Pensions Committee

2.00pm, Wednesday, 21 June 2023

Annual Investment Update – Lothian Pension Fund

Item number 6.6

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.

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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 2023.

2.2 Over the twelve months to 31 March 2023, the total Fund return was +0.3%, which compares with the benchmark return of -14.6%. Investment market returns were mixed over the period with notable declines in UK gilts the standout feature.

2.3 Lothian's predominantly lower risk equities performed reasonably well, given the market backdrop, gaining 4.3%. The Fund's real asset investments performed even better, returning +7.9% as the unlisted infrastructure and timber & agriculture assets delivered gains of 19.6% and 12.0% respectively, offsetting weak returns from property (-12.4%). Returns within the debt policy groups were negative given the rising rate environment. The Fund's Non-Gilt Debt assets fell 3.7% over the 12-month period, though this compared favourably to the benchmark return of -10.0%. Weakness within the LDI (gilts) category was the standout with Lothian experiencing a return of -38.6%, broadly in-line with the benchmark return of -39.1%. Relative to strategic benchmark, the Fund benefitted from being underweight LDI.

2.4 The Fund aims to achieve a return broadly in line with its strategic benchmark, over the long term, with a lower-than-benchmark level of risk. Following strong relative returns over the last twelve months, the Fund has delivered returns above the benchmark over the five-year period to end March 2023. This has been achieved with notably lower risk. It returned +6.3% per annum compared with the benchmark +4.5% per annum (with ex-post risk of 7.0% for the Fund vs. benchmark risk of 11.2%). Over ten years, the Fund has gained 8.3% per annum, outperforming the benchmark gain of 6.9% per annum. Again, this was achieved with notably lower risk (ex-post risk of 6.8% vs. 9.3%).

2.5 Lothian Pension Fund's funding level (the ratio of assets to liabilities) is formally assessed on a triennial basis, with the most recent figure of 106% at the March 2020 valuation. Based solely on the movements of the Fund's assets and a proxy for the Fund's liabilities, the funding level will have improved over the period to end March 2023 as the Fund's assets have increased in value while the liabilities are estimated to have declined in value due to rising interest rates. The next triennial valuation at 31 March 2023 will be undertaken during 2023 and concluded by 31 March 2024 at the latest.

3. Background

3.1 The purpose of the report is to provide an update on the investments of the Lothian Pension Fund to 31 March 2023.

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

3.3 The Fund's investment strategy was approved by the Pensions Committee in June 2021. The objective of the strategy is to achieve an investment return that the actuary prudently assumes will be consistent with acceptable and stable contribution rates. The expectation is that with such a return, the Fund will be able to pay pensions as they fall due.

Employer Strategies

3.4 To provide suitable investment strategies for the differing requirements of employers, the Fund 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.

Employer Group Strategies	Assets (£m)	Weight
Main Strategy	9,104	94.0%
Mature Employer Strategy	16	0.2%
50/50 Strategy	39	0.4%
Buses Strategy	530	5.5%
Total	9,689	100%

At end March 2023

3.5 Most employer liabilities are funded under the Main strategy, which adopts a long-term investment strategy, aiming to generate an investment return that will minimise the cost to the employer within reasonable and considered risk parameters. 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.

3.6 A small number of employers are funded in the Mature Employer strategy (MEG), which invests in UK index-linked gilts and cash to reduce funding level and contribution rate risk as these employers approach exit from the Fund.

3.7 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 MEG strategy.

3.8 The Buses strategy, which was introduced on 31 January 2019 when the assets and liabilities of Lothian Buses Pension Fund were consolidated into the Lothian Pension Fund, is a 55/45 mix of the Main Strategy and the MEG strategy.

Policy Groups

3.9 For reporting purposes, Fund strategy is 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 to provide perspective on the expected risk of each group in relation to Fund liabilities.

3.10 The table below presents the policy group allocations of the four investment strategies at end March 2023 along with the total fund strategy, which is the weighted average of the four strategies.

