Pensions Committee

2.00pm, Wednesday, 26 June 2019

Annual Investment Update – Lothian Pension Fund

Item number	**5.5**
Executive/routine	
Wards	**All**
Council Commitments	Delivering a Council that works for all

1. Recommendations

The Pensions Committee (**Committee)** is requested to:

1.1 **note** the asset allocation, investment performance and funding update of the Lothian Pension Fund.

Stephen S. Moir

Executive Director of Resources

Contact: Bruce Miller, Chief Investment Officer, Lothian Pension Fund

E-mail: bruce.miller@edinburgh.gov.uk | Tel: 0131 469 3866

Report

Annual Investment Update – Lothian Pension Fund

2. Executive Summary

2.1 This report provides an update on the investments and funding position of the Lothian Pension Fund to 31 March 2019.

2.2 Over the twelve months to 31 March 2019, investment market returns were generally strong. Global equities returned 10.5% to sterling-based investors while index-linked gilts, a good proxy for Fund liabilities, rose by 5.7% over the year. The UK property market also provided a positive return of 5.6%, largely rental income rather than capital growth.

2.3 The Fund aims to achieve a return in line with its strategic benchmark, over the long term, with a lower-than-benchmark level of risk. Over five years, the Fund has exceeded its target return, delivering returns above the benchmark with lower risk, having returned +10.9% per annum, ahead of benchmark by +0.8% per annum (with ex-post risk of 6.4% for the Fund vs. benchmark risk of 6.9%). Over the year, the Fund returned +9.6%, which was ahead of the benchmark return by +0.5%, largely due to positive relative performance from real assets and global equities.

2.4 The Fund's actuary completed the triennial valuation in 2018 and reported that Lothian Pension Fund's funding level (the ratio of assets to liabilities) was 98% at 31 March 2017, an improvement from 91% at 31 March 2014. The estimated funding level at 31 March 2019 is broadly similar to the 2017 valuation position.

3. Background

3.1 The purpose of the report is to provide an update on the investments and funding position of the Lothian Pension Fund to 31 March 2019.

3.2 The investment performance of the Fund has a significant impact on the funding level and potentially on the contributions required by employers.

3.3 In December 2018, the Committee adopted a new classification system for future reporting to better reflect the risk and return characteristics of each group. The previous broad asset classes of Equities, Index-linked Assets and Alternatives have been replaced by five Policy Groups as shown below. This annual update will utilise each reporting framework depending on the circumstance.

Previous Policy Groups	Revised Policy Groups
Equities	Equities
Alternatives	Real Assets
	Non-Gilt Debt
Index-Linked Assets	Gilts
Cash	Cash

3.4 The objective of the Fund's overall investment strategy is the achievement of the return assumed by the Actuary in excess of the gilt return that is consistent with acceptable and stable contribution rates. With such a return, it is expected that the Fund will be able to pay pensions as they fall due.

3.5 In order to provide suitable investment strategies for the differing requirements of employers, the Fund now operates four investment strategies. The assets in each strategy are shown in the table below. Employers fund their liabilities with the strategy that reflects their ability to tolerate risk.

Investment Strategy	Assets (£m)	Weight
Main strategy (Strategy 1)	7,060	91%
Mature employers (Strategy 2)	68	1%
50/50 (Strategy 3)	93	1%
Buses (Strategy 4)	536	7%
Total		100%

At end March 2019

3.6 Most employer liabilities are funded under the **Main strategy (Strategy 1)**, which adopts a long-term investment strategy, aiming to maximise the investment return within reasonable and considered risk parameters and hence minimise the cost to the employer. The strategy retains significant exposure to real investments, such as Equities and Infrastructure, which have a history of protecting or enhancing purchasing power over the long term.

3.7 A small number of employers are funded in **Mature employers** (**Strategy 2)**, which invests in a portfolio of UK index-linked gilts to reduce funding level and contribution rate risk as these employers approach exit from the Fund.

