



<b>Report for:</b>	<b>Pensions Committee</b> 20 June 2014	<b>Item number</b>	
<b>Title:</b>	<b>Pension Fund Quarterly Update</b>		
<b>Report authorised by :</b>	<b>Assistant Director – Finance (CFO)</b>		
<b>Lead Officer:</b>	George Bruce, Head of Finance – Treasury & Pensions george.bruce@haringey.gov.uk 020 8489 3726		
<b>Ward(s) affected: N/A</b>	<b>Report for Non Key Decision</b>		

## 1. Describe the issue under consideration

1.1 To report the following in respect of the three months to 31<sup>st</sup> March 2014:

- 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 31<sup>st</sup> March 2014 is noted.

## 4. Other options considered

4.1 None.



## **5. Background information**

- 5.1 This update report is produced on a quarterly basis. 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 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 negative performance over three and five years reflects the underperformance of the private equity portfolio that has a demanding public equity plus benchmark. Over longer time periods, the fund has achieved a return in excess of the average local authority.

## **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 compared with the target benchmarks 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;
- 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 31st March 2014

#### Total Portfolio Allocation by Manager & Asset Class

31/03/2014 & 30/04/2014

	Value 31.12.13 £'000	Value 31.03.14 £'000	Value 30.04.14 £'000	Allocation 30.04.2014 %	Strategic Allocation %
<b>Equities</b>					
UK	176,383	173,136	176,875	19.7%	17.5%
North America	255,655	257,969	256,652	28.6%	25.3%
Europe	82,680	78,487	78,764	8.8%	8.6%
Japan	35,741	29,449	28,329	3.1%	4.1%
Asia Pacific	35,762	34,644	34,931	3.9%	4.0%
Emerging Markets	89,426	88,730	87,955	9.8%	10.5%
<b>Total Equities</b>	<b>675,647</b>	<b>662,415</b>	<b>663,506</b>	<b>73.9%</b>	<b>70.0%</b>
<b>Bonds</b>					
Index Linked	117,958	122,199	123,397	13.8%	15.0%
<b>Property</b>					
CBRE	56,691	68,473	73,188	8.1%	10.0%
<b>Private equity</b>					
Pantheon	34,527	35,333	34,698	3.9%	5.0%
<b>Cash &amp; NCA</b>	<b>5,883</b>	<b>9,204</b>	<b>3,253</b>	<b>0.3%</b>	<b>0.0%</b>
<b>Total Assets</b>	<b>890,706</b>	<b>897,624</b>	<b>898,042</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Fund Managers</b>					
Legal & General	244,638	248,964	248,106	27.6%	29.3%
BlackRock	520,281	535,650	538,797	60.0%	55.7%



The value of the fund increased by £6.9 million between December 2013 and March 2014. Equities gains were the main contributor to the market movements.

The recovery in equity markets in the last two years has seen the equity weighting rise to over 75%, in excess of its previous strategic weighting (70%). 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 £35 million funded from sales of equities. As at March 2014 an additional £19.2 million of property had been purchased.

#### **14. Investment Performance Update: to 31<sup>ST</sup> March 2014**

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 2014.

##### 14.1 Whole Fund

	Return	Benchmark	(Under)/Out	WM LA average
Jan-Mar 2014	1.15%	1.18%	(0.03%)	0.9%
One Year	5.03%	5.38%	(0.35%)	6.4%
Three Years	7.82%	8.23%	(0.41%)	7.5%
Five Years	12.81%	13.69%	(0.88%)	12.7%

