Report for:	Pensions Committee 22nd November 2016
Item number:	**11**
Title:	Pension Fund Quarterly Update
Report authorised by:	Tracie Evans, Chief Operating Officer (COO)
Lead Officer:	Oladapo Shonola, Head of Finance - Treasury & Pensions oladapo.shonola@haringey.gov.uk 02084893726
Ward(s) affected:	N/A
Report for Key/ Non Key Decision:	Non Key decision

1. Describe the issue under consideration

1.1. To report the following in respect of the three months to 30th September 2016:

- 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 30th September 2016 is noted.

4. Reason for Decision

4.1. N/A

5. Other options considered

5.1. None

6. Background information

6.1. 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 11 and 12 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.

7. Contribution to Strategic Outcomes

7.1. Not applicable

8. Statutory Officers comments (Chief Operating Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

8.1. The Chief Operating Officer has been consulted on this report and there is no financial impact from the recommendations in this report.

Legal Services Comments

8.2. 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;

8.3. 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;

8.4. 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;

8.5. All monies must be invested in accordance with the Funding Strategy Statement and 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.

Comments of the Independent Advisor

8.6. The total value of the Fund at 30th September 2016 was £1,199m. At 30th June 2016 the total value of the Fund was £1,112m compared to £1,046m at 31st March 2016. The value of the Fund has seen gradual and continuous increase over the last several quarters.

8.7. The overall performance of the Fund over the last Quarter, Year and Three Years is close to benchmark (see section 12.1). A major contributor to this is the recent steady performance of stock markets globally. As a significant proportion of the Fund is invested in passive funds, the Fund assets have experienced similar growth to that of the markets.

8.8. The inclusion of European investments within the property portfolio which have performed extremely poorly (currently having nil value compared to a purchase cost of £9.7m) continue to present a challenge and adversely impact longer term performance.

Equalities

8.10 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.

9. Use of Appendices

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

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

11. Portfolio Allocation Against Benchmark

11.1. The value of the fund increased by £87m million between July and September 2016. All asset class in the portfolio other than private equities overperformed or in line with benchmark in the quarter. In particular, equities had a strong quarter with North America contributing the most to gains. However, the asset class with the strongest performance for the quarter was index linked gilts with returns of approximately 11%.

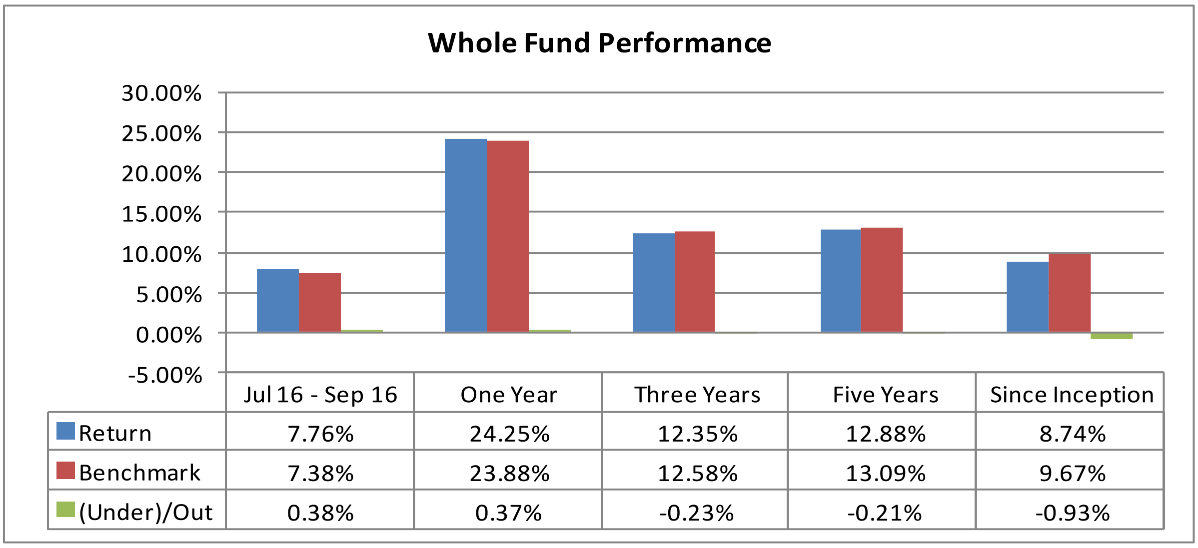
11.2. The equity allocation exceeds target by 4.7%. This is mostly due to the unfunded Allianz mandate. The infrastructure debt investment manager has requested for an extension to July 2017 which the Fund has agreed to.

