Pensions Committee

2.00pm, Wednesday, 23 June 2021

Annual Investment Update – Lothian Pension Fund

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.

Bruce Miller
Chief Investment Officer, Lothian Pension Fund

Contact: Stewart Piotrowicz, Portfolio Manager, Lothian Pension Fund

E-mail: stewart.piotrowicz@edinburgh.gov.uk | Tel: 0131 469 3843

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 2021.

2.2 Over the twelve months to 31 March 2021, investment market returns were dominated by the rebound in equities following the pandemic-induced market decline in the first quarter of 2020. Global listed equities, as measured by MSCI ACWI (in GBP) rose by an unusually large 38.9% over the twelve months to March 2021, more than recovering the unusually large losses in Q1 2020. Lothian's predominantly lower risk equities unsurprisingly lagged this measure but still gained an impressive 26.8%. The Fund's other asset classes were lacklustre by comparison with real assets (mainly infrastructure and property) broadly flat (-0.6%), non-gilt debt gaining a modest 1.7%, and gilts – a good proxy for Fund liabilities - rising by 3.9%. As a result, while overall Fund returns were strong at +15.5%, this notably lagged the more volatile benchmark gain of 24.0%.

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. The extremes of the last twelve months have impacted longer-term figures. Over five years, the Fund has delivered returns below the benchmark, but with lower risk, having returned +8.5% per annum compared with the benchmark +11.8% per annum (with ex-post risk of 7.7% for the Fund vs. benchmark risk of 8.8%). Over ten years, the Fund has gained 8.8% p.a., lagging the benchmark gain of 9.4% p.a., but with lower risk (ex-post risk of 7.2% vs. 8.0%).

2.4 Lothian Pension Fund's funding level (the ratio of assets to liabilities) was 106% at the March 2020 valuation, an improvement from the 98% as at 31 March 2017. Following receipt of these results and discussions with employers, work is now underway to determine potential changes to investment strategy.

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 2021.

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 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.

3.4 For reporting purposes, Fund assets are divided into five Policy Groups, which are broad asset classes that reflect the nature of the investments. Although individual investments within each group will have different risk and return characteristics, each Policy Group targets a long-term return in relation to the return from UK gilts. The return target provides perspective on the expected risk of each group in relation to Fund liabilities. These are detailed in the Statement of Investment Principles.

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	7,887	91%
Mature Employer Strategy	80	1%
50/50 Strategy	75	1%
Buses Strategy	578	7%
Total	8,619	100%

At end March 2021

3.6 Most employer liabilities are funded under the Main strategy, 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 the Mature Employer strategy (MEG), which invests in a portfolio of UK index-linked gilts and cash to reduce funding level and contribution rate risk as these employers approach exit from the Fund.

3.8 The 50/50 strategy enables another small group of less mature employers to fund liabilities with a 50/50 mix of the Main strategy and the Mature Employer strategy.

3.9 The Buses strategy was introduced on 31 January 2019 when the assets and liabilities of Lothian Buses Pension Fund were consolidated into the Lothian Pension Fund and reflects the specific circumstances and increasing maturity of liabilities for this employer.

3.10 The four investment strategy allocations to the five Policy Groups at 31 March 2021 are presented in the table below.

Policy Group	Main Strategy	Mature Employer Strategy	50/50 Strategy	Buses Strategy
Equities	65%	0%	33%	35%
Real Assets	18%	0%	9%	18%
Non-Gilt Debt	10%	0%	5%	20%
Gilts	7%	100%	54%	28%
Cash	0%	0%	0%	0%
Total	**100%**	**100%**	**100%**	**100%**

Totals may not sum due to rounding

3.11 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 (JISP), comprising independent advisers and senior officers from LPFI Limited, the Fund's FCA authorised investment vehicle. The JISP assesses the underlying risks and the long-term objectives of the Fund.

3.12 The Fund has expanded its internal team over recent years and over 2020/21 added an experienced portfolio manager within the real assets team and two graduate trainees to increase depth and breadth to the existing structure and develop increased capabilities for the long term.

