Report for:	Pensions Committee and Board 21 November 2017
Item number:	**12**
Title:	Pension Fund Quarterly Update
Report authorised by:	Clive Heaphy, Chief Finance Officer (S151 Officer)
Lead Officer:	Thomas Skeen, Head of Pensions thomas.skeen@haringey.gov.uk 020 8489 1341
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 June 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 30th June 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 and Board to review investment performance and sections 11 and 12 of this report provide the

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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 and Board 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)

<u>Finance and Procurement</u>

8.1. The CFO (S151 Officer) has been consulted on this report and there is no direct financial impact from the contents of this report.

<u>Legal Services Comments</u>

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.

<u>Comments of the Independent Advisor</u>

8.4. The Quarter April to June 2017 saw modest but further advances in Equity markets across the world. The US S&P 500 index reached a new record high during the Quarter supported by generally positive economic news. European equities had a good Quarter and in the Eurozone the economy continued to perform positively with unemployment falling to 9.1% in June, its lowest level since April 2009. Despite weakness in June following the inconclusive General Election result the UK FTSE All Share index also advanced over the Quarter.

8.5. The main (10 year) Government bond yields (US, UK, Germany and Japan) changed little over the quarter. The yield on the 2-year UK Gilt (which is very sensitive to interest rate expectations) increased, however, from 0.13% to 0.36% during June (perhaps) reflecting increasing market expectations of a future rise in the Bank of England Base Rate.

8.6. The Quarter saw further developments in Central Bank policy which has so greatly influenced world financial markets since the crash of 2009. Taking account of further improvements in employment and overall economic activity the United States Federal Reserve raised interest rates at its June meeting by 0.25% the second increase in 2017. This took official US interest rates to their highest level since 2008. The Federal Open Markets Committee (FOMC) indicated the potential for a further increase in rates during 2017. While continuing its policy of reinvesting principal payments from its bond and debt holdings the FOMC Committee indicated that it expected to begin mitigating this approach from later in 2017. This marked a clear statement of intention to further gradually tighten monetary policy.

8.7. The European Central Bank (ECB) Governing Council, at its June 2017 meeting, kept interest rates unchanged and indicated that it expected "the key ECB interest rates to remain at their present levels for an extended period of time." This statement represented a change from previous statements which had indicated further possible interest rate reductions. Quantitative Easing in the form of asset purchases were maintained at the rate of 60 billion Euros per month. The ECB commented that the Euro area economy was now "projected to expand at a somewhat faster pace than previously expected."

8.8. The Bank of England maintained Base Rate at its historic low of 0.25% at its June 2017 meeting. The majority in favour of retaining rates at this level was 5-3 a clear narrowing from the 7-1 majority at the May 2017 meeting.

8.9. With regard to the Haringey Fund there was a very slight increase of £1m in its value over the Quarter from £1,309 to £1,310m. More importantly the indicative Funding level at 30 June 2017, as calculated by the Fund Actuary, has remained at 85% the same level as at 31 March 2017. This represents a clear improvement since the last full Actuarial Valuation (as at 31 March 2017) when the Funding level was 79%. A detailed commentary on the performance of the Fund during the April to June 2017 Quarter is provided in the Officer commentary at Sections 12 and 13 of this report.

8.10. Due to lengthy and clearly positive Equity performance the actual allocation to equities is clearly well in excess of the Strategic Benchmark of 52.5%. Therefore, during the Quarter the Officers, correctly and appropriately, reallocated some funds from Equities to Multi-Sector Credit in order to reduce the overweight position to Equities and bring the actual Multi Sector Credit allocation to very near its Strategic Benchmark of 7%. As the Officers comment (at Section 12.2) they will reallocate from Equities to the Infrastructure Debt, Private Equity, Property and Renewable Energy mandates as the investment managers make requests for further funding of these investments.

Equalities

8.11. 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.

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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 30 June 2017, and this showed an improvement to an 85% funding level: the increase being mainly attributable to investment returns. This position remained stable from the position as at 31 March 2017 which also showed a 85% funding level.

12. Portfolio Allocation Against Benchmark

12.1. The value of the fund increased by £0.8m million between March and June 2017. The property and multi asset credit portfolios performed above benchmark, equity was in line with benchmark, whereas the infrastructure debt, and private equity were below benchmark.

