



Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	Pensions Committee
Date:	12 October 2023
Subject:	Performance Measurement Annual Report

Summary:

This report sets out the Pension Fund's longer term investment performance for the period ending 31st March 2023.

Recommendation(s):

That the Committee consider and discuss the report and agree whether any action or information is required.

Background

1 INTRODUCTION

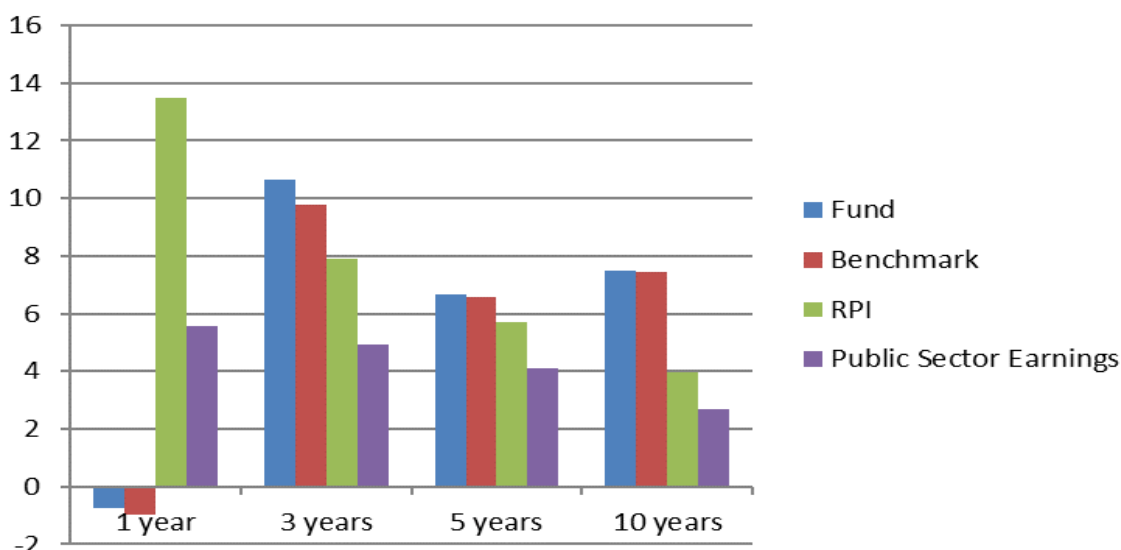
- 1.1 The Pension Fund uses two suppliers for the measurement of the Fund's performance. Northern Trust, the Fund's custodian (since 1 April 2019), calculates the Fund's investment performance and compares it with the returns of the strategic asset allocation benchmark (i.e. the return achieved by the mix of assets as recommended by the Investment Consultant) and PIRC 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 2023

- 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 focuses 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 2022, 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 - ENDED 31/3/2023



	1 year %	3 years annualised %	5 years annualised %	10 years annualised %
Retail Prices Index increases	13.5	7.9	5.7	4.0
Public Sector Average Earnings increases	5.6	4.9	4.1	2.7
LCC Fund performance	(0.8)	10.6	6.7	7.5
LCC Benchmark Performance	(1.0)	9.8	6.6	7.5
Relative Performance	0.2	0.9	0.1	0.0

2.3 10 Year Returns

The Fund's performance over ten years, at 7.5%, matches the Fund's benchmark return of 7.5%. This return is well ahead of both inflation and average earnings over the last ten years, to which the scheme's liabilities are linked, which were 4.0% and 2.7% p.a. respectively.

2.4 5 Year Returns

Five year returns of 6.7% per annum are again ahead of both price and pay inflation. The Fund's actual performance is again marginally ahead of the strategic benchmark return of 6.6%.

2.5 3 Year Returns

Three year returns, at 10.6%, are also ahead of both inflation and average earnings, and ahead of the strategic benchmark return of 9.8%.

3 ATTRIBUTION ANALYSIS

- 3.1 The attribution of the return over any period can be split between asset allocation and stock selection. 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. The stock selection contribution reflects the extent to which managers performance has added value.
- 3.2 The Fund's annual performance over each of the last ten years compared to the Benchmark is set out in the table below. In the last year, on the asset allocation attribution, the underweight position to property was the largest positive contributor, and on the stock selection, the return from the Border to Coast Global Equity Alpha fund contributed the most.
- 3.3 Under asset pooling, the Pensions Committee remains responsible for the asset allocation, however Border to Coast will be accountable for the stock selection element of the Fund's performance, as for any appointed external manager.