4. Main Report

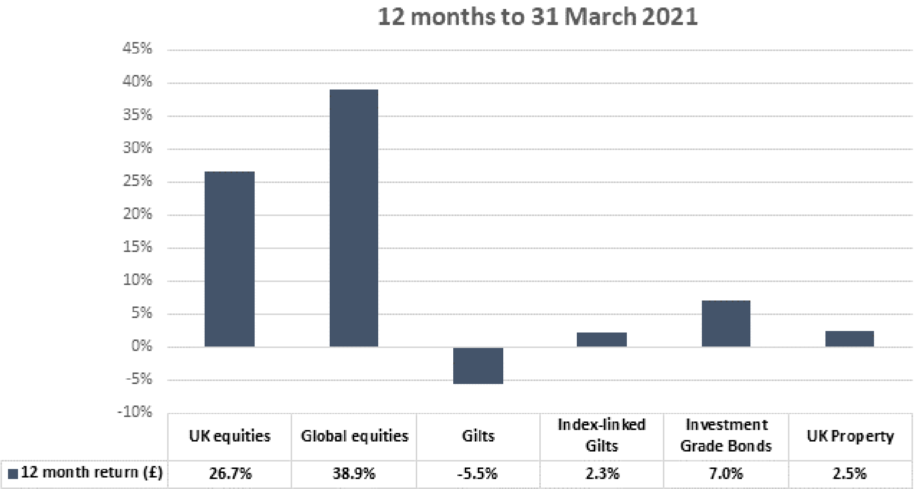
Market background to 31 March 2021

4.1 For the 12 months to 31 March 2021, UK equities (FTSE All Share) returned +27%, while global equities (MSCI ACWI, in GBP) returned +39%. The rise in global equities for sterling-based investors was offset by a stronger pound (global equities returned +51% in local currency terms). Sterling had weakened sharply alongside equity markets in March 2020 in response to the widening COVID-19 (coronavirus) pandemic, before stabilising and then strengthening over the period as risk assets recovered.

4.2 Credit spreads, which had spiked higher when equity markets sold off in March 2020, recovered strongly ending the period close to their pre-crisis lows. Government bond yields re-tested lows in May 2020 before rising gradually over much of the year, spiking higher on vaccine developments in November then accelerating further on fiscal stimulus expectations with the confirmation of Democratic candidate Joe Biden as US president-elect in December.

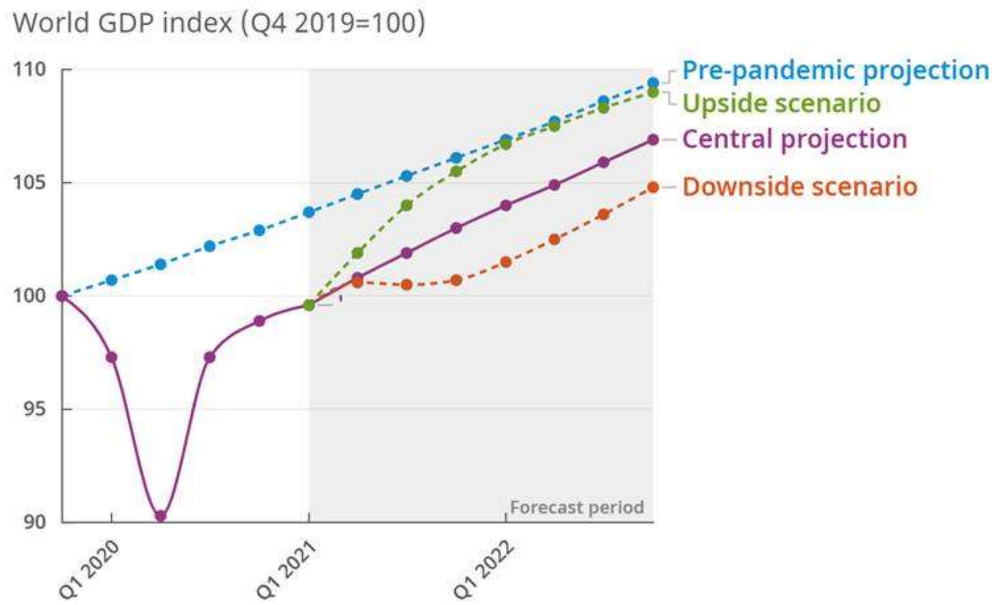
4.3 As vaccine roll-outs gained momentum, with the UK to the fore, rising economic optimism supported risk assets, such as equities. Commodity prices also rose as manufacturing activity continued to recover and investor attention, in the latter part of the period, turned increasingly towards recovery sectors such as retail, property, travel and leisure, which had been most negatively impacted by lockdowns. Inflation expectations moved sharply higher in the first quarter of 2021, which caused bond yields to rise and prices to fall.