Employer Strategies

Policy Groups	Main Strategy	Mature Employer Strategy	50/50 Strategy	Buses Strategy	Total Fund Strategy
Equities	60%	0%	30%	33.0%	58.3%
Real Assets	20%	0%	10%	11.0%	19.4%
Non-Gilt Debt	10%	0%	5%	5.5%	9.7%
Gilts	10%	100%	55%	50.5%	12.5%
Cash	0%	0%	0%	0.0%	0.0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Totals may not sum due to rounding

Governance

3.11 Implementation of the investment strategy is currently delegated from the Pensions Committee to the Service Director: Finance and Procurement, who in turn delegates implementation to the Funds officers. Advice is taken 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 provides strategic advice to the Pensions Committee and officers on long term objectives and investment risk, and monitors implementation activity.

4. Main Report

Market background to 31 March 2023

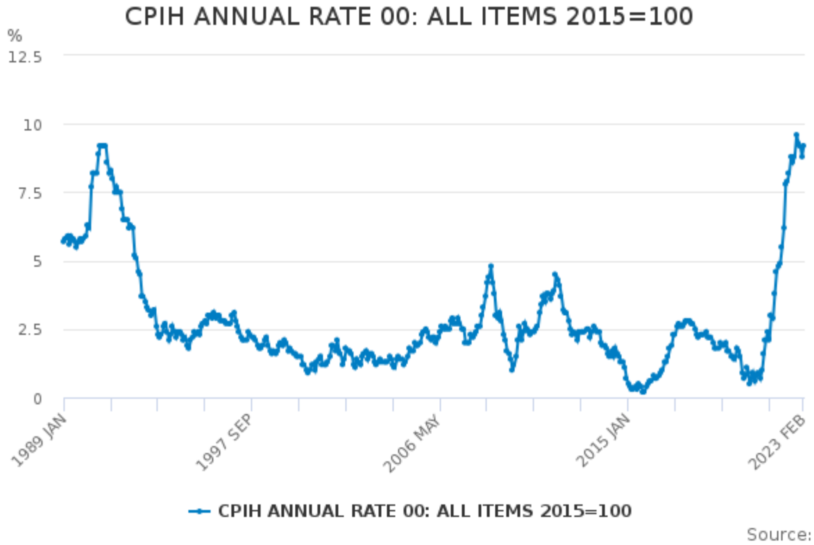
4.1 For the 12 months to 31 March 2023, global equities, as measured by the MSCI ACWI index, returned -1.4% in sterling terms (source: MSCI). However, the weaker pound masked a more pronounced decline of -7.4% in US dollar terms (source: MSCI). It was a year almost as extraordinary as 2020, when Covid emerged, and returns for most asset classes were curtailed by the challenging conditions.

4.2 Soaring inflation and central banks' policy responses dominated the backdrop for financial markets. The mounting pace of inflation was worsened by the supply shock brought about by the war in Ukraine, with UK consumer price inflation reaching 40-year highs. The reaction from most major central banks was to aggressively tighten monetary policy, marking a dramatic shift from the extremely low interest rates that had been in place since the financial crisis of 2008. This is an environment that many had become unaccustomed to and the unfamiliar conditions exposed frailties in the financial system, contributing in some part to the LDI crisis in the UK and the failure of two large US banks.

