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| Report Title: | Local Authority Pension Performance Analytics |
| Contains Confidential or Exempt Information | No - Part |
| Lead Member: | Councillor Julian Sharpe, Chairman Pension Fund Committee and Advisory Panel |
| Meeting and Date: | Pension Fund Committee and Advisory Panel – 22 March 2021 |
| Responsible Officer(s): | Ian Coleman, Interim Pension Fund Manager |
| Wards affected: | None |

REPORT SUMMARY

This report presents an outline of the Local Authority Pension Performance Analytics (LAPPA) service provided by Pensions and Investment Research Consultants (PIRC).

1. DETAILS OF RECOMMENDATION(S)

RECOMMENDATION: That the Pension Fund Committee notes the report and:

- i) Agrees to subscribe to the Local Authority Pension Performance Analytics service.

2. REASON(S) FOR RECOMMENDATION(S) AND OPTIONS CONSIDERED

- 2.1 The Pension Fund Committee has requested the provision of comparable performance information to enable Members to assess the relative performance of the RCBPF.
- 2.2 Performance information for the LGPS is compiled by PIRC, in the form of LAPPA, on behalf of the LGPS Funds. The vast majority of LGPS Funds subscribe to LAPPA. There is no similar alternative service available. The RCBPF has subscribed to the service previously but withdrew a few years ago, since when no comparable performance information has been available to the Fund.
- 2.3 A representative from PIRC will be in attendance at this meeting of the Pension Fund Committee to provide a brief presentation about LAPPA and to answer any questions.

3. KEY IMPLICATIONS

- 3.1 Membership of LAPPA will enable the RCBPF to assess investment performance against that achieved by other LGPS Funds.

3.2 Local Pensions Partnership Investments is supportive of the RCBPF subscribing to LAPPA.

4. FINANCIAL DETAILS / VALUE FOR MONEY

4.1 The annual subscription fee for LAPPA is approximately £5000.

5. LEGAL IMPLICATIONS

5.1 None.

6. RISK MANAGEMENT

6.1 Provision of comparable performance information should allow for more informed management of the RCBPF.

7. POTENTIAL IMPACTS

7.1 Provision of comparable performance information should allow for more informed management of the RCBPF.

7.2 Equalities. Equality Impact Assessments are published on the [council's website](#). N/A

7.3 Climate change/sustainability. N/A

7.4 Data Protection/GDPR. N/A

8. CONSULTATION

8.1 Local Pensions Partnership Investment Limited (LPPI).

9. TIMETABLE FOR IMPLEMENTATION

9.1 Immediate.

10. APPENDICES

10.1 This report is supported by 4 appendices:

- Appendix 1 – LAPPA overview
- Appendix 2 – LAPPA core service
- Appendix 3 – 2019/20 summary report
- Appendix 4 – sample report

11. BACKGROUND DOCUMENTS

11.1 This report is supported by 0 background documents:

12. CONSULTATION (MANDATORY)

| Name of consultee | Post held | Date sent | Date returned |
|-------------------|---|-----------|---------------|
| Clr Julian Sharpe | Chairman – Berkshire Pension Fund Committee | | |
| Adele Taylor | Director of Resources and Section 151 Officer | | |
| Andrew Vallance | Head of Finance and Deputy S151 Officer | | |

REPORT HISTORY

| Decision type: | Urgency item? | To follow item? |
|---------------------------------|---------------|-----------------|
| Pension Fund Committee decision | Yes/No | Yes/No |

Report Author: Ian Coleman, Interim Pension Fund Manager, 07814 917798

Local Authority Pension Performance Analytics - LGPS

Local Authority Pension Performance Analytics (LAPPA) enables Local Authority pension funds to view their Fund investment performance within a long-term, peer group context that will enhance governance and improve decision making.

Why Local Authority Pension Funds Use LAPPA

We agree that a fund's primary measure of performance should be to appraise performance against its own strategy. We also believe that understanding what peers are doing can provide funds with valuable contextual information, which enhances decision making.

From our perspective, looking 'inside' at its investment performance data enables a fund to determine where it stands in relation to meeting the fund's liabilities, and provides some insight on the degree of skill that is being brought to bear on the fund's management. When a pension also looks 'outside' it equips itself with an additional perspective on how other funds are executing their fiduciary responsibilities, which also makes an appraisal of relative skill possible.

