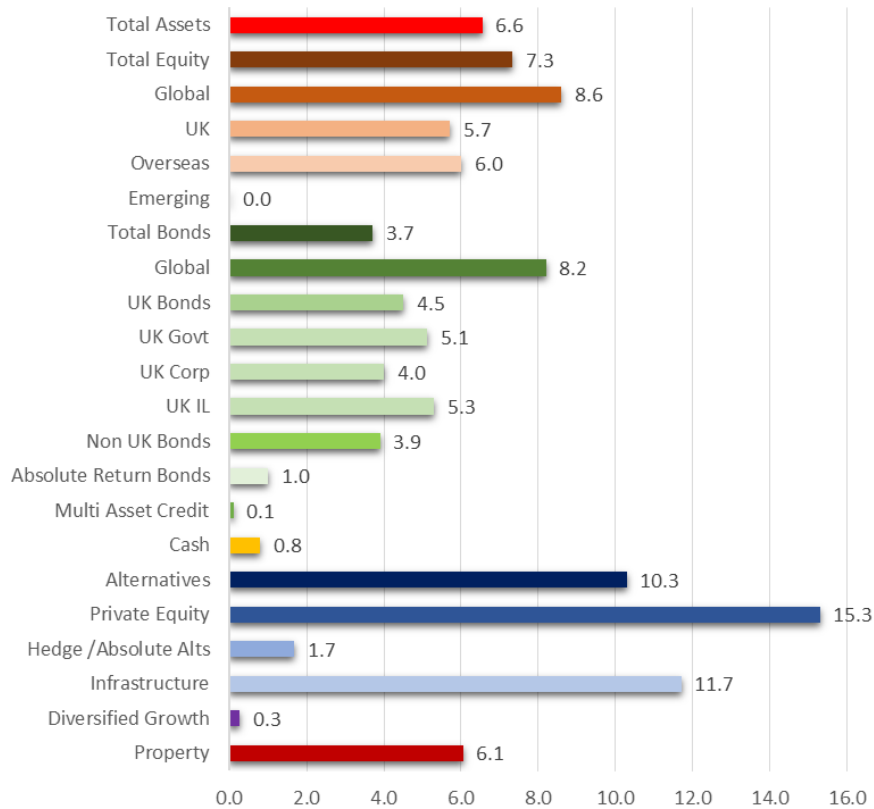




2018/19 Looking Back

Neil Sellstrom

2018/19 Results



- Despite a difficult economic and political environment the average Local Authority fund produced a return of 6.6%
- Asset class returns were tightly grouped with bonds, equities and alternatives returning 4%, 6%, and 7% respectively for the year.
- Alternatives returned 10.3% driven by excellent returns from private equity.
- Most funds failed to outperform their benchmark.

What Did Well?

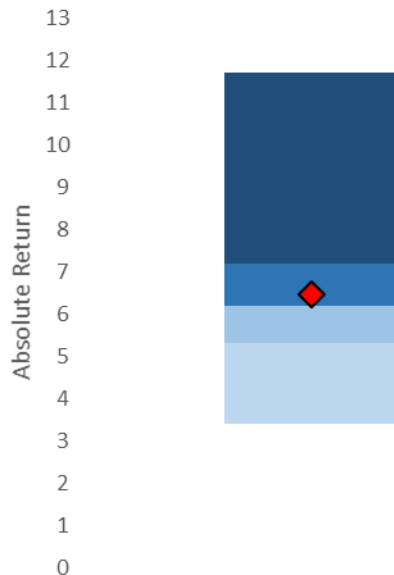
- Strong performance from **US equities** meant funds with high equity components tended to outperform last year.
- **Private equity** continued to perform strongly with a return of 15% for the year. It has outperformed quoted equity in the medium term but the outperformance is not yet visible over the longer term.
- **Infrastructure** too performed extremely well
- **US equities** (the key component of global equity funds) continued their extended run of excellent performance, assisted by the ongoing strengthening of the US Dollar.
- **Ethical / Green / Environmental investment did well in garnering funds.** These strategies saw a large influx of money across a range of funds. This was focussed principally in global equity portfolios where we saw a net inflow of £3 billion.

What Did Less Well?

