

Regulatory and Other Committee

Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	Pensions Committee
Date:	06 October 2016
Subject:	Performance Measurement Annual Report

Summary:

This report sets out the Pension Fund's longer term investment performance, for the period ending 31st March 2016.

Recommendation(s):

That the Committee note the report.

Background

1 INTRODUCTION

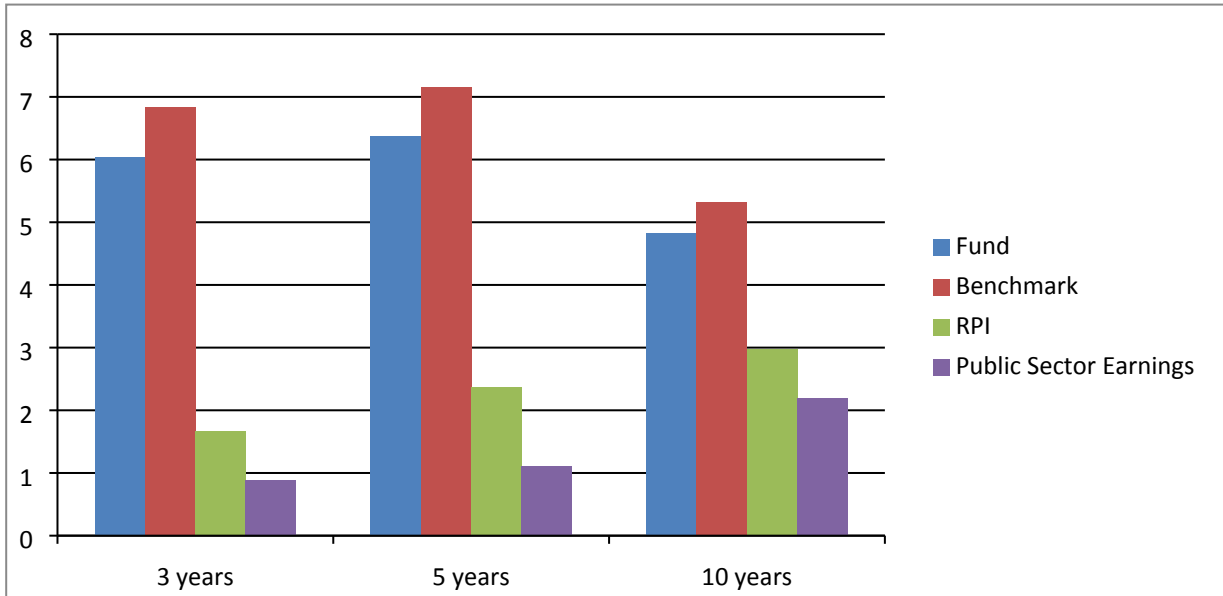
1.1 The Pension Fund uses two suppliers for the measurement of the Fund's performance. JPMorgan, the Fund's custodian, calculates the Fund's investment performance and compares it with the returns of the strategic asset allocation benchmark (i.e. the return achieved by the mix of assets as recommended by the Actuary). The WM Company compare the Fund's performance against the average Local Authority Pension Fund. The Fund's long term aim is to outperform the strategic benchmark by 0.75% per annum.

2 LONGER TERM PERFORMANCE FOR YEAR ENDED 31 MARCH 2016

2.1 The short term performance of the Fund and its managers is reported in the quarterly Investment Management report. This report will focus on the longer term performance of the Fund overall, compared to its strategic benchmark and the pay and price increases that impact the liabilities of the Fund. At the latest valuation, as at March 2013, the Actuary has calculated the employers contribution strategy based on an assumed annual return of 4.6% over the long term.

2.2 The graph and table below show longer term Fund and Benchmark performance, along with the increases in consumer prices and public sector earnings.

INFLATION INCREASES AND INVESTMENT RETURNS FOR UP TO 10 YEARS ENDED 31/3/2016



	3 years annualised %	5 years annualised %	10 years annualised %
Retail Prices Index increases	1.7	2.4	3.0
Public sector average Earnings increases	0.9	1.1	2.2
LCC Fund performance	6.0	6.4	4.8
LCC Benchmark Performance	6.8	7.2	5.3
Relative Performance	(0.8)	(0.8)	(0.5)

2.3 10 Year Returns

The Fund's performance over ten years, at 4.8%, is slightly behind the Fund's Benchmark return of 5.3%. This return is ahead of both inflation and average earnings over the last ten years, to which the scheme's liabilities are linked, which were 3.0% and 2.2% p.a. The biggest impact on performance over this period is from 2010. This was a result of a number of asset allocation change made over the year and those changes not reflected in the benchmark until they were all complete. This drift from the

benchmark over the year negatively impacted the performance as can be seen in the table at paragraph 3.4

2.4 5 Year Returns

Five year returns of 6.4% per annum are ahead of both price and pay inflation. The Fund's actual performance is behind the strategic Benchmark return of 7.2%. This reflects the underperforming active managers over the period.

