

Still Going Strong

The 2023/24 PIRC Local Authority
Analytics Service Annual Review

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The Universe

PIRC provides analysis so clients can assess their investment decisions relative to peer investors.

Two thirds of the LGPS assets included

£266bn

Value of the Funds in the Universe at
end March 2024

36

Number of years of Fund data

63

Number of funds in the Universe

Northern

all

LPP

all

London

-all bar Croydon

Wales

all

Brunel

Cornwall

Avon

Devon

Gloucestershire

Oxfordshire

Access

Suffolk

Isle of Wight

Cambridgeshire

Northamptonshire

Lincolnshire

East Sussex

Kent

Borders to Coast

Cumbria

South Yorkshire

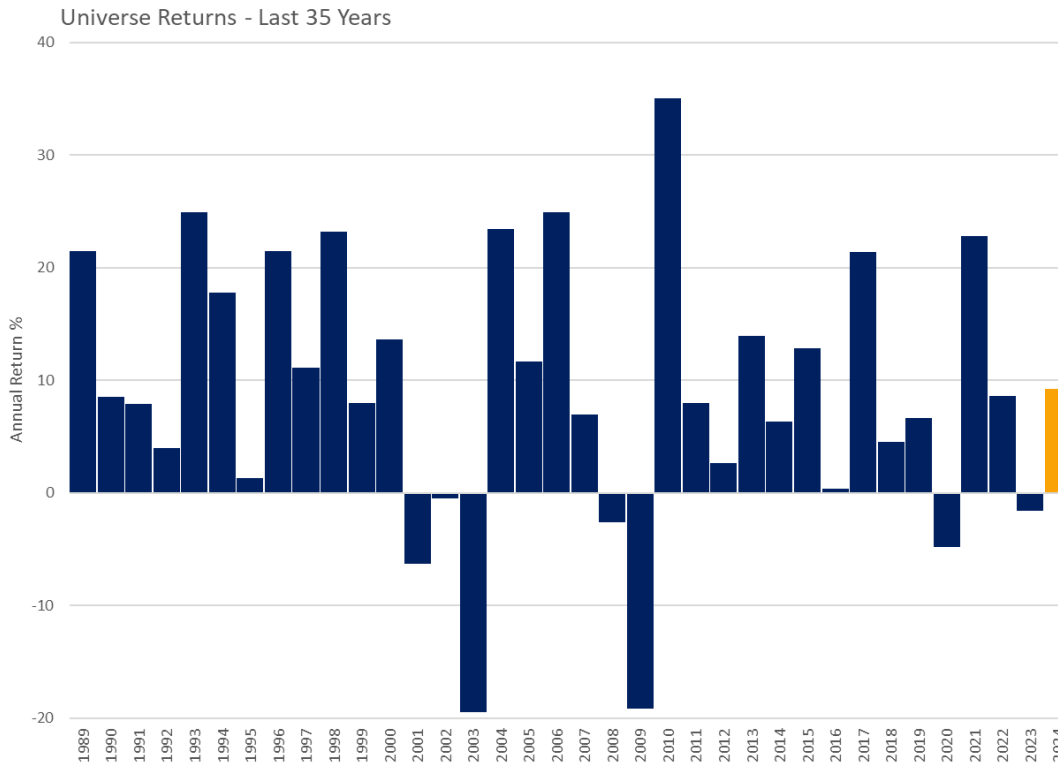
East Riding

Surrey

Scotland

Strathclyde

Investment Returns



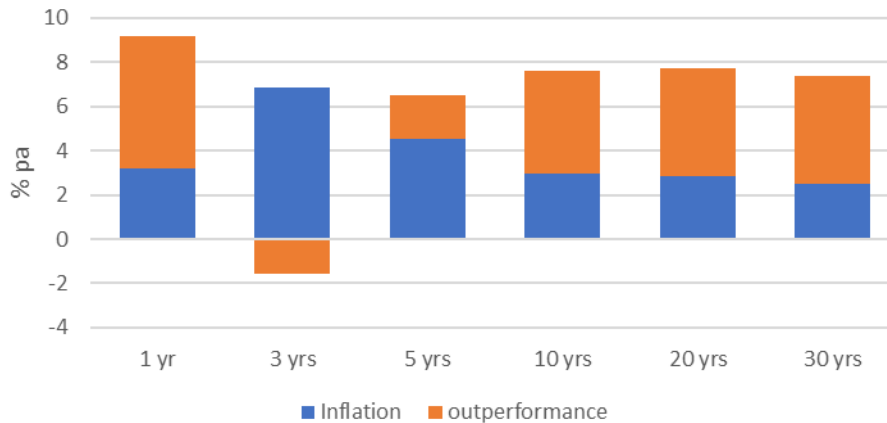
Fund returns include:
Gain/loss on investments
Income generated

The returns will be impacted by global political and economic factors and so are not delivered consistently.

Funds accept this irregularity (volatility / risk) because longer term it should bring improved results – there is a correlation between risk and return.

How Did The LGPS Perform?

Performance to End March 2024

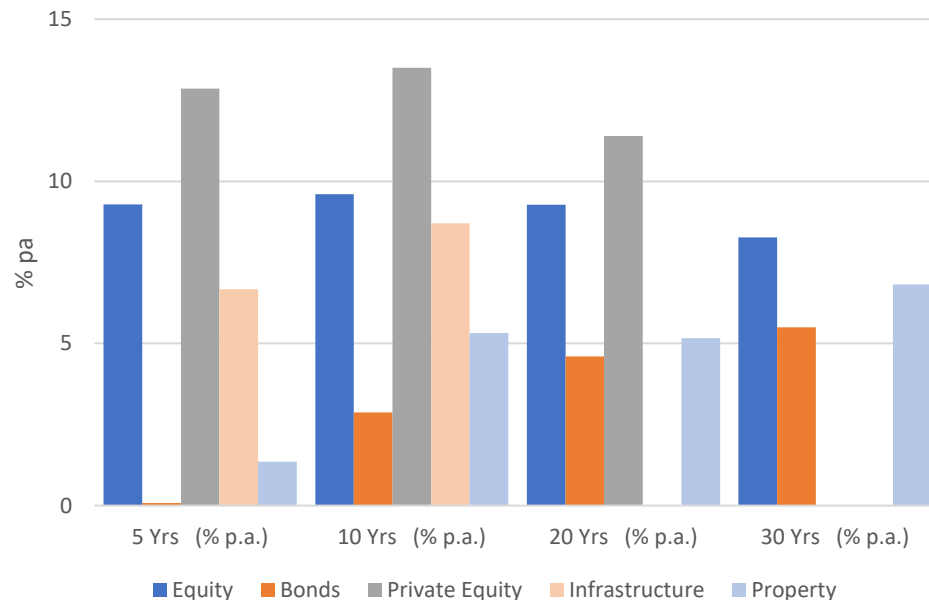


Investment performance remains extremely strong.

