

LOCAL PENSION COMMITTEE – 5th JULY 2019**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES****SUMMARY VALUATION OF PENSION FUND INVESTMENTS AND
INVESTMENT PERFORMANCE OF INDIVIDUAL MANAGERS****Purpose of Report**

1. The purpose of this report is to present to the Committee, an update on the investment markets and how individual asset classes are performing, a summary valuation of the Fund's investments at 31st March 2019 (attached as an appendix to this report), together with figures showing the performance of individual managers and a funding position from the funds actuary.

Market Outlook and Performance

2. An update on asset classes and market performance is provided by LGPS Central in appendix B. The view is that the outlook for growth assets is cautious as the probability of a recession and market correction rise. The likelihood of a recession over the next 12 months is medium. A view is also presented on how the market outlook impacts strategic asset allocations. The first quarter of 2019 showed a very positive picture across the globe in equities, balancing out the losses of the previous quarter.

Overall Investment Performance

3. A comprehensive performance analysis over the quarter, year and 3 year period to 31st March 2019 is provided in Appendix A. This is a new report produced by Portfolio Evaluation Limited (PE). PE collate information directly from managers and calculate performance, which will provide an independent check of valuations and allow greater reporting flexibility. Introduction of this reporting will enhance the control and assurance for the Fund. Current performance reporting is limited to 3 years but work is ongoing to provide a longer term history.
4. It is important to note that the valuations produced can be different to those provided by managers or included in the Statement of Accounts. For example timing differences of use of different accounting methodologies. The differences are not expected to be material in the context of the messages being conveyed by the report.
5. Portfolio Evaluation Limited will be at the Pension Committee meeting to present the report and provide some additional training for members.
6. For the period ending 31st March 2019 the Fund delivered an investment return of 5.0% for the quarter, 5.2% over the year and 10.6% over the 3 year period.

7. The Fund's asset allocation compared to the investment strategy is shown in the table below:

	Weighting	Benchmark	Difference
Equities	50.0%	48.0%	2.0%
Real Income Fund	24.8%	26.5%	-1.7%
Alternatives	25.3%	25.5%	-0.2%
	100.0%	100.0%	0.0%

The Fund's actual allocation varies over time due to differential market movements. However, the allocation remains broadly in-line with the strategy. At the end of the quarter, marginal overweight positions in equities (+1.9%) are offset by underweight positions in real Income fund assets (-1.7%) and Alternatives (-0.2%). Equity allocations can be adjusted quickly, but the underweight positions in property and infrastructure can take much longer. At the end of March the Fund had approximately £100m of commitments with managers that are waiting to be called. Managers have to source opportunities rather than being able to buy from liquid markets. A detailed breakdown of the asset allocation is available in Appendix A.

8. The most significant changes during the quarter was the transfer of £333.2m of global active equities to the LGPS Central Pool.
9. The following table provides the performance of the Fund and the asset classes over short and longer-term periods, compared to their respective benchmarks.

	3 Months %		1 Year %p.a.		3 Years %p.a.	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equities	8.8	9.6	6.9	7.2	13.6	12.5
Income Assets	1.9	2.3	6.6	5.4	10.3	7.3
Alternative	3.1	1.3	0.5	4.9	5.0	4.9
TOTAL FUND	5.0	5.8	5.2	6.6	10.6	9.6

10. The investment performance of the individual managers for the year to 31st March 2019 is set out in appendix A. It is worth noting the following performance of certain managers:

Adams Street – Private Equity, 9.1% excess return over benchmark. The benchmark of listed markets can be misleading, in the short-term, due to the less frequent valuations of private equity assets. As a riskier asset class they have greater potential volatility. The 3-year return is more representative and exceeds benchmark by 0.6%.

IFM and KKR - global infrastructure, both managers show 10%+ return over benchmark. Similarly to private equity a long term view needs to be taken, potentially incorporating the initial investment period.

Aspect Capital Partners – Targeted Return, (12.7%) below benchmark. The nature of the product is highly volatile and some reassurance can be gained from the long term performance of the manager (exceeds benchmark over 5-years). In

the January strategy review the fit of the product in the portfolio was considered and the diversification from equity stressed as a key benefit. LGPS Central's development of a Target Return product will provide a good opportunity to consider the fund's approach to this class.

Christofferson Robb & Company –Other Opportunities - 13.4% excess return over benchmark. The other opportunities allocation targets a higher return, at a higher level of risk. The investments in the opportunities area should be looked at as a collective, as not all will perform to target.

Funding Update

11. The funding level is the ratio of the Fund's assets compared to the liabilities. At the last formal actuarial valuation in March 2016, the funding level on an ongoing basis was 76%. Based on market movements up to 31st March 2019, the Actuary estimates that the funding level has increased marginally to 77%. Although there was a significant improvement in stock market values during the first quarter of 2019 this was more than offset by the worsening outlook for future investment returns. The report by the Actuary is attached as an Appendix C.

Recommendation

12. The Local Pension Committee is asked to note the report.

Appendices

Appendix A - Summary Valuation of Funds performance

Appendix B - Report of LGPS Central Limited – Strategic Asset Allocation (Market outlook and Performance).

Appendix C - Funding Update from the Fund Actuary Hymans Robertson

Equality and Human Rights Implications

None.

Officers to Contact

Mr C Tambini, Director of Corporate Resources
Tel: 0116 305 6199 Email: Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director Strategic Finance and Property
Tel: 0116 305 7668 Email: Declan.Keegan@leics.gov.uk

This page is intentionally left blank