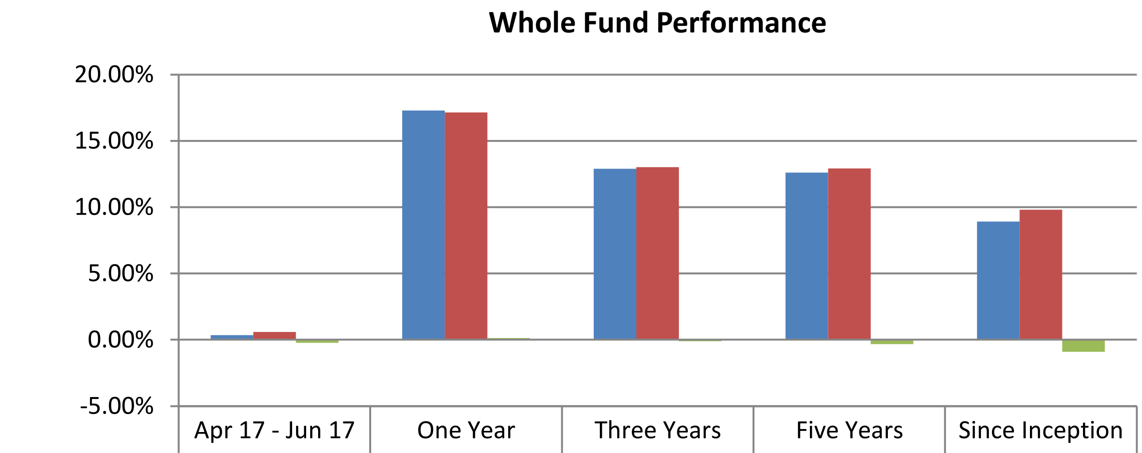
12.2. The equity allocation exceeds target by 11.24%. This is due in part to a strongly performing year for equities meaning that this portion of the portfolio has grown disproportionately compared to other asset classes. The infrastructure debt and private equity, portfolios continue to be funded as 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 31.12.2016 £'000	Value 31.03.2017 £'000	Value 30.06.2017 £'000	Allocation 30.06.2017 %	Strategic Allocation %	Variance %
Equities						
UK	145,449	151,526	139,345	10.64%	8.80%	1.84%
North America	212,480	222,584	200,198	15.28%	12.60%	2.68%
Europe	69,369	74,404	71,219	5.44%	4.30%	1.14%
Japan	31,047	32,146	33,378	2.55%	2.00%	0.55%
Asia Pacific	30,371	33,853	31,981	2.44%	2.00%	0.44%
Emerging Markets	127,925	138,965	123,444	9.42%	7.90%	1.52%
Global Low Carbon Tgt	203,226	214,432	235,450	17.97%	14.90%	3.07%
Total Equities	**819,867**	**867,910**	**835,015**	**63.74%**	**52.50%**	**11.24%**
Bonds						
Index Linked	**180,381**	**183,837**	**179,349**	**13.69%**	**15.00%**	**-1.31%**
Property						
Aviva	**0**			**0.00%**	**5.00%**	**-5.00%**
CBRE	**91,590**	**90,845**	**97,405**	**7.44%**	**7.50%**	**-0.06%**
Private equity						
Pantheon	**52,801**	**54,278**	**53,139**	**4.06%**	**5.00%**	**-0.94%**
Multi-Sector Credit						
CQS	**49,589**	**50,467**	**89,727**	**6.85%**	**7.00%**	**-0.15%**
Infrastructure Debt						
Allianz	**29,266**	**27,814**	**36,038**	**2.75%**	**3.00%**	**-0.25%**
Renewable Energy						
CIP	**0**	**0**	**0**	**0.00%**	**2.50%**	**-2.50%**
Blackrock	**0**	**0**	**5,985**	**0.46%**	**2.50%**	**-2.04%**
Cash & NCA						
Cash	**24,657**	**33,942**	**13,280**	**1.01%**	**0.00%**	**1.01%**
Total Assets	**1,248,151**	**1,309,093**	**1,309,938**	**100%**	**100%**	**0.00%**