Over the medium term the average fund has delivered a return of around 7% p.a. A real return of 2%p.a. over 5 years and almost 5% p.a. above inflation over all longer terms.

Equities Have Driven Long Term Performance

Asset Class Return to end March 24



Equity performance has been strong over all time periods.

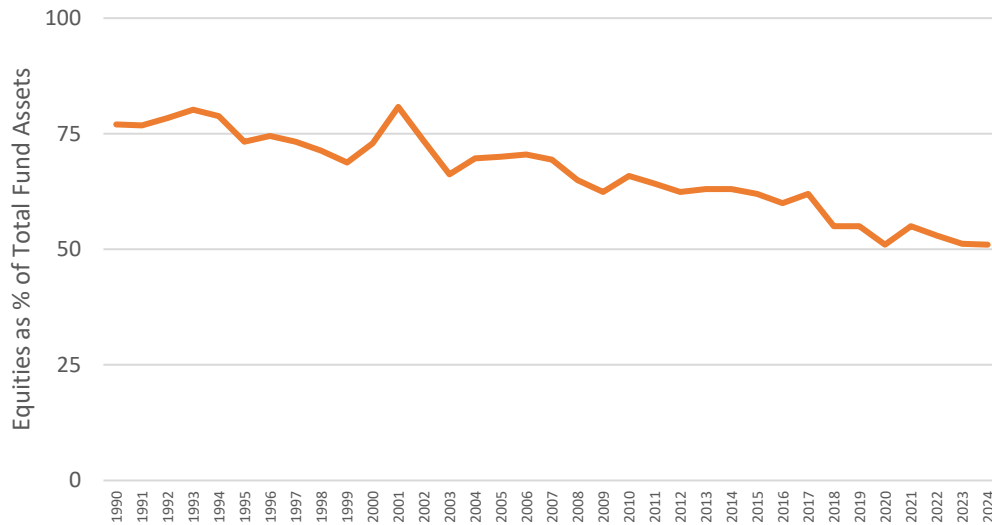
Private equity has outperformed quoted equity over the 20 years it has been measured.

Property performance has been poor over the recent past.

Rising interest rates following government manipulated low levels, have made bonds the worst performing of the major asset classes and the only one that has failed to match inflation over the last ten years.

Funds Continue to Reduce Their Commitment

Average exposure to Equities – Last 35 Years



Equities have declined over the last 35 years from three quarters to only half of the average fund's asset allocation.

This was driven by concern over equity volatility/ increased focus on mitigating risk.

The range of assets that could be invested in as an 'alternative' to equities has increased exponentially.

Alternatives Have Proliferated

	2004	2014	2024
Average No. of Mandates	5	11	17
% Passive	15	28	17
Mandate	Balanced UK Equity Overseas Equity UK Gilts UK IL Cash Property Private Equity	Balanced UK Equity Overseas Equity UK Gilts UK IL Cash Property Private Equity Emerging Market Equity Corporate Bonds Hedging Absolute Return	UK Equity Overseas Equity UK Gilts UK IL Cash Property Private Equity Emerging Market Equity Corporate Bonds Hedging Absolute Return Alternative Credit Private Debt Hedge Funds Infrastructure Diversified Growth Multi Asset Credit Liability Matching Equity Protection Climate Aware Forestry Residential Housing and many more

Alternatives to equities have been added in to reduce volatility but many are illiquid bringing a different set of issues.

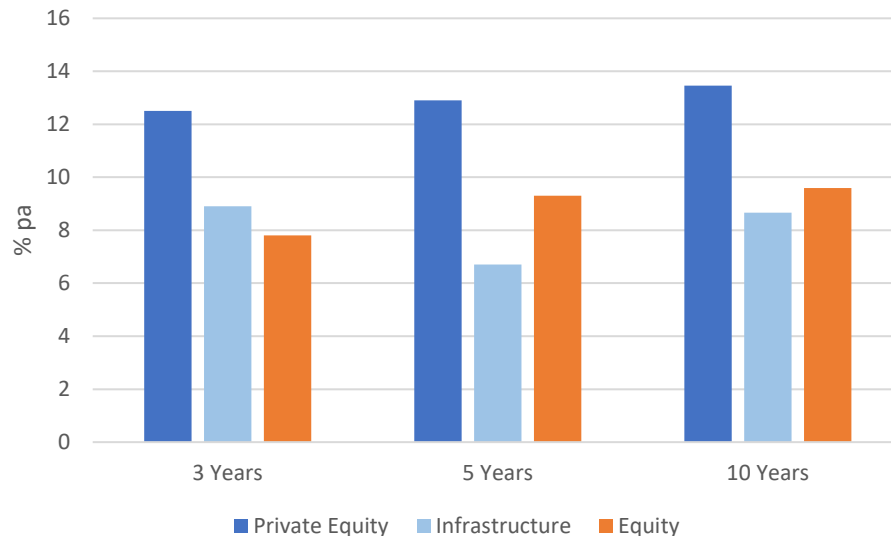
As cash flow issues become more central this is likely to require a rethink (or another set of alternatives!)

Bond alternatives have increased as funds seek to increase yields on their income generating assets.

Other risk reduction strategies have included equity protection and liability matching.

But Is Risk Reduction Still The Driver?

