



<b>Report for:</b>	<b>Pensions Committee</b> 10 <sup>th</sup> September 2015	<b>Item number</b>	
<b>Title:</b>	<b>Investment Quarterly Update</b>		
<b>Report authorised by :</b>	<b>Assistant Director – Finance</b>		
<b>Lead Officer:</b>	George Bruce, Head of Finance – Treasury & Pensions george.bruce@haringey.gov.uk 020 8489 3726		
<b>Ward(s) affected:</b> N/A	<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> June 2015:
- Investment asset values & allocation
  - Investment performance
  - Income & Expenditure
  - Communications
  - Late payment of contribution

## **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 30<sup>th</sup> June 2015 is noted.

## **4. Other options considered**

- 4.1 None.



## 5. Background information

- 5.1 This update report is produced quarterly. 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 At the time of writing the report, equity markets have been highly volatile due to concerns with the slowing growth of the Chinese economy and the impact that this will have on commodities, commodity producers and exporters. Equity prices have declined sharply, particularly in Asia, but also USA and Europe. An update on the value of the fund will be provided to the meeting.
- 5.3 Information on communication with stakeholders has been provided by officers in Human Resources and included in section 18.

### Issues Impacting Fund Managers

#### Legal & General and BlackRock

- 5.4 The July meeting agreed that the BlackRock assets should be transferred to Legal & General following a tender. The transfer took place week commencing 24<sup>th</sup> August and involved £540 million of equities, index linked bonds and cash being transferred. At the time of writing, no issues have arisen and both managers and the custodian (Northern Trust) have given high priority to the transfer. A report on the cost of moving the assets will be prepared by Legal & General and circulated to the Committee.
- 5.5 L&G will rebalance the equity holdings to benchmark as part of the take on of assets.

#### CBRE

- 5.6 A meeting was held with CBRE on 17<sup>th</sup> August to discuss the portfolio and the impact of the departure of the portfolio manager, Emma Kenyon. A note on the meeting prepared by the Independent Advisor is attached in the exempt agenda. Key points to note are the expected healthy property returns in 2015 to 2017, with a correction in valuations expected in 2018. Performance of the portfolio has been patch with retail elements underperforming. CBRE's plan to reduce the retail weighting with increases to offices outside London and industrial.
- 5.5 CBRE discussed the merits of including a global element in the benchmark. The current benchmark is entirely UK based, although the manager has the



ability to invest up to 25% in Continental Europe. It was acknowledged that the performance of past European investments was not a strong encouragement to investing outside the UK. It is proposed that CBRE provide training on Global property opportunities comparing with the UK market.

#### Pantheon

- 5.5 The aggregate commitments of \$75 million to the Pantheon Global Select and Secondaries funds have been completed. Catch up capital calls of \$6.4 million have paid to Pantheon.

#### Allianz

- 5.7 Haringey allocated £45 million to the Allianz infrastructure debt fund in 2014, of which £20 million has been invested. Allianz anticipate closing the debt fund to new investors in quarter 4, 2015 following the admission of additional investors. These additional investors will pay a catch up call, which will be used to return capital to existing investors, with Haringey receiving an estimated £11 million that will be re-invested as new opportunities are found. Investments in the UK have been harder to find as the Government is using low cost internal funding rather than external finance and as a consequence competition has reduced returns below acceptable levels. This will delay the deployment of cash into 2016 and possibly beyond. Cash that is not invested is currently held in equities.
- 5.8 Allianz offered the opportunity to increase our commitment level, but this was declined as the debt fund will be concentrated across only 5-10 investments.

#### CQS

- 5.9 The holdings in the CQS Credit Multi Asset Fund have been switched into new share class I2, reducing the fees from 0.75% to 0.65%. CQS have introduced this new share class to standardise fees across \$, € and £ mandates. This will save £46,000 a year in fees.

#### Market Developments 2014-15

- 5.10 The Independent Advisor's annual comments on market developments is attached (appendix 3).

