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CITY OF WOLVERHAMPTON COUNCIL

# Pensions Committee

5 September 2018

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|---|---|---|
| **Report title** | Quarterly Investment Report to 30 June 2018 | |
| **Originating service** | Pension Services | |
| **Accountable employee(s)** | Jill Davys<br>Tel<br>Email | Assistant Director – Investment & Finance<br>01902 550555<br>jill.davys@wolverhampton.gov.uk |
| **Report to be/has been considered by** | Rachel Brothwood<br>Tel<br>Email | Director of Pensions<br>01902 551715<br>rachel.brothwood@wolverhampton.gov.uk |

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**Recommendations for noting:**

The Committee is asked to note:

1. The global economic and market update paper prepared by the fund's adviser, Hymans Robertson

2. The Fund's Responsible Investment Activities including: the Fund's voting activity for the three months ending 30 June 2018, including Appendix B; the issues discussed by LAPFF are set in the Quarterly Engagement Report which is available on the LAPFF website: http://www.lapfforum.org/publications/qrtly-engagement-reports/ ; progress against the Fund's 2018 stewardship themes; other activity undertaken to ensure the Fund continues to develop and support its approach to Responsible Investment

3. The update on Investment Pooling

4. Quarterly Performance Reporting for the West Midlands Pension Fund

5. Quarterly Performance Reporting for the West Midlands Integrated Transport Authority

## 1.0 Purpose

1.1 The quarterly investment report covers the range of investment issues for consideration by the Committee, primarily the economic and investment background, the Fund's responsible investment activities, an update on LGPS Central investment pooling and the quarterly performance of both the West Midlands Pension Fund and the West Midlands Integrated Transport Authority.

## 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. The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests. The Fund will also challenge companies who do not meet either the standards set by their peers or reasonable expectations as measured by best practice. The Fund's approach is part of its overall investment management arrangements and its active Responsible Investment Framework and Voting Principles. There are three pillars of responsible investment that we focus on: Selection of our assets, Stewardship of our assets and Transparency & Disclosure. Each plays a key role in protecting and enhancing Fund Asset Values

III. The requirement to deliver investment in accordance with the criteria laid down by the Secretary of State led to the creation of LGPS Central, a jointly owned investment management pool established by West Midlands Pension Fund and seven partner Funds to deliver investment pooling. LGPS Central Ltd is the FCA authorised company operator established to help deliver investment pooling through development and launch of collective investment vehicles designed to assist in delivering higher longer-term risk adjusted returns after costs and meet partner Funds' strategic investment objectives.

IV. The Fund's investment strategy is outlined in the approved Investment Strategy Statement (ISS), set in conjunction with the Funding Strategy Statement 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 returns investment policies will be benchmarked against.

V. WMITA Pension Fund's investment strategy is set out in its Investment Strategy Statement, which also contains the fund's investment beliefs. An updated strategy was approved by the Committee on 21 March 2018.

## 3.0 Summary

3.1 During the quarter the West Midlands Pension Fund's market value increased from £15.4 billion to £15.6 billion and the West Midlands Integrated Transport Authority Funds value increased to £495.4 million from £491.9. Equity markets rallied in the second quarter following a period of volatility in the first quarter, led higher by stronger US and UK markets, although Emerging markets fell on concerns over US tightening and $ strength. Bond markets were little changed on the quarter having risen initially then falling back due to concerns over escalating trade wars, US rates increased by 0.25% to 2.0% as the economic outlook strengthened.

3.2 The Fund continues to demonstrate its commitment to responsible investment in a number of ways. The Chair of the Pension Fund has recently been appointed to the LAPFF Executive Committee. The Fund continues to be supported by the Investment Director, Responsible Investment and Engagement, LGPS Central Ltd and the Director of Pensions Chairs the Responsible Investment Working Group of the Practitioners Advisory Forum. The key themes for responsible investment for the Fund for this financial year cover climate change, cyber security and diversity and the Fund is working closely with other organisations to undertake engagement with the companies in which it invests.

3.3 Following the launch of the first three passive equity sub-funds in April, efforts have focused on the development of the first active equity sub-fund, global external equities with a launch date scheduled for November. Work has commenced on a range of other sub-funds with the tender process underway for external emerging market managers. Set-up costs for LGPS Central have now been finalised at just over £4million with WMPF costs being an eighth of this at £502,000.

## 4.0 Economic and Investment Background

4.1 The Fund's Investment Adviser, Hymans Robertson provides a quarterly update on the economic background and market performance over the quarter to 30 June 2018. The report further sets out the outlook for the Fund's key asset classes over the coming months. The report can be found in Appendix A.

4.2 Equity markets rallied in the quarter to June following setbacks earlier in the year, with the UK market putting in a strong performance at +9.2% over the quarter to June outperforming other equity markets which were up 2.8%, although concerns about rising interest rates and tariff wars impacted on the performance of emerging markets which were the only area where equities fell over the quarter ending the period down by 3.7%. Bond markets were little changed on the quarter and property was marginally positive at 2.2%. In currency markets, sterling continued to be under pressure over Brexit, economic growth and political stability concerns.

4.3 In terms of the outlook, equity market valuations are looking stretched, although companies in aggregate are still delivering good earnings growth. Private equity markets have seen considerable inflows of capital in recent years and again valuations are looking stretched with investors chasing multiples higher. As with private equity, the infrastructure and property asset classes have also seen strong inflows as investors search for income, with infrastructure and property offering investors those stable income streams at a time when income is scarce in bond markets. Bond markets seem to be rangebound, although opportunities for investment can potentially be found in broader credit markets and emerging market debt which has been sold off in recent months.