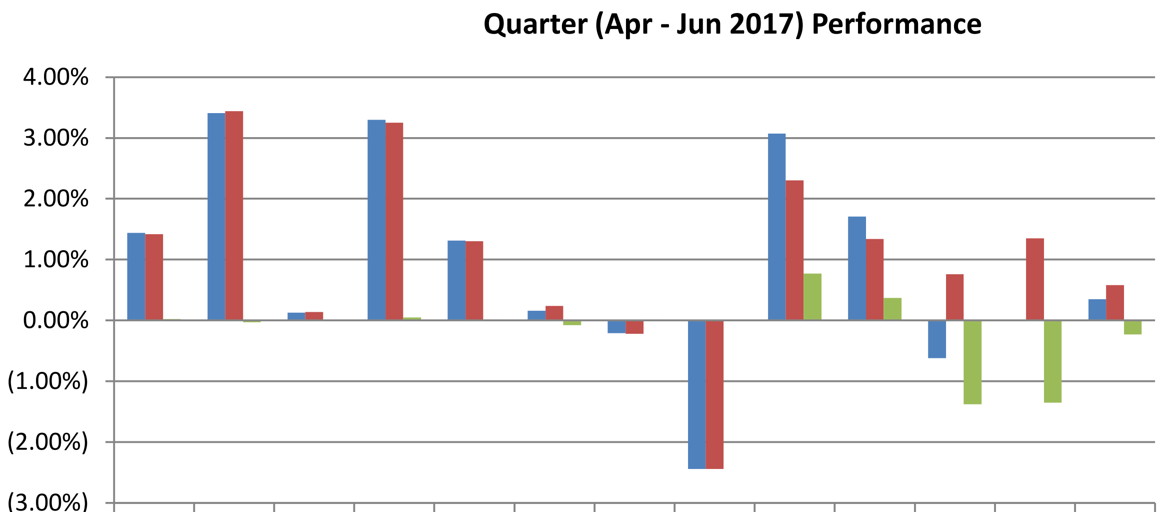
13. Investment Performance Update: to 30th June 2017

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 April to June 2017 and for one, three and 5 years for the whole of Fund.



	Apr 17 - Jun 17	One Year	Three Years	Five Years	Since Inception
Return	0.35%	17.29%	12.89%	12.61%	8.91%
Benchmark	0.58%	17.15%	13.01%	12.93%	9.81%
(Under)/Out	(0.23%)	0.14%	(0.12%)	(0.32%)	(0.90%)

13.2. The Fund returned 0.35% in the quarter: roughly in line with the benchmark of 0.58%. Japanese and European equities showed the strongest performance over the quarter with returns of over 3%. Property also had a return in excess of 3% in the quarter.



	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	1.44%	3.41%	0.13%	3.30%	1.31%	0.16%	(0.21%)	(2.44%)	3.07%	1.71%	(0.62%)	0.00%	0.35%
Benchmark	1.42%	3.44%	0.14%	3.25%	1.30%	0.24%	(0.22%)	(2.44%)	2.30%	1.34%	0.76%	1.35%	0.58%
(Under)/out	0.02%	(0.03%)	(0.01%)	0.05%	0.01%	(0.08%)	0.01%	0.00%	0.77%	0.37%	(1.38%)	(1.35%)	(0.23%)