<b>One year</b>	Return	Benchmark	Under/out	WM LA Average
Equities				
UK	8.89	8.81	0.08	11.3
Developed				
Europe	18.05	18.28	-0.23	15.1
North				
America	10.19	10.3	-0.11	11.9
Japan	-2.02	-1.56	-0.46	0.5
Asia ex Japan	-6.56	-6.59	0.03	-7.1
Emerging	-10.87	-10.79	-0.08	-5.1
I L gilts	-4.48	-4.45	-0.03	-4.4
Property	12.50	12.04	0.46	11.0
Private equity	8.04	14.45	-6.41	5.4
<b>Total</b>	<b>5.03</b>	<b>5.38</b>	<b>-0.35</b>	<b>6.4</b>



<b>Five years</b>	Return	Benchmark	Under/out	WM LA Average
Equities				
UK	16.19	16.36	-0.17	17.5
Developed				
Europe	14.09	14.54	-0.45	15.0
North America	17.18	17.15	0.03	17.2
Japan	9.45	7.16	2.29	9.3
Asia ex Japan	14.99	15.56	-0.57	14.9
Emerging	12.82	11.21	1.61	12.6
Index linked				
gilts	9.55	8.78	0.77	8.6
Property	6.51	8.04	-1.50	7.7
Private equity	4.20	21.11	-16.91	6.0
<b>Total</b>	<b>12.81</b>	<b>13.69</b>	<b>-0.88</b>	<b>12.7</b>

- All four time periods indicate under performance compared with the benchmarks, more so in the longer 3 and 5 year periods.
- Equity and index linked gilts, which are passively managed, show some variability compared to the benchmarks, but not significant differences.
- The main detractor from performance is private equity and in the five year period, property. Private equity has a public equity plus 5% target, which it has not achieved.
- Compared with the average local authority, the fund has exceeded the average return over the quarter, three and five years. For the one year period, the total return is less than the average local authority due to the relative returns from UK equities.
- The funds higher than average allocation to equities and lower than average allocation to fixed income and alternatives have compensated for lower asset class returns over five years.

#### 14.2 BlackRock Investment Management

	Return	Benchmark	(Under)/Out
Jan-Mar 2014	1.07%	1.26%	(0.19%)
One Year	6.68%	6.51%	0.17%

- Total Value at 31/03/14: £535.6 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 index, which is being investigated.

#### 14.3 Legal & General Investment Management



	Return	Benchmark	Variance
Jan-Mar 2014	0.06%	0.12%	(0.06%)
One Year	(0.38%)	(0.41%)	0.03%

- Total Value at 31/03/14: £248.9 million
- Variances as regional level are minimal.

#### 14.4 CBRE Global Investors

	Return	Benchmark	(Under)/Out
Jan-Mar 2014	4.42%	3.30%	1.12%
One Year	12.50%	12.04%	0.46%
Three Years	5.50%	6.53%	(1.03%)
Five Years	6.51%	8.04%	(1.53%)

- Total Value at 31/03/14: £68.5 million
- Although performance in the quarter and year exceeded benchmark longer term terms have fallen below benchmark. 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
Jan-Mar 2014	4.83%	£1.08m	£0.20m	
One Year	8.04%	£3.94m	£1.93m	
Since inception	4.51%	£8.51m	£33.00m	69.4%

- Total Value at 31/03/14: £35.3 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%, which for 12 months is 14.45% and 3 years 14.85%. Actual returns for three ears net of fees is 8.8%. The funds are still relatively young for a true picture of long term returns to emerge. It is only when the fund is substantially realised will a true picture of performance 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 31/03/14	£1.74m	AAA	1	0.25%
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%

