

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Pension Fund Panel
<b>Date:</b>	7 December 2012
<b>Title:</b>	Comparisons with other local government pension funds
<b>Reference:</b>	4515
<b>Report From:</b>	Director of Corporate Resources – Corporate Services

**Contact name:** Ian Howell

**Tel:** 01962 847540

**Email:** [ian.howell@hants.gov.uk](mailto:ian.howell@hants.gov.uk)

### 1. Executive Summary

- 1.1. This report provides a comparison of the investment performance of the Hampshire Pension Fund with other Local Government Pension Scheme (LGPS) funds.

### 2. Background

- 2.1. Statistics are compiled by the performance measurement specialists, WM Company, and published each year by Chartered Institute of Public Finance and Accountancy (CIPFA). The most recent edition available is for periods to 31 March 2011, and so the information does not cover the most recently completed financial year. It was published in March 2012.
- 2.2. Hampshire is not included in the published statistics as the Pension Fund does not use the services of the WM Company. Instead, the Pension Fund's performance data are calculated by its custodian Northern Trust. Information from Northern Trust has been used in this report to compare Hampshire with the published statistics.
- 2.3. Information from the CIPFA statistics on pension funds was last reported to the Panel in November 2009, covering periods to 31 March 2009.

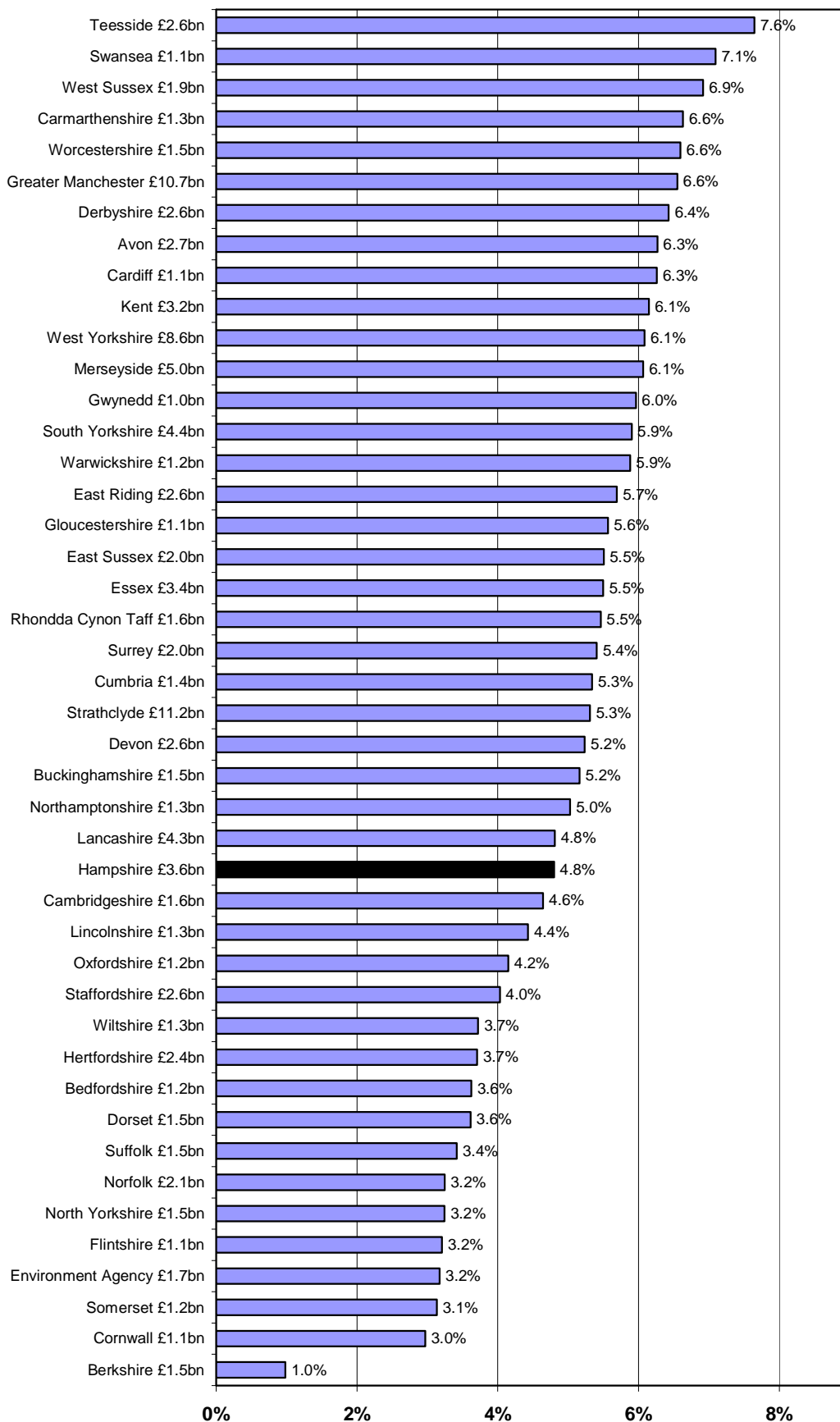
### 3. Statistics to 31 March 2011

- 3.1. The latest statistics provide the annualised performance return for each fund for three, five and ten year periods to 31 March 2011. There is a wide range of funds in the LGPS scheme in terms of size as measured by fund value, from Strathclyde at £11.2bn and Greater Manchester at £10.7bn to the Orkney Islands (£160m) and the Isle of Wight (£327m). If Hampshire had

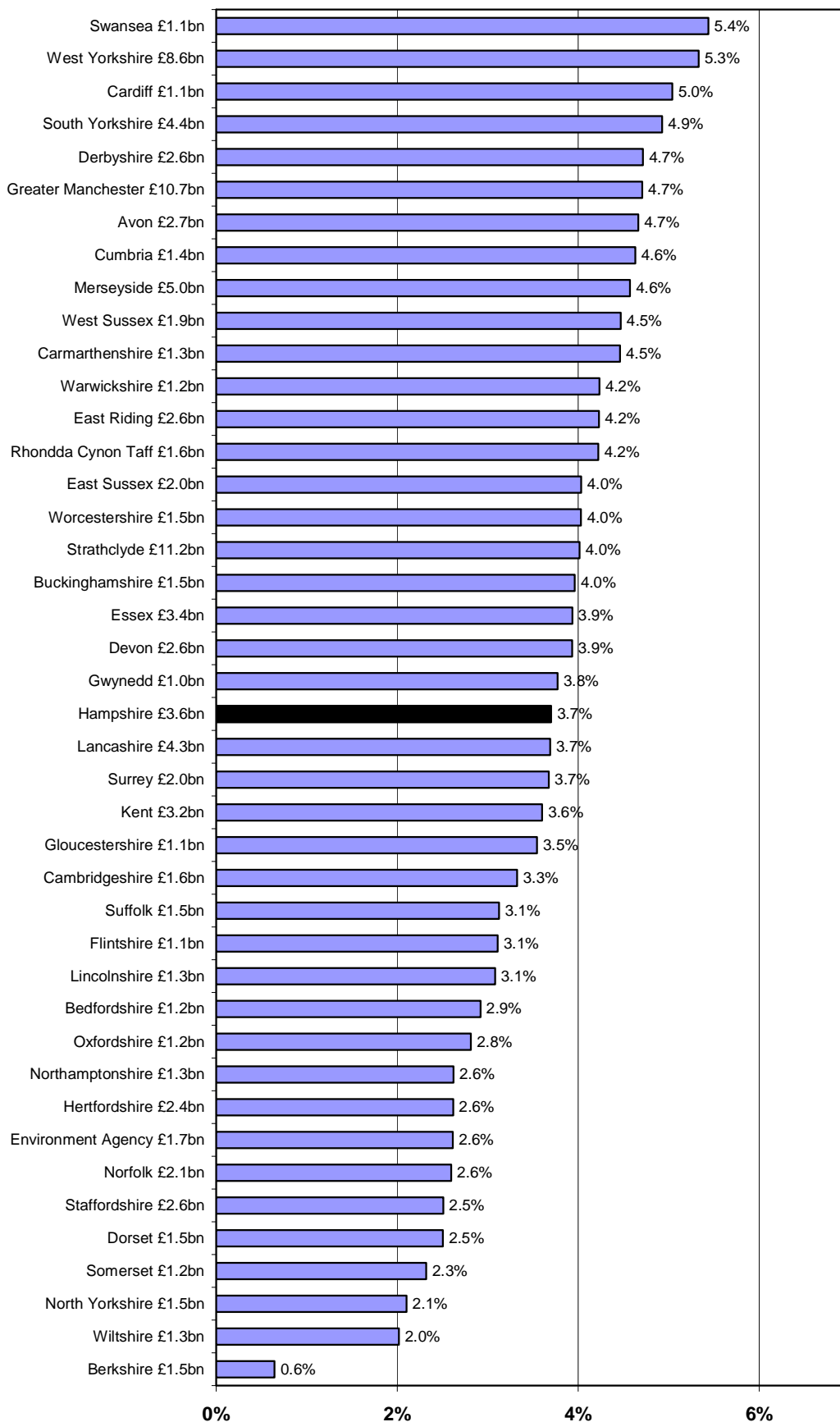
been included in the statistics, it would have been the eighth largest fund at £3.5bn at 31 March 2011.