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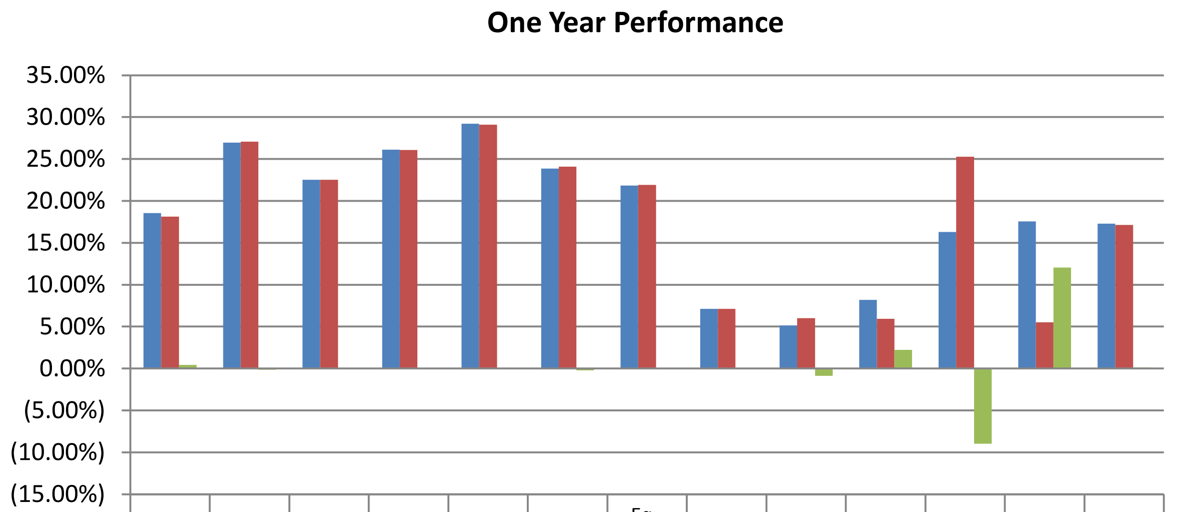
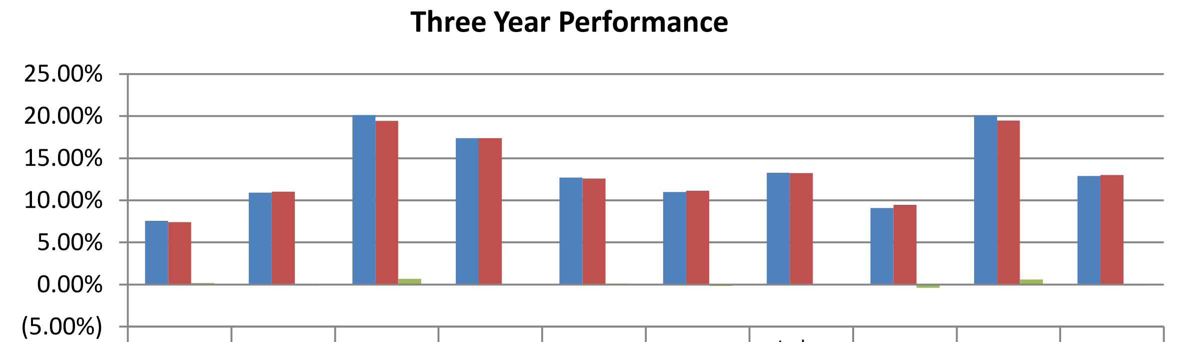
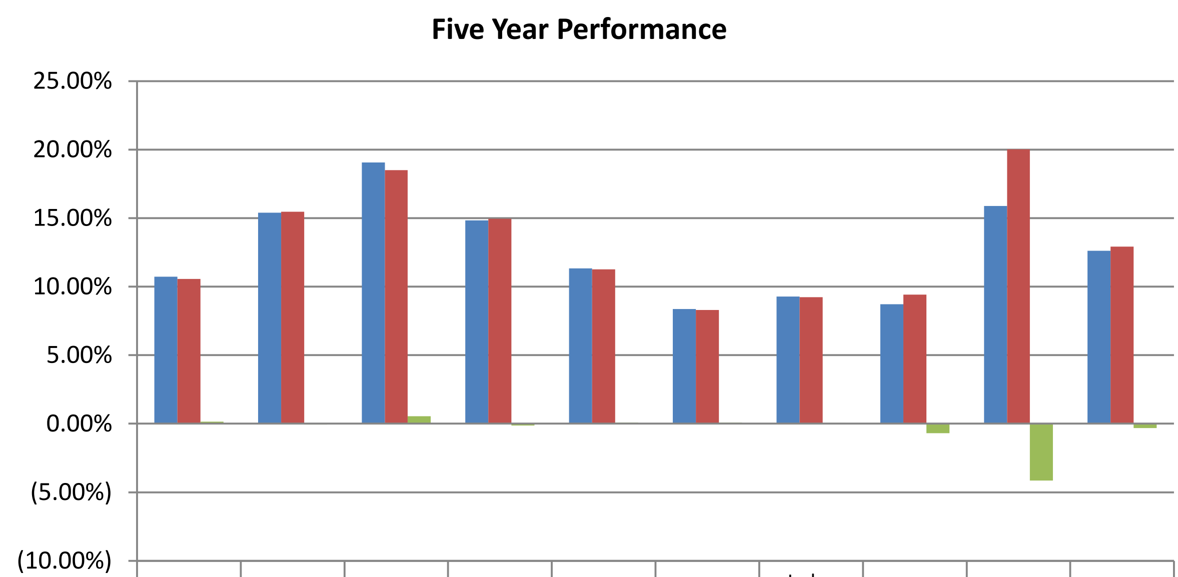
13.3. Over the last 12 months the Fund returned 18.54% and overperformed benchmark of 18.12% by 0.42%. Three and five year outperformance is 0.18% and 0.15% respectively. As much of the fund is invested passively, one would expect returns to be largely in line with benchmark. The Fund has benefitted from its overweight position in equities over the past five years.