In our experience, this helps funds to challenge the governance of their fund management – for example, by avoiding the possibility of being content with performance which, whilst meeting benchmarks is well behind that achieved by peers. LAPPA's data also contains information about different fund strategies and their relative success, the consideration of which may serve to enhance the risk/return profile of the incumbent fund. The analysis demonstrates where risk has been rewarded and where return has been given up for little benefit.

The Example of Active Management

In 2017/18 most global equity managers employed by Local Authority funds underperformed the market index benchmark. In isolation, a fund that was unhappy with such performance, may have decided to change manager. Knowing that underperformance was prevalent across the sector gave an additional dimension to discussions and may have helped to prevent costly changes.

The Example of Benchmarking

A number of funds hold assets that are benchmarked against cash or cash plus a percentage point or two. Given the very low level of return from cash over the last decade this is an exceptionally easy hurdle to beat (and below actuaries' expected asset growth assumptions). Funds that have such a benchmark in place may then be content that the scheme is outperforming comfortably. However, when put into the context of other schemes it will be apparent that the fund is performing poorly because of benchmark decisions that have been made. Such information will allow the investment committees, panels and boards to question and review the decisions made. This may result in changes but, perhaps more importantly, the discussion will bring about a better understanding of why the Fund is invested the way it is.

The Local Authority Peer Group

The peer group Universe constructed by LAPPA currently comprises **61 funds with an aggregate value of over £170bn**. This represents over two-thirds of local authority pension fund assets. The Universe has **thirty plus years of detailed historical data** making it unique and increasingly essential for those funds that wish to place their performance in a long-term context.

As greater focus is being brought to bear on short-term performance, the feedback LAPPA gets from its Local Authority pension fund clients is that they derive considerable benefit from the availability of such contextual information: enabling them to resist a perceived pressure to unnecessarily churn managers; to allow their strategies time to play out, and to better ensure strategies are consistently aligned with their long-term liabilities.

With the arrival of Pooling in England and Wales we believe that relevant funds will be exposed to increasing levels of scrutiny. The peer group analysis provided by LAPPA will allow comparison between pools and within pools. Funds with access to LAPPA's data will also be able to quantify the differential impact of pool costs across funds by analysing performance before and after these additional fees.

LAPPA's analysis is completely **independent and objective**, and, being affiliated to neither investment managers nor consultants there are no vested interests.

The Service

The service includes:

- An annual publication, which provides a detailed and in-depth analysis of the aggregate results, allocation and changes that have occurred and trends that have been identified
- Participation within the Local Authority Peer Group aggregate
- Collection, extraction and checking of fund and portfolio data
- Fund data included in quarterly, annual and long term aggregations
- Annual comparative performance tables that place individual fund performance over the latest year and over the longer-term in context with the aggregate data
- Research articles covering topics of interest
- Annual analytics placing the fund performance, asset allocation and risk in the peer group context

We also offer:

- Sensitivity Analysis reporting for Annual Report and Accounts
- Core performance measurement
- Presentation of results and market overview
- Bespoke research and consultancy

If you'd like to learn more about how LAPPA can help you enhance the governance of your fund please get in touch:

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Neil Sellstrom

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Neil.sellstrom@pirc.co.uk

LAPPA is part of PIRC. We have been appointed by the National Framework as the sole provider of Peer Group Investment Analytical Services.

PIRC is regulated by the Financial Conduct Authority

Local Authority Pension Performance Analytics

PIRC set up the Local Authority Pension Performance Analytics (LAPPA) service in response to the withdrawal of State Street (WM) from the creation of their highly valued and widely used Local Authority peer group Universe analysis service.

The Service

The core service includes:

- Participation within the Local Authority Aggregate
- Extraction of fund and portfolio data from previously calculated performance reporting
- Fund data included in quarterly, annual and long term aggregations
- Quarterly performance indicator publication
- Annual fund specific performance report analyzing the fund in the context of the peer group
- Annual in-depth analysis publication which provides detailed analysis of the aggregate results, allocation and changes that have occurred and trends that have been identified.
- Annual league tables detailing individual fund performance over the latest year and longer term.
- Research articles covering topics of interest

Additional elements of the service which can be subscribed to as required. These include

- Performance review meeting to present the aggregate and the fund specific analysis in more detail
- Bespoke research

For more information contact:

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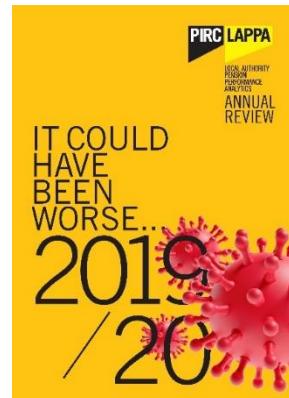
David Cullinan David.cullinan@pirc.co.uk



2019/20 – It could have been worse!

