

Haringey Council

Report for:	Corporate Committee 26 th November 2013	Item number	
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Title:	Pension Fund Quarterly Update
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Report authorised by :	<i>J. Pave</i> 15/11/13 Director of Corporate Resources
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Lead Officer:	George Bruce, Head of Finance – Treasury & Pensions george.bruce@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 To report the following in respect of the three months to 30th September 2013:

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

2. Cabinet Member Introduction

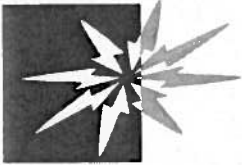
2.1 Not applicable.

3. Recommendations

3.1 That the information provided in respect of the activity in the three months to 30th September 2013 is noted.

4. Other options considered

4.1 None.



5. Background information

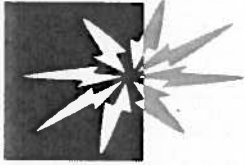
- 5.1 This report is produced on a quarterly basis to update the Committee on a number of Pension Fund issues. The Local Government Pension Scheme Regulations require the Committee to review investment performance on a quarterly basis and sections 13 and 14 provide the information for this. Appendix 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 on which the Committee or its predecessor body have requested they receive regular updates.
- 5.3 Following the request at the Committee's meeting in September 2012, 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 generally the variance from target has reduced. The continuing negative performance over five years reflects the underperformance of the previous active managers which is likely to continue to show for the next few years. The quarterly performance is very close to target.

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. In particular members should note the continuing negative performance and the reason stated in this report as to why this is the case;
- 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;



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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.

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

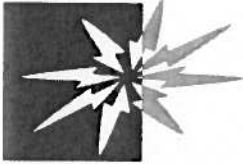


13. Investment Update

13.1 Fund Holdings at 30th September 2013

	BlackRock £000s	Legal & General £000s	CBRE £000s	Pantheon £000s	In-house £000s	Total £000s	% of Fund	Bench Mark %	Variance %
UK Equities	162,219	22,204	0	0	0	184,423	21.4	17.5	3.9
North America Equities	192,147	19,742	0	0	0	211,889	24.6	25.3	(0.7)
European Equities	44,643	40,062	0	0	0	84,705	9.9	8.6	1.3
Japanese Equities	8,422	33,149	0	0	0	41,571	4.8	4.1	0.7
Pacific ex Japan Equities	17,030	16,284	0	0	0	33,314	3.9	4.0	(0.1)
Emerging Markets Equities		89,966	0	0	0	89,966	10.5	10.5	0
Index linked Gilts	95,820	23,231	0	0	0	119,051	13.8	15.0	(1.2)
Property		0	54,239	0	0	54,239	6.3	10.0	(3.7)
Private Equity		0	0	34,156	0	34,156	4.0	5.0	(1.0)
Cash	2	0	2,113	2,149	2,735	6,999	0.8	0.0	0.8
TOTAL	520,283	244,638	56,352	36,305	2,735	860,313	100.0	100.0	0.0

NB a rebalancing of the equity portfolio agreed at the September Corporate Committee is underway.



14. Investment Performance Update: to 30th September 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 July to September 2013.

14.1 Whole Fund

	Return	Benchmark	(Under)/Out
July-Sept 2013	1.70%	1.82%	(0.12%)
One Year	14.36%	14.97%	(0.61%)
Three Years	8.57%	8.98%	(0.41%)
Five Years	9.01%	9.69%	(0.68%)

- Performance in the quarter was very close to target. Underperformance over longer periods is driven by private equity and property.
- The negative three and five year returns are carried forward from previous manager structures.

14.2 BlackRock Investment Management

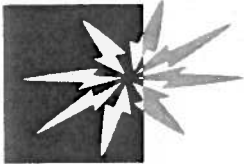
	Return	Benchmark	Variance
July-Sept 2013	2.28%	2.03%	0.25%
One Year	16.98%	16.81%	0.17%

- Total Value at 30/09/13: £520.3 million
- BlackRock manages equities and index linked passively.
- At asset class level, Blackrock's returns are either in line with or in excess of the benchmark.

