
LPFA Performance Report

February 2017

LPP

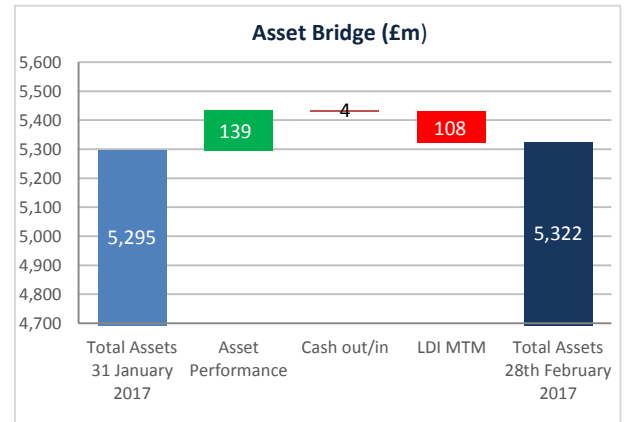
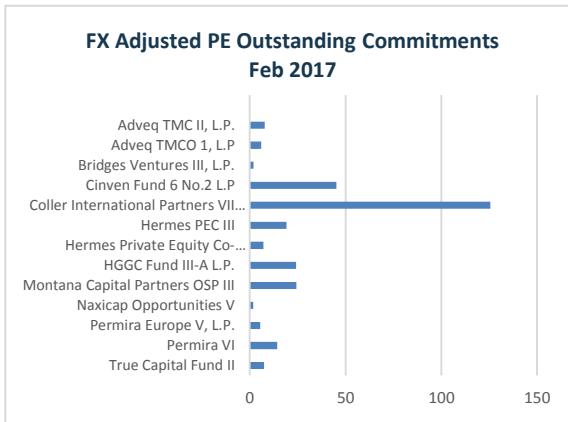
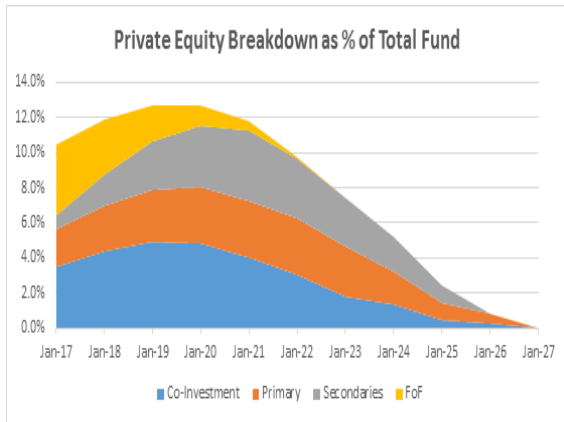
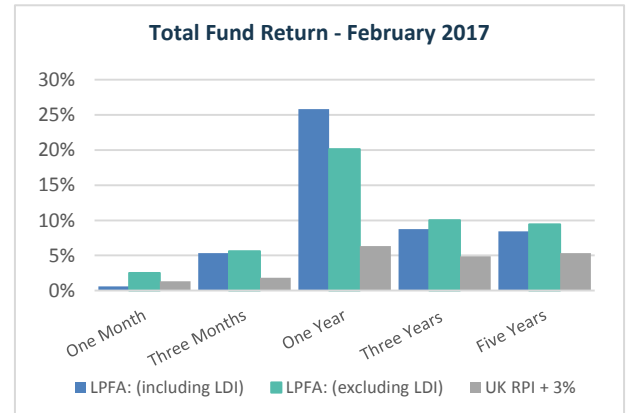
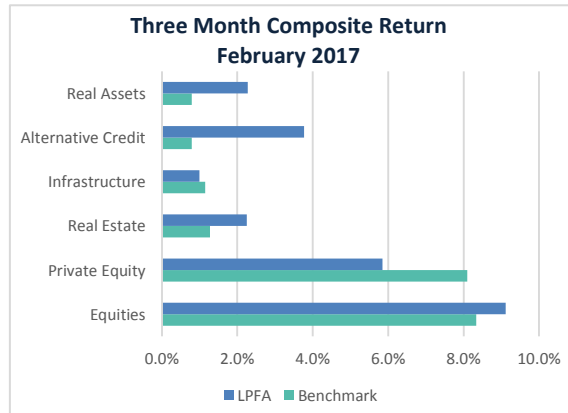
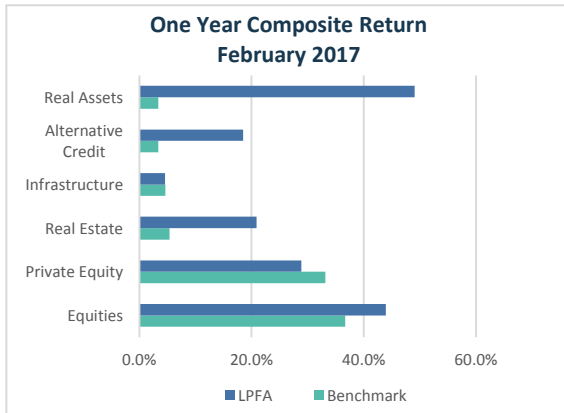
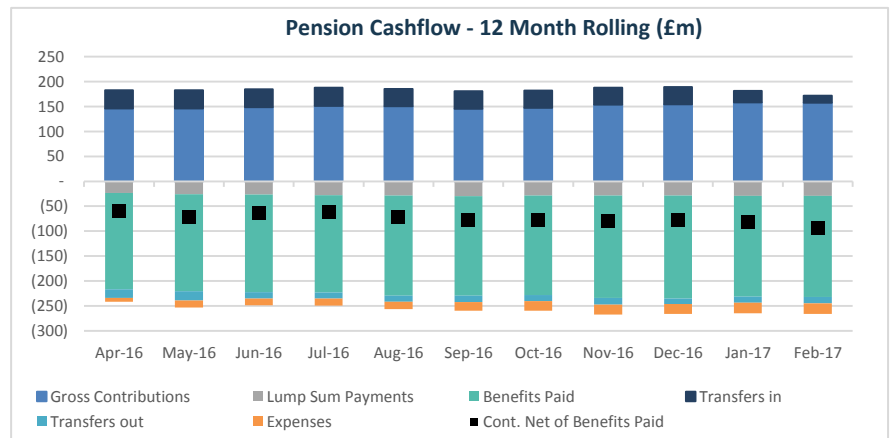
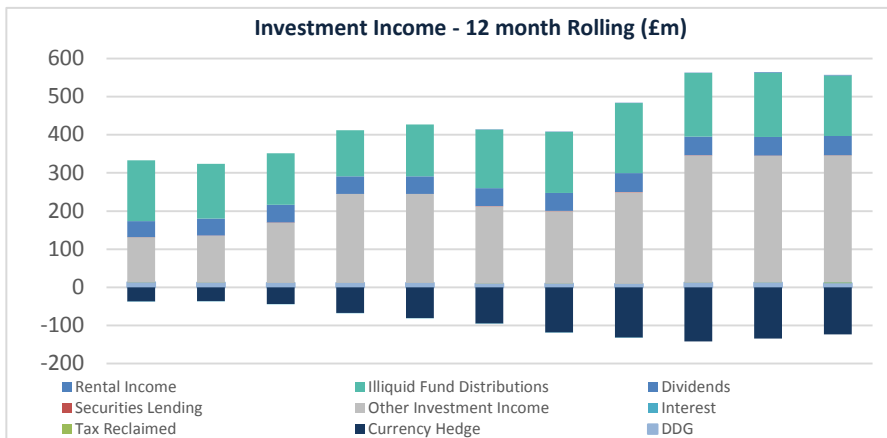
Local Pensions Partnership

