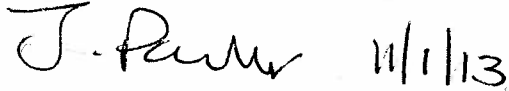


Report for:	Corporate Committee 22 <sup>nd</sup> January 2013	Item number	
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Title:	Pension Fund quarterly update
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Report authorised by :	 Director of Corporate Resources
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Lead Officer:	Nicola Webb, Head of Finance – Treasury & Pensions <a href="mailto:nicola.webb@haringey.gov.uk">nicola.webb@haringey.gov.uk</a> 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 three months to 30<sup>th</sup> September 2012:

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

**2. Cabinet Member Introduction**

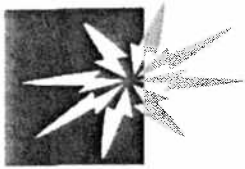
2.1 Not applicable.

**3. Recommendations**

3.1 That the information provided in respect of the activity in the three months to 30<sup>th</sup> September 2012 is noted.

**4. Other options considered**

4.1 None.



## **5. Background information**

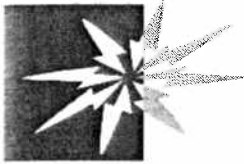
- 5.1 This report is produced on a quarterly basis to update the Committee on a number of Pension Fund issues. The Local Government Pension Scheme Regulations require the Committee to review investment performance on a quarterly basis and sections 13 and 14 provide the information for this. Appendix 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.
- 5.3 Following the request at the Committee's meeting in September, information on communication with stakeholders has been provided by officers in Human Resources and included in section 18.

## **6. Comments of the Chief Financial Officer and Financial Implications**

- 6.1 This is the first quarter reported to the Committee with the passive managers in place throughout. It can be seen from the performance figures in section 14 that the short term variances from target have reduced significantly as a result. The longer term figures will continue to reflect the underperformance of the previous active managers. The CBRE property portfolio outperformed the target for the second quarter in a row.

## **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 managers;
- 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 and 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**

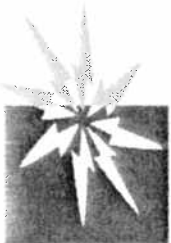
10.1 None.

**11. Use of Appendices**

11.1 Appendix 1: Investment Managers' mandates, benchmarks and targets

**12. Local Government (Access to Information) Act 1985**

12.1 Not applicable

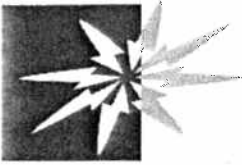


### 13. Investment Update

#### 13.1 Fund Holdings at 30<sup>th</sup> September 2012

	BlackRock £000s	Legal & General £000s	CBRE £000s	Pantheon £000s	In-house £000s	Total £000s	% of Fund	Bench Mark %	Variance %
UK Equities	175,605	29,954	0	0	0	205,559	27.3	17.5	9.8
North America Equities	113,040	16,642	0	0	0	129,682	17.2	25.3	(8.1)
European Equities	41,763	40,015	0	0	0	81,778	10.9	8.6	2.3
Japanese Equities	10,583	29,198	0	0	0	39,781	5.3	4.1	1.2
Pacific ex Japan Equities	14,025	13,443	0	0	0	27,468	3.6	4.0	(0.4)
Emerging Markets Equities	0	38,966	0	0	0	38,966	5.2	10.5	(5.3)
Index linked Gilts	89,752	21,786	0	0	0	111,538	14.8	15.0	(0.2)
Corporate Bonds	0	28,608	0	0	0	28,608	3.8	0.0	3.8
Property	0	0	51,178	0	0	51,178	6.8	10.0	(3.2)
Private Equity	0	0	0	30,818	0	30,818	4.1	5.0	(0.9)
Cash	0	0	2,552	0	3,755	7,251*	1.0	0.0	1.0
<b>TOTAL</b>	<b>444,768</b>	<b>218,612</b>	<b>53,730</b>	<b>30,818</b>	<b>3,755</b>	<b>752,627</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

\* includes residual cash from previous fund manager portfolios, which is held at Northern Trust to fund Pantheon drawdowns



## 14. Investment Performance Update: to 30<sup>th</sup> September 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 July to September 2012.

### 14.1 Whole Fund

	Return	Benchmark	Target	(Under)/Out
Jul - Sep 2012	2.59%	2.73%	2.76%	(0.17%)
One Year	13.00%	12.93%	13.82%	(0.82%)
Three Years	7.46%	8.05%	9.44%	(1.98%)
Five Years	1.84%	3.48%	4.97%	(3.13%)

- Total Value at 30/09/12: £752.6m
- The fund performed slightly below target due to underperformance by Pantheon. Pantheon is benchmarked against the MSCI World index and during the quarter there was a small downward movement in the value of the holdings measured against a 5.03% increase in the MSCI World index.

