

Report title: Fund performance update

Report of: Chief Financial Officer

Ward(s) affected: All

Report for: Information

1. Purpose

- 1.1 To consider the latest investment performance data for the Pensions Fund and for each of the Fund's investment managers.
- 1.2 To report 2007/08 budget monitoring to the end of October 2007.
- 1.3 To report progress in organising a half days trustee training event in January 2008 and details of a three day course for later in 2008.

2. Recommendations

- 2.1 That the Fund performance position as at end of September 2007 be noted.
- 2.2 That the budget monitoring position to end of October 2007 (period 7) be noted.
- 2.3 That proposed trustee training be agreed.



Report authorised by: Gerald Almeroth – Chief Financial Officer

Contact officer: John Hardy, Head of Finance-Budgeting, Projects & Treasury
(tel no: 020 8489 3726)

3. Executive Summary

This report sets out the fund performance to end of September 2007, budget monitoring to end of October 2007 (period 7) and details of proposed trustee training.

4. Reasons for any change in policy or for new policy development (if applicable)

No changes are proposed.

5. Local Government (Access to Information) Act 1985

The following background papers were used in the preparation of this report:

Northern Trust performance monitoring reports

Fund performance update report to Pensions Committee on 10 September 2007

6. Background

6.1 The investment performance of the Pensions Fund was last reported to Pensions Committee in September 2007. That report covered the period up to 30 June 2007, at which time the following points were noted:

- Since monitoring against the new benchmark commenced on 1 April 2007, the combined Haringey fund has increased in absolute terms by 3.08 per cent up to 30 June 2007, out performed the benchmark by 0.13% but under performed the gross target by 0.28%.
- Up to the end of June 2007 performance by Fund Manager was as follows:
 - Bernstein's Global Equity and UK Equity mandates have exceeded target by 2.42% and 0.13% respectively,
 - Fidelity's Bond mandate is ahead of target by 0.02% but their Equity mandate is below benchmark by 1.04%,
 - Capital's Equity and Bond mandates are below target by 0.13% and 0.02% but ahead of benchmark by 0.37% and 0.23%,
 - ING are below target by 0.08% but ahead of benchmark by 0.17%.

7. Combined Fund Performance

7.1 The last performance update to Pensions Committee on 10 September 2007 informed trustees that our new investment structure was largely implemented on 16 March 2007. This report shows performance monitoring against the new benchmarks from 1 April 2007.

7.2 Performance of the combined Haringey fund compared to benchmark and target for the three months and six months periods to end of September 2007 is shown below. The target is shown gross of Fund Managers fees and assumes that returns above benchmark are achieved evenly throughout the year.

	3 months to end of September 2007	6 months to end of September 2007
	%	%
Overall fund performance	+0.63	+3.73
Benchmark	+1.04	+4.03
Performance versus benchmark	-0.41	-0.30
Overall fund performance	+0.63	+3.73
Target	+1.45	+4.85
Performance versus target	-0.82	-1.12

7.3 This shows that in the six months period to September 2007:

The performance of the combined Haringey fund has increased in absolute terms by 3.73%, the fund under performed the new benchmark by 0.30% and under performed the target by 1.12%.

7.4 Appendix 1 shows the following for the combined fund as at end of September 2007 and 2006 for comparative purposes: (1) top ten shares held and (2) fund holdings.

8. Fund Manager Performance

8.1 Appendix 2 shows for each Fund Manager investment performance to end of September 2007, compared to benchmarks and targets as supplied by our Custodian Northern Trust. As stated in paragraph 7.1 this is the second quarter since the new benchmarks were incepted, consequently we have limited historic data.

8.2 The new performance targets for each Fund Manager's mandates are shown below. They denote the percentage annual return above benchmark over a rolling 3 year period. The table also includes Pantheon, Investec and Record for completeness – we have made a £1.9 million first call in the Pantheon USA fund to date although at this stage there are no performance numbers. We are in the process of finalising agreements with Investec and Record and therefore no investments have been made to date.

Bernstein – global equities	3.0% gross of fees
Bernstein – UK equities	2.0% gross of fees
Capital - equities	2.0% gross of fees
Capital - bonds	1.0% gross of fees
Fidelity - equities	1.7% gross of fees
Fidelity - bonds	0.6% gross of fees
ING	1.0% gross of fees
Pantheon – private equity	0.75% management fees
Investec – active currency	1.5% net of fees
Record – active currency	1.5% net of fees

8.3 Our latest quarterly meetings took place on 15 November 2007 between each Fund Manager (including Pantheon –where meetings will be half yearly), the Independent Advisor to trustees and the Head of Finance – Budgeting, Projects & Treasury. A summary of the key issues discussed at those meetings is set out below.

8.3.1 **Bernstein**

- Performance to date.
- Volatility in the market/credit crunch.
- New investment structure.
- Review of our Responsible Investment policy.

