



Report for:	Pensions Committee 24 March 2015	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 2014:

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

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 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.
- 5.3 An additional section (19) has been added containing an update on the funding level and actuarial deficit.

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 mainly the loss of value from the European property portfolio. Over the three reported time periods, the fund has achieved a return significantly 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 performances 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 the Independent Advisor

- 8.1 The total value of the Fund at 31 January 2015 was £1,010m. At 31 December 2014 the total value of the Fund was £986m compared to £962m at 31 October 2014 (which was the latest figure available when the Pensions Committee met on 15 December 2014) and £947m at 30 September 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 majority of the Fund is managed on a passive basis.
- 8.3 A particular issue has, however, been the inclusion within the property portfolio of European investments which have performed extremely poorly now having a value of only £0.2m compared to a purchase cost of £9.7m. Unfortunately the Fund diversified into European property in the period not long prior to the beginning of the financial crisis which began in 2007. This was not unusual, as at this time a number of LGPS Funds seeking to diversify their investments entered into European property investment. Very few people anticipated the events which began to unfold in 2007 and consequently an approach which should have benefitted the long term interest of the Fund has clearly not done so.
- 8.4 In accordance with the Fund's manager monitoring procedures Officers together with the Independent Advisor met with the Fund's active investment managers (CBRE, Pantheon, CQS and Allianz) on 16 and 24 February 2015.

9. Equalities and Community Cohesion Comments

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

10. Head of Procurement Comments

- 9.1 Not applicable

11. Policy Implications

- 10.1 None.

12. Use of Appendices

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

13. Local Government (Access to Information) Act 1985



Haringey Council

12.1 Not applicable

Total Portfolio Allocation by Manager & Asset Class

31/12/2014 & 31/01/2015

	Value 30.09.14 £'000	Value 31.12.14 £'000	Value 31.01.15 £'000	Allocation 31.01.2015 %	Strategic Allocation %
Equities					
UK	160,603	159,727	163,935	16.22%	15.00%
North America	248,084	251,151	252,441	24.98%	21.70%
Europe	73,770	72,237	75,308	7.45%	7.40%
Japan	30,933	31,303	33,329	3.30%	3.50%
Asia Pacific	31,879	32,434	33,878	3.35%	3.40%
Emerging Markets	95,957	96,379	100,775	9.97%	9.00%
Total Equities	641,225	643,231	659,667	65.29%	60.00%
Bonds					
Index Linked	130,936	143,300	150,428	14.89%	15.00%
Property					
CBRE	91,014	91,228	94,034	9.31%	10.00%
Private equity					
Pantheon	36,480	37,035	37,101	3.67%	5.00%
Multi sector credit					
CQS	45,000	44,716	44,931	4.45%	5.00%
Infrastructure					
Allianz	-	16,907	16,907	1.67%	5.00%
Cash & NCA					
	2,463	9,128	7,349	0.73%	0.00%
Total Assets	947,118	985,545	1,010,417	100.00%	100.00%
Fund Managers					
Legal & General	262,306	268,514	279,279	27.64%	27.80%
BlackRock	509,858	518,020	530,818	52.53%	47.20%



The value of the fund increased by £38.4 million between September and December 2014. US equities and Index Linked bonds were the main contributor to the market movements.

The first drawdown on the Allianz infrastructure debt fund (£17 million) took place on 25th November.

The equity allocation exceeds target by 5%. This is mostly the unfunded Allianz mandate (3%). In addition, property and private equity are both around 1% below their benchmark weighting. It is anticipated that the Infrastructure debt mandate will be fully funded in 2015.

14. Investment Performance Update: to 31st December 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 October to December 2014 and for the 1, 3 and 5 years.

14.1 Whole Fund

	Return	Benchmark	(Under)/Out	WM LA average
Oct - Dec 2014	4.06%	4.35%	(0.29%)	3.2%
One Year	11.25%	11.87%	(0.62%)	8.2%
Three Years	11.78%	12.25%	(0.47%)	11.1%
Five Years	9.70%	10.19%	(0.49%)	8.9%

One year	Return(%)	Benchmark(%)	Under/out(%)	WM LA Average
Equities				
UK	1.36	1.18	0.18	0.9
Developed				
Europe	-0.06	0.04	-0.10	0.6
North				
America	19.75	19.59	0.16	18.0
Japan	2.39	2.73	-0.34	3.3
Asia ex Japan	2.69	2.82	-0.13	7.0
Emerging	7.73	7.87	-0.14	6.7
I L gilts	21.45	21.38	0.07	20.1
Property	13.40	17.24	-3.84	15.7
Private equity	20.90	15.95	4.95	15.5
Total	11.25	11.87	-0.62	8.2



Five years	Return(%)	Benchmark(%)	Under/out(%)	WM LA Average
Equities				
UK	8.63	8.70	-0.07	9.7
Developed				
Europe	6.91	6.06	0.85	7.0
North America	14.93	15.41	-0.48	15.2
Japan	8.04	6.58	1.46	8.4
Asia ex Japan	5.56	6.31	-0.75	7.1
Emerging	4.77	3.29	1.48	4.6
Index linked				
gilts	11.06	10.53	0.53	10.1
Property	7.56	8.86	-1.30	9.2
Private equity	12.65	15.46	-2.81	10.4
Total	9.70	10.19	-0.49	8.9

- Investment returns from all the asset classes over the last five years have been extraordinarily favourable. WM report that the ten year average local authority return is 7.5% p.a., with equity markets generally close to or above all time highs and bond yields close to record lows.
- Compared to benchmark the fund's returns have underperformed the benchmark by approximately 0.5% over 1, 3 and 5 years.
- 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, in particular overseas, and over the 3 & 5 years private equity. Individual manager's performance is discussed below.

