



**Haringey** Council

**Pensions Committee**

**On 13 March 2008**

**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 December 2007.

**2. Recommendations**

- 2.1 That the Fund performance position as at end of December 2007 be noted.
- 2.2 That the budget monitoring position to end of December 2007 (period 9) be noted.

**Report authorised by: Kevin Bartle – Head of Corporate Finance**

**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 December 2007 and budget monitoring to end of December 2007 (period 9).

### **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 4 December 2007.

## **6. Background**

6.1 The investment performance of the Pensions Fund was last reported to Pensions Committee in December 2007. That report covered the period up to 30 September 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 3.73 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%.
- Up to the end of September 2007 performance by Fund Manager 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 by 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%.

## 7. Combined Fund Performance

7.1 The last performance update to Pensions Committee on 4 December 2007 reminded 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 nine months periods to end of December 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 December 2007	9 months to end of December 2007
	%	%
Overall fund performance	- 0.84	+2.86
Benchmark	+0.32	+4.36
<b>Performance versus benchmark</b>	<b>-1.16</b>	<b>-1.50</b>
Overall fund performance	- 0.84	+2.86
Target	+0.73	+5.59
<b>Performance versus target</b>	<b>-1.57</b>	<b>-2.73</b>

7.3 This shows that in the nine months period to December 2007:

The performance of the combined Haringey fund has increased in absolute terms by 2.86%, the fund under performed the new benchmark by 1.50% and under performed the target by 2.73%.

7.4 Appendix 1 shows the following for the combined fund as at end of December 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 December 2007, compared to benchmarks and targets as supplied by our Custodian Northern Trust. As stated in paragraph 7.1 this is the third 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 had five calls on the Pantheon USA fund totalling £2.7 million 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% gross of fees
Investec – active currency	2% gross of fees
Record – active currency	2% gross of fees

8.3 Our latest quarterly meetings took place on 3 March 2008 between each Fund Manager (excluding Pantheon –where meetings are 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 markets/credit crunch.
- Future outlook for markets.
- Review of our Responsible Investment policy.

#### 8.3.2 **Capital International**

- Performance to date.
- Volatility in markets/credit crunch.
- Future outlook for markets.
- Review of our Responsible Investment policy.

#### 8.3.3 **Fidelity**

- Performance to date. Fidelity are in dialogue with Northern Trust to correct performance in line with their calculations/methodology. This piece of work is not concluded yet.
- Volatility in the market/credit crunch.
- Future outlook for markets.
- Agreed changes to the fixed income mandate to be implemented on 1 April 2008.
- 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.

### 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 2.86% per cent up to 31 December 2007, under performed the gross benchmark by 1.50% and also under performed the gross target by 2.73%.

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

- Bernstein's Global Equity and UK Equity mandates have under performed the gross targets by 6.93% and 5.20% respectively.
- As previously mentioned Fidelity are in dialogue with Northern Trust to correct performance in line with their calculations/methodology. Appendix 2 shows performance as provided by Northern Trust. Assuming that Fidelity's calculations are correct the equity mandate is 0.4% above target and the bonds mandate 0.1% below target in the 9 month period to end of December 2007. I am also in dialogue with Northern Trust to clarify the position as soon as possible. The issue has been caused by the rebating of fees in each mandate.
- Capital's Equity and Bond mandates are below target by 2.78% and 2.87%.
- ING are ahead of target by 0.57%.

## **10. Budget monitoring for 2007/08 to end of December 2007**

10.1 The Budget monitoring analysis to period 9 (end of December 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. As at 31 December £8.9 million had been released to ING to fund investments including £ 7.1 million to fund European acquisitions. The downturn in the property market will impact on the timing of future investments such that the mandate is unlikely to be fully funded until the end of 2008.

## APPENDIX 1

## TOP TEN SHARES HELD

Shares	As at 31 December 2007			As at 31 December 2006		
	Rank	Percentage of Fund	Market Value	Rank	Percentage of Fund	Market Value
		%	£'000		%	£'000
1.Shell	1	3.19	14,463	1	3.8	16,295
2.Vodafone	2	2.4	10,706	3	2.8	12,112
3.BP	3	2.1	9,664	6	2.0	8,850
4.Royal Bank Scotland	4	1.7	7,654	2	3.4	14,656
5.Glaxosmithkline	5	1.5	6,619	9	1.4	5,931
6.HBOS	6	1.4	6,276	4	2.5	10,734
7.Rio Tinto	7	1.2	5,521			
8.Barclays	8	1.2	5,320	7	2.0	8,773
9.HSBC	9	1.1	5,056	8	1.6	7,050
10.Aviva	10	1.1	4,972	10	1.2	5,321
Astrazeneca				5	2.5	10,708

## FUND HOLDINGS

Fund Holdings	As at 31December 2007		As at 31December 2006	
	Percentage of Fund	Market Value	Percentage of Fund	Market Value
	%	£'000	%	£'000
UK equities	25.40	161,383	36.08	216,524
Overseas equities	22.31	141,786	22.23	133,383
Pooled investment vehicles	34.32	218,129	19.37	116,211
Index-linked securities	4.27	27,112	3.68	22,094
Fixed interest securities	6.45	40,972	11.25	67,512
Cash	2.37	15,046	1.72	10,305
Property	4.88	31,062	5.67	34,035
<b>Totals</b>	<b>100.00</b>	<b>635,490</b>	<b>100.00</b>	<b>600,064</b>





## APPENDIX 3

## PENSIONS FUND

## BUDGET MONITORING - PERIOD 9 (END OF DECEMBER) 2007)

	2007/08 Budget £'000	Plan to period 9 £'000	Actual to period 9 £'000	Over/under (-) to Period 9 £'000	Explanations of variations
<b>Income</b>					
Contributions and benefits:					
Employee Contributions	(8,600)	(6,450)	(6,552)	(102)	
Employer Contributions	(29,800)	(22,350)	(23,960)	(1,610)	Dependent on number and grade of staff transferring into and out of scheme
Transfer Values Received	(5,000)	(3,750)	(3,648)	102	Volume and timing varies
Capital costs	(900)	(675)	(349)	326	Dependent upon approvals made
<b>Total income</b>	<b>(44,300)</b>	<b>(33,225)</b>	<b>(34,509)</b>	<b>(1,284)</b>	
<b>Expenditure:</b>					
Pensions and other benefits	22,500	16,875	16,758	(117)	
Lump sums	2,800	2,100	3,173	1,073	Volume and timing varies
Transfer values paid	5,000	3,750	3,173	(577)	Volume and timing varies
Refunds on contributions	50	38	9	(29)	
Administrative expenses	650	488	433	(55)	
<b>Total expenditure</b>	<b>31,000</b>	<b>23,250</b>	<b>23,546</b>	<b>296</b>	
<b>Net addition from dealings with members</b>	<b>(13,300)</b>	<b>(9,975)</b>	<b>(10,963)</b>	<b>(988)</b>	
<b>Returns on Investment:</b>					
Investment income	(19,000)	(14,250)	(11,509)	2,741	Difficult to estimate
Investment management expenses	1,700	1,275	317	(958)	Timing of receipt of Fund Managers invoices, Funding Private Equity mandate
Investment administration expenses	700	525	131	(394)	Timing of receipt of Fund Managers invoices
<b>Net return on investments</b>	<b>(16,600)</b>	<b>(12,450)</b>	<b>(11,061)</b>	<b>1,389</b>	