

Haringey Council

Report for:	Corporate Committee 27 th June 2013	Item number	
Title:	Pension Fund Quarterly Update		
Report authorised by :	<i>J. Power 18/6/13</i> Director of Corporate Resources		
Lead Officer:	Ian Talbot, Interim Head of Finance – Treasury & Pensions Ian.talbot@haringey.gov.uk 020 8489 8621		
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 31st March 2013:

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

2. Cabinet Member Introduction

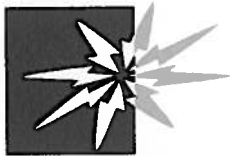
2.1 Not applicable.

3. Recommendations

3.1 That the information provided in respect of the activity in the three months to 31st March 2013 is noted.

4. Other options considered

4.1 None.



5. Background information

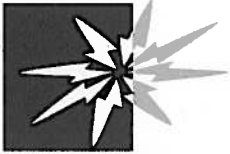
- 5.1 This report is produced on a quarterly basis to update the Committee on a number of Pension Fund issues. The Local Government Pension Scheme Regulations require the Committee to review investment performance on a quarterly basis and sections 13 and 14 provide the information for this. Appendix 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 The investment performance figures in section 14 show the impact of the introduction of passive fund managers in that for the periods of one year, three years and five years the variance from target has reduced during the year. The continuing negative performance reflects the underperformance of the previous active managers which is likely to continue to show for the next few years. The quarterly underperformance has resulted from the stock selection and performance lag of the private equity portfolio.

7. Head of Legal Services and Legal Implications

- 7.1 The Council as administering authority for the Haringey Pension Fund ("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.



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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

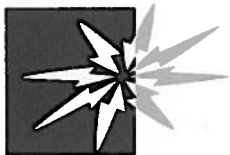
13.1 Fund Holdings at 31st March 2013

	BlackRock £000s	Legal & General £000s	CBRE £000s	Pantheon £000s	In-house £000s	Total £000s	% of Fund	Bench Mark %	Variance %
UK Equities	193,256	21,364	0	0	0	214,620	24.9	17.5	7.4
North America Equities	149,495	19,440	0	0	0	168,935	19.6	25.3	(5.7)
European Equities	43,563	47,589	0	0	0	91,152	10.6	8.6	2.0
Japanese Equities	10,642	36,628	0	0	0	47,270	5.5	4.1	1.4
Pacific ex Japan Equities	16,354	15,710	0	0	0	32,064	3.7	4.0	(0.3)
Emerging Markets Equities	0	84,243	0	0	0	84,243	9.8	10.5	(0.7)
Index linked Gilts	102,848	24,932	0	0	0	127,780	14.9	15.0	(0.1)
Property	0	0	48,230	0	0	48,230	5.6	10.0	(4.4)
Private Equity	0	0	0	34,756	0	34,756	4.0	5.0	(1.0)
Cash and other	0	0	5,816		5,513	11,329	1.4	0.0	1.4
TOTAL	516,158	249,906	54,046	34,756	5,513	860,379	100.0	100.0	0.0



13.2 Fund Holdings at 30th April 2013 after the asset allocation changes agreed in March 2013 were made

	BlackRock £000s	Legal & General £000s	CBRE £000s.	Pantheon £000s	In-house £000s	Total £000s	% of Fund	Bench Mark %	Variance %
UK Equities	175,197	21,488	0	0	0	196,685	22.7	17.5	5.2
North America Equities	169,882	19,290	0	0	0	189,172	21.8	25.3	(3.5)
European Equities	44,721	43,705	0	0	0	88,426	10.2	8.6	1.6
Japanese Equities	8,538	38,850	0	0	0	47,388	5.5	4.1	1.4
Pacific ex Japan Equities	16,353	17,372	0	0	0	33,725	3.9	4.0	(0.1)
Emerging Markets Equities	0	86,665	0	0	0	86,665	10.0	10.5	(0.5)
Index linked Gilts	104,083	25,238	0	0	0	129,321	14.9	15.0	(0.1)
Property	0	0	48,253	0	0	48,253	5.6	10.0	(4.4)
Private Equity	0	0	0	34,196	0	34,196	3.9	5.0	(1.1)
Cash	0	0	6,453	0	6,263	12,716	1.5	0.0	1.5
TOTAL	518,774	252,608	54,706	34,196	6,263	866,547	100.0	100.0	0.0



14. Investment Performance Update: to 31st March 2013

Appendix 1 provides details of the benchmarks and targets the fund managers have been set. The tables below show the performance in the quarter January to March 2013.

14.1 Whole Fund

	Return	Benchmark	Target	(Under)/Out
Jan - Mar 2013	10.42%	11.20%	11.21%	(0.79%)
One Year	14.87%	15.28%	15.32%	(0.45%)
Three Years	8.85%	9.32%	10.43%	(1.58%)
Five Years	6.39%	7.77%	9.09%	(2.70%)

- Total Value at 31/03/13: £860.4m
- The underperformance in the quarter was due almost entirely to the stock selection within the private equity portfolio and the underweight position in the US.

