CITY OF WOLVERHAMPTON COUNCIL	**Pensions Committee Meeting** Wednesday, 15 December 2021

Dear Councillor

PENSIONS COMMITTEE - WEDNESDAY, 15TH DECEMBER, 2021

I am now able to enclose, for consideration at next Wednesday, 15th December, 2021 meeting of the Pensions Committee, the following reports that were unavailable when the agenda was printed.

Agenda No	Item
11	**Quarterly Investment Report to 30 September 2021** **(Pages 3 - 24)** [To cover the 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.]

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

Contact Fabrica Hastings
Tel 01902 552699
Email Fabrica.Hastings@wolverhampton.gov.uk
Address Democratic Support, Civic Centre, 1st floor, St Peter's Square, Wolverhampton WV1 1RL

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Agenda Item No: 11

CITY OF WOLVERHAMPTON COUNCIL

Pensions Committee

15 December 2021

Report title	Quarterly Investment Report to 30 September 2021	
Originating service	Pension Services	
Accountable employee	Tom Davies Tel Email	Assistant Director, Investment Strategy 01902 55 8867 Tom.davies@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 rachel.brothwood@wolverhampton.gov.uk

Recommendations for decision:

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 (PB).

IV. This report previously referred to Fund positioning against 2019 ISS and SIAB policy targets. These 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 now 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 30 September 2021, the West Midlands Pension Fund's market value was £20.0 billion (incl. WMTL and PB ABSF). Over the quarter equity markets generally rose continuing the strong recovery from the sharp falls seen in March 2020. Emerging Markets lagged Developed Markets.

3.2 The Main Fund increased by 1.9%% over the quarter exceeding 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 to end June 2021. Income and stabilising assets performed less well. The Fund's returns are ahead of its benchmark for 1 year, but marginally trailed behind over a 3 year period.

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 has been driven by a rebound in Multi-Asset Credit and Diversified Growth Funds. For both ABSF's Multi-Asset Credit contributed positively to deliver excess return over the 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 30 September 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 in £):

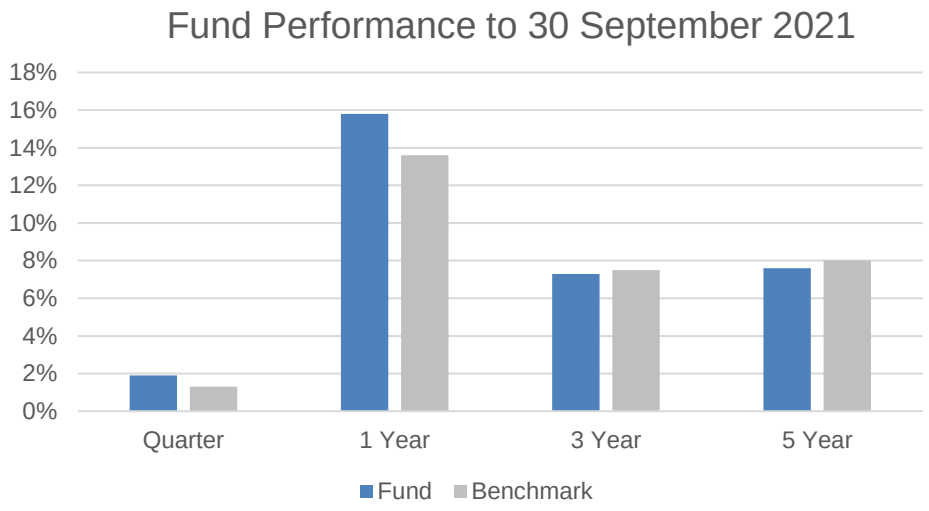
	3 months	12 months
US Equity (S&P 500)	3.1%	24.7%
UK Equity (FTSE All Share)	2.2%	27.9%
Emerging Market Equity	-5.8%	13.3%
UK Gilts (All Maturities)	-1.9%	-7.0%
Corporate Bonds	-1.0%	-0.3%
Global High Yield Bonds	2.1%	5.3%

4.3 Equities advanced further in the quarter although Emerging Markets generally underperformed. UK Government bond yields fell and Corporate Bonds generally outperformed Government Bonds. Uncertainty remains in commercial UK property markets with low transaction levels and ongoing rent deferrals.