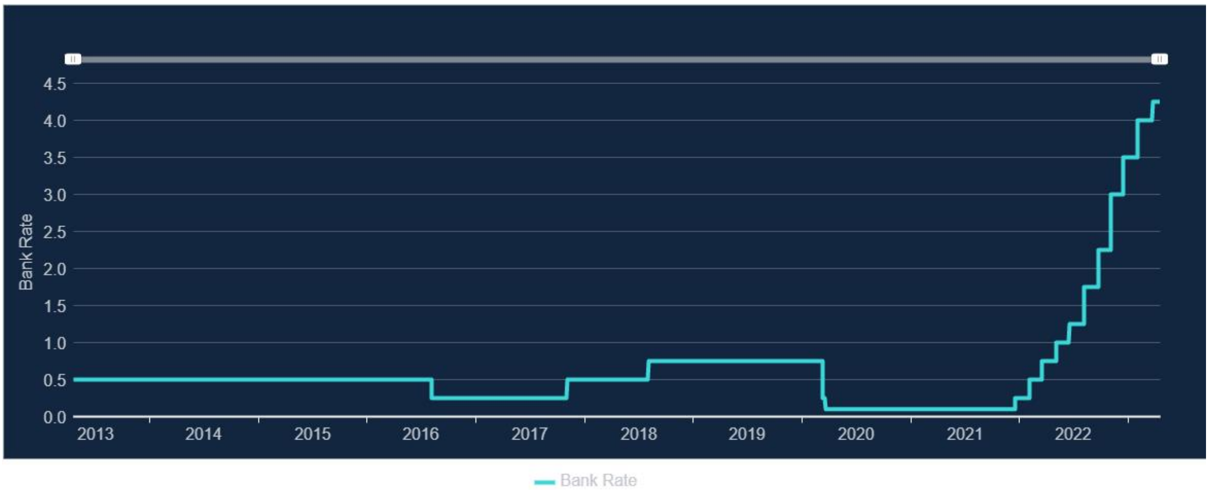
4.3 Government bond prices fell over the year, due to rising base rates and higher inflation, with the political crisis in the UK causing forced sales of long-dated gilts by some pension funds. 10-year gilt yields rose from 1.61% to 3.49% (reaching as high as 4.6%), giving an annual return of -10.9%. Although corporate bond credit spreads (the difference in yields between bonds of differing quality) widened over the year, it was the sharp rise in underlying government bond yields that caused most of the damage, with sterling investment grade credit returning -10.2% over the year. Commercial real estate returns were also strained by falling capital values as property owners, many of which are highly leveraged, contended with rising borrowing costs. However, some of the most eye-catching falls were among 'growth' stocks where valuations were severely marked down as sentiment for this part of the market soured.

4.4 Inflation's influence over investment markets appears set to continue with disinflation to pre-pandemic levels likely to take some time. However, there is cause to believe that inflation has already peaked amid moderating commodity prices and the cooling effect of monetary policy. With that, central banks appear to be nearing the peak of this tightening cycle which may signal a more favourable backdrop ahead for asset valuations. However, risk remains around whether inflation proves to be 'stickier' than hoped. Expectations for corporate earnings have held up well to date, though those forecasts may prove overly optimistic as economic growth deteriorates in the face of the tight monetary policy, declining real wages and heightened geopolitical tensions. Meanwhile, fiscal policy is handicapped by high debt burdens and costlier borrowing, as demonstrated by the rapid unwinding of the Truss government's plans. More positively, the recent reversal of China's 'zero-Covid' policy provides a welcome boost for growth. With several meaningful macroeconomic and geopolitical challenges to be navigated, it is hard to imagine that there will not be further significant financial market volatility in the coming years.