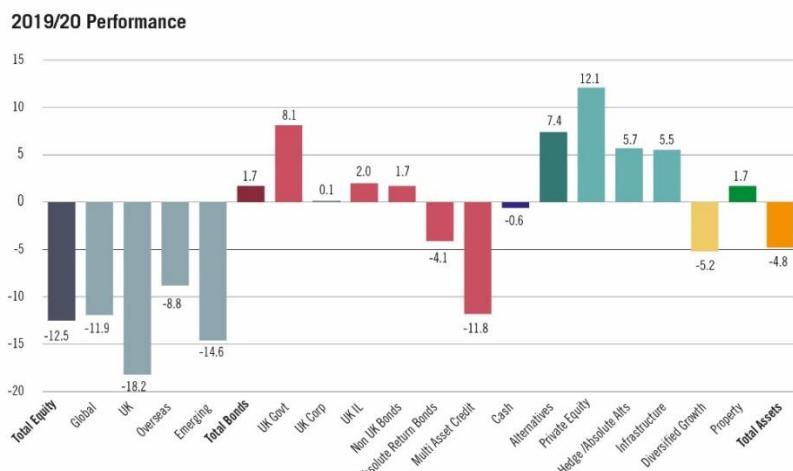
As the global pandemic hit financial markets in the first quarter of 2020 many feared the final result for 2019/20 would be a lot worse.

Over the year to end March 2020 the average Local Authority pension fund, as represented by the PIRC Local Authority Universe, returned -4.8% on its assets.



In its latest Annual Review PIRC is delighted to share the results of the 2019/20 financial year covering investment performance, asset allocation and insights into current trends.

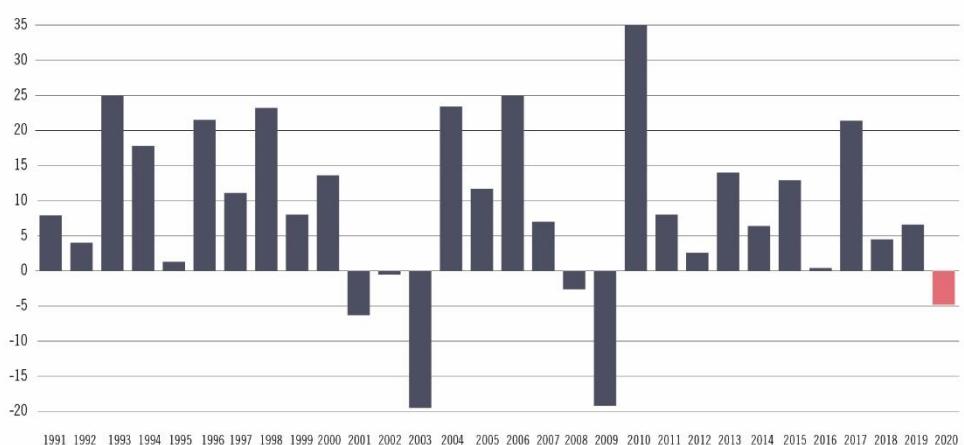
The results for the year were better than most had expected. Equities had fallen, but from historic highs, and funds, now more diversified than ever, saw their total assets fall, but only by an average of **4.8%**. Those funds that had more of their money invested in alternative strategies, performed better than their peers who had high quoted equity exposures. Some funds had put in place insurance against market falls and those funds reaped the benefit last year.



Let's put this in context

To put this return into context, the -4.8%, although negative, was significantly better than the returns experienced by funds in the market falls either at the start of the century or following the global financial crisis.

Local Authority fund annual performance - last 30 years



Is This The Moment For Active Management?

One of the main arguments for employing active managers has always been that they will be nimble enough to avoid the worst of market falls. In this time of extreme market dislocation, the range of returns from active equity managers was wider than usually seen but in aggregate they outperformed. Given that the continuing impact of COVID will vary greatly across markets, sectors and individual companies it might be time to review investment within index tracking funds that have to hold the whole index including sectors and companies that may now be in long term decline.

