

Investment & Funding Update

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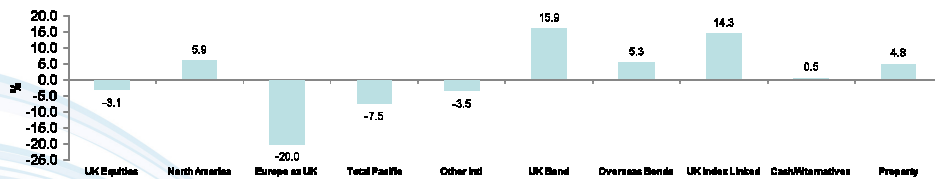
Market Background

- Very weak investor sentiment led to poor stock market returns
- Defensive sectors performed best – healthcare, food, beverages, tobacco
- ‘Flight to safety’ resulted in very strong returns for UK government bonds
- Property returns dominated by income

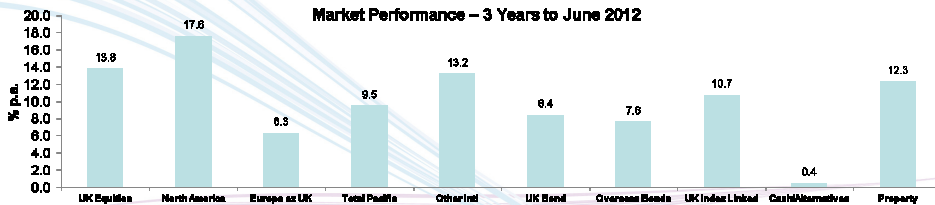


Market Background

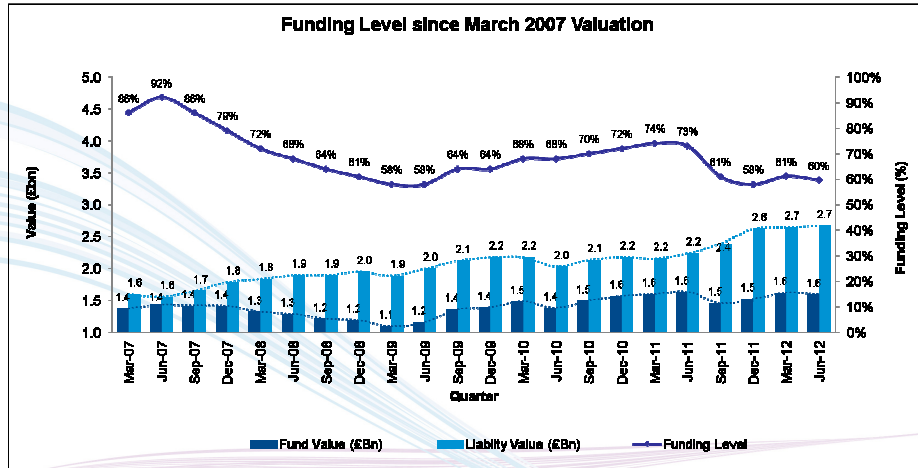
Market Performance - 1 Year to June 2012



