

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

Report to:	Pensions Committee
Date:	16 July 2020
Subject:	Investment Management Report

Summary:

This report covers the management of the Lincolnshire Pension Fund assets over the period from 1 January to 31 March 2020.

The report covers:

1. Fund Summary – Asset Allocation and Performance
2. Individual Investment Manager Updates
3. Hymans Robertson Manager Assessments

Recommendation(s):

That the Committee note this report.

Background

1. Fund Summary – Asset Allocation and Performance

- 1.1 Over the period covered by this report, the value of the Fund decreased in value by £322.8m (-12.7%) to £2,219.3m on 31 March 2020.

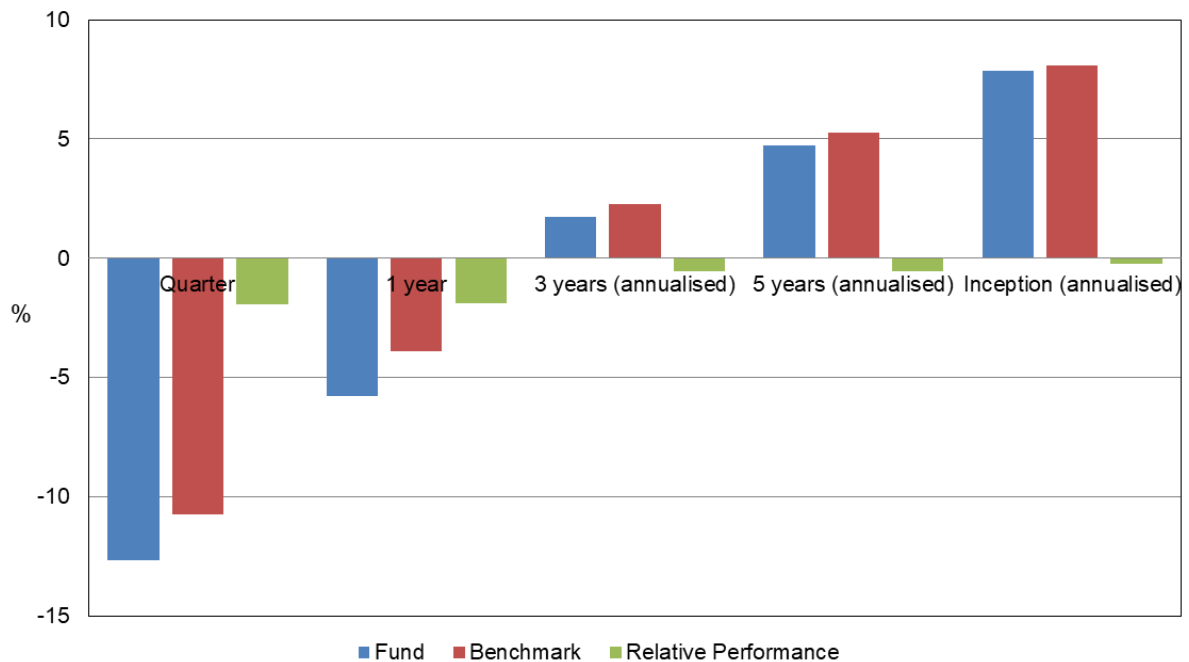
Asset Allocation

- 1.2 **Appendix A** shows the Fund's distribution as at 31 March. Across the asset classes Fixed Interest had breached its tolerance level (+1.7%). At a portfolio level all assets were within tolerance. As previously reported, rebalancing will not generally be undertaken ahead of the transition to Border to Coast. Holdings currently within Fixed Interest will be transitioned into the Border to Coast Multi Asset Credit Sub-Fund (3.5%) later in 2020.
- 1.3 The Fund's overall position relative to its benchmark is set out in the table over the page. This was a very turbulent quarter. The Covid-19 pandemic led to significant losses, particularly to equity holdings. This included UK equities which decreased by £117.9m (or -25.2%) and global equities which decreased by £191.5m (or -18.4%).