3.8 **50/50 (Strategy 3)** enables another small group of less mature employers to fund liabilities with a 50/50 mix of the main strategy (Strategy 1) and the mature employers strategy (Strategy 2).

3.9 **Buses** (**Strategy 4)** was introduced on 31 January 2019 when the assets and liabilities of Lothian Buses Pension Fund were consolidated into the Lothian Pension Fund. It is the same strategy that the Lothian Buses Pension Fund followed previously (agreed by Committee in 2016) when it was managed as a separate Fund.

3.10 The four strategies at 31 March 2019 are presented in the table below using the five Policy Groups.

Policy Group	Strategy 1	Strategy 2	Strategy 3	Strategy 4
Equities	65.0%	0.0%	32.5%	51.5%
Real Assets	18.0%	0.0%	9.0%	18.0%
Non-Gilt Debt	10.0%	0.0%	5.0%	10.5%
Gilts	7.0%	100.0%	53.5%	20.0%
Cash	0.0%	0.0%	0.0%	0.0%
Total	**100%**	**100%**	**100%**	**100%**

3.11 Asset-liability modelling undertaken at the time of the latest strategy review in 2018 showed that the allocation to Equities is by far the key determinant of investment risk and return. The Fund has gradually reduced the level of Equities in recent years in recognition of its changing liability profile. The modelling indicated that the Fund has scope to continue reducing risk and the Committee agreed that it should consider reducing the Equities allocation if funding levels increase significantly. Such a reduction in risk would be implemented by changing allocations to Strategy 1 and Strategy 4. This is because Strategy 2 is entirely invested in Gilts and Strategy 3 is invested 50% in Strategy 1 and 50% on Strategy 2. Work is in progress to identify appropriate triggers to consider action.

3.12 Any reduction in Equities requires a redistribution of allocations to other Policy Groups. Allocations to Real Assets, such as property and infrastructure, and Non-Gilt Debt, such as corporate bonds, are due to the attractive, long-term expected returns and/or the diversification they provide. The Equities allocation itself emphasises low risk equity exposure – it is specifically designed to provide downside protection in times of market stress while participating in some, though not necessarily all, of any upward movement. Committee should expect returns to deviate meaningfully from the benchmark over shorter time periods.

3.13 Implementation of the investment strategy is delegated to the Executive Director of Resources, who in turn delegates to the Head of Finance, who takes advice from the Joint Investment Strategy Panel which comprises independent advisers and FCA-authorised officers of the Fund. The Joint Investment Strategy Panel assesses the underlying risks and the long-term objectives of the Fund. Over recent years, the expansion of the internal team has enhanced the Fund's intellectual capital, improved the cost structure of the Fund and lead to the development and implementation of innovative and low-cost investment strategies to meet the significant funding challenges faced by the pension funds.

4. Main report

Market Background to 31 March 2019

4.1 For the 12 months to 31 March 2019, UK equities (FTSE All Share) returned 6.4% and global equities (MSCI ACWI in sterling) returned 10.5%. Global equity returns for sterling-based investors were boosted by the weakness of the pound over the year (global equities returned +5.6% in local currency terms), as investors grappled with the wide range of potential Brexit outcomes. Global equities did fall sharply in Q4 2018, as much as 14% from end September 2018 to their lows in late December, before rallying strongly through the first quarter of 2019.

4.2 UK and US government bond yields rose (prices fell) modestly through to September 2018, with the US 10-year bond yield breaching the 3% level for the first time since 2011. However, yields then fell through Q4 2018 as equity markets sold off. Towards the end of December, the US Federal Reserve signalled that the prospect of future rate rises was much less certain than many participants had expected. Bond yields them moved lower through Q1 2019 with US and UK 10-year bond yields ending the year to 31 March 2019 approximately 30 basis points (0.3%) lower than they had been 12 months prior. In Europe, the 10-year Bund yield ended the year approximately 50 basis points (0.5%) lower as investors sought the safety of German government bonds as economic data showed that the internationally sensitive Eurozone was slowing. In contrast, Italian bond yields were higher over the year amid heightened concerns over government finances and the domestic political situation.