- **Emerging market equities** after being the best performing equity area in the previous year, fared particularly badly this year, failing to deliver a positive return.
- With an average return of 1% **absolute return** funds performed relatively poorly across a variety of strategies and asset types.
- **Equity protection**, taken out by some funds as insurance against possible market falls was not required and the cost had a drag on performance for the year.
- Continued low interest rates meant holding any level of **cash** continued to have a negative impact on return.

Fund Performance

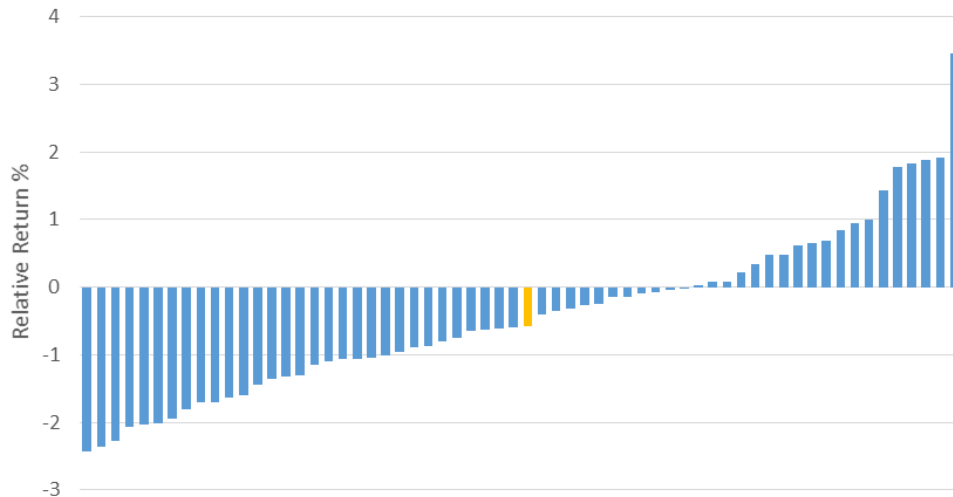
Range of Fund Returns – Year to End March 2019



- Larger funds performed relatively better than their smaller peers resulting in the average return of 6.6% being ahead of the median result of 6.2%.
- The range of results was relatively tight with most funds returning between 5% and 8% for the year.
- Lancashire was the best performing fund in the latest year with a return of 11.7% whilst Havering was the worst at 3.4%.

Performance Relative to Benchmark

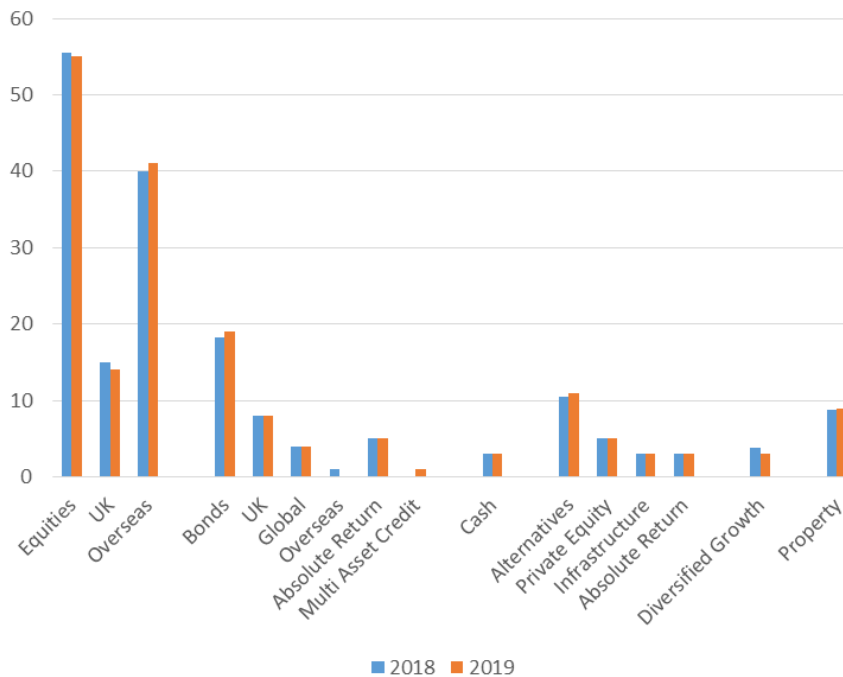
Relative Performance— Year to End March 2019