Market Review

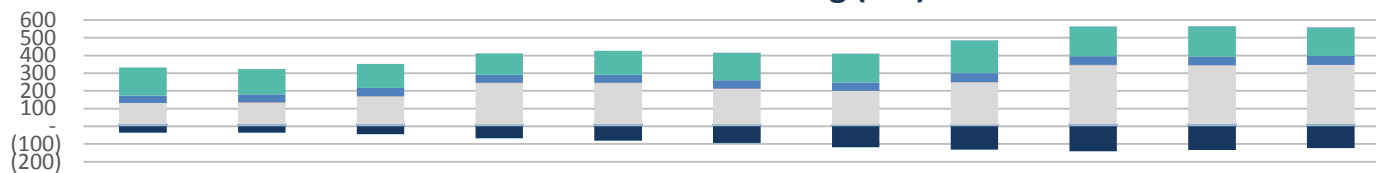
- The S&P500 decreased 0.04% in March and the Russell 3000 decreased 0.1% (both reflect a price change in USD). Over the quarter, the increase was 5.5% and 5.2% respectively.
- The Euro Stoxx 50 increased 6.4% over the quarter, in Euro terms (5.5% in March). The Euro Stoxx 600 increased 5.5% over the quarter (2.9% in March).
- The FTSE 100 increased 0.8% for March and 2.5% over the quarter.
- The MSCI World and the MSCI EM indices increased 5.9% and 11.1% respectively (in USD) for the quarter ending in March.
- The JPMorgan Global Aggregate Bond Index returned 1.5% for Q1 2017, while the JPMorgan Government Bond Index (Emerging Markets Global) increased 6.4%.
- US Trade weighted dollar index decreased c. 3% over the quarter, while the GBP Trade weighted index increased 0.6% over the same period.

Fund Summary

- Total Assets return (including LDI) over the last three months has exceeded benchmark returns (UK RPI+3%) by 348bps (5.32% versus 1.84%), while Total Investment return (excluding LDI) outperformed by 376bps (5.60% versus 1.84%). Total Assets and Investment returns for February were 0.60% and 2.51% respectively.
- 12-month and 3-year Total Assets returns to the end of January were 25.80% and 8.76% respectively (representing a 1948bps and 388bps outperformance versus the UK RPI+3% benchmark).
- 12-month and 3-year Total Investment returns for the same period were 20.13% and 10.01% respectively (representing a 1381bps and 514bps outperformance versus the benchmark).
- The main contributors over this period were Public and Private Equity, Infrastructure and Credit assets; in each case positive underlying performance being enhanced by currency gains on non GBP assets following the decline in GBP.
- LDI hedging mark to market having been negative for the period preceding Brexit continued its significant mark to market gains as a result of higher inflation expectations that have boosted Fund NAV. It is worth noting these moves will have also added to liabilities.
- Page 9 shows the 1-year performance of LPFA's key Fund Managers (selected according to their current % of total assets), while pages 11 and 12 present a detailed performance and attribution of LPFA's assets.
- Based on preliminary data the Total Fund's Assets have remained roughly steady at c. £5.29bn in February.