## 5.0 Responsible Investment Activities

*Stewardship*

5.1 The Fund's strategy is to engage with its investee companies and other key stakeholders through partnerships and directly. The Fund aims to protect and increase shareholder value by engaging on a range of financially material ESG investment factors. A significant part of the Fund's engagement program is implemented through partnerships including the Principles for Responsible Investment (PRI), the Local Authority Pension Fund Forum (LAPFF), Institutional Investors Group on Climate Change (IIGCC) and the UK Pension Fund Roundtable.

5.2 Through LAPFF, the Fund engaged with 17 companies during the quarter. Most engagements concerned climate change. Two engagements led to a substantial improvement and four engagements led to a moderate improvement. Most engagements were conducted by meetings with specialist staff or the company Chair. A summary of LAPFF's engagement activities for the quarter are provided alongside the voting activity report in Appendix B. The issues are set out in the Quarterly Engagement Report which is available on LAPFF's website:

http://www.lapfforum.org/publications/qrtly-engagement-reports/

*Stewardship Themes*

5.3 The Fund's stewardship themes for 2018 are climate change, cyber security and diversity. These themes have been selected because they have both financial relevance and resonance with the Fund's stakeholders. The Fund is, primarily through partnerships, engaging with companies, fund managers and other relevant organisations, and using its voting rights to drive change and signal the importance of these issues to institutional investors. Progress on each theme is reported to the Pensions Committee on a quarterly basis.

*Climate Change*

5.4 The Fund is leveraging its partnership arrangements with the Transition Pathway Initiative (TPI) and Climate Action 100+ (CA100+), and LGPS Central's internal RI resources. The Fund is a founding partner of TPI, and integrates TPI's carbon risk analyses into its voting decisions. The keynote speaker at the TPI's State of Transition conference, held at the London Stock Exchange in July, was Archbishop Justin Welby. The Archbishop said that "TPI must lead to outcomes", a position echoed by the Fund. The CA100+ has three outcomes-led objectives for engagements with the 161 companies within its coverage: to improve governance of climate change, to improve

reporting of climate risks to investors, and to reduce emissions in line with the Paris climate accord. CA100+ has released the final list of companies in its coverage, which is based primarily on a GHG emissions ranking. LAPFF engaged 16 companies during the quarter on climate change. This included, in partnership with the 50/50 project, ExxonMobil Corporation. The company has recently committed to reduce methane leaks by 15% and reduce flaring of unwanted gas by 25%. The Fund has voted against the Chairs of all companies scoring a rating of zero on the TPI's climate change governance framework. As the person most accountable for company strategy, the Fund does not think it acceptable to vote in support of a Chair of a high impact company scoring so poorly on climate change governance.

*Cyber Security*

5.5 Within the PRI's collaborative engagement on cyber security, which includes c50 listed companies, the Fund has co-led on two UK-based companies. These engagements were progressed during the quarter in review with company meetings at each engagement target. Having been initially assessed against a range of indicators drawn up the PRI, the companies both demonstrated improvements to their management of cyber-security risks, with one company improving from a score of 10/14 to 14/14 and the other improving from 9/14 to 14/14. Engagement with other companies in the collaboration continues.

*Diversity*

5.6 The Fund has continued to press for improvements in diversity both at investee companies and at investment managers. With regards to investee companies, the Fund has decided to vote against the Chairs of Nominations Committees that have failed to achieve 25% women on the boards of FTSE 100 companies (the threshold is 20% for FTSE 250 companies). This voting strategy, which links to the Fund's engagement strategy, aligns with the Fund's membership of the 30% Club Investor Group, as well as its support for the Davies Review, the Hampton-Alexander Review and WMPF's Voting Principles. Through its voting partner, the Fund has engaged Centrica Plc on gender diversity on the board, which currently stands at less than 25%. Throughout the year three directors were female although one has stepped down and the company is yet to replace her. Whilst the company Chair will step down this year and the chairmanship of the Nominations Committee will pass to another individual, it is expected that the company will review its board composition with an expectation to achieve greater than 25% female representation on the Board. Finally, through the 30% Club and LGPS Central, the Fund is engaging a company in the energy sector. Whilst the primary objectives for the engagement concern gender diversity, the Fund expects the company to have an approach that covers broader aspects of diversity including ethnicity.

*Shareholder Voting*

5.7 The Fund currently has its own bespoke UK voting policy which our voting provider, Pensions and Investments Research Consultants Ltd (PIRC), executes on the Fund's behalf directly and via LGPS Central. The Fund follows the voting advice of PIRC for European, US, Japanese and Pacific region company meetings.

5.8 The voting activity for the quarter across markets and issues can be found in Appendix B. During the period the Fund voted at a total of 328 company meetings – 36 UK, 107 European, 61 North American, 7 Japanese, 70 Asia (excluding Japan), 2 Australasian/ South African and 45 in the rest of the world. During this period there were 19 meetings where the Fund supported all the resolutions put forward by companies. Approximately 35% of the resolutions were not supported by the Fund. In the UK market, the largest number of resolutions that were opposed concerned the re-election of directors (usually voting against non-independent non-executive directors where the Fund or its advisors do not see sufficient independent oversight on a company board) and remuneration.

