a local authority, due to governance and procurement rules, it was decided that it would be very unlikely to be able to achieve target performance on an on-going basis with fund managers investing on an active basis. Given that market performance is guaranteed from passive management at a much lower cost than active management, it was decided to invest all equities and bonds on a passive basis.

13.4 Resulting investment strategy

As a result of those decisions, the strategy overleaf was agreed – the original one is shown for comparison.



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Asset Class	Original %s	New %s
UK Equities		
Active	10.5	0
Passive	20.0	17.5
Overseas Equities		
Active	26.5	0
Passive	8.0	52.5
UK Gilts		
Active	7.0	0
Passive	0	0
Index Linked Gilts		
Active	6.0	0
Passive	0	15.0
Corporate Bonds		
Active	7.0	0
Passive	0	0
Property	10.0	10.0
Private Equity	5.0	5.0
Total	100.0	100.0

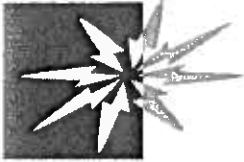
13.5 Fund Managers

A procurement exercise was carried out to appoint two fund managers to manage the equities and bonds on a passive basis, as two of the three existing fund managers only offer active management. The result of this exercise was the decision to re-appoint Legal & General Investment Management and to appoint BlackRock Investment Management.

The final decision made by Committee was the split of assets between the two fund managers. It was agreed to do this in such a way as to minimise fees, while also ensuring both managers manage some of each asset class to make it easier and cheaper to make movements in the future.

14. Transition of assets

14.1 At the January 2012 meeting of Corporate Committee, it was decided to move the assets in their current asset classes at this stage, and then to gradually move to the new strategic benchmark at suitable point or points in the future, taking advice from Aon Hewitt on the precise timing of any further moves.



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14.2 The report attached at Appendix 1 from Aon Hewitt outlines the process being undertaken to move the Fund's investments to the new fund managers. A further update to this report will be tabled at the meeting on 15th May 2012.

15. Statement of Investment Principles

15.1 The Local Government Pension Scheme (Management & Investment of Funds) Regulations require the Pension Fund to prepare and keep under review a Statement of Investment Principles. This is a document which sets out the Fund's approach to investing and related matters.

15.2 In the light of the changes which have taken place, this document needs to be revised to reflect the new arrangements. A draft revised version is attached at Appendix 2 for the Committee to consider and approve.

16. Next Steps

16.1 The Committee agreed at the meeting on 23rd January 2012 to adopt an active rebalancing policy using on-going advice from Aon Hewitt on a quarterly basis. Incorporated in this approach to asset rebalancing is the intention to move the assets to the agreed investment strategy in a measured way.

16.2 At the early stages of the investment strategy review, it was agreed to focus on the equity and bond elements of the portfolio initially and to return to alternative classes of assets at a future point once the work to move the equities and bonds was complete. It is proposed that this second stage of work now commences with the initial detailed work being carried out by the Working Group. Recommendations from the Working Group would then be presented to the full Committee for consideration.



Statement of Investment Principles

1 Introduction

This Statement of Investment Principles document sets out the principles governing the Haringey Council Pension Fund's decisions about the investment of Pension Fund money. It is prepared in accordance with Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

2 Governance and decision making

Haringey Council is the Administering Authority for the Local Government Pension Scheme in the London Borough of Haringey area and as such is responsible for the investment of Pension Fund money. The Council has delegated this responsibility to the Corporate Committee.

The Committee is responsible for setting the investment strategy for the Pension Fund, appointing fund managers to implement it and monitoring the performance of the strategy. The Committee retains an independent adviser and the services of an investment consultancy company, in addition to the advice it receives from the Director of Corporate Resources and their staff.

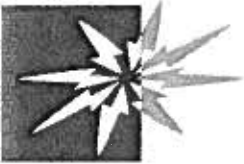
Further information on the governance of the Pension Fund can be found in the Governance Compliance Statement on the website www.haringey.gov.uk/pensionfund

Stock level decisions are taken by the investment managers appointed by the Committee to implement the agreed investment strategy. These decisions are taken within the parameters set out for each manager – more detail is provided in section 6 below.