### 14.7 Equity Market Performance

	3 months			12 months			Allocations	
	Return	Benchmark	Difference	Return	Benchmark	Difference	Actual	Target
<b>Legal &amp; General</b>								
UK Equity	-0.60	-0.63	0.03	8.96	8.81	0.15	9.28%	8.87%
North Amer equity	1.19	1.19	0.00	10.29	10.30	-0.01	12.81%	12.97%
Europe equity	2.98	3.03	-0.05	18.02	18.28	-0.26	15.46%	14.67%
Asia Pac equity	0.94	1.00	-0.06	-6.62	-6.59	-0.03	6.69%	6.83%
Japan equity	-5.85	-5.99	0.14	-1.38	-1.56	0.18	10.50%	10.58%
Emerging equity	-0.78	-0.75	-0.03	-10.88	-10.79	-0.09	36.01%	35.84%
Index linked	3.58	3.56	0.02	-4.38	-4.45	0.07	9.25%	10.24%
total	0.06	0.12	-0.06	-0.38	-0.41	0.03	100.00%	100.00%
<b>BlackRock</b>								
UK Equity	-0.62	-0.63	0.01	9.01	8.81	0.20	28.13%	26.75%
North Amer equity	1.18	1.19	-0.01	10.04	10.30	-0.26	41.07%	38.60%
Europe equity	3.02	3.03	-0.01	18.15	18.28	-0.13	8.10%	7.72%
Asia Pac equity	0.72	1.00	-0.28	-6.50	-6.59	0.09	3.51%	3.57%
Japan equity	-5.96	-5.99	0.03	-2.89	-1.56	-1.33	1.76%	1.80%
Emerging equity	3.59	3.56	0.03	-4.37	-4.45	0.08	7.43%	21.56%
Index linked								
total	1.07	1.26	-0.19	6.68	6.51	0.17	100.00%	100.00%

The above table breaks down the performance of L&G and BlackRock at regional level. Returns are generally close to benchmark. The relative return for BlackRock's Japanese equity portfolio is being investigated.





**15. Responsible Investment Activity in the three months ended 31<sup>st</sup> March 2014**

BlackRock	Legal & General	LAPFF
<b>15.1 Environmental Issues</b>		
	<p>Together with other institutional investors, we engaged with a number of companies in the consumer brand and extractive sectors, to understand how tax risks are being managed in companies which face increasing pressures from consumers and regulations. We have put together a discussion paper on this complicated subject, which we intend to share with other investors and help develop the dialogue on the expectation of future disclosure from companies.</p>	<p>The LAPFF March 2014 engagement report has not been received.</p>

BlackRock	Legal & General	LAPFF
<b>15.2 Governance / Remuneration Issues</b>		
<p>We engaged with several issuers to discuss <b>governance</b> more broadly. Common areas discussed included corporate strategy and its link to sustainability, and risk evaluation including an assessment of key risks:</p>	<p><b>Sports Direct</b></p> <p>A meeting was held with the Chairman to discuss the proposed new incentive Plan for the Deputy Chairman (Founder and significant shareholder), which</p>	



<b>BlackRock</b>	<b>Legal &amp; General</b>	<b>LAPFF</b>
<p>We examined board composition, skill set and director induction programmes in light of minor changes at sub-committee level.</p> <p>We engaged with the Chairman of a financial services company to discuss the functioning of the current board given recent appointments, the board composition and skill set, ongoing refreshment/succession planning for both executives and nonexecutives, and planned board evaluations. We also reviewed progress in getting the relationship with regulators back on track, key risks for the business, and strategy including a discussion on the US business.</p> <p>We attended a regular governance update for a major extractives industry issuer. We used this opportunity to discuss the company's sustainability programme and how it links to corporate strategy, time horizon, risk evaluation, alternative energies and future outlook of portfolio.</p> <p>As was the case in the previous quarter, we have continued to experience a substantial</p>	<p>would have delivered 8 million shares worth approximately £66 million, if certain targets were met over the next two years. We were keen to understand why the board was proposing an equity plan for the Deputy Chairman again when a similar plan had been rejected by shareholders in 2012. Days before the extraordinary general meeting (EGM) the plan was withdrawn due to lack of shareholder support. We will continue to engage with the company.</p> <p><b>First Group</b></p> <p>We met the new Chairman of the company to discuss his views and plans to turnaround the company following long-term poor operational performance and a large rights issue in 2013. We discussed a range of issues including the plans for underperforming business units, the balance sheet, the board, union relations and dividend policy. We will continue to engage with the company to enhance shareholder value.</p>	