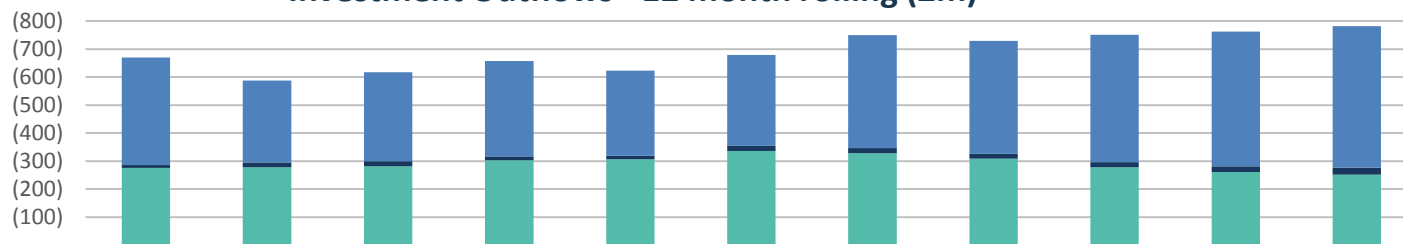


Investment Income - 12 month rolling (£m)



	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17
Rental Income	-	-	-	-	-	0.03	0.56	0.84	1.49	1.75	1.93
Illiquid Fund Distributions	159.52	143.08	135.66	121.04	135.82	153.60	160.41	184.50	166.59	168.73	158.77
Dividends	41.87	44.93	45.73	46.04	46.37	47.08	47.02	49.62	49.12	48.41	50.41
Securities Lending	0.41	0.42	0.38	0.38	0.38	0.37	0.35	0.33	0.30	0.27	0.25
Other Investment Income	118.31	122.87	158.31	233.30	232.86	202.16	190.10	240.00	333.19	333.19	333.19
Interest	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.01)	(0.01)	(0.00)	(0.00)	0.00	0.00
Tax Reclaimed	0.05	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02	2.04
Currency Hedge	(36.92)	(36.63)	(43.86)	(67.59)	(80.92)	(94.88)	(118.11)	(132.05)	(141.85)	(134.63)	(123.47)
DDG	12.94	12.48	11.57	11.37	11.84	10.10	9.71	9.21	12.58	12.29	10.92
Total	296.16	287.14	307.76	344.54	346.35	318.46	290.05	352.46	421.45	430.02	434.05

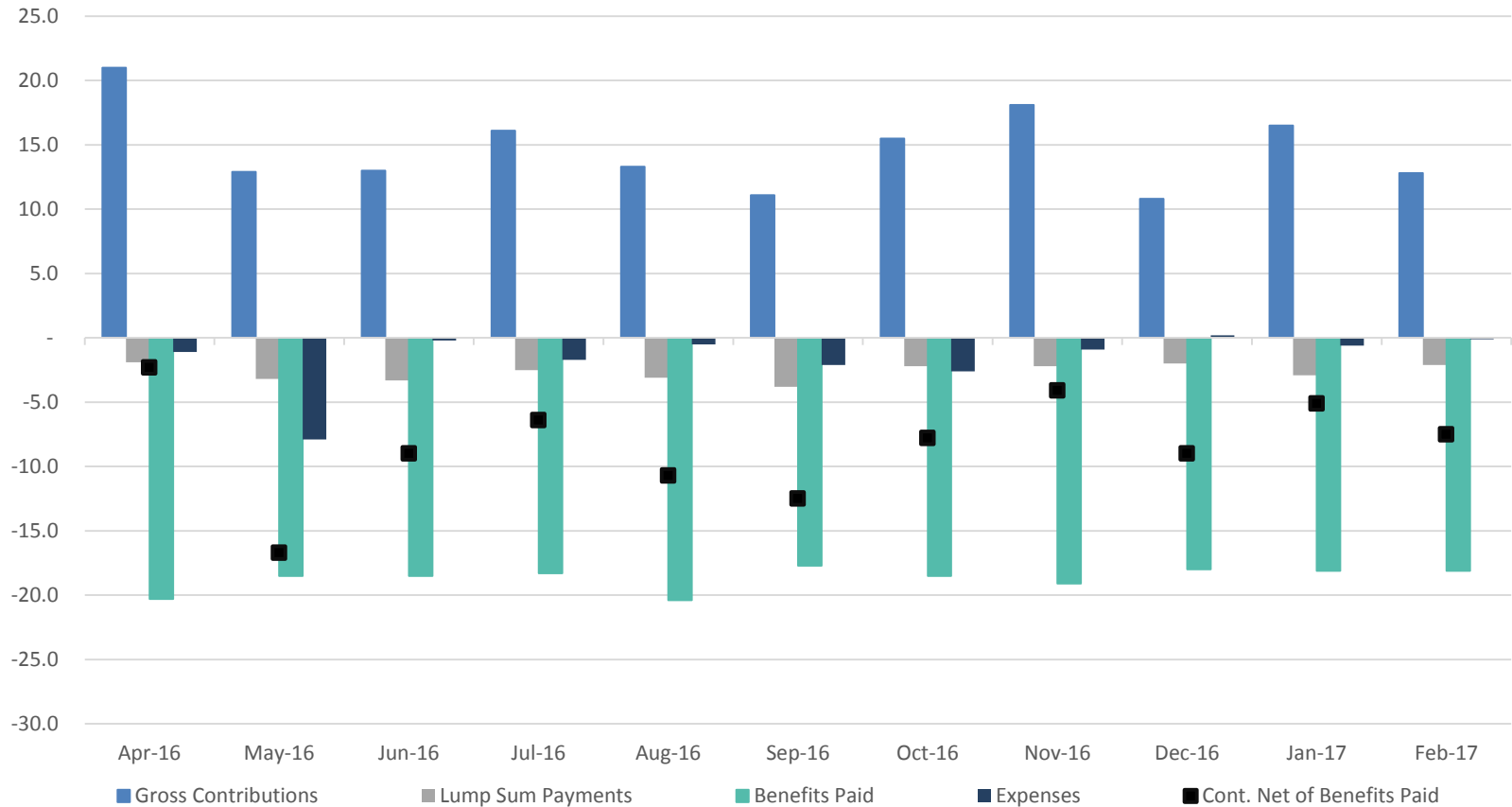
Investment Outflows - 12 month rolling (£m)