Total Portfolio Allocation by Manager and Asset Class

	Value	Value	Value	Allocation	Strategic	Variance
	31.03.2106	30.06.2106	30.09.2106	30.09.2016	Allocation	
	£'000	£'000	£'000	%	%	%
Equities						
UK	159,980	148,912	152,324	12.70%	11.67%	1.03%
North America	240,625	239,705	221,135	18.44%	16.90%	1.54%
Europe	79,122	73,496	74,110	6.18%	5.73%	0.45%
Japan	38,568	37,138	36,085	3.01%	2.70%	0.31%
Asia Pacific	39,174	36,665	34,629	2.89%	2.67%	0.22%
Emerging Markets	102,482	112,686	125,268	10.44%	7.00%	3.44%
Global Low Carbon Tgt	0	65,538	132,804	11.07%	13.33%	-2.26%
Total Equities	**659,951**	**714,140**	**776,355**	**64.73%**	**60.00%**	**4.73%**
Bonds						
Index Linked	**150,667**	**167,547**	**185,904**	**15.50%**	**15.00%**	**0.50%**
Property						
CBRE	**111,024**	**101,352**	**99,939**	**8.33%**	**10.00%**	**-1.67%**
Private equity						
Pantheon	**44,110**	**45,649**	**47,129**	**3.93%**	**5.00%**	**-1.07%**
Multi-Sector Credit						
CQS	**46,529**	**47,451**	**48,899**	**4.08%**	**5.00%**	**-0.92%**
Infrastructure Debt						
Allianz	**21,621**	**22,457**	**24,773**	**2.07%**	**5.00%**	**-2.93%**
Cash & NCA						
Cash	**11,665**	**13,645**	**16,396**	**1.37%**	**0.00%**	**1.37%**
Total Assets	**1,045,567**	**1,112,241**	**1,199,395**	**100%**	**100%**	**0.00%**

12. Investment Performance Update: to 30th September 2015

12.1. 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 2016 and for one, three and 5 years for the whole of Fund.



	Jul 16 - Sep 16	One Year	Three Years	Five Years	Since Inception
Return	7.76%	24.25%	12.35%	12.88%	8.74%
Benchmark	7.38%	23.88%	12.58%	13.09%	9.67%
(Under)/Out	0.38%	0.37%	-0.23%	-0.21%	-0.93%

12.2. Driven by strong returns in equities, the Fund returned 7.76% in the quarter and has over-performed benchmark of 7.38% by 0.38%. All asset classes delivered positive returns in the quarter. In terms of regional performance, Asia