4.3 The OECD's latest economic outlook (March 2019) includes further downgrades to 2019 GDP projections for the world's major economies; this follows a previous set of downgrades in its November 2018 update. Dispersion between regions is highlighted, particularly between the US and Eurozone area, alongside the ongoing risk from a potential China growth shock. For the UK, the OECD estimate the economic loss since the 2016 Brexit referendum at between 0.7% and 1.7% of GDP, with continued uncertainty expected to impact negatively until the situation is resolved. Given this backdrop, it is not a surprise that the OECD also expect that "interest rates are set to stay lower for longer".

4.4 The prospect of looser monetary policy is likely to support risk assets in the short term and although the outlook for global growth is softer than it was, it remains positive overall. However, economic forecasts have been tilting further in a downward direction. That said, markets are inherently uncertain and a focus on long-term investment strategy remains a prudent approach for long-term investors.

Asset Allocation and Strategy Implementation

4.5 As described above, the overall Fund strategy is made up of four investment strategies. The actual allocation and strategic allocations, the latter being the weighted average of the four strategies, are shown in the table below. Note that the allocations at 31 March 2018 are *pro forma* as if the Lothian Buses Pension Fund was part of the Lothian Pension Fund at that date.

4.6 Over the year, the actual allocation in Equities has fallen as income has been withdrawn from the three large, internally managed, global portfolios and income and capital distributions from private equity have not been reinvested. This has been reallocated to Non-Gilt Debt, Gilts and Cash. The strategic allocation to Equities has also been marginally reduced, reflecting a reduction in the Lothian Buses Pension Fund strategic equity allocation in July 2018. The Cash weighting is available to invest when attractive investments become available in the other Policy Groups. The actual allocations lie comfortably within the permitted ranges.

Policy Group	Actual Allocation 31 March 2018	Actual Allocation 31 March 2019	Strategic Allocation 31 March 2018	Strategic Allocation 31 March 2019
Equities	62.0%	59.9%	63.4%	63.1%
Real Assets	20.3%	19.8%	17.7%	17.7%
Non-Gilt Debt	4.7%	5.2%	9.9%	9.9%
Gilts	8.2%	9.1%	9.0%	9.3%
Cash	4.8%	5.9%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%

Note: numbers may not sum due to rounding

4.7 The Fund implements strategy by investing in a range of investment mandates across the five Policy Groups. The majority of assets are managed by Lothian's internal investment team, but external mandates are awarded where access to investments is not available to the internal team, for example in private markets where the Fund achieves investment exposure to assets such as infrastructure and timber through externally managed investment vehicles.

4.8 The table over the page details the actual allocations to Policy Groups and investment mandates. Once again, note that the allocations at 31 March 2018 are pro forma as if the Lothian Buses Pension Fund was part of the Lothian Pension Fund at that date.

Lothian Pension Fund Investment Strategy – 31 March 2018 and 31 March 2019

Asset Category & Mandates	Manager	Actual Allocation 31 March 2018 %	Actual Allocation 31 March 2019 %
EQUITIES		**62.0%**	**59.9%**
UK All Cap	Internal	**2.0%**	**1.9%**
UK Mid Cap	Internal	**1.8%**	**1.6%**
Europe (ex UK)	Internal	**1.8%**	**1.6%**
US	Internal	**2.1%**	**2.1%**
Global High Dividend Yield	Internal	**13.9%**	**12.9%**
Global Low Volatility	Internal	**15.4%**	**16.0%**
Global Stable Multi-Factor	Internal	**13.1%**	**12.8%**
Global	Nordea	**3.8%**	**3.9%**
Global	Harris	**3.8%**	**3.6%**
Global	Baillie Gifford	**2.0%**	**1.6%**
Private Equity	Various	**2.2%**	**2.0%**
Currency Hedge	Internal	**0.2%**	**0.0%**
REAL ASSETS		**20.3%**	**19.8%**
Property	Various	**7.5%**	**7.1%**
Other Real Assets [1]	Various	**12.8%**	**12.8%**
NON-GILT DEBT		**4.7%**	**5.2%**
Other Bonds [2]	Various	**4.7%**	**5.2%**
GILTS		**8.2%**	**9.1%**
Index-linked Gilts	Internal	**8.2%**	**9.1%**
CASH		**4.8%**	**5.9%**
TOTAL FUND		**100.0%**	**100.0%**