Performance of Alternatives – Last Ten Years



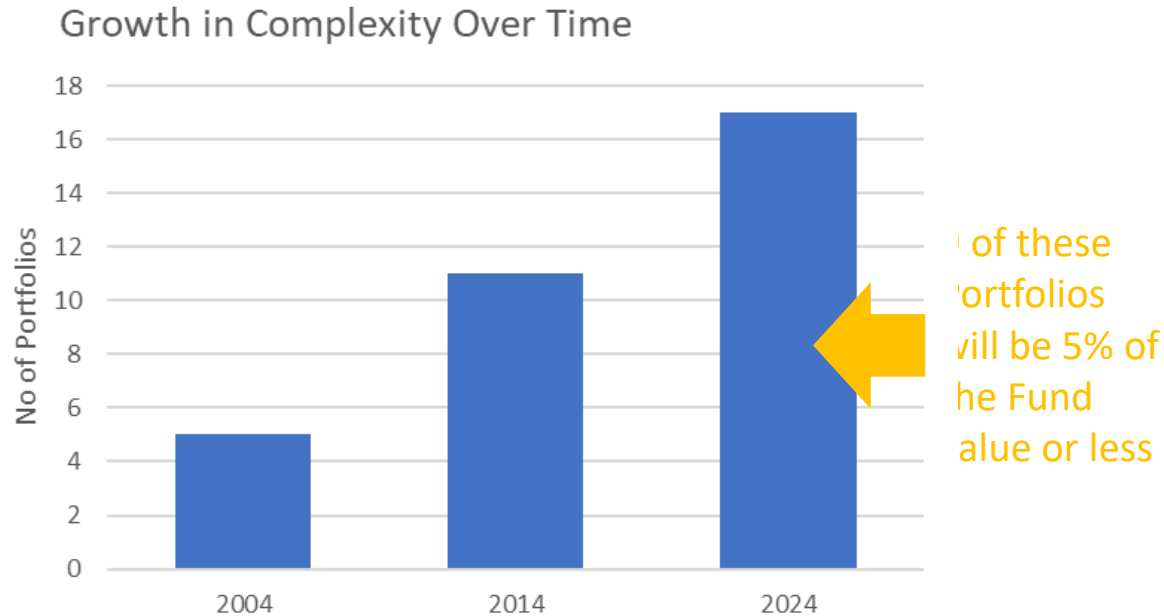
Recent performance of alternatives has been strong.

This has combined with a push from government to increase investment in infrastructure and now levelling up.

Managers are marketing ever wider ranges of product and consultants are undertaking more searches and more evaluations.

There are vested interests in expanding the investment set.

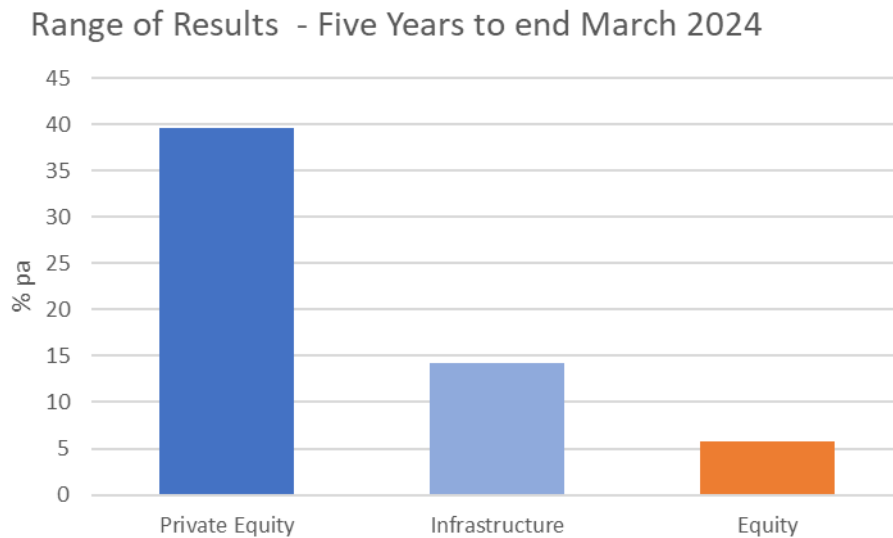
Is Such Complexity Necessary?



Small (less than 5% of a fund's value) portfolios are statistically unlikely to have a meaningful impact on either overall return or on the overall risk profile.

Given many of the portfolios have very similar return expectations and risk profiles holding larger investments in fewer of these portfolios may provide a more optimal outcome.

Issues Around Many Alternatives Remain



Fees

The reliance on manager skill is much greater

The range of results has therefore been much wider for private equity and infrastructure than quoted equities.

Because of drawdown it is difficult to maintain target allocations.

There is a lack of availability within some pools.

The measurement and reporting is often poor and difficult to incorporate into total fund results.

While Complexity Has Risen Reporting Quality Has Often Fallen....

No asset class returns or bm's calculated

Some examples:

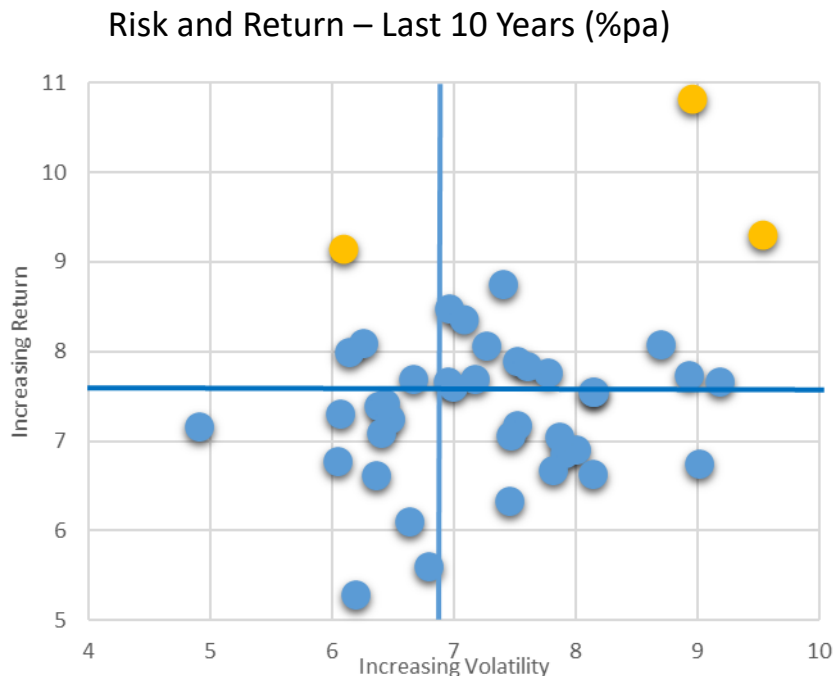
	Asset Allocation				Performance		
	£m	%	£m	%	Fund	Benchmark	Relative
Total Fund	2,377	100	2,377	100	0.8	0.4	0.4
Growth	1,366	57	1,366	57			
Equity	1,232	52	1,232	52			
Global Equity Active	361		361		0.2	-0.2	0.4
Global Equity Passive	220		220		0.2	0.2	0.0
Global Equity Paris Aligned	252		252		-0.4	0.1	-0.5
Global Equity Low Carbon	284		284		0.6	-0.2	0.9
Emerging Market Equity	115		115		1.1	1.8	-0.7
Private Equity	101		101				
Diversified Growth	134		134		-3.2	1.6	-4.7
Income	1,010	43	1,010	43			
MAC	30		30		2.7	0.5	2.2
Private Debt	0		0		1.0	1.6	-0.6
Property	454	19	454	19			
Residential Housing	308		308				
UK Property	146		146		1.0	-0.6	1.6
Absolute Return Bonds	163		163		1.4	1.2	0.2
Infrastructure	364	15	364	15			
Infrastructure	285		285		0.1	1.6	-1.5
Green Infrastructure	28		28				
Impact Infrastructure	51		51				

Returns based on manager information not fund experience.

Previous period asset values restated. and returns recast.

Stale or estimated valuations of illiquids.

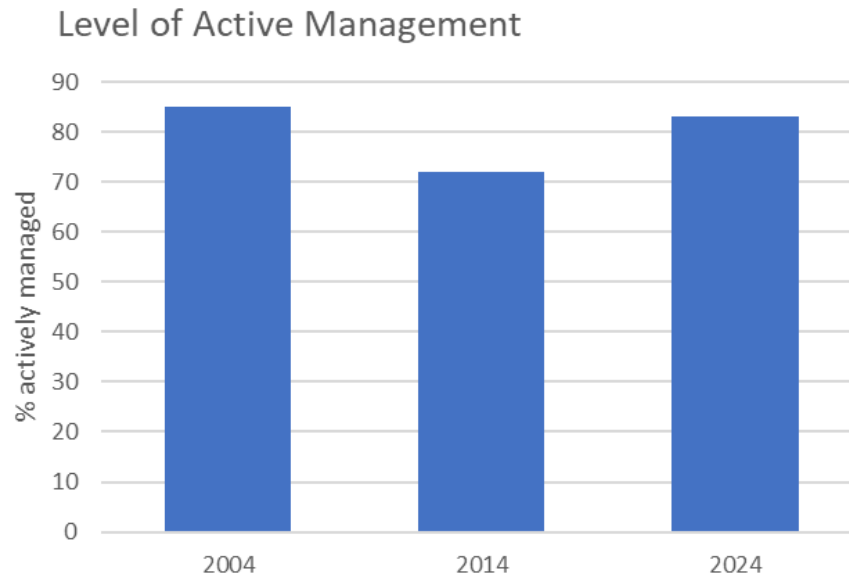
What About Risk?



The funds that have delivered the best results over the last ten years (in orange) have remained those with some of the least complex structures in the Universe.

While Kensington and Bromley (both top right) have accepted some of the highest volatility Lancashire (top left) has delivered the third best result whilst experiencing one of the lowest levels of risk in the group.

Active Management has Increased



Passive management, the lowest cost of investment strategies has declined over the past decade as funds invest in higher cost alternatives where there is no passive option.

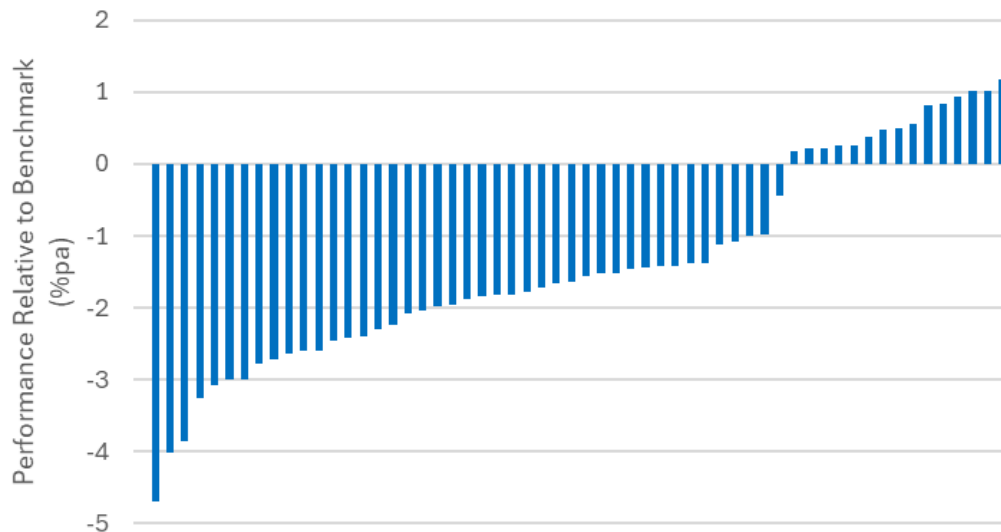
Within equities, passive has also declined despite the general disappointment experienced with active management.



Equities

Active Management Has Disappointed

Active Global Equity Portfolios - Last Five Years



Performance disappointment combined with the move to Pooling has meant that there are only a small number of global equity portfolios that have been held for five years.