- 3.2. To present the information in a clear readable format, the diagrams on the next three pages show the investment returns achieved by the 44 largest of the 85 LGPS funds for which statistics are available. These are funds with a value at 31 March 2011 of at least £1.0bn.
- 3.3. Over the three-year period to 31 March 2011, the Hampshire Pension Fund's return of +4.8% per annum is a little below the average for the 44 funds of +5.0%. The Pension Fund's relative position has been affected by the mixed success of its external investment managers over this period. This included the disappointing results to 31 March 2011 of the managers whose contracts have since ended (AllianceBernstein and GLG Partners), offset in part by the better returns by Aberdeen, Schroders and Western. The Pension Fund's comparatively large holdings of UK Index Linked Bonds were not advantageous over the three-year period to 31 March 2011, as they underperformed global and UK equities.
- 3.4. For the five year period to 31 March 2011, Hampshire matched the average return. Over ten years, it is below average.

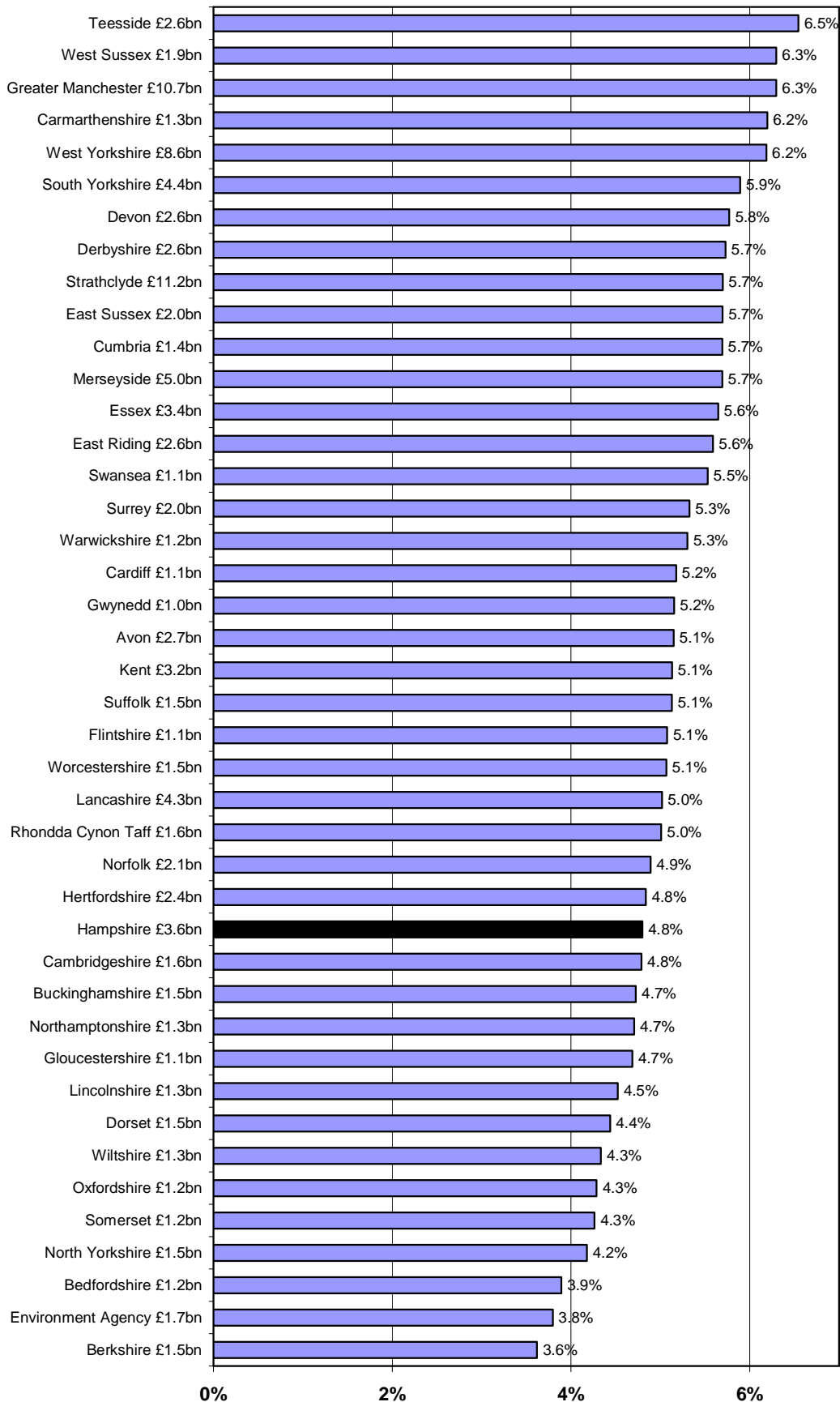
### Investment returns per annum for the 3 years to 31 March 2011