Equities

4.9 A key objective of the Fund’s investment strategy has been to reduce risk where possible while maintaining a high probability of meeting fund liabilities. A meaningful reduction in risk has been achieved within the equity pool of assets. Implementation of the strategy has involved a shift from a regional to a global manager structure. Significant steps were taken in previous years to achieve this with the introduction of the internally managed global equity portfolios. With these notable changes in place, 2018/19 represented much more of a “steady state” in terms of the structure of the equity exposure. The only noteworthy change was the incorporation of the Lothian Buses equity assets, which resulted in an increased allocation to the global high dividend yield portfolio and a new allocation to Baillie Gifford Global Alpha.

4.10 The equity pool of assets is expected to perform relatively well when equity markets are weak and produce good positive absolute returns in rising equity markets, whilst providing attractive levels of income.

4.11 None of the Fund’s equity portfolios are constrained by market capitalisation indices, or the tracking error measurement of risk, which is regarded as a suboptimal approach to portfolio construction. Instead, the focus is on capital preservation and the sustainability of income generation. The Fund’s independent performance measurer, Portfolio Evaluation, estimates that the Fund’s equity risk at 31 March 2019 is approximately 90% of the risk of the equity benchmark. This compares with 98% at 31 March 2012, before the major structural changes were implemented.

4.12 Almost 85% of the Fund’s listed equities are managed internally with the majority of these in low cost, low turnover strategies, which are expected to enhance the Fund’s risk-adjusted returns over the long term.

4.13 The Fund also hedges exposures to the currencies of overseas listed equities with the explicit aim of reducing volatility rather than seeking to generate improved returns. The Fund therefore maintains exposure to currencies that are expected to reduce volatility, such as the US Dollar and Japanese Yen which tend to fall as equities rise, and hedges exposure to currencies that are expected to increase volatility, such as the Australian Dollar which tends to rise as equities rise.

4.14 Given the desire to reduce risk, the decision was made in 2012 not to make further private equity investments as they tend to be more volatile investments involving greater financial leverage. As historic investments mature, cash is being returned from these investments at a faster pace than new money is being invested – as such, the portfolio exposure is reducing. Private equity has fallen from 2.2% of the Fund at end March 2018 to 2.0% at end March 2019.

4.15 The dividend income from the internally managed global equity portfolios has been withdrawn on a monthly basis to reduce the equity allocation while avoiding transaction costs. A net £142 million was withdrawn during 2018/19.

Real Assets

4.16 The Fund’s strategy has been to increase the actual allocation to alternative investments, which includes real assets such as property, infrastructure and timber, to provide greater diversification and attractive returns. Many of these investments are unlisted and increasing exposure is dependent on finding attractive opportunities. The Fund’s actual allocation is broadly unchanged over the year, from 20.3% to 19.8%. The marginal decline is attributable to a fall in property exposure as the asset class produced lower returns than other asset classes.

4.17 The Fund’s longstanding commitment to infrastructure investing was rewarded over 2018/19 as a strong pipeline of opportunities allowed the Fund to make a number of investments, including commitments to two new primary funds, the investment of six secondary fund interests and three co-investments alongside the Fund’s existing manager/fund relationships. The overall exposure to infrastructure was broadly unchanged at 11.2% of the Fund’s investment value, as significant capital distributions were also repaid to the Fund from successful investments.