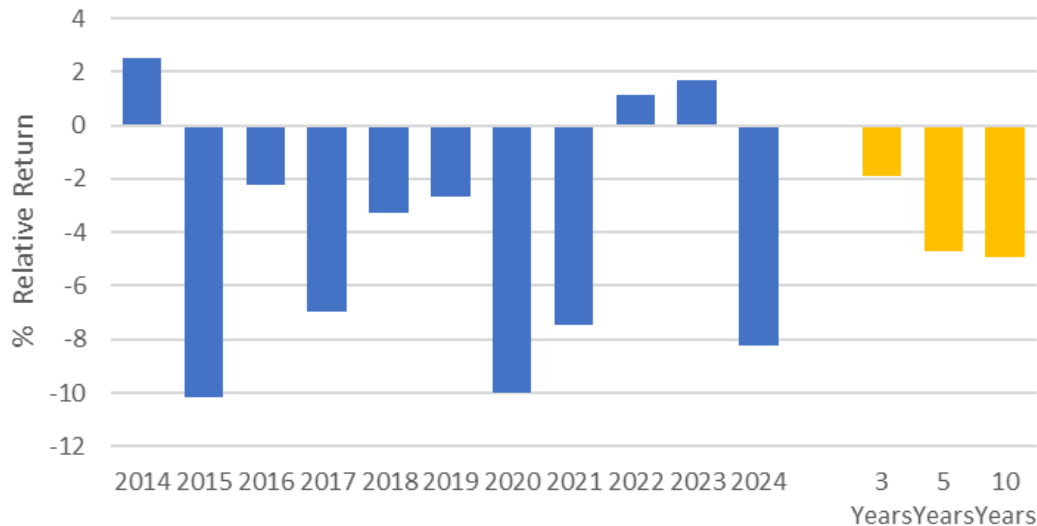
The median of the retained group has returned 1.6% pa below benchmark.

Baillie Gifford, and the preference for growth managers in general, has had an impact.

The reward for the additional risk of active management has not been well rewarded for most.

UK Equities Have Hurt Fund Performance

Relative Performance of UK to Global Equities



UK Equities underperformed their global counterparts by almost 5% p.a. over the last decade.

Brexit, and the UK index being overweight oil and gas and energy were key contributors.

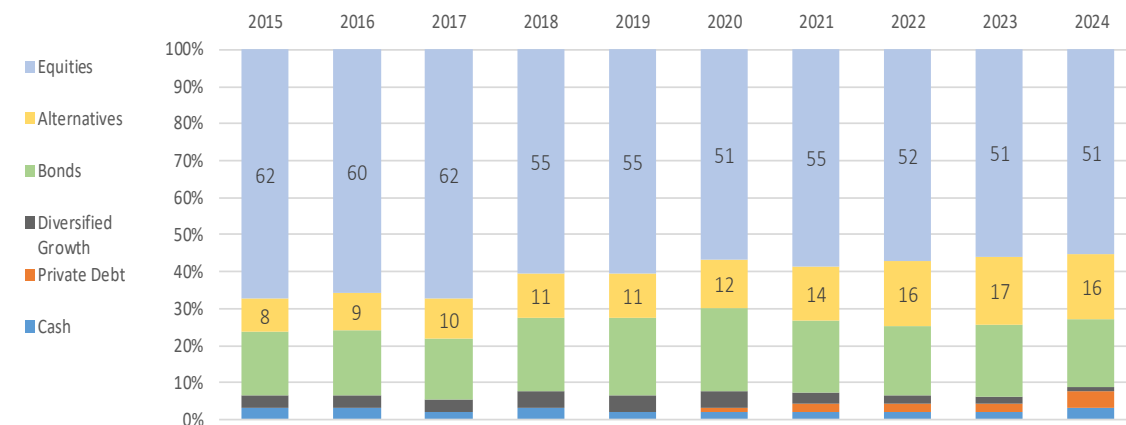
Weak Sterling for much of the period reduced performance relative to overseas assets still further.

Holding a high allocation to the UK would have had a large negative effect on a fund's performance over the last decade.



Strategy

Fund Structures



Global Equities	7	12	30	34	33	33	35	35	36	37
UK Equities	21	20	14	12	11	9	9	7	6	5
Overseas Equities	33	28	18	9	11	10	11	10	9	9
UK Govt / Inv Grade	13	13	8	9	9	10	8	8	8	7
Overseas Bonds	2	2	3	3	2	2	1	1	1	2
Absolute Return Bonds	1	2	3	4	4	5	5	4	3	3
MAC	0	0	1	2	3	3	3	4	5	5
Private Debt	0	0	0	0	0	1	2	2	2	4
Private Equity	4	5	5	5	5	5	7	8	8	7
Infrastructure	0	1	2	3	3	4	5	6	7	7
Hedge Funds	2	2	2	2	2	2	1	2	2	1
Other Alts	2	1	1	1	1	1	1	1	1	2
Diversified Growth	3	3	3	4	4	4	2	2	2	1
Property	8	9	8	9	9	10	8	9	9	8
Cash	3	3	2	3	2	1	3	2	2	3

