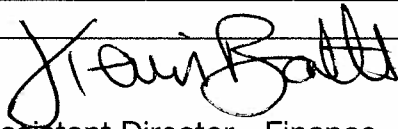


Haringey Council

Report for:	Corporate Committee 27 th September 2012	Item number	
Title:	Pension Fund quarterly update		
Report authorised by :	 Assistant Director - Finance		
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 three months to 30th June 2012:

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

2. Cabinet Member Introduction

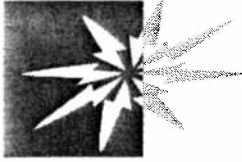
2.1 Not applicable.

3. Recommendations

3.1 That the information provided in respect of the activity in the three months to 30th June 2012 is noted.

4. Other options considered

4.1 None.



5. Background information

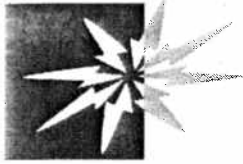
- 5.1 This report is produced on a quarterly basis to update the Committee on a number of Pension Fund issues. The Local Government Pension Scheme Regulations require the Committee to review investment performance on a quarterly basis and sections 13 and 14 provide the information for this. Appendix 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 its predecessor body have requested they receive regular updates on.

6. Comments of the Chief Financial Officer and Financial Implications

- 6.1 During the quarter the fund moved from active management of equities and bonds to passive management. The mandates of Capital and Fidelity were terminated and the assets moved to Legal & General and BlackRock. This amount of movement makes it difficult to draw any conclusions from most of this quarter's data. However, CBRE's performance in the quarter was above target following many quarters of below benchmark performance. The performance of the UK holdings was sufficient to outweigh the continued drag on performance from the European holdings.

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.



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: Investment Managers' mandates, benchmarks and targets

12. Local Government (Access to Information) Act 1985

12.1 Not applicable



13. Investment Update

13.1 Fund Holdings at 30th June 2012

	BlackRock £000s	Legal & General £000s	CBRE £000s	Pantheon £000s	In-house £000s	Total £000s	% of Fund	Bench Mark %	Variance %
UK Equities	167,655	28,605				196,260	26.7	17.5	9.2
North America Equities	94,430	16,072				110,502	15.0	25.3	(10.3)
European Equities	39,170	37,547				76,717	10.4	8.6	1.8
Japanese Equities	10,977	30,259				41,236	5.6	4.1	1.5
Pacific ex Japan Equities	13,049	12,512				25,561	3.5	4.0	(0.5)
Emerging Markets Equities	0	27,194				27,194	3.7	10.5	(6.8)
Index linked Gilts	92,628	22,508				115,136	15.6	15.0	0.6
Corporate Bonds	0	27,307				27,307	3.7	0.0	3.7
Property - CBRE			51,155			51,155	7.0	10.0	(3.0)
Private Equity - Pantheon				30,970		30,970	4.2	5.0	(0.8)
Cash			2,118	28	30,925	33,904*	4.6	0.0	4.6
TOTAL	417,909	202,004	53,273	30,998	30,925	735,942	100.0	100.0	0.0

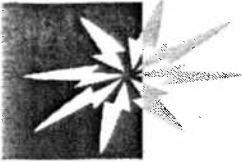
* includes residual cash from previous fund manager portfolios



13.2 Following the decision at the Corporate Committee meeting on 28th June, £25m of the in-house cash was allocated to overseas equities. The fund holdings on 31st August 2012 were:

	BlackRock £000s	Legal & General £000s	CBRE £000s	Pantheon £000s	In-house £000s	Total £000s	% of Fund	Bench Mark %	Variance %
UK Equities	173,745	30,331				204,076	27.1	17.5	9.6
North America Equities	111,868	16,665				128,533	17.1	25.3	(8.2)
European Equities	40,547	40,101				80,648	10.7	8.6	2.1
Japanese Equities	10,705	30,065				40,770	5.4	4.1	1.3
Pacific ex Japan Equities	13,628	13,444				27,072	3.6	4.0	(0.4)
Emerging Markets Equities	0	38,689				38,689	5.1	10.5	(5.4)
Index linked Gilts	93,391	22,152				115,543	15.4	15.0	0.4
Corporate Bonds		28,138				28,138	3.7	0.0	3.7
Property - CBRE			51,379			51,379	6.8	10.0	(3.2)
Private Equity - Pantheon				30,561		30,561	4.1	5.0	(0.9)
Cash			2,516	29	4,015	7,370*	1.0	0.0	1.0
TOTAL	443,884	219,585	53,895	30,590	4,015	752,779	100.0	100.0	0.0

* includes residual cash from previous fund manager portfolios



14. Investment Performance Update: to 30th June 2012

Appendix 1 provides details of the benchmarks and targets the fund managers have been set. The tables below show the performance in the quarter April to June 2012.

14.1 Whole Fund

	Return	Benchmark	Target	(Under)/Out
Apr - Jun 2012	-1.97%	-2.12%	-2.09%	0.12%
One Year	0.13%	0.41%	1.67%	(1.54%)
Three Years	11.95%	12.79%	14.30%	(2.35%)
Five Years	1.45%	3.14%	4.70%	(3.25%)

- Total Value at 30/06/12: £735.9m
- During this quarter the assets invested with the active equity and bond managers were transferred to the passive managers. Therefore the performance statistics are made up of active fund management up until mid May and passive thereafter.

