

CITY OF
WOLVERHAMPTON
C O U N C I L

Urgent Decision

Friday, 8 April 2022

Dear Councillor

[I am now able to enclose, the following document that outlines the Urgent Decision agreed on 7 April 2022 by the Chair and Vice Chair of Pensions Committee in conjunction with the Director of Pensions and Head of Paid Service.]

Agenda No Item

5 **Urgent Decision (Pages 3 - 20)**

[To receive an update on developments in investment markets, asset allocation and investment performance over the latest quarter in relation to the West Midlands Pension Fund (Main Fund and Admitted Body Sub Funds).]

If you have any queries about this meeting, please contact the democratic support team:

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CITY OF WOLVERHAMPTON COUNCIL	Pensions Committee 30 March 2022
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Report title	Quarterly Investment Report to 31 December 2022	
Originating service	Pension Services	
Accountable employee	Tom Davies	Assistant Director, Investment Strategy
	Tel	01902 55 8867
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Report to be/has been considered by	Rachel Brothwood	Director of Pensions
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Recommendations for decision:

The Pensions Committee is recommended to:

1. Approve the WMPF's Investment Strategy Statement (ISS) for 2022.
2. Approve a hold on further allocations to emerging market equities, retaining the Fund's underweight allocation relative to the target set out in the ISS, pending reassessment of the long term Strategic Investment Allocation Benchmark as part of the 2022/23 triennial review.

The Pensions Committee is asked to note:

1. The global market and investment update paper prepared by the Fund's Investment Consultant, Redington.
2. Asset Allocation and Performance Reporting for the West Midlands Pension Fund (WMPF), Main Fund and Admitted Body Sub Funds.

1.0 Purpose

- 1.1 The investment report covers developments in investment markets, asset allocation and investment performance over the latest quarter in relation to the West Midlands Pension Fund (Main Fund and Admitted Body Sub Funds). Supporting responsible investment activities are covered in a separate paper.

2.0 Background

- 2.1 This paper aims to bring together routine investment matters relevant to the management and implementation of the Fund's investment strategy and related policies:
- I. The economic and market background environment in which the Fund operates and the outlook for different asset classes.
 - II. WMPF's investment strategy is outlined in the Investment Strategy Statement (ISS) and set in conjunction with the Funding Strategy Statement (FSS) to target a return over the long term to deliver the asset values required to meet benefit payments due to members. The Strategic Investment Allocation Benchmark (SIAB) forms part of the ISS and includes the target asset allocation and the levels of returns investment policies will be benchmarked against.
 - III. This report provides separate commentary on the Main Fund and Admitted Body Sub Funds (ABSF), established for former employers of the West Midlands Integrated Transport Authority Pension Fund, West Midlands Travel Limited (WMTL) and Preston Bus (WMPB).
 - IV. The SIAB policy targets were refreshed as part of the 2020 ISS review as approved by the Pensions Committee in March 2020. Implementation of the ISS changes continues to progress and this report adopts an interim benchmark comprising policy targets that reflect partial transition to the strategic targets outlined in the ISS, designed to better meet the future needs of the WMPF.

3.0 Executive Summary

- 3.1 As at 31 December 2021, the West Midlands Pension Fund's market value was £20.6 billion (incl. WMTL and PB ABSF). Stock markets generally rose in the quarter although performance varied by region and sector.
- 3.2 The Main Fund increased by 3.6% over the quarter matching the return of its benchmark. The Fund's growth assets (largely equities) delivered strong positive returns in the quarter and for the 12-month period. Income and stabilising assets performed less well. The Fund's returns are ahead of its benchmark for 1 year but have trailed over longer time periods.
- 3.3 The Admitted Body Sub Funds are ahead of the benchmark return over 1 year and longer time periods. For WMTL, positive relative performance for the quarter was driven

by the continued rebound in Multi-Asset Credit and Diversified Growth Funds. For both ABSF's Multi-Asset Credit contributed positively to deliver excess return over the quarter and year.

4.0 Markets and Investment Background

4.1 The Fund's Investment Consultant, Redington provides a quarterly update on the market background and market performance over the quarter. The report for the quarter to 31 December 2021, which further sets out the outlook for the Fund's key asset classes over the coming months, can be found in Appendix A.