3 Objectives of the Pension Fund

The primary objective of the Pension Fund is:

- To provide for members' pension and lump sums benefits on their retirement or for their dependants benefits on death before or after retirement on a defined benefits basis.



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The investment objective of the Pension Fund is:

- To achieve a return on Fund assets, which is sufficient, over the long term, to meet the funding objectives.

The Pension Fund recognises that the investment performance of the Fund is critical as it impacts directly on the level of employer's contributions that the employers are required to pay.

The key funding objectives that relate to investment strategy are summarised below and more detail about them and how they will be achieved can be found in the Pension Fund's Funding Strategy Statement on the website www.haringey.gov.uk/pensionfund

- To ensure the long-term solvency of the Fund;
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment; and
- Not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk.

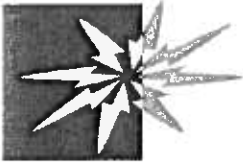
This Statement of Investment Principles describes how the Haringey Council Pension Fund seeks to meet its objectives.

4 Investment Parameters

The investment strategy of the Pension Fund must operate within the parameters set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the regulations"). The regulations state that the Pension Fund must invest any monies not needed immediately to make payments.

The regulations also state that the Pension Fund must have regard to the suitability and range of investments used and take proper advice in determining its investment strategy. These issues are covered in more detail in sections 5-7 below.

The limits within which the Pension Fund operates are shown overleaf. All the limits are the lowest set by Schedule 1 to the regulations with the exception of the single insurance contract limit. The Committee has exercised its right to increase its limit for a single insurance contract limit within the range set by the regulations. This was done, after taking proper advice, in order to maximise the diversification and performance of the Fund's assets while minimising the costs to the Pension Fund.

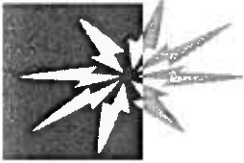


Type of Investment	Limit
Any single sub-underwriting contract	1%
All contributions to any single partnership	2%
All contributions to partnerships	5%
The sum of all loans (except a Government loan) and all deposits with local authorities	10%
All investments in unlisted securities of companies	10%
Any single holding (except unit trusts & UK gilts)	10%
All deposits with any single institution	10%
All sub-underwriting contracts	15%
All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body	25%
All investments in open ended investment companies where the collective investment schemes constituted by the companies are managed by one body	25%
All investments in unit or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes are constituted by those companies are managed by any one body.	25%
Any single insurance contract	35%*

* This limit is at the higher limit of the range (25-35%) laid down in the regulations.

5 Types of investments

The Committee has determined an overall asset allocation for the Pension Fund to meet the objectives within the parameters set out in section 4 above and to comply with the regulations. The Committee have considered the suitability of different investments and the need to diversify the investments to reduce risk. The Fund's revised strategic benchmark is shown in the table overleaf.



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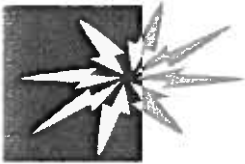
Asset class	Benchmark %	
UK Equities		17.5
Overseas Equities		52.5
North America	25.3	
Europe ex UK	8.6	
Pacific ex Japan	4.0	
Japan	4.1	
Emerging Markets	10.5	
UK Index linked gilts		15.0
Property		10.0
Private Equity		5.0
Cash		0.0

The Committee has decided to invest the majority of the Pension Fund investments in passively managed equity and bond funds to remove the risk of underperformance and ensure benchmark performance at a low cost.

Due to the size of the portfolios allocated to the investment managers, the investments are generally held in pooled funds, which are more cost effective for the Fund.

The majority of the investment types the Committee have decided to invest in are quickly realisable if required, as they are quoted on major markets. The only exceptions to this are property and private equity, which are long term less liquid investments not designed to be realised early. At the present time the Pension Fund has sufficient regular cash receipts to cover benefit payments and does not need to realise investments quickly.

The asset allocation and associated benchmark is expected to produce a return in excess of the investment return assumed in the actuarial valuation over the long term.