5.9 For the Millennium & Copthorne Plc AGM, the Fund opposed the re-election of some of the independent non-executive directors and supported a shareholder resolution calling for the re-instatement of the regular disclosure of asset re-valuations. Around a third of the minority investors opposed the re-election of five non-executives directors. Around 65% of minority shareholders supported the shareholder resolution. For the Hang Lung Properties Limited AGM, the Fund opposed the re-election of the Executive Chairman and the Non-Executive Chairman of the Nomination and Remuneration Committee. The Fund does not tend to support long-term Executive Chairs where there is insufficient separation of roles and responsibilities with the CEO; whilst the company states that the Chairman of the Nomination and Remuneration Committee is an independent non-executive, the Fund does not agree on grounds of tenure (the director joined the board in 1980) and voted accordingly. For the WPP Plc AGM, the Fund decided to abstain the re-election of the Chairman. Although the Chairman also chairs Smith & Nephew Plc, and there are some concerns regarding the handling of the recent departure of a long-standing CEO, the Fund did not oppose the re-election of the Chairman, because the company needs an individual to act as temporary Executive Chair, providing stability while a new CEO is recruited.

*LGPS Central Responsible Investment*

5.10 The Fund has a number of investment mandates agreed with LGPS Central. Through its *Responsible Investment & Engagement Framework* and its Statement of Compliance with the UK Stewardship Code, LGPS Central is able to help implement the Fund's own *Responsible Investment Framework*. LGPS Central issues Quarterly Stewardship Reports to demonstrate progress on matters of investment stewardship.

## 6.0 Investment Pooling Update – LGPS Central

6.1 As reported at the Pensions Committee meeting in June, the first three sub-funds covering passive internal equities (UK; Global ex UK and Global Dividend Growth) went live at the start of April and are performing in line with expectations. The key focus from an investment perspective during the quarter has been the development of the active external global equity sub-fund, which is now scheduled for launch at the end of November 2018. Partner Funds have been actively engaging with LGPS Central Ltd in the development of this and have been kept updated of progress. Work is now underway on transition arrangements to assist Partner Funds with the transition of existing assets across to the new sub-fund once launched.

6.2 The emerging market external active sub-fund is currently in development phase and a strong response from potential providers has been received and currently being reviewed. Partner Funds are working closely with the company to develop the sub-fund structure and style to ensure that it meets the strategic requirements of the Funds themselves.

6.3 Governance arrangements for LGPS Central Limited include a Shareholder Forum (as the group of "owner" representatives) and the Joint Committee (focused on investment matters and client-side). The Practitioners Advisory Forum, PAF (Officer group) support both groups and acts as a liaison with the Company.

6.4 The Fund's Chair of Pensions Committee Chairs the Joint Committee and the second meeting of the Joint Committee took place at the end of June and received presentations from the company on the product development pipeline, working in the FCA regulatory environment and responsible investment. An update on the work of the Practitioners Advisory Forum and a draft Pool Risk Register were also reviewed. A link to the papers for the Joint Committee can be found here: http://www.cheshirepensionfund.org/governance-of-the-cheshire-pension-fund/lgps-central-committee/

6.5 The next meeting of the Shareholders Forum is due to take place on 10 September 2018 and is due to be held in Wolverhampton. This will also see the company AGM take place on the same day.

6.6 The final cost of setting up the jointly owned company (over the period July 2016 to launch in April 2018) was just over £4 million; this has been shared equally between the Partner Funds, with West Midlands' share being slightly over £500,000. Not included with this are the significant transition costs as existing investment mandates are unwound and funds are transferred into new collective investment vehicles. It is not possible to accurately predict these costs, but the initial business case included an estimate of approximately £50 million for transition to pooled vehicles.

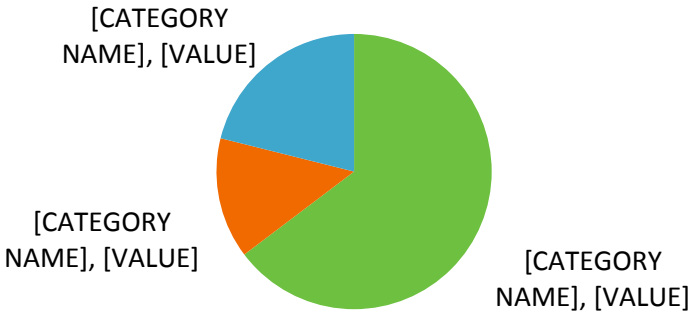
| | **Final outturn LGPSC Ltd set-up costs to 31st March 2018 £000** |
|---|---|
| Staff Costs | 1,354 |
| Professional Advisors | 1,366 |
| Other (inc. Premises, Technology, FCA fees) | 1,294 |
| **Total** | **4,014** |
| | |
| **West Midlands' Share (one eighth)** | **501** |

## 7.0 West Midlands Pension Fund Quarterly Performance

7.1 At the end of the first quarter of the financial year 2018/19, the value of the West Midland Pension Fund had risen to £15.6 billion at 30 June 2018 from £15.4 billion at the end of the year to 31 March 2018. The current asset allocation of the portfolio at the end of the quarter compared to the strategic targets is set out in the table below:

| Asset class | Value (£m) | Fund allocation (%) | Policy target (%) | Difference (%) |
|---|---|---|---|---|
| Quoted equities | 8,649 | 55.4 | 48.0 | 7.4 |
| Private equity | 1,261 | 8.1 | 10.0 | -1.9 |
| Special opportunities | 228 | 1.5 | 2.0 | -0.5 |
| Currency Hedge | (37) | -0.2 | | 0.2 |
| Total growth assets | 10,101 | 64.9 | 60.0 | 4.9 |
| UK gilts | 167 | 1.1 | 2.0 | -0.9 |
| Index linked gilts | 766 | 4.9 | 5.0 | -0.1 |
| Cash | 575 | 3.7 | 2.0 | 1.7 |
| Corporate bonds | 395 | 2.5 | 2.0 | 0.5 |
| Cashflow matching fixed interest | 313 | 2.0 | 3.0 | -1.0 |
| Total stabilising assets | 2,216 | 14.2 | 14.0 | 0.2 |
| Specialist fixed interest | 172 | 1.1 | 3.5 | -2.4 |
| Emerging market debt | 597 | 3.8 | 3.5 | 0.3 |
| Property | 1,272 | 8.1 | 10.0 | -1.9 |
| Insurance linked funds | 485 | 3.1 | 3.0 | 0.1 |
| Real assets and infrastructure | 772 | 4.9 | 6.0 | -1.1 |
| Total income assets | 3,299 | 21.1 | 26.0 | -4.9 |
| **TOTAL** | **15,616** | **100.0** | **100.0** | **0.2** |