8.3.2 **Capital International**

- Performance to date.
- Volatility in the market/credit crunch.
- New investment structure.
- Review of our Responsible Investment policy.

8.3.3 **Fidelity**

- Performance to date.
- Volatility in the market/credit crunch.
- New investment structure – including progress in approving agreed changes to the fixed income mandate.
- Review of our Responsible Investment policy.

8.3.4 **ING**

- Performance to date.
- Volatility in the property market and future estimated returns.
- Investment opportunities to become fully invested to increased property benchmark.
- How Responsible Investments links in with property investments.

8.3.5 **Pantheon**

- Performance to date.
- Cash flow projections for making calls to funds.
- Closing date to invest in the European Fund.
- How Responsible Investments links in with private equity investments.

9. **Conclusions**

9.1 Since monitoring against the new benchmark commenced on 1 April 2007, the combined Haringey fund has increased in absolute terms by 3.73 per cent up to 30 September 2007, under performed the gross benchmark by 0.30% and also under performed the gross target by 1.12%.

9.2 There has been much volatility in the market over the past period due to credit issues that have arisen and are linked to the sub prime mortgage market in USA. This has impacted upon the performance of our portfolio and is still ongoing. We are monitoring the position carefully.

9.3 ING advise me that UK property will be affected by the 'global credit crunch'. Liquidity has been impaired, markets have already factored in a modest downturn, Europe will continue to add value (average of 7.7 per cent per annum in the period 2008 to 2010 and 15 per cent in 2007) and UK returns are estimated to average 5 per cent in the period 2008 to 2010. In the current year the UK return has reduced to 0.1 per cent.

9.4 Up to the end of September 2007 performance by Fund Managers was as follows:

- Bernstein's Global Equity and UK Equity mandates have under performed the targets by 1.23% and 1.67% respectively. The Global Equity mandate is 0.27% above benchmark.
- Fidelity's Bond mandate is ahead of target by 0.06% but their Equity mandate is below target 0.88%,
- Capital's Equity and Bond mandates are below target by 0.15% and 1.27%. Their equity mandate is 0.85% above benchmark.
- ING are below target by 0.12% but ahead of benchmark by 0.38%.

10. Budget monitoring for 2007/08 to end of October 2007

10.1 The Budget monitoring analysis to period 7 (end of October 2007) is attached in Appendix 3.

10.2 Significant variances to date are:

- transfer values paid and received where the volume will vary by year and timing within the year,
- capital costs are dependent upon approvals made,
- the amount of lump sums paid vary by year and timing within the year,
- employer contributions that are dependent on the number and grades of staff transferring into and out of the scheme,
- investment management expenses that are influenced by the timing of receipt of invoices from Fund Managers and market values,
- investment income that is dependent upon investments made.

10.3 In overall terms the budget is on target. The current surplus is being monitored carefully so that any net gain is invested at the appropriate time in line with the agreed investment strategy. The majority of current years in-house surpluses are earmarked to fund our private equity investments.

11. Invested cash

11.1 As previously explained part of the strategic review of the fund, trustees approved an increase in property holdings from 6% to 10%. Pending the identification of suitable investment opportunities by our Property manager ING, an amount of cash equivalent to the increased holding has been ring fenced and invested for periods of up to 12 months on the money market. The Council's standard treasury risk protocols were followed when investing the money. The cash (approximately £18million) is shown on the Pensions Fund Balance sheet at the end March 2007. These funds are being released to ING as opportunities arise and it is envisaged that the Property mandate will be almost fully funded and the cash utilised by end of March 2008. Currently we have £10 million invested for this purpose.

12. Trustee Training

- 12.1 Further to it being agreed at the last meeting of the Committee that a half day trustee training session be arranged we plan for this to take place in the week commencing 21 January 2008 subject to availability of trustees. A suitable date will be agreed soon and communicated. It is planned following feedback from trustees that the training cover the following subjects and the session be run by Howard Jones and Hymans Robertson.

Howard Jones - using grids and fund manager booklets as a starting-point

1. Equities
2. Bonds
3. Indices
4. Difference between asset allocation/stock selection
5. Costs of trading
6. Active versus passive management
7. Questioning fund managers

Hymans Robertson

1. Asset/liability matching
2. Allocation between asset classes
3. How funding level is calculated
4. Managing and monitoring long-term performance

- 12.2 Local Government Employers (LGE) run each year a three day course that covers the fundamentals of local government pensions. The aim is to deliver a single, high-quality training course using expert speakers covering all aspects of the scheme, including both benefits and fund administration as well as a particular focus on investments. It is suggested that it would be beneficial for all members of the Committee to attend this three day course in 2008 which is likely to take place in October to December 2008 (one day per month). The chair has attended the course and found it to be very useful. Cost of the training is £480 for a three day course so in total will be approximately £4,300. This will be charged to the Pensions Fund if agreed.