14.3 Legal & General Investment Management

	Return	Benchmark	Variance
July - Sept 2013	1.22%	1.04%	0.18%
One Year	11.92%	12.69%	(0.77%)

- Total Value at 30/09/13: £244.6 million
- At investment level, L&G is able to add value over index benchmarks through timing transactions. The underperformance over one year is due to their portfolio being out of alignment with the benchmark. Rebalancing has been undertaken since the quarter end.



14.4 CBRE Global Investors

	Return	Benchmark	(Under)/Out
July – Sept 2013	1.42%	2.40%	(0.98%)
One Year	4.41%	5.39%	(0.98%)
Three Years	3.66%	5.22%	(1.56%)
Five Years	(0.03%)	1.76%	(1.79%)

- Total Value at 30/09/13: £56.4
- For both the quarter and year, CBRE have underperformed their benchmark by 1%. The target is to out perform by 1% p.a.
- Recently, the UK portfolio has exceeded benchmark, but the overall portfolio has suffered from exposure to Italian and German funds.

14.5 Pantheon

	Return	Distributions in period	Drawdowns in period	% drawdown
July – Sept 2013	(2.52%)	£0.32m	nil	
One Year	11.71%	£3.88m	£3.68m	
Since inception	3.81%	£5.37m	£31.09m	66.6%

- Total Value at 30/09/13: £36.3
- Distributions exceeded drawdowns during the quarter as the funds moved into the distribution phase of their cycles.
- The performance target is the MCSI Worlds plus 5.75%, which for 12 months is 27.25% and 5 years 14.25%. Actual returns for five years net of fees is 6.6%. The funds are still relatively young for a true picture of long term returns to emerge. The performance benchmark (MSCI plus 5% net of fees) is challenging.

14.6 In house cash

	Value	Average Credit Rating	Average Maturity (days)	Return
At 30/09/13	£2.73m	AAA	1	0.33%
At 30/06/13	£3.18m	AAA	1	0.33%
At 31/03/12	£5.51m	AAA	1	0.31%
At 31/12/12	£5.08m	AAA	1	0.37%



15. Responsible Investment Activity in the three months ended 30th September 2013

BlackRock		Legal & General	LAPFF
15.1 Environmental Issues			
<p>Blackrock met with a large, global energy company to discuss various environmental, social and governance issues. This included hydraulic fracturing for shale gas (fracking) and unconventional oil & gas production, the company's global human rights policy, global climate change, sustainability reporting, and general corporate governance matters. Of particular note was the company's work in promoting the disclosure of chemicals using in the fracking process and the key challenges that water dependence play in successful fracking operations.</p>	<p>In the quarter, L & G attended 82 company meetings at which environmental issues were covered 13 times and social issues 23 times.</p> <p>They have engaged extensively with Rio Tinto specifically focussing on their water management targets as well as more broadly on their sustainability efforts.</p>	<p>LAPFF was one of a group of almost 50 investors with \$900bn in assets that recently wrote to US President Barack Obama to support carbon pollution standards proposed by the Environmental Protection Agency (EPA) for new power plants.</p>	
BlackRock		Legal & General	LAPFF
15.2 Governance / Remuneration Issues			
<p>Blackrock spoke at the 'Excellence in the Boardroom event' sponsored by the Deloitte Academy on the investors view on the importance of audit processes and the importance of the work and the composition of the audit committee.</p>	<p>L&G met with the Royal Dutch Shell to understand the succession process behind the appointment of their new CEO. Similar succession talks were held with Microsoft with regard to replacing their CEO.</p>	<p>Engagement with News Corp /21st Century Fox regarding corporate governance issues.</p> <p>Discussions with the Investor Working Group on collective Engagements regarding shareholder</p>	