4.2 Returns for the major asset classes for the period are shown below:

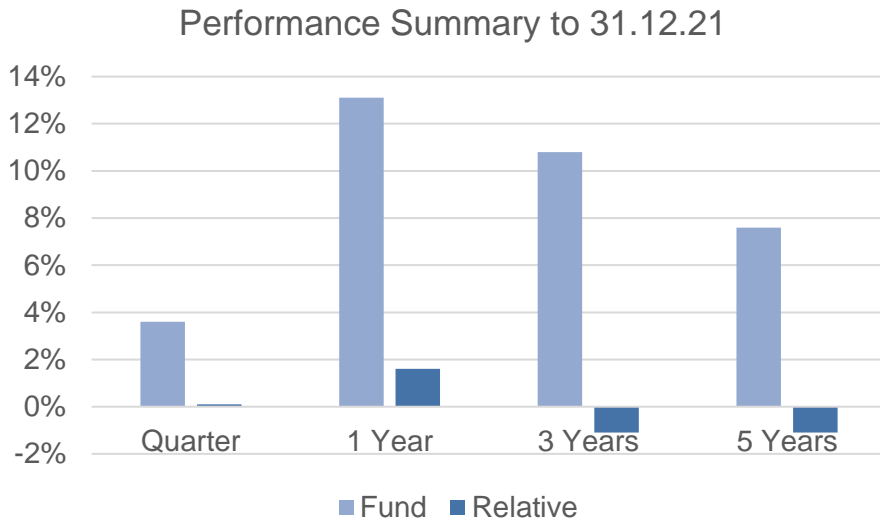
Total Return (£)	<u>Quarter</u>	<u>12</u> <u>months</u>
US Equity (S&P 500)	10.5%	29.9%
Emerging Markets (MSCI Emerging Markets)	-1.8%	-1.6%
UK Equity (FTSE All Share)	4.2%	18.3%
Gilts (GBI UK All Mats)	2.5%	-5.3%
Corporate Bonds (BofA ML Non-Gilts)	0.4%	-3.0%
High Yield (BofA ML Global High Yield)	-1.2%	2.3%

4.3 Equities advanced further in the quarter. In bond markets, government bonds generally outperformed corporate bonds.

5.0 West Midlands Pension Fund

Main Fund Performance Summary

5.1 The Main Fund delivered a return of 3.6% over the quarter matching the benchmark return. The Fund's relative returns versus its benchmark over various time periods are shown below.



5.2 The Fund outperformed its benchmark over the 12 months to end December. Private equity was a large contributor to positive relative performance as continued strong performance from the portfolio outperformed the listed equity index to which it is compared.

5.3 Infrastructure continues to be a major negative contributor to relative performance.

5.4 Over 3 years the main detractors remain infrastructure, the combined global equity portfolio and a drag from holding excess cash in rising markets.

5.5 The asset allocation of the Main Fund as at the quarter end is set out overleaf. Interim benchmark weights have been introduced to reflect partial transition to the strategic targets outlined in the Fund's ISS. Full adoption of the ISS targets will take some time, especially for illiquid assets such as infrastructure and private debt.

5.6 The Fund remained overweight in growth assets versus previous policy targets, as a result of existing equity positions and the strong performance from these asset types.

This report is PUBLIC
NOT PROTECTIVELY MARKED

	Weight @ 31/12/21	Final ISS target	Interim Benchmark
Developed Market Equity	48%	30%	40%
Emerging Market Equity	7%	12%	8%
Total Equity	54%	42%	48%
Private Equity	7%	6%	6%
Opportunistic	2%	2%	2%
TOTAL GROWTH	62%	50%	56%
Corporate Bonds	5%	4%	4%
Multi-Asset Credit/Specialist	4%	6%	6%
Emerging Market Debt	4%	5%	5%
Private Debt	1%	6%	1%
Infrastructure	4%	9%	7%
Property	7%	9%	9%
TOTAL INCOME	25%	38%	31%
Gilts	2%	2%	2%
ILG	6%	3%	5%
Low risk strategy (orphan liabilities)	2%	5%	4%
Cash	3%	2%	2%
TOTAL STABILISING (incl. low risk)	13%	12%	13%
TOTAL	100%	100%	100%

5.7 The Fund's focus remains on implementing the Strategic Asset Allocation (SAA) changes as agreed as part of the 2020 investment strategy review. Efforts have primarily focused on fixed income assets, with steps being taken to move towards new target weights in multi-asset credit, emerging market debt and private debt in particular, with equity holdings expected to be trimmed over the coming quarters. Options to add to the Fund's infrastructure investments are also being explored.