- The median fund (in orange) underperformed its benchmark by 0.5% last year.
- Less than a third of funds managed to achieve a better than benchmark return
- Only 6 funds outperformed by more than 1% while 22 underperformed by more than that margin

Asset Allocation

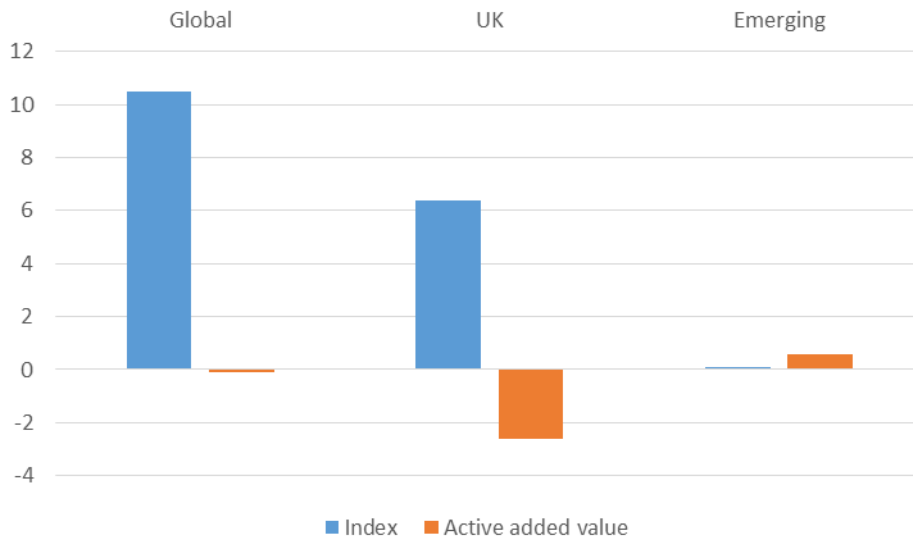
% Average Asset Allocation



- High level asset allocation changes slowed down as funds were absorbed by pooling and waiting for the results of the upcoming actuarial revaluation.
- Move into **'green' investments** within Equity and infrastructure
- Within equities a continued move into **enhanced index / smart beta** investments including low volatility
- **Multi asset credit** gained ground.
- A continued move away from index based benchmarks towards **absolute return benchmarks** within alternative assets and within bond allocations.

Equity – Regional Allocation Was Key

Performance of Regional Equities – Year to March 2019

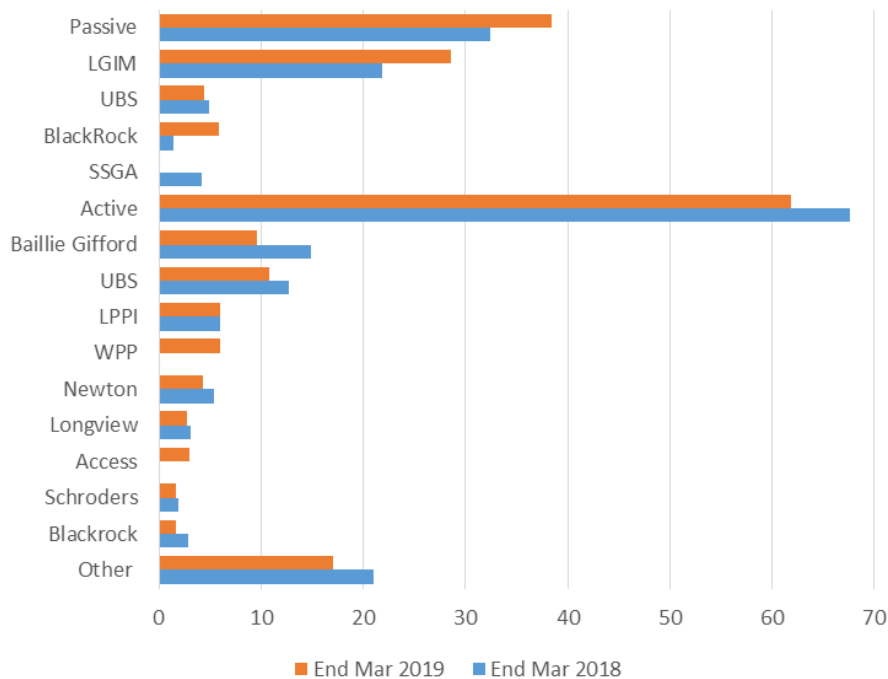


- Funds holding a bespoke UK equity allocation would have delivered lower returns last year.
- Likewise funds with a higher weighting to emerging markets.
- The median actively managed global equity and UK equity portfolio underperformed its benchmark by 0.1% and 2.6% respectively over the year.
- Median EM market outperformed by 1.3%.