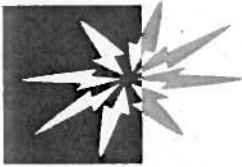


BlackRock	Legal & General	LAPFF
<p>Across both mandates Blackrock voted on over 1,100 occasions. The main themes for voting against management in the quarter centred on the composition of the boards poor remuneration practices and the levels of independence/oversight in place.</p> <p>Key votes in quarter:</p> <p>Dell Inc –Blackrock voted in favour of bid to take company private. Dell’s business severely impacted by the decline in the personal computing market, the company is therefore trying to transform to an enterprise service company. Michael Dell was arguing that this would be difficult to execute as a public company. Blackrock’s view was that this would be in the shareholders best interests due to the cash premium being offered to shareholders, the board’s rationale and the independent board committee’s thorough sales process.</p> <p>Office Depot –Blackrock voted to support Starboard value LP a major shareholder of the company in its ’s nomination of four dissident directors onto the Office Depot</p>	<p>A further meeting took place with the new Chairman of the Corporate Social Responsibility Committee for G4S at which the company’s audit and compliance framework and whistle blowing programme were discussed.</p> <p>Discussions took place with Michael Dell and two opposing shareholders with regard to taking Dell back into private ownership.</p> <p>Key votes in quarter:</p> <p>BTG-voted against the amendment of the Performance Share plan due to concerns with multiplier element in its structure.</p> <p>Vedanta- voted against remuneration report due to concerns with Employee Ownership Plan not being aligned with interests of long term shareholders.</p> <p>Investec, Richemont & Indra Sistemax-voted against election of non executive directors/board directors due to concerns as to their independence.</p>	<p>engagement.</p>



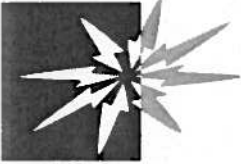
BlackRock	Legal & General	LAPFF
<p>Board .Blackrock considered the appointments would add value to the board as a result of their skills and experience.</p>	<p>Dell Inc-voted against Michael Dell and Silver Lake Partners offer to buy the company from shareholders due to concerns with cash offer and inadequate search for other interested parties. However this transaction was ultimately approved.</p>	

BlackRock	Legal & General	LAPFF
<p>15.3 Other Engagement activity</p>		
<p>Blackrock undertook a thematic engagement series , seeking to understand the corporate responsibility and sustainability practices across the retail and grocer sector. To that end, they met with a number of UK retailers and grocers to learn more about their respective programmes, with particular focus on responsible sourcing, supply chain management and industry collaboration.</p>	<p>Meetings were held with Associated British foods to discuss its supplier side policies, as its Primark clothes are manufactured in Bangladesh in multi-user factories. Supplier side discussions were also held with Tesco and Sainsbury, however their policies were to use single dedicated suppliers.</p>	



16. Budget Management – six months to 30th September 2013

	Prior year £'000	Actual £'000	Variance (under)/ overspend £'000
Contributions & Benefit related expenditure			
Income			
Employee Contributions	4,400	4,273	127
Employer Contributions	16,000	14,675	1,325
Transfer Values in	2,000	864	1,136
Total Income	22,400	19,812	2,588
Expenditure			
Pensions & Benefits	(20,000)	(20,351)	351
Transfer Values Paid	(2,600)	(532)	(2,068)
Administrative Expenses	(400)	(291)	(109)
Total Expenditure	(23,000)	(21,174)	(1,826)
Net of Contributions & Benefits	(600)	(1,362)	762
Returns on investment			
Net Investment Income	1800	1,164	636
Investment Management Expenses	(800)	(357)	(443)
Net Return on Investment	1000	807	193
Total	400	(555)	955



17. Late Payment of Contributions

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

Employer	Occasions late	Average Number of days late	Average monthly contributions(£)
Fusion	1	4	19,600
TLC	1	4	4,183

18. Communication Policy

18.1 Two sets of regulations govern pension 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.

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.

18.5 During the second quarter of 2013-14, the Pension Fund accounts and annual report for the year ended 31st March 2013 have been added to the Pension fund web page. Guidance notes on the new Pension Fund scheme to be introduced from 1st April 2014 have also been inserted on the web page.



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%

