Report for: Pensions Committee and Board 20th July 2017

Item number:

Title: Pension Fund Quarterly Update

Report authorised by: Tracie Evans, Deputy Chief Executive (CFO and S151 Officer)

Lead Officer: Thomas Skeen, Head of Pensions
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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 31st March 2017:

- Funding Level Update
- Investment asset allocation
- Investment performance
- Investment 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 March 2017 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 and sections 11 and 12 of this report provide the information for

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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 CFO (S151 Officer) has been consulted on this report and there is no direct financial impact from the recommendations in this report.

Legal Services Comments

8.2. The Council as administering authority for the Haringey Pension Fund must periodically review the suitability of its investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with its overall investment strategy.

8.3. All monies must be invested in accordance with the Investment Strategy and members of the Committee should keep this duty in mind when considering this report and take proper advice on the matter.

Comments of the Independent Advisor

8.4. The total value of the Fund at 31 March 2017 was £1,309m. At 31 December 2016, the total value of the Fund was £1,248m compared to £1,199m at 30 September 2016, £1,112m at 30 June 2016 and £1,046m at 31 March 2016. Therefore, the value of the Fund increased by 25% during the financial year 2016-17. This was in excess of the Actuary's expectation of investment returns.

8.5. The final Quarter of 2016 (October to December) saw the election of Donald Trump as President of the United States on 8 November 2016.This was unexpected by most investors. Mr Trump's promises of corporate tax cuts, significant business deregulation and infrastructure spending clearly excited markets following his election as exemplified by the approximate 10% increase in the main US Listed Equity Index (the S and P 500) between 8 November 2016 and 1 March 2017 when the index reached a then record closing high of 2,396. During March 2017, however market sentiment was dampened by the failure of President Trump to replace the Affordable Healthcare Act passed under President Barack Obama. Whether President Trump's election promises can be/are delivered together with their long-term consequences and the extent to which President Trump erects "trade barriers" will doubtless be a significant factor in determining how both US and indeed world Listed Equity and credit markets perform going forward over the longer term.

8.6. Supported by continuing improvements in core economic data including strong employment figures the United States Federal Reserve (Central Bank) increased the Federal Funds Rate (the main interest rate) by 0.25% on both 14 December 2016 and 15 March 2017. Following the previous 0.25% increase of 16 December 2015 these were only the second and third rate increases in a decade. These further rate increases together clearly indicated the period of "ultra-loose" Monetary Policy" seen since the Financial Crisis of 2008, and which has supported financial markets for almost a decade, is coming to an end. This was confirmed by the decision of the Federal Reserve to further increase the Federal Funds Rate by another 0.25% on 14 June 2017 and its announcement that it expects during 2017 to decrease its programme of reinvesting all principal payments from its huge bond holdings.

8.7. Since 2011 the Haringey Pension Fund has progressively diversified its Investment Strategy in order to reduce risk while at the same time seeking to maintain investment returns to progressively improve the Funding ratio to 100%. In practice, however the implementation of a more diversified approach will, as indicated in the main body of this report take several years to complete. In particular, the implementation of further allocations to the illiquid asset classes of long lease property and renewable energy infrastructure will take time. At its March 2017 meeting the Committee and Board determined to increase the Strategic Allocation to multi sector credit from 5% to 7% with a corresponding reduction in the Strategic Allocation to infrastructure debt from 5% to 3%. This occurred as a result of concerns regarding the practicalities of achieving and maintaining a 5% allocation to infrastructure debt. In contrast an increase to a 7% allocation in multi sector credit should, in practice, be easily achievable due to the liquid nature of this investment.

Equalities

8.8. 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. Funding Position Update

11.1. At the most recent valuation 31 March 2016, the Fund had a funding position of 79% - meaning that the fund's investment assets were sufficient to pay 79% of the pension benefits accrued at that date.

11.2. The Fund's Actuary, Hymans Robertson LLP, has calculated an indicative funding position update for 31 March 2017, and this showed an improvement to an 85% funding level: the increase being mainly attributable to investment returns.

12. Portfolio Allocation Against Benchmark

12.1. The value of the fund increased by £61m million between December and March 2017. The equity, fixed income and multi asset credit portfolios performed largely in line with benchmark, whereas the infrastructure debt, private equity and property portfolios performed below benchmark.