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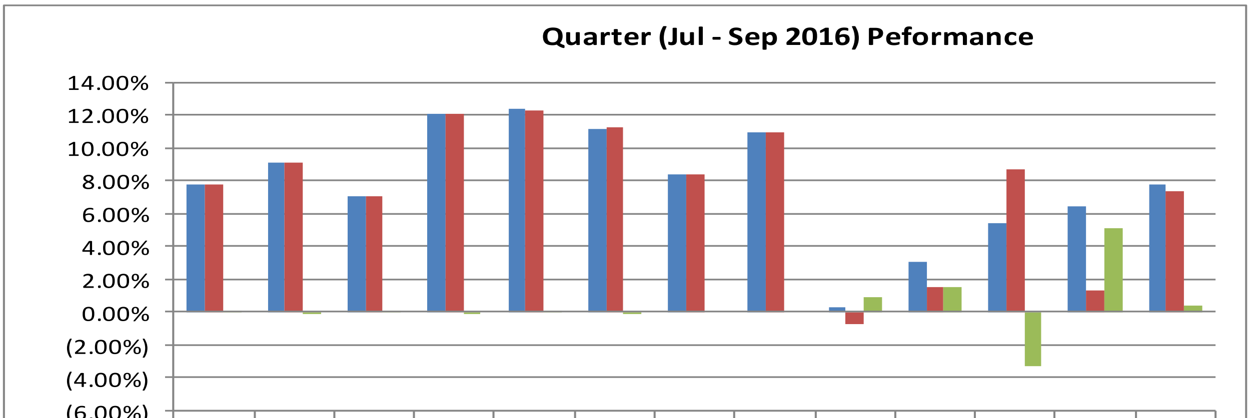
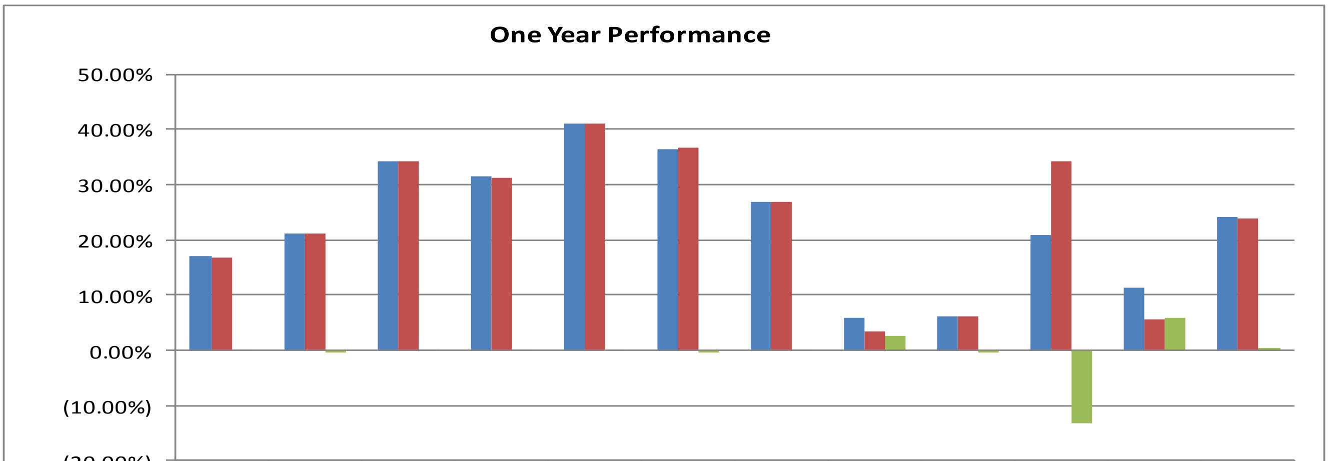
(ex Japan), Japan and emerging markets were the strongest performers in equities achieving returns of 12.3%, 12% and 11.1% respectively. Index linked gilts and infrastructure debt also had strong quarters, achieving returns of 10.96% and 6.5% respectively.



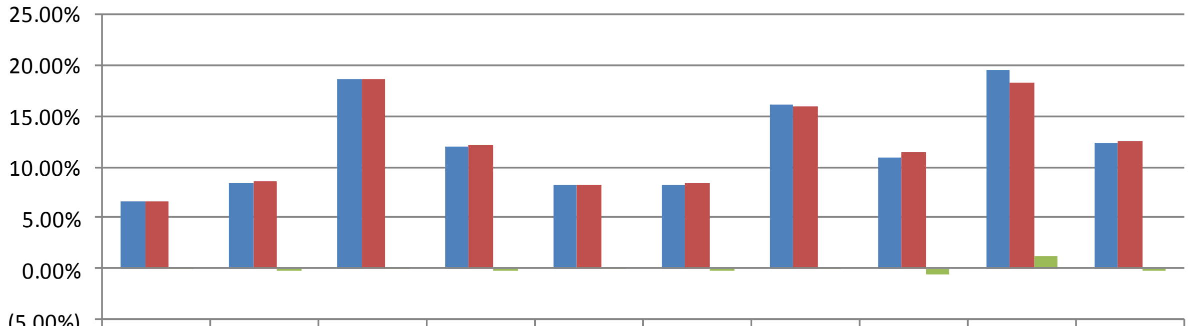
	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Eq - Global Low Carbon Tgt	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastructure	Total Fund
Fund Return	7.81%	9.10%	7.08%	12.04%	12.37%	11.16%	8.35%	10.96%	0.25%	3.05%	5.45%	6.49%	7.76%
Benchmark	7.78%	9.11%	7.07%	12.10%	12.31%	11.24%	8.35%	10.96%	(0.70%)	1.52%	8.70%	1.35%	7.38%
(Under)/out	0.03%	(0.01%)	0.01%	(0.06%)	0.06%	(0.08%)	0.00%	0.00%	0.95%	1.53%	(3.25%)	5.14%	0.38%

12.3. Over the last 12 months the Fund returned 24.25% and overperformed benchmark of 23.88% by 0.37%. Three and five year performance show underperformance of 0.23% and 0.21% respectively. Overall the Fund has benefitted from its overweight position in equities over the past five years.