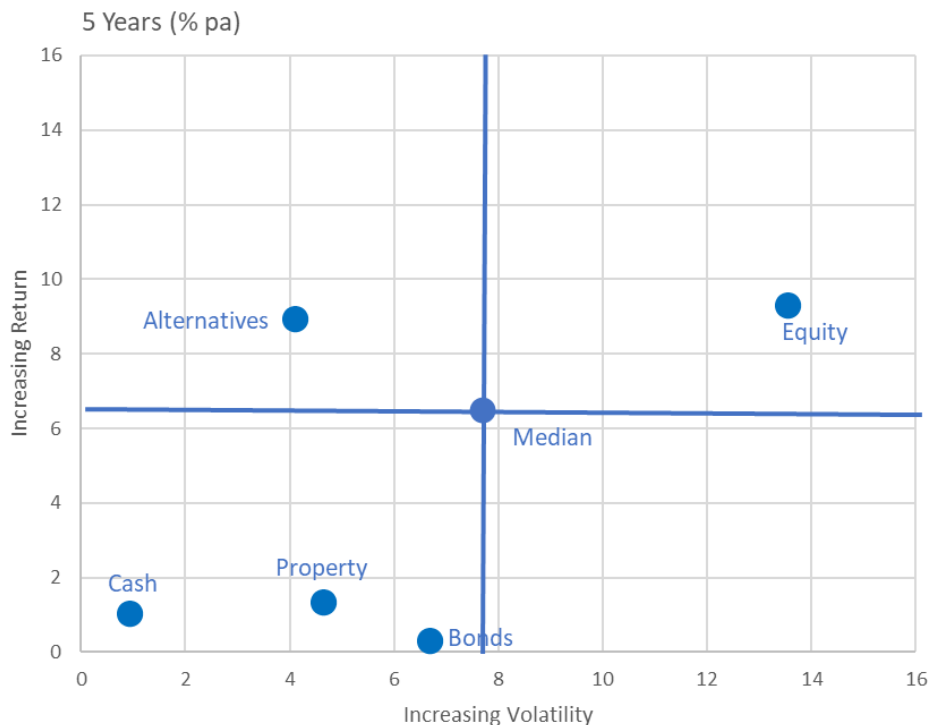
Whilst significantly reduced over the last decade, equities remain by far the largest component of almost every fund.

The move into alternative assets continues with infrastructure and private equity now at broadly the same weighting as property in the average fund.

Private credit continues to grow as a preferred area for investment whilst diversified growth funds have lost favour after largely failing to meet performance expectations.

Diversification

Asset Class Performance in Risk/ Return Space



Funds hold a range of assets to provide diversification, principally to reduce the volatility of equities.

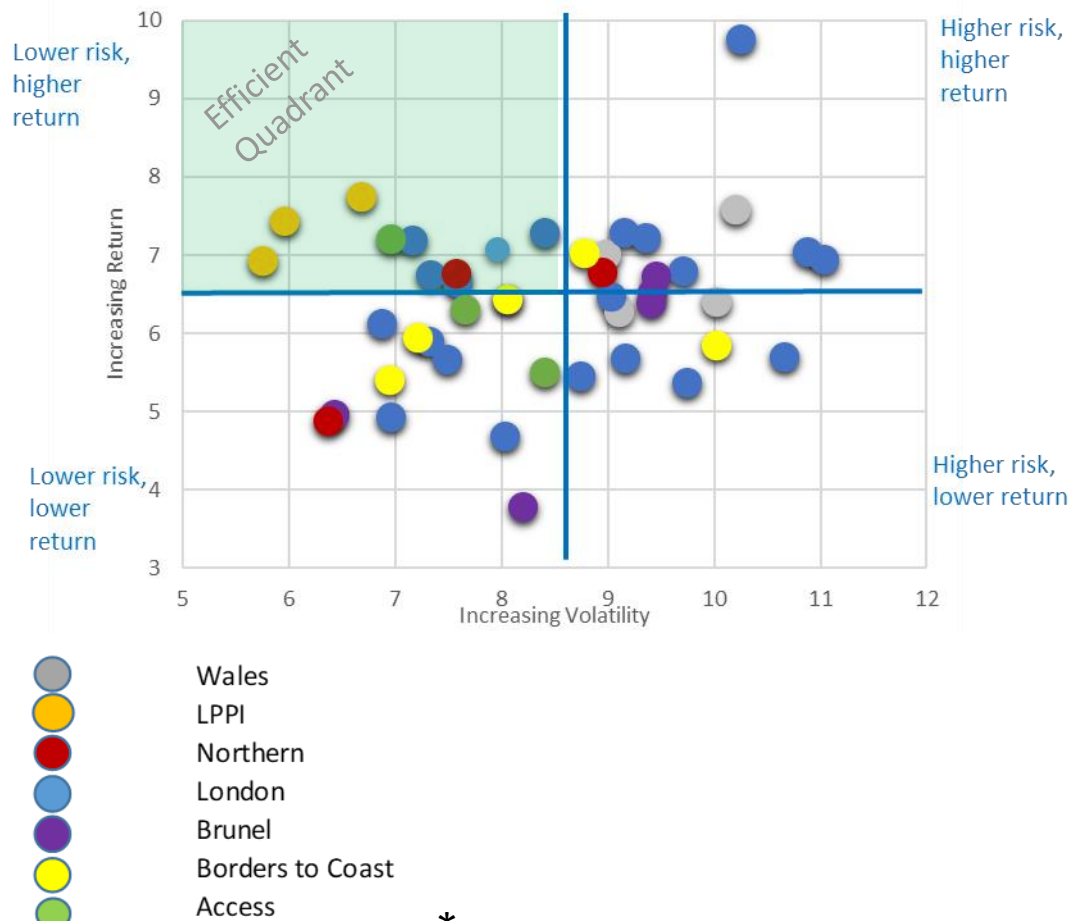
Over the last five years equities have delivered a higher return than most other assets but at substantially higher volatility.

The volatility of alternatives is understated because of the difficulty in valuing illiquid assets.

This becomes a larger issue as this asset class increases within fund allocations.

Risk And Return – Last Five Years

Fund Performance in Risk/ Return Space



Here we show the individual funds* in risk / return space with your Fund shown in red.