Global Equities

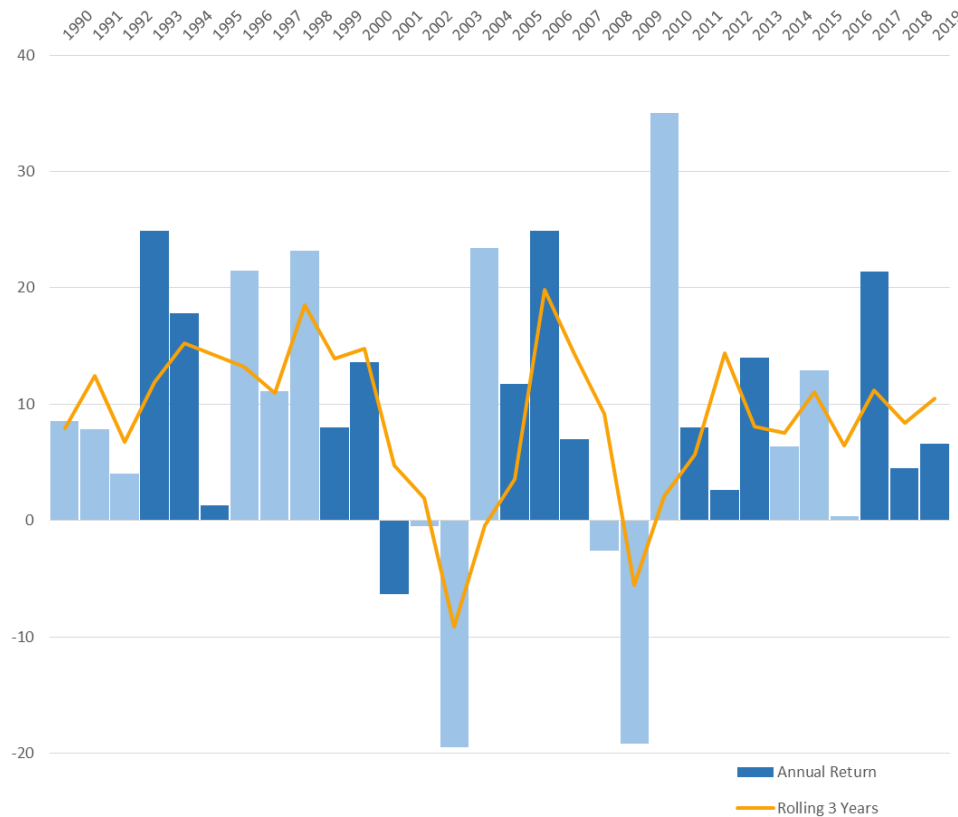
% Global Equity Managers by Value



- Passive (index tracking) investment increased over the year
- There were substantial changes to passive managers as funds aligned with pools
- LGIM consolidated its position as the largest manager.
- Baillie Gifford saw direct assets fall but picked up indirect assets through Pooling.