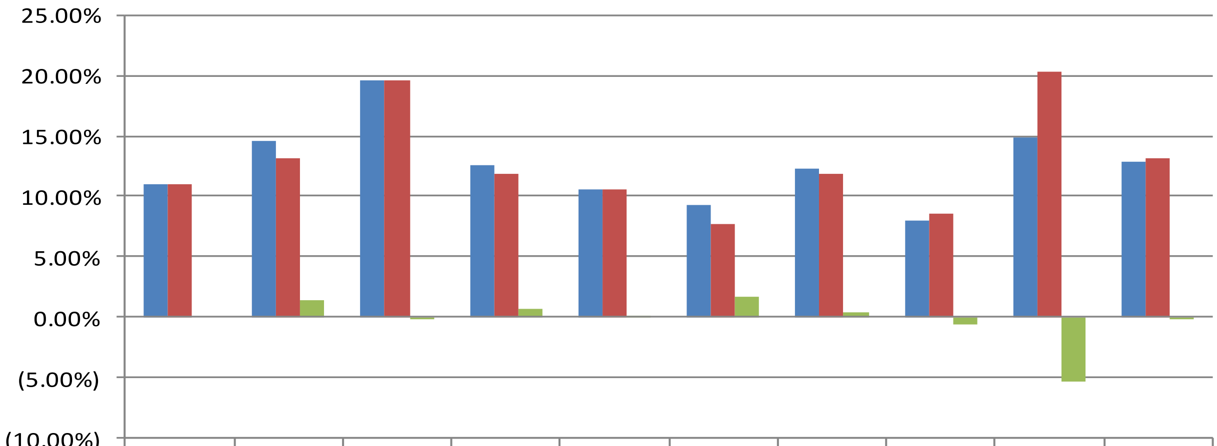
	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastructure	Total Fund
Fund Return	16.94%	21.07%	34.15%	31.40%	41.16%	36.46%	26.98%	5.82%	6.18%	20.93%	11.34%	24.25%
Benchmark	16.82%	21.30%	34.13%	31.30%	41.08%	36.61%	26.95%	3.31%	6.23%	34.28%	5.50%	23.88%
(Under)/out	0.12%	-0.23%	0.02%	0.10%	0.08%	-0.15%	0.03%	2.51%	-0.05%	-13.35%	5.84%	0.37%

Three Year Performance



	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Index Linked Bonds	Property	Private Equity	Total Fund
Return	6.62%	8.44%	18.64%	12.01%	8.22%	8.29%	16.04%	10.88%	19.46%	12.35%
Benchmark	6.59%	8.59%	18.54%	12.17%	8.13%	8.40%	15.97%	11.37%	18.31%	12.58%
(Under)/out	0.03%	-0.15%	0.10%	-0.16%	0.09%	-0.11%	0.07%	-0.49%	1.15%	-0.23%

Five Year Performance



	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Index Linked Bonds	Property	Private Equity	Total Fund
Return	11.05%	14.60%	19.57%	12.64%	10.61%	9.33%	12.26%	7.95%	14.90%	12.88%
Benchmark	11.05%	13.22%	19.64%	11.91%	10.57%	7.64%	11.80%	8.60%	20.31%	13.09%
(Under)/out	0.00%	1.38%	-0.07%	0.73%	0.04%	1.69%	0.46%	-0.65%	-5.41%	-0.21%