12.2. The equity allocation exceeds target by 13.8%. This is due in part to a strongly performing year for equities meaning that this portion of the portfolio has grown disproportionately compared to other asset classes. The infrastructure debt and private equity, portfolios continue to be funded as the managers make capital calls when suitable assets become available for acquisition. As these, and the new property and renewable energy mandates are funded, the equity portfolio will fall back in line with the strategic allocation, however it should be noted that this may take several years to fully complete.

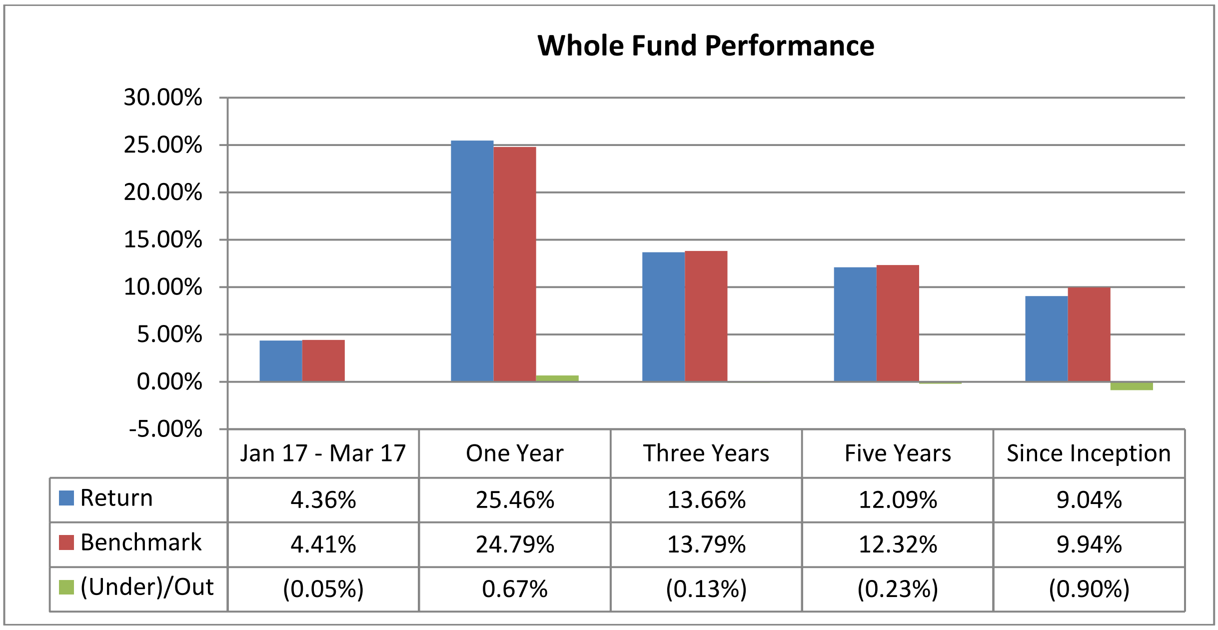
Total Portfolio Allocation by Manager and Asset Class

	Value 30.06.2016	Value 30.09.2016	Value 31.12.2016	Value 31.03.2017	Allocation 31.03.2017	Strategic Allocation	Variance
	£'000	£'000	£'000	£'000	%	%	%

Equities							
UK	148,912	152,324	145,449	151,526	11.57%	8.80%	2.77%
North America	239,705	221,135	212,480	222,584	17.00%	12.60%	4.40%
Europe	73,496	74,110	69,369	74,404	5.68%	4.30%	1.38%
Japan	37,138	36,085	31,047	32,146	2.46%	2.00%	0.46%
Asia Pacific	36,665	34,629	30,371	33,853	2.59%	2.00%	0.59%
Emerging Markets	112,686	125,268	127,925	138,965	10.62%	7.90%	2.72%
Global Low Carbon Tgt	65,538	132,804	203,226	214,432	16.38%	14.90%	1.48%
Total Equities	**714,140**	**776,355**	**819,867**	**867,910**	**66.30%**	**52.50%**	**13.80%**
Bonds							
Index Linked	**167,547**	**185,904**	**180,381**	**183,837**	**14.04%**	**15.00%**	**-0.96%**
Property							
Aviva	**0**	**0**	**0**		**0.00%**	**5.00%**	**-5.00%**
CBRE	**101,352**	**99,939**	**91,590**	**90,845**	**6.94%**	**7.50%**	**-0.56%**
Private equity							
Pantheon	**45,649**	**47,129**	**52,801**	**54,278**	**4.15%**	**5.00%**	**-0.85%**
Multi-Sector Credit							
CQS	**47,451**	**48,899**	**49,589**	**50,467**	**3.86%**	**7.00%**	**-3.14%**
Infrastructure Debt							
Allianz	**22,457**	**24,773**	**29,266**	**27,814**	**2.12%**	**3.00%**	**-0.88%**
Renewable Energy							
CIP	**0**	**0**	**0**	**0**	**0.00%**	**2.50%**	**-2.50%**
Blackrock	**0**	**0**	**0**	**0**	**0.00%**	**2.50%**	**-2.50%**
Cash & NCA							
Cash	**13,645**	**16,396**	**24,657**	**33,942**	**2.59%**	**0.00%**	**2.59%**
Total Assets	**1,112,241**	**1,199,395**	**1,248,151**	**1,309,093**	**100%**	**100%**	**0.00%**

