

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel
Date:	8 November 2013
Title:	Comparisons with other local government pension funds
Reference:	5320
Report From:	Director of Corporate Resources – Corporate Services

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1. Executive Summary

1.1. This report compares the investment performance of the Hampshire Pension Fund with other Local Government Pension Scheme (LGPS) funds. It also includes some additional statistics about LGPS funds from data collected by the Government.

2. Background

2.1. Statistics on the investment performance of LGPS funds are compiled by the performance measurement specialists State Street (formerly the WM Company) and published each year by the Chartered Institute of Public Finance and Accountancy (CIPFA).

2.2. The most recent edition, published by CIPFA in June 2013, covers periods to 31 March 2012 and so the information does not yet cover the most recently completed financial year.

2.3. Hampshire is not included in the published statistics as the Pension Fund does not use the services of State Street (WM Company) for performance measurement. Instead, the Pension Fund's performance data are calculated by its custodian Northern Trust (JP Morgan after 1 August 2013).

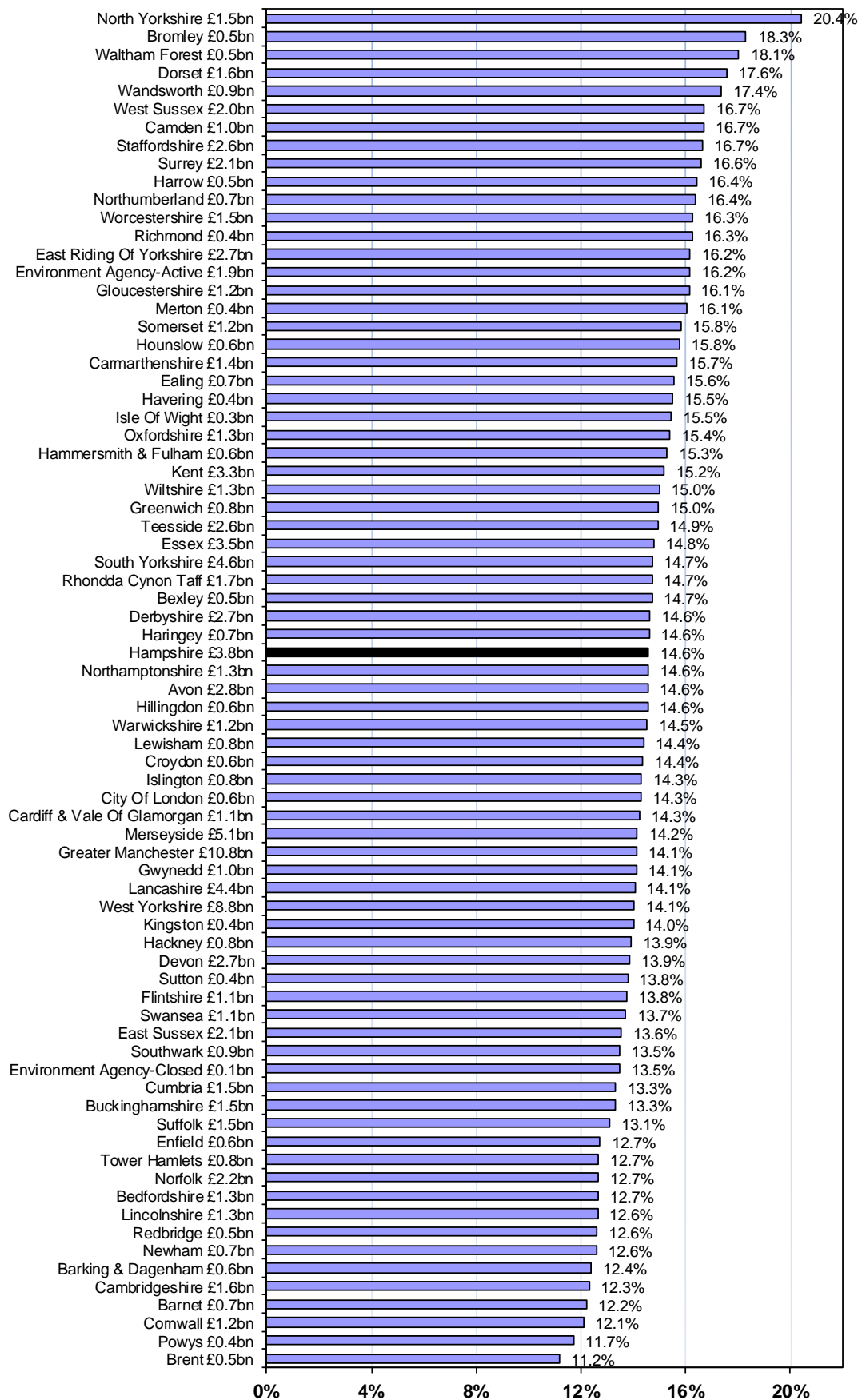
2.4. Information from Northern Trust has been used in this report to compare Hampshire with the published statistics.