14.2 BlackRock Investment Management

	Return	Benchmark	Variance
Jan - Mar 2013	12.26%	13.05%	(0.79%)

- Total Value at 31/03/13: £516.2m

14.3 Legal & General Investment Management

	Return	Benchmark	Variance
Jan - Mar 2013	9.38%	10.30%	(0.92%)

- Total Value at 31/03/13: £249.9m
- 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
Jan - Mar 2013	0.94%	0.97%	1.22%	(0.28%)
One Year	2.94%	2.06%	3.06%	(0.12%)
Three Years	3.43%	5.58%	6.58%	(3.15%)
Five Years	-3.17%	-0.86%	0.14%	(3.31%)

- Total Value at 31/03/13: £54.0m
- Following two quarters of outperformance, the property portfolio has now underperformed for two quarters. The performance is still being impacted by the issues with the European holdings, which cannot be resolved quickly due to the illiquid nature of property holdings.

14.5 Pantheon

	Return	Distributions in period	Drawdowns in period	% drawdown
Jan - Mar 2013	7.72%	£1.80m	£1.70m	
One Year	13.01%	£3.37m	£4.82m	
Since inception	3.92%	£4.57m	£31.09m	66.6%

- Total Value at 31/03/13: £34.8m
- Distributions exceeded drawdowns during the quarter as the funds move into the distribution phase of their cycles.

14.6 In house cash

	Value	Average Credit Rating	Average Maturity (days)	Return
At 31/03/13	£5.51m	AAA	1	0.31%
At 31/12/12	£5.08m	AAA	1	0.37%
At 30/09/12	£3.76m	AAA	1	0.38%
At 30/06/12	£30.93m	AAA	4	0.42%



15. Responsible Investment Activity in the three months ended 31st March 2013

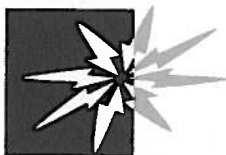
BlackRock	Legal & General	LAPFF
<p>15.1 Environmental Issues</p> <p>BlackRock have advised that over 94% of their company engagements have been in relation to governance and none has been specifically aimed at addressing environmental issues. However, in the Americas BlackRock initiated a dialogue with a large oil and gas company to understand the basis of the company's view that it highlights freshwater management as a key pillar of its environmental performance. In the UK they attended an annual session organised by an oil and gas producer to provide investors with access to the Chairman for a review of the company's activities over the last year and the focus for the coming year. The company provided updates on health and safety, risk mitigation and environmental performance. BlackRock also engaged with the company to discuss its sustainability initiatives with the need for non-conventional oil sources continuing to increase.</p>	<p>In the last year Legal and General had 425 meetings with 249 companies and over 30% of these covered environmental and/or social topics. Legal and General have engaged with a Chilean mining company, Antofagasta, which operates in a water scarce environment. They have discussed with the company their water management and recycling systems and their potential to serve the company's present and future needs. Legal and General have engaged twice in this quarter with BP. They have followed up on the company's remediation and learning from the Gulf of Mexico spill. They have also advised on the importance of the establishment of clear environmental objectives and targets for future years that can serve as a guide for the company's strategy.</p>	<p>As part of its involvement with the Carbon Disclosure Project, LAPFF has joined the carbon action group which asks companies to implement cost effective carbon emissions reductions which deliver a satisfactory return on investment. LAPFF is an investor supporter of the Forest Footprint Disclosure project which, in its annual review, indicated that now 100 companies have agreed to disclose information on their use of forest products. This represents a 15% increase from 2011 and the list of companies now includes Colgate-Palmolive Co., Groupe Danone, Gucci and HJ Heinz Company. Several British firms – Sainsbury's, Marks and Spencer, BSKyB and British Airways - were highlighted as leaders in this initiative.</p>