	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17
Investments	(383.97)	(292.06)	(318.06)	(341.31)	(304.19)	(324.51)	(403.19)	(403.19)	(455.21)	(480.71)	(505.07)
Investment Expenses	(10.60)	(17.80)	(18.20)	(13.10)	(13.50)	(18.10)	(18.20)	(17.70)	(17.70)	(21.30)	(25.80)
Capital Calls	(275.92)	(277.92)	(281.71)	(303.54)	(306.13)	(336.23)	(328.71)	(308.82)	(278.20)	(260.64)	(251.35)
Total	(670.50)	(587.78)	(617.97)	(657.95)	(623.82)	(678.83)	(750.11)	(729.71)	(751.11)	(762.66)	(782.22)

- Other Investment income consists mainly of disinvestments
- Dividends are currently always re-invested.
- BlackRock DDG is separately reported as it has already been approved for liquidation; income is currently re-invested by the manager.
- The direct property portfolio has started to generate rental income, which is expected to increase further as investments by the Manager continue.

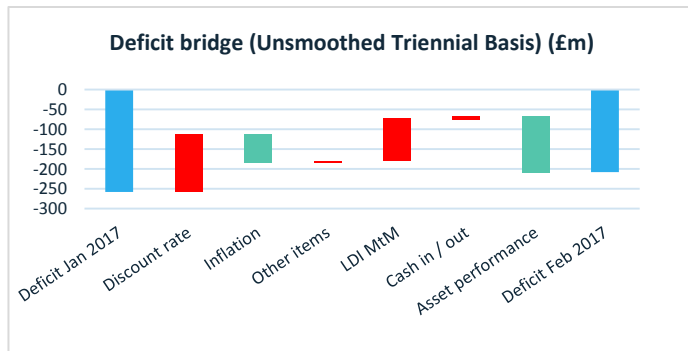
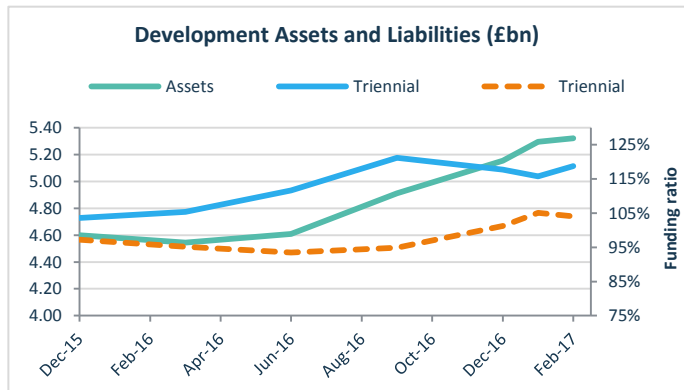
Pensions Payments and Expenses (£m)



- Over the year to date the fund continues to report a negative net pension cashflow.
- Over this period net benefits paid (including expenses and contributions) have averaged c. £ 8m per month.
- Short and medium term liquidity is sufficient to manage these payments. The Investment team is currently assessing different cashflow scenarios in order to ensure that the Fund has adequate cash on hand to pay pension benefits as they fall due.

Where are we now?

Development of the funding ratio and deficit



Overview	Jan 2017	Feb 2017	Difference
Funded ratio (Triennial)	105.1%	104.1%	-1.08%
Funded Ratio (Swaps flat)	50.1%	49.3%	-0.8%
Surplus / Deficit (Triennial)	258	208	-50
Market Value Assets	5,295	5,322	27
Liabilities Triennial	5,037	5,114	77
Liabilities Swaps flat	10,572	10,788	216

- The Triennial funding level decreased due to the effects of falling inflation expectations offsetting positive asset performance. A decrease in the long term assumption for future inflation decreased the Triennial discount rate. Although the effect of this was partly offset by a corresponding reduction in future liability payments due to falling inflation expectations this also resulted in negative MTM on the LDI inflation hedge portfolio.
- Liabilities on the swaps flat basis increased due to decreases in swaps flat discount rates outweighing decreases in swap inflation expectations over the month.

