

## HAMPSHIRE COUNTY COUNCIL

## Decision Report

<b>Decision Maker:</b>	Pension Fund Panel
<b>Date of Decision:</b>	10 June 2011
<b>Decision Title:</b>	Liability driven investment
<b>Decision Reference:</b>	2981
<b>Report From:</b>	County Treasurer

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## 1. Executive Summary

- 1.1 The purpose of this paper is to provide a short introduction to liability driven investment. Representatives from Schrodgers, Lyndon Bolton and Andy Connell, head of liability driven investment, will attend this meeting of the Panel to provide a detailed presentation on liability driven investment.

## 2. Background

- 2.1. In September 2010, some members of the Panel attended the LGC investment summit, where Schrodgers gave a presentation on liability driven investment. Schrodgers have been invited to present to the full Panel on this topic, so all Panel members can have the benefit of the session heard by some last September.
- 2.2. By way of an introduction, a short CV for Andy Connell from Schrodgers is detailed below.
- Head of Liability Driven Investing, based in London
  - Previously worked in Liability Driven Investment sales at ABN AMRO in London where he was responsible for developing and maintaining relationships with buy-side investment houses. From 1998 to 2006 he was an Active Bond Fund Manager, leading interest rate strategy at Barclays Global Investors.
  - Investment career began in 1993 when he joined the Financial Business Unit of KPMG
  - Member of the Securities Institute, the Institute of Chartered Accountants. Holder of the Securities Institute Diploma, Financial

### **3. Liability drive investment**

- 3.1. Andy Connell's presentation booklet is enclosed with this Agenda. Briefly, as background for the session, liability driven investment aims to manage the volatility of the funding level of a pension fund. This is usually done using swaps and bonds, in order to construct an investment strategy which matches the behaviour of the liabilities, by hedging, in whole or in part, the fund's exposure to changes in interest rates and inflation. These tools are used more as a way of managing liability risks, rather than as a way of improving returns.
- 3.2. Assets such as swaps can be used with minimal disruption to the rest of the asset allocation, which would allow a pension fund to continue to invest in higher return assets such as equities. This would help to reduce risk without sacrificing the expected returns.
- 3.3. This type of investment strategy has generally been less important for local government pension funds compared with private sector funds, as more stringent rules are applied to the private sector meaning they are permitted less time to recover funding deficits. There is also a much higher risk of the sponsoring employer becoming insolvent for a private sector fund. In addition, local government pension funds also have a large active membership, so there is less urgency to close the funding deficit.
- 3.4. However, planned changes to local government pension funds and increased scrutiny may lead to a reduction in membership and an increased focus on managing the volatility of the funding level. Liability driven investment might provide a solution, although it could be questionable whether these pressures outweigh the arguments in paragraph 3.3.

### **4. Recommendation**

- 4.1. That the Panel note the report as an introduction to liability driven investment.

**CORPORATE OR LEGAL INFORMATION:****Links to the Corporate Strategy**

<b>This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because actions are required to continue the appropriate investment of the Hampshire Pension Fund's investments.</b>
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**Other Significant Links**

<b>Links to previous Member decisions:</b>		
<u>Title</u>	<u>Reference</u>	<u>Date</u>
<b>Direct links to specific legislation or Government Directives</b>		
<u>Title</u>		<u>Date</u>

**Section 100 D - Local Government Act 1972 - background documents**

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

## **IMPACT ASSESSMENTS:**

### **1. Equalities Impact Assessment:**

- 1.1. Equality objectives are not considered to be adversely affected by the proposals in this report.

### **2. Impact on Crime and Disorder:**

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

### **3. Climate Change:**

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.