

INVESTMENT STRATEGY and FUND MANAGER PERFORMANCE (Part I)

ITEM 7

Committee

Pensions Committee

Officer Reporting

James Lake & Babatunde Adekoya, Finance

Papers with this report

Northern Trust Performance Report

HEADLINES

The total value of the fund was £1,134m at 31 December 2020, an increase of £58m from £1,076m at the end of previous quarter. There was an overall investment return of 5.41% over the quarter which resulted in a 0.48% outperformance over the benchmark.

A detailed analysis of the performance of each investment manager compiled by the independent investment advisor is included in Part II of this report.

Update

The latest fund value as at 28 February 2021 was £1,128m, a decrease of £6m in valuation compared to end of quarter under review. At the time of writing the report the unaudited Fund value stood at £1.127m. The chart in paragraph 2 shows Fund values from March 2019 for comparison.

RECOMMENDATIONS

It is recommended that Pensions Committee:

- 1. Note the Fund performance update.**

SUPPORTING INFORMATION

1. Fund Performance

Over the last quarter to 31 December 2020, the Fund returned 5.41%, outperforming the benchmark return by 0.48%. The Fund value increased over the quarter by £68m, to £1,134m.

Period of measurement	Fund Return %	Benchmark %	Arithmetic Excess
Quarter	5.41	4.93	0.48
1 Year	1.16	5.58	-4.42
3 Year	3.27	5.09	-1.82
5 Year	7.13	7.87	-0.74
Since Inception (09/1995)	6.76	6.87	-0.11

During the quarter, distributions received from alternative investments were \$1.5m, €190k & £1.2m. A total drawdown of £5m was called by the LCIV Infrastructure fund in the same period.

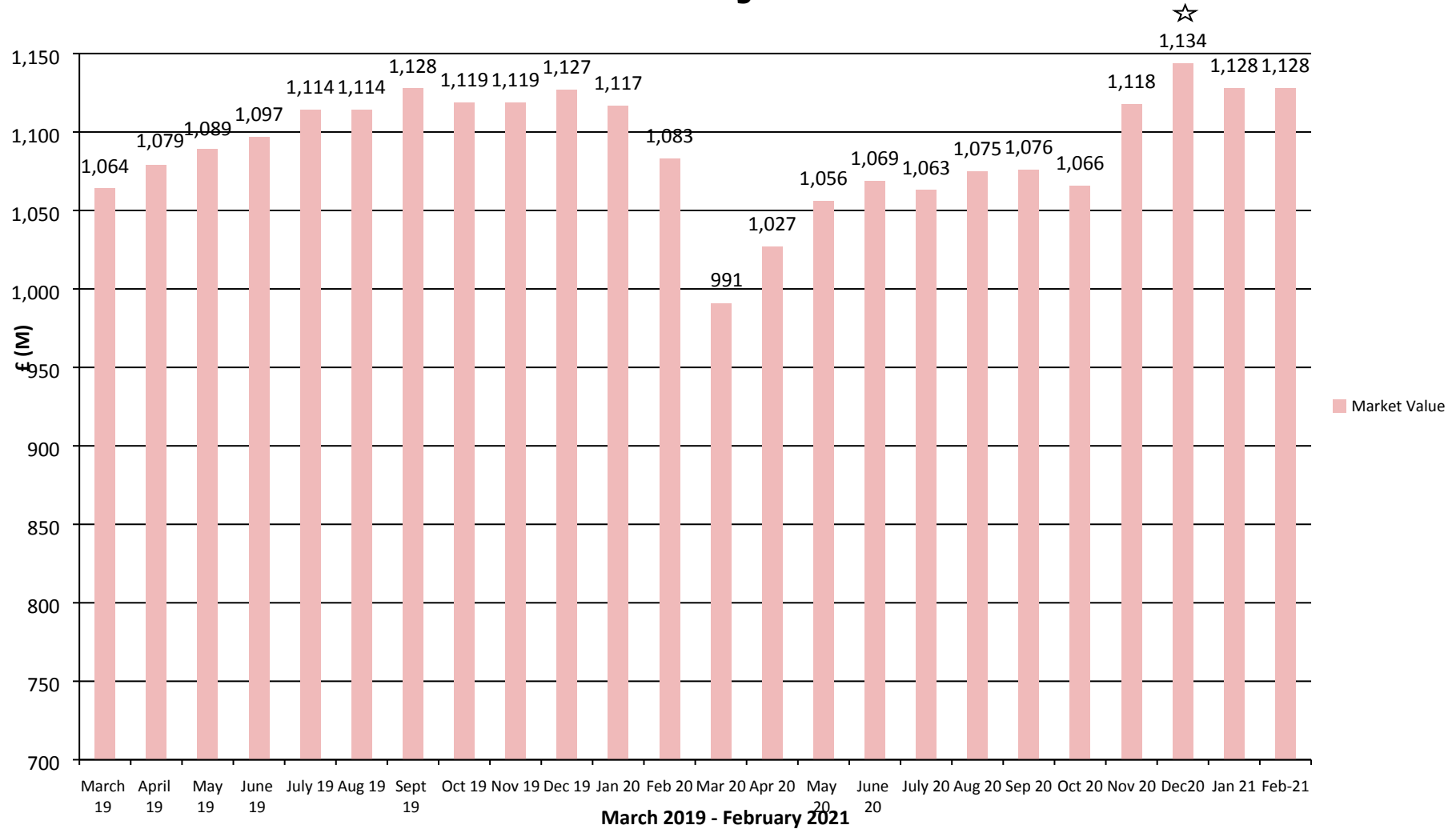
The recovery from effects of COVID-19 continued to be manifested in investment performance for the quarter and this resulted in positive returns by eleven of the thirteen portfolios. The biggest performance detractors were M&G Investments and Adams Street Partners with -4.50% & -3.58% behind respective benchmark; however, this is primarily due to the maturity of the funds and it should be noted investment values represent a very small portion within the Fund. AEW UK and LCIV Ruffer were the biggest contributors to performance with 8.88% and 4.44% relative excess returns compared to their respective benchmarks.

