



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

Report to:	<b>Pensions Committee</b>
Date:	<b>14 October 2021</b>
Subject:	<b>Performance Measurement Annual Report</b>

**Summary:**

This report sets out the Pension Fund's longer term investment performance for the period ending 31<sup>st</sup> March 2021.

**Recommendation(s):**

That the Committee note the report.

## **Background**

### **1 INTRODUCTION**

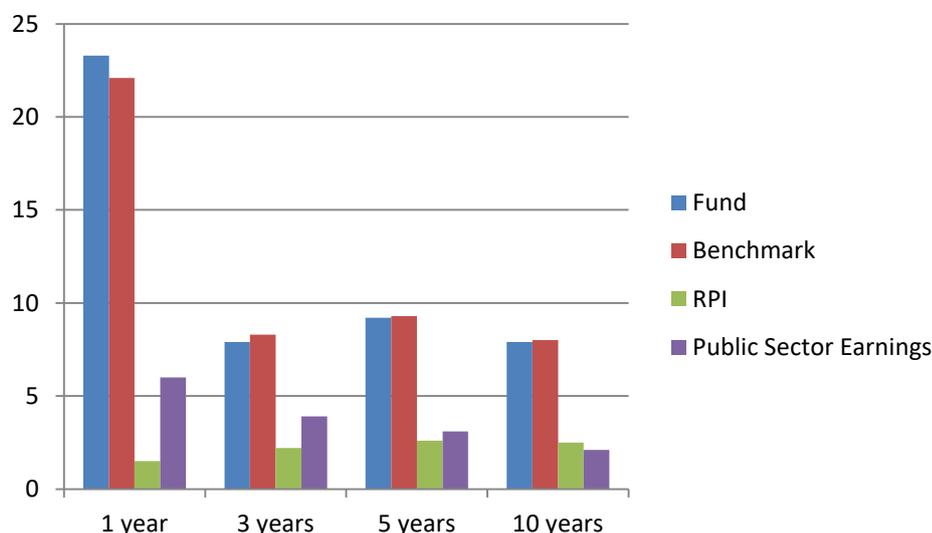
1.1 The Pension Fund uses two suppliers for the measurement of the Fund's performance. Northern Trust, the Fund's custodian (since 1 April 2019), calculates the Fund's investment performance and compares it with the returns of the strategic asset allocation benchmark (i.e. the return achieved by the mix of assets as recommended by the Actuary) 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 2021**

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 2019, 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 shows 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  
31/3/2021**



	1 year %	3 years annualised %	5 years annualised %	10 years annualised %
Retail Prices Index increases	1.5	2.2	2.6	3.1
Public sector average Earnings increases	6.0	3.9	3.1	2.1
<b>LCC Fund performance</b>	<b>23.3</b>	<b>7.9</b>	<b>9.2</b>	<b>7.9</b>
<b>LCC Benchmark Performance</b>	<b>22.1</b>	<b>8.3</b>	<b>9.3</b>	<b>8.0</b>
<b>Relative Performance</b>	<b>1.1</b>	<b>(0.3)</b>	<b>(0.1)</b>	<b>(0.1)</b>

2.3 **10 Year Returns**

The Fund's performance over ten years, at 7.9%, is slightly behind the Fund's benchmark return of 8.0%. 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 3.1% and 2.1% p.a. respectively. The biggest impact, either negative or positive in each year, generally comes from the stock selection of the managers, rather than the Fund's position against its strategic benchmark.

## 2.4 **5 Year Returns**

Five year returns of 9.2% per annum are ahead of both price and pay inflation. The Fund's actual performance is again marginally behind the strategic benchmark return of 9.3%. This reflects the underperforming managers in 2020.

## 2.5 **3 Year Returns**

Three year returns, at 7.9%, are again ahead of both inflation and average earnings, and but behind the strategic benchmark return of 8.3. This reflects the underperformance of the Global ex UK manager, who was terminated in early 2021.