Background

The Local Authority Pension Performance Analytics (LAPPA) Universe has been run by PIRC since 2017 when the State Street / WM withdrew from providing the service. It provides

exclusive and unique information to support Local Authority pension funds to view their investment performance within a long-term, peer group context that will enhance governance and improve decision making.

The peer group Universe is the largest and most comprehensive database of local authority pension fund investments. It currently comprises 63 funds with an aggregate value of £180bn. This represents over two-thirds of local authority pension fund assets. The Universe has thirty plus years of detailed historical data making it unique and increasingly essential for those funds that wish to place their performance in a long-term context.

This publication is available to all Universe participants as part of the core service to which they subscribe. It is available to non-participants at a cost of £1400 plus VAT.

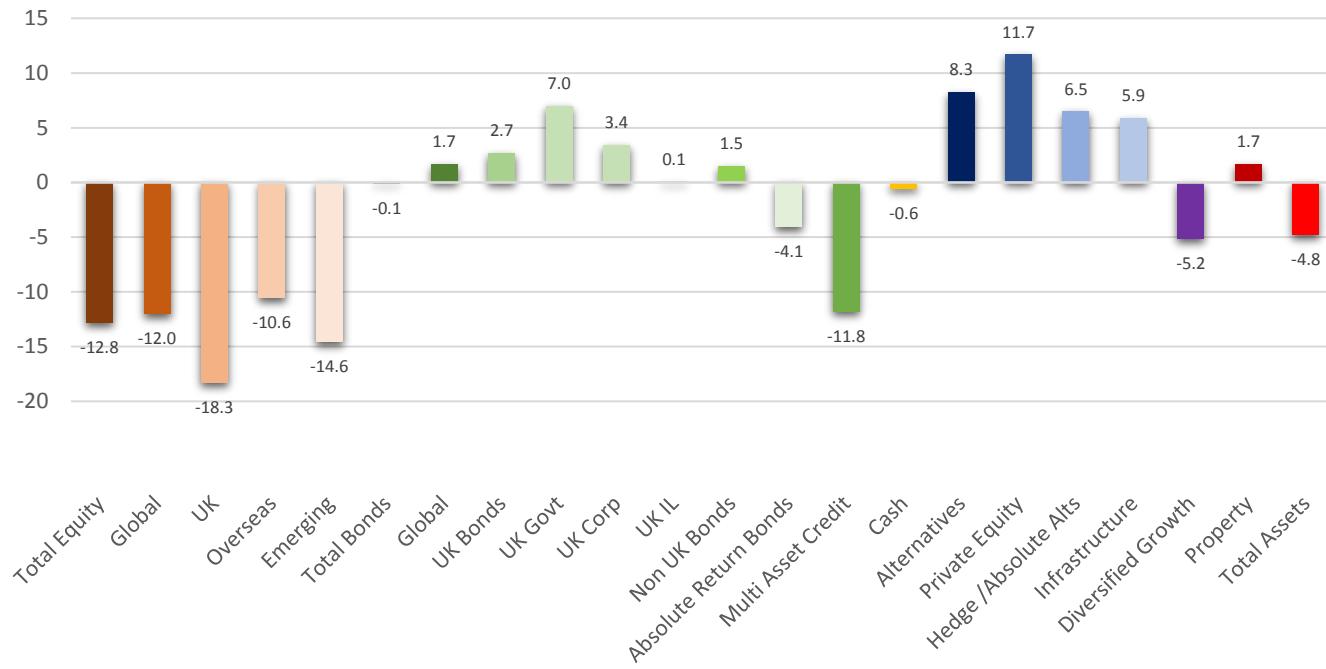
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If you'd like more information about any of the above please get in touch:

Neil Sellstrom Neil.sellstrom@pirc.co.uk

Karen Thrumbble Karen.thrumbble@pirc.co.uk

Latest Year Performance



- Another year of global political uncertainty but this time was the unprecedented effects of COVID -19 .
- The year saw the fastest ever decline in equity markets, albeit from close to record high levels, new lows in oil prices, much of the credit market becoming barely liquid and property and many alternatives difficult to value.
- Funds returned an average of -4.8% for the year, perhaps better than was expected by many.
- Equities fared worst - funds with higher exposures to more defensive assets will have performed relatively well.