	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	18.54%	26.96%	22.52%	26.10%	29.20%	23.86%	21.83%	7.12%	5.14%	8.18%	16.29%	17.57%	17.29%
Benchmark	18.12%	27.09%	22.52%	26.07%	29.11%	24.08%	21.91%	7.12%	6.00%	5.95%	25.27%	5.50%	17.15%
(Under)/out	0.42%	(0.13%)	0.00%	0.03%	0.09%	(0.22%)	(0.08%)	0.00%	(0.86%)	2.23%	(8.98%)	12.07%	0.14%



	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Index Linked Bonds	Property	Private Equity	Total Fund
Return	7.58%	10.92%	20.13%	17.39%	12.69%	10.99%	13.26%	9.10%	20.08%	12.89%
Benchmark	7.40%	11.02%	19.43%	17.37%	12.59%	11.15%	13.22%	9.48%	19.48%	13.01%
(Under)/out	0.18%	(0.10%)	0.70%	0.02%	0.10%	(0.16%)	0.04%	(0.38%)	0.60%	(0.12%)

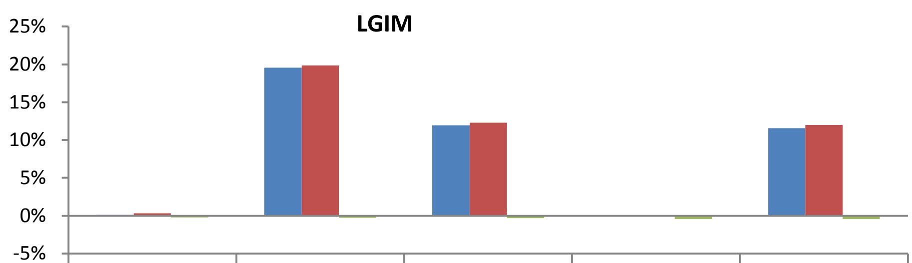


	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Index Linked Bonds	Property	Private Equity	Total Fund
Return	10.72%	15.39%	19.05%	14.84%	11.34%	8.36%	9.29%	8.73%	15.88%	12.61%
Benchmark	10.57%	15.46%	18.51%	14.96%	11.27%	8.29%	9.23%	9.41%	20.02%	12.93%
(Under)/out	0.15%	(0.07%)	0.54%	(0.12%)	0.07%	0.07%	0.06%	(0.68%)	(4.14%)	(0.32%)

FUND MANAGER PERFORMANCE

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

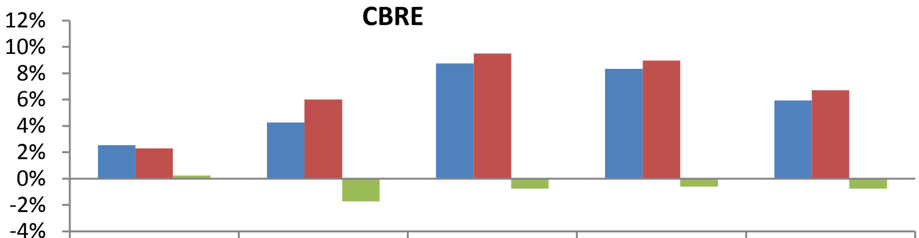
13.4. Legal and General returned 0.11% this quarter and has slightly underperformed composite benchmark of 0.33%.