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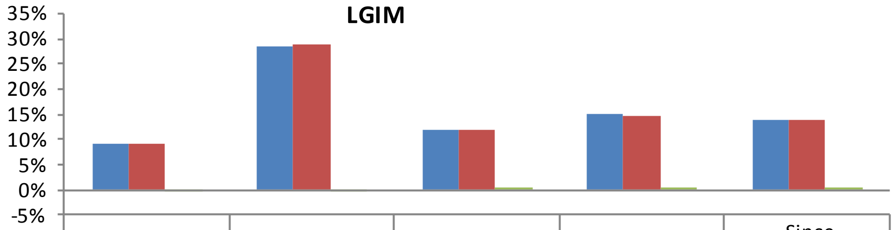
FUND MANAGER PERFORMANCE

Legal & General Investment Management (LGIM)

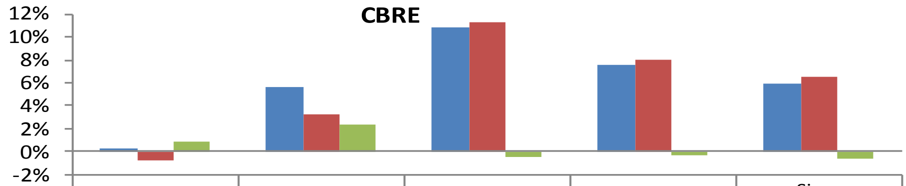
12.3. Legal and General returned 9.14% this quarter and has slightly underperformed composite benchmark of 9.19% by 0.05%. The Fund underperformed benchmark in emerging markets and Japan – both regions outperformed the average relative performance for equities overall. Looking beyond a year, LGIM is slightly ahead of benchmark returning 11.8% in year 3; 14.9% in 5 years and 13.9% since inception. The fund manager's performance is comparable to benchmark as expected.



	Jul 16 - Sep 16	One Year	Three Years	Five Years	Since Inception (May 12)
Return	9.14%	28.59%	11.79%	14.89%	13.91%
Benchmark	9.19%	28.71%	11.70%	14.65%	13.70%
(Under)/Out)	(0.05%)	(0.12%)	0.09%	0.24%	0.21%

CBRE

12.4. The manager saw a positive total return of 0.24% in the quarter and over-performed benchmark of -0.70% by 0.94%. Although, one year performance is ahead of benchmark, CBRE lags benchmark in the medium to longer term. Since inception the manager has underperformed benchmark by 0.69%.



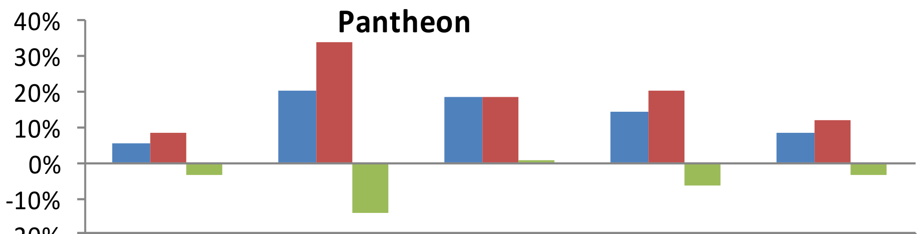
	Jul 16 - Sep 16	One Year	Three Years	Five Years	Since Inception (Mar 03)
Return	0.24%	5.64%	10.83%	7.64%	5.97%
Benchmark	-0.70%	3.31%	11.36%	7.95%	6.57%
(Under)/Out	0.94%	2.33%	(0.53%)	(0.31%)	(0.60%)

12.5. The relative performance of the property portfolio has been affected by two European funds that have suffered significant loss. With an aggregate purchase cost of £9.7 million, they are now valued at close to nil - a virtual total loss. Both funds are invested in highly leverage non prime property (German residential and Italian office / retain). The underlying holdings suffered during the Euro crisis and the impact has been magnified on unit holders by high levels of debt in each fund. Both funds are being rationalised which may offer an exit opportunity, but with little recovered value.

12.6. Adjusting for the European investment would put the manager significantly ahead of benchmark in terms of performance. However, the portfolio is expected to lag the benchmark for many years until the impact of the two European funds is diluted sufficiently with several years of outperformance.

