




Report for:	Corporate Committee 20 March 2014	Item number	
Title:	Pension Fund Quarterly Update		
Report authorised by :	 Assistant Director – Finance (CFO)		
Lead Officer:	George Bruce, Head of Finance – Treasury & Pensions george.bruce@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 31st December 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 December 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;



Haringey Council

- 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 The Local Government Pension Scheme is a defined benefit open scheme enabling all employees of the Local Authority to participate. There are no impacts in terms of equality from the recommendations contained within 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

Total Portfolio Allocation by Manager & Asset Class

31/12/2013 & 31/01/2014

	Value 30.09.13 £'000	Value 31.12.13 £'000	Value 31.01.14 £'000	Allocation 30.01.2014 %	Strategic Allocation %
Equities					
UK	184,423	176,383	170,980	19.7%	17.5%
North America	211,889	255,655	248,746	28.7%	25.3%
Europe	84,705	82,680	80,335	9.3%	8.6%
Japan	41,571	35,741	34,650	4.0%	4.1%
Asia Pacific	33,314	35,762	34,081	3.9%	4.0%
Emerging Markets	89,966	89,426	84,078	9.7%	10.5%
Total Equities	645,868	675,647	652,870	75.3%	70.0%
Bonds					
Index Linked	119,051	117,958	120,037	13.8%	15.0%
Property					
CBRE	54,239	56,691	56,478	6.5%	10.0%
Private equity					
Pantheon	34,156	34,527	34,190	3.9%	5.0%
Cash & NCA					
	6,999	5,883	4,438	0.5%	0.0%
Total Assets	860,313	890,706	868,013	100.0%	100.0%
Fund Managers					
Legal & General	244,638	248,821	239,659	27.6%	29.3%
BlackRock	520,281	544,784	533,248	61.5%	55.7%



The value of the portfolio increased by £7.7 million between September 2013 and January 2014. Equities gains were the main contributor to the market movements. During Q4, 2013 the final phase of the rebalancing of equity markets was completed.

The recovery in equity markets in the last two years has seen the equity weighting rise to 75.3%, in excess of its strategic weighting. The other asset classes, mainly property remain, underweight. The January 2014 Corporate Committee meeting agreed to rebalance property back to its strategic allocation of 10%, which will involve additional property investments of approximately £30 million funded from sales of equities.

14. Investment Performance Update: to 31th December 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
Oct-Dec 2013	3.72%	3.86%	(0.14%)
One Year	14.65%	15.82%	(1.17%)
Three Years	8.04%	8.30%	(0.26%)
Five Years	10.59%	11.43%	(0.84%)

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

14.2 BlackRock Investment Management

	Return	Benchmark	(Under)/Out
Oct-Dec 2013	4.71%	4.52%	0.19%
One Year	18.49%	18.91%	(0.42%)

- Total Value at 31/12/13: £544.8 million
- BlackRock manages equities and index linked passively.
- Further details of returns at geographic level are given in section 14.7, which indicates underperformance against the Japanese and North American indices, which is being investigated.



14.3 Legal & General Investment Management

	Return	Benchmark	Variance
Oct-Dec 2013	1.72%	1.89%	(0.17%)
One Year	8.90%	9.71%	(0.81%)

- Total Value at 31/12/13: £248.8 million
- At investment level, L&G is able to add value over index benchmarks through timing transactions. As can be seen from section 14.7 below the underperformance over one year is due to their portfolio being out of alignment with the benchmark.

14.4 CBRE Global Investors

	Return	Benchmark	(Under)/Out
Oct-Dec 2013	4.44%	4.30%	0.14%
One Year	8.75%	9.52%	(0.77%)
Three Years	4.77%	6.04%	(1.27%)
Five Years	3.39%	5.61%	(2.22%)

- Total Value at 31/12/13: £56.7 million
- Although performance in the quarter exceeded benchmark for year CBRE have underperformed their benchmark by 0.8%. 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.
- Compared with the average Local Authority fund, the quarterly and annual (most recent data available) returns for CBRE exceeds the average by 0.6% and 1.0%.

14.5 Pantheon

	Return	Distributions in period	Drawdowns in period	% drawdown
Oct-Dec 2013	1.82%	£2.06m	£0.32m	
One Year	11.02%	£4.99m	£3.44m	
Since inception	3.94%	£7.43m	£32.80m	69.4%

- Total Value at 31/12/13: £34.5 million
- 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 31.14% and 3 years 15.51%. Actual returns for three ears net of fees is 15.3%. 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.
- Pantheon's one year return of 11.0% exceeds the local authority average by 1.9%. The underperformance against the private equity benchmark (-19%)



Haringey Council

represents nearly 1% at total portfolio and explains almost all the relative performance at total fund level.

