



<b>Report for:</b>	<b>Pensions Committee</b> 15 December 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 30<sup>th</sup> September 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 30th September 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. The report covers various issues on which the Committee or its predecessor body have requested they receive regular updates.
- 5.2 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 all reported time periods, the fund has achieved a return significantly in excess of the average local authority.

## **7. Assistant Director of Corporate Governance comments 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. Comments from Independent Advisor**

- 8.1 The total value of the Fund at 31 October 2014 was £962m compared £947m at 30 September 2014 and £910m at 30 June 2014.
- 8.2 The overall performance of the Fund over the last Quarter, Year and Three Years is close to benchmark (see section 14.1) primarily due to the fact that the Fund is primarily managed on a passive basis.
- 8.3 The Fund is currently overweight Listed Equities by 8%. This is primarily a reflection of the fact that Infrastructure Debt is an investment class that can only be invested in when the appointed manager secures access to suitable investments. Therefore given the illiquid nature of Infrastructure Debt it will take time to reallocate the 5% allocation from Listed Equities to this new asset class.

## **9. Equalities and Community Cohesion Comments**

- 9.1 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.

## **10. Head of Procurement Comments**

- 10.1 Not applicable

## **11. Policy Implications**

- 11.1 None.

## **12. Use of Appendices**

- 12.1 Appendix 1: Investment Managers' mandates, benchmarks and targets.

## **13. Local Government (Access to Information) Act 1985**

- 13.1 Not applicable



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

30/09/2014 & 31/10/2014

	Value 30.06.14 £'000	Value 30.09.14 £'000	Value 31.10.14 £'000	Allocation 31.10.2014 %	Strategic Allocation %
<b>Equities</b>					
UK	175,275	160,603	159,512	16.59%	15.00%
North America	258,463	248,084	256,552	26.67%	21.70%
Europe	77,520	73,770	72,696	7.56%	7.40%
Japan	30,899	30,933	30,919	3.21%	3.50%
Asia Pacific	34,643	31,879	33,062	3.44%	3.40%
Emerging Markets	93,093	95,957	99,246	10.32%	9.00%
<b>Total Equities</b>	<b>669,893</b>	<b>641,225</b>	<b>651,987</b>	<b>67.79%</b>	<b>60.00%</b>
<b>Bonds</b>					
Index Linked	123,607	130,936	133,455	13.88%	15.00%
<b>Property</b>					
CBRE	79,639	91,014	88,268	9.18%	10.00%
<b>Private equity</b>					
Pantheon	34,879	36,480	36,522	3.80%	5.00%
<b>Multi sector credit</b>					
CQS	-	45,000	44,819	4.66%	5.00%
<b>Infrastructure</b>					
Allianz	-	-	-	0.00%	5.00%
<b>Cash &amp; NCA</b>					
	1,781	2,463	6,722	0.70%	0.00%
<b>Total Assets</b>	<b>909,800</b>	<b>947,118</b>	<b>961,774</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Fund Managers</b>					
Legal & General	256,425	262,306	267,202	27.78%	27.80%
BlackRock	537,076	509,858	518,243	53.88%	47.20%



The value of the fund increased by £37.3 million between June 2014 and September 2014. Equity gains were the main contributor to the market movements partially due to the positive impact of the strength of the US\$.

The CQS multi sector credit mandate was fully funded on 1<sup>st</sup> September 2014. The value declined slightly during its first month. The first drawdown on the Allianz infrastructure debt fund (£17 million) took place on 25<sup>th</sup> November.

The equity allocation exceeds target by 8%. This is mostly the unfunded Allianz mandate (5%). In addition, property, private equity and index linked (IL) are all around 1% below their benchmark weighting. Action has been taken to increase the allocation to property and there is a proposal on the agenda to further invest in private equity. The IL allocation is discussed in the Mercer papers with training proposed on switching exposure into leveraged IL gilts.

#### **14. Investment Performance Update: to 30th September 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 July to September 2014 and for the 1, 3 and 5 years.