14.2 BlackRock Investment Management

	Return	Benchmark	Variance
June 2012	2.57%	2.23%	0.34%

- Total Value at 30/06/12: £417.9m
- This information only covers the month of June 2012. A variance will continue to be seen with the passive managers because the portfolios were transferred over in their existing allocations instead of at benchmark weights. Therefore the variance shows the out performance resulting from asset allocation being different to the benchmark.
- Earlier in September it was announced by the FSA that BlackRock had agreed a settlement with them concerning errors in operational procedures which arose following their merger with Merrill Lynch in 2006. The error had been discovered and reported to the FSA by BlackRock themselves. Officers have consulted with the Fund's Investment advisers who have discussed the matter with BlackRock and are satisfied that revised procedures are now in place, so they do not believe any action is required.



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14.3 Legal & General Investment Management

	Return	Benchmark	Variance
June 2012	2.71%	2.70%	0.01%

- Total Value at 30/06/12: £202.0m
- This information only covers the month of June 2012. As above the variance shows the out performance resulting from asset allocation being different to the benchmark.

14.4 CBRE Global Investors

	Return	Benchmark	Target	(Under)/Out
Apr - Jun 2012	0.79%	0.30%	0.55%	0.24%
One Year	-0.29%	4.16%	5.16%	(5.45%)
Three Years	8.04%	10.12%	11.12%	(3.08%)
Five Years	-5.41%	-3.90%	-2.90%	(2.51%)

- Total Value at 30/06/12: £53.3m
- CBRE performance was above target in the quarter with strong performance in the UK more than making up for continued poor performance in the European holdings.

14.5 Pantheon

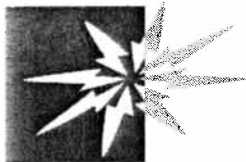
	Return	Distributions in period	Drawdowns in period	% drawdown
Apr - Jun 2012	3.33%	£0.30m	£1.00m	
One Year	6.14%	£1.49m	£4.65m	
Since inception	2.69%	£1.49m	£27.22m	57.3%

- Total Value at 30/06/12: £31.0m
- A further £1m was drawdown in the quarter and there was one distribution of £0.3m. 57.3% of the commitments made in 2007 have now been drawdown.

14.6 In house cash

	Value	Average Credit Rating	Average Maturity (days)	Return
At 30/06/12	£30.93m	AAA	4	0.42%
At 31/03/12	£33.09m	AAA	8	0.42%
At 31/12/11	£28.54m	AAA	1	0.58%
At 30/09/11	£29.30m	AA	6	0.72%

- The cash was invested in money market funds and with the government guaranteed Debt Management Office during the quarter. After the quarter



end £25m was distributed to BlackRock and Legal & General, so the cash balance has significantly reduced, as can be seen in the table in section 13.1.

14.7 Previous investment management mandates

The information below shows the final performance data for the fund management mandates which have now been terminated. The final month's performance plus their performance over the whole of the period of the Pension Fund's mandate with them is shown in the tables below.

Capital International

Equities	Return	Benchmark	Target	(Under)/Out
April 2012	-2.12%	-2.74%	-2.24%	0.12%
Since inception	2.10%	2.86%	4.86%	(2.76%)

Fixed Income	Return	Benchmark	Target	(Under)/Out
April 2012	-0.35%	-0.39%	-0.14%	(0.21%)
Since inception	7.89%	8.42%	9.42%	(1.53%)

Fidelity

Equities	Return	Benchmark	Target	(Under)/Out
April 2012	-1.67%	-2.73%	-2.30%	0.63%
Since inception	3.01%	2.81%	4.51%	(1.50%)

Fixed Income	Return	Benchmark	Target	(Under)/Out
April 2012	0.00%	-0.28%	-0.13%	0.13%
Since inception	9.35%	8.16%	8.76%	0.59%

Legal & General

UK equities	Return	Benchmark	Variance
April 2012	-0.32%	-0.33%	0.01%
Since inception	14.86%	14.72%	0.14%

World equities	Return	Benchmark	Variance
April 2012	-2.74%	-2.73%	-0.01%
Since inception	14.23%	14.28%	-0.05%



15. Responsible Investment Activity in the three months ended 30th June 2012

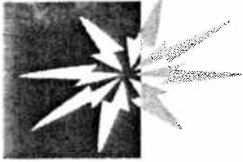
BlackRock	Legal & General	LAPFF
<p>15.1 Environmental Issues</p> <p>BlackRock met with representatives of the Canadian subsidiary of Total and conducted site visits of their oil sands operations in Canada. The purpose of this was to get a better understanding of the environmental and social impact of the drilling operations in this area. In addition to meeting various company representatives, they also met the local mayor and the Aboriginal community.</p>	<p>Legal & General met with Drax to discuss how they move from predominantly coal operations to biomass. The challenges they are facing in trying to do this were discussed along with the lobbying they are undertaking with government to make the transition easier. They also discussed the need for the company to obtain a sustainable source of biomass.</p>	<p>The LAPFF is supporting the Forest Footprint Disclosure Initiative which campaigns to encourage companies to disclose their exposure to key industries related to global deforestation, such as soy, palm oil and timber. The aim is to persuade companies to minimise their contribution to deforestation due to the established link to climate change. The LAPFF is working with other large investors to engage with companies such as McDonalds and Wal-Mart over this issue.</p>