14.6 In house cash

	Value	Average Credit Rating	Average Maturity (days)	Return
At 31/12/13	£0.92m	AAA	1	0.22%
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%

14.7 Equity Market Performance

	3 months		12 months			Allocations	
	Return	Benchmark	Return	Benchmark	Diff	Actual	Target
Legal & General							
UK Equity	5.48	5.46	21.00	20.81	0.19	9.28%	8.87%
North Amer equ	7.48	7.48	28.31	28.30	0.01	12.81%	12.97%
Europe equ	5.69	5.79	26.44	26.47	-0.03	15.46%	14.67%
Asia Pac equ	-1.13	-1.15	2.52	2.43	0.09	6.69%	6.83%
Japan	0.03	0.09	25.14	24.95	0.19	10.50%	10.58%
Emerging Mkts	-0.60	-0.69	-5.43	-5.29	-0.14	36.01%	35.84%
Index linked	-0.92	-0.93	0.64	0.58	0.06	9.25%	10.24%
total	1.71	1.89	8.91	9.71	-0.80	100.00%	100.00%
BlackRock							
UK Equity	5.49	5.46	21.10	20.81	0.29	28.13%	26.75%
North Amer equ	7.60	7.48	27.79	28.30	-0.51	41.07%	38.60%
Europe equ	5.82	5.79	26.67	26.47	0.20	8.10%	7.72%
Asia Pac equ	-0.93	-1.15	2.44	2.43	0.01	3.51%	3.57%
Japan	0.00	0.09	23.09	24.95	-1.86	1.76%	1.80%
Emerging Mkts							
Index linked	-0.92	-0.93	0.68	0.58	0.10	17.43%	21.56%
total	4.71	4.52	18.49	18.91	-0.42	100.00%	100.00%

The above table breaks down the performance of L&G and BlackRock at regional level. For 9 out of 13 regional / assets classes, performance exceeds the benchmark. The only significant underperformance is BlackRock's US and Japanese portfolios



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

BlackRock	Legal & General	LAPFF
15.1 Environmental Issues		
	<p>Lonmin</p> <p>Visited a mine in South Africa to better understand their relationship with employees, local communities and other sustainability issues. We met the new CEO along with senior executives, including Head of Mining. We discussed the relationship with the newly formed union, with respect to the latest pay negotiations, safety, community programmes and socio-economic backgrounds impacting their operations and housing for employees. We will continue to monitor mining companies regarding their operations in South Africa</p> <p>Apache</p> <p>L&G regularly engage with the company on various ESG issues and following the defeat of the company's say on pay vote, we discussed what the company could do better in terms of its compensation structure. We also discussed the progress they had made on integrating key</p>	<p>Focussed on 'stranded assets', carbon management strategies and climate change performance scores with BP. A meeting with Glencore Xstrata also initiated a discussion on these issues.</p> <p>Co-signed letters to major US, European and Japanese consumer companies in the palm oil supply chain on the sustainability of their supplies.</p>



BlackRock	Legal & General	LAPFF
	environmental and social risks into its compensation structure	

BlackRock	Legal & General	LAPFF
15.2 Governance / Remuneration Issues		
<p>In light of the upcoming legal changes to executive remuneration in the UK, we have experienced a considerable increase during the quarter in the number of engagements with issuers on executive remuneration matters. Companies are in the midst of reviewing their remuneration arrangements and seeking shareholder feedback in anticipation for the introduction of the binding vote on their remuneration policy.</p> <p>Engaged with a number of issuers on succession planning, in a joint engagement with our portfolio management team, we met with the Chairman of a luxury goods company to discuss the succession plan carried out after the departure of its CEO. We sought to understand the process that had been in place to identify the successor and how this appointment would impact the business overall.</p>	<p>JP Morgan</p> <p>Discussed the significant unauthorised trading losses and the mechanisms the company has strengthened as a result of these failures. Also discussed was our preference for a split CEO and Chairman role and the company's actions to strengthen the risk committee</p> <p>Renault</p> <p>Participated in a meeting with the company to discuss board structure, independence levels, director tenures and mandates, the role of the Lead Independent Director and the combined CEO and Chairman role. Also discussed was the new shareholder vote on remuneration and what we as shareholders would expect to be</p>	<p>Sent a letter to Oracle outlining their concerns about executive pay. The Company lost its pay vote for the second year in a row, but the Board remains defiant.</p> <p>Met with Standard Chartered, M&S and Burberry to discuss remuneration issues and get company feedback on LAPFF's 'Expectations for Executive Pay' document.</p> <p>Corresponded with Afren, Easyjet and G4S regarding pay practices and pay complexity and to seek further meetings.</p>