2.5 3 Year Returns

Three year returns, at 6.0%, are ahead of both inflation and average earnings, but behind the strategic Benchmark return of 6.8%. This reflects underperformance by the active global equity manager, Neptune, the absolute return bond manager, BMO and the Alternatives Manager, Morgan Stanley. However, the underperformance by Morgan Stanley was expected due to the continuing investments in Private Markets.

3 ATTRIBUTION ANALYSIS

The attribution of the return over any period can be split between asset allocation and stock selection.

- 3.1 The asset allocation contribution reflects the extent to which decisions to deviate from the strategic benchmark, e.g. to be overweight cash and underweight equities, added to or detracted from performance, compared to the benchmark.
- 3.2 The stock selection contribution reflects the extent to which managers have or have not exceeded their benchmark index.
- 3.3 The Fund's annual performance over the last ten years compared to the Benchmark is set out in the tables below. Generally, stock selection has detracted from overall performance. This supports research that shows that active management generally detracts from performance over time, and the difficulty in selecting active managers that perform well over the long term. This may also be due to the timing of the appointment and termination of fund managers, when they are generally appointed after a period of good performance, and terminated after a period of poor performance.

Long Term Performance Analysis

Year ended March	Fund %	Benchmark %	Relative Performance %	Attributed to Asset allocation %	Attributed to Stock Selection %
2007	6.9	6.5	0.3	0.4	(0.1)
2008	(4.4)	(3.3)	(1.1)	0.1	(1.2)
2009	(18.6)	(20.0)	1.7	2.1	(0.4)
2010	29.7	36.7	(5.1)	(3.1)	(2.1)
2011	7.9	7.8	0.1	0.1	0.0
2012	1.5	2.4	(0.8)	(0.2)	(0.6)
2013	12.6	11.3	1.2	0.1	1.1
2014	6.3	6.2	0.1	0.2	(0.1)
2015	12.3	12.4	(0.1)	(0.1)	0.0
2016	0.0	1.4	(1.4)	(0.6)	(0.8)

4 WM LOCAL AUTHORITY UNIVERSE

- 4.1 The WM Company (a wholly owned subsidiary of State Street) measures the performance of the Fund against the Local Authority Universe. The WM Local Authority (LA) Universe is an aggregation of 85 funds within the LGPS sector that are used for peer group comparisons.
- 4.2 The weighted average return for Local Authority Pension Funds in the WM Local Authority Universe over the year 2015/16 was 0.2%, slightly ahead of the Lincolnshire Fund return of 0%. The actual performance of the Fund ranked in the middle of the Local Authority funds, at the 38th percentile. Over the longer term, the Fund is in the 70th to 80th percentile.
- 4.3 The table below shows how the asset allocation for the Lincolnshire Fund compares with the average Local Authority Pension Fund in 2016 and 2015.

Asset Class	Lincolnshire	LA Average	
		2016	2015
Equities	60.0	60	62
Bonds	13.5	16	17
Property	11.5	9	8
Alternatives	15.0	12	10
Cash	0.0	3	3

- 4.4 Since the 1990's, Funds have been using strategic benchmarks linked to their individual liability profiles, rather than a standard asset allocation. The asset allocation of the Fund was considered at the July 2014 meeting of this committee, and the high level growth/low risk asset allocations agreed.

Following the 2016 triennial valuation results, the asset allocation will be reviewed again to ensure that it is still appropriate to the current liability profile of the Fund.

- 4.5 Within the LA Universe, there has been a decrease in Equities and Bonds and an increase in Property and Alternatives.
- 4.6 WM has discontinued the provision of their performance measurement service and Local Authority Universe from April 2016. The National LGPS Frameworks group are looking to commence a tender on the appointment of a sole provider for this particular performance measure, as part of a wider multi lot performance and cost measurement framework.

Conclusion

- 6.1 The Pension Fund's investment performance of 4.8% over the 10 year period ended 31st March 2016 was slightly behind the strategic benchmark of 5.3%. The Fund is seeking to outperform the Benchmark by 0.75% per annum over rolling three year periods. Annualised returns over three, five and ten year periods are ahead of inflation in pay and prices. At an absolute level, the ten year performance is ahead of the current actuarial assumption for return of around 4.6% per annum.
- 6.2 Looking at the individual years, there was a negative contribution from both asset allocation and stock selection in the year ended March 2016. In seven of the last ten years, stock selection has been the main detractor from performance.

Consultation

a) Policy Proofing Actions Required

n/a

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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