6 Investment Management arrangements

The Committee has appointed a number of external investment managers to implement its investment strategy. The current investment managers and the percentage of the Pension Fund they currently manage is shown in the table below:

Investment Manager	Mandate	%
BlackRock Investment Management	Global Equities & Bonds	55.7
Legal & General Investment Management	Global Equities & Bonds	29.3
CBRE Global Investors	Property	10
Pantheon	Private Equity	5

A range of investment managers have been appointed to diversify the Pension Fund and so reduce the risk of poor performance.

The equity and bond investment managers are expected to perform in line with their benchmarks, as they are investing on behalf of the Fund on a passive basis. The detail of their benchmarks is set out in Annex B. The property and private equity investment managers are expected to meet the targets set above the benchmarks detailed in Annex A over the long term.

The investment managers' performance is assessed on a quarterly basis, with independent performance data provided by the Pension Fund's global custodian Northern Trust. The Director of Corporate Resources and/or their representative meet with the bond and equity investment managers on a quarterly basis to discuss performance. Meetings are held with the property and private equity investment managers on a semi-annual basis, reflecting the longer term nature of these investments.

The investment managers are paid fees relating to the value of the funds they are managing on the Pension Fund's behalf, or in the case of private equity on the amount committed.

There will always be a balance of cash used to manage benefit payments invested in-house and there may be occasions when the Committee decide to invest in cash on a short term basis. These



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investments will be placed in line with the Treasury Management Strategy Statement in place at the time.

7 Advice

The regulations set out the requirement for the Pension Fund to obtain proper advice at reasonable intervals. The Committee has three sources of advice independent of the investment managers used by the Pension Fund:

- Director of Corporate Resources and their staff
- Investment Consultant – currently the Pension Fund use Aon Hewitt
- Independent Adviser

The Director of Corporate Resources (or their representative) attend all Committee meetings to support the Committee to scrutinise both the performance of the investment managers and the investment consultant. The Investment Consultant and Independent Adviser attend Committee meetings as required.

8 Risk

The Pension Fund's investment strategy has an inherent degree of risk which has to be taken in order to achieve the rate of return required. The Pension Fund has put in place a number of controls in order to minimise the level of risk taken.

The benchmark the Committee has set involves a wide range of asset classes and geographical areas. This diversification reduces the risk of low returns. As the majority of the Fund is invested on a passive basis, risk of underperforming the benchmark has been significantly reduced.

Appointing a range of investment managers ensures that the risk of underperformance is reduced through diversification.

9 Responsible ownership

The Committee has agreed a responsible investment policy, which can be found on the website www.haringey.gov.uk/pensionfund



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The Pension Fund believes the adoption by companies of positive Environmental, Social and Governance principles can enhance their long term performance and increase their financial returns. The Pension Fund has demonstrated this by adopting the United Nations Principles for Responsible Investment and by being a member of the Local Authority Pension Fund Forum, which undertakes engagement activity with companies on behalf of its members.

The investment managers are expected to consider responsible investment issues when voting on behalf of the Pension Fund. However in instances where shareholder value and responsible investment conflict, the investment managers are instructed to vote for shareholder value and report these instances to the Committee. All investment managers are expected to vote in respect of all pooled funds.

10 Compliance with Myners Principles

The regulations require Local Government Pension Funds to state in their Statement of Investment Principles the extent to which the Fund's investment policy complies with published guidance on the Myners Principles. The Myners principles are a set of principles on investment decision making for occupational pension schemes. The Pension Fund complies with all of these principles. The detail of the principles is set out in Annex D.

11 Additional Voluntary Contributions (AVCs)

The Pension Fund is required to provide scheme members with the opportunity to invest additional voluntary contributions. These are invested separately from the Pension Fund's other assets and the scheme members take the investment risk.

AVCs are invested with Prudential Assurance, Clerical & Medical and Equitable Life. Scheme members can choose which company to invest with (except Equitable Life, which is not open to new members) and select from a range of policies to suit their appetite for risk.

12 Other issues

Custody – The Pension Fund's assets are held by an independent global custodian, Northern Trust. The performance and fees for their contract are reviewed regularly.