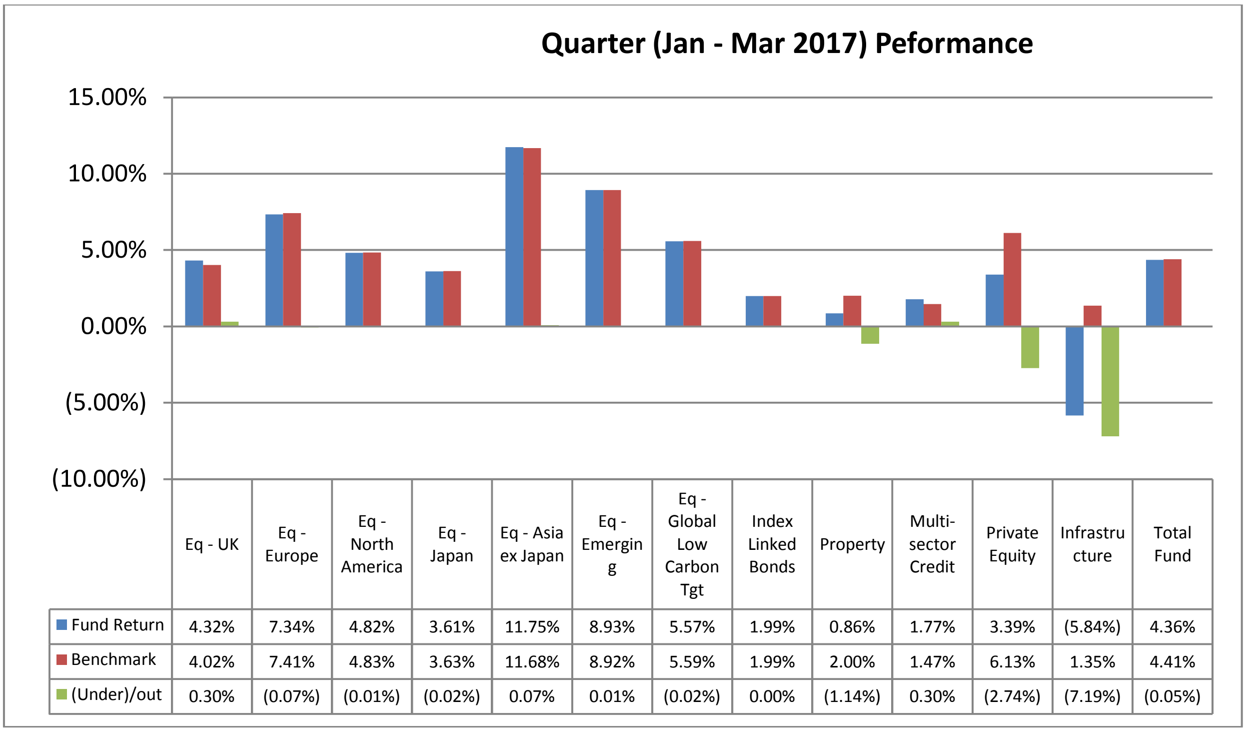
13. Investment Performance Update: to 31st March 2017

13.1. Appendix 1 provides details of the benchmarks and targets the fund managers have been set. The tables below show the performance in the quarter January to March 2017 and for one, three and 5 years for the whole of Fund.



	Jan 17 - Mar 17	One Year	Three Years	Five Years	Since Inception
Return	4.36%	25.46%	13.66%	12.09%	9.04%
Benchmark	4.41%	24.79%	13.79%	12.32%	9.94%
(Under)/Out	(0.05%)	0.67%	(0.13%)	(0.23%)	(0.90%)

13.2. Driven by solid equity returns, the Fund returned 4.36% in the quarter and has performed largely in line with the benchmark of 4.41%. All equity regions performed positively, but with Asia pacific was the strongest performer with a return of 11.75%. The emerging market and European equities also performed well with returns of 8.93% and 7.34% respectively.



