

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel
Date:	10 June 2011
Title:	Work of the Independent Advisers Group
Reference:	3002
Report From:	The Independent Adviser

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1. Introductory

1.1. This report sets out a number of points that have arisen during the meetings of the Independent Advisers Group (whose members act for Local Government Pension schemes) and which Panel members might be interested in considering and, possibly, commenting on.

2. Potential mergers of Local Authority Pension Funds

- 2.1. There have been suggestions (including a passing reference in the Hutton Report) that the existing funds might be merged, either into a single national body or into regional groupings. The clear feeling among IAG members was that this was undesirable, and indeed, impracticable.
- 2.2. Among the difficulties pointed out were the differing composition of the labour force from place to place, by age group, length of time in post, and by sex, and the maturity of the many schemes. Variations in the funding level and distribution across asset classes of portfolios would make it very complicated to arrive at a harmonised investment strategy, even for a merger of two or three funds.
- 2.3. An apparently minor problem, but one likely to cause appreciable complications in practice, is the position of admission bodies, particularly as many funds are apparently in the process, or have just completed, setting up new arrangements tailored to the specific situation in their own areas.
- 2.4. However, considerable interest has been expressed in setting up regular contacts between LA's on a local and regional basis, to exchange information and discuss how particular problems with common elements might be handled.

- 2.5. At our last meeting a tentative proposal was put forward for a grouping of counties (broadly described as 'Wessex') to be formed among advisers representing counties including Berkshire, Surrey, Wiltshire, Somerset and Devon (plus, of course, Hampshire) to meet informally from time to time and discuss ideas of common interest. This could extend to visiting and attending pension fund meetings away from home ground (excluding being present when confidential items on the agenda were being taken).
- 2.6. This idea is likely to reappear on an IAG agenda before long and it would be useful to have an indication of Panel members' views so that I can pass them on.

3. Flexibility

- 3.1. There is regular discussion on how investment allocation can be made more flexible, while the present pattern is for the great majority of funds' portfolios to be mandated to managers for, typically, 3 – 5 years.
- 3.2. Discussion on this issue has also touched on the question of continuing to set targets and benchmarks for managers, rather than simply giving a broad indication that a positive return (related to inflation or GDP growth) is wanted.
- 3.3. One suggestion, which will be on the agenda for our next meeting, is to ask managers to pay out a proportion of dividend and interest income that could provide funding for investment in a separate bundle of assets.
- 3.4. This would clearly have an impact on existing managers – not least because of the possible effect on very long-term returns. It is a widely quoted fact (repeated annually in surveys by, for example, Barclays and Boston-Credit Suisse) that over the last century equities have vastly outperformed gilts and other bonds. What is often not realised is that of the calculated increase from £100 invested in equities in 1899 to around £150,000 today in real terms, over 97 per cent is attributable to the reinvestment of all dividends (assuming the return to be tax-free).
- 3.5. In theory, there is no reason why managers' targets should not be set by reference to capital appreciation, but there are clearly reasons why a lot of thought should be given to this before this is adopted.
- 3.6. Another suggestion has been that funds should appoint a separate 'strategic' manager, with a brief to invest in a variety of assets, but in particular to take advantage of new approaches to conventional sectors, such as equities, based on detailed analysis and 'back-testing' of fresh theories.
- 3.7. This would be wider ranging than the arrangement we currently have with Aberdeen, which is to advise on possible opportunities, and would enable the proposed new manager to invest in the products of a wider range of funds and institutions, on terms to be agreed by the Panel or a sub-panel. We will be discussing this in more detail at a forthcoming meeting, and Panel members' view would be welcome as a guide to Hampshire's position.

4. Costs

- 4.1. Arising from potential mergers with other funds, it has been suggested that there is scope for saving costs of operating pension funds in two areas: cutting fees (or relating them more closely to performance) and administration. A paper presented at a recent symposium by Aon Hewitt showed that, in practice the potential economies from cooperation between different funds sharing administration costs were likely to exceed those from renegotiating fees on an individual basis.
- 4.2. While we will return to examining the latter, we will do so sooner to the former, and hope to have material to look at giving practical examples of sharing administrative costs between two or more authorities. Panel members might like to think about whether they would like to pursue this in practice.

5. Self-centred investment

- 5.1. A number of authorities have chosen to purchase properties, owned or services provided by their, or another, local authority, and creating an income stream for their own pension fund. Opinion among advisers was divided, but the majority, among whom I was included, were of the view that this was undesirable, could cause conflicts of interest, and was more likely than not to prove unprofitable. But, given the debates to whether the exclusion of property in Hampshire from the assets which the fund can invest in, members may like to consider if this could be acceptable.

NOTE: With his eagle eye, Cllr. Carter has pointed out that there appears to be an error in the table accompanying the section in my Report to the May 27 meeting of the Panel, in that the last two figures in the column for 'Jobless' in the table to my section on Forecasting appear to show unemployment at 8.8 and 9.3 million. Unfortunately a footnote was omitted that showed that the European Commission and IMF both made their forecasts in terms of percentages rather than million. But they were still wrong by more than 5 per cent.

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

Hampshire safer and more secure for all:	yes/no
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	yes/no
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	yes/no
Corporate Improvement plan link number (if appropriate):	
OR	
This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision to accept the report of the Independent Adviser.	

Other Significant Links

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

DocumentLocation

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.