Asset Class	Q1 2020 £m	Q4 2019 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	350.1	468.0	15.8	16.0	(0.2)
Global Equities	848.0	1,039.5	38.2	40.0	(1.8)
Alternatives	342.6	346.2	15.4	15.0	0.4
Property	200.0	201.7	9.0	9.0	-
Infrastructure	49.6	47.9	2.2	2.5	(0.3)
Fixed Interest	414.9	425.5	18.7	17.0	1.7
Cash	14.1	13.3	0.6	0.5	0.1
Total	2,219.3	2,542.1	100.0	100.0	

Fund Performance

1.4 The graph and table below shows the Fund's performance against the benchmark over the quarter, one year, three years, five years and since inception. The Fund has a target to outperform the strategic benchmark by 0.75% per annum.



	Fund %	Benchmark %	Relative Performance %
Quarter	-12.66	-10.74	-1.92
1 year	-5.79	-3.91	-1.88
3 years*	1.72	2.28	-0.56
5 years*	4.73	5.29	-0.56
Inception**	7.86	8.09	-0.23

*Annualised from Yr 3. **Since Inception figures are from March 1987

1.5 Over the quarter, the Fund produced a negative return of (12.66%) (as measured by Northern Trust), underperforming the benchmark by (1.92%). The Fund was also behind the benchmark over the 1, 3 and 5 year periods and since inception.

1.6 Appendix B shows the market returns over the three and twelve months to 31 March 2020.

2. Individual Manager Update

2.1 The manager index returns for its largest holdings: equity, fixed interest and alternatives, are shown in the table below.

2.2 Over the quarter, three managers showed a negative return relative to their benchmark: Invesco, Border to Coast Global Equity Alpha and Morgan Stanley Alternatives. Blackrock Fixed Interest was very slightly ahead of the benchmark. All other funds matched their benchmark.

2.3 A detailed report on each manager outlining the investment process and performance can be found at Appendix C.

Manager	3 months ended 31 Mar 2020			Previous 12 months			Since Inception**			Target p.a. %
	Manager Return %	Index Return %	Relative Variance %	Manager Return %	Index Return %	Relative Variance* %	Manager Return %	Index Return %	Relative Variance* %	
Legal & General (UK Equities)	(25.1)	(25.1)	0.0	(18.5)	(18.6)	0.1	5.9	5.8	0.1	Match Index
Invesco (Global Equities ex. UK)	(16.2)	(15.2)	(1.2)	(8.1)	(5.0)	(3.3)	8.8	8.3	0.5	+1.0%
Border to Coast Global Equity Alpha (Global Equity)	(21.6)	(16.0)	(6.6)	N/A	N/A	N/A	(18.5)	(13.1)	(6.0)	+2.0%
Blackrock (Fixed Interest)	0.2	0.1	0.1	3.6	3.5	0.0	6.5	6.5	0.1	Match Index
Blackrock Interim (Fixed Interest)	(1.9)	(1.9)	0.0	0.1	0.2	0.0	1.1	1.0	0.0	Match Index
Border to Coast Investment Grade Credit (Fixed Interest)	1.0	0.8	0.2	N/A	N/A	N/A	1.0	0.8	0.2	+0.6%
Morgan Stanley (Alternative Investments)	(2.0)	2.4	(4.3)	4.6	6.1	(1.4)	4.5	5.0	(0.5)	3M LIBOR + 4%

*Relative Variance is the scale of the performance achieved. This measures the proportional out/under performance of a portfolio relative to the benchmark.

**Since Inception performance figures are annualised

Hymans Robertson Manager Assessment

2.4 Hymans Robertson, as the Fund's Investment Consultant, has provided an assessment of the performance of the Fund's investment managers and portfolios. This focuses primarily on the quarter to March 2020. The table below summarises the assessment of each manager or section of the portfolio in relation to the following areas:

(1) Contribution to the Fund's overall performance – a high rating indicates that performance has a relatively large impact on total returns, while a low rating indicates it is less important at an overall level;

(2) The extent to which performance is reliant on the manager's skill or their model – a high rating indicates that a material proportion of the overall return is reliant on the manager, while a low rating indicates that returns are driven primarily by the underlying asset class;