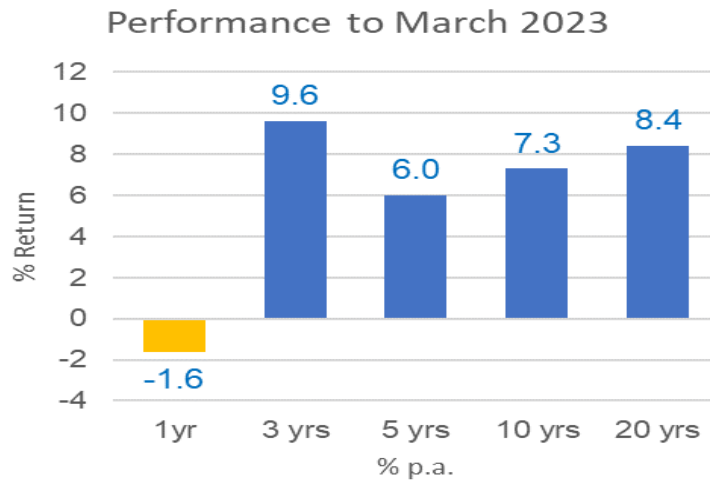
Long Term Performance Analysis and Attribution

Year ended March	Fund %	Benchmark %	Relative Performance %	Asset allocation %	Stock Selection %
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
2018	3.3	3.0	0.3	(0.4)	0.7
2019	8.2	8.1	0.1	0.0	0.1
2020	(5.8)	(3.9)	(2.0)	(0.3)	(1.6)
2021	23.3	22.1	1.1	(1.4)	2.75
2022	10.7	9.4	1.2	(0.2)	1.4
2023	(0.8)	(1.0)	0.2	0.7	(0.5)

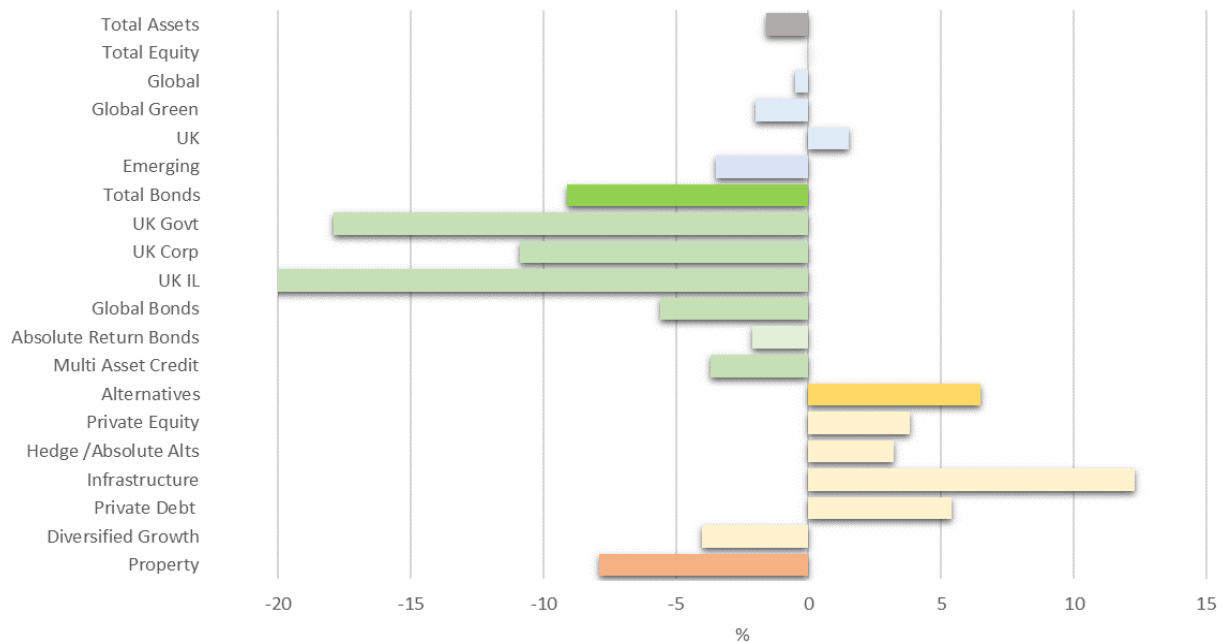
4 PIRC LOCAL AUTHORITY UNIVERSE

- 4.1 The PIRC Local Authority (LA) Universe is an aggregation of 63 funds covering £243bn of assets within the LGPS sector and is used for peer group comparisons. This represents some two thirds of local authority pension fund assets.
- 4.2 The average fund delivered a negative investment return in the latest year (at -1.6%). Asset class results strongly diverged, and the range of results widened. The average

return was well ahead of the median (three quarters of funds underperformed the average). Longer term results are still well ahead of inflation and funds' actuarial assumptions.