### **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.



## **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 30<sup>th</sup> June 2015 was £1,012m. At 31 March 2015 the total value of the Fund was £1,039m. This small reduction of £27m equivalent to approximately 3% was primarily due to a limited retreat in equity markets mainly in June 2015. This was influenced by the latest “Greek crisis” the position in respect of which remained very uncertain during June 2015.
- 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 Officers together with the Independent Advisor met with CBRE on 17 August 2015 and with Allianz on 19 August 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**



**Haringey Council**

10.1 None.

## **12. Use of Appendices**

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

11.2 Appendix 2: Notes on meeting with CBRE prepared by the Independent Advisor

The information contained in Appendix 2 is not for publication as it contains information classified as exempt under Schedule 12A of the Local Government Act in that it contains information relating to the business or financial affairs of any particular person (including the Authority holding that information).

11.3 Appendix 3: Market Background 2014-15

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

12.1 Not applicable



30/06/2015 & 31/07/2015

	Value 31.03.15 £'000	Value 30.06.15 £'000	Value 31.07.15 £'000	Allocation 31.07.2015 %	Strategic Allocation %
<b>Equities</b>					
UK	167,209	164,665	168,613	16.46%	15.00%
North America	266,040	251,755	258,058	25.19%	21.70%
Europe	80,091	75,406	78,841	7.70%	7.40%
Japan	36,418	35,603	36,066	3.52%	3.50%
Asia Pacific	35,214	32,319	31,584	3.08%	3.40%
Emerging Markets	103,138	99,393	93,311	9.11%	9.00%
<b>Total Equities</b>	<b>688,110</b>	<b>659,141</b>	<b>666,472</b>	<b>65.06%</b>	<b>60.00%</b>
<b>Bonds</b>					
Index Linked	<b>148,054</b>	<b>143,215</b>	<b>147,770</b>	14.42%	<b>15.00%</b>
<b>Property</b>					
CBRE	<b>94,738</b>	<b>100,225</b>	<b>101,963</b>	9.95%	<b>10.00%</b>
<b>Private equity</b>					
Pantheon	<b>35,858</b>	<b>35,911</b>	<b>37,800</b>	3.69%	<b>5.00%</b>
<b>Multi sector credit</b>					
CQS	<b>45,750</b>	<b>46,108</b>	<b>46,108</b>	4.50%	<b>5.00%</b>
<b>Infrastructure</b>					
Allianz	<b>17,260</b>	<b>19,731</b>	<b>19,731</b>	1.93%	<b>5.00%</b>
<b>Cash &amp; NCA</b>					
	<b>9,296</b>	<b>7,950</b>	<b>4,581</b>	0.45%	<b>0.00%</b>
<b>Total Assets</b>	<b>1,039,067</b>	<b>1,012,280</b>	<b>1,024,425</b>	<b>100.00%</b>	<b>100.00%</b>
<b>Fund Managers</b>					
Legal & General	289,641	277,690	275,879	<b>26.93%</b>	<b>27.80%</b>
BlackRock	546,524	524,668	538,365	<b>52.55%</b>	<b>47.20%</b>



The value of the fund decreased by £27 million between March and June 2015 as equity markets gave back some of their previous gains.

The equity allocation exceeds target by 5%. This is mostly the unfunded Allianz mandate (3%). In addition private equity is around 1.5% below their benchmark weighting. It is anticipated that the Infrastructure debt mandate will be fully funded in 2016, this is later than originally anticipated.

#### **14. Investment Performance Update: to 30th June 2015**

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
Apr - Jun 2015	-2.61%	-2.77%	0.16%
One Year	10.42%	10.66%	(0.24%)
Three Years	11.60%	12.09%	(0.49%)
Five Years	10.48%	10.90%	(0.42%)

<b>One year</b>	Return(%)	Benchmark(%)	Under/out(%)
Equities			
UK	2.71	2.60	0.11
Developed			
Europe	1.37	1.37	0.00
North			
America	15.25	15.05	0.20
Japan	19.01	19.03	-0.02
Asia ex Japan	-0.49	-0.62	0.13
Emerging	6.63	6.73	-0.10
I L gilts	15.83	15.75	0.08
Property	15.04	15.52	-0.48
Private equity	20.05	14.68	5.37
<b>Total</b>	<b>10.42</b>	<b>10.66</b>	<b>-0.24</b>