(3) The degree to which expected performance correlates with the benchmark – a high rating indicates that the direction and magnitude of returns is expected to match the benchmark, while a low rating indicates that significant deviation from the benchmark is expected, particularly over the short term;

(4) Performance relative to the benchmark – a high rating (5) indicates a noteworthy level of outperformance, while a low rating (1) indicates a particularly poor result over the quarter. Performance relative to benchmark is most relevant where a high degree of correlation is expected;

(5) Performance relative to expectations – a high rating (5) indicates a noteworthy level of outperformance, while a low rating (1) indicates a particularly poor result over the quarter; and

(6) Overall assessment of how the manager has performed over the period. A rating of 3 indicates that performance has been broadly in line with expectations. Hymans Robertson suggests that discussion is focused on the lowest rated managers or sections of the Fund. These are highlighted in red in the table below.

Manager / Allocation	Relative impact on total returns	Importance of skill / model	Expected correlation with benchmark	Return relative to benchmark	Return relative to expectations	Overall Rating
	(1)	(2)	(3)	(4)	(5)	(6)
Equities						
LGIM UK Equity	Moderate	Low	High	3	3	3
Border to Coast Global Equity Alpha	Moderate	Moderate	Moderate	1	2 ^a	2
Invesco	High	Moderate	High	1 ^b	2	1

Manager / Allocation	Relative impact on total returns	Importance of skill / model	Expected correlation with benchmark	Return relative to benchmark	Return relative to expectations	Overall Rating
Bonds						
Blackrock Bonds	Low	Low	High	3	3	3
Blackrock Corporate Bonds	Very Low	Low	High	3	3	3
Border to Coast Investment Grade Credit	Low	Moderate	Moderate	N/A	3 ^c	3
Alternatives						
Morgan Stanley Alternatives	Moderate	High	Low	2	5 ^d	5
Legacy Private Equity	Very Low	Moderate	Low	5	5	5
Property and Infrastructure						
Domestic Property	Low	Moderate	Moderate	3	3	3
Global Property	Very Low	High	Low	4	4	4
Infrastructure	Very Low	High	Low	3	3	3

3.2 The comments which follow highlight issues which the Committee may wish to discuss in more detail and relate to the references in the table above:

(a) In a previous review of the Border to Coast Global Equity mandate, it was concluded that the portfolio may have a slight bias towards investing in Value stocks. Therefore, it is reasonable to expect some underperformance relative to the market cap benchmark in light of market developments over the quarter. Even allowing for that, the performance over Q1 2020 was disappointing. It is understood that the mandate has recovered a proportion of the underperformance since the quarter end, and it is expected that a Value bias will be helpful in future if there is a Value recovery (Value has underperformed significantly in recent years);

(b) Invesco continued to underperform over the quarter. The assessment of their performance takes into account the prolonged period of underperformance, and the anticipated level of tracking error for the fund. The size of the allocation to Invesco makes this even more important;

(c) The Border to Coast bond allocation has performed broadly in line with expectations since inception during the quarter; and

(d) Although Morgan Stanley underperformed relative to their benchmark over the quarter, it is considered that the mandate performed well under the

circumstances. In particular, the large allocations to Private Equity and Hedge Funds which dominate the portfolio appear to have held up well.

- 3.3 Overall, the Fund is highly dependent on the performance of equities as these allocations make up over 50% of total assets. The bonds and alternative allocations provide some diversification, but the impact is limited due to the relatively small size of these allocations.

4. Conclusion

- 4.1 This reporting period saw the value of the Fund decrease by £322.8m to £2,219.3m due to significant influences from the Covid-19 pandemic. Over the quarter, the Fund produced a negative return of (12.66%), underperforming the benchmark which returned (10.74%).
- 4.2 At the end of the period the asset allocation, compared to the strategic allocation, was:
- overweight Alternatives, Fixed Interest and Cash; and
 - underweight UK Equities, Global Equities and Infrastructure.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

The Pension Fund has a Risk Register which can be obtained by contacting the author of this report.

Appendices

Appendix A	Distribution of Investments
Appendix B	Market Returns (31 March 2020)
Appendix C	Detailed Manager Reports (quarter ended 31 March 2020)

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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