6.0 West Midlands Pension Fund

Detailed Performance Commentary

Growth Assets

- 6.1 The total combined equity fund delivered strong absolute performance during the quarter and for the 12 months to end December.
- 6.2 The Main Fund's passive equity assets are now almost exclusively managed by the investment pool company, LGPS Central Ltd (LGPSC) with a large proportion of these assets held in an LGPSC Global Equity passive fund. All passive funds performed broadly in line with the respective benchmarks during the quarter but with significant divergence between region and strategy as shown below.

	Quarter	12 months
LGPSC UK (FTSE All Share)	4.1%	17.8%
LGPSC Global ex UK	4.1%	15.7%
LGPSC Dividend Growth (Blended)	6.7%	18.8%
LGPSC Climate Multi-Factor	8.8%	23.4%

- 6.3 Over the quarter the Fund's actively managed global equities comprised the LGPSC Active Equity fund, an allocation to sustainable equity managers and a basket of global equity futures.
- 6.4 For the quarter the LGPSC Global Active Equity Fund returned 5.4% underperforming by the benchmark. The fund is comfortably ahead of its benchmark over 1 year (returning 22.3%). The LGPSC Global Active Equity Fund is a blended multi-manager portfolio consisting of 3 underlying portfolios.
- 6.5 Emerging markets lagged developed markets over the quarter but the Fund's Emerging Market Equity portfolio outperformed its benchmark.
- 6.6 The private equity portfolio outperformed during the quarter and significantly outperformed over 1 year. The benchmark used for this asset class comprises listed equities plus an outperformance target (with a 3 month lag). Over longer time periods the portfolio has met expectations.

	Quarter	1 Year	3 year
Private Equity Portfolio	2.6%	42.3%	17.3%
FTSE All World +1% (3m lagged)	1.7%	23.7%	12.8%

Income Assets

- 6.7 The Fund's income segment trailed its respective benchmark over the quarter and over 12 months. The aggregate property portfolio has underperformed the benchmark over shorter-term time periods. The Direct portfolio has performed very well (significantly ahead of IPD/MSCI indices) due to resilient performance from sectors such as industrial, supermarket and offices. The Indirect portfolio performance has been weaker over most time periods and drags the aggregate portfolio below its benchmark.
- 6.8 The infrastructure portfolio delivered has delivered a positive return over the course of the quarter and year but as previously reported the portfolio has significantly underperformed its target return (CPI +4%) over most time periods.

	Quarter		1 Year		3 Year	
	Return	Relative	Return	Relative	Return	Relative
Infrastructure Portfolio	0.9%	-2.1%	3.6%	-5.5%	0.9%	-5.4%
Property Portfolio	4.8%	-1.6%	14.0%	-2.7%	6.5%	-0.2%

- 6.9 The Fund's fixed interest holdings have generally performed well over the year. The emerging market debt holdings are ahead of benchmark (the LGPS Central fund making a strong start since launch in December 2020). The Fund's multi asset credit investment had a good twelve months (despite underperforming at the onset of the pandemic) as high duration assets such as sovereign and investment grade bonds underperformed high yield. The Fund remains tilted to floating-rate assets. The Fund's corporate bond allocations delivered broadly in-line returns over the final quarter but continue to outperform their benchmarks over longer time periods.

	Quarter		1 Year		3 Year	
	Return	Relative	Return	Relative	Return	Relative
Corporate Bonds	0.2%	-0.2%	-2.5%	0.6%	6.1%	1.6%
Multi Asset Credit	0.2%	-0.1%	2.6%	0.4%		
Emerging Market Debt	-1.3%	0.6%	-2.3%	2.2%	3.9%	2.0%

Stabilising Assets

- 6.10 Stabilising Fixed Income: The stabilising portfolio comprises the Fund's exposure to government bonds and index linked securities and cash. The stabilising component of the fixed interest portfolio delivered positive returns for the quarter as yields on sovereign debt fell (meaning prices rose). This performance should be expected when risky assets such as equities deliver such strong returns.
- 6.11 Over 1 and 3 year timeframes the stabilising portfolio has outperformed its benchmark.

Currency

- 6.12 The Fund currently only hedges a small proportion of its foreign currency exposure (25% for EUR equities). The hedge has had a positive impact on performance over the course of the last 12 months and longer. It has however, had a larger impact on the performance of the benchmark (which reflects higher hedge ratios for these currency pairs) impacting relative returns (i.e. versus benchmark). The hedge overlay is primarily a risk reduction tool.