BlackRock	Legal & General	LAPFF
<p>15.2 Governance / Remuneration Issues</p> <p>BlackRock have held a series of meetings with Johnson & Johnson on executive compensation. This culminated in a meeting with the Chair of the Compensation Committee. For two consecutive years, the company have received very low support for the advisory report on executive compensation. This includes votes against from BlackRock. BlackRock have been discussing with the company the key reason for this, which is the disconnect between performance and pay.</p>	<p>Legal & General continued their regular engagement with Barclays during the quarter focusing on the disconnect between remuneration and long term performance. They voted against the remuneration report at the AGM and against the re-election of the Chairman of the Remuneration Committee.</p>	<p>The LAPFF identified JP Morgan to be part of its global focus list for engagement at the beginning of 2012. This was due to concerns about remuneration at the company and the combined roles of CEO and Chairman. At the AGM 40% of shareholders voted against the continuation of the combined roles. Engagement with the company will continue.</p>



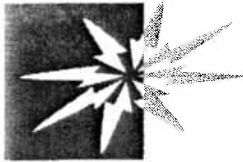
BlackRock	Legal & General	LAPFF
<p>15.3 Other Engagement activity</p> <p>BlackRock have been engaging with Wal-Mart following bribery allegations at its Mexican subsidiary. The allegations that it breached the Foreign Corrupt Practices Act are being investigated by the US Department Justice, as well as the SEC (the US equivalent of the FSA). BlackRock have opposed the re-election of directors as a result and are continuing to monitor the situation as the investigations continue.</p>	<p>Following a massive drop in the share price of Lamprell plc as a result of a profits warning in May, Legal & General met with the company to discuss the issue. In particular the discussion focused on the lack of transparency and how to improve information for shareholders in the future.</p>	<p>In June the LAPFF met with Diageo to discuss its approach to sustainable supply chains, as the company's products rely heavily on raw materials such as malting barley, sugar cane and grapes. The LAPFF were pleased to hear about a four stage screening and auditing process Diageo employ to ensure that their suppliers comply with global labour and environmental standards. They also discovered that one of the key sustainability risks the company faces relates to water, which is the major ingredient in the drinks products they produce. The forum representatives encouraged the company to continue to strive to meet their water efficiency targets.</p>



16. Budget Management – position at 30th June 2012

	Budget £000	Actual £000	Variance £000
Contributions & Benefit related expenditure			
Income			
Employee Contributions	(2,200)	(2,224)	(24)
Employer Contributions	(7,600)	(7,435)	165
Transfer Values in	(1,500)	(295)	1,205
Total Income	(11,300)	(9,954)	1,346
Expenditure			
Pensions & Benefits	10,600	10,270	(330)
Transfer Values paid	1,500	749	(751)
Administrative Expenses	175	199	24
Total Expenditure	12,275	11,218	(1,057)
Net of contributions & benefits	975	1,264	289
Returns on investment			
Net Investment Income	(3,000)	(1,725)	1,275
Investment Management Expenses	625	239	(386)
Net Return on investment	(2,375)	(1,486)	889
Total	(1,400)	(222)	1,178

- The overspend in the first quarter is due to two issues. Firstly transfer values in, which are by their nature volatile and unpredictable. The second reason is investment income. The budget has been set on the basis of the amount of the investment income received in the last couple of years, however so far this year income has fallen below this level.



17. Late Payment of Contributions

17.1 The table below shows the employers who paid contributions relating to April to June 2012 late.

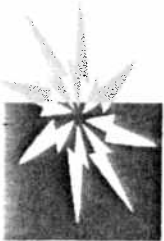
	Occasions late	Average Number of days late	Average monthly contributions
TLC	2	5	£5,700
Mulberry School	2	May: 9 days June: still o/s	£14,400
Churchill	3	Apr: 5 days May & June: still o/s	£900

17.2 Discussions are on-going with TLC to ensure their contributions are received on time. Mulberry School have had staff changes and sickness which have contributed to the issues. Churchill will be charged a penalty under the Pensions Administration Strategy for late payment because no information or monies have been received despite repeated chasing.



Appendix 1 – Investment Managers mandates, benchmarks and targets

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
BlackRock Investment Management	55.7%	Global Equities & Bonds	See overleaf	Index (passively managed)
Legal & General Investment Management	29.3%	Global Equities & Bonds	See overleaf	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%			



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	FT World Global Emerging Markets GBP Unhedged	0.0%	10.5%	10.5%
	FTA Index Linked Over 5 Years Index	12.0%	3.0%	15.0%
		55.7%	29.3%	85.0%