4.4 The graph below shows index returns over 12 months to 31 March 2021 for a range of asset classes.



Source: FTSE, Bloomberg, MSCI, Portfolio Evaluation

4.5 The speed with which economies have recovered from the COVID-19 downturn is shown in the World GDP index chart below, alongside the most recent March 2021 forecasts by the OECD. The latest projections provide a much more optimistic outlook than most would have envisaged 12 months ago during the depths of the downturn. The recovery was aided by unprecedented levels of monetary and fiscal support, which cannot be sustained indefinitely; market participants will need to deal, at some point, with the prospect of that support tapering off.



Source: OECD Interim Economic Outlook, March 2021

Asset Allocation and Strategy Implementation

4.6 As described above, the overall Fund strategy is made up of four investment strategies. The strategic allocations, which are the weighted average of the four employer strategies, are shown in the table below along with the actual allocations.

Policy Group	Actual Allocation 31 March 2020	Actual Allocation 31 March 2021	Strategic Allocation 31 March 2020	Strategic Allocation 31 March 2021
Equities	58.3%	60.0%	62.0%	62.1%
Real Assets	22.0%	18.2%	17.7%	17.7%
Non-Gilt Debt	7.8%	9.2%	10.5%	10.5%
Gilts	6.9%	5.6%	9.8%	9.6%
Cash	4.9%	7.1%	0.0%	0.0%
Total	100%	100%	100%	100%

Note: numbers may not sum due to rounding

4.7 Over the year, the actual allocation to Equities has risen modestly. We took the opportunity to add to equities in mid-March 2020. Modest profit-taking and ongoing income withdrawal from the three internal global portfolios since then has not fully offset equity strength, resulting in a modestly increased weighting and a marginally below strategy allocation as the funding level has improved. Exposure to Real Assets has reduced in weight over the year predominantly as a result of the exceptional 27% gain in equities over the last twelve months against broadly flat performance from real assets. The Non-Gilt Debt allocation has increased as the Fund strives to improve diversification and secure returns in excess of gilt yields. The actual allocation increased from 7.8% to 9.1% with additional investment in investment grade corporate bonds and a new allocation to US TIPS, which are designed to provide some protection against unexpected inflation. Gilt yields remain unattractive and the Fund remains underweight. The Cash weighting is available to invest when attractive investments become available in the other Policy Groups. The actual allocations lie within the permitted ranges defined in the Statement of Investment Principles (SIP).

4.8 The Fund implements strategy by allocating to several investment mandates across the five Policy Groups. Most 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. The table below details the actual allocations to Policy Groups and investment mandates.

Policy Groups and Investment Mandates – 31 March 2020 and 31 March 2021

Policy Groups & Mandates	Manager	Actual Allocation 31 March 2020	Actual Allocation 31 March 2021
EQUITIES		**58.3%**	**60.0%**
Global Low Volatility	Internal	**13.2%**	**13.1%**
Global High Dividend Yield	Internal	**13.7%**	**13.4%**
Global Stable Multi-factor	Internal	**12.1%**	**13.7%**
Global Stable Equities	Nordea	**3.9%**	**3.5%**
Global Value	Harris	**2.4%**	**1.4%**
Global Alpha	Baillie Gifford	**1.6%**	**2.2%**
UK All Cap	Internal	**2.9%**	**3.1%**
UK Mid Cap	Internal	**1.2%**	**1.6%**
Europe (ex UK) Quality	Internal	**2.7%**	**2.7%**
US Value	Internal	**2.7%**	**3.4%**
Private Equity	Various	**1.7%**	**1.7%**
Currency Hedge	Internal	**0.2%**	**0.0%**
REAL ASSETS		**22.0%**	**18.2%**
Property	Various	**7.4%**	**6.4%**
Other Real Assets	Various	**14.7%**	**11.8%**
NON-GILT DEBT		**7.8%**	**9.2%**
Other Bonds	Various	**7.8%**	**9.2%**
GILTS		**6.9%**	**5.6%**
Index-linked Gilts	Internal	**6.9%**	**5.6%**
CASH		**4.9%**	**7.1%**
TOTAL FUND		**100.0%**	**100.0%**

Note: numbers may not sum due to rounding

Equities

4.9 The current equity investment strategy has remained broadly unchanged for several years now. While there were no new or complete sale of existing mandates, there were more allocation changes over 2020/21 than would be typical. This was as a result of extreme market movements.