	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emergin g	Eq - Global Low Carbon Tgt	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastru cture	Total Fund
Fund Return	4.32%	7.34%	4.82%	3.61%	11.75%	8.93%	5.57%	1.99%	0.86%	1.77%	3.39%	(5.84%)	4.36%
Benchmark	4.02%	7.41%	4.83%	3.63%	11.68%	8.92%	5.59%	1.99%	2.00%	1.47%	6.13%	1.35%	4.41%
(Under)/out	0.30%	(0.07%)	(0.01%)	(0.02%)	0.07%	0.01%	(0.02%)	0.00%	(1.14%)	0.30%	(2.74%)	(7.19%)	(0.05%)

13.3. Over the last 12 months the Fund returned 25.46% and overperformed benchmark of 24.79% by 0.67%. Three and five year underperformance is 0.14% and 0.23% respectively. As much of the fund is invested passively, one would expect returns to be largely in line with benchmark. The Fund has benefitted from its overweight position in equities over the past five years.

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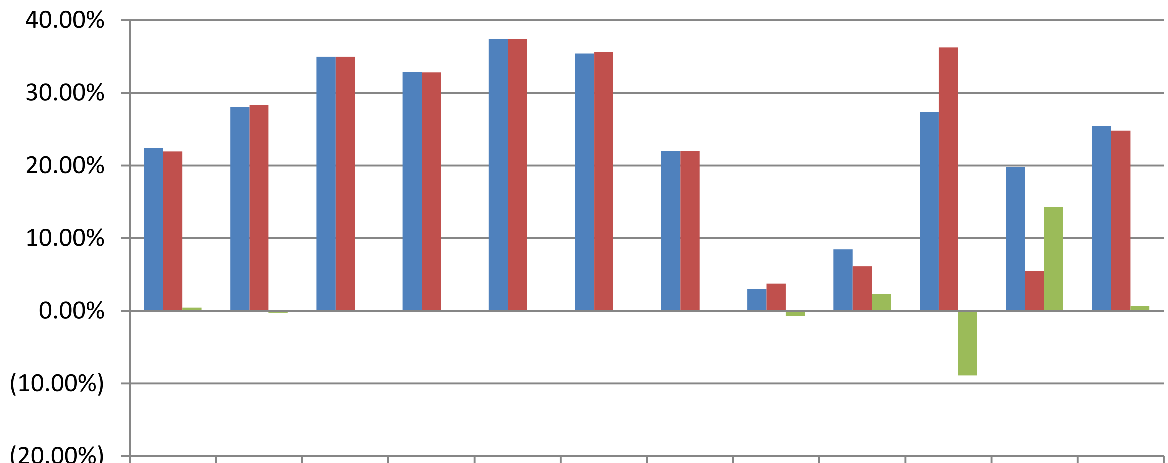
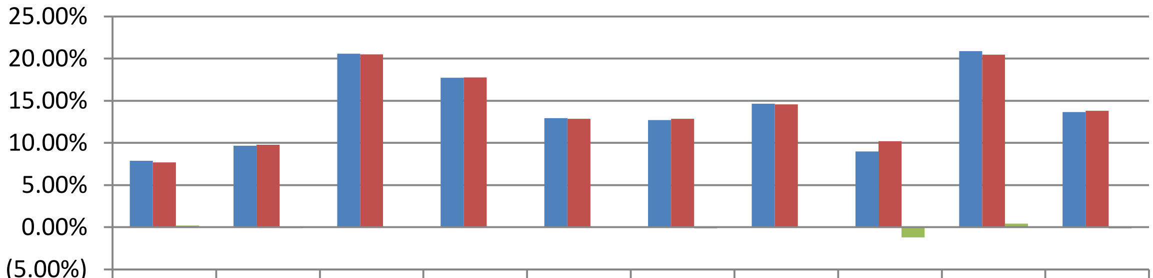
One Year Peformance