## **3 ATTRIBUTION ANALYSIS**

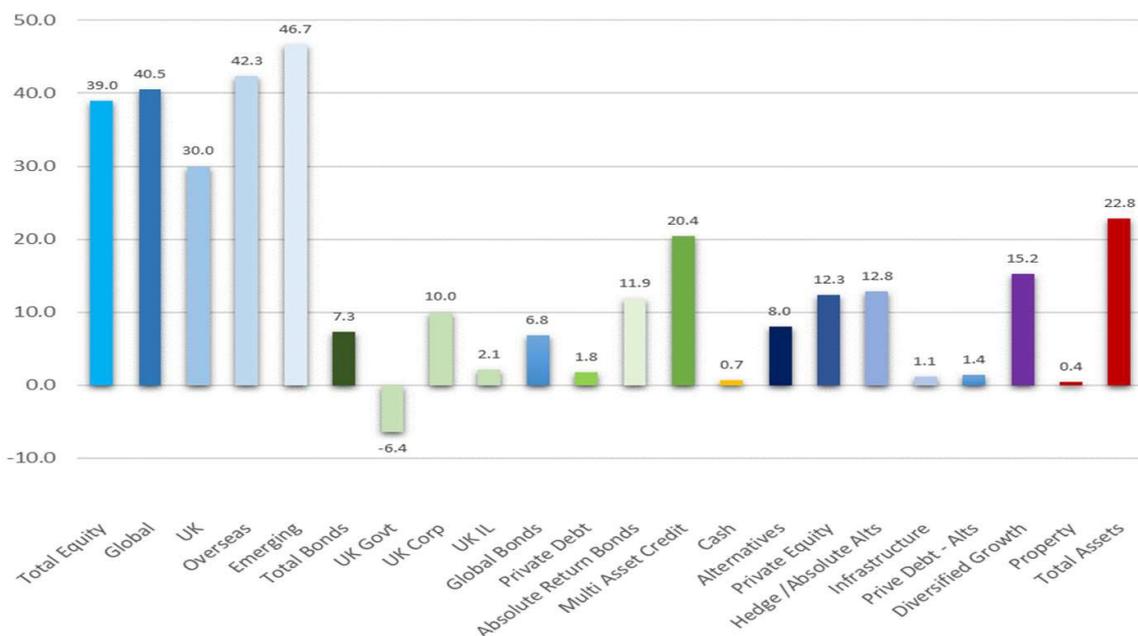
- 3.1 The attribution of the return over any period can be split between asset allocation and stock selection.
- 3.2 The asset allocation contribution reflects the extent to which decisions to deviate from the strategic benchmark, e.g. to be overweight cash and underweight equities, added to or detracted 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 each of the last ten years compared to the Benchmark is set out in the table below. There is an equal split between stock selection and asset allocation in terms of detractors across the ten year period.
- 3.5 The poor performance of the Global Equity ex-UK manager was the key contributor to the Fund's underperformance in the past three and five year periods.
- 3.6 Under asset pooling, the Pensions Committee will remain 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

Year ended March	Fund %	Benchmark %	Relative Performance %	Attributed to Asset allocation %	Attributed to Stock Selection %
<b>2012</b>	1.5	2.4	<b>(0.8)</b>	(0.2)	(0.6)
<b>2013</b>	12.6	11.3	<b>1.2</b>	0.1	1.1
<b>2014</b>	6.3	6.2	<b>0.1</b>	0.2	(0.1)
<b>2015</b>	12.3	12.4	<b>(0.1)</b>	(0.1)	0.0
<b>2016</b>	0.0	1.4	<b>(1.4)</b>	(0.6)	(0.8)
<b>2017</b>	19.8	19.3	<b>0.3</b>	0.0	0.3
<b>2018</b>	3.3	3.0	<b>0.3</b>	(0.4)	0.7
<b>2019</b>	8.2	8.1	<b>0.1</b>	0.0	0.1
<b>2020</b>	(5.8)	(3.9)	<b>(2.0)</b>	(0.3)	(1.6)
<b>2021</b>	23.3	22.1	<b>1.1</b>	(1.4)	2.75

#### 4 PIRC LOCAL AUTHORITY UNIVERSE

- 4.1 The PIRC Local Authority (LA) Universe is an aggregation of 64 funds covering £240bn 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 After the sharp fall in global markets in the quarter to March 2020, returns bounced back almost immediately despite the on-going challenges of the COVID pandemic which has been larger and longer lasting than predicted. Funds returned an average of 22.7% (median of 24.5%) for the year, but the range of results was far wider than usual. Performance was dominated by extremely strong equity returns, enhanced for many by active manager outperformance. Defensive assets performed more modestly with property being the most disappointing of the major assets, only just delivering a positive result. The returns across asset classes over the last year are shown below:



4.3 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.