7.0 Admitted Body Sub Funds (ABSFs)

- 7.1 The current allocation for the two ABSFs is shown below.

WMTL asset allocation (excluding buy-in policy):

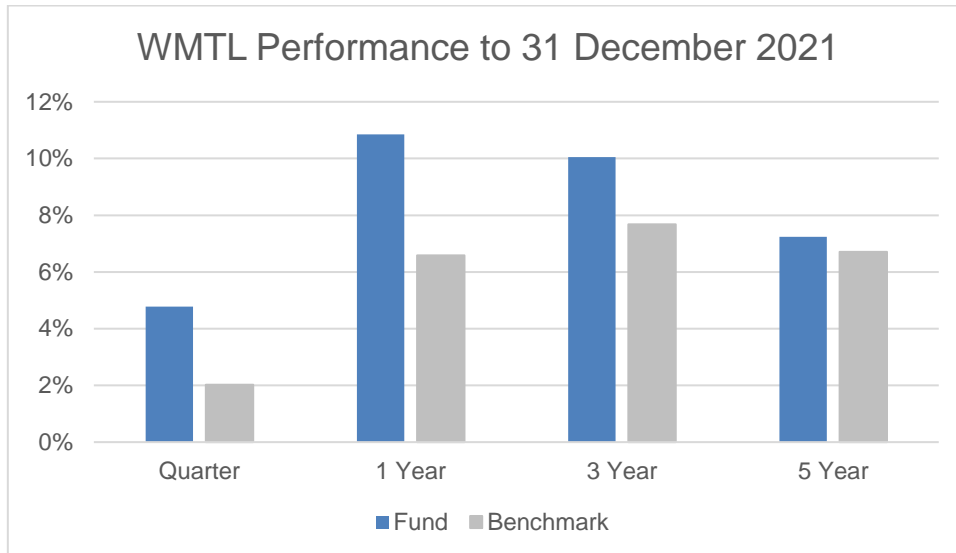
Asset Class	Value @31/12/21	Target Weight	Current %
Total Equities	£ 96,433,390		31.3%
UK Equities	£ 6,749,672		2.2%
North America Equity Index	£ 38,129,483		12.4%
Europe (ex UK) Equity Index	£ 23,831,722		7.7%
Japan Equity Index	£ 7,802,392		2.5%
Asia Pac exJap Dev Equ Ind	£ 7,891,842		2.6%
World Emerging Markets Equ Ind	£ 12,028,278		3.9%
Newton Real Return	£ 58,396,424		18.9%
Baillie Gifford DGF	£ 40,035,323		13.0%
Total Equities & DGF	£ 194,865,136	16.0%	63.2%
Corporate Bonds	£ 10,330,432		3.3%
Multi Asset Credit	£ 53,168,359		17.2%
LDI	£ 48,368,973		15.7%
Total Fixed Interest & LDI	£ 111,867,764	84.0%	36.3%
Cash	1,778,785.23	0.0%	0.6%
Total	£ 308,511,685.52	100%	100%

PB asset allocation:

Asset Class	Value @31/12	Target Weight	Current %
Total Equities	£ 2,896,210	15.00%	14.0%
UK Equities	£ 235,816		1.1%
Total Overseas Equities	£ 2,660,393		12.8%
North America Equity Index	£ 1,249,110		6.0%
Europe (ex UK) Equity Index	£ 420,617		2.0%
Japan Equity Index	£ 326,230		1.6%
Asia Pac exJap Dev Equ Ind	£ 222,526		1.1%
World Emerging Markets Equ Ind	£ 441,911		2.1%
Total Fixed Interest & Cash	£ 17,814,194	85.0%	86.0%
Corporate Bonds	£ 5,559,383		26.8%
Multi Asset Credit	£ 5,819,460		28.1%
LDI	£ 6,163,150		29.8%
Cash	272,200.62		1.3%
Total	£ 20,710,403.39	100%	100%

WMTL Performance

- 7.2 The Fund outperformed for the quarter and also significantly for 1 year. The Fund is also of its benchmark for 3 years. Relative performance is driven by the multi-asset credit and diversified growth fund holdings which outperformed 'base rate plus' target performance.