<b>Five years</b>	Return(%)	Benchmark(%)	Under/out(%)
Equities			
UK	10.61	10.74	-0.13
Developed			
Europe	10.70	9.50	1.20
North America	15.12	15.26	-0.14
Japan	9.47	8.20	1.27
Asia ex Japan	6.29	6.57	-0.28
Emerging	5.09	3.62	1.47
Index linked			
gilts	10.09	N/A	N/A
Property	7.88	9.54	-1.66
Private equity	11.70	16.49	-4.79
<b>Total</b>	<b>10.48</b>	<b>10.90</b>	<b>-0.42</b>

- 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 to March 2015 is 7.5% p.a.
- 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
Apr - Jun 2015	-4.04%	-3.94%	(0.10%)
One Year	10.32%	10.36%	(0.04%)
Since inception (May 2012)	13.31%	13.11%	0.20%

- Total Value at 30/06/15: £524.7 million
- BlackRock manages equities and index linked passively.
- Performance from individual markets varied between +0.23% (North America) and – 0.25% (Japan) over the previous 12 months.

#### 14.3 Legal & General Investment Management





	Return	Benchmark	Variance
Apr - Jun 2015	-4.18%	-4.18%	(0.00%)
One Year	8.18%	8.76%	(0.58%)
Since inception (May 2012)	10.09%	10.67%	(0.58%)

- Total Value at 30/06/15: £277.7 million
- Variances at regional level are minimal, varying between +0.13% (UK) and -0.11% (Asia Pacific ex Japan) 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
Apr - Jun 2015	4.07%	3.30%	0.77%
One Year	15.09%	15.55%	(0.46%)
Three Years	10.41%	11.34%	(0.93%)
Five Years	7.88%	9.54%	(1.66%)

- Total Value at 30/06/15: £101.7 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, although the retail element has struggled in the last 12 months.
- 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 / 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
Apr - Jun 2015	4.19%	(4.30%)	8.49%	£1.37m
One Year	20.05%	14.68%	5.37%	£4.73m
Three Years	13.16%	18.75%	(5.59%)	£5.30m
Five Years	11.70%	16.49%	(4.79%)	£-6.96m

- Total Value at 30/06/15: £40.9 million
- Distributions have exceeded drawdowns during the quarter and the prior three 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 increased by £1.1 million to £46.1 million as at June 2015.

#### 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 30/06/15	£0.2M	AA	1	0.45%
At 31/03/15	£3.92M	AAA	1	0.38%
At 31/12/14	£2.25m	AAA	1	0.39%
At 30/09/14	£1.25m	AA	1	0.35%



## 16. Budget Management – 3 months to 30<sup>TH</sup> June 2015

	Prior year 2014-15 £'000	Current year 2015-16 £'000	Change in expenditure £'000
<b>Contributions &amp; Benefit related expenditure</b>			
Income			
Employee Contributions	2,225	2,301	76
Employer Contributions	8,400	8,405	5
Transfer Values in	775	310	(465)
<b>Total Income</b>	<b>11,400</b>	<b>11,016</b>	<b>(384)</b>
Expenditure			
Pensions & Benefits	(10,775)	(10,962)	(187)
Transfer Values Paid	(925)	(525)	400
Administrative Expenses	(213)	(132)	81
<b>Total Expenditure</b>	<b>(11,913)</b>	<b>(11,619)</b>	<b>294</b>
<b>Net of Contributions &amp; Benefits</b>	<b>(513)</b>	<b>(603)</b>	<b>(90)</b>
<b>Returns on investment</b>			
Net Investment Income	1,050	1,118	68
Investment Management Expenses	(600)	(78)	522
<b>Net Return on Investment</b>	<b>450</b>	<b>1,040</b>	<b>590</b>
<b>Total</b>	<b>(63)</b>	<b>437</b>	<b>500</b>

The fund continues to have a small surplus of income over expenditure, although that is likely to diminish later in the year.

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.



**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	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
<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%