##### 14.1 Whole Fund

	Return	Benchmark	(Under)/Out	WM LA average
Jul-Sep 2014	3.35%	3.23%	0.12%	1.9%
One Year	10.88%	11.41%	(0.53%)	8.6%
Three Years	12.74%	13.09%	(0.35%)	11.8%
Five Years	9.49%	10.07%	(0.58%)	8.9%

<b>One year</b>	Return(%)	Benchmark(%)	Under/out(%)	WM LA Average
Equities				
UK	6.04	6.09	-0.05	5.9%
Developed				
Europe	6.16	6.41	-0.25	5.4%
North				
America	18.88	18.71	0.17	17.9%
Japan	0.81	1.22	-0.41	2.5%
Asia ex Japan	1.23	1.16	0.07	3.6%
Emerging	6.66	6.74	-0.08	7.1%
IL gilts	9.96	9.89	0.07	9.5%
Property	14.83	16.87	-2.04	15.5%
Private equity	18.33	18.25	0.08	12.0%
<b>Total</b>	<b>10.88</b>	<b>11.41</b>	<b>-0.53</b>	<b>8.6%</b>



<b>Five years</b>	Return(%)	Benchmark(%)	Under/out(%)	WM LA Average
Equities				
UK	9.58	9.74	-0.16	10.6%
Developed				
Europe	7.10	6.27	0.83	7.65
North America	14.47	14.67	-0.20	14.5%
Japan	7.09	5.37	1.72	7.3%
Asia ex Japan	6.50	7.08	-0.58	7.5%
Emerging	6.33	4.72	1.61	6.0%
Index linked				
gilts	9.50	8.88	0.62	8.6%
Property	7.45	11.24	-3.79	9.8%
Private equity	11.36	16.68	-5.32	9.5%
<b>Total</b>	<b>9.49</b>	<b>10.07</b>	<b>-0.58</b>	<b>8.9%</b>

- The three longer periods indicate under performance compared with the benchmarks of around 0.5%.
- 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 property and private equity over 3 & 5 years. Individual manager's performance is discussed below.

#### 14.2 BlackRock Investment Management

	Return	Benchmark	(Under)/Out
Jul-Sep 2014	3.23%	3.19%	0.04%
One Year	11.58%	11.54%	0.04%
Since inception (May 2012)	14.64%	14.34%	0.31%

- Total Value at 30/09/14: £509.8 million
- BlackRock manages equities and index linked passively.
- Performance from individual markets varied between +0.05% and – 0.31% over the previous 12 months.

#### 14.3 Legal & General Investment Management



	Return	Benchmark	Variance
Jul-Sep 2014	2.28%	2.56%	(0.28%)
One Year	7.20%	7.84%	(0.64%)
Since inception (May 2012)	10.86%	11.50%	(0.64%)

- Total Value at 30/09/14: £262.3 million
- Variances at regional level are minimal, varying between +0.11% and -0.11% over the last year.
- The underperformance is due to the allocation of assets between markets being out of balance with the benchmark.

#### 14.4 CBRE Global Investors

	Return	Benchmark	(Under)/Out
Jul-Sep 2014	4.31%	4.00%	0.31%
One Year	14.83%	16.87%	(2.04%)
Three Years	7.29%	8.52%	(1.22%)
Five Years	7.45%	11.24%	(3.78%)

- Total Value at 30/09/14: £92.1 million
- The performance of the property has been poor driven by two European holdings that have suffered significant capital loss. The UK element of the portfolio has generally exceeded benchmark.
- The two European funds have been disastrous. With an aggregate cost of £9.7 million, they are now valued at £0.2 million, a virtual total loss. Both funds are invested in highly leverage non prime property (German residential and Italian office / retain). The underlying holdings have suffered during the Euro crisis and the impact has been magnified on unit holders by the high levels of debt in each fund. Both funds are being rationalised which may offer an exit opportunity, but with little recovered value.
- The portfolio will lag the benchmark for many years until the impact of the two European funds passes through.