4.3 The returns across asset classes over the last year are shown below. It was a good year for alternative investments, the only area to deliver positive results. Equity performance was flat and most active managers failed to add value. Bond performance was deeply negative with diversified strategies performing least badly, and property saw a strong decline in values over the year.



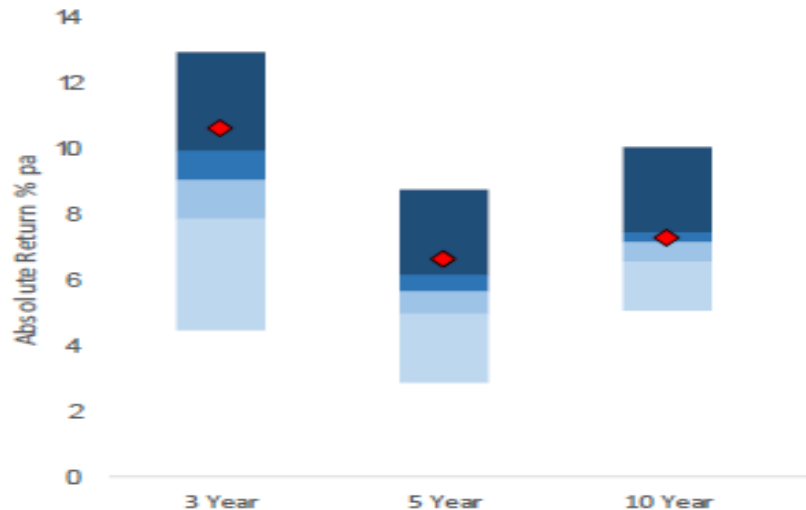
4.4 Since the 1990's, Funds have been using specific strategic benchmarks linked to their individual liability profiles, rather than a standard asset allocation. This means that comparison across the Universe can be misleading, as funds are trying to meet their own return requirements rather than compete for the highest return.

- 4.5 Given this move to fund specific strategic benchmarks, the peer group comparison is only a reference point, and not directly comparable. Strategic benchmarks, and the overall return requirement, are linked to the individual liability profile of each fund and their funding levels. The most important performance comparison is actual performance against the individual funds strategic benchmark.
- 4.6 The table below shows how the strategic asset allocation for the Lincolnshire Fund (currently in transition) compared with the average Local Authority Pension Fund actual asset allocation in 2023 and 2022.

Asset Class	Lincolnshire	LA Average	
		2023	2022
Equities	55.0	51	52
Bonds (incl. MAC)	12.5	17	18
Property	10.5	9	9
Diversified Alternatives	21.0	20	17
Diversified Growth	0.0	2	2
Cash	1.0	2	2

- 4.7 Within the LA Universe, Funds have reallocated 12% of total assets from equities into alternatives over the last decade, which has been the key structural change. Infrastructure has emerged into a significant proportion of assets (7% at 31/3/23), and funds have diversified bond exposure away from government bonds to alternative forms of credit (such as Multi Asset Credit).
- 4.8 The performance of the Fund against the average of those Funds subscribing to the Local Authority universe ranked at the 15th percentile, having been at the 12th percentile last year.
- 4.9 The table below shows the position of the Lincolnshire Fund over 1, 3, 5 and 10 years, and the chart shows the large dispersion in the range of results across the longer-term periods. The Fund is well ahead of the average over the three and five year periods and in line over the last ten. Equity performance has been strong over all bar the longest term, and has been a key factor in the outperformance.

	1 year %	3 years annualised %	5 years annualised %	10 years annualised %
LCC Fund performance	(0.8)	10.7	6.7	7.5
Universe Average	(1.6)	9.6	6.0	7.3
Ranking (percentile)	15	15	15	36



5 Conclusion

- 5.1 The Pension Fund's investment performance of 7.5% (as measured by Northern Trust) over the 10-year period ended 31st March 2023 matched the strategic benchmark. The Fund is seeking to outperform the Benchmark by 0.75% per annum over rolling three year periods. Annualised returns over all periods are ahead of inflation in pay and prices. At an absolute level, the ten year performance is comfortably ahead of the current actuarial assumption for investment return of around 4.0% per annum.
- 5.2 Looking at the last year, there were positive contributions from stock selection and a negative contribution from asset allocation, and the Fund was ranked at the 15th percentile of the Local Authority Universe.

Consultation

a) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the Head of Pensions.

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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