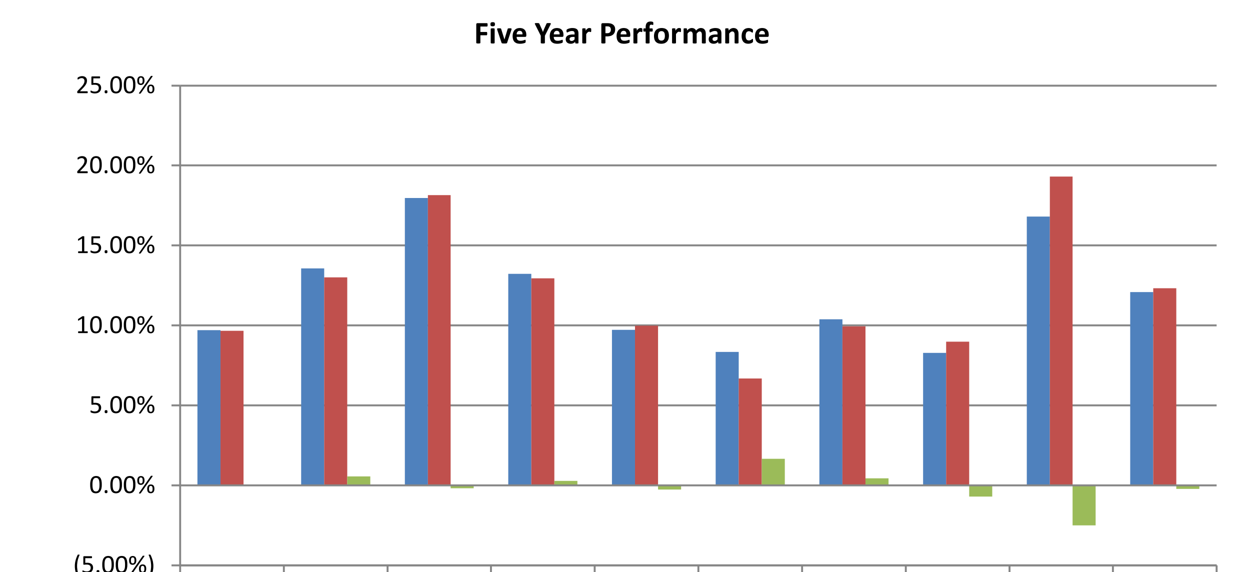


	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emergin g	Index Linked Bonds	Propert y	Multi-sector Credit	Private Equity	Infrastr ucture	Total Fund
Fund Return	22.40%	28.04%	34.96%	32.83%	37.43%	35.41%	22.02%	2.98%	8.46%	27.37%	19.75%	25.46%
Benchmark	21.95%	28.31%	34.97%	32.79%	37.38%	35.58%	22.01%	3.72%	6.14%	36.25%	5.50%	24.79%
(Under)/out	0.45%	(0.27%)	(0.01%)	0.04%	0.05%	(0.17%)	0.01%	(0.74%)	2.32%	(8.88%)	14.25%	0.67%

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	7.88%	9.68%	20.58%	17.73%	12.95%	12.72%	14.63%	8.99%	20.89%	13.66%
Benchmark	7.69%	9.78%	20.51%	17.77%	12.85%	12.87%	14.58%	10.19%	20.47%	13.79%
(Under)/out	0.19%	(0.10%)	0.07%	(0.04%)	0.10%	(0.15%)	0.05%	(1.20%)	0.42%	(0.13%)

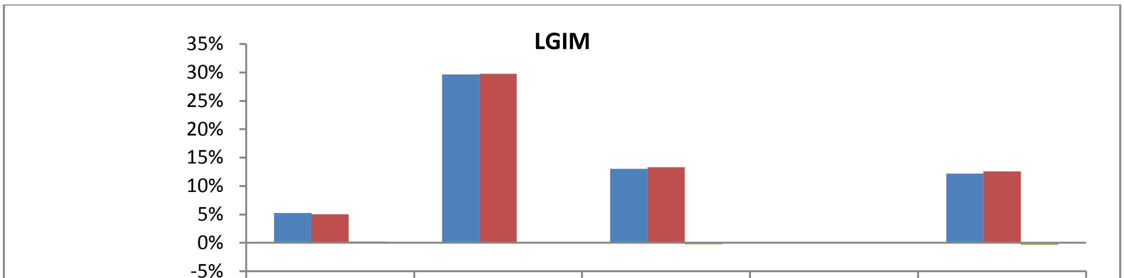


	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Index Linked Bonds	Property	Private Equity	Total Fund
Return	9.70%	13.56%	17.97%	13.22%	9.73%	8.35%	10.38%	8.28%	16.80%	12.09%
Benchmark	9.67%	13.01%	18.15%	12.95%	9.99%	6.69%	9.94%	8.98%	19.30%	12.32%
(Under)/out	0.03%	0.55%	(0.18%)	0.27%	(0.26%)	1.66%	0.44%	(0.70%)	(2.50%)	(0.23%)