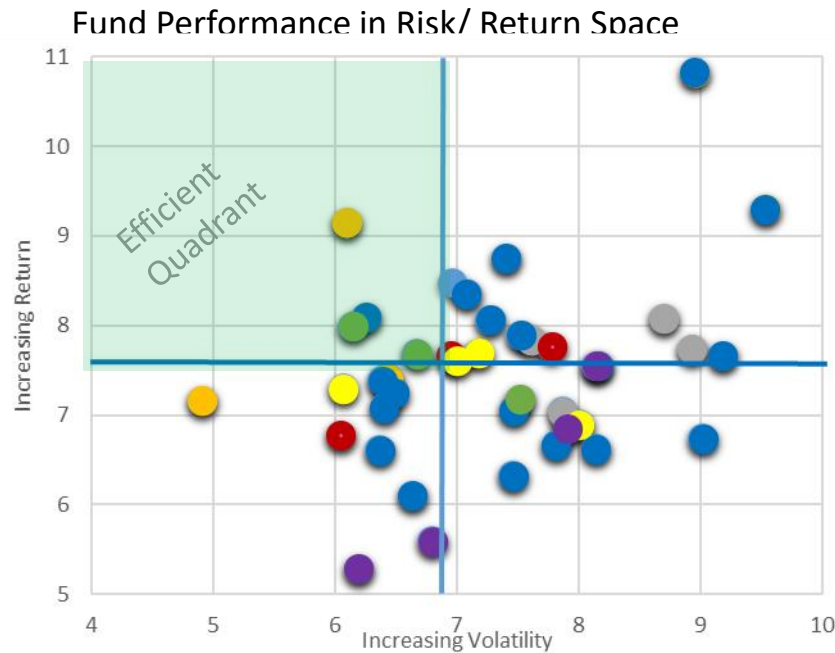
Over this period Pool membership is beginning to have an impact on outcomes.

LPPI (orange) have delivered above average results at some of the lowest levels of volatility in the LGPS.

Welsh Funds have experienced more volatility as a result of their generally higher equity exposure.

* Only funds which have supplied monthly data are included in risk numbers

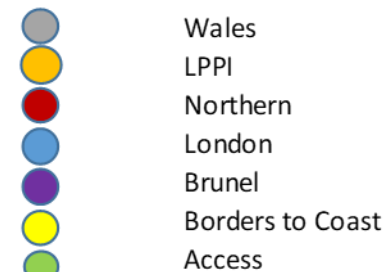
Risk and Return – Last Ten Years



Over the last ten years the median fund has achieved a return of 7.6% p.a. with volatility of 6.7% p.a.

Whilst outcomes vary across funds, in aggregate there has been some reward for accepting volatility.

As expected, there is little commonality within Pools over this period.





Performance By Pool

Pool Performance

	1yrreturn	3yrreturn	5yrreturn	10yrreturn	Equity Allocation
Access	8.3	4.7	6.5	7.6	47
Borders to Coast	8.9	5.2	6.0	7.3	50
Brunel	9.8	4.7	5.5	6.6	46
London	10.9	4.4	6.4	7.5	53
LPP	7.9	7.9	7.5	8.3	51
Northern	7.5	6.1	6.4	7.5	51
Wales	11.6	5.0	7.1	8.0	61
Universe	9.2	5.3	6.5	7.6	
Relative					
Access	-0.8	-0.5	0.0	0.0	
Borders to Coast	-0.3	-0.1	-0.5	-0.2	
Brunel	0.5	-0.6	-0.9	-0.9	
London	1.6	-0.9	-0.1	-0.1	
LPP	-1.2	2.4	0.9	0.7	
Northern	-1.6	0.8	-0.1	-0.1	
Wales	2.2	-0.3	0.6	0.4	

These numbers are based on the Funds in the Universe and are not a complete picture of some Pool results

Welsh funds have benefited from their relatively high exposure to equities over the recent past and longer term.

LPPI has been the best performing pool over all periods bar the latest three years, the result of strong relative results in all major asset classes.

Brunel funds have suffered relatively because of their more conservative asset allocation strategies.

Appendices

Annual League Tables 18/7/2024

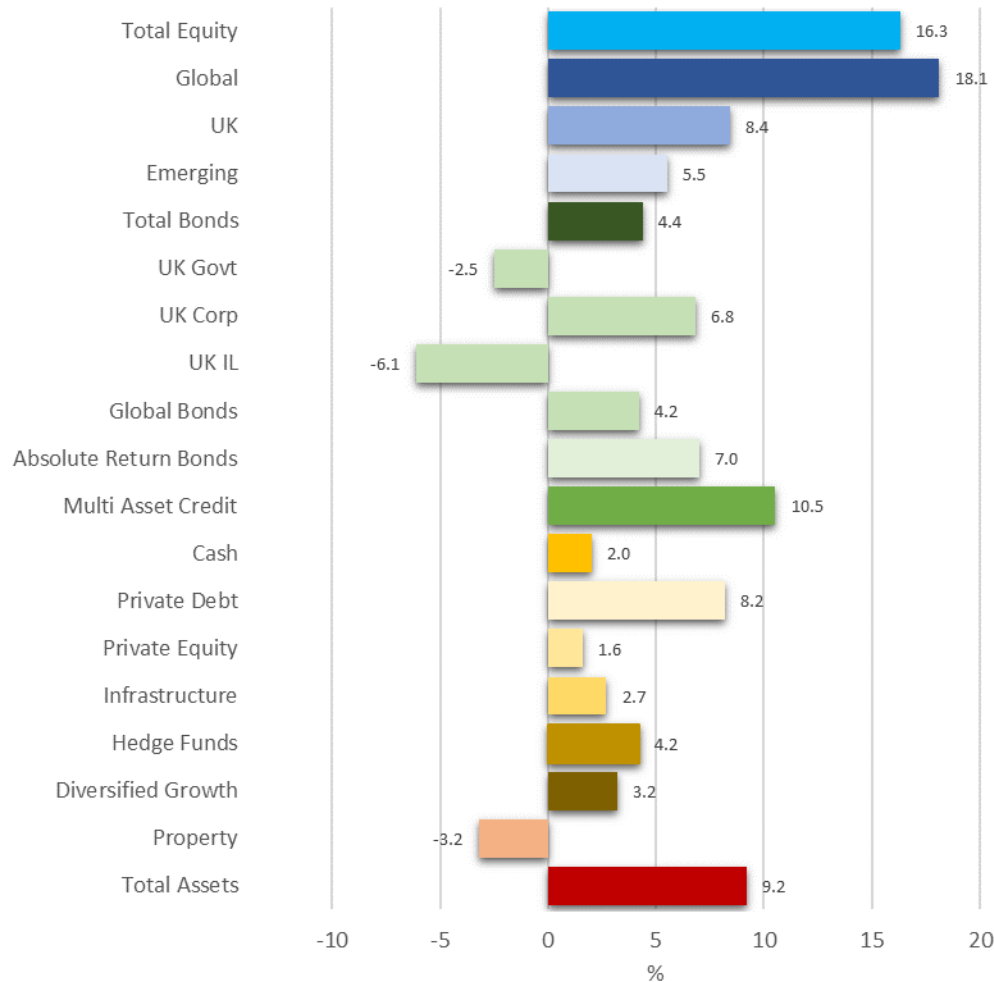
Guide to Risk and Return Charts

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The Latest Year



Equities delivered over 16% for the year while most other asset classes produced low single digit returns.