BlackRock	Legal & General	LAPFF
<p>Concluded our thematic engagement series on corporate responsibility and sustainability practices across the retail and grocer sector. We held a final meeting in the series with a UK grocer to discuss the company's sustainability programme, including the recent refocus to use their scale to push for change and the new CEO's focus on creating a sustainable business over the long-term. Significant time has been spent over the last year on engaging internal and external stakeholders to understand what the key concerns are and what the objectives for the programme should be. We also discussed the company's work with a number of industry bodies in furthering best practice. Similar to our previous findings, we believe that commitment throughout the organisation will determine the success of this new</p>	<p>disclosed</p>	



BlackRock	Legal & General	LAPFF
15.3 Other Engagement activity		
<p>The main themes for voting against management this quarter include board composition and the lack of sufficient independent oversight, poor remuneration practices and general share issuance requests in excess of recommended guidelines without sound rationale.</p> <p>This quarter saw an extraordinary shareholder meeting of a UK manufacturer of technology systems and components. The main issue was the vote on a share incentive plan for the incoming CEO. The one-off plan, which was proposed in addition to the agreed annual pay package upon appointment as CEO, had a number of features that were not considered to be in the interest of shareholders. These included a high level of matching shares vesting on the development of the share price, and the possibility for early vesting following a change of control, while not being time pro-rated. Given these conditions, it was decided to vote against the plan.</p>	<p>RSA</p> <p>Engaged with the board chairman who explained that PWC had been appointed to look at the control processes within the Irish insurance business after the disclosure of significant losses. The CEO resigned after the profit warning and the chairman said he would take on this additional role for up to a year while reviewing the company strategy. We will continue to engage with the company and monitor their performance</p>	<p>Explored the impact of governance changes at Twenty-First Century Fox since the split from News Corporation and discussed the approach to the ongoing phone hacking scandal.</p> <p>Responded to a FRC consultation on the strategic report raising concerns about its status and compatibility with UK Company Law, and to a FRC consultation on directors' remuneration. Provided input to the SEC on pay ratio disclosure.</p>



16. Budget Management – nine months to 31st December 2013

	Prior year (9 mths) £'000	Actual £'000	Variance (under)/ overspend £'000
Contributions & Benefit related expenditure			
Income			
Employee Contributions	6,600	6,408	(192)
Employer Contributions	24,000	22,244	(1,756)
Transfer Values in	3,000	1,770	(1,230)
Total Income	33,600	30,422	(3,178)
Expenditure			
Pensions & Benefits	(30,000)	(30,446)	(446)
Transfer Values Paid	(3,900)	(1,786)	2,114
Administrative Expenses	(600)	(459)	141
Total Expenditure	(34,500)	(32,691)	1,809
Net of Contributions & Benefits	(900)	(2,269)	(1,369)
Returns on investment			
Net Investment Income	2,700	1,800	(900)
Investment Management Expenses	(1,200)	(444)	756
Net Return on Investment	1,500	1,356	(144)
Total	600	(913)	(1,513)



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(£)
Mulberry	1	8	14,500
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 third quarter of 2013-14, one of the Council's AVC providers Prudential gave a presentation to staff on the services they offer. In December the Council met with the other employer bodies participating in the Fund, to share information on the 2014 actuarial valuation exercise and to provide a brief outline on the new scheme to be introduced from April 2014.



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		28.8%	23.7%	52.5%
North America	FT World Developed North America GBP Unhedged	21.5%	3.8%	25.3%
Europe ex UK	FT World Developed Europe X UK GBP Unhedged	4.3%	4.3%	8.6%
Pacific ex Japan	FT World Developed Pacific X Japan GBP Unhedged	2.0%	2.0%	4.0%
Japan	FT World Developed Japan GBP Unhedged	1.0%	3.1%	4.1%
Emerging Markets	FT World Global Emerging Markets GBP Unhedged	0.0%	10.5%	10.5%
Index Linked Gilts	FTA Index Linked Over 5 Years Index	12.0%	3.0%	15.0%
		55.7%	29.3%	85.0%