	Apr 17 - Jun 17	One Year	Three Years	Five Years	Since Inception (May 12)
Return	0.11%	19.56%	11.96%	0	11.58%
Benchmark	0.33%	19.84%	12.29%	0	12.01%
(Under)/Out)	(0.22%)	(0.28%)	(0.33%)	(0.44%)	(0.43%)

CBRE

13.5 The manager saw a positive total return of 0.23% in the quarter and out-performed benchmark of 2.30% by 0.23%. CBRE lags behind benchmark over 1, 3, and 5 years, as well as since portfolio inception: however this position is improving.

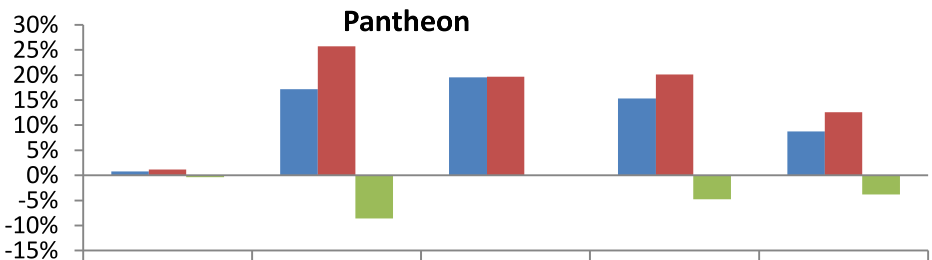


	Apr 17 - Jun 17	One Year	Three Years	Five Years	Since Inception (Mar 03)
Return	2.53%	4.27%	8.74%	8.34%	5.94%
Benchmark	2.30%	6.00%	9.49%	8.96%	6.70%
(Under)/Out	0.23%	(1.73%)	(0.75%)	(0.62%)	(0.76%)

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

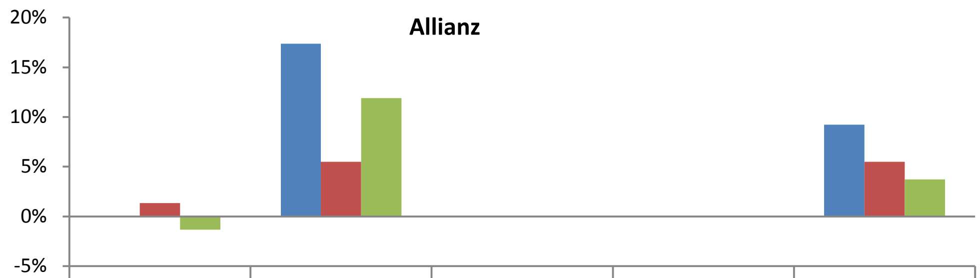
13.7 Pantheon Private Equity underperformed their benchmark by 0.36%. Over all time horizons measured below the manager is showing a negative return compared to benchmark, however, in absolute terms, returns of over 15% over the past five years have added significantly to the fund's asset base and overall performance metric.



	Apr 17 - Jun 17	One Year	Three Years	Five Years	Since Inception (May 07)
Return	0.78%	17.17%	19.54%	15.35%	8.78%
Benchmark	1.14%	25.75%	19.63%	20.11%	12.58%
(Under)/Out	(0.36%)	(8.58%)	(0.09%)	(4.76%)	(3.80%)

Allianz Infrastructure Debt

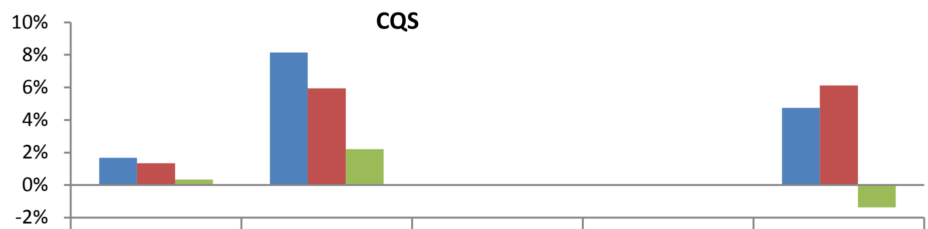
13.8 Allianz has returned -1.35% against benchmark in the quarter. This is due to the assets of the underlying holdings only being valued quarterly, and the June 2017 valuation not being finalised in time for reporting. The manager is still significantly ahead of benchmark in the one year period and since inception.