Longer Term Performance

Performance Over One and Three Years to end March

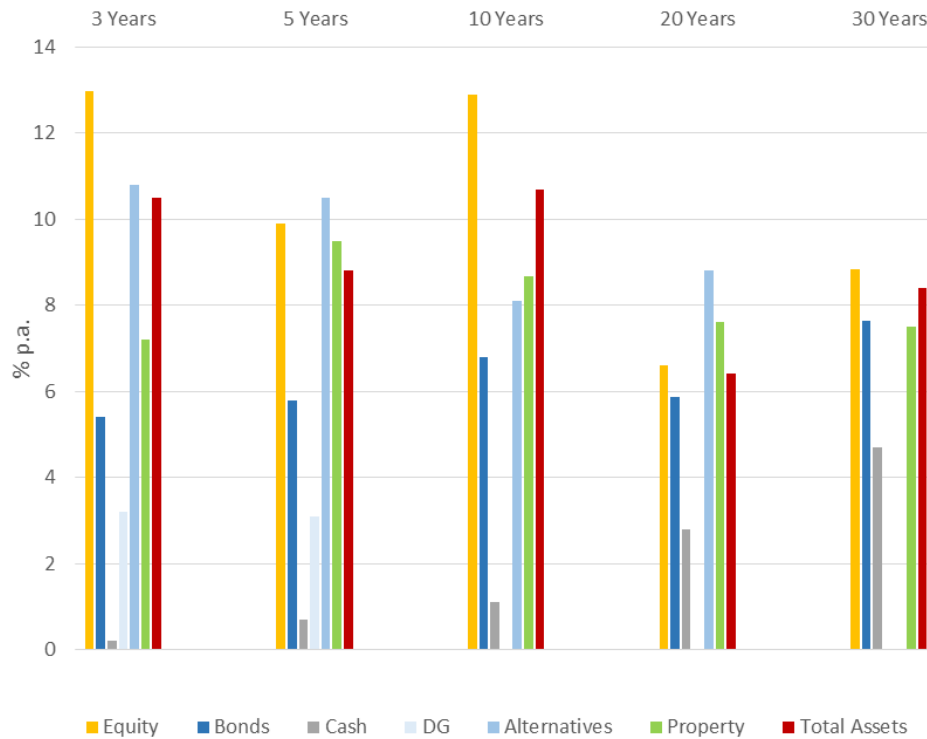


- Thirty year return averages 8.4 %p.a.
- This is almost 6%p.a. above inflation.
- Only five out of the last thirty years have produced negative returns
- Rolling three year returns average around 8%p.a.
- Asset performance has been, and remains, extremely strong.



Longer Term Asset Performance

Performance by Asset Class to End March 2019

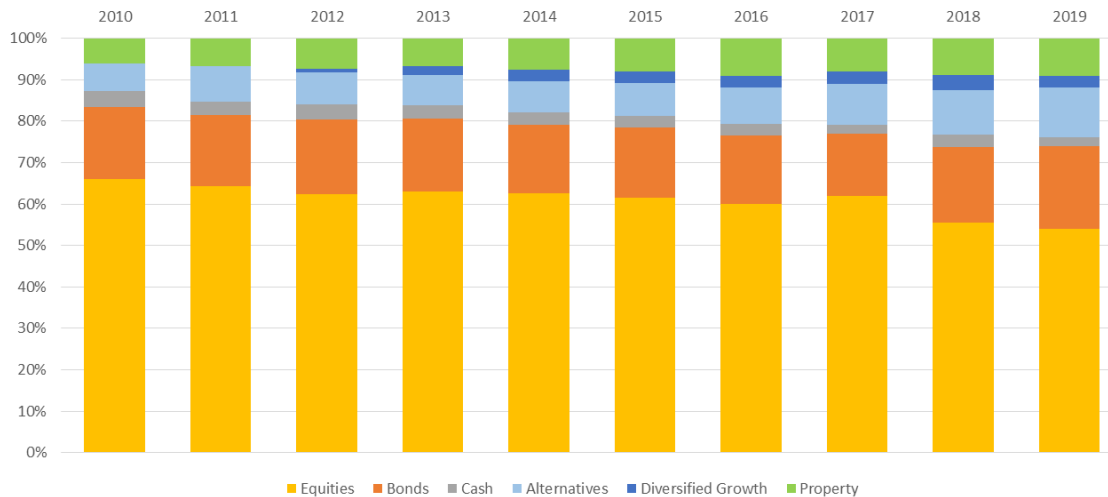


- Equities have driven the excellent long term performance of the LGPS
- Strong alternative results has been driven by private equity.
- Funds with diversified growth assets and absolute return investments have seen results well below other asset classes over the medium term.