4.4 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, is 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.

4.5 The table below shows how the strategic asset allocation for the Lincolnshire Fund (currently in transition) compares with the average Local Authority Pension Fund actual asset allocation in 2021 and 2020.

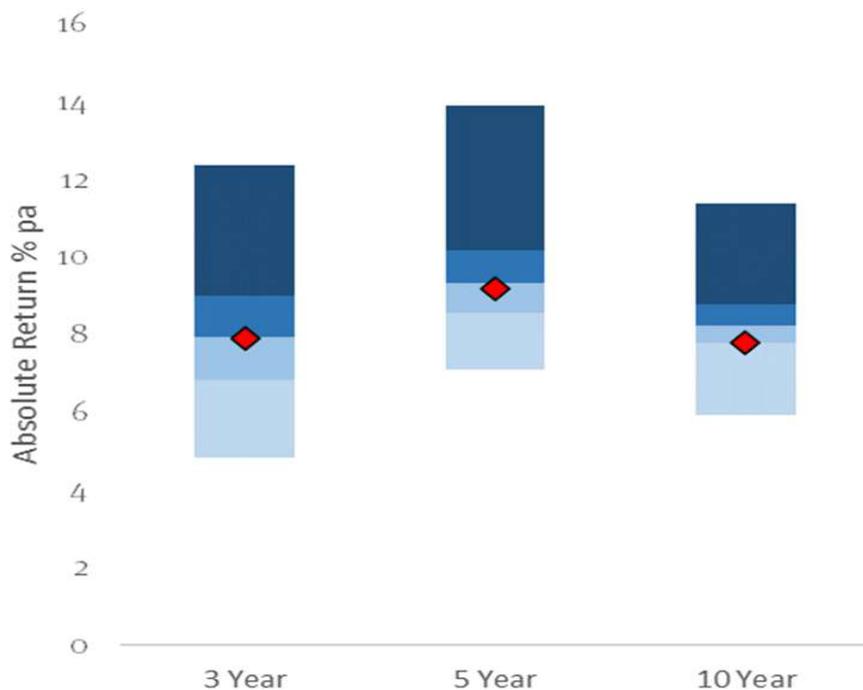
Asset Class	Lincolnshire	LA Average	
		2021	2020
Equities	55.0	56	51
Bonds	12.5	17	21
Property	10.5	8	10
Diversified Alternatives	21.0	14	12
Diversified Growth	0.0	4	2
Cash	1.0	3	3

4.6 Across the LA Universe, most of the change to allocations at this level came about through relative market movements, as Funds have not generally rebalanced following the strong equity returns over the year. Within Equities there was a significant switch into 'planet aware' investments. Elsewhere there was further

diversification into multi asset credit, private debt and alternative income strategies.

- 4.7 The Fund was structured quite differently from the average previously, but has come more closely in line over the year. This allocation delivered a return slightly ahead of that of the average fund.
- 4.8 The performance of the Fund against the average of those Funds subscribing to the Local Authority universe ranked at the 59<sup>th</sup> percentile, having been at the 70<sup>th</sup> 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.

	1 year %	3 years annualised %	5 years annualised %	10 years annualised %
<b>LCC Fund performance</b>	<b>23.3</b>	<b>7.9</b>	<b>9.2</b>	<b>7.9</b>
<b>Universe Average</b>	<b>22.7</b>	<b>9.5</b>	<b>9.5</b>	<b>8.3</b>
<b>Ranking</b>	<b>59</b>	<b>51</b>	<b>59</b>	<b>73</b>



## **5 Conclusion**

- 5.1 The Pension Fund's investment performance of 7.9% over the 10 year period ended 31<sup>st</sup> March 2021 was slightly behind the strategic benchmark of 8.0%. 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 ahead of the current actuarial assumption for 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 59<sup>th</sup> 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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