FUND MANAGER PERFORMANCE

<u>Legal & General Investment Management (LGIM)</u>

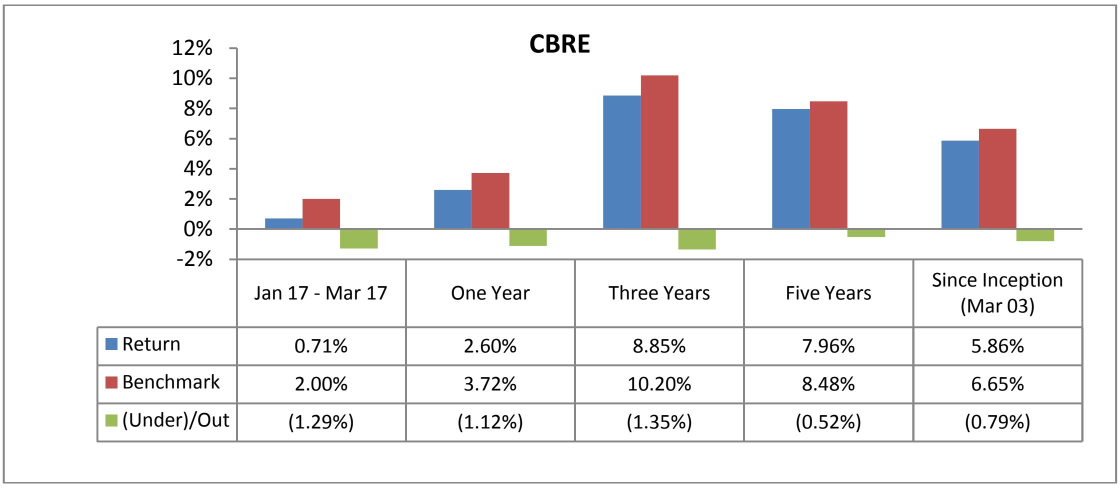
13.4. Legal and General returned 5.26% this quarter and has slightly outperformed composite benchmark of 5.02% by 0.24%. Over the past 12 months, the portfolio has generated returns of nearly 30%. The fund manager's performance is comparable to benchmark as expected.



	Jan 17 - Mar 17	One Year	Three Years	Five Years	Since Inception (May 12)
Return	5.26%	29.69%	13.02%		12.18%
Benchmark	5.02%	29.78%	13.31%		12.59%
(Under)/Out)	0.24%	(0.09%)	(0.29%)	0.00%	(0.41%)

CBRE

13.5 The manager saw a positive total return of 0.71% in the quarter and under-performed benchmark of 2.00% by 1.296%. CBRE lags behind benchmark over 1, 3, and 5 years, as well as since portfolio inception: however this underperformance is less than 1.00% in most cases.