Asset Allocation Changes Over Time

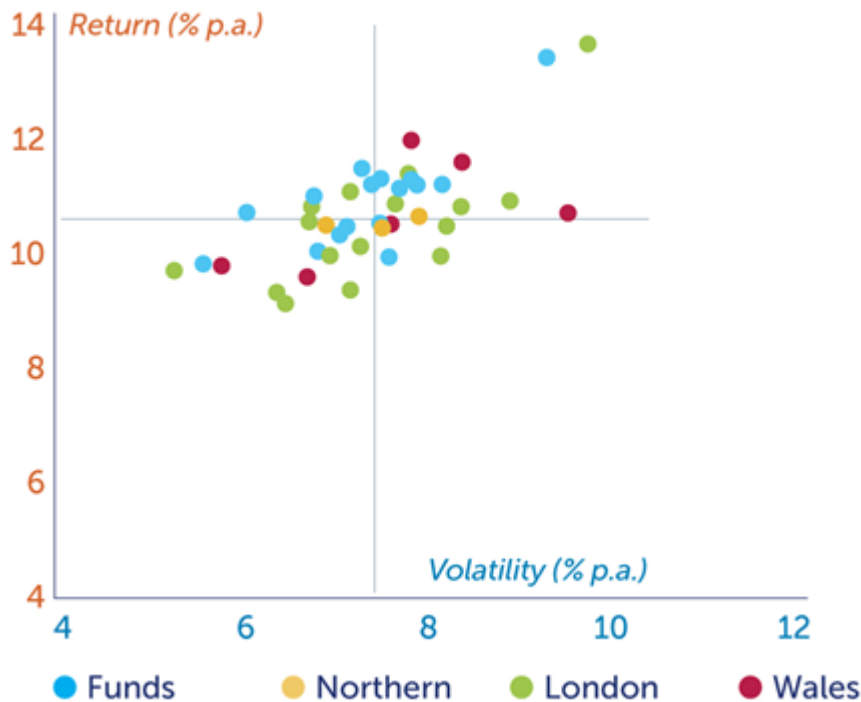
Average Asset Allocation at End March



- High level asset allocation has remained little changed over the last decade.
- Equities remain the dominant asset class in most funds' allocations.
- Alternative asset exposure has increased and will likely increase
- There have been changes at asset class level however;
 - Domestic to global equity
 - Gilts to alternative credit sources
 - Hedge funds to more transparent alternative strategies

Risk and Return – Last Ten Years

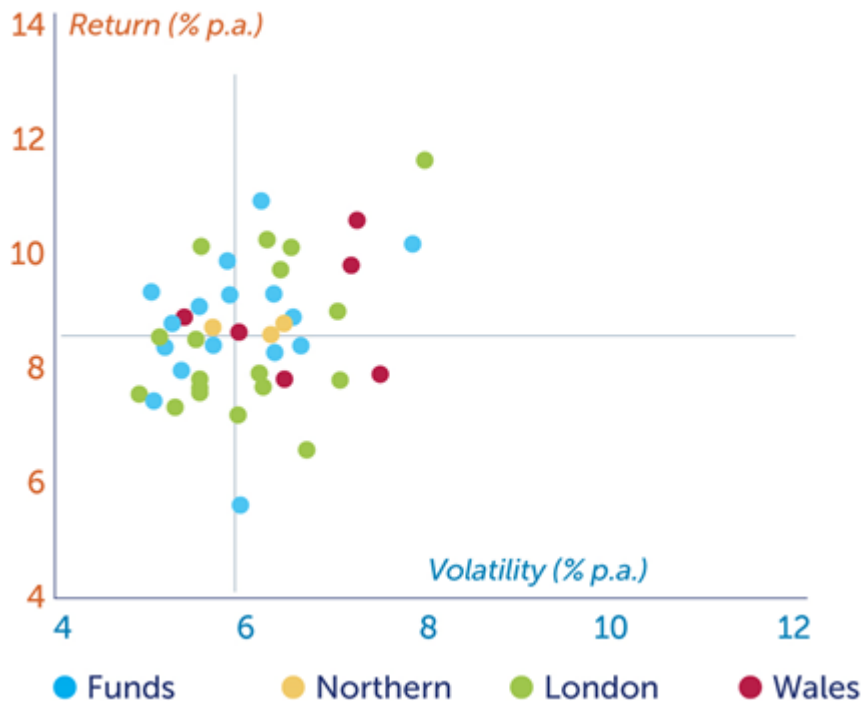
Risk and return distribution of funds over last ten years