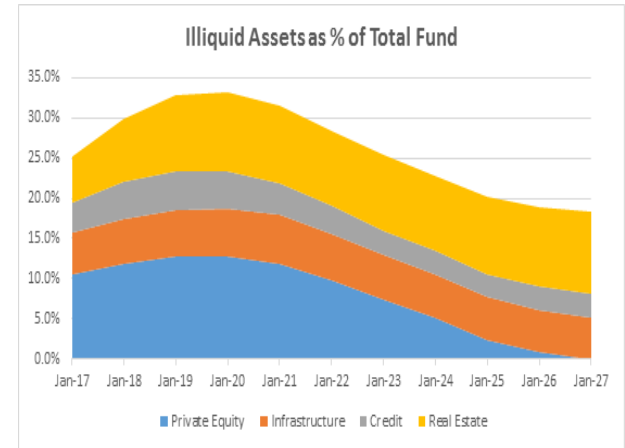
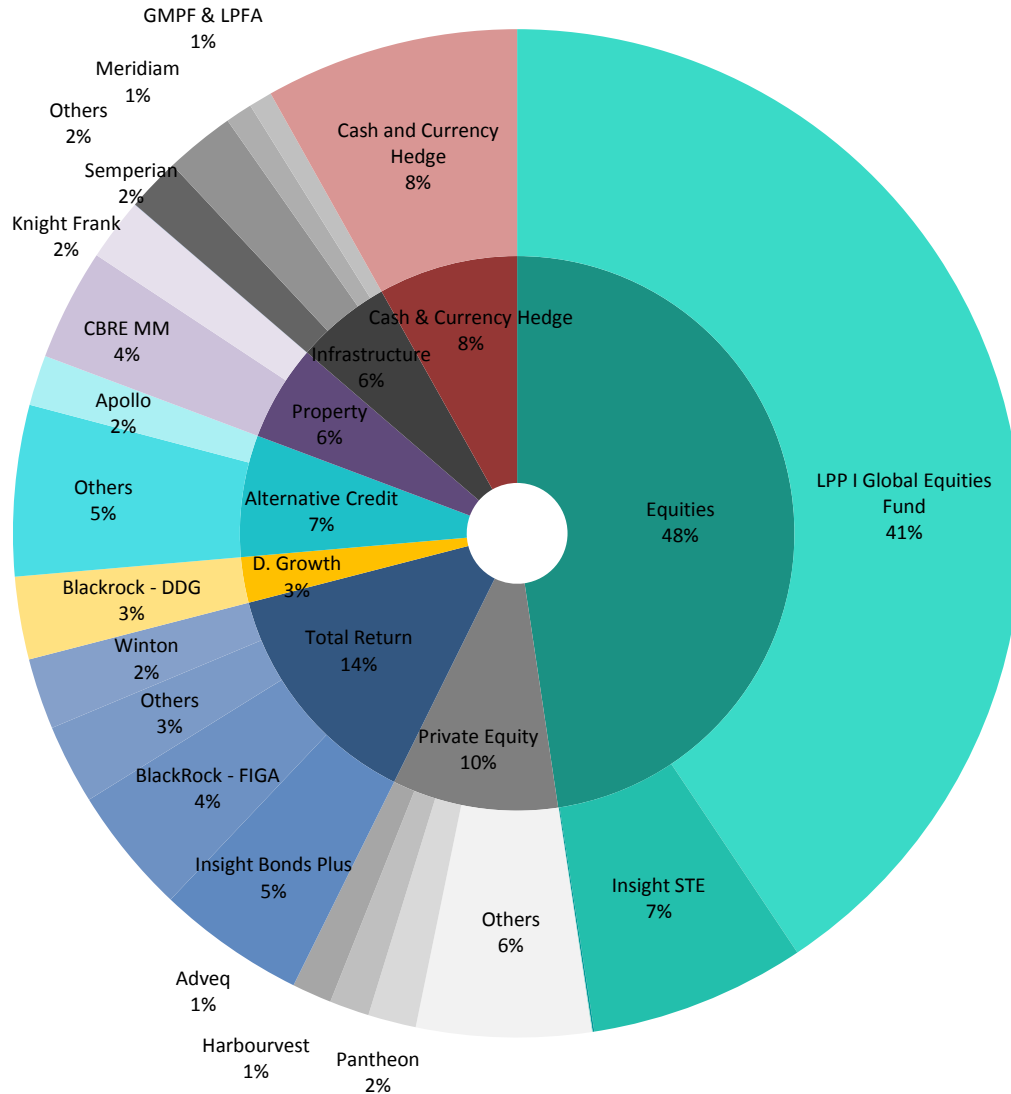
Asset Class	Strategic AA %	Range	Funds			Exposure**			Adjusted Risk Exposure***		
			£m	(%)	OW/UW	£m	(%)	OW/UW	£m	(%)	OW/UW
Global Equities:	47.50%	40% - 60%	2,265.60	42.6%	-4.90%	2,651.55	49.8%	2.32%	2,713.86	51.0%	3.49%
Private Equity:	7.50%	5% - 15%	538.75	10.1%	2.60%	538.75	10.1%	2.62%	538.75	10.1%	2.62%
Fixed Income:	2.50%	0% - 15%	0.00	0.0%	-2.50%	0.00	0.0%	-2.50%	49.07	0.9%	-1.58%
Infrastructure:	7.50%	5% - 15%	272.12	5.1%	-2.40%	272.12	5.1%	-2.39%	272.12	5.1%	-2.39%
Credit:	7.50%	0% - 10%	188.19	3.5%	-4.00%	188.19	3.5%	-3.96%	188.19	3.5%	-3.96%
Real Estate:	10.00%	5% - 15%	311.16	5.8%	-4.20%	311.16	5.8%	-4.15%	313.58	5.9%	-4.11%
Total Return:	15.00%	0% - 20%	760.47	14.3%	-0.70%	760.47	14.3%	-0.71%	766.00	14.4%	-0.61%
Cash:*	2.50%	0% - 10%	838.51	15.8%	13.30%	452.57	8.5%	6.00%	480.87	9.0%	6.53%
Diversified Growth Fund:	-	-	147.64	2.8%	-	147.64	2.8%	-	0.00	0.0%	-
Total	100%		5,322.45	100%		5,322.45	100%		5,322.45	100%	

*Cash includes the mark to market (MTM) of the currency hedge and Liability Driven Investment (LDI) portfolio. Derivative MTM, the Insight LDI fund and the currency hedge are included within the cash line

**Net synthetic equity exposure of £719m has been removed from the cash line and added to the equities line.

***Diversified growth fund assets split 40% public equities, 39% fixed income, 15% cash, 4% hedge funds and 2% real estate.