14.2 BlackRock Investment Management

	Return	Benchmark	(Under)/Out
Oct-Dec 2014	5.56%	5.52%	0.04%
One Year	12.49%	12.60%	(0.11%)
Since inception (May 2012)	15.53%	15.24%	0.29%

- Total Value at 31/12/14: £518.0 million
- BlackRock manages equities and index linked passively.
- Performance from individual markets varied between +0.13% (index linked) and – 0.32% (Asia Pacific) over the previous 12 months.

14.3 Legal & General Investment Management

	Return	Benchmark	Variance
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Oct-Dec 2014	2.35%	2.45%	(0.10%)
One Year	7.87%	8.44%	(0.57%)
Since inception (May 2012)	10.75%	11.37%	(0.62%)

- Total Value at 31/12/14: £268.5 million
- Variances at regional level are minimal, varying between +0.09% (UK) and -0.14% (Emerging) 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
Oct-Dec 2014	3.16%	4.60%	(-1.44%)
One Year	13.86%	17.24%	(3.38%)
Three Years	7.82%	8.64%	(0.82%)
Five Years	7.13%	8.86%	(1.73%)

- Total Value at 31/12/14: £94.9 million
- The relative 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 unsuccessful. 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 / retail). 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
Oct-Dec 2014	4.11%	6.03%	(1.92%)	£0.80m
One Year	19.88%	15.95%	3.93%	£4.10m
Three Years	12.01%	20.01%	(8.00%)	£3.20m
Five Years	12.48%	15.46%	(2.98)%	£-9.00m

- Total Value at 31/12/14: £39.1 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 3.5%. The funds are still relatively young for long term returns to emerge. As yet only 75% of the 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.

14.6 CQS (multi sector credit)

The CQS mandate was funded in Q3. The portfolio declined by £0.3 million to £44.7 million as at December.

14.7 Allianz (infrastructure debt)

The initial drawdown of £17 million was completed in Q4. It is anticipated that most of the allocation will be drawn during 2015.

14.8 In house cash

	Value	Average Credit Rating	Average Maturity (days)	Return
At 31/12/14	£2.25m	AAA	1	0.39%
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%



16. Budget Management – 9 months to 31st December 2014

	Prior year 2013-14 £'000	Current year 2014-15 £'000	Change in expenditure £'000
Contributions & Benefit related expenditure			
Income			
Employee Contributions	6,450	6,654	204
Employer Contributions	22,800	24,454	1,654
Transfer Values in	1,800	2,368	568
Total Income	31,050	33,476	2,426
Expenditure			
Pensions & Benefits	(30,300)	(32,181)	(1,881)
Transfer Values Paid	(2,475)	(1,743)	732
Administrative Expenses	(600)	(621)	(21)
Total Expenditure	(33,375)	(34,545)	(1,170)
Net of Contributions & Benefits	(2,325)	(1,069)	1,256
Returns on investment			
Net Investment Income	1,875	3,025	1,150
Investment Management Expenses	(1,200)	(865)	335
Net Return on Investment	675	2,160	1,485
Total	(1,650)	1,091	2,741

The fund had in the previous year moved into a position in which expenditure exceeds income as active membership falls and numbers of pensioners' increases. This has reversed this year through higher contributions from members (post 2014 reforms) and employers (impact of tri-annual valuation) together with rising distributed property income.

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(£)
Fusion	1	1	16,378
Tottenham UTC	2	13	1,278

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.

19. Funding Level Update

19.1 The Actuary has provided an update of the funding level as at 28th February 2015, which is summarised in the table below,



	31-Mar-13	28-Feb-15
Assets	£863m	£1,027m
Liabilities	£1,232m	£1,397m
Funding Level	70%	74%
Deficit	£369m	£370m
Notional fund as a whole future service rate	20.4%	23.5%
Discount rate	4.6%	4.0%
Gilts	3.0%	2.4%
<u>Sensitivity</u>		
Gilts yield	3%	
Funding level		80%
Deficit		£252m
	2%	
Funding level		69%
Deficit		£462m

19.2 Although the funding level has improved, the deficit in monetary terms is unchanged. The key drivers are that investment returns have exceeded assumptions by £104m, whereas the change in gilt yields has added £78m to liabilities.

19.3 The impact of changing gilt yields is to reduce the discount rate to 4% (from 4.6%). This has the impact of increasing the 'fund as a whole notional' future service contribution rate by 3%.

19.4 The sensitivity analysis illustrates the significant impact on deficit and funding levels of relatively small changes in gilt yields.

19.5 When setting contribution rates, the Actuary will adjust the notional contributions above to factor in a return assumption based on the funds investment policy.



Appendix 1 – Investment Managers mandates, benchmarks and targets

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
BlackRock Investment Management	47.2%	Global Equities & Bonds	See overleaf	Index (passively managed)
Legal & General Investment Management	27.8%	Global Equities & Bonds	See overleaf	Index (passively managed)
CQS	5%	Multi Sector Credit	3 month libor + 5.5% p.a	Benchmark
Allianz	5%	Infrastructure Debt	5.5% p.a.	Benchmark
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 3.5%	Benchmark
Total	100%			



Asset Class	Benchmark	BlackRock Investment Management	Legal & General Investment Management	Total
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%