Fixed Income

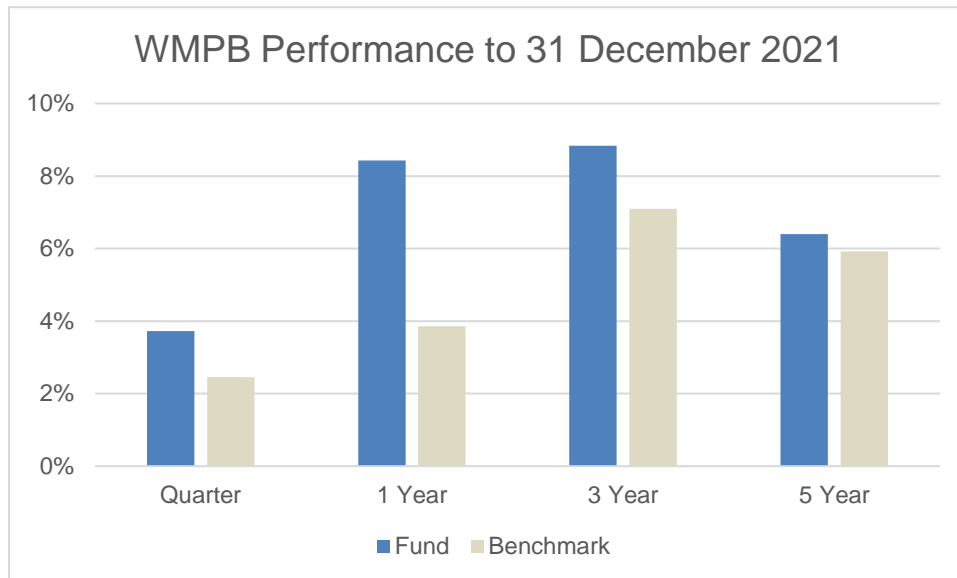
- 7.3 Alongside the multi-asset credit holding in the bond portfolio, there are passive index linked gilts and actively managed corporate bonds. The corporate bond mandate is performing well, ahead of benchmark over the 1-year period.

Diversified Growth Funds

- 7.4 Both Diversified Growth Fund holdings delivered positive absolute and relative performance for the quarter and 1 year performance is now ahead of target. In both cases, equities were the largest contributor to quarterly gains. More defensive holdings held back performance for both funds.

PB Performance Summary

7.5 PB performance is summarised below. The Fund very slightly underperformed for the latest quarter but significantly outperformed for 1 year. Relative performance for PB is almost entirely driven by the Multi-Asset Credit allocation, for the same reasons as those described above (for WMTL).



7.6 PB's holding in passive equities, index-linked gilts, multi-asset credit and corporate bonds are the same as those held by WMTL, with performance outlined above.

8.0 Investment Pooling Update – LGPS Central Ltd

8.1 The Fund continues to work closely with its investment pool company LGPS Central Ltd (LGPSC) and Partner Funds to look for opportunities to transition assets where it can see value add from doing so including the opportunity to make cost savings.

9.0 Investment Strategy Statement (annual review)

9.1 In defining the implementation of the Fund's investment strategy the ISS sets out the Strategic Investment Allocation benchmark (SIAB) including the permitted ranges for each asset type.

9.2 A full in-depth review of the Fund's ISS is completed every 3 years in conjunction with the triennial funding and valuation process. In addition, interim annual reviews are also completed to complement this cycle.

9.3 The Fund completed a full review of its investment strategy over 2019/20 resulting in significant changes to the Funds SIAB being approved in March 2020. Implementation of these strategy changes is underway as communicated separately to this Committee. As

the Fund is significantly increasing its allocation to private markets it will take time until the Funds positioning closely matches the policy targets stated in the ISS.

- 9.4 The interim review referenced here confirms these strategy changes remain appropriate for the Fund to meet its longer-term objectives. The Fund's Investment Consultant, Redington, who advised the Fund during the 2019/20 review has provided Fund Officers with a confirmation statement confirming their ongoing support for the strategy changes being implemented.
- 9.5 Whilst the longer-term strategy remains the focus and is unchanged, Fund Officers are alive to the significant changes to the investment and economic landscape that have occurred since 2020 and more recently the geopolitical risks prevalent with the Russian invasion of Ukraine. Given this backdrop and the Fund's overarching goals, including with regards to sustainability objectives, it is proposed that the increase in allocation to emerging markets equities, which was agreed within the Liquid Growth portion of the SIAB, is put on hold for the time being pending a full review of the Fund's existing and potential holdings in this area. The Committee is asked to approve the hold on further allocations to emerging market equities, pending reassessment as part of the 2022/23 triennial review.
- 9.6 The Investment Strategy Statement (ISS) has been reviewed for 2022, with minor typographical changes incorporated and this is included in Appendix B for Committee approval. A broader review of the ISS following the triennial funding and investment strategy review will be undertaken over 2022/23, with changes subject to further discussion with the Committee and consultation with relevant stakeholders.

