

Regulatory and Other Committee

Open Report on behalf of Pete Moore, Executive Director of Finance and Public Protection

Report to:	Pensions Committee
Date:	5 October 2017
Subject:	Performance Measurement Annual Report

Summary:

This report sets out the Pension Fund's longer term investment performance, for the period ending 31st March 2017.

Recommendation(s):

That the Committee note the report.

Background

1 INTRODUCTION

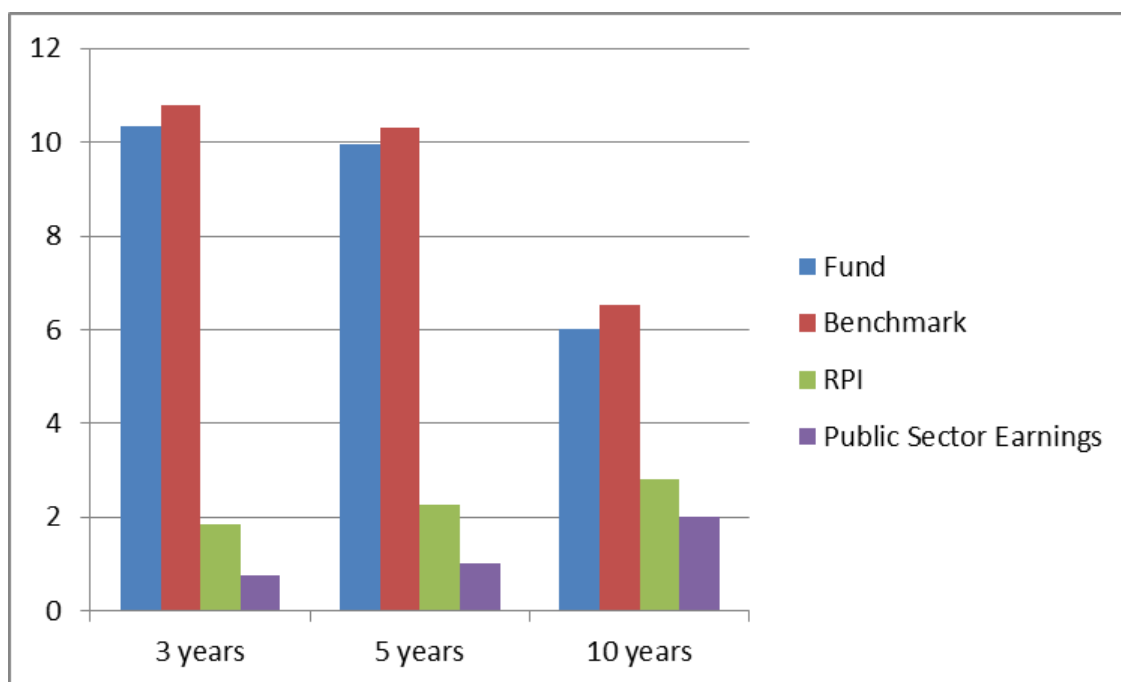
- 1.1 The Pension Fund uses two suppliers for the measurement of the Fund's performance. JPMorgan, the Fund's custodian, calculates the Fund's investment performance and compares it with the returns of the strategic asset allocation benchmark (i.e. the return achieved by the mix of assets as recommended by the Actuary). PIRC (previously 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 2017

- 2.1 The short term performance of the Fund and the performance of its managers are 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 2016, the Actuary has calculated the employers contribution strategy based on an assumed annual return of 4.0% 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 31/3/2017



	3 years annualised %	5 years annualised %	10 years annualised %
Retail Prices Index increases	1.9	2.3	2.8
Public sector average Earnings increases	0.8	1.0	2.0
LCC Fund performance	10.4	10.0	6.0
LCC Benchmark Performance	10.8	10.3	6.5
Relative Performance	(0.4)	(0.3)	(0.5)

2.3 10 Year Returns

The Fund's performance over ten years, at 6.0%, is slightly behind the Fund's Benchmark return of 6.5%. 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 2.8% and 2.0% p.a. respectively. 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 10.0% per annum are ahead of both price and pay inflation. The Fund's actual performance is behind the strategic Benchmark return of 10.3%. This reflects the underperforming active managers over the period.

2.5 3 Year Returns

Three year returns, at 10.4%, are ahead of both inflation and average earnings, but behind the strategic Benchmark return of 10.8%. This reflects underperformance by the active global equity manager, Neptune and the absolute return bond manager, BMO, both of whom were terminated in 2016.

3 ATTRIBUTION ANALYSIS

- 3.1 The attribution of the return over any period can be split between asset allocation and stock selection.
- 3.2 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.
- 3.3 The stock selection contribution reflects the extent to which managers have or have not exceeded their benchmark index.
- 3.4 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 %
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)
2017	19.8	19.3	0.3	0.0	0.3

4 PIRC LOCAL AUTHORITY UNIVERSE

- 4.1 PIRC took over the reporting of the Local Authority Universe in April 2016, from the WM Company, after they exited from providing this service. The PIRC Local Authority (LA) Universe is an aggregation of 60 funds (and £162bn) within the LGPS sector, and is used for peer group comparisons. This represents some two thirds of local authority pension fund assets and includes all of the Welsh and Northern Pools, all bar three of the London Pool, and with funds from all other pools except Central.
- 4.2 The weighted average return for Local Authority Pension Funds in the Local Authority Universe over the year 2016/17 was 21.4%, and the median return was 20.6%. The actual performance of the Fund ranked at the 65th percentile. Actual performance of funds in the universe ranged from 26.8% to 13.9%. Over the longer term, the Fund is in the 60th to 70th percentile.
- 4.3 The table below shows how the asset allocation for the Lincolnshire Fund compares with the average Local Authority Pension Fund in 2017 and 2016.

Asset Class	Lincolnshire	LA Average	
		2017	2016
Equities	60.0	62	60
Bonds	13.5	15	16
Property	11.5	8	9
Alternatives	15.0	10	12
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 January meeting of this committee, and the high level growth/low risk asset allocations agreed, following the 2016 triennial valuation results.
- 4.5 Given this move to fund specific strategic benchmarks, the peer group comparison is only a reference point, and not directly comparable. The most important comparison is against the individual funds strategic benchmark.
- 4.6 Within the LA Universe, there has been an increase in Equities, a decrease across other asset classes.

Conclusion

- 6.1 The Pension Fund's investment performance of 6.0% over the 10 year period ended 31st March 2017 was slightly behind the strategic benchmark of 6.5%. 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 4.0% per annum.
- 6.2 Looking at the individual years, there was a positive contribution from both asset allocation and stock selection in the year ended March 2017. In six 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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