Pantheon Private Equity

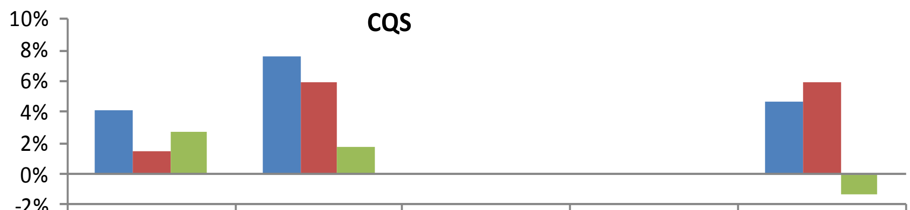
12.8. Pantheon Private Equity achieved positive returns of 5.33% in the quarter which underperformed by 3.37% relative to benchmark. The manager has performed in line with benchmark in the 3 year period, but lags benchmark in other time periods.



	Jul 16 - Sep 16	One Year	Three Years	Five Years	Since Inception (May 07)
Return	5.33%	20.06%	18.37%	14.17%	8.28%
Benchmark	8.70%	34.28%	18.31%	20.31%	11.89%
(Under)/Out	(3.37%)	(14.22%)	0.06%	(6.14%)	(3.61%)

CQS Multi Sector Credit

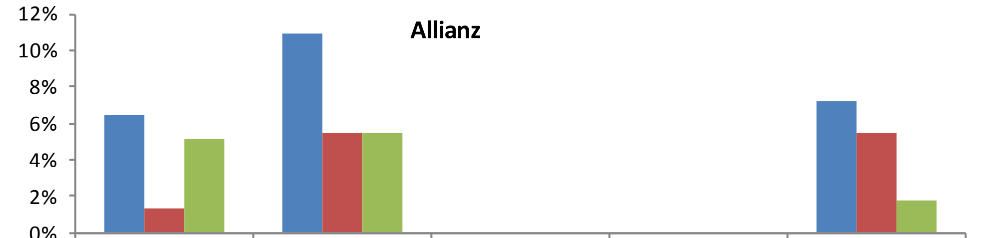
12.9. The manager significantly over-performed relative to benchmark in the quarter achieving a return of 4.14% against the benchmark of 1.44%. Stronger performances over the past 12 months means that the manager is ahead of benchmark in this period by 1.75% and closed the relative underperformance to benchmark since inception to -1.31% from -3.61%from last quarter.



	Jul 16 - Sep 16	One Year	Three Years	Five Years	Since Inception (Aug 14)
Return	4.14%	7.62%		0	4.61%
Benchmark	1.44%	5.87%		0	5.91%
(Under)/Out	2.70%	1.75%		0.00%	(1.30%)

Allianz Infrastructure Debt

12.10. Allianz has returned 6.46% against benchmark of 1.35% giving an over-performance of 5.11% in the quarter. The manager is now significantly ahead of benchmark in the one year period and turned a performance deficit relative to benchmark since inception into a 1.75% overperformance in one quarter.



	Jul 16 - Sep 16	One Year	Three Years	Five Years	Since Inception (Dec 14)
Return	6.46%	10.94%		0	7.25%
Benchmark	1.35%	5.50%		0	5.50%
(Under)/Out	5.11%	5.44%		0.00%	1.75%

13. Budget Management – Quarter Ending 30th September 2016

13.9. The Fund is entering a period of maturity, where benefits payable will be more than contributions received – this is reflected in the latest actual spend to date in 2016/17. Consequently, as the Fund further matures, it will be necessary to increase liquid asset holdings to ensure that the Fund is always able to meets its obligations to retired members.

13.10. The Funding Strategy is currently being revised to reflect the need for more investment in cash yielding assets, such as is being targeted for the renewable energy mandate, to provide greater liquidity in the Fund in order to prevent liquidation of assets to pay benefits.

13.11. The below table sets how income and expenditure compare between this the current period and the same period in last financial year. Please note that investment income shown in the below table solely relates to the property mandate as income from other asset classes are re-invested and shown within the overall fund asset value.