10.0 Financial implications

- 10.1 The financial implications are set out throughout the report.

11.0 Legal implications

- 11.1 This report contains no direct legal implications.

12.0 Equalities implications

- 12.1 This report contains no direct equal opportunities implications.

13.0 Other implications

- 13.1 There are no other implications.

14.0 Schedule of background papers

- 14.1 Investment Strategy Statement -
<https://www.wmpfonline.com/CHttpHandler.ashx?id=16022&p=0>
- 14.2 Funding Strategy Statement -
<https://www.wmpfonline.com/CHttpHandler.ashx?id=12481&p=0>

15.0 Schedule of appendices

- 15.1 Appendix A – Redington Economic and Market Update
- 15.2 Appendix B – Investment Strategy Statement (2022)

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Urgent Decision Record

Date of Committee Meeting	30 March 2022
Title of Committee Report	Quarterly Investment Report to 31 December 2022

Relevant Section of the Admin Authority Constitution (Taken from Pension Committee Terms of Reference)	<p>URGENT DECISIONS</p> <ul style="list-style-type: none"> The Chair, Vice Chair or nominated person in consultation with the Director of Pensions shall be able to exercise the powers of the Committee in any matter of immediate urgency which cannot wait until the next meeting. Decisions made under this provision will be reported to the next available meeting of the Committee.
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Background to Decision	<p>Every Year, the Fund undertakes a review of its Investment Strategy Statement (ISS) and its approach is set in conjunction with the Funding Strategy Statement (FSS) to target a return over the long term to deliver the asset values required to meet benefit payments due to members. The Strategic Investment Allocation Benchmark (SIAB) forms part of the ISS and outlines the target asset allocation and levels of returns investment policies will be benchmarked against.</p> <p>At times, the committee will also be asked to decide on individual implementations of investment allocation that are deemed to fall outside of the agreed SIAB when market conditions determine the need to re-assess the position. In this instance, the decision relates to the significant investment and economic landscape that have occurred since the start of the global pandemic and more recently, the geopolitical risks that have arisen with the Russian invasion of Ukraine and its implications for the Fund's allocation to emerging market equities. The SIAB for this asset class is to be reviewed as part of the 2022/2023 triennial review.</p>
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Urgent Decision Record

Reason the decision cannot be determined at Committee	<p>The meeting held on 30 March 2022 was not quorate, therefore, it is deemed necessary to seek an urgent decision on the Fund’s Investment Strategy Statement and the SIAB in emerging market equities to allow for continued operation of the Fund until such time as a rescheduled meeting may take place.</p> <p>A report will be presented to committee at its next scheduled meeting to confirm the decision being taken.</p>
Committee Report	Appended to this notice with the ISS

<p>Action undertaken to determine decision (including advice taken, meetings held, etc.)</p>	<p>The report and ISS appended to this notice was presented to and discussed at the inquorate meeting held on 30 March 2022. The report was also published online on modern.gov in accordance with statutory timescales and circulated to all Committee members.</p> <p>Six elected Councillors including the Chair and Vice Chair attended the meeting in person where the report was discussed, whilst a further six dialled in and attended virtually. In accordance with regulations virtual attendees do not count towards the quorum. Members attending online are permitted to partake in discussion but are not permitted to vote.</p> <p>No objections were raised from the Committee members in attendance (in person or online).</p>
Urgent Decision Process Approval	<p>Following discussion, the Chair and Vice Chair concluded that the decision</p> <p>*was urgent and determined the recommendations agreed [REDACTED]</p> <p>*delete as appropriate</p>

Urgent Decision Record

Recommendations outlined by Officers	<ol style="list-style-type: none"> 1. To approve the WMPF's Investment Strategy Statement (ISS) for 2022 2. To approve a hold on further allocations to emerging market equities, retaining the Fund's underweight allocation relative to the target set out in the ISS, pending reassessment of the long term Strategic Investment Allocation Benchmark
Decision taken under urgent powers	<p>*To approve the recommendations [REDACTED]</p> <p>*delete as appropriate</p>

Date Completed	07/04/22
Signed by Chair of Pensions Committee	[REDACTED]
Signed by Vice Chair of Pensions Committee	[REDACTED]
Signed by Director of Pensions	[REDACTED]

Urgent Decision Record

Signed by relevant Head of Service	
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