2.5. In addition, comparative statistics have been included in section 4 below from the Government's Form SF3 for 2012/13 which is completed by all LGPS funds.

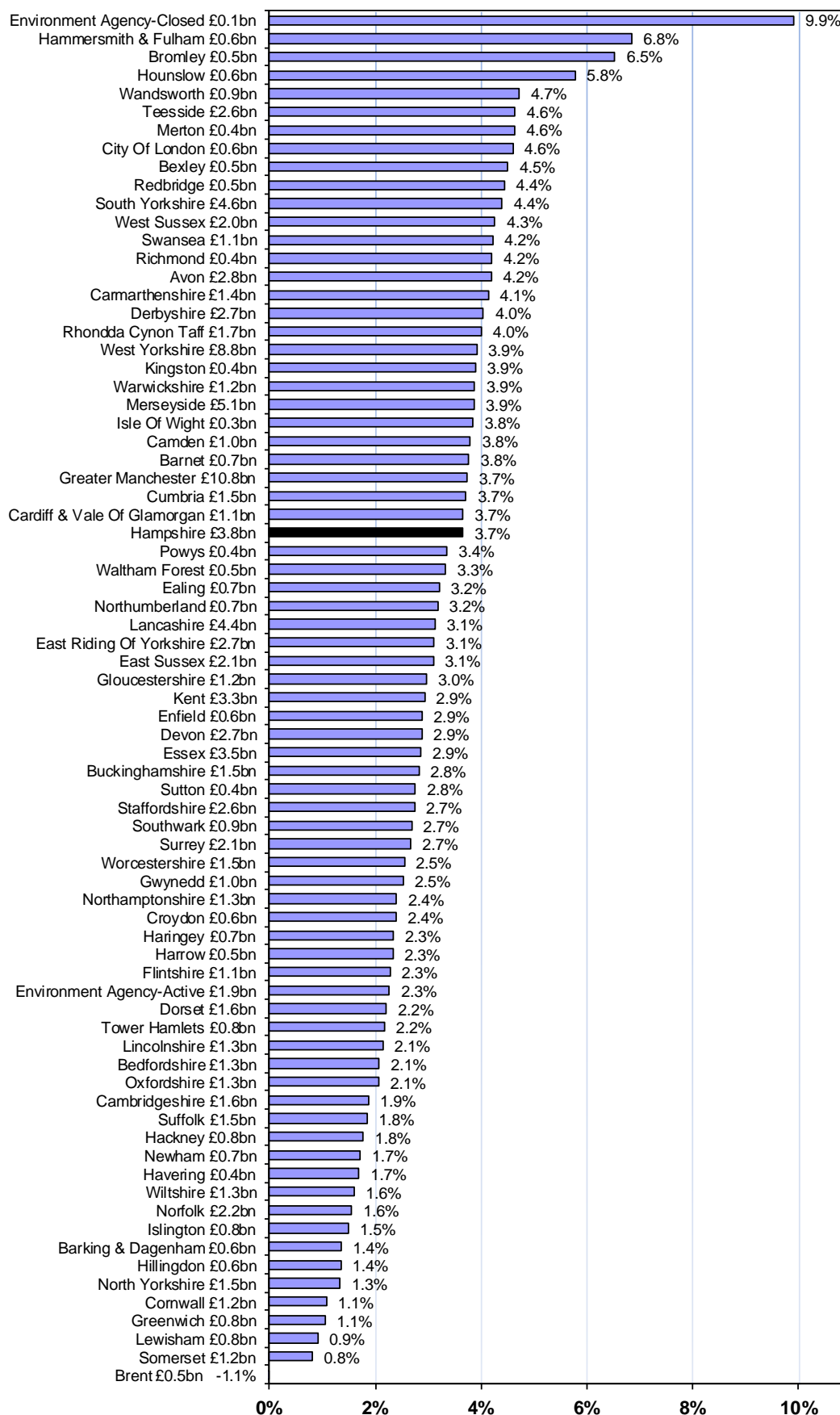
3. Investment statistics to 31 March 2012

- 3.1. The latest statistics published by CIPFA provide the annualised investment performance returns for 74 of the 89 LGPS funds in England and Wales, for three, five and ten year periods to 31 March 2012.
- 3.2. There is a wide range of funds in the LGPS scheme in terms of size as measured by fund value, from Greater Manchester at £10.8bn to the Isle of Wight (£0.3bn). If Hampshire had been included, it would be the sixth largest fund in the statistics at £3.8bn at 31 March 2012. (It would have been the ninth largest if all LGPS funds had been included in the statistics.)
- 3.3. Over the three-year period to 31 March 2012, the Hampshire Pension Fund's return of 14.6% per annum matched the median return of the 74 funds.
- 3.4. 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 during the three-year period of the managers whose contracts ended in September 2011 (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 2012, as they underperformed the returns available from global and UK equities.
- 3.5. For the five-year period to 31 March 2012, Hampshire's return of 3.7% per annum was marginally better than the median return of 2.9%.
- 3.6. Over ten years, Hampshire's return of 5.6% per annum again matched the median.
- 3.7. The returns over three, five and ten years for the 74 funds are compared in the following diagrams.