Overall portfolio relative performance over a one-year rolling period was arithmetically -4.42% behind the benchmark with the largest detractors being M&G Investments and LCIV-Epoch with returns of -35.38% & -15.58% below benchmarks. LCIV-Ruffer LLP was the largest contributor to performance over one year rolling period with 9.54% outperformance compared to its benchmark.

2. Fund Value

The chart below shows month-end Fund values from March 2019 to February 2021.

LBH Pension Fund Monthly Market Value Movement



3. Asset Allocation

The current asset allocation, the key strategic tool for the Committee, is in the table below. The assets of the Fund are invested across 11 different Fund Managers and 13 portfolios in a range of passive and active mandates, including a mix of liquid and illiquid allocations to reflect the Fund's long-term horizon.

Current Asset Allocation by Manager		Market Value As at 31 December 2020	Actual Asset Allocation	Market Value As at 28 February 2021
FUND MANAGER	ASSET CLASS	£'000	%	£'000
ADAMS STREET	Private Equity	8,337	0.74	7,793
LGT	Private Equity	3,216	0.28	3,144
AEW	Property	57,894	5.11	58,758
JP MORGAN	Multi Asset Credit	111,928	9.87	116,797
LCIV - EPOCH	Global Equities	59,842	5.28	59,040
LCIV - RUFFER	DGF/Absolute Returns	58,650	5.17	56,519
LCIV - STEPSTONE	Infrastructure	8,951	0.79	13,691
M&G	Private Credit	1,840	0.16	1,306
MACQUARIE	Infrastructure	24,965	2.20	20,075
PERMIRA	Private Credit	60,334	5.32	59,540
LGIM	Global Equities	268,531	23.68	271,141
	LPI Property	49,031	4.32	50,069
	Future World	185,556	16.37	183,894
	UK Index Linked Gilts	154,753	13.65	142,411
UBS EQUITIES	UK Equities	42	0.00	42
	Property		0.00	
	Private Equity		0.00	
UBS PROPERTY	Property	65,153	5.75	66,248
	Cash & Cash Equivalents	348	0.03	218
Non Custody	Cash & Cash Equivalents	14,467	1.28	17,609
		1,133,838	100	1,128,295