#### 14.5 Pantheon

	Return	Benchmark	(Under)/Out	Distributions Less drawdowns
Jul-Sep 2014	8.98%	4.56%	4.42%	£1.46m
One Year	18.33%	18.25%	0.08%	£3.59m
Three Years	11.59%	22.81%	-11.22%	£1.56m
Five Years	11.36%	16.68%	-5.32%	£-10.99m

- Total Value at 30/09/14: £37.6 million
- Distributions have exceeded drawdowns during the quarter and the prior year years as the funds moved into the distribution phase of their cycles.
- The performance target is the MCSI Worlds plus 5%. The funds are still relatively young for long term returns to emerge. As yet only 75% of the



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committed funds have been invested and only a quarter of funds invested have been realised. Private equity valuations tend to underestimate exit prices. It is only when the fund is substantially realised will a more accurate picture of performance emerge.

- Compared with the WM local government average, Haringey's private equity portfolio has out-performed the average e.g. by 1.9% p.a. over 5 years.

### 14.6 In house cash

	Value	Average Credit Rating	Average Maturity (days)	Return
At 30/09/14	£1.25m	AA	1	0.35%
At 30/06/14	£8.93m	AA	1	0.35%
At 31/03/14	£1.74m	AAA	1	0.25%
At 31/12/13	£0.92m	AAA	1	0.22%





**16. Budget Management – 6 months to 30<sup>th</sup> September 2014**

	Prior year 2013-14 £'000	Current year 2014-15 £'000	Change in expenditure £'000
<b>Contributions &amp; Benefit related expenditure</b>			
Income			
Employee Contributions	4,300	4,345	45
Employer Contributions	15,200	16,569	1,369
Transfer Values in	1,200	1,184	(16)
<b>Total Income</b>	<b>20,700</b>	<b>22,098</b>	<b>1,398</b>
Expenditure			
Pensions & Benefits	(20,200)	(22,269)	(2,069)
Transfer Values Paid	(1,650)	(790)	860
Administrative Expenses	(400)	(306)	94
<b>Total Expenditure</b>	<b>(22,250)</b>	<b>(23,365)</b>	<b>(1,115)</b>
<b>Net of Contributions &amp; Benefits</b>	<b>(1,550)</b>	<b>(1,267)</b>	<b>283</b>
<b>Returns on investment</b>			
Net Investment Income	1,250	1,973	723
Investment Management Expenses	(800)	(584)	216
<b>Net Return on Investment</b>	<b>450</b>	<b>1,389</b>	<b>939</b>
<b>Total</b>	<b>(1,100)</b>	<b>122</b>	<b>1,222</b>

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

The income shown is virtually all from property as income from other asset classes is automatically re-invested and shown within the change in market value.



## **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(£)
Brook House Primary School	1	30	2,600
TLC	1	1	4,500

## **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.



**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	45.7%	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.
CQS	5%	Multi Sector Credit	3 month GBP Libor + 5.5% p.a.	As benchmark
Allianz	5%	Infrastructure Debt	5.5% p.a	As benchmark
<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	12.4%	2.6%	15.0%
Overseas Equities		22.8%	22.2%	45.0%
North America	FT World Developed North America GBP Unhedged	17.9%	3.8%	21.7%
Europe ex UK	FT World Developed Europe X UK GBP Unhedged	3.1%	4.3%	7.4%
Pacific ex Japan	FT World Developed Pacific X Japan GBP Unhedged	1.4%	2.0%	3.4%
Japan	FT World Developed Japan GBP Unhedged	0.4%	3.1%	3.5%
Emerging Markets	FT World Global Emerging Markets GBP Unhedged	0.0%	9.0%	9.0%
Index Linked Gilts	FTA Index Linked Over 5 Years Index	12.0%	3.0%	15.0%
		47.2%	27.8%	75.0%