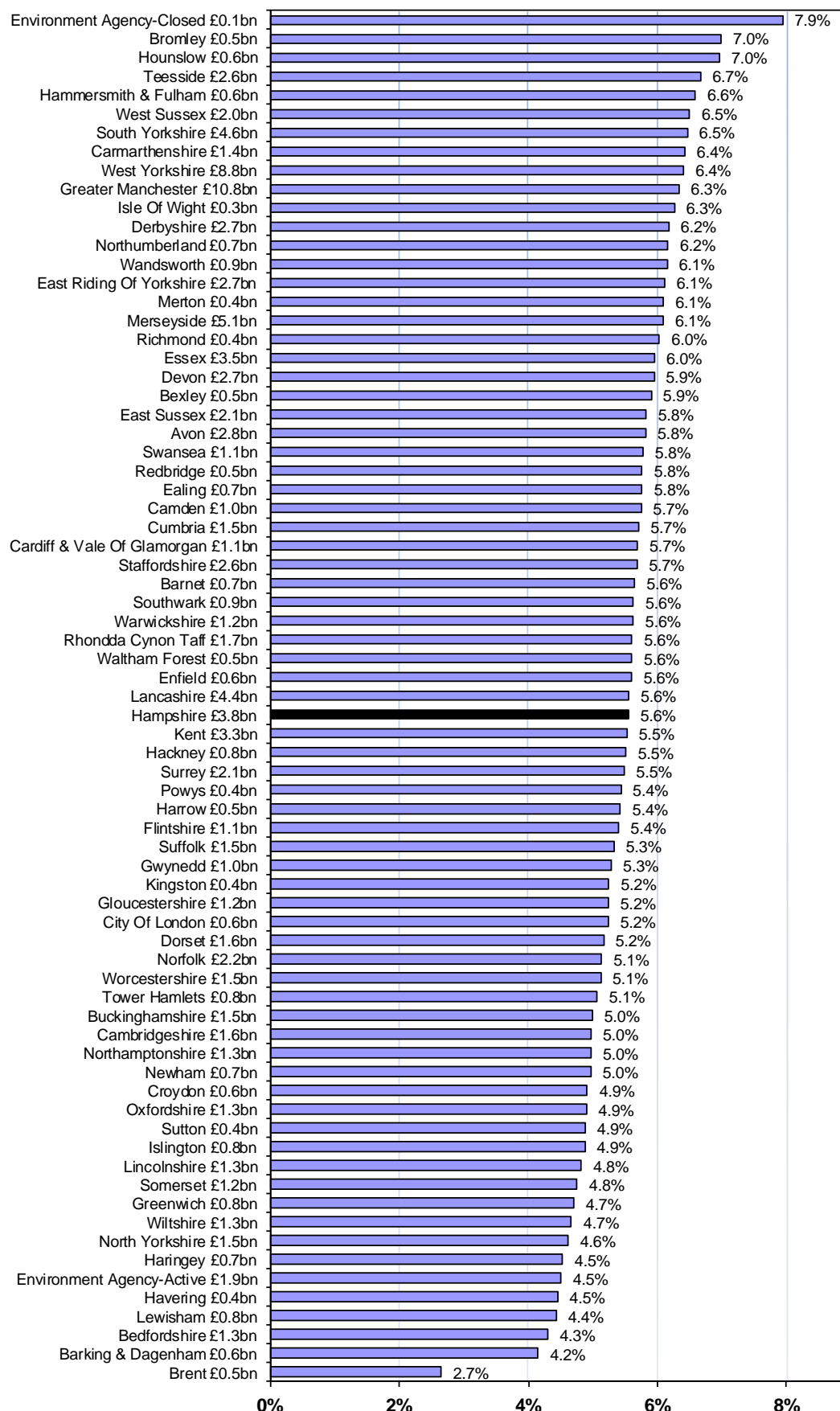
Investment returns per annum for the 3 years to 31 March 2012