4.10 Approximately £62m was added to the SMuRV portfolio in Q3’20 and a further £73m in Q4’20 as we re-invested some of the dividends from the global portfolios. Additionally, having added in excess of £120m in total to the UK All Cap & European portfolios in the middle of March 2020, near the market bottom, we took advantage of the subsequent extreme rally to take profits both here and elsewhere. The Europe ex-UK portfolio was reduced in Q4’20 (~£63m) alongside a reduction in Harris (~£50m). During Q1’21 we also took the opportunity to further reduce equities on strength (Harris ~£110m, Nordea £60m, UK All Cap £60m).

4.11 The Equity policy group 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.

4.12 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, reports that the Fund's equity risk over the last 1, 3 and 5 years was between 90% and 92% of benchmark risk.

4.13 As of 31 March 2021, approximately 88% of the Fund's listed equities are managed internally with the majorityof these in low cost, low turnover strategies, which are expected to enhance the Fund's risk-adjusted returns over the long term.

4.14 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

4.15 Given the focus on risk reduction, new commitments to private equity investments were discontinued as they tend to be more volatile investments involving greater financial leverage. As historic investments mature, cash is being returned though strength in listed private equity over the last 12 months (+44.3%) has resulted in allocation remaining unchanged over the year at 1.7%.

Real Assets

4.16 Over recent years, the Fund's strategy has been to increase the actual allocation to the Real Asset policy group, which includes investments in property, infrastructure and timber funds and assets. The long term and defensive nature of most of these assets provides an element of diversification to the overall investment strategy and the objective is to provide attractive risk-adjusted returns that are expected to be somewhat lower than listed equities over the long term whilst providing diversification. Most of these investments are unlisted and increasing exposure is dependent on sourcing attractive opportunities. The Fund's longstanding commitment to infrastructure investing has resulted in a large and diverse portfolio of Real Asset investments.

4.17 The Fund's actual allocation has decreased this year from 22% to 18%, which, in a reversal from last year, is predominantly attributable to the performance relative to equities rather than a net decrease in investments. Property, infrastructure and timber asset values were broadly unchanged over 12 months versus notable gains for the Fund's equities (+27%).

4.18 During 2020/21, several investment opportunities were appraised, resulting in approximately £86m being invested in UK, European and global infrastructure assets. Investments were made to five secondary fund / co-invest interests and one co-investment. Proceeds of £168m were distributed to the Fund over the year, including two very successful realisations. The exposure to infrastructure decreased to 10.4% from 12.9% of the Fund's investment value.

4.19 Likewise, the actual allocation to Property decreased from 7.4% to 6.4% almost entirely due to relative movements in asset prices (equity strength). Several investment opportunities were appraised although the impact of the pandemic on the property investment market was profound. The restrictions on travel made carrying out due diligence very difficult and near impossible during lockdowns. This caused many investors to pause activity and, with the exception of industrials and distribution, there was a marked decrease in activity across the main sectors. Transactions activity fell c20% year on year in 2020 although, for context, this was no worse than the declines in both 2016 and 2019, when Brexit uncertainty hit transactions. The Fund made one new commercial real estate purchase – a prime distribution unit let to the Scottish government. There were no sales in the period.

4.20 Despite the small change in the portfolio, there has been considerable activity relating to this asset class:

- as many tenant's revenue streams disappeared overnight as a result of the COVID-19 lockdown, an unexpected challenge arose to determine the best long-term approach to managing the situation. Through direct engagement with tenants a number of agreements were reached to extend leases and remove break options in return for rent deferments and other concessions. This assisted tenants through the most vulnerable period and maximised tenant retention for the longer term. This also supported valuations. The impact of non-payment and rent concessions on fund cash flows has been reflected to a degree in valuations since March 2020. There were a number of tenant failures, most notably in the leisure sector.
- the small team of property professionals has improved working practices and quality of service provision with key suppliers remotely.
- many asset management initiatives were undertaken to reduce void exposure and secure income returns; and
- 100 St John St, the fund's flagship development and largest asset, is now 65% let having been 100% vacant at the point of handover from ASI. The biggest letting accounts for 50% of take-up and completed in August.

4.21 The smallest sub-category in the Real Assets policy group is timber. Valuations were relatively resilient. One new commitment was made during the year; funding is due to complete in Jun/Jul 2021. The investment weighting decreased from 1.7% to 1.4%.