Asset Allocation Detail

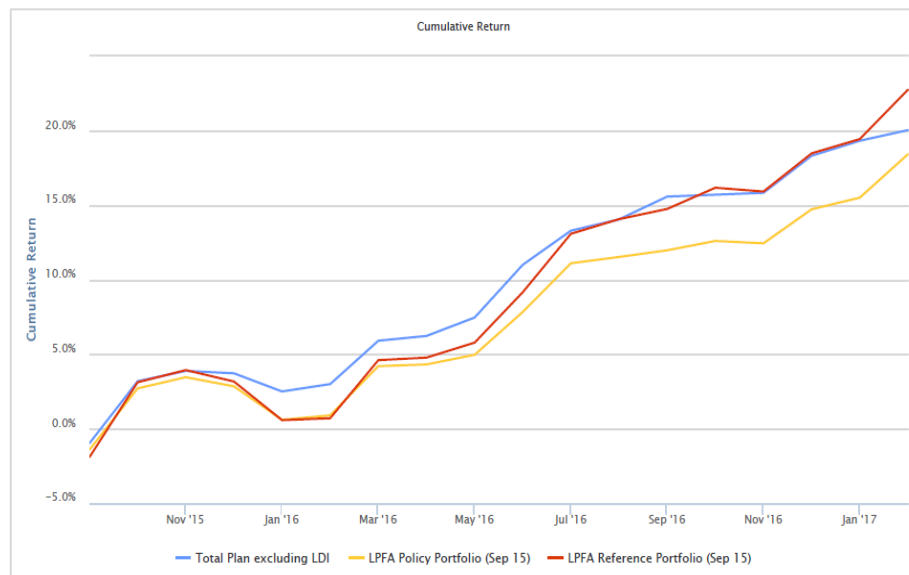
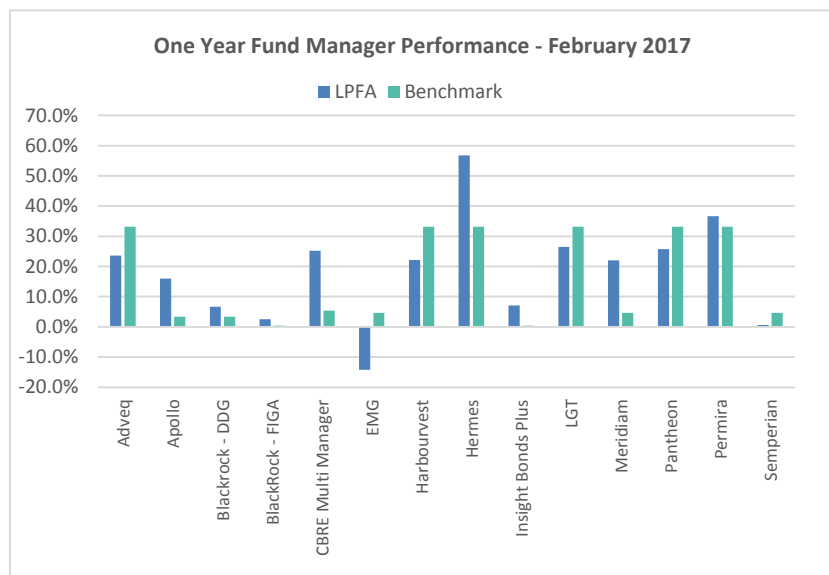


Performance

Month	Opening Value	Net cash inflow/ (outflow)	Return from investments	Closing Value	Investment Return excl LDI	LDI Contribution to Return	Total Investment Return (inc LDI)	
	£m	£m	£m	£m	%	%	%	
Mar-16	4,390.89	0.99	152.98	4,544.86	2.80%	0.68%	3.48%	
Apr-16	4,544.86	(6.01)	10.96	4,549.81	0.2249%	0.02%	0.24%	
May-16	4,549.81	(9.77)	16.55	4,556.59	1.2296%	-0.87%	0.36%	
Jun-16	4,556.59	(8.89)	61.34	4,609.04	2.32%	-0.97%	1.35%	
Jul-16	4,609.04	(6.16)	29.19	4,632.07	1.61%	-0.97%	0.63%	
Aug-16	4,632.07	0.58	105.95	4,738.61	0.53%	1.75%	2.29%	
Sep-16	4,738.61	(6.15)	179.70	4,912.15	1.32%	2.48%	3.79%	
Oct-16	4,912.15	(18.28)	201.13	5,095.00	0.07%	4.03%	4.10%	
Nov-16	5,095.00	2.66	(26.08)	5,071.58	0.09%	-0.61%	-0.51%	
Dec-16	5,071.58	(9.77)	92.93	5,154.74	2.17%	-0.33%	1.83%	
Jan-17	5,154.74	(5.05)	144.87	5,294.56	0.94%	1.87%	2.81%	
Feb-17	5,294.56	(3.87)	31.76	5,322.45	2.40%	-1.80%	0.60%	
Time Period					Annualised return excl LDI (%)		Annualised return (%)	Benchmark RPI+3%
Financial YTD	4,544.86	(70.70)	848.28	5,322.45	14.97%		20.71%	5.61%
Last 12 months	4,390.89	(69.71)	1,001.27	5,322.45	16.83%		22.97%	6.32%
Last 3 years	4,814.34	(594.28)	1,102.40	5,322.45	7.67%		8.76%	4.88%