The key asset allocation strategies are shown in the chart below:

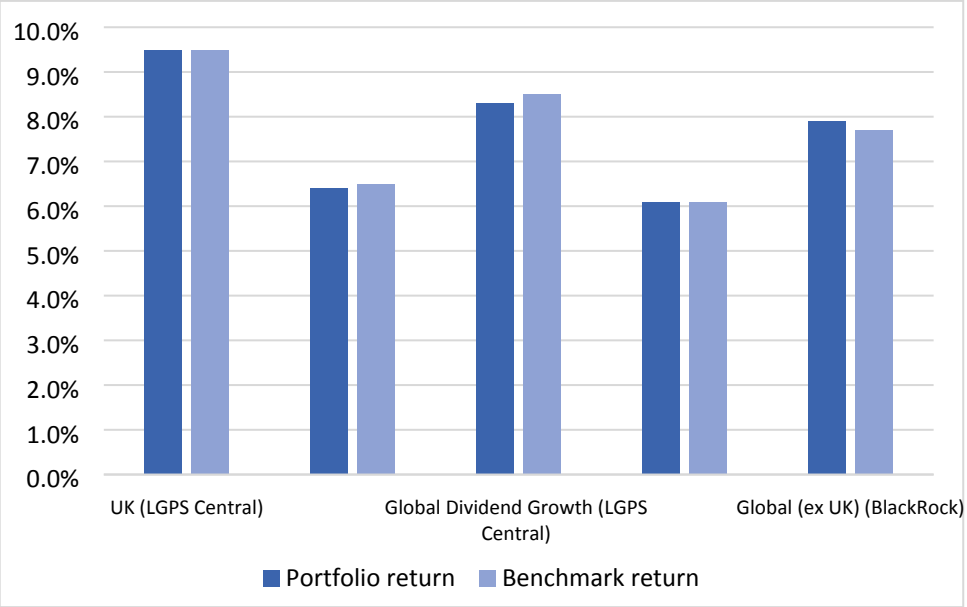



The Fund remained overweight in growth assets, although recent investments in infrastructure assets has seen the income allocation rise to just over 21%, up from 19.8% at the year end. Stabilising assets moved back towards a neutral position as the high levels of cash at the year-end were deployed to make investments in income assets.

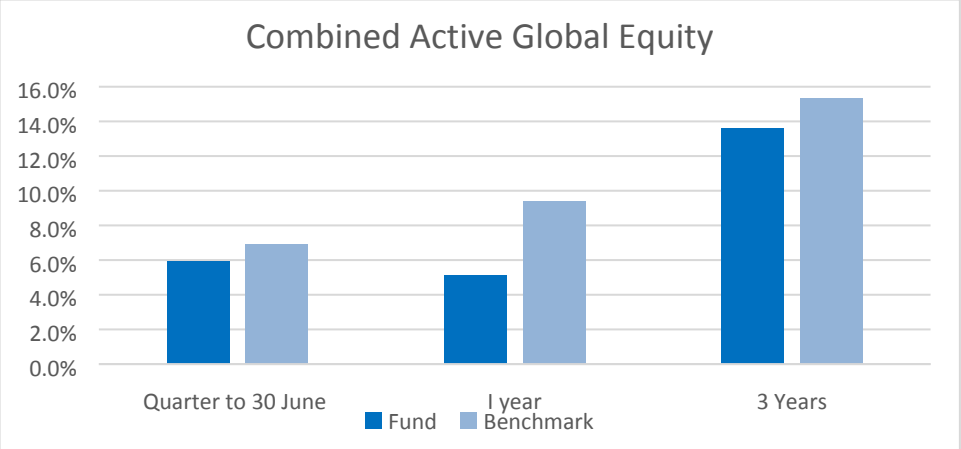
7.2 Performance of the different asset classes is set out below in line with the allocation strategies for the Fund.

***Growth Assets***

7.3 Passive Equity performance: the passive equity portfolio which transitioned to LGPS Central Ltd at the start of the quarter performed broadly in line with the respective benchmarks during the quarter, although the divided growth fund slightly underperformed its benchmark by 0.2% due to being unable to hold Taiwan stocks at the outset of the transition.