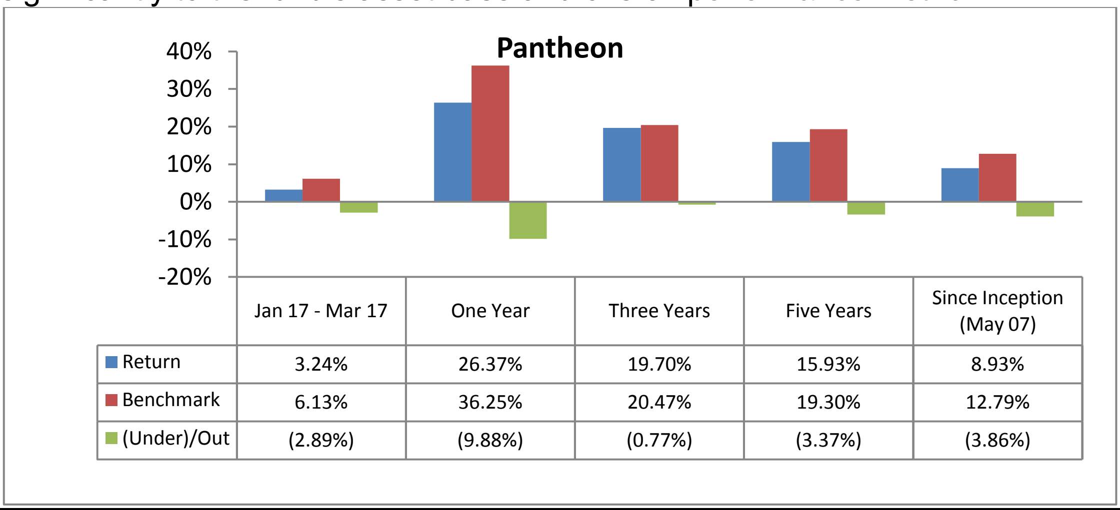


	Jan 17 - Mar 17	One Year	Three Years	Five Years	Since Inception (Mar 03)
Return	0.71%	2.60%	8.85%	7.96%	5.86%
Benchmark	2.00%	3.72%	10.20%	8.48%	6.65%
(Under)/Out	(1.29%)	(1.12%)	(1.35%)	(0.52%)	(0.79%)

13.6 The relative performance of the property portfolio was affected by two European funds that suffered significant loss, the final holdings in which were sold during the quarter: the effects of this will still show a lag on performance for some time to come.

Pantheon Private Equity

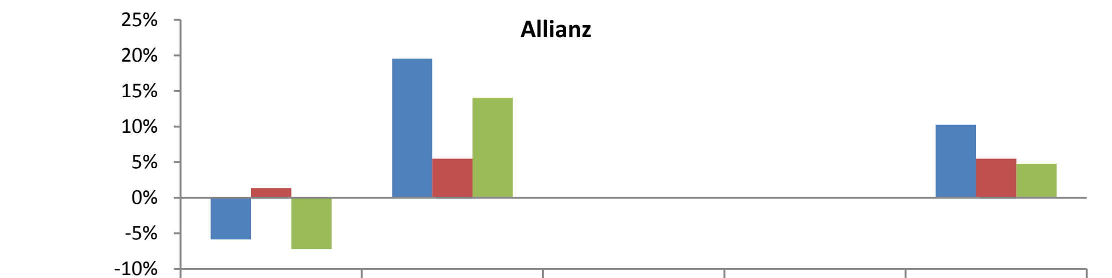
13.7 Pantheon Private Equity underperformed their benchmark by 2.98%, despite having positive returns of 3.24%. Over all time horizons measured below the manager is showing a negative return compared to benchmark, however, in absolute terms, returns of over 15% over the past five years have added significantly to the fund's asset base and overall performance metric.



	Jan 17 - Mar 17	One Year	Three Years	Five Years	Since Inception (May 07)
Return	3.24%	26.37%	19.70%	15.93%	8.93%
Benchmark	6.13%	36.25%	20.47%	19.30%	12.79%
(Under)/Out	(2.89%)	(9.88%)	(0.77%)	(3.37%)	(3.86%)

Allianz Infrastructure Debt

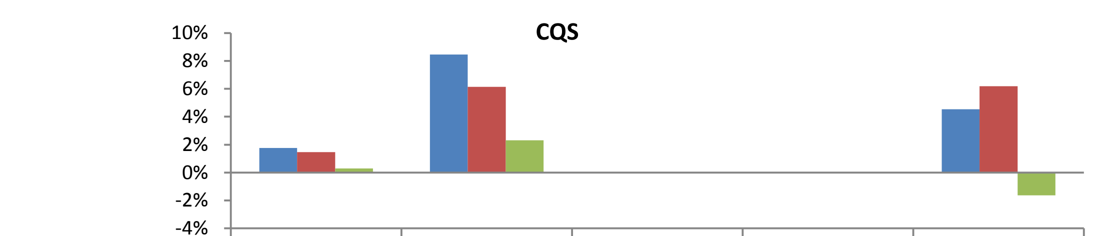
13.8 Allianz has returned -5.84% against benchmark of 1.35% giving an under-performance of 7.19% in the quarter. This is due to an alternation in the valuation of the underlying assets from the previous quarter causing performance in Q4 2016 to be slightly overstated: and should not be considered as concerning. Despite this fall in performance, the manager is still significantly ahead of benchmark in the one year period and since inception.



	Jan 17 - Mar 17	One Year	Three Years	Five Years	Since Inception (Dec 14)
Return	-5.84%	19.54%			10.28%
Benchmark	1.35%	5.50%			5.50%
(Under)/Out	(7.19%)	14.04%	0.00%	0.00%	4.78%

CQS Multi Sector Credit

13.9 The manager had a slight over-performance relative to benchmark in the quarter achieving a return of 1.77% against the benchmark of 1.47%. Over the past 12 months means the manager is ahead of benchmark by 2.32%, however since portfolio inception they lag behind benchmark by 1.64%.