Market Performance - 3 Years to June 2012

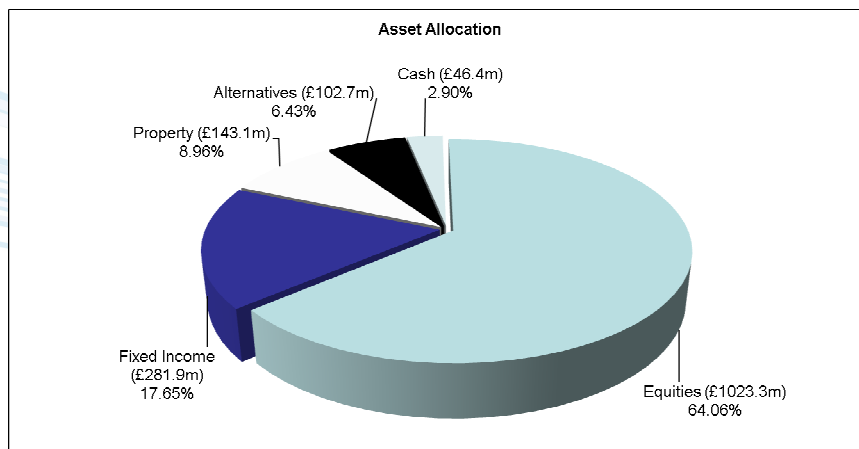


Funding Level



Fund Structure by Asset Class

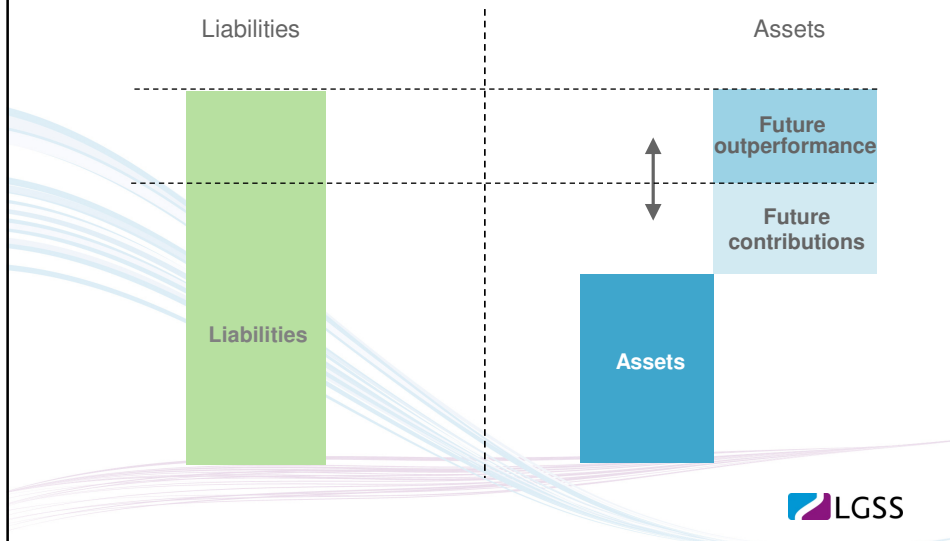
As at the end of June 2012 the Fund was invested in the below asset classes:



Long term investment strategy

- The Fund has a large deficit – in common with all LGPS funds.
- The deficit can only be made up through (i) investment returns and (ii) employer contributions.
- The balance between the two is reviewed at each Actuarial Valuation.
- The Fund invests mainly in long term growth assets such as equities in order to have a high expected return over the medium/long term. This should help to limit the level of contributions payable over time.
- If the Fund invested in 'safe' assets, such as bonds, the expected returns would be lower and so the contributions required would be likely to be higher.
- But those expected returns may not be delivered – i.e. there is more risk in investing for good long term returns

Funding Strategy



Funding Strategy

• UK markets 1899-2011

- Average annual real return (% p.a.)

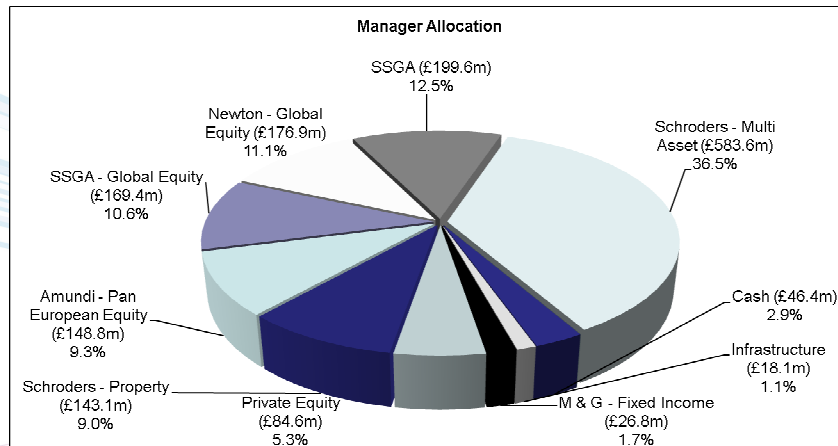
	10 years	20 years	50 years	112 years
Equities	1.2	4.8	5.3	4.9
Gilts	3.9	5.9	3.1	1.3
Cash	0.2	2.1	1.6	0.9

- Probability that equities outperform

Holding period	5 years	10 years	18 years
Relative to gilts	74%	79%	88%
Relative to cash	74%	90%	99%