### 14.2 BlackRock Investment Management

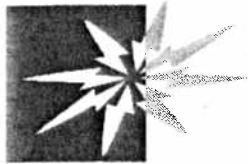
	Return	Benchmark	Variance
Jul - Sep 2012	2.75%	2.63%	0.12%

- Total Value at 30/09/12: £444.8m

### 14.3 Legal & General Investment Management

	Return	Benchmark	Variance
Jul - Sep 2012	3.20%	3.30%	(0.10%)

- Total Value at 30/09/12: £218.6m
- 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 or under performance resulting from asset allocation being different to the benchmark.



14.4 CBRE Global Investors

	Return	Benchmark	Target	(Under)/Out
Jul - Sep 2012	0.91%	0.40%	0.65%	0.26%
One Year	1.67%	2.83%	3.83%	(2.16%)
Three Years	6.98%	9.51%	10.51%	(3.53%)
Five Years	-5.03%	-3.57%	-2.57%	(2.46%)

- Total Value at 30/09/12: £53.7m
- The property portfolio outperformed the benchmark and target for the second quarter in a row. The longer term performance is still below target due to the underperformance of the European holdings in the portfolio.

14.5 Pantheon

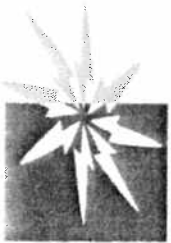
	Return	Distributions in period	Drawdowns in period	% drawdown
Jul - Sep 2012	-0.90%	£0m	£0.13m	
One Year	4.70%	£0.95m	£3.16m	
Since inception	2.39%	£1.49m	£27.40m	59.6%

- Total Value at 30/09/12: £30.8m
- There was little activity in the quarter with only 2 small drawdowns for the Asia fund and no distributions.

14.6 In house cash

	Value	Average Credit Rating	Average Maturity (days)	Return
At 30/09/12	£3.76m	AAA	1	0.38%
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%

- The cash was invested mainly in money market funds during the quarter. £25m was distributed to BlackRock and Legal & General during the quarter, so the cash balance has significantly reduced.



**15. Responsible Investment Activity in the three months ended 30<sup>th</sup> September 2012**

BlackRock	Legal & General	LAPFF
<p><b>15.1 Environmental Issues</b></p> <p>BlackRock met with Volkswagen during the quarter to discuss a number of issues. The topics included implementing its Corporate Social Responsibility system across it's regional offices globally, the importance of environmental relationships to business strategy and their approach to water usage and CO2 emissions.</p>	<p>Legal &amp; General met with Glencore International during the quarter following their merger with Xstrata. Their discussion focused on the importance of a comprehensive environmental risk management system. As a result of the engagement the company committed to improving disclosure and enhancing their health and safety record.</p>	<p>The LAPFF has been engaging with Lonmin Mining following the incident in South Africa where 34 mineworkers were killed by police during a strike. The LAPFF has expressed concern about the matter and encouraged the Board to be cautious in its dealings with police and the local community. It also encouraged caution when issuing back to work orders while the situation is so volatile.</p>

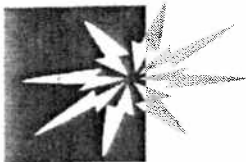


BlackRock	Legal & General	LAPFF
<p><b>15.2 Governance / Remuneration Issues</b></p> <p>During the quarter, BlackRock met with Prudential plc to meet with the new Chairman to understand his plans for the future in particular in strategy and board structure. The plans for the appointment of a new senior independent director and two new independent non-executive directors were discussed.</p>	<p>At the Royal Dutch Shell AGM in May Legal &amp; General opposed the remuneration report due to concerns about the structure of the annual bonus plan. Legal &amp; General felt the bonus plan was not transparent, and was not sufficiently linked to environmental and social risks. Following on from this, Legal &amp; General met with Royal Dutch Shell during the quarter to discuss their concerns. They felt this was a constructive meeting and Royal Dutch Shell agreed to engage with shareholders on these issues later in the year.</p>	<p>LAPFF co-filed a resolution at the News Corp AGM calling for an independent chair for the company, rather the role remaining combined as is the case currently. This followed many months of engagement with the company. The resolution was supported by 67% of the non family shareholders, but due to the proportion of shares owned by family members, it was not passed.</p>





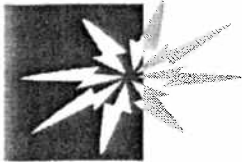
BlackRock	Legal & General	LAPFF
<p><b>15.3 Other Engagement activity</b></p> <p>BlackRock have been engaging with Darty plc over a proposal from their main shareholder, an investment firm called Knight Vinke, for their own CEO to be elected to the board of Darty plc due to the company's financial performance. BlackRock engaged with both the company and the investment firm to understand the perspective of both. In the end Knight Vinke withdrew their proposal, but are reserving the right to raise the proposal again in 2013. BlackRock will continue to engage with both parties to ensure they support the best solution for shareholder value, as well as ensuring the company follow best practice in terms of governance.</p>	<p>During the quarter Legal &amp; General met with the four biggest mining companies to discuss a number of issues including how to align pay better with shareholder value and to improve the link between health and safety and business strategy. They also discussed the issues arising from the strikes in South Africa and what policies they can put in place to limit problems in future.</p>	<p>LAPFF has joined other major shareholders in calling on the European Commission to press ahead with reforms in respect of the role of auditors. The reforms would limit the tenure of auditors to 15 years, rather than the current average 48 years and also limit the amount auditors could earn from non-audit work to 50% of their fees.</p>