UK Inflation (CPIH) and Bank of England Official Rate

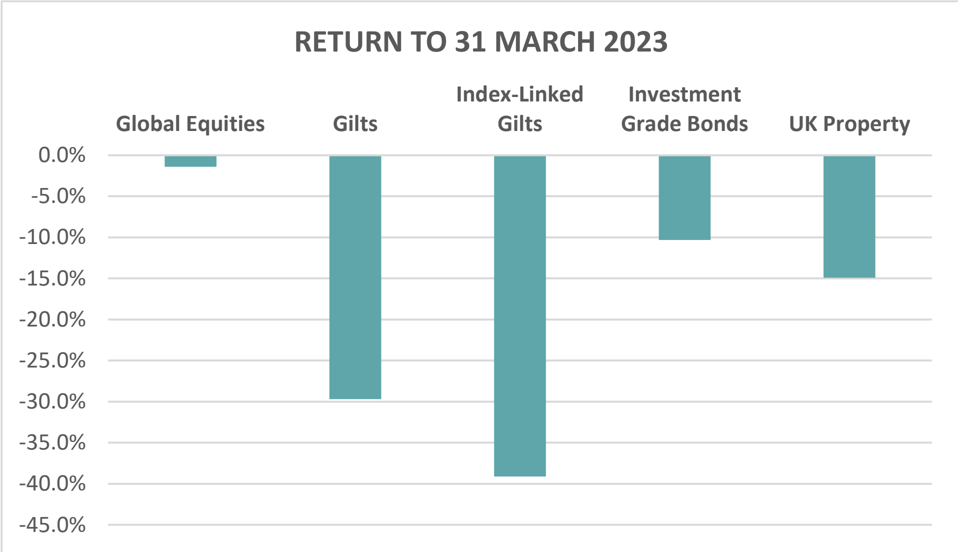


Source: *https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l55o/mm23*



Source: *https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp*

4.5 The graph below shows index returns over 12 months to 31 March 2023 for a range of asset classes.



Source: FTSE, Bloomberg, MSCI, Portfolio Evaluation (MSCI ACWI, FTSE Actuaries Gilts >15 Yrs, FTSE UK Govs Index Linked >15 Yrs, iBoxx £ Non-Gilts, IPD Balanced Monthly & Quarterly Property Index – all GBP total return)

Asset Allocation and Strategy Implementation

4.6 As described above, the overall Fund strategy is made up of four investment strategies. The strategic allocation to policy groups is the weighted average of the four employer strategies. The strategic allocations at end March 2022 and end March 2023 are shown in the table below along with the actual allocations. There were no changes to fund strategy over the year to end March 2023. Movements in the relative size of these strategies has resulted in modest changes to the Total Fund Strategy weightings. The actual allocations changed as a result of the relative movements of investment markets described above and investment activity during the year.

	Actual Allocation		Strategic Allocation	
Policy Group	**31 Mar 2022**	**31 Mar 2023**	**31 Mar 2022**	**31 Mar 2023**
Equities	58.5%	58.0%	58.0%	58.3%
Real Assets	17.3%	20.0%	19.3%	19.4%
Non-Gilt Debt	7.6%	6.3%	9.7%	9.7%
LDI	8.5%	11.1%	12.8%	12.5%
Cash	8.1%	4.7%	0.0%	0.0%
Total	100%	100%	100%	100%

4.7 Over the year, the actual allocation to **Equities** is broadly unchanged. The **Real Assets** allocation increased as new infrastructure investments were made throughout the year which offset distributions of income and capital for existing private market investments. The allocation to **Non-Gilt Debt** fell modestly over the year, due to a net reduction of £71m during Q4 2022 and cash distributions over the year from Private Debt. In contrast, the exposure to **LDI** (or gilts) increased, despite weak returns. Having been underweight LDI for some time, the Fund took the opportunity to accelerate its hitherto gradual purchases of UK government bonds during the Truss government-induced market weakness in September/ October 2022. The net result of the changes was a reduction in **Cash**. The cash position twelve months ago was highlighted to be a temporary, defensive position which was supported by the Fund's advisers. Some of this cash was utilised during the market dislocation in gilts referenced above, to purchase gilts at more attractive yields and move the Fund closer to the strategic target allocation. The actual allocations lie within the permitted ranges defined in the Statement of Investment Principles (SIP).

4.8 The Fund retains a broadly neutral exposure to Equities and Real Assets. The Cash position, while lower than 12 months ago, remains reasonably significant at close to 5% and will be utilised when opportunities arise. An investment strategy review will take place in conjunction with the triennial actuarial valuation over the coming months. Results and conclusions from this review will be presented to Committee in due course.

