

LGPS Data Developments

April 3rd and 4th 2014

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Which Fund Is Best?

| | % Investment Return |
|--------|---------------------------|
| Fund A | 9.4 |
| Fund B | 9.2 |
| Fund C | 9.0 |
| Fund D | 8.6 |
| Fund E | 9.2 |

And Now?

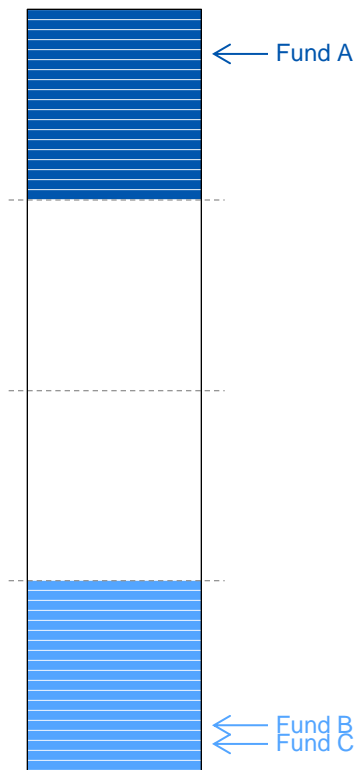
| | Costs As % Of Fund Value | % Investment Return | % Return After Fees |
|--------|---|------------------------------------|--------------------------------|
| Fund A | 0.8 | 9.4 | 8.6 |
| Fund B | 0.6 | 9.2 | 8.6 |
| Fund C | 0.4 | 9.0 | 8.6 |
| Fund D | 0.1 | 8.6 | 8.5 |
| Fund E | 0.1 | 9.2 | 9.1 |

And Now?

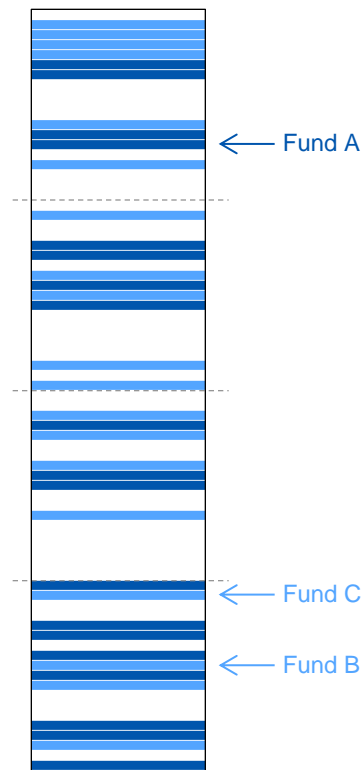
| | % Return After Fees | % Risk (Volatility) | Return Per Unit of Risk |
|--------|---------------------|---------------------|-------------------------|
| Fund A | 8.6 | 9.0 | 1.0 |
| Fund B | 8.6 | 6.0 | 1.4 |
| Fund C | 8.6 | 9.2 | 0.9 |
| Fund D | 8.5 | 10.0 | 1.0 |
| Fund E | 9.1 | 8.8 | 1.0 |

Consistency of Results

Funds Ordered by
Relative Return
Period 1



Funds Ordered by
Relative Return
Period 2



Funds Ordered by
Relative Return
Period 3



So, Which Fund Really Is Best?

- Not as straightforward as it might seem
- Requires many levels of information
- Will vary greatly dependent on time period and factors used
- If any of this information is inconsistent or flawed the comparison becomes meaningless

The Issues

Criticism that LGPS data is

- inconsistent
- not comparable
- opaque

Difficult to determine what constitutes a good fund.

A First Step - Annual Scheme-Wide Report

- The Shadow Board has committed to producing an Annual Report to assist in tackling some of these issues and to allow direct comparison across funds.
- The first report will be produced for Fiscal Year 2013/14

Current Proposals

- To assist further standardisation there will be changes required to the CIPFA guidance and to the contents of the SF3 forms,
- Some guidance is straightforward
- Some will require some more work for some funds

Investment Performance - Net Return on Investments

- Net return on investment figure will be calculated – this will likely be the net return on investments / initial value of the fund.
- The NRI return will be directly comparable and only shown for the year.
- It will differ from more precisely calculated performance returns

Why Are The Returns Different?

- the denominator is different
- the input figures are different

| £'000 | Accounts | Performance | Diff |
|--|----------|-------------|---------|
| Returns on Investments | | | |
| Investment Income | 3,450 | 3,294 | 156 |
| Profits and losses on disposal of investments and change in value of investments | 45,240 | 54,267 | -9,027 |
| Taxes on Income | 0 | | 0 |
| Investment Management Expenses | -1,438 | | -1,438 |
| Net Returns on Investments | 47,252 | 57,561 | -10,309 |
| Net Assets of the Fund(£000s) | | | |
| At 1 April 2012 | 493,897 | 485,449 | 8,448 |
| At 31 March 2013 | 547,883 | 542,447 | 5,436 |
| Return | 9.6 | 12.0 | -2.4 |

- accounting differences between the two performance standards require income to be shown on a receivable (earned) basis performance shows all investments and transactions at market value (not book cost)

The Current Performance Issue

| Values (GBP)'00 Mandate | Return | BM | Relative | Pooled / Seg | Net | | | |
|-------------------------|--------------------|------|----------|--------------|------------|------|----------|------|
| | | | | | Return | BM | Relative | |
| Manager 1 | UK Equity | 23.4 | 22.5 | 0.7 | Segregated | 22.8 | 22.5 | 0.2 |
| Manager 2 | Global Equity | 17.4 | 19.0 | -1.3 | Segregated | 16.9 | 19.0 | -1.8 |
| Manager 3 | Global Equity | 23.4 | 19.0 | 3.7 | Pooled | 23.4 | 19.0 | 3.7 |
| Manager 4 | Global Bond | 1.0 | 0.5 | 0.5 | Pooled | 1.0 | 0.5 | 0.5 |
| Manager 5 | Global Bond | 1.2 | 0.5 | 0.7 | Segregated | 0.8 | 0.5 | 0.3 |
| Manager 8 | Cash | 0.5 | 0.4 | 0.1 | Segregated | 0.5 | 0.4 | 0.1 |
| Manager 9 | Private Eq | 8.6 | 5.4 | 3.0 | Pooled | 7.6 | 5.4 | 2.1 |
| Manager 10 | Diversified Growth | 6.5 | 10.8 | -3.9 | Pooled | 6.5 | 10.8 | -3.9 |
| Manager 11 | Diversified Growth | 8.0 | 10.8 | -2.5 | Pooled | 8.0 | 10.8 | -2.5 |
| Total Fund | | 14.9 | 14.9 | 0.0 | | 14.6 | 14.9 | -0.3 |

Where Are We?

Pooled and segregated portfolios not being compared on a consistent basis – pooled portfolios are usually disadvantaged.

Pooled portfolios seldom include any performance fees charged – therefore they are neither net or gross.

Fund performance is inconsistent and cannot therefore be directly compared.

Data provision remains the issue but must be tackled.

Already some authorities are submitting fee information but this needs to become the industry standard.