### Investment returns per annum for the 5 years to 31 March 2011



### Investment returns per annum for the 10 years to 31 March 2011



- 3.5. The evidence from the statistics suggests that it is very difficult for pensions funds to be consistently successful. Over the last seven three-year periods, ie from 1993 to 2011, no fund has managed to achieve a return in the top 50% in each of the seven three-year periods.
- 3.6. This reflects the cyclical nature of investments and the different asset allocations adopted by pension funds to suit their own particular circumstances. Although the benefit structure of the Local Government Pension Scheme is set by statute, with some discretionary elements, there has been sufficient divergence in LGPS funds' investment arrangements over the decades for pension funds to have developed a range of strategic investment strategies to meet their specific individual needs.
- 3.7. The investment returns shown in the charts above reflect those decisions, and not necessarily that some pension funds are "getting it right". Success is not just a case of achieving the highest returns in the country, because that success could be short lived as investment markets change. Meeting the risk-adjusted investment performance target as assessed by the Fund actuary is more important.
- 3.8. Although it would be satisfying to achieve the highest returns compared with other funds, Hampshire's primary focus should be on meeting its own targets as required by the actuarial valuation. The league table ranking is then likely to take care of itself.

#### **4. Asset allocations**

- 4.1. The CIPFA statistics also provide information on each LGPS fund's asset allocation at 31 March 2011. This is a 'snapshot' of the position at the end of the period covered by the performance statistics. It is most unlikely to be an accurate guide to the investment strategy adopted by each pension fund over the full three, five or ten year periods. But with that caveat in mind the following table compares the asset allocations at 31 March 2011 for Hampshire and the pension funds who achieved the top three highest investment returns over 3 years, 5 years and 10 years.

	Hampshire	Teeside	West Sussex	Greater Manchester	Swansea	West Yorkshire
Fund size at 31 March 2011	£3.5bn	£2.6bn	£2.0bn	£10.7bn	£1.1bn	£8.6bn
Performance ranking:						
- over 3 years	28 <sup>th</sup>	1 <sup>st</sup>	3 <sup>rd</sup>	6 <sup>th</sup>	2 <sup>nd</sup>	11 <sup>th</sup>
- over 5 years	23 <sup>rd</sup>	1 <sup>st</sup>	11 <sup>th</sup>	7 <sup>th</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
- over 10 years	29 <sup>th</sup>	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	15 <sup>th</sup>	5 <sup>th</sup>
Asset allocation at 31 March 2011						
Equities	59.0%	78.1%	68.3%	66.1%	68.5%	68.5%
UK Index Linked Bonds	20.5%	1.9%	-	1.9%	1.5%	4.7%
Other Bonds	4.8%	6.5%	14.4%	15.5%	13.3%	10.5%
Property	7.2%	5.4%	7.0%	5.1%	3.4%	3.5%
Alternatives	5.5%	3.0%	7.9%	3.2%	6.0%	10.1%
Cash	3.0%	5.1%	2.4%	8.2%	7.3%	2.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

4.2. All the other funds in the table had a higher allocation to equities at 31 March 2011 than Hampshire and that might have had a impact on their returns. But there is no certainty that this was the position throughout the 3, 5 or 10 year periods.

4.3. Hampshire has the highest weighting in UK Index Linked Bonds but only adopted that position four years ago so it is unlikely to be the only factor affecting investment returns over the 5 and 10 year periods.

## 5. Conclusions

5.1. Information from comparative statistics can be interesting but rarely provide clear messages. There would be significant dangers in assuming that other pension funds' investment arrangements would be "right" for Hampshire. It is more important to focus on making Hampshire's investment strategy work as it has been designed with the help of Aon Hewitt to meet Hampshire's future liabilities.

## 6. Recommendation

6.1. That the report be noted.

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

<b>Hampshire safer and more secure for all:</b>	yes/no
Corporate Business plan link number (if appropriate):	
<b>Maximising well-being:</b>	yes/no
Corporate Business plan link number (if appropriate):	
<b>Enhancing our quality of place:</b>	yes/no
Corporate Business plan link number (if appropriate):	
<b>OR</b>	
<b>This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision because actions are required to assess the Hampshire Pension Fund's investment returns.</b>	

**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.)

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.