Current Asset Allocation by Asset Class				
	Market Value As at 31 December 2020	Actual Asset Allocation	Benchmark Allocation	Market Value As at 28 February 2021
ASSET CLASS	£'000	%	%	£'000
Global Equities	513,971	45.33	45	514,117
UK Index Linked Gilts	154,753	13.65	24	142,411
Multi Asset Credit	111,928	9.87		116,797
Property	123,047	10.85	12	125,006
DGF/Absolute Returns	58,650	5.17	0	56,519
Private Equity	11,553	1.02	1	10,937
Infrastructure	33,916	2.99	8	33,766
Private Credit	62,174	5.48	5	60,846
Long Lease Property	49,031	4.32	5	50,069
Cash & Cash Equivalents	14,815	1.31	0	17,827
Totals	1,133,838	100.00	100	1,128,295

The Fund has £4.5m awaiting drawdown on Private Credit. £55m is committed to LCIV Stepstone Infrastructure Fund; these funds are currently held in the LCIV Ruffer Absolute Return Fund, of which £13.7m has been drawn down at the time of writing this report.

4. Market and Financial climate overview

UK Equity

UK equities performed well over the quarter reversing some of the underperformance that they suffered versus other regions during the global pandemic's initial stages. The market responded well to November's vaccine news and then again to the Brexit trade deal, with domestically focused areas of the market outperforming.

US

US equities gained over the quarter, with November especially strong due to the vaccine news. The developments eclipsed Joe Biden's win in the US presidential election, as well as a \$900 billion stimulus package announced in late December. The Federal Reserve nonetheless reinforced its supportive message, stating it will continue with current levels of quantitative easing. Economically sensitive sectors made the strongest gains, with more defensive sectors making more modest progress.

Eurozone

European equities gained sharply in Q4, again on the news of effective vaccines. Sectors that had previously suffered most severely from the pandemic, such as energy and financials, were the top gainers. However, rising Covid infections saw many European countries tighten restrictions. EU leaders approved the landmark €1.8 trillion budget package, including the €750 billion recovery fund, after overcoming opposition from Hungary and Poland.

Japan

Japanese equities rallied in the quarter, driven from early November again by vaccine-related news and the US presidential election result. The style reversal seen in most markets has not yet materialised in Japan, with only a brief outperformance for value stocks, while small caps underperformed sharply in the quarter. The focus now is on the vaccine roll out, Japan's general election timetable and the timing of a full corporate earnings recovery.

Emerging Markets

Emerging market (EM) equities generated their strongest quarterly return in over a decade, with US dollar weakness amplifying gains. Korea, Brazil and Mexico all outperformed. The rally in commodity prices was supportive of EM net exporters. Conversely, Egypt, where daily new Covid-19 cases accelerated, posted a negative return. China finished in positive territory but also lagged. The launch of an anti-trust investigation into Alibaba and further escalation in US-China tensions dragged on sentiment.

Global Bonds

Government bond yields diverged markedly. The US 10-year yield was 25 basis points (bps) higher, finishing at 0.91%, while the German 10-year yield fell by 5bps to -0.57%. Italian and Spanish 10-year yields saw significant declines of 32 and 20bps respectively, as the European Central Bank increased quantitative easing. The UK 10-year yield was little changed at 0.20%.

Corporate bonds enjoyed a fruitful quarter, outpacing government bonds, with both investment grade and high yield delivering strong positive total returns. Investment grade bonds are the highest quality bonds as determined by a credit rating agency; high yield bonds are more speculative, with a credit rating below investment grade.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

There are no legal implications in the report.