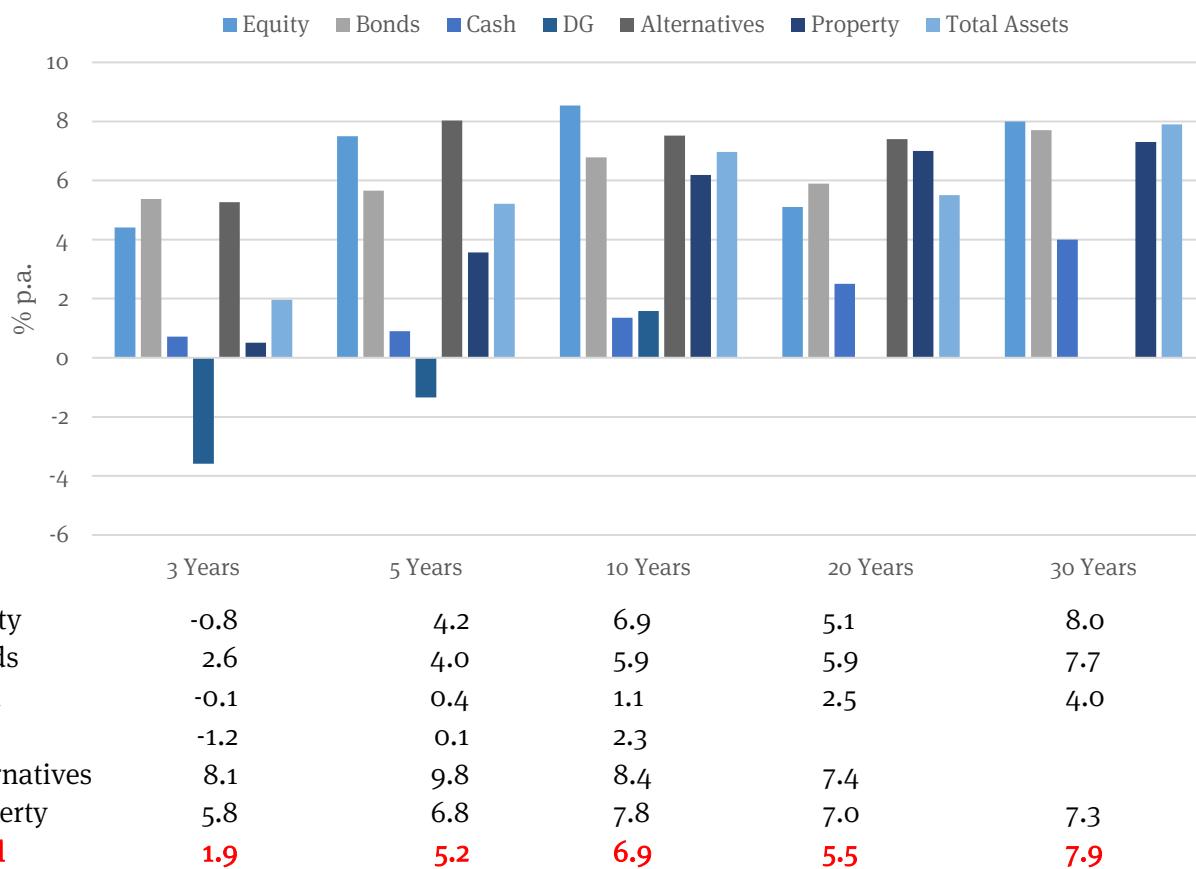
Asset Allocation

- Strategic asset allocation remained broadly static most of the change to fund weightings came about from the relative market movements over the year.

| % Allocation | End March | | |
|--------------------|-----------|------|------|
| | 2019 | 2020 | Diff |
| Equities | 55 | 51 | -4 |
| Bonds | 19 | 21 | 2 |
| Cash | 3 | 2 | -1 |
| Alternatives | 11 | 12 | 1 |
| Diversified Growth | 3 | 3 | - |
| Property | 9 | 9 | - |