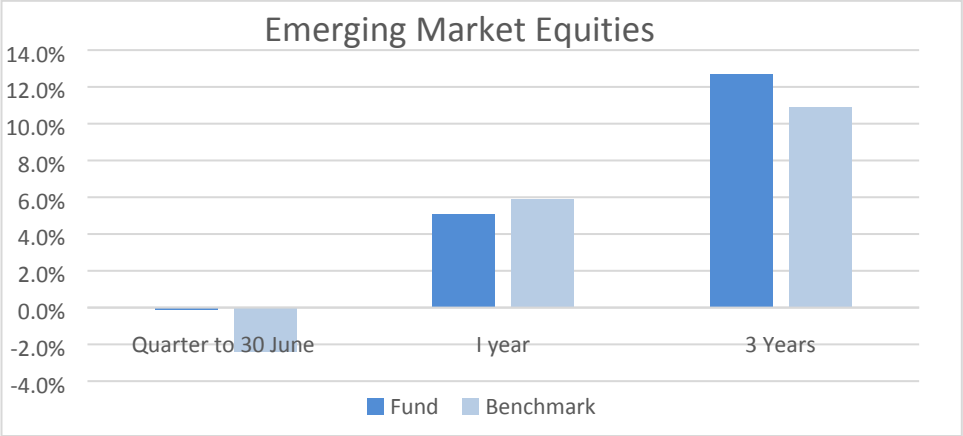



7.4 Global Active Equities performance: This portfolio comprises internal and external portfolios. The combined performance of the global equity fund over the quarter delivered a return of 5.9% compared to the benchmark return of 6.9%, with a return of 5.1% over the year and a benchmark return of 9.4%. Over the 3-year period, the returns for the Fund were 13.6% compared to a benchmark of 15.3%.

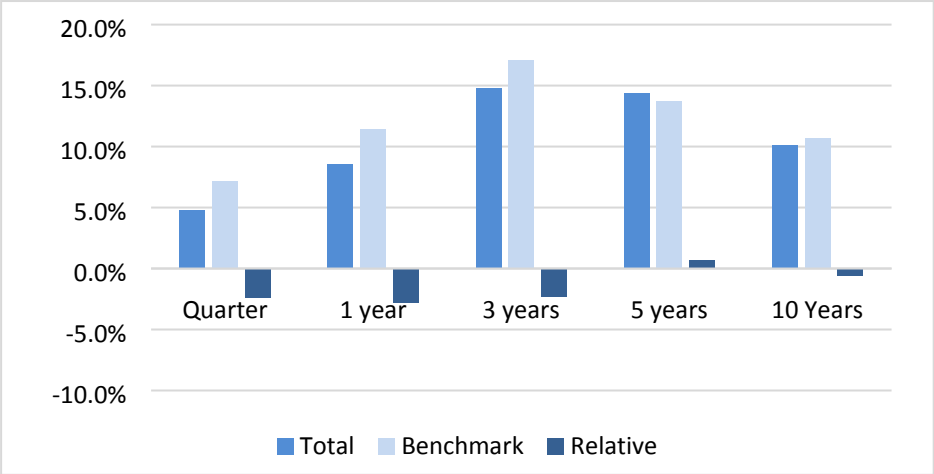


The internal active portfolio has been managed on a care and maintenance basis under an advisory agreement with LGPS Central Ltd from the start of the financial year following the resignation of the portfolio manager. The portfolio has retained a 'value' based approach which has continued to be impacted by the market's preference for growth stocks and in particular highly valued technology companies. This has had a detrimental impact on performance over both the quarter and the year, returning 5.1% and 4.1% against a benchmark return of 6.9% and 9.4% over the quarter and year respectively. The external global active portfolio showed a slight underperformance against benchmark over the quarter returning 6.6% versus 6.9%. Over the year the fund was similarly impacted by an underweight to the high performing technology sector with a return of 4.4% compared to benchmark of 9.4%, however over the longer term the performance matched the returns on the benchmark at 15.2%.

7.5 Emerging Market Equities: As noted earlier, emerging market equities were the one equity asset class which delivered negative returns over the quarter. The Fund has three external managers which delivered a combined return of -0.1% outperforming the benchmark where the return was -2.4% over the quarter. Over the year, the portfolio slightly underperformed compared to benchmark with returns of 5.1% and 5.9% respectively, although the three-year performance showed good returns against benchmark with returns of 12.7% compared to 10.9% as shown in the chart below:

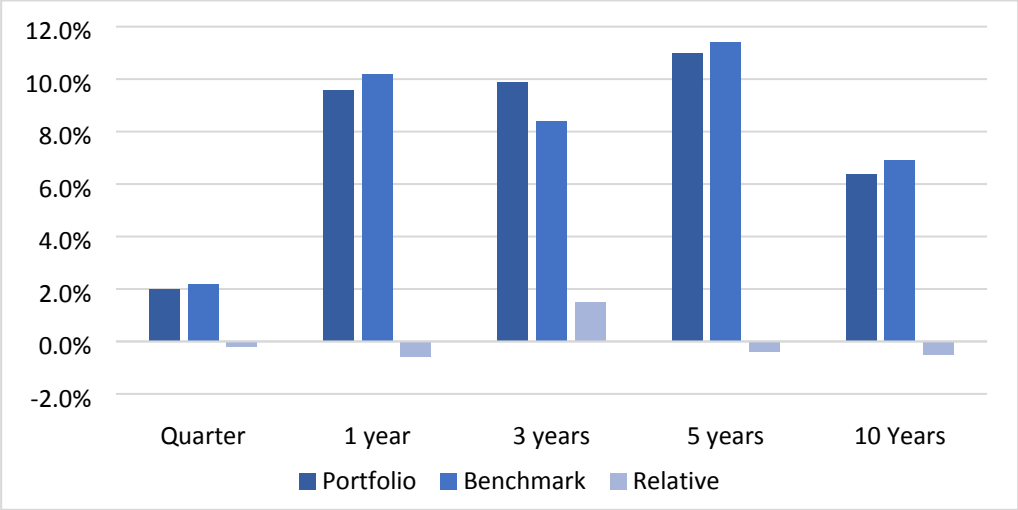



7.6 Private Equity: During the second quarter the Private Equity portfolio had a net cash position of £5.7 million, made up of aggregate distributions of £72.2 million and total drawdowns of £66.5 million. The Fund made investments in 2 co-investments during the quarter. The portfolio underperformed its benchmark during the quarter with the venture capital sector segment impacting on performance (23% of the Private Equity portfolio) over both the short and medium term. The quarterly, 1 year and longer-term performance of the portfolio is shown in the chart below:

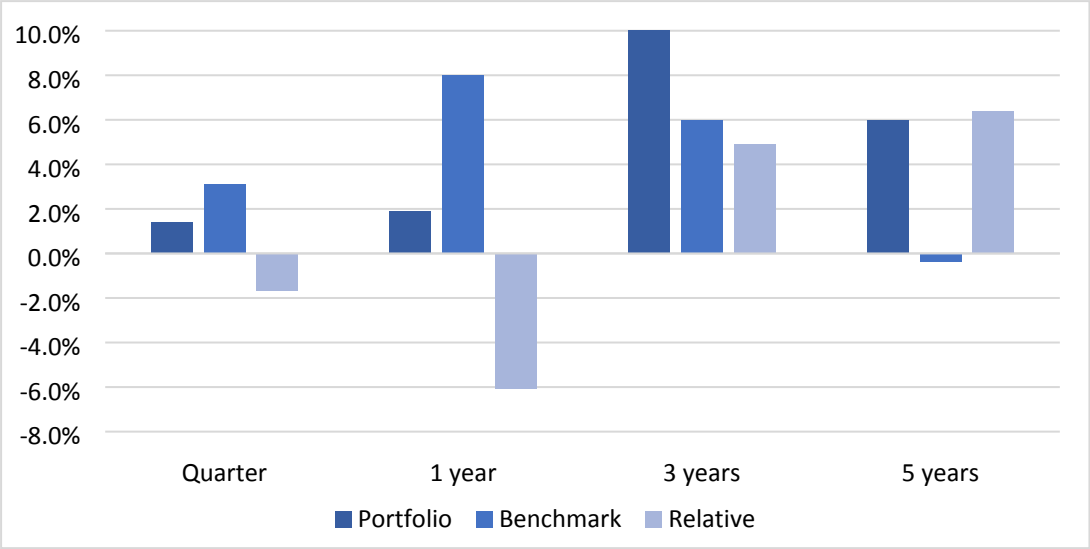



***Income Assets***

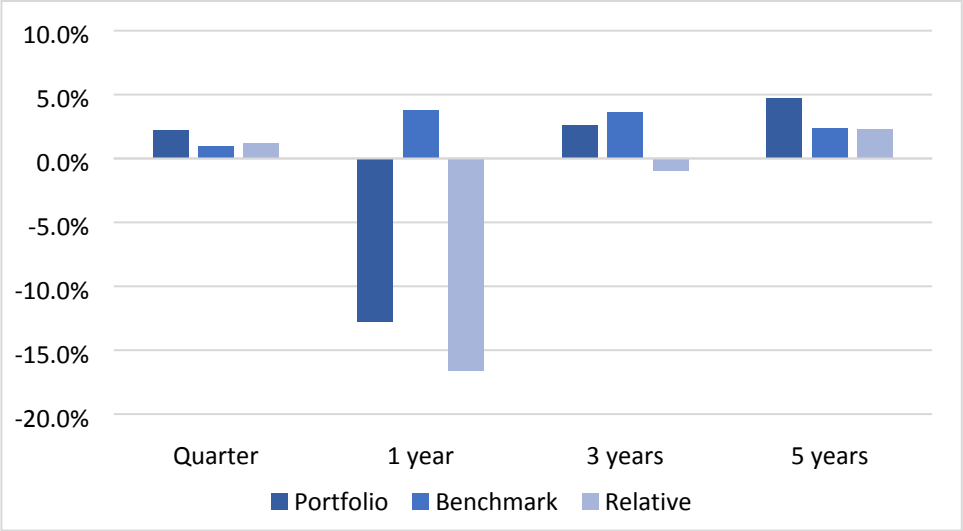
7.7 Property: There was little activity in the portfolio over the quarter although the Fund completed on 2 property purchases early in July. Performance over the quarter was 2.0% compared to benchmark of 2.1%, with the year's performance of 9.6% for the Fund and 10.2% for the benchmark. The Fund outperformed benchmark over a 3-year period delivering a return of 9.9% compared to a benchmark return of 8.4% as can be seen from the chart below:



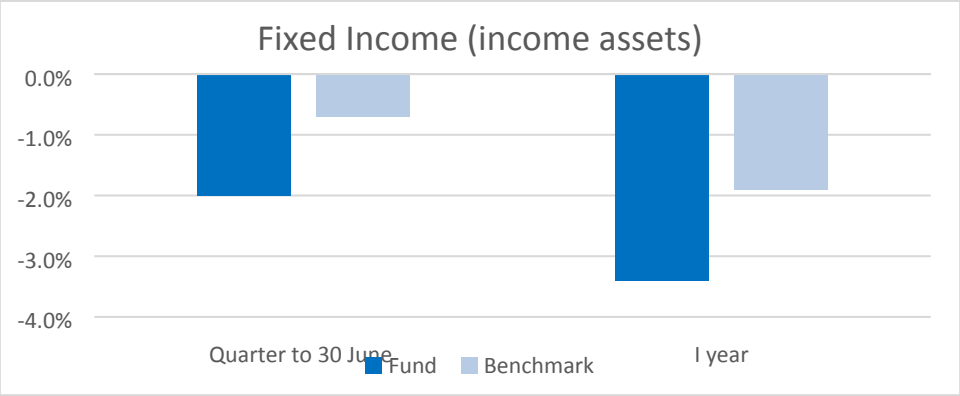

7.8 Infrastructure and Real Assets: The Fund made investments into a direct portfolio of wind energy and in an indirect infrastructure fund during the quarter amounting to £150m increasing the Fund's allocation in this area. Performance over the quarter was impacted by the markdown in one of the funds following the collapse of Carillion to which the fund had been exposed, this also impacted the 1-year performance returns against benchmark. Over the 3-year period the Fund has delivered outperformance against benchmark as can be seen in the following chart:




7.9 Absolute Return: This covers the insurance linked funds and special opportunity investments. As Members will be aware from previous committee discussions the insurance linked sector has been significantly impacted in terms of performance due to the financial impact of the hurricanes and other natural disasters during 2017. The impact of this is that the insurance linked funds are able to pass through significant premium increases and should be able to deliver stronger returns in 2018. The Fund took the opportunity to increase exposure to this area to try to capture the recovery potential in these funds investing £100 million into one of the funds during the quarter. The chart below clearly sets out the impact on the last year from the natural disasters of 2017:

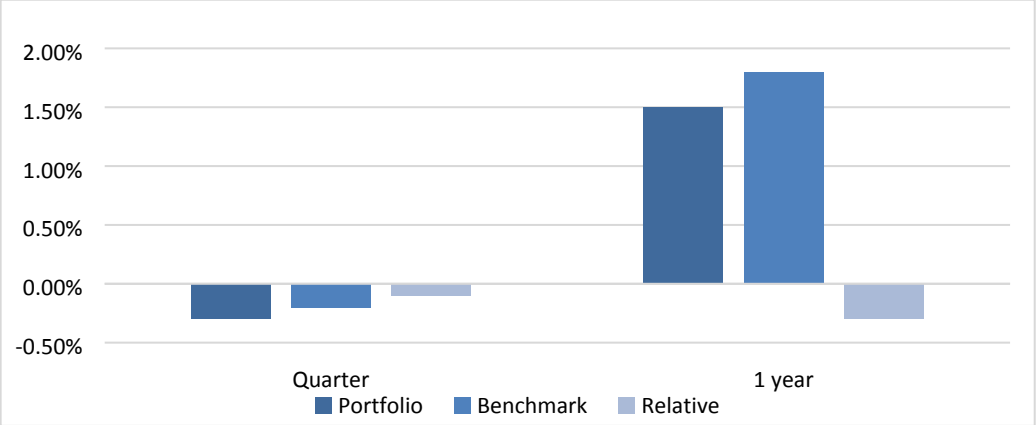



7.10 Fixed Income incorporating emerging market debt and specialist fixed income. Emerging market debt has been impacted by US$ strength and volatility in emerging economies, although the Fund benefited from its exposure to specialist fixed income which helped to offset some of the underperformance from emerging market debt.




### *Stabilising Assets*

7.11 Stabilising Fixed Income: There was little activity in this portfolio over the quarter and performance of the aggregate portfolio was broadly in line with benchmark over the quarter as shown below:




### *Currency*

7.12 Having benefitted from the weakness of sterling during 2016/17, the Fund entered into a passive currency hedging programme managed by HSBC in September 2017 to protect returns in sterling terms and to reduce currency risk within the investment portfolio. The hedge is applied to the Fund's overseas quoted equity portfolios with a hedge ratio of 50% based on the strategic weights for each region.

The Fund rolled the currency hedge in June 2018 for an additional quarter; in doing so, the Fund realised a loss of £61.1 million, which represented an overall loss to the Fund of 1.5% over the period. This was attributable to the pound's depreciation against all three currencies (USD, EUR and JPY) during the second quarter of 2018. However, it should be noted that the loss was offset to a certain extent by the rise in the US equity market, which increased by 10.0% in sterling terms over the period, and corresponding increases in European (+3.4%) and Japanese (+3.2%) equities.

***Investment Costs***

7.13 The Fund continues to review its internal and external manager performance and fees to ensure the effective implementation of its investment strategy in line with the Fund's Investment Strategy Statement.

## 8.0 West Midlands Integrated Transport Authority Quarterly Performance

8.1 At the end of the first quarter of the financial year 2018/19, the value of the WMITA Fund had risen to £495.4 million from £491.9 million at the end of the year to 31 March 2018, due to a combination of cash inflows during the quarter and positive performance from the invested portfolio. The table below sets out the asset allocation of the portfolio at the end of June (excluding the buy-in element of £238.3 million), the policy targets are those that were set at the March Pensions Committee meeting when the updated Investment Strategy Statement was approved and which the Fund is in the process of implementing:

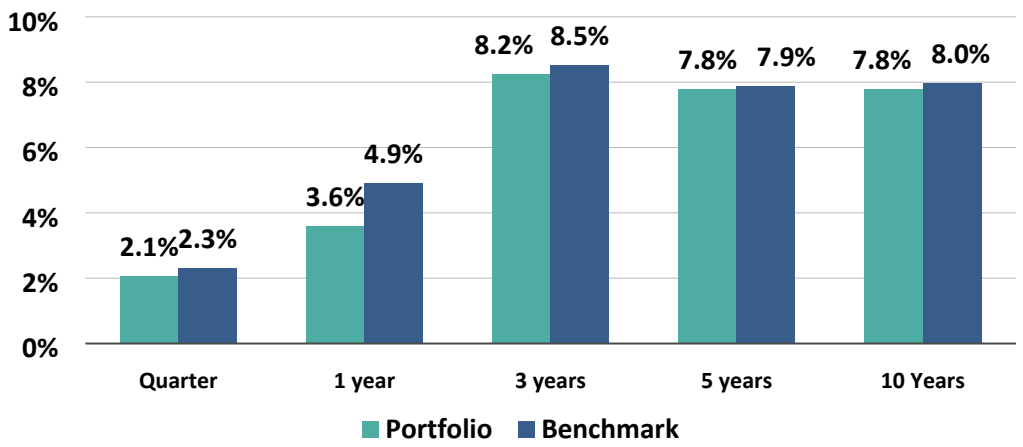
| Asset class | | Value (£) | Fund allocation | Policy target** | Difference |
|---|---|---|---|---|---|
| Equities | £ | 105,661,392 | 41.1% | 27.6% | 13.5% |
| Diversified Growth Funds | £ | 96,604,894 | 37.6% | 37.0% | 0.7% |
| Fixed Income & LDI | £ | 53,212,526 | 20.7% | 35.3% | -14.6% |
| Cash | £ | 1,535,544 | 0.6% | 0.1% | 0.5% |
| **TOTAL*** | **£** | **257,014,356** | **100.0%** | **100.0%** | **0.0%** |

*Excludes Prudential buy-in £238.3 million

** Policy target shows the updated policy targets agreed by Pensions Committee in March 2018

8.2 As noted above, the WMITA's policy allocation was amended at the March Committee meeting following discussions with the main employer in the Fund, West Midlands Travel Limited (trading as National Express Bus) to address concerns about the level of risk within the portfolio given the maturity of the WMITA Fund. Agreement has been reached to appoint a multi-asset credit manager and this will be in place by the time of the September Committee meeting funded primarily by a reduction in the equities exposure and the corporate bond fund. Officers are working towards putting the Liability Driven Investment in place and this should then complete the first phase of the restructuring of the portfolio with ongoing discussions on phase 2.

8.3 In the quarter ended 30 June 2018, the fund achieved a return of 2.1% broadly in line with the benchmark return of 2.3%. All asset classes returned positive performance with the exception of Bonds, -0.58%. Over the 12-month period the fund underperformed the benchmark by 1.3%, this was mainly due to the performance of the diversified growth funds (DGF), impacted by below benchmark returns from one of the managers. The chart below shows the gross performance of the portfolio over the last quarter and over the longer term.




8.4 The table below sets out the different components of the performance of the portfolio to periods to end June 2018. The passive equity portfolio has performed in line with the benchmark over all periods under review. The diversified growth portfolio is however a mixed performance with one of the portfolios impacting on the overall performance of the DGF allocation. The fixed income allocation is split between passive index linked exposure (which has performed in line with benchmark) and an active corporate bond portfolio which has outperformed over the year.

| | Absolute performance | | | | Relative performance | | | |
|---|---|---|---|---|---|---|---|---|
| | Quarter | 1 year | 3 years p.a. | 5 years p.a. | Quarter | 1 year | 3 years p.a. | 5 years p.a. |
| Equities | 5.0% | 7.7% | 14.0% | 12.0% | -0.1% | 0.0% | 0.0% | 0.2% |
| Diversified Growth Funds | 0.5% | 0.7% | 3.4% | 3.9% | -0.5% | -3.5% | -0.7% | -0.3% |
| Bonds | -0.6% | 1.5% | 6.4% | 7.0% | 0.0% | 0.3% | 0.1% | 0.2% |
| **Total return** | **2.1%** | **3.6%** | **8.2%** | **6.0%** | **-0.2%** | **-1.3%** | **-0.3%** | **-0.1%** |

8.5 The respective performance of the two employers in WMITA is impacted by the difference in the asset allocation of the respective portfolios as shown in the tables below:

National Express Performance to 30 June 2018

| | Absolute performance | | Relative performance | |
|---|---|---|---|---|
| | Quarter | 1 Year | Quarter | 1 Year |
| Equities | 5.0% | 7.7% | -0.1% | 0.0% |
| Diversified Growth Funds | 0.5% | 0.7% | -0.5% | -3.5% |
| Bonds | -0.6% | 1.5% | 0.0% | 0.2% |
| **Total return** | **2.2%** | **3.7%** | **-0.2%** | **-1.4%** |

Preston Bus Performance to 30 June 2018

| | Absolute performance | | Relative performance | |
|---|---|---|---|---|
| | Quarter | 1 Year | Quarter | 1 Year |
| Equities | 5.0% | 7.7% | -0.1% | 0.0% |
| Diversified Growth Funds | 0.5% | 0.7% | -0.5% | -3.5% |
| Bonds | -0.6% | 1.5% | 0.0% | 0.3% |
| **Total return** | **1.1%** | **2.8%** | **-0.1%** | **-0.7%** |

National Express performance in absolute terms is higher due to the higher exposure of equities within the portfolio but was negatively impacted by also having a higher proportion of its assets in DGFs which underperformed over the period.

**9.0 Financial implications**

9.1 The financial implications are set out throughout the report.

**10.0 Legal implications**

10.1 This report contains no direct legal implications.

**11.0 Equalities implications**

11.1 This report contains no equal opportunities implications.

**12.0 Environmental implications**

12.1 This report contains no environmental implications.

**12.0 Human resources implications**

13.1 This report contains no direct human resources implications.

**14.0 Corporate landlord implications**

14.1 This report contains no direct corporate landlord implications.

**15.0 Schedule of background papers**

15.1 Investment Strategy Statement

15.2 Funding Strategy Statement

## 16.0 Schedule of appendices

16.1 Appendix A – Economic and Market Update August 2018

16.2 Appendix B - Voting and Engagement Activity