5.0 West Midlands Pension Fund

Main Fund Performance Summary

5.1 The Main Fund delivered a return of 1.9% over the quarter outperforming 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. Private Equity was a large contributor to positive relative performance as strong performance from the portfolio outperformed the listed equity index to which it is compared. A three-month lag has now been introduced to the benchmark for this asset class to make performance comparisons more meaningful.

5.3 Despite delivering positive returns over the quarter, Infrastructure continues to be a major negative contributor to relative performance over longer time periods. Strong performance from Active Equity and Direct Property portfolio are the main positives.

5.4 Over 3 years the main detractors remain Infrastructure and Insurance Linked Securities.

5.5 The asset allocation of the Main Fund as at the quarter end is set out overleaf. Interim benchmark weights are in place 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 poistions and the strong performance from these asset types.

	Value (£m)	Weight	ISS target	Interim Benchmark
Developed Market Equity	9,171	46.5%	30.0%	40.0%
Emerging Market Equity	1,409	7.1%	12.0%	8.0%
Total Equity	**10,580**	**53.7%**	**42.0%**	**48.0%**
Private Equity	1,439	7.3%	6.0%	6.0%
Opportunistic	319	1.6%	2.0%	2.0%
TOTAL GROWTH	**12,338**	**62.6%**	**50%**	**56.0%**
Corporate Bonds	986	5.0%	4.0%	4.0%
Multi-Asset Credit/Specialist Credit	708	3.6%	5.5%	5.5%
Emerging Market Debt	785	4.0%	4.5%	4.5%
Private Debt	124	0.6%	6.0%	1.0%
Infrastructure	825	4.2%	9.0%	7.0%
Property	1,389	7.0%	9.0%	9.0%
TOTAL INCOME	**4,817**	**24.4%**	**38.0%**	**31.0%**
Gilts	429	2.2%	2.0%	2.0%
Index Linked Securities	1,231	6.2%	3.0%	5.0%
Low risk strategy	314	1.6%	5.0%	4.0%
Cash	590	3.0%	2.0%	2.0%
TOTAL STABILISING (incl. low risk)	**2,564**	**13.0%**	**12.0%**	**13.0%**
TOTAL	**19,719**	**100.0%**	**100.0%**	**100.0%**

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 and Private Debt in particular, with Equity holdings will likely to be trimmed over the coming quarter 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 30 September 2021.

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 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)	2.2%	27.1%
LGPSC Global ex UK	1.5%	22.1%
LGPSC Dividend Growth (Blended)	0.7%	6.9%
LGPSC Climate Multi-Factor	2.2%	19.5%

6.3 The Fund's actively managed global equities comprise 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 2.7% outperforming the benchmark by 0.8%. The fund is comfortably ahead of its benchmark over 1 year (returning 28.8%). 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 and the Fund's Emerging Market Equity portfolio also lagged its benchmark. A review of these managers is being undertaken prior to effecting the increase in allocation set within the 2020 ISS.

6.6 The Private Equity outperformed during the quarter and significantly outperformed over 1 year. The benchmark used for this asset class comprises listed equities plus an outperformance target. A 3-month lag to the benchmark return has now been introduced. Over longer time periods the portfolio has met expectations.

	Quarter	1 Year	3 year
Private Equity Portfolio	10.4%	44.6%	15.5%
FTSE All World +1% (with lag)	7.4%	26.0%	14.3%

Income Assets

6.7 The Income segment performed in-line with its respective benchmark over the quarter and over 12 months. The aggregate property portfolio trailed the benchmark for the 3 month period. The Direct portfolio has performed particularly well (significantly ahead of

IPD/MSCI indices) due to resilient performance from sectors such as industrial, supermarket and offices. As previously highlighted, valuation uncertainty persists, and future rental levels remain unclear. The Indirect portfolio performance has been weaker over most time periods.

6.8 The infrastructure portfolio delivered a positive return over the course of the year to end September but trailed it's performance target. The portfolio has significantly underperformed its target return (CPI +4%) over 3 years but has done better on a longer-term basis. The Funds UK assets have struggled during the pandemic, and the US portfolio has also fared poorly.