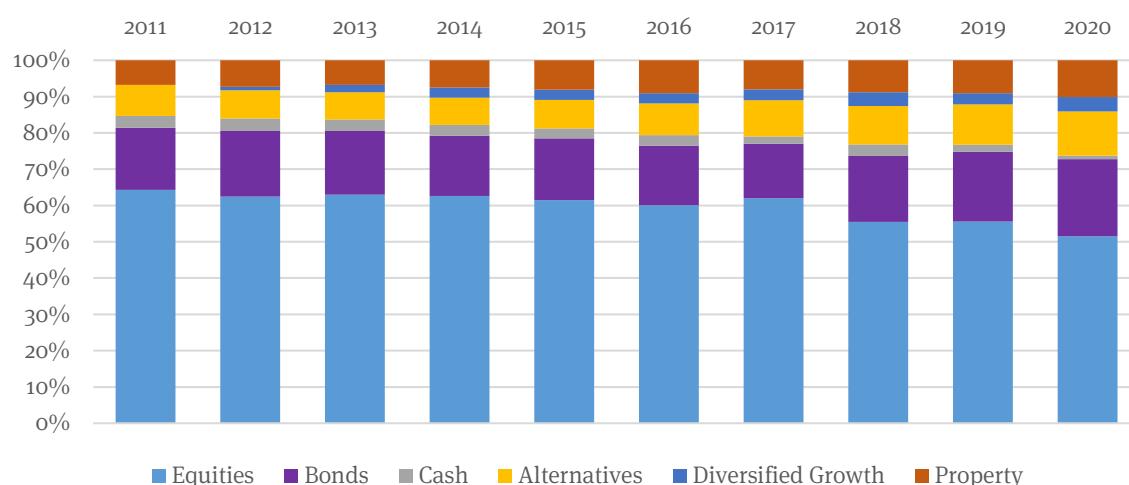
Universe Longer Term Results

- Long term performance of the LGPS remains strong. The average funds delivered a positive return in 24 of the last 30 years and delivered an annualised performance of 7.9% p.a.
- Equities have driven the strong long term performance.
- Alternatives have performed strongly due in a large part to the excellent returns from private equity.



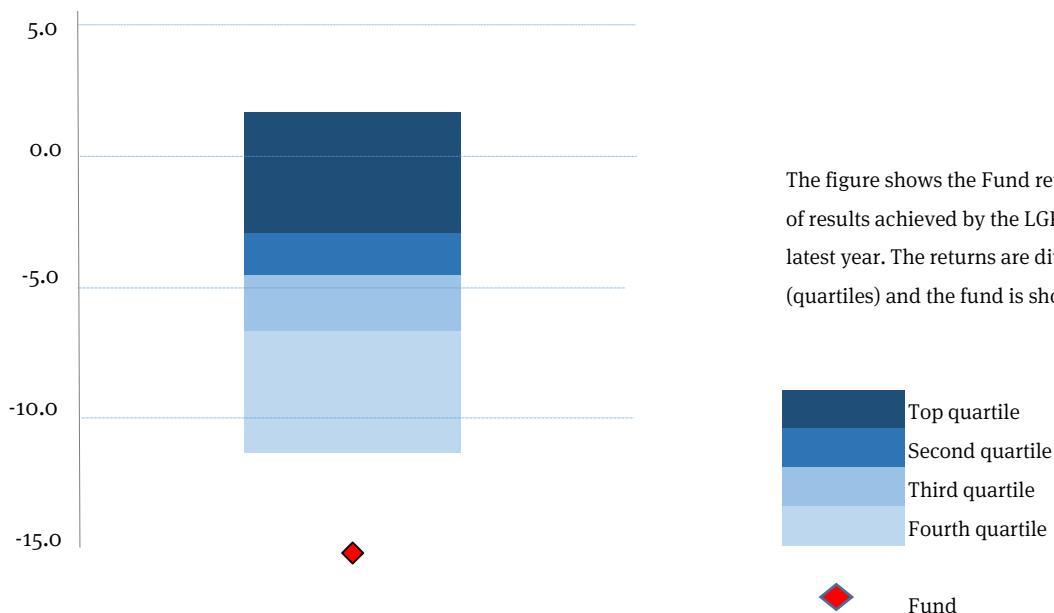
Asset Allocation

- Equities remain the largest allocation within most fund's assets. 80% of this allocation is now invested overseas.
- Alternatives have increased markedly over the decade. Private equity makes up a half of this allocation with infrastructure increasing in recent years and expected to increase further.
- Within the bond allocation, there has been a continued move from index based towards absolute return mandates.