Investment returns per annum for the 5 years to 31 March 2012



Investment returns per annum for the 10 years to 31 March 2012



- 3.8. Superficially, it would look good if Hampshire were at the top of these charts, but it is more important for the Pension Fund to achieve its own internal investment performance targets. A pension fund's position in these charts may reflect how well its asset allocation has corresponded with shorter term market movements, not whether it has achieved its investment aims.
- 3.9. This is illustrated by the position of North Yorkshire in the charts. Over the three years to 31 March 2012, North Yorkshire achieved a return that was significantly higher than other pension funds at 20.4% per annum. But over both 5 years and 10 years, when equity markets performed less strongly, North Yorkshire were close to the bottom of the charts.
- 3.10. Similarly, the Environment Agency's 'closed fund', which was invested 100% in UK Index Linked Bonds at 31 March 2012, was top of the charts over 5 years and 10 years, but nearer the bottom over 3 years.
- 3.11. Successful investment 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.
- 3.12. In fact, there may be some merits in being consistently close to, or a little above, the median return. That would suggest that Hampshire's investment strategy and asset allocation is pragmatic and that results will continue to be consistent and steady and not radically affected by market movements.
- 3.13. Although it would be satisfying to achieve the higher returns than 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. Information from the Government's Form SF3 for 2012/13

- 4.1. The Government collects data on LGPS funds each year in a statistical return known as Form SF3. The results for 2012/13 were released on 23 October 2013 and provide data on the annual income and expenditure for all 89 LGPS funds in England and Wales.
- 4.2. The following table shows how Hampshire ranks in the data.
- 4.3. There have been some doubts about the quality and consistency of the data returned to the Government in Form SF3 and this might affect the overall results. This may apply in particular to the data on administration costs and fund management costs following the Government's decision to use the data to argue that LGPS funds are inefficient and incurring unnecessary costs. There is a possibility that some LGPS funds have sought to manage their data accordingly.

Table 2 – Statistics from the Government's SF3 form 2012/13

	Hampshire	Hampshire ranking	England & Wales Average	Highest	Lowest
Market value at 31 March 2013	£4,341m	9 th	£2,002m	£12,589m Greater Manchester	£194m South Yorks PTA
Change in market value in 2012/13	+14.9%	23 rd	+13.3%	+18.4% Cambridge-shire	+2.2% Suffolk
Number of contributors	46,319	6 th	19,240	97,129 West Midlands	292 South Yorks PTA
Number of pensioners	33,005	11 th	15,391	86,277 Greater Manchester	1,393 South Yorks PTA
Number of deferred members	49,414	5 th	17,999	91,378 Greater Manchester	461 South Yorks PTA
Total members	128,738	6 th	52,630	266,375 Greater Manchester	2,146 South Yorks PTA
Contributors as % of total members	36.0%	53 rd	36.6%	47.5% Gwynedd	12.4% West Mids PTA
Administration costs per member	£16.23	83 rd	£27.18	£119.01 Durham	£12.69 Nottingham shire
Fund management costs per member	£74.36	64 th	£87.24	£334.27 London Pensions Fund Auth	-£14.57 Harrow
Fund management costs as % of market value of the Fund	0.22%	59 th	0.23%	0.79% Waltham Forest	-0.04% Harrow
Employee contributions per contributor	£1,139	40 th	£1,119	£2,201 London Pensions Fund Auth	£765 Powys
Employer contributions per contributor	£3,540	54 th	£3,610	£14,164 West Mids PTA	£2,616 Teesside
Pension payments per pensioner	£4,824	34 th	£4,668	£7,992 City of London	£3,685 Lincoln-shire

- 4.4. The South Yorkshire PTA and West Midlands PTA are small LGPS funds covering the Passenger Transport Authority functions in those areas.
- 4.5. The statistics generally support the view that the Hampshire Pension Fund, as one of the larger LGPS funds, has comparatively low costs.
- 4.6. In terms of the proportion of the total membership of the Pension Fund that are contributors (a measure of the “maturity of the Pension Fund), Hampshire is similar to the average for England and Wales.

5. Actuarial valuation results

- 5.1. Further information comparing LGPS funds may be available when the actuarial valuations at 31 March 2013 for all 89 LGPS funds have been completed. If such data is collected nationally as in previous years, a further report will be made to the Panel.

6. Conclusions

- 6.1. Information from comparative statistics can be interesting but rarely provides 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 own investment strategy work as it has been designed with the help of Aon Hewitt to meet Hampshire’s future liabilities. The investment strategy will be reviewed in the next few months with the assistance of Aon Hewitt following the completion of the Actuarial Valuation 2013. Further reports will be made to the Panel as that work progresses.

7. Recommendation

- 7.1. That the report be noted.

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

Hampshire safer and more secure for all:	yes/no
Corporate Business plan link number (if appropriate):	
Maximising well-being:	yes/no
Corporate Business plan link number (if appropriate):	
Enhancing our quality of place:	yes/no
Corporate Business plan link number (if appropriate):	
OR	
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.	

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.)

<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.