BlackRock	Legal & General	LAPFF
<p>15.2 Governance / Remuneration Issues</p> <p>BlackRock are in ongoing discussions with a UK retailer concerning their proposed changes to the executive incentive schemes which they argue does not provide a sufficient level of alignment between the interests of executives and shareholders. As a result of these engagements the board decided to withdraw the planned changes ahead of the publication of the company's annual reports.</p> <p>BlackRock were also consulted on the appointment and method of remuneration of the new Chairman of a UK food retailer.</p> <p>In Latin America BlackRock challenged the structure of a major transaction which could favour the controlling shareholder over minority investors. The efforts of BlackRock and other shareholders encouraged the company to make changes to the proposed structure, thus re-allocating more than \$1bn to minority shareholders.</p>	<p>Legal and General engaged with a large number of investors in HP over the company's acquisition of Autonomy Corporation. At the AGM they voted against the re-election of two non-executive directors, against the appointment of the company's auditors and against the remuneration of executive directors.</p> <p>Along with other institutional investors Legal and General raised concerns with Glencore/Xstrata over the appointment of the new Board Chairman and will continue to engage to seek to ensure that a best candidate is selected.</p> <p>Legal and General met with several large Japanese companies including Mitsubishi Corp, Nomura and Nippon Steel to discuss progress on improving board diversity.</p>	<p>LAPFF met with the senior independent director of Société Générale to follow up its 2011 resolution for the separation of powers at the head of the company.</p> <p>LAPFF wrote to JP Morgan and Chase welcoming the company's decision to adjust the CEO's pay downwards as a result of the \$6bn losses arising from the London trading scandal.</p> <p>LAPFF has engaged with several companies over governance concerns including joint Chair/CEO positions and the implementation of majority voting for directors.</p> <p>In March LAPFF launched a new document "Expectations for Executive Pay" which highlighted fifteen principles on which they expect to engage with corporate boards.</p>



BlackRock	Legal & General	LAPFF
<p>15.3 Other Engagement activity</p> <p>BlackRock have advised that over 94% of their company engagements have been in relation to governance and none has been specifically aimed at addressing social issues.</p> <p>However, BlackRock met with senior management of one of the largest automobile manufacturers in Japan, to confirm the current state of the operation of its Indian plant which was shut down over a month last summer due to a riot. The company explained its continuing effort to determine the root cause while taking stringent actions including the lay off of the workers directly involved in the violence. BlackRock considered the company's actions to be convincing and appropriate.</p>	<p>In the last year Legal and General had 425 meetings with 249 companies and over 30% of these covered environmental and/or social topics.</p> <p>Legal and General co-signed a letter with other investors discussing US governance reforms. The letter was sent to the Prersident of the United States, SEC commissioners and other oversight bodies. Within the letter Legal and General included the issue of political contributions and lobbying expenditure.</p>	<p>LAPFF is maintaining contact with Lonmin seeking to encourage the board to take steps to address the labour and human rights concerns at the mine in South Africa where forty six people lost their lives in August 2012.</p> <p>National Express and LAPFF also have an ongoing dialogue regarding its personnel practices and union relations in the US.</p> <p>LAPFF is a member of an investor coalition led by Universities Superannuation Scheme seeking to raise concerns with policy makers on the detrimental impact of IFRS on company accounts.</p>



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16. Budget Management – position at 31st March 2013

	Budget	Actual	Variance (under)/ overspend
	£'000	£'000	£'000
Contributions & Benefit related expenditure			
Income			
Employee Contributions	8,800	8,819	(19)
Employer Contributions	30,400	31,943	(1,543)
Transfer Values in	6,000	4,258	1,742
Total Income	45,200	45,020	180
Expenditure			
Pensions & Benefits	(38,200)	(40,077)	1,877
Transfer Values Paid	(7,200)	(5,128)	(2,072)
Administrative Expenses	(700)	(876)	176
Total Expenditure	(46,100)	(46,081)	(19)
Net of Contributions & Benefits	(900)	(1,061)	161
Returns on investment			
Net Investment Income	4,500	3,603	897
Investment Management Expenses	(2,500)	(1,642)	(858)
Net Return on Investment	2,000	1,961	39
Total	1,100	900	200



17. Late Payment of Contributions

17.1 The table below provides details of the employers who have made late payments during the last quarter.

	Occasions late	Average Number of days late	Average monthly contributions
John Loughborough School	1	13	£5,700
Balfour Beatty Workforce	2	13	£17,300
Mulberry School	1	12	£14,100
Fusion Lifestyle	2	29	£18,700

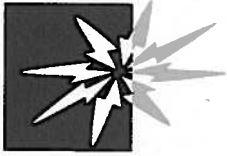
17.2 The first of the Fusion breaches arose from incorrect banking details being included with the payment, which was otherwise on time, whilst the second appears to have been due to an oversight which officers are taking up with the company. Otherwise the breaches have been dealt with informally and no formal action has been considered necessary.

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 employee guides, forms and policy documents. Where possible, Newsletters and individual notices are sent by email to reduce printing and postage costs.



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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 Q4 (1 st Jan 2013 – 31 st March 2013)		
Auto-enrolment	Individual letter to all employees to explain how they are affected by auto-enrolment. Followed by payslip message to confirm a letter was sent.	March 2013
Update to Pensions web page	Leaflet on Pension Reforms 2014 updated and posted on Pensions web page.	Feb 2013
Workshop on Auto-enrolment	Presentations to HR Staff.	Feb 2013
Employer Guide and template letters on auto-enrolment	Schools not using the Haringey Payroll issued with a Guide to Auto-enrolment and template letters to send to staff.	March 2013



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	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%