	Quarter		1 Year		3 Year	
	Return	**Relative**	**Return**	**Relative**	**Return**	**Relative**
Property Portfolio	3.5%	-0.4%	13.0%	1.4%	4.6%	-0.3%
Infrastructure Portfolio	2.1%	0.2%	4.2%	-2.8%	1.2%	-4.6%

6.9 The Fund's Fixed Interest holdings have generally performed well. Both 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 has enjoyed recent strength (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 continue to outperform their benchmarks.

	Quarter		1 Year		3 Year	
	Return	**Relative**	**Return**	**Relative**	**Return**	**Relative**
Corporate Bonds	-0.4%	0.5%	1.1%	1.5%	6.2%	1.7%
Multi Asset Credit	0.9%	0.5%	5.4%	-0.9%		
Emerging Market Debt	0.7%	1.0%	3.2%	4.7%	5.2%	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 negative returns for the quarter as yields on sovereign debt rose (meaning prices fell). Inflation linked bonds have performed strongly year-to-date

6.11 Over 1 and 3 year timeframes the stabilising portfolio has outperformed its benchmark.

Currency

6.12 The Fund changed its hedge ratios from 50% EUR and 25% USD to 25% EUR effective 16 September 2020. The hedge has had a positive impact on performance over the course of the last 12 months. It has however, had a larger impact on the performance of

the benchmark (which reflect 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):

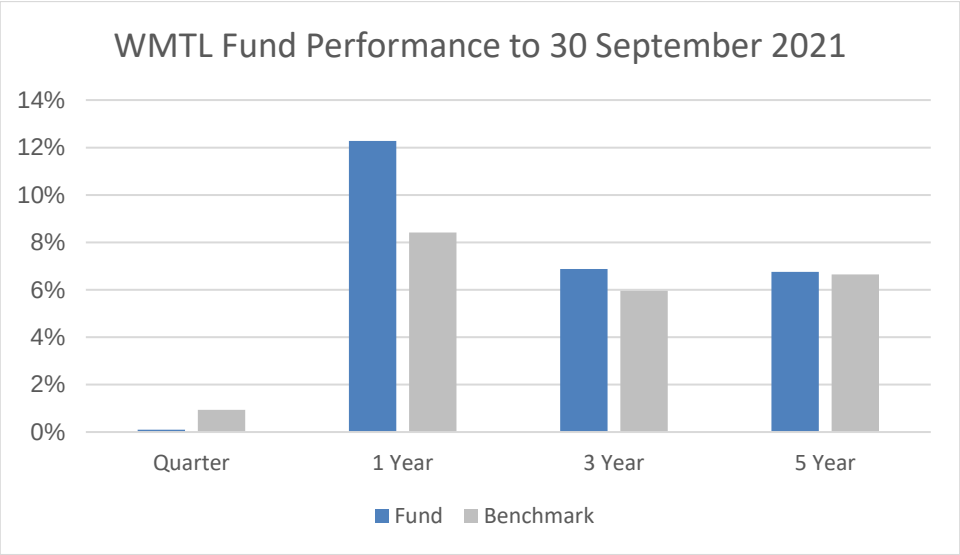
	Value (£000's)	Allocation (%)
Equities	92,265	31%
Diversified Growth Funds	96,103	33%
Total Growth	**188,368**	**64%**
Corporate Bonds	10,261	3%
Multi Asset Credit	52,682	18%
LDI/Index Linked Bonds	41,366	14%
Cash	2,754	1%
Total Defensive	**107,063**	**36%**
TOTAL	**294,966**	**100%**

PB asset allocation:

	Value (£000's)	Allocation (%)
Equities	2,994	15%
Total Growth	**2,994**	**15%**
Corporate Bonds	5,522	27%
Multi Asset Credit	5,766	29%
LDI/Index Linked Bonds	5,461	27%
Cash	282	1%
Total Defensive	**17,031**	**84%**
TOTAL	**20,168**	**100%**

WMTL Performance

7.2 The Fund underperformed for the quarter but is significantly ahead for 1 year and 3 years. Positive relative performance is driven by the Multi-Asset Credit and Diversified Growth Fund holdings which outperformed their 'base rate plus' performance targets.



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.

