Leicestershire County Council

LOCAL PENSION COMMITTEE – 8th NOVEMBER 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 September 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. LGPS Central continue to prefer Growth and Income assets over Stabilising assets. Within Equities Emerging Markets and Asia Pacific have been upgraded but remain underweight, but UK equities have been moved to an overweight after the underperformance over the last 9 months. Gilts and Index linked remain underweight and US bonds moved to an overweight from neutral. Within factors the only change was that the Quality/ESG factor has moved from underweight to neutral. Infrastructure and Emerging Market debt remain our favoured investments in Income Assets.

3. An extract of Portfolio Evaluation's view on the market outlook is stated below. The full report is included within the appendix.

   It would appear that markets are set to remain in a late market cycle phase for a while given the economic growth and it is not uncommon for markets to produce positive returns in this phase; however, this can be more volatile. Looking forwards market commentators continue to expect lower global economic growth and corporate earnings growth with the Eurozone looking particularly vulnerable. Many investors seem to expect growth to continue into 2020 and potentially to 2021 as the outlook for a recession gets moved back due partly positive central bank actions and benign inflation. However, many market commentators are discussing more defensive strategies going forwards, and many are also viewing emerging markets positively. Commentators are also investing more in bonds to secure income and as a defensive move. There are some risks in the returns that can be achieved, these include Trade Wars remain on going between the US, China and to some degree Europe, we are also in the position where central banks may not be able to continue lowering interest rates much more. We are also seeing increased political risk.

Overall Investment Performance

4. A comprehensive performance analysis over the quarter, year and 3 year period to 30th September 2019 is provided in Appendix A. 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, however work is ongoing to provide longer history.

5. 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.

6. For the period ending 30th September 2019 the Fund delivered an investment return of 3.4% for the quarter, 6.6% over the last 12 months and 8.2% annualised over the 3 year period.

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

	Weighting	**Benchmark**	**Difference**
Equities	51.0%	48.0%	3.0%
Real Income Fund	24.9%	26.5%	-1.6%
Alternatives	23.6%	25.5%	-1.9%
Cash	0.5%	0.0%	0.5%
	100.0%	100.0%	0.0%

The Fund's actual allocation varies over time due to different market movements across the various asset types. However, the allocation remains broadly in-line with the strategy. At the end of the quarter, overweight positions in equities (+3.0%) are offset by underweight positions in real Income fund assets (-1.6%) and Alternatives (-1.9%). The largest underweight allocation within alternatives has started to be addressed with a £100m commitment to private debt which was agreed at the October Investment Sub Committee. Our Equity allocations can be adjusted quickly via liquid passive holdings, but the underweight positions in property and infrastructure can take longer. A detailed breakdown of the asset allocation is available in Appendix A.

8. There were no significant changes during the quarter. In the quarter ending June 2019 there was a transfer of £333.2m of global active equities to the LGPS Central Global Equity Fund.

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	4.0	2.1	6.6	5.0	11.1	10.6
Income Assets	3.1	3.0	9.0	8.0	7.4	5.9
Alternative	2.2	1.4	5.7	5.7	4.3	4.6
TOTAL FUND	**3.4**	**2.2**	**6.6**	**6.2**	**8.2**	**7.5**

10. The investment performance of the individual managers for the year to 30th September 2019 is set out in appendix A. It is worth noting the following performance of certain managers:

    Adams Street – Private Equity, 3.8% excess return over benchmark. The benchmark of listed markets can be misleading, in the short-tem, 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 - global infrastructure, shows 11.2%+ return over benchmark over the last 12 months. Over the 3 year (annualised) period the excess returns over benchmark is 12.0%.

    Pictet – Targeted Return, (4.1%) below benchmark returns over the last 12 months. The product is one of three targeted return funds which, when aggregated give a (1.0%) return below benchmark. We have, via LGPS Central completed a quarterly review of Pictet performance on the 10th October 2019. Of note was the increase in cash holdings over the quarter, from 5% to 15% of total assets which is a drag to performance and achievement of benchmark given current interest rates. Equity exposure has been reduced from 37% to 31% over the quarter, fixed income has decreased from 50% to 42% and alternatives / gold has increased from 8% to 11%.

    Christofferson Robb & Company –Other Opportunities - 12.7% 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. The Opportunities class has in total achieved +4.2% over benchmark in the last 12 months.

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 to 89%. The report by the Actuary is attached as an appendix under the Pension Fund Valuation report elsewhere on the agenda.

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 (This is appended under the Pension Fund Valuation report.

Equality and Human Rights Implications

13. 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