LPFA Fund	Benchmark
Adveq	MSCI World
Apollo	1M GBP LIBOR +3%
Blackrock - DDG	1M GBP LIBOR +3%
BlackRock FIGA	1M GBP GBP LIBOR
CBRE	1M GBP LIBOR +5%
EMG	20yr Gilt + 3%
Harbourvest	MSCI World
Hermes	MSCI World
Insight Bonds Plus 400	1M GBP GBP LIBOR
LGT	MSCI World
Meridiam	20yr Gilt + 3%
Pantheon	MSCI World
Permira	MSCI World
Semperian	20yr Gilt + 3%

Note: Return from investments includes LDI movement



Key Large Holdings			
Investment	% of Fund	3-month Performance	Comment
LPII Global Equities Fund	42.5%	8.5%	The Global Equities Fund outperformed the MSCI ACWI by 14bps for the 3-month period to the end of February.
Insight Bonds Plus 400	5.0%	-0.2%	The Insight Bonds Plus 400 trailed its benchmark (1M LIBOR) by 29 bps.
BlackRock - FIGA	4.3%	3.3%	FIGA had a stellar 3-month performance, outperforming its benchmark (1M LIBOR + 3%) by 248 bps.
CBRE Multi Manager	3.8%	4.0%	CBRE outperformed its benchmark (1M LIBOR + 5%) by 272 bps.
Apollo	1.7%	4.0%	Apollo outperformed its benchmark (1M LIBOR + 5%) by 273 bps.
Winton Evolution fund	2.4%	3.4%	Winton led the rebound in the Trend Following component of the Total Return portfolio, outperforming its benchmark (1M LIBOR) by 329 bps for the 3-month period.

Key Winners / Losers		
Name	3 month performance	Comment
Total Return	1.1%	The Total Return composite exceeded its benchmark by 104 bps. The Trend Following component rebounded strongly in February (2.4%), contributing positively to the 3-month composite outperformance despite the Graham Fund being a significant drag.
Credit	3.8%	The Credit composite exceeded its benchmark by 249 bps buoyed by strong performance from Apollo, the BlackRock Co-Investment fund and the M&G DOF III.

Plan Level Attribution - Arithmetic

Asset Class/Manager	February 2017		Trailing 3 months		1-Year
	Fund Contribution	Fund Contribution	Fund Contribution	Fund Contribution	Fund Contribution
Equities	2.15	3.90	14.62		
LPP I Global Equities Fund	1.97	3.45	2.57		
MFS	-0.09	-0.09	4.84		
In-House Buy and Hold	0.00	0.00	4.41		
Insight Synthetic accumulated balance	0.27	0.53	2.81		
Private Equity	0.02	0.56	2.75		
Harbourvest	0.00	0.15	0.32		
LGT	0.00	-0.02	0.32		
Pantheon	0.00	0.11	0.46		
BI New Energy Solutions	0.00	0.00	-0.02		
Robeco	0.00	-0.02	-0.03		
YEM Capital	0.00	0.00	0.00		
Zouk Cleantech Europe	0.00	0.00	0.07		
Bridges	0.00	0.00	0.01		
Adveq	0.00	0.11	0.29		
Montana	0.00	0.00	0.02		
Montana Capital Partners	0.00	0.01	0.05		
Permitra	0.00	0.00	0.23		
Permitra VI	0.00	0.00	0.00		
True Capital Fund II	0.00	0.07	0.56		
Hermes	0.00	0.01	0.04		
Ithaca	0.00	0.00	0.00		
LPFA Investments	0.00	0.10	0.23		
Adveq IMCO1, L.P	0.00	0.04	0.09		
Collier International Part	0.00	0.01	0.10		
Naxicap Opportunities V	0.00	0.00	0.00		
Hermes Pecill	0.00	0.00	0.00		
Blackrock - DDG	0.04	0.09	0.37		
Credit	0.04	0.13	0.67		
M&G UK Companies Financing Fund	0.00	0.01	0.02		
M&G Debt Opportunities Fund	0.00	0.00	0.17		
Red Kite	0.00	0.00	0.06		
Apollo	0.00	0.07	0.26		
M&G Debt Opportunities III	0.04	0.04	0.14		
Blackrock Co-Investment IV	0.00	0.02	0.04		
Total Return	0.09	0.16	0.34		
Insight Bonds plus	-0.05	-0.01	0.46		
Blackrock - FIGA	0.03	0.14	0.10		
Winton Evolution	0.07	0.08	0.00		
GSA Trend Risk Premia	0.02	0.01	-0.08		
Graham T-Trend Capped Beta	0.00	-0.06	-0.14		
Aeolus	0.01	0.00	0.00		
Real Estate	-0.06	0.11	1.01		
CBRE Multi Manager	0.00	0.15	1.05		
Pontoon Dock	0.00	0.00	0.00		
Knights Frank	-0.06	-0.04	-0.04		
Infrastructure	0.02	0.07	0.62		
3I Infrastructure PLC	0.01	0.02	0.06		
Glennmont Clean Energy Fund	0.02	-0.01	0.03		
Foresight	0.00	0.00	-0.05		
Impax New Energy Investor	0.00	0.00	0.05		
Henderson PFI	0.00	0.00	0.00		
HSBC Environmental Infrastructure	0.02	0.02	0.04		
Meridiam	-0.03	-0.03	0.21		
Semperian	0.00	-0.04	0.07		
Standard Chartered Asian Infrastructure	0.00	0.00	-0.04		
Zouk Solar Opportunities	0.00	0.00	0.00		
EMG	0.00	-0.01	-0.12		
PIP	0.00	0.00	0.00		
GMF & LPFA Infrastructure	0.00	0.11	0.12		
Phanuos Timber Fund LTD	0.01	0.01	0.08		
Brookfield	0.00	0.00	0.17		
Cash & Currency Hedge	-0.14	-0.16	-2.76		
Cash Fund	0.00	0.00	0.06		
Cash Sweep	0.00	0.00	0.00		
Cash Sweep LIQ	0.00	0.00	0.00		
RCM Hedging	-0.15	-0.16	-2.82		
Insight LDI MV	-1.54	0.45	7.44		
Impact of Cash	-0.02	-0.01	-0.33		
LPFA Total Plan Composite	0.60	5.32	24.72		