4.9 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 2022 and 31 March 2023

Policy Groups & Mandates	Manager	Actual Allocation 31 March 2022	Actual Allocation 31 March 2023
EQUITIES		**58.5%**	**58.0%**
Global Low Volatility	Internal	**13.5%**	**13.2%**
Global High Dividend Yield	Internal	**13.5%**	**13.9%**
Global Stable Multi-factor	Internal	**12.4%**	**12.4%**
Global Quality	Internal	**0.0%**	**0.7%**
Global Stable Equities	Nordea	**3.7%**	**3.4%**
Global Value	Harris	**1.4%**	**1.4%**
Global Alpha	Baillie Gifford	**1.9%**	**1.8%**
UK All Cap	Internal	**2.8%**	**3.1%**
UK Mid Cap	Internal	**1.2%**	**1.0%**
Europe (ex UK) Quality	Internal	**2.6%**	**2.1%**
US Value	Internal	**3.8%**	**3.9%**
Private Equity	Various	**1.8%**	**1.1%**
Currency Hedge	Internal	**0.0%**	**0.0%**
REAL ASSETS		**17.3%**	**20.0%**
Property	Various	**6.1%**	**5.1%**
Other Real Assets	Various	**11.2%**	**14.9%**
NON-GILT DEBT		**7.6%**	**6.3%**
Other Bonds	Various	**7.6%**	**6.3%**
LDI		**8.5%**	**11.1%**
UK Gilts	Internal	**8.5%**	**11.1%**
CASH		**8.1%**	**4.7%**
TOTAL FUND		**100%**	**100.0%**

Note: numbers may not sum due to rounding

Equities

4.10 The current equity investment strategy has remained broadly unchanged for several years now. Over the course of the last twelve months there were no complete sale of existing mandates. A new, Global Quality Equity, portfolio was launched during the year and while small initially, will gradually be built up over time.

4.11 Income continues to be withdrawn from the three large, internally managed core global portfolios, with £159m withdrawn over the 12-month period.

4.12 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.

4.13 None of the Fund's equity portfolios have explicit exclusion policies, nor are they 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 77% and 86% of benchmark risk.

4.14 As of 31 March 2023, approximately 87% 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.

4.15 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.

4.16 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. Alongside opportunistic reductions in listed private equity during the year, as historic limited partnership investments mature cash is being returned. The allocation to private equity reduced to 1.1%.

Real Assets

4.17 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.

4.18 The Real Assets allocation increased during the year, primarily due to net new investment activity. In particular, new infrastructure investments were made throughout the year which offset distributions of income and capital for existing private market investments. The Fund continued to source new investments to achieve the target real asset allocation, and the Real Asset policy group was a net investor during the year. The allocation to Real Assets rose from 17.3% to 20.0%.

Non-Gilt Debt

4.19 Exposure to Non-Gilt Debt fell slightly over the year, due to a net reduction of £71m in Q4 2022 to fund the increased LDI allocation and cash distributions over the year from Private Debt. The allocation to Non-Gilt Debt fell from 7.6% to 6.3%.

LDI

4.20 In contrast to Non-Gilt Debt, the exposure to LDI (or gilts) increased, despite weak returns. Having been underweight LDI for some time, the Fund took the opportunity to accelerate its hitherto gradual purchases of UK government bonds during the Truss government-induced market weakness in September/ October 2022. The exposure to LDI rose from 8.5% to 11.1%.

Cash

4.21 The net result of the changes was a reduction in cash. The cash position twelve months ago was highlighted to be a temporary, defensive position which was supported by the Fund's advisers. Some of this cash was utilised during the market dislocation in gilts referenced above, to purchase gilts at more attractive yields and move the Fund closer to the strategic target allocation. The allocation to cash fell from 8.1% to 4.7%.

Unfunded Commitments

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 at 31 March 2023 are shown in the table below. Unfunded commitments of £232m compares with £218m at 31 March 2022.