Cost Comparison Qtr 2 2015 v Qtr 2 2016

	Prior Year 2015-16 £'000	Reporting Period 2016-17 £'000	Change in expenditure £'000
Contributions & Benefit related expenditure			
Income			
Employee Contributions	3,770	3,799	29
Employer Contributions	13,762	14,029	267
Transfer Values in	884	904	20
Total Income	18,416	18,732	316
Expenditure			
Pensions & Benefits	-21,867	-22,193	-326
Transfer Values Paid	-1,214	-1,648	-434
Administrative Expenses	-298	-468	-170
Total Expenditure	-23,379	-24,309	-930
Net of Contributions & Benefits	-4,963	-5,577	-614
Returns on investment			
Net Investment Income	1,017	1,033	16
Investment Management Expenses	-154	-483	-329
Net Return on Investment	863	550	-313
Total	**-4,100**	**-5,027**	**-927**

13.12. There is an increase of £927k in net expenditure up to Sep 2016 compared to the same time last year. A significant element of this amount, which is 'transfer out of the Fund' is outside of the Fund's control. Other increases relate to a rise in benefits paid relating to an increase in the number of pensioners in the Fund compared to this time last year. Also, investment management expenses are being paid more promptly this year hence the £329k variance between the periods on this category of expenditure – full year investment management expenses is projected to be in line with the prior year.

Investment Related Update

14. Pooling (London CIV)

14.1. The Fund was one of the early investors in the London CIV (LCIV). As previously notified the Fund has achieved fee savings in the region of £130k based as a result of being part of the LCIV.

14.2. The LCIV continues with its programme of opening sub funds and recruiting fund managers to operate these sub funds. In setting up the single manager sub funds, LCIV will prioritise commonality of mandates among its members;

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quantum of assets under management; and conviction of funds in the manager. To this end, the procurement of active global equities managers is currently being undertaken. The process is expected to conclude in December 2016 with first sub funds opening by April 2017. Haringey is not expected for now to invest in any of these funds given Committee's decision that strategic allocation to equities should be passive.

14.3. LCIV is also currently undertaking its annual business planning and has indicated that service charges will rise significantly to reflect the increased work of the operator and to ensure that the operator meets FCA regulatory requirement around fund management and ensure that adequate resources are in place to deliver value to members of LCIV.

15. Aviva Long Lease Property Mandate

15.1. The Committee at its meeting on 11 April 2016 approved the investment of £50m in the Aviva Long Lease Property Fund. Following submission and completion of the 'know your client' due diligence process by Aviva, the fund has now been approved by the trustees of the Fund to join the queue of investors waiting to invest in the Fund.

15.2. Members may recall that the waiting time to invest had moved out to 9-12 months from initial range of 6-9 months that was pitched to the Committee during the selection process. Although, Aviva's deal pipe is strong with the team working on "a lot of deals", the pace of decision making within counterparties that Aviva are dealing with has slowed down the investment process. Currently, there is £390m of committed funds ahead of LB Haringey in the queue. However, Aviva have confirmed that funding commitment from LB Haringey will likely be drawn down in 12 months.

16. Low Carbon Index Update

16.1. The Committee agreed at its meeting of 14 January 2016 to shift one third of its equities portfolio or approximately 20% of total fund assets to low carbon target. Committee also agreed that the switch should be implemented in tranches to mitigate the risk of unfavourable market timing on oil prices.

16.2. The first tranche of asset switching worth approximately £60m was completed on 3 May 2016 at a cost of £51k (0.086%). The transfer of the second tranche of assets was executed on 1st August 2016 at a cost £25k (0.042%).

16.3. The third switch was executed on 1 November 2016. Initial estimates shows that the cost of the switch will be around £39k (0.07%). This completes the switch and allocation to the low carbon index by the Fund. The revised strategic allocation is reflected in appendix 1 to this report.

Appendix 1

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
Legal & General Investment Management	75.00%	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	Legal & General Investment Management
UK Equities	FTSE All Share	**10.00%**
North America	FT World Developed North America GBP Unhedged	14.50%
Europe ex UK	FT World Developed Europe X UK GBP Unhedged	4.90%
Pacific ex Japan	FT World Developed Pacific X Japan GBP Unhedged	2.30%
Japan	FT World Developed Japan GBP Unhedged	2.30%
Emerging Markets	FT World Global Emerging Markets GBP Unhedged	6.00%
Global Low Carbon Target	MS World Low Carbon Target Index	20.00%
Total Overseas Equity	**FTA Index Linked Over 5 Years Index**	**50.00%**
Index Linked Gilts	**FTA Index Linked Over 5 Years Index**	**15.00%**
Total L&G		**75.00%**

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