	Apr 17 - Jun 17	One Year	Three Years	Five Years	Since Inception (Dec 14)
Return	0.00%	17.38%			9.21%
Benchmark	1.35%	5.50%			5.50%
(Under)/Out	(1.35%)	11.88%	0.00%	0.00%	3.71%

CQS Multi Sector Credit

13.9 The manager had a slight over-performance relative to benchmark in the quarter achieving a return of 1.68% against the benchmark of 1.34%. Over the past 12 months the manager is ahead of benchmark by 2.20%, however since portfolio inception they lag behind benchmark by 1.37%.



	Apr 17 - Jun 17	One Year	Three Years	Five Years	Since Inception (Aug 14)
Return	1.68%	8.15%			4.75%
Benchmark	1.34%	5.95%			6.12%
(Under)/Out	0.34%	2.20%	0.00%	0.00%	(1.37%)

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.

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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; 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. Ten sub funds have currently been set up, with more expected to follow shortly. The CIV now has offerings in a number of global equity and multi asset or diversified growth fund products.

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. Aviva have confirmed that funding commitment from LB Haringey will likely be drawn down in Q1 or Q2 of 2018. However, officers note that this is the same position that has been reported for nearly a year now, and the timing regarding the likely drawdown keeps slipping forward.

Appendix 1 – Strategic Asset Allocation (as at 30.09.17)

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
Legal & General Investment Management	67.5%	Global Equities & Bonds	See overleaf	Index (passively managed)
CQS	7.0%	Multi Sector Credit	3 month LIBOR + 5.0% p.a.	Benchmark
Allianz	3.0%	Infrastructure Debt	5.5% p.a.	Benchmark
CBRE Global Investors	7.5%	Property	IPD UK Pooled Property Funds All Balanced Index	+1% gross of fees p.a. over a rolling 5 yr period
Pantheon Private Equity	5.0%	Private Equity	MSCI World Index plus 3.5%	Benchmark
Aviva	5.0%	Long Lease Property	50% FTSE Actuaries 5-15 Year Gilt Index 50% FTSE 15 Years + Gilt Index*	+1.50% p.a. over the medium to long term
Copenhagen Investment Partners	2.5%	Renewable Energy	10.0% p.a.	Benchmark
Blackrock	2.5%	Renewable Energy	10.0% p.a.	Benchmark
Total	**100.0%**			

* The Fund invests in the Aviva Lime Property Fund, which invests in a diversified portfolio of UK Real Estate assets with long leases and strong covenants. The official performance objective is to outperform the composite benchmark in the table above by 1.5% over the medium to long term. In practice, the shorter term performance of the benchmark has the scope to perform very differently to the underlying property assets. Over shorter periods (less than 5 years), the Officers will assess the performance of this part of the portfolio on a total return basis, whereby around 60% to 80% of this is expected to be derived from rental income (with capital appreciation being the balance).

Asset Class	**Benchmark**	**Legal & General Investment Management**
UK Equities	FTSE All Share	6.60%
North America	FT World Developed North America Index (Unhedged)	4.80%
North America	FT World Developed North America Index (Hedged)	4.80%
Europe ex UK	FT World Developed Europe ex-UK Index (Unhedged)	1.60%
Europe ex UK	FT World Developed Europe ex-UK Index (Hedged)	1.60%
Pacific ex Japan	FTSE Developed Asia Pacific (ex-Japan) Index (Unhedged)	0.75%
Pacific ex Japan	FTSE Developed Asia Pacific (ex-Japan) Index (Hedged)	0.75%
Japan	FTSE Japan Index (Unhedged)	0.75%
Japan	FTSE Japan Index (Hedged)	0.75%
Emerging Markets	FTSE Emerging Markets Index (Unhedged)	7.80%
Global Low Carbon Equities	MSCI World Low Carbon Target Index (Unhedged)	11.15%
Global Low Carbon Equities	MSCI World Low Carbon Target Index (Hedged)	11.15%
Index Linked Gilts	FTA Index Linked Over 5 Years Index	15.00%
Total L&G		**67.50%**