	Jan 17 - Mar 17	One Year	Three Years	Five Years	Since Inception (Aug 14)
Return	1.77%	8.46%			4.54%
Benchmark	1.47%	6.14%			6.18%
(Under)/Out	0.30%	2.32%	0.00%	0.00%	(1.64%)

14. Budget Management – Quarter Ending 31st March 2017

14.1. The Fund is entering a period of increasing 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 cash yielding assets to ensure that the Fund is always able to meets its obligations to retired members.

14.2. The Funding Strategy has currently been revised to reflect the need for more investment in cash yielding assets, with the inclusion of additional property holdings, and other alternatives which will eventually yield regular dividend payments. These cash yielding assets will prevent the fund from having to sell assets specifically to pay monthly benefit payments due.

14.3. The below table sets how the fund's contributions and benefits income and expenditure compare between the current period and the same period in last financial year.

Cost Comparison Qtr 4 2015/16 v Qtr 4 2016/17

	Prior Year 2015-16 £'000	**Reporting Period 2016-17 £'000**	**Change in expenditure £'000**
Contributions & Benefit related expenditure			
Income			
Employee Contributions	9,122	9,341	219
Employer Contributions	34,729	37,908	3,179
Transfer Values in	1,741	2,839	1,089
Total Income	45,592	50,088	4,496
Expenditure			
Pensions & Benefits	-44,321	-47,223	-2,902
Transfer Values Paid	-3,790	-3,662	128
Administrative Expenses	-722	-865	-143
Total Expenditure	-48,833	-51,750	-2,917
Net of Contributions & Benefits	**-3,241**	**-1,662**	**1,579**

14.4. There is a decrease of £1,579k in net expenditure up to March 2017 compared to the same time last year. Whilst expenditure on pensions benefits has increased by around 6%, the income from employers and employees as well as transfers into the fund has increased by around 10%. In the longer term, however, the excess of benefits payable over contributions received is expected to increase.

<u>Investment Related Update</u>

15. Pooling (London CIV)

15.1. 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.

15.2. 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; quantum of assets under management; and conviction of funds in the manager. To this end, the procurement of active global equities managers and multi asset managers is currently being undertaken. Nine sub funds have currently been set up, with another 3 expected to be opened shortly.

15.3. LCIV has also undertaken its annual business planning and the 2017/18 budget was approved in 2017/18. LCIV has indicated that all London Funds will have to contribute a £25k service change, plus approximately £75k in development funding costs. This reflects 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.

16. Aviva Long Lease Property Mandate

16.1. 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.

16.2. Members may recall that the waiting time to invest had moved from the 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 £270m 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 at the end of 2017 or the beginning of 2018.

Appendix 1 – Strategic Asset Allocation

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
Legal & General Investment Management	67.5%	Global Equities & Bonds	See overleaf	Index (passively managed)
CQS	5%	Multi Sector Credit	3 month libor + 5.0% p.a*	Benchmark
Allianz	5%	Infrastructure Debt	5.5% p.a.	Benchmark
CBRE Global Investors	8%	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
Aviva	5%	Long Lease Property	Investment has not yet taken place with these fund managers	
Copenhagen Investment Partners	2.5%	Renewable Energy		
Blackrock	2.5%	Renewable Energy		
Total	**100%**			

*change to LIBOR + 5.0% per annum from 1st April 2017 as agreed in the February 9th 2017 Pensions Committee Meeting (previously was LIBOR + 5.5%)

Asset Class	Benchmark	Legal & General Investment Management

UK Equities	FTSE All Share	**8.80%**
North America	FT World Developed North America GBP Unhedged	12.60%
Europe ex UK	FT World Developed Europe X UK GBP Unhedged	4.30%
Pacific ex Japan	FT World Developed Pacific X Japan GBP Unhedged	2.00%
Japan	FT World Developed Japan GBP Unhedged	2.00%
Emerging Markets	FT World Global Emerging Markets GBP Unhedged	7.90%
Global Low Carbon Target	MS World Low Carbon Target Index	14.90%
Total Overseas Equity	**FTA Index Linked Over 5 Years Index**	**43.70%**
Index Linked Gilts	**FTA Index Linked Over 5 Years Index**	**15.00%**
Total L&G		**67.50%**