Private Markets Unfunded Commitments	£m	% Fund Assets
Private Equity	31.0	0.3%
Infrastructure	97.5	1.0%
Timber & Agriculture	27.0	0.3%
Property	17.5	0.2%
Private Debt	59.3	0.6%
Total	**232.2**	**2.4%**

Investment performance to 31 March 2023

4.23 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 (CPIH) and average weekly earnings (AWE)

Annualised returns to 31 March 2023 (% per year)	1 Year	5 Years	10 Years
Lothian Pension Fund	0.3%	6.3%	8.3%
Benchmark	-14.6%	4.5%	6.9%
Relative	*14.8%*	*1.7%*	*1.4%*
Liability proxy	-29.7%	-6.4%	0.6%
Consumer price index (CPIH All Items)	8.8%	3.8%	2.6%
Average Earnings (AWE)	4.9%	4.3%	3.5%

4.24 The Fund aims to achieve a return broadly in line with its strategic benchmark, over the long term, with a lower-than-benchmark level of risk. Over the twelve months to end March 2023, the Fund produced an absolute return of +0.3%. While very modest in absolute terms, this was notably ahead of the benchmark return of -14.6%. With risk significantly below benchmark, it outperformed its long-term objective over the short 1-year timeframe. Returns were predominantly driven by equities and real assets. The Fund's equities gained 4.3% over the year, comfortably ahead of the global index (MSCI ACWI in GBP) return of -1.4%. Within the Real Assets category, the return of +7.9% was led by strength in both unlisted infrastructure (+19.6%) and timber & agriculture (+12.0%) investments.

4.25 Five-year returns were above benchmark at +6.3% p.a. vs +4.5% p.a. and over ten years the comparison was +8.3% p.a. vs +6.9% p.a. In summary, over each of these time periods, Fund returns have been above benchmark.

4.26 On the risk side of the equation, the Fund has achieved its returns with notably lower levels of volatility than its benchmark (approximately 63% of benchmark risk over five years and 73% over ten years), so from a risk / return perspective the outcomes were better than expected over 1, 5 and 10-year timeframes.

4.27 The returns from the Fund's broad policy group benchmarks over 1 and 5 years are as follows (policy group returns not available for 10 years):

To end March 2023

Policy Group	1 Year (%)		5 Year (% pa)		10 Year (% pa)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equities	4.3	-1.4	8.4	9.7		
Real Assets	7.9	-36.6	7.5	-3.8		
Non-Gilt Debt	-3.7	-10.0	1.9	-0.5		
LDI (Gilts)	-38.6	-39.1	-6.7	-6.7	0.9	1.3
Total Return	0.3	-14.6	6.3	4.5	8.3	6.9
Total Risk*	8.3	10.8	7.0	11.2	6.8	9.3

**1 year predicted; 5 years ex-post (source: Portfolio Evaluation)*

4.28 In the table above, absolute returns have been positive from both equities and real assets and compare favourably against weak benchmark returns. Within equities, Lothian's lower risk equities have, unsurprisingly, lagged the notable equity market gains over the 5-year period. This was particularly evident through 2020, when the Fund's lower risk exposure was negatively impacted by Covid and associated lockdowns, relative to the benchmark. This will continue to impact longer-term figures for some time. Despite this, absolute equity returns remain strong at +8.4% p.a. Real assets have gained 7.9% over 12 months and 7.5% p.a. over 5 years and are notably ahead of their (gilts +2.5% p.a.) benchmark.

4.29 While non-gilt debt produced modest returns over the 12-month and 5-year periods (-3.7% and +1.9% p.a. respectively), the real stand out has been within LDI (gilts). For a "risk-free" asset to produce a -38.6% return over the last 12 months is unusual to say the least. This clearly impacts longer term figures, with the 5-year return for Lothian's LDI (gilts) exposure now -6.7% p.a.