4.18 The other sub-category in Other Real Assets is timber, and the investment value declined modestly over the year from 1.7% to 1.6% as funds made distributions. There were no new investments over the period.

4.19 The allocation to commercial property decreased over the year from 7.5% to 7.1%, on weaker performance relative to the overall Fund (+4.0% vs +9.6%) and a net increase in cash as the manager did not reinvest rental income in challenging market conditions.

Non-Gilt Debt

4.20 Within Non-Gilt Debt, additional commitments to private debt funds were made, with capital calls for new and existing commitments resulting in an increase in allocation from 4.7% to 5.2% of the Fund. The introduction of the Non-Gilts Debt policy group has increased the focus on higher-grade, defensive credit. The Fund is currently underweight in this policy group allocation (5.2% vs 9.9%) with ongoing research on investments to provide diversification and secure returns.

Gilts

4.21 Within the Gilts policy group, the Fund's allocation to index-linked gilts provides diversification, some insurance against an unexpected rise in inflation and a return broadly in line with the Fund's liabilities. The prospective long-term real return is, however, very low. The Fund is broadly in line with its strategic allocation.

4.22 Across a number of policy groups, the Fund makes commitments to unlisted investments and the timing of these can be uncertain as it depends on the manager being able to purchase assets. Details of outstanding commitments as at 31 March 2019 were as follows:

Unlisted Unfunded Commitments	£m	% of Fund assets
Private Equity	41.5	0.5%
Infrastructure	107.5	1.4%
Real Estate	1.5	0.0%
Private Debt	129.5	1.7%
Total Commitments	**280.0**	**3.6%**

Investment performance to 31 March 2019

Main strategy (Strategy 1)

4.23 The following comments relate to Strategy 1, the main strategy for Lothian Pension Fund comprising the bulk of assets. The Fund's performance over the last year and over longer-term timeframes is shown in the table below, relative to benchmark and also against a liability proxy (over 15-year gilts index) and inflation measures:

Strategy 1 - % per annum	1 Year	5 Years	10 Years
Lothian Pension Fund	9.6%	10.9%	11.8%
Benchmark	9.1%	10.1%	11.5%
Relative	*0.5%*	*0.8%*	*0.3%*
Liability proxy	4.7%	9.7%	8.1%
Retail price index (RPI)	2.5%	2.3%	3.0%
Consumer price index (CPI)	2.0%	1.4%	2.2%

4.24 The Fund has exceeded its objective of meeting the benchmark return over the economic cycle, with both the 5 and 10 year returns ahead of benchmark. The Fund returns are also ahead of the liability proxy and inflation measures across the time periods shown.

4.25 The direction of the Fund's performance when markets are rising or falling is one way of measuring volatility. The lower volatility objective and strategy for Strategy 1 was put in place in December 2013 and over this period market volatility has been relatively benign, for the most part. Nevertheless, performance since the change in structure (with the launch of the global low volatility equity portfolio and the shift from regional passive equity to active equity) indicates that the Fund is delivering returns with lower volatility than its benchmark.

4.26 For Strategy 1, Fund performance from March 2014 to March 2019 has been:

- better than the strategic allocation when markets fell (18 out of 60 months) with average performance of 0.41% better than the strategic benchmark and,
- marginally worse than the strategic allocation when markets were rising (42 out of 60 months) with average performance 0.09% behind the strategic benchmark.

4.27 The above data points indicate that Strategy 1 has been positioned defensively in line with strategy and is expected to deliver outperformance when equity market returns are poor. This was evident over Q4 2018 when equity markets fell sharply, and Strategy 1 outperformed its benchmark for the quarter by +2.7%.