- We now look at individual funds' risk and return profiles
- Funds with 'riskier' asset profiles have tended to perform better
- This is an expected outcome in a 'normal' investment environment
- Asset class performance quite tightly bunched so strategy had less impact

Risk and Return – Last Five Years

Risk and return distribution of funds over last five years

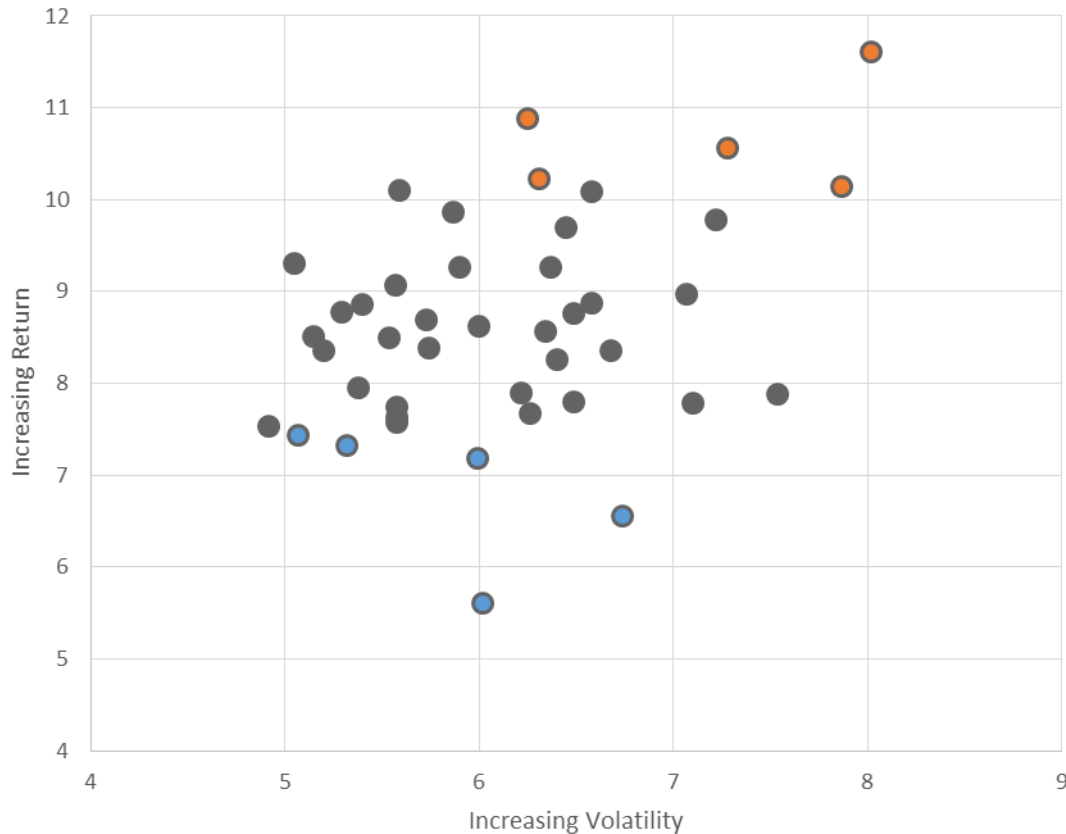


- Volatility over this period has been lower while returns have remained well ahead of expectations.
- The positive correlation between risk and return is still evident but less pronounced
- The range of outcomes is wider, reflecting the large difference between the return from equities and that achieved from absolute return strategies.



Top & Bottom Performers

Last 5 Years (% p.a.)



- The best performing funds have added significant value.
- This was in part structural - BM returns were around 1% higher - and part the result of strong active management.
- The poorest performing usually have a high exposure to diversified growth.



In Summary

- A volatile and uncertain year for investors but the final outcome was better than many had predicted at 6.6% for the year and 10.5% p.a. for the three years to end March.
- Little change at strategic level but significant transition of assets into Pools.
- Longer term results still extremely strong, dominated by excellent equity performance
- Absolute return investments have been disappointing over the recent past.
- Funds that have delivered the strongest returns have generally accepted higher levels of volatility.