4.30 Over the year to 31 March 2023, notable performance within each policy group was as follows:

- The Fund's equity investments produced a reasonable absolute return of +4.3% but, within this, results were mixed. Weakness was seen from UK All Cap (-3.0%), Baillie Gifford Global Alpha (-3.9%), UK Mid Cap (-9.0%) and private equity (-15.7%). All of the other equity portfolios produced positive returns, with double-digit returns from both the Global High Dividend (+10.0%) and Europe ex-UK (+13.4%) equity portfolios.
- The Fund's Real Assets allocation returned +7.9% over the year. While returns from property (-12.4%) were weak, relative strength was seen from unlisted infrastructure (+19.6%) and timber & agriculture (+12.0%).
- The Fund's Non-Gilt Debt exposure produced a return of -3.7% over the year. Relative strength was seen in private debt (+8.7%) with weakness from US TIPS (-11.1%), Baillie Gifford Corporate Bonds (-11.2%) and more defensive credit - Legal & General AAA-AA-A Fund – (-9.9%).
- In what was an undeniably volatile and difficult year for UK gilts, the Fund's

LDI (gilts) investments delivered a return of -38.6%%, notably lagging other policy group 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.

Scrutiny & Transparency of Investments

4.32 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. A complete list of holdings is also made available on the Fund's website.

Funding Level Update

4.33 Based on the movements of the Fund's assets and a proxy for the Fund's liabilities, the funding level is expected to have improved over the year to end March 2023 as the Fund's assets are broadly unchanged in value from end March 2022, while the liabilities are estimated to have declined in value due to rising rates.

4.34 The next triennial valuation at 31 March 2023 will be undertaken during 2023 and concluded by 31 March 2024 at the latest.

Conclusions

4.35 In general, the investment strategy changes were relatively small as one would expect from a long-term pension scheme. The changes to actual asset mix were also relatively minor. The largest actual changes were the 2.6% increase in LDI, the 2.7% increase in real assets and the 3.5% reduction in cash.

4.36 The equity allocation was broadly unchanged over the year and is close to strategic target at 31 March 2023 (58.0% vs 58.3%). The largest deviation from strategy is the overweight position in cash (+4.7%). Twelve months ago, the elevated cash position (8.1%) was highlighted to be a temporary, defensive position which was supported by the Fund's advisers. Some of this cash was utilised during the market dislocation in gilts referenced above, to purchase gilts at more attractive yields and move the Fund closer to the strategic target allocation in LDI (11.1% vs 12.3%.). The Fund is underweight Non-Gilt Debt (6.3% vs 9.7%) and modestly overweight the Real Assets (20.0% vs 19.4%) policy group following notable investment in infrastructure. The Fund has operated comfortably within the prescribed ranges over the year.

4.37 The most significant investment activity during the year was the increase in LDI (+£496m), the ongoing net investment into unlisted infrastructure (+£175m) and the sweep of income from the three core global equity portfolios (-£159m).

4.38 The absolute performance of Lothian Pension Fund over the twelve-month period was +0.3%. Five-year performance is +6.3% per annum. Over ten years, the Fund returned +8.3% per annum.

4.39 The returns for the 12-months to end March 2023 are very modest in absolute terms but are notably ahead of benchmark (+0.3% vs. -14.6%). Given that relative strength, five and ten-year returns are now ahead of benchmark, and reasonable in absolute terms (+6.3% vs +4.5% and +8.3% vs +6.9% respectively). These returns have been achieved at notably lower than benchmark risk which is broadly consistent with strategy. The results are therefore better than expectations (the strategy is to target lower risk with an expectation of broadly similar returns to benchmark).

4.40 The funding level is expected to have improved over the year to end March 2023 as the Fund's assets are broadly unchanged in value from end March 2022, while the liabilities are estimated to have declined in value due to rising rates. The funding level will be updated at the time of the triennial actuarial valuation in 2023.

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.