<b>BlackRock</b>	<b>Legal &amp; General</b>	<b>LAPFF</b>
<p>increase in the number of engagements with UK issuers on executive <b>remuneration</b> matters. During the quarter, we also noted an increase in the number of UK issuers wishing to merge their short- and long-term incentive schemes into a single incentive vehicle for their executive team. With the purpose of simplifying their remuneration practices, some boards have opted for annual performance measures. The long-term element is retained with a deferral mechanism spanning three to five years and subject to further performance conditions and/or underpin. Although highlighting certain concerns over long-term alignment risks, BlackRock has been broadly supportive of these new structures during its engagements.</p>		

<b>BlackRock</b>	<b>Legal &amp; General</b>	<b>LAPFF</b>
<b>15.3 Other Engagement activity</b>		
In a joint engagement with our portfolio	<b>JP Morgan</b>	



<b>BlackRock</b>	<b>Legal &amp; General</b>	<b>LAPFF</b>
<p>management team, we met with a board member of a British retail group to discuss a performance-based equity award for the executive deputy chairman. We sought to understand the structure of the scheme and the board's rationale for the proposal. Although the executive deputy chairman did not receive any remuneration at the time, it was decided to vote against the plan at the extraordinary shareholder meeting based on the timing of the award and its size.</p>	<p>We met with an independent board member to further our engagement with the company. We discussed board structure, the risk management process, employee management, as well as financial regulation and the company's culture and emerging issues in this area. We shall continue to strengthen our discussions with the company.</p>	



**16. Budget Management – 12 months to 31<sup>st</sup> March 2014**

	Prior year 2012-13 £'000	Current year 2013-14 £'000	Change in expenditure £'000
<b>Contributions &amp; Benefit related expenditure</b>			
Income			
Employee Contributions	8,800	8,554	246
Employer Contributions	32,000	30,461	1,539
Transfer Values in	4,000	2,434	1,566
<b>Total Income</b>	<b>44,800</b>	<b>41,449</b>	<b>3,351</b>
Expenditure			
Pensions & Benefits	(40,000)	(40,417)	417
Transfer Values Paid	(5,200)	(3,277)	(1,923)
Administrative Expenses	(800)	(801)	1
<b>Total Expenditure</b>	<b>(46,000)</b>	<b>(44,495)</b>	<b>(1,505)</b>
<b>Net of Contributions &amp; Benefits</b>	<b>(1,200)</b>	<b>(3,046)</b>	<b>1,846</b>
<b>Returns on investment</b>			
Net Investment Income	3,600	2,578	1,022
Investment Management Expenses	(1,600)	(1,658)	58
<b>Net Return on Investment</b>	<b>2,000</b>	<b>920</b>	<b>1,080</b>
<b>Total</b>	<b>800</b>	<b>(2,126)</b>	<b>2,926</b>

The fund has moved into a position in which expenditure exceeds income as active membership fall and numbers of pensioners' increases. Member and employer contribution increases in 2014-15 will mitigate this trend.

The income shown for 2013-14 is virtually all from property as income from other asset classes is automatically re-invested and shown within the change in market value. The fall in income is due to equity income now being included in the change in value of investments.



## **17. Late Payment of Contributions**

17.1 The table below provides details of the employers who have made late payments during the last quarter. These employers have been contacted and reminded of their obligations to remit contributions on time.

Employer	Occasions late	Average Number of days late	Average monthly contributions(£)
Mulberry	1	19	14,500
Lordship Lane	1	3	13,700
Hartsbrook	1	2	3,200
TLC	2	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



**Haringey** Council

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**

<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>			





<b>Asset Class</b>	<b>Benchmark</b>	<b>BlackRock Investment Management</b>	<b>Legal &amp; General Investment Management</b>	<b>Total</b>
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%