13. Unit costs

- 13.1 As part of consideration of the Business Plan for 2007/08 the Committee asked to see Haringey's unit costs for 2006/07 although the data for other authorities is not available for comparative purposes as yet.
- 13.2 Unit costs are measured against the SF3, a Government standard that benchmarks the costs of running the scheme. The results of the latest SF3 benchmark that has been published are given below with Haringey's 2006/07 data also shown. The information is given as a cost per scheme member.
- 13.3 Haringey is an outer London Borough with inner London characteristics and therefore this has been used as a comparator. In 2005/06 Haringey's total costs for administration and fund management per scheme member was below the average for inner London Boroughs.
- 13.4 However, Fund Management costs per scheme member was marginally above the average for inner London Boroughs. Our last two full reviews of investment strategy have been thorough and concluded on active versus passive (deciding on active).
- 13.5 The Committee made their decisions following advice from the Chief Financial Officer and Hymans Robertson. Active management was deemed to be in the best interests of the fund in order to maximise our returns after taking account of fund management fees. This will be monitored rigorously by officers and at Pensions Committee. Investment strategy is reviewed when deemed appropriate.

13.6 SF3 Data – 2005/06 – Per Capita Administration Costs

SF3 Data 2005/06	Admin Costs (£ psm)	Fund Management (£ psm)	Total (£ psm)
Inner London	£50.69	£123.75	£174.44
Outer London	£47.51	£84.37	£131.88
Haringey Council	£35.94	£126.37	£162.31
Haringey Council (2006/07)	£37.48	£131.72	£169.20

Cost per scheme member has been calculated as the total cost divided by the total number of scheme members.

APPENDIX 1

TOP TEN SHARES HELD

Shares	As at 30 September 2007			As at 30 September 2006		
	Rank	Percentage of Fund	Market Value	Rank	Percentage of Fund	Market Value
		%	£'000		%	£'000
1. Shell	1	3.2	14,665	1	3.5	14,399
2. Vodafone	2	2.4	10,880	2	3.2	13,296
3. BP	3	2.0	9,213	6	2.1	8,803
4. RBS	4	2.0	8,915	4	3.0	12,212
5. HSBC	5	1.5	6,654	8	1.7	7,037
6. HBOS	6	1.4	6,450	5	2.6	10,673
7. Glaxosmithkline	7	1.4	6,351	10	1.2	4,953
8. Astrazeneca	8	1.4	6,323	3	3.1	12,886
9. Rio Tinto	9	1.3	6,093			
9. Aviva				9	1.4	5,649
10. Barclays	10	1.3	5,885	7	1.9	7,817

FUND HOLDINGS

Fund Holdings	As at 30 September 2007		As at 30 September 2006	
	Percentage of Fund	Market Value	Percentage of Fund	Market Value
	%	£'000	%	£'000
UK equities	25.4	161,933	35.9	205,811
Overseas equities	20.9	133,400	22.1	126,863
Pooled investment vehicles	34.4	219,063	19.4	111,117
Index-linked securities	4.0	25,502	3.6	20,484
Fixed interest securities	6.6	41,864	11.6	66,753
Cash	2.9	18,558	1.4	8,160
Property	5.8	36,812	6.0	34,576
Totals	100.0	637,132	100.0	573,764

APPENDIX 3

PENSIONS FUND

BUDGET MONITORING - PERIOD 7 (END OF OCTOBER) 2007

	2007/08 Budget £'000	Plan to period 7 £'000	Actual to period 7 £'000	Over/under (-) to Period 7 £'000	Explanations of variations
Income					
Contributions and benefits:					
Employee Contributions	(8,600)	(5,017)	(4,988)	29	
Employer Contributions	(29,800)	(17,383)	(18,261)	(878)	Dependent on number and grade of staff transferring into and out of scheme
Transfer Values Received	(5,000)	(2,917)	(2,503)	414	Volume and timing varies
Capital costs	(900)	(525)	(104)	421	Dependent upon approvals made
Total income	(44,300)	(25,842)	(25,856)	(14)	
Expenditure:					
Pensions and other benefits	22,500	13,125	13,174	49	
Lump sums	2,800	1,633	2,419	786	Volume and timing varies
Transfer values paid	5,000	2,917	2,127	(790)	Volume and timing varies
Refunds on contributions	50	29	20	(9)	
Administrative expenses	650	379	347	(32)	
Total expenditure	31,000	18,083	18,087	4	
Net addition from dealings with members	(13,300)	(7,758)	(7,769)	(11)	
Returns on Investment:					
Investment income	(19,000)	(11,083)	(9,905)	1,178	Difficult to estimate
Investment management expenses	1,700	992	344	(648)	Timing of receipt of Fund Managers invoices
Investment administration expenses	700	408	43	(365)	Timing of receipt of Fund Managers invoices
Net return on investments	(16,600)	(9,683)	(9,518)	165	