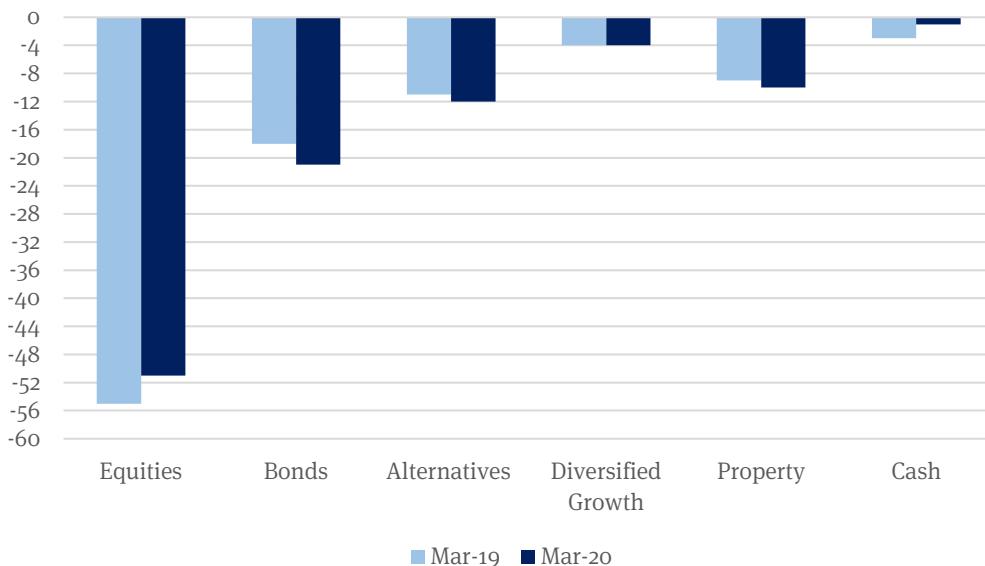
Latest Year

- In the latest year the Fund return of -7.2% was well below the average of -4.8% and ranked in the 88th percentile.



Fund Asset Allocation

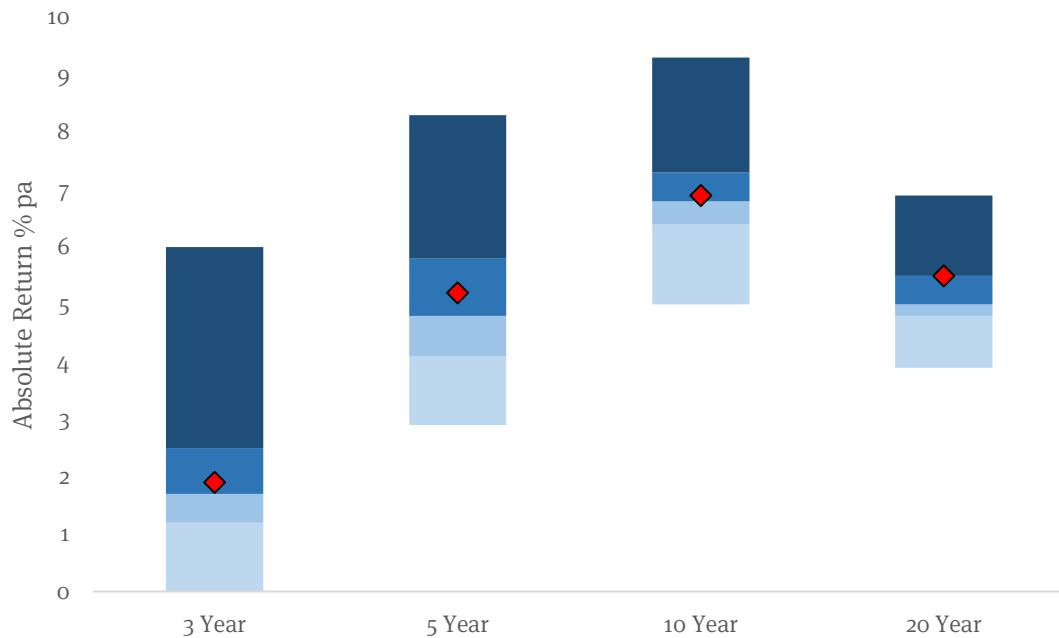
- The Fund is structured quite differently from the average.
- The key difference is the relatively high level of equities and low investment in alternatives.
- Last year these differences reduced the relative performance by close to 3%.



The chart shows the Fund's relative % weightings at asset class level at 31st March 2019 and 2020.

Fund Longer Term Returns

- The latest year result has brought down the three year performance to below average.
- Longer term results are still strong largely due to the strong returns delivered by the active equity managers.