IRR since inception

	Investment	Adjusted Valuation	Inception
Growth	LPFA Alternative Debt	19,363,419	11.21
Growth	LPFA Alternative Debt	29,062,448	25.22
Growth	Global Property	199,322,336	1.26
Growth	Global Property	424,105	(0.14)
Growth	Infrastructure	17,514,000	25.08
Growth	Infrastructure	4,299,796	(15.40)
Growth	Infrastructure	22,575,715	8.74
Growth	Infrastructure	38,349,162	(73.54)
Growth	Infrastructure	2,179,082	(14.58)
Growth	Infrastructure	2,136,966	9.29
Growth	Infrastructure	3,800,089	9.53
CFM	Infrastructure	47,879,130	11.81
Growth	Infrastructure	95,600,639	6.30
Growth	Infrastructure	4,160,942	(3.65)
Growth	Infrastructure	34,662,173	3.02
Growth	Infrastructure	1,033,810	9.41
Growth	Private Equity	35,924,889	20.61
Growth	Private Equity	34,979,077	8.33
Growth	Private Equity	29,985,306	36.90
Growth	Private Equity	98,683,145	12.57
Growth	Private Equity	7,888,551	(1.62)
Growth	Private Equity	22,514,467	4.95
Growth	Private Equity	609,499	(6.70)
Growth	Private Equity	4,754,313	(5.34)
Growth	Private Equity	8,690,433	4.88
Growth	Private Equity	6,303,970	46.44
Growth	Private Equity	8,635,740	12.57
Growth	Private Equity	1,904,348	13.23
Growth	Private Equity	5,904,773	8.60
Growth	Private Equity	11,770,639	4.99
Growth	Private Equity	7,642,998	11.65
Growth	Private Equity	2,267,563	9.09
Growth	Private Equity	4,081,921	9.86
Growth	Private Equity	13,998,233	13.16
Growth	Private Equity	2,781,319	11.37
Growth	Private Equity	9,144,072	13.80
Growth	Private Equity	11,051,095	(5.14)
Growth	Private Equity	61,548,837	35.56
Growth	Private Equity	-	-
Growth	Private Equity	8,090,140	13.59
Growth	Private Equity	22,746,305	11.73
Growth	Private Equity	7,949,483	8.16
Growth	Private Equity	2,834,389	10.61
Growth	Private Equity	736,745	12.22
Growth	Private Equity	8,649,378	9.97
Growth	Private Equity	4,493,471	20.19
Growth	Private Equity	660,151	7.48
Growth	Private Equity	10,770,182	21.86
Growth	Private Equity	6,543,387	35.77
Growth	Private Equity	16,872,633	24.98
Growth	Private Equity	4,905,636	(10.66)
Growth	Private Equity	6,671,790	13.80
Growth	Private Equity	4,168,644	8.39
Growth	Private Equity	14,620,649	10.12
Growth	Private Equity	3,037,180	5.33
Growth	Private Equity	13,245,986	10.45
Growth	Private Equity	8,750,292	12.67
Growth	Private Equity	24,919,217	14.02
Growth	Private Equity	44,152,047	15.75
Growth	Private Equity	685,489	-
Growth	Private Equity	7,011,927	16.18
Growth	Private Equity	10,012,496	(11.50)
Growth	Private Equity	11,782,920	21.41
Growth	Private Equity	9,545,059	(11.85)
Growth	Private Equity	75	(99.90)

Significant valuation lags for some illiquid investments can lead to distortion of returns in the above table. Considering Internal Rate of Return (IRR) over the life of these long term assets can be a more informative performance indicator.

[1] Executive Committee is asked to note this report.

Report date: 31st January 2017

Lead Officer: Tom Richardson

Compliance Checks

<p>Governance issues:</p> <p>The monthly Investment Performance report is provided to all Board Members and is published on LPFA's website monthly. It is a key document to track the financial development of the fund.</p>	<p>Equalities impact:</p> <p>Scheme Members will have the opportunity to request alternative formats as required.</p>
<p>Financial implications:</p> <p>Implicit in this report.</p>	<p>Social, environmental, health and ethical issues:</p> <p>The move to greater online publication is in line with LPFA's environmental initiatives.</p>
<p>Legal implications:</p> <p>None – The production of this report is voluntary in nature.</p>	<p>Communication issues:</p> <p>The report is published monthly on the LPFA website.</p>
<p>Risk implications:</p> <p>This report is part of the process to manage and monitor the key investment and financial risks facing the fund.</p>	<p>Other relevant / supporting documentation:</p> <p>None.</p>

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It does not provide advice and should not be relied upon for any other purpose without seeking further advice.

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