Non-Gilt Debt

4.22 The Non-Gilt Debt allocation has been increasing modestly in recent years as the Fund strives to improve diversification and secure returns in excess of gilt yields. The actual allocation was increased gradually over 2020/21 from 7.8% to 9.2% with additional investment in investment grade corporate bonds and a new allocation to US TIPS to provide additional diversification and an element of inflation protection. Given very low sovereign bond yields and historically low spreads in credit markets, the Fund remains below the long-term strategic allocation.

Gilts

4.23 The Fund's allocation to Gilts declined over the year, from 5% to 4.2%, which in common with the Non-Gilt Debt allocation remains below the long-term strategy target of 10%. There were no significant changes over 2020/21. The UK government confirmed plans to align the RPI with the CPI from 2030, following a consultation with bondholders in which we took part. The Fund retains exposure, as index-linked gilts provide some insurance against an unexpected rise in inflation and a return broadly in line with the Fund's liabilities. However, having benefitted from uncertainty following the EU referendum and subsequent Brexit, real yields and inflation expectations are comparatively low and high respectively in an international context. As a result, the Fund added to diversification within the Non-Gilt Debt allocation instead.

Unfunded Commitments

4.24 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 at 31 March 2021 are shown in the table below. Unfunded commitments of £220m compares with £255m at 31 March 2020.

Unlisted Unfunded Commitments	£m	% of Fund assets
Private Equity	33	0.4%
Infrastructure	87	1.0%
Timber & Agriculture	54	0.6%
Real Estate	2	0.0%
Private Debt	45	0.5%
Total Commitments	**220**	**2.6%**

Investment performance to 31 March 2021

4.25 The Fund's performance over the last year and over longer-term timeframes is presented in the table below, both relative to benchmark and with other relevant long-term measures - a liability proxy (over 15-year gilts index) and two inflation measures, the consumer price index (CPI) and average weekly earnings (AWE)

	1 Year	5 Years	10 Years
Lothian Pension Fund	15.5%	8.5%	8.1%
Benchmark	24.0%	11.8%	9.4%
Relative	*-8.5%*	*-3.3%*	*-1.3%*
Liability proxy	-10.4%	4.8%	7.9%
Consumer price index (CPI)	0.7%	1.8%	1.7%
Average Earnings (AWE)	4.1%	2.7%	2.2%

4.26 The Fund return over the twelve months to March 2021 was very strong in absolute terms though notably weak relative to benchmark. This was broadly driven by equities where the global index (MSCI ACWI in GBP) gained 38.9% over the period. In-line with strategy, the Fund's broadly lower risk equities lagged this market strength, gaining a still respectable 26.8% over the period. This has significantly impacted the five-year figures. The Fund's objective is to meet the strategic benchmark return over five and ten-year periods with lower risk. Given the recent negative relative returns, the Fund is now 3.2% p.a. behind benchmark over five years (+8.5% vs. +11.8%) and a more modest 0.6% p.a. behind over ten years. It is important to highlight that absolute returns are strong. These returns have been achieved with lower levels of volatility (approximately 90% of benchmark risk). In contrast, UK CPI and AWE have grown at low and relatively stable rates for many years and the Fund has continued to perform ahead of the proxy for liabilities.

4.27 The Fund's focus on risk-adjusted returns and lower volatility has been broadly in place since 2013 involving a change in structure that included a greater focus on lower volatility equities. Over the period since the change in structure, the Fund's returns have been delivered with lower volatility than the benchmark.

4.28 One way of assessing the success of the strategy is by measuring the direction of the Fund's performance when markets are increasing and decreasing. While historically this evidence has shown a pattern very much in-line with expectations, the impact of the pandemic, lockdowns and associated market action (where work-from-home stocks thrived) over the last 12 to 18 months has impacted the numbers significantly. From March 2016 to March 2021, the Fund performed:

- better than the strategic allocation when markets fell (18 out of 60 months) with average performance of 0.1% better than the strategic benchmark and,

- worse than the strategic allocation when markets were rising (42 out of 60 months) with average performance 0.4% behind the strategic benchmark, demonstrating that the Fund is positioned relatively defensively, in line with strategy, and is generally expected to deliver outperformance when equity market returns are poor.