4.28 The returns from the Fund's broad asset class benchmarks over 1 and 5 years are as follows:

% per annum	1 Year		5 Year	
	Fund	Benchmark	Fund	Benchmark
Equities	10.7	10.5	10.9	11.4
Private Equity	12.4	10.5	15.5	11.8
Index-Linked Assets	5.7	5.7	11.4	12.0
Alternatives	8.3	5.9	10.1	5.8
Total Fund Return	9.6	9.1	10.9	10.1
Total Fund Risk	8.0	8.3	6.4	6.9

4.29 The benchmarks shown in the table above include equities, index-linked gilts and an inflation-linked index for the Alternatives allocation. The positive relative returns over one year reflect stronger relative returns for equities than the market capitalisation weighted benchmark and significantly stronger returns for Alternatives than the inflation-linked index.

4.30 Over the year to 31 March 2019, notable performance within each asset class was as follows:

- The Fund's listed equity investments (ex-private equity), managed by the internal team and two external managers, combined to produce a return of +10.7% over the year, modestly ahead of the equity benchmark return of +10.5%. Sterling weakness positively impacted returns for both the Fund and the equity benchmark as the majority of the Fund's overseas equity currency exposure is unhedged. Relative strength in equities was mainly driven by the internally managed global low volatility portfolio (+17.8% absolute), which achieved all of its outperformance in Q4 2018 when markets were notably weak. This was partially offset by the relative weakness of the UK and European regional portfolios and the global portfolio managed by Harris.
- The Fund's residual Private Equity allocation delivered positive returns relative to benchmark, returning +12.4% against the equity benchmark return of +10.5%.
- The Fund's currency hedge achieved its objective of reducing volatility of the Fund's equity returns over 2018/19.
- The Fund's Index-Linked investments delivered a return of +5.7% over the year, in line with benchmark as expected, with the holdings managed on a passive basis.
- The Fund's Alternative investment allocation returned +8.3% over the year. Within Alternatives, returns from listed infrastructure (+20.5%), timber & agriculture (+16.7%) and infrastructure limited partnerships (+13.4%) were strong, while property (+4.0%) and other bonds (+4.1%) lagged these returns.

4.31 Returns relative to the benchmark over a one-year period need to be placed in the context that there are no ideal benchmarks for many of the assets held in the Fund, especially within the Real Assets policy group and more broadly across the various unlisted investments. The true value and returns on unlisted investments will not be known until assets are realised, perhaps not for several years.

Mature employers (Strategy 2)

4.32 The performance of Strategy 2 was broadly in line with benchmark over the year, returning +4.9%. Performance of this strategy has also been in line with benchmark since inception (29 March 2016), with a return of +8.4% per annum.

Strategy 2 - % per annum	1 Year	3 Years	Since Inception
Lothian Pension Fund	4.9%	8.1%	8.4%
Benchmark	4.6%	8.0%	8.2%
Relative	*0.3%*	*0.1%*	*0.1%*
Liability proxy	4.7%	6.3%	6.5%
Retail price index (RPI)	2.5%	3.0%	3.0%
Consumer price index (CPI)	2.0%	2.2%	2.2%

50/50 (Strategy 3)

4.33 Strategy 3 was introduced in April 2018. Its performance reflects the combined performance of Strategy 1 and Strategy 2. The return of +8.0% over the year is taken from the Hymans Employer Asset tracking system (HEAT).

Buses (Strategy 4)

4.34 The performance of Strategy 4, for Lothian Buses, is shown in the table below to 31 January 2019, the last performance measurement date prior to merger. The strategy underperformed by 0.7% over the year to 31 January 2019. However, performance remains ahead of benchmark over 5 years and 10 years, and the strategy was also ahead of the liability proxy (over 15-year gilts) and inflation measures (RPI and CPI) over all these timeframes.

