


<p style="text-align: center;"><b>London Borough of Hammersmith &amp; Fulham</b></p> <p style="text-align: center;"><b>PENSIONS BOARD</b></p> <p style="text-align: center;"><b>6 February 2019</b></p>	
<p><b>PIRC PERFORMANCE REPORT 2017/18</b></p>	
<p><b>Report of the Strategic Director of Finance &amp; Governance</b></p>	
<p><b>Open Report</b></p>	
<p><b>Classification – For Information</b></p>	
<p><b>Key Decision: No</b></p>	
<p><b>Wards Affected: None</b></p>	
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## **1. Executive Summary**

- 1.1. The purpose of this paper is to update the Pensions Board on the investment performance of the fund during the financial year 2017/18. The paper also reports on performance over the longer term alongside other local government pension funds (LGPS).
- 1.2 This paper should be read in conjunction with the LBHF Pension Fund Performance Summary 2017/18 paper from PIRC which has been included at Appendix 1. The PIRC paper reports the Fund's performance in greater detail.

## **2. Recommendations**

- 2.1 The Pensions Board is recommended to note this report.

## **3. Investment Performance 2017/18**

- 3.1 The average local authority fund produced a return of 4.5% in 2017/18. In comparison, LBHF Pension Fund produced 1.7% which ranked in the 95<sup>th</sup> percentile.

- 3.2 The reason for the comparably lower return was due, in part, to the Fund's lower equity exposure which had a large drag on LBHF Pension Fund when compared with relative local authority performance. The Fund currently has a significant exposure to UK Equities which were substantially outperformed by Global Equities, returning only 1.4%. The Fund had relatively low equity exposure compared with the wider LGPS which averaged 55%.
- 3.3 In addition active management saw a 2% higher level of return on average when compared with passive equity, whilst the Fund has no allocation to global active equity.
- 3.3 The best performing major asset class was Property for which the fund has a 5% allocation. This returned an average of 10% during the financial year. Private Equity also performed strongly producing a return of 9% for the year. The fund currently has 1% exposure to this asset class, again contributing to lower relative returns.
- 3.4 Despite relatively strong performance in the equity class, local authority equity exposure experienced a large move out of this category as LGPS funds continued to reallocate to less 'risky' assets. There has also been a focus on income generating assets as many funds are now faced with the arrival of negative cash flow.

#### **4 Longer Term Results**

- 4.1 The average LGPS fund delivered an annualised performance of 9% per annum driven largely by strong long-term equity performance. Bonds have also performed well over the longer term assisted by 'quantitative easing'.
- 4.2 However, equities still remain the largest asset allocation within most funds' assets and about 75% of this equity allocation is now invested in Global Equities.
- 4.3 The LBHF Pension Fund has a significantly lower equity allocation and much higher bond allocation when compared to the structure of the average LGPS fund. This had a relatively negative impact on the investment performance in 2017/18.
- 4.4 However, long-term performance over the ten-year period remains extremely good and performance over all reported periods has out-performed both inflation and actuarial assumptions.
- 4.5 Funds typically get rewarded for exposure to higher risk. However, the LBHF Pension Fund has managed to deliver a much higher long-term return than average at a relatively low level of volatility. This is the optimal combination which would suggest strong fund stewardship over the long term.
- 4.8 Further details of the fund performance are attached to Appendix 1 to this report.

**5 CONSULTATION**

5.1 Not Applicable

**6 EQUALITY IMPLICATIONS**

6.1 Not applicable

**7 LEGAL IMPLICATIONS**

7.1 None

**8 FINANCE AND RESOURCES IMPLICATIONS**

8.1 Set out within the main report.

**9 IMPLICATIONS FOR BUSINESS**

9.1 Not applicable

**10 RISK MANAGEMENT**

10.1 Set out within the main report.

**11 PROCUREMENT IMPLICATIONS**

11.1 None

**12 IT STRATEGY IMPLICATIONS**

12.1 None

**LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name of holder of file/copy</b>	<b>Department/ Location</b>
1.	None		

**LIST OF APPENDICES:**

Appendix 1: LBHF Pension Fund Performance Summary 2017/18