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

Policy Group	**1 Year (%)**		**5 Year (% pa)**	
	Fund	**Benchmark**	**Fund**	**Benchmark**
Equities	26.8	38.9	9.5	14.1
Real Assets	-0.6	-1.9	7.5	7.3
Non-Gilt Debt	1.7	7.2	5.2	4.5
Gilts	3.9	3.6	7.4	7.3
Total Fund Return	15.5	24	8.5	11.8
Total Fund Risk	10.1	11.4	7.7	8.8

4.30 In the table above, it is the equity returns that really catch the eye. While the Fund's equities produced a very respectable 26.8% gain over the last 12 months and 9.5% p.a. over the last 5 years, these returns are notably behind benchmark. With such exceptional gains, well above long-term history or long-term expectations for equity returns, it should be unsurprising that Lothian's lower risk equities have lagged. It is absolute returns that help to pay pensions and by focusing on lower risk equities, the Fund has been able to have greater exposure to this asset class than might otherwise be the case. Over the last 5 years, and over the long-term, equities tend to produce superior returns to the alternative assets.

4.31 Other asset classes returns were modest over 12 months with good mid to high single-digit gains evident over the last 5 years.

4.32 Over the year to 31 March 2021, notable performance within each policy group was as follows:

- The Fund's equity investments all produced very strong gains, rising from the pandemic-induced lows back in March 2020. While the strategic, lower volatility portfolios performed well, they notably lagged returns delivered elsewhere. Standouts were Harris global equity (+67.8%) and Baillie Gifford Global Alpha (+56.8%) but also the internally managed UK Mid Cap (+58.3%), Europe ex-UK (+54.1%), UK All Cap (+53.5%) and US (+45.6%) equity portfolios.
- The Fund's Real Assets allocation returned -0.6% over the year. Returns from listed infrastructure (+7.0%) were reasonable with more muted results

elsewhere - infrastructure limited partnerships (-0.7%), timber & agriculture (-5.9%) and property returns (+0.3%).

- The Fund's Non-Gilt Debt exposure produced a return of +1.7% over the year, with underlying mandates performing in line or above expectations, but the allocations to more defensive credit (Legal & General AAA-AA-A Fund, +4.2%), US TIPS (internal, -2.0%) and Private Debt (+1.9%), lagged the returns of the policy group benchmark (Non-Gilts £ Index + 0.2%, +7.2%).
- The Fund's Index-Linked investments delivered a return of +3.9% over the year, broadly in line with benchmark as expected, with the holdings managed on a passive basis.

4.33 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.

Scrutiny & Transparency of Investments

4.34 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

4.35 The funding level is the ratio of the pension scheme's assets to liabilities. The most recent triennial actuarial valuation estimated the funding level at 31 March 2020 to be 106%, a notable improvement from the 98% reported at the 31 March 2017 valuation.

4.36 Following the results of the 2020 valuation, officers and advisers have been assessing whether changes to investment strategy are required and this is the subject of another paper on the agenda.

Conclusions

4.37 Over the year, the Fund's strategic allocation to the different policy groups are broadly unchanged. The actual allocation to Equities has risen following notable equity market strength, while Non-Gilt Debt exposure has risen as a result of additional investment in investment grade corporate bonds and a new allocation to US TIPS. The weighting to Gilts and Real Assets has fallen due to relative market movements (aforementioned equity strength).

4.38 The equity allocation remains slightly below the strategic target at 31 March 2021 (-2.1%), with further underweight exposures to non-gilt debt (-1.3%) and gilts (-4.0%). Real assets (+0.5%) and cash (7.1%) were above strategic target. The allocations are all comfortably within permitted ranges.

4.39 The most significant investment activity during the year were the ~£230m equity reduction in Q1 2021 following notable strength; continuing purchases of infrastructure assets and purchases of non-gilt debt assets to further diversify the portfolio; and the sale of gilts reflecting the long term valuation impact of government plans to align RPI with CPI.

4.40 The absolute performance of Lothian Pension Fund over the twelve-month period was +15.5%. Five-year performance is +8.5% per annum. Over ten years, the Fund returned +8.1% per annum.

4.41 While the returns for the 12-month to end March 2021 are strong in absolute terms, they are notably behind benchmark (+15.5% vs. +24.0%). This is mainly as a result of the Fund's lower risk equity exposure lagging a very strong market (+26.8% vs. +38.9%). This has impacted longer term returns with both five and ten-year figures behind benchmark, though strong in absolute terms. These returns have been achieved at lower than benchmark risk, broadly in-line with strategy.

4.42 The most recent triennial actuarial valuation estimated the funding level at 31 March 2020 to be 106%, an improvement from the 98% reported at the 31 March 2017 valuation.

5. Financial impact

5.1 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.

6. Stakeholder/Regulatory Impact

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

6.2 There are no adverse governance, compliance or regulatory implications as a result of this report.

7. Background reading/external references

7.1 None.

8. Appendices

None.