Asset allocation was, therefore, a key driver of relative performance. Funds with a high equity allocation outperformed their more risk averse peers.

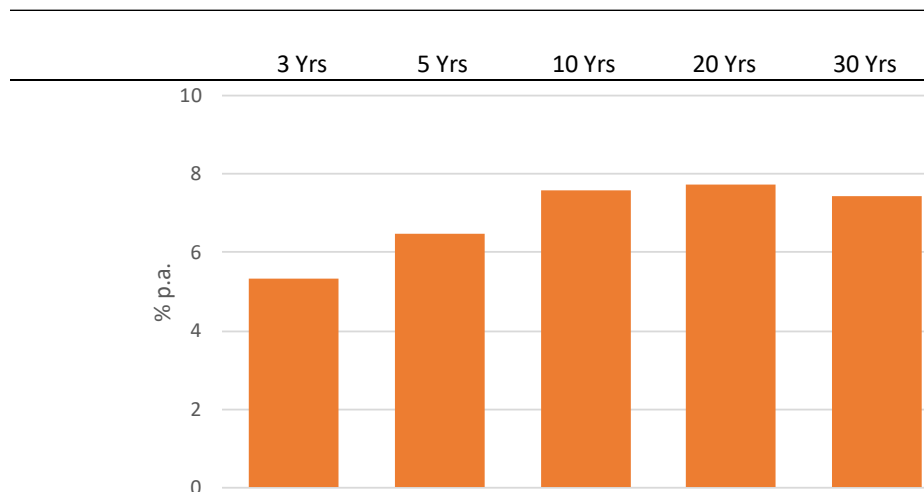
However, for the third year in succession most active equity managers failed to add value.

Bond performance was mixed. with diversified strategies comfortably outperforming government issue.

Returns from illiquid assets were relatively flat with private debt performing relatively strongly.

Property saw a further strong decline in values over the year.

Longer Term Results



Total Assets	5.3	6.5	7.6	7.7	7.4
Total Equity	7.8	9.3	9.6	9.3	8.3
Global	8.3	10.2	11.5	9.8	
UK	6.5	5.3	5.8	7.2	
Emerging	-2.7	2.8	5.9	8.3	
Total Bonds	-2.5	0.1	2.9	4.6	5.5
Private Debt	6.4	5.3			
Private Equity	12.5	12.9	13.5	11.4	
Infrastructure	8.9	6.7	8.7		
Hedge Funds	2.9	3.3	5.3		
Diversified Growth	1.8	3.3	3.1		
Property	1.7	1.4	5.3	5.2	6.8

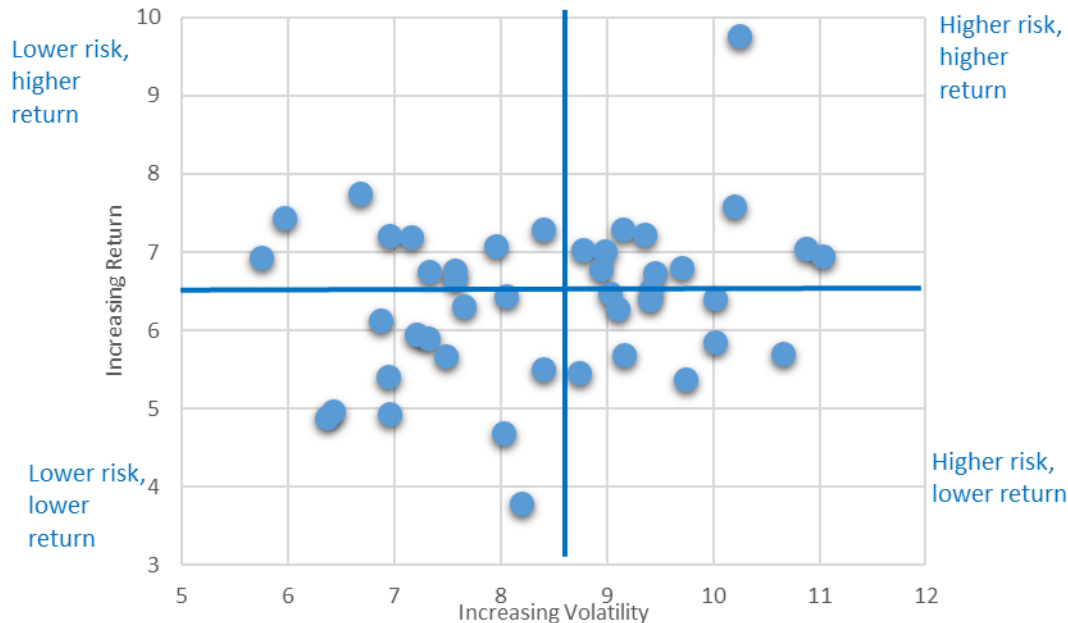
The best results over the longer term have been delivered by equities.

Over the medium-term private equity has delivered the best returns, delivering results around 4% above quoted equity.

Property performance has been poor over the recent past.

Bonds, the worst performing of the major asset classes, continue to deliver a return below CPI over the last ten years.

Guide to Risk Return Charts



Within investments there is always a trade-off between risk and return. Normally the higher a return that is being looked for the more volatility the fund must expect.

The further along the x axis the more variable the returns have been, the further up the y axis the better the return delivered. The blue lines mark the median risk and return.

These tables are intended solely for the use of the participating funds. Whilst individual fund returns and rankings may be used, the tables in their entirety should not be copied or distributed beyond these funds.

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