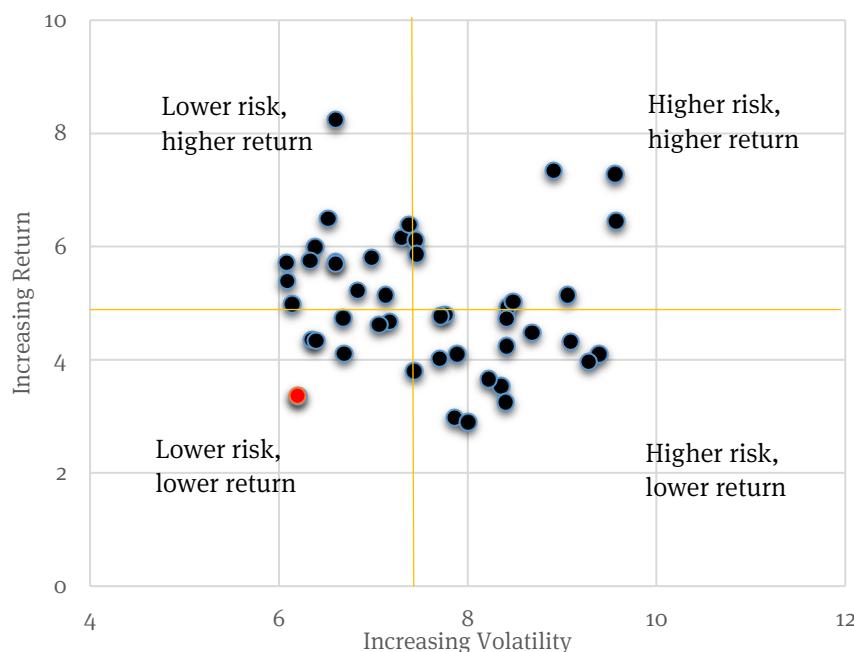


| Fund | 0.0 | 0.0 | 0.0 | 0.0 |
|------------------|-----|-----|-----|-----|
| Universe Average | 1.9 | 5.2 | 6.9 | 5.5 |
| Ranking | (0) | (0) | (0) | (0) |

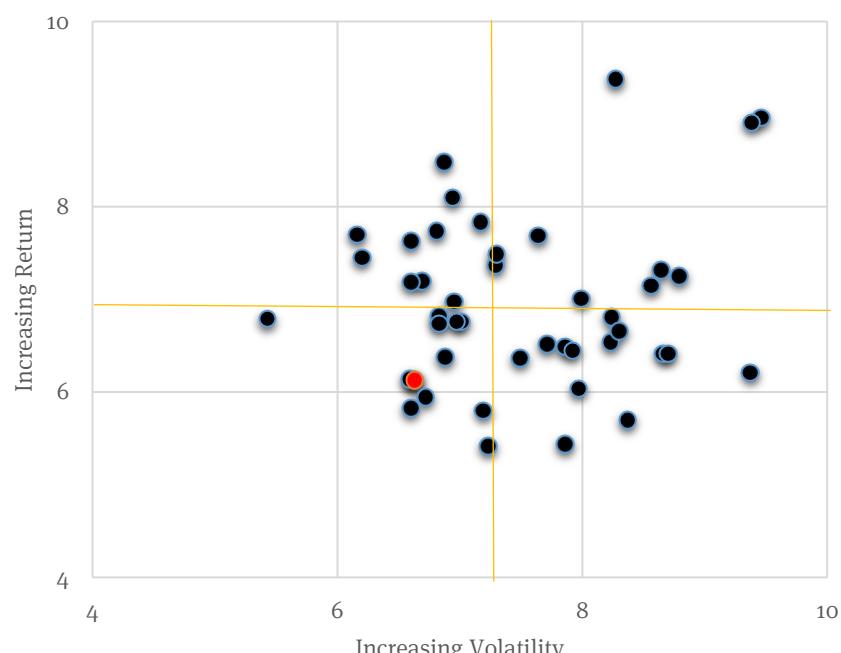
Risk and Return

- Over the last ten years the Fund (red dot) produced a better than average return but experienced a slightly higher than average level of volatility.
- Similarly, over the last five years the Fund has been rewarded for the additional volatility that it has experienced.

Last Five Years (% p.a.)



Last Ten Years (% p.a.)



The charts show the funds (black dots) in the LGPS Universe in risk/return space. The further up the vertical axis a fund is the better the return achieved. The further along the horizontal axis the more risk has been taken.

The yellow are the median results. These divide the funds into quadrants. Most funds would prefer to be in the top left quadrant.