**16. Budget Management – position at 30<sup>th</sup> September 2012**

	Budget £000	Actual £000	Variance (under)/ overspend £000
<b>Contributions &amp; Benefit related expenditure</b>			
<b>Income</b>			
Employee Contributions	4,400	4,440	(40)
Employer Contributions	15,200	15,778	(578)
Transfer Values in	3,000	703	2,297
<b>Total Income</b>	<b>22,600</b>	<b>20,921</b>	<b>1,679</b>
<b>Expenditure</b>			
Pensions & Benefits	(19,700)	(19,956)	256
Transfer Values paid	(4,150)	(3,243)	(907)
Administrative Expenses	(350)	(399)	49
<b>Total Expenditure</b>	<b>(24,200)</b>	<b>(23,599)</b>	<b>(601)</b>
<b>Net of contributions &amp; benefits</b>	<b>(1,600)</b>	<b>(2,678)</b>	<b>1,078</b>
<b>Returns on investment</b>			
Net Investment Income	3,500	2,320	1,180
Investment Management Expenses	(1,250)	(491)	(759)
<b>Net Return on investment</b>	<b>2,250</b>	<b>1,829</b>	<b>421</b>
<b>Total</b>	<b>650</b>	<b>(849)</b>	<b>1,499</b>

- At the end of September 2012, the Pension Fund budget was showing an overspend of £1.5m. The main reason for this is the very low value of transfers in during the first 6 months of the year. However a number of large transfers in have been received since the end of September which will improve the position.



## 17. Late Payment of Contributions

17.1 The table below shows the employers who paid contributions relating to July to September 2012 late.

	Occasions late	Average Number of days late	Average monthly contributions
Mulberry School	2	21	£14,000
Northumberland Park Academy	1	12	£13,000
Hartsbrook Free School	1	4	£3,400
ESSL	1	1	£640
TLC	3	2	£5,600
Churchill	2	2	£770

17.2 The new academy and free school paid their first contributions late, but since then have paid on time. Mulberry School paid late due to the school summer holidays, but have paid on time since. ESSL paid late once, but otherwise pay on time. Discussions are continuing with TLC and Churchill to ensure they pay on time in future.

## 18. Communication Policy

18.1 Two sets of regulations govern pensions communications in the LGPS: The Disclosure of Information Regulations 1996 (as amended) and Regulation 67 of the Local Government Pensions Scheme (Administration) Regulations 2008 as amended.

18.2 In March 2011, the Council approved the Pensions Administration Strategy Statement (PASS). The PASS sets out time scales and procedures which are compliant with the requirements of the Disclosure of Information Regulations. The PASS is a framework within which the Council as the Administering Authority for the Fund can work together with its Employing Bodies to ensure that the necessary statutory requirements are being met.

18.3 In June 2008 the Council approved the Policy Statement on Communications with Scheme Members and Employing Bodies. The Policy Statement identifies the means by which the Council communicates with the fund members, the employing bodies, elected members, and other stakeholders. These cover a wide range of activities which include meetings, workshops, individual correspondence and use of the internet. In recent times, the Pensions Web Page has been developed to provide a wide range of



**Haringey Council**

Employee Guides; Forms; and Policy Documents. Where possible, Newsletters and individual notices are sent by email to reduce printing and postage costs.

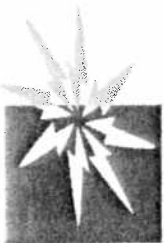
18.4 The requirement to publish a Communications Policy Statement recognises the importance that transparent effective communication has on the proper management of the LGPS.

Pensions Communications Q3 (1 <sup>st</sup> Oct 2012 – 31 <sup>st</sup> December 2012)		
Meeting with Employee Side Representatives	Joined meeting of the Corporate Industrial Relations Group to discuss workshops and publicity for workforce around Pensions Reform 2014	Nov.2012
Pensions Reform Leaflet 2014	Leaflet outlining Pensions Reform 2014 posted onto Haringey Pensions Web Page Leaflet also issue to Employing Bodies asking them to bring it to the attention of scheme members.	Nov.2012
Payslip Message	Payslip message sent to all staff drawing attention to updates on Haringey Web Page for Pensions Reform 2014 and Auto-enrolment.	
Workshop on Auto-enrolment	Presentation to Employing Bodies on Auto-enrolment with Hymans Robertson	
Posters and Leaflet on Auto-enrolment	Posters printed and distributed drawing attention to Auto-enrolment leaflet Leaflets emailed to Staff with an email address on SAP Leaflet posted onto Haringey Pensions Web Page. Staff invited to log onto the Pensions Web Page or request a hard copy from the Pensions Team. Managers and School Administrators also asked to print off hard copies on request from staff	



**Appendix 1 – Investment Managers mandates, benchmarks and targets**

<b>Manager</b>	<b>% of Total Portfolio</b>	<b>Mandate</b>	<b>Benchmark</b>	<b>Performance Target</b>
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.
<b>Total</b>	<b>100%</b>			



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%