Stock Lending – The Pension Fund does not undertake any stock lending activities.



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Review process – This document is reviewed by the Committee on annual basis and whenever any major change to the investment strategy is undertaken to ensure it remains up to date.

Publication – This document is published on the Haringey Council Pension Fund website www.haringey.gov.uk/pensionfund and forms part of the Pension Fund Annual Report.

Annexes

- A Investment managers and mandates
- B Global Equity & Bond benchmarks
- C Compliance with Myners principles



Annex A: Investment Managers and mandates

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
BlackRock Investment Management	55.7%	Global Equities & Bonds	See below	Index (passively managed)
Legal & General Investment Management	29.3%	Global Equities & Bonds	See below	Index (passively managed)
CBRE Global Investors	10%	Property	IPD UK Pooled Property Funds All Balanced Index	+1% gross of fees p.a. over a rolling 5 yr period
Pantheon Private Equity	5%	Private Equity	MSCI World Index plus 5%	+ 0.75% gross of fees p.a.
Total	100%			



Annex B: Global Equity & Bond Benchmarks

Asset Class	Benchmark	BlackRock Investment Management	Legal & General Investment Management	Total
UK Equities	FTSE All Share	14.9%	2.6%	17.5%
Overseas Equities				
North America	FT World Developed North America GBP Unhedged	28.8%	23.7%	52.5%
Europe ex UK	FT World Developed Europe X UK GBP Unhedged	21.5%	3.8%	25.3%
Pacific ex Japan	FT World Developed Pacific X Japan GBP Unhedged	4.3%	4.3%	8.6%
Japan	FT World Developed Japan GBP Unhedged	2.0%	2.0%	4.0%
Emerging Markets	FT World Global Emerging Markets GBP Unhedged	1.0%	3.1%	4.1%
Index Linked Gilts	FTA Index Linked Over 5 Years Index	0.0%	10.5%	10.5%
		12.0%	3.0%	15.0%
		55.7%	29.3%	85.0%



Annex C: Compliance with Myners Principles

1. Effective Decision Making

Administering authorities should ensure that:

- *decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation;*
- *and*
- *those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.*

Haringey position

Haringey offers regular training to all members of the Committee to ensure they have the necessary knowledge to make decisions and challenge the advice they receive.

2. Clear Objectives

An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.

Haringey position

The Pension Fund sets out an investment objective in section 2 of this Statement of Investment Principles, which reflects the current deficit position of the Pension Fund and the desire to return to full funding with a minimum impact on the local tax payer. The Statement of Investment Principles is provided to all the Pension Fund's advisers and investment managers whenever it is updated.



3. Risk and Liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Haringey position

The Committee's investment strategy was set following the results of the last formal valuation of the Pension Fund, which incorporated these issues.

4. Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.

Haringey position

The Committee reviews the performance of Pension Fund investments on a quarterly basis and meets with investment managers at least once a year. Contracts with advisers are reviewed regularly. The Committee undertakes an assessment of their own effectiveness on a regular basis.



<p>5. Responsible ownership</p> <p><i>Administering authorities should:</i></p> <ul style="list-style-type: none">• <i>adopt or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents</i>• <i>include a statement of their policy on responsible ownership in the statement of investment principles</i>• <i>report periodically to scheme members on the discharge of such responsibilities.</i> <p><u>Haringey position</u></p> <p>The Pension Fund's fund managers have adopted or are committed to the Institutional Shareholders' Committee Statement of Principles.</p> <p>The Pension Fund includes a statement of their policy on responsible ownership in section 9 of this Statement of Investment Principles. This is monitored on a quarterly basis through the Committee and reported to scheme members through the annual report to scheme members.</p>
<p>6. Transparency and reporting</p> <p><i>Administering authorities should:</i></p> <ul style="list-style-type: none">• <i>act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives</i>• <i>provide regular communication to scheme members in the form they consider most appropriate.</i> <p><u>Haringey position</u></p> <p>The Pension Fund communicates with its stakeholders through the publication of policy statements and an Annual Report on its website. The Pension Fund communicates regularly with its scheme members and the communication policy statement provides information about how this is done.</p>