To 31 January 2019 only

Strategy 4 - % per annum	1 Year	5 Years	10 years
Lothian Buses Pension Fund	1.9%	10.4%	12.6%
Benchmark	2.6%	10.0%	11.2%
Relative	*-0.7%*	*0.5%*	*1.4%*
Liability proxy	5.6%	8.9%	8.3%
Retail price index (RPI)	2.5%	2.3%	2.9%
Consumer price index (CPI)	1.8%	1.4%	2.2%

Scrutiny & Transparency of Investments

4.35 Details of the Lothian Pension Fund's investments are reported regularly, both in Committee reports and in the Annual Report & Accounts, both of which are publicly available. The Fund is also subject to regular Freedom of Information requests to which it responds promptly. A complete list of holdings is also made available on the Fund's website.

Funding Level Update

4.36 The funding level is the ratio of the pension scheme's assets to liabilities. The latest triennial actuarial valuation estimated the funding level to be 98% at 31 March 2017.

4.37 The key financial assumptions included in the 2017 actuarial valuation were:

- the return which will be generated by the assets - that is, the rate used to discount the liabilities. This was 1.7% on the gilts basis (used for Strategy 2) and 3.2% p.a. on the ongoing basis (used for Strategy 1 and Strategy 4 when it was the Lothian Buses Pension Fund), reflecting the higher risk/return asset mix) and;
- the rate at which pension liabilities increase – that is, the Consumer Price Index (assumed to be 2.4%p.a., the market's expectation for Retail Price Index less 1.0%).

4.38 Pension increases (i.e. inflation) have been slightly higher than expected while investment returns for all strategies have been in excess of those assumed. The inflation impact would be expected to reduce the funding level, while higher investment returns would be expected to increase the funding level, all other things being equal.

4.39 The estimated funding level at 31 March 2019 is broadly similar to the 2017 valuation position.

Conclusions

4.40 Over the year, the Fund's actual allocation to Equities has fallen as income has been withdrawn from the three large, internally managed, global portfolios and income and capital distributions from private equity have not been reinvested. This has been reallocated to Non-Gilt Debt, Gilts and Cash. The strategic allocation to Equities has also been marginally reduced, reflecting a reduction in the Lothian Buses Pension Fund strategic equity allocation in July 2018. At 31 March 2019, the underweight allocations to Equities (-3%) and Non-Gilt Debt (-5%) are offset by overweight allocations to Real Assets (+2%) and allocation to Cash (+6%). In the context of the Fund's overall position, these allocations are all comfortably within permitted ranges.

4.41 The absolute performance of Lothian Pension Fund over the twelve-month period was +9.6%. Five-year performance is +10.9% per annum. Over ten years, the Fund returned +11.8% per annum.

4.42 While the 12 months to end March 2019 have witnessed significant market gyrations, the overall returns achieved by the Fund have been strong at +9.6%. While local currency returns have been more modest, the Fund has experienced more notable gains as a result of Sterling weakness over the period.

4.43 At the 2017 triennial actuarial valuation, the funding level at 31 March 2017 was 98%. The estimated funding level at 31 March 2019 is broadly similar to the 2017 valuation position.

4.44 The Joint Investment Strategy Panel and internal team continue to focus on the monitoring and management of existing investments and increasing the allocation to assets that diversify equity risk.

5. Next Steps

5.1 This Committee report provides the regular annual update on asset allocation, investment performance and funding for Lothian Pension Fund. As described in the body of the report and in the December 2018 Committee report on investment strategy, next year's update will report progress with reference to the long-term expected returns from the new Policy Groups and the Fund as a whole.

6. Financial impact

6.1 The report details the investment performance and funding position of Lothian Pension Fund. The investment performance has a significant impact on the funding levels and potentially on the contributions required from employers.

7. Stakeholder/Community Impact

7.1 The Pension Board, comprising employer and member representatives, is integral to the governance of the pension funds and they are invited to comment on the relevant matters at Committee meetings.

7.2 There are no adverse health and safety, governance, compliance or regulatory implications as a result of this report. The forward planning of the Committees' agendas should facilitate improved risk management and governance for the pension funds.

7.3 There are no adverse sustainability impacts arising from this report.

8. Background reading/external references

8.1 None.

9. Appendices

9.1 None.