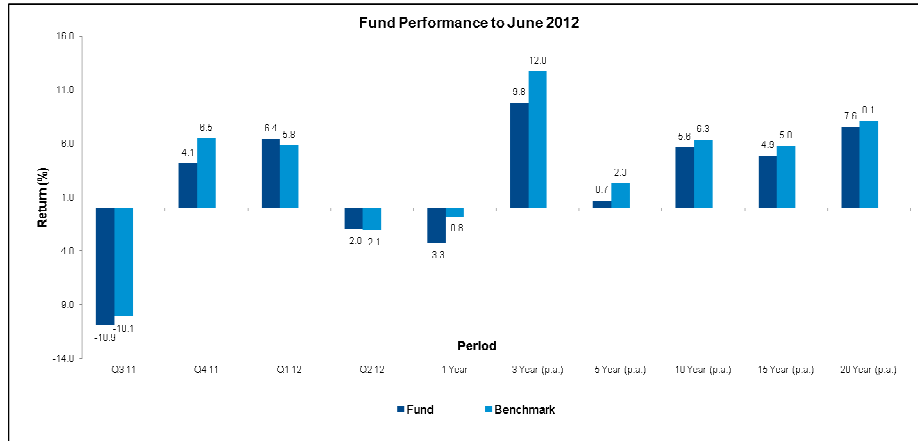
Fund Structure by Manager

As at the end of June 2012 the Fund was split by the following managers:

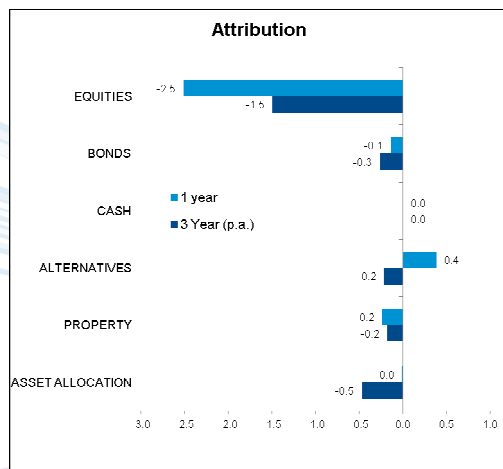


Fund Performance

The chart below shows short term and longer term performance.



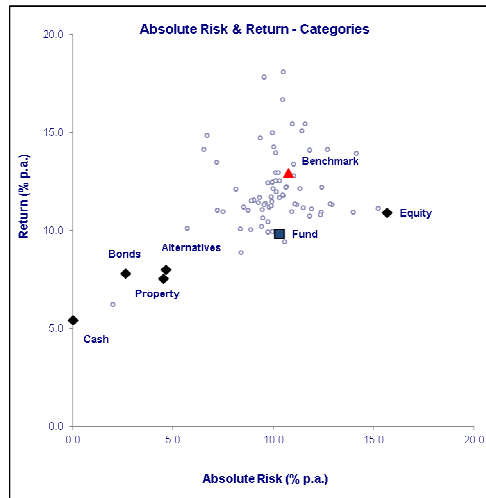
Asset Class Attribution (over 3 years)



Performance Drivers over 3yrs

- Underperformance by managers across all asset classes.
- Underperformance in Equities had the largest impact of -1.5%.
- Asset Allocation decisions on aggregate contributed -0.5% to the underperformance.

Risk



- Equities continue to be more volatile than the other asset classes and are delivering higher returns over this particular three year period.
- Bonds continue to deliver strong returns over three years at around a third the volatility of Equities.
- The Fund's absolute risk is currently 10.3% p.a. over 3 years which is slightly less than the Strategic Benchmark as a result of the Fund's cash exposure (the Benchmark is fully invested). The Fund (and Benchmark) volatility has decreased from this time last year.

Market Outlook

- **Equities:** short term outlook remains very uncertain due to nervousness over economic growth outlook and political /structural issues within eurozone.
- **Fixed income:** environment of low bond yields in the UK likely to persist for some time.
- **Property:** UK market subdued, though remains an attractive long term asset class for pension fund investors.
- **Investment Strategy:** The Fund remains invested for attractive long term real returns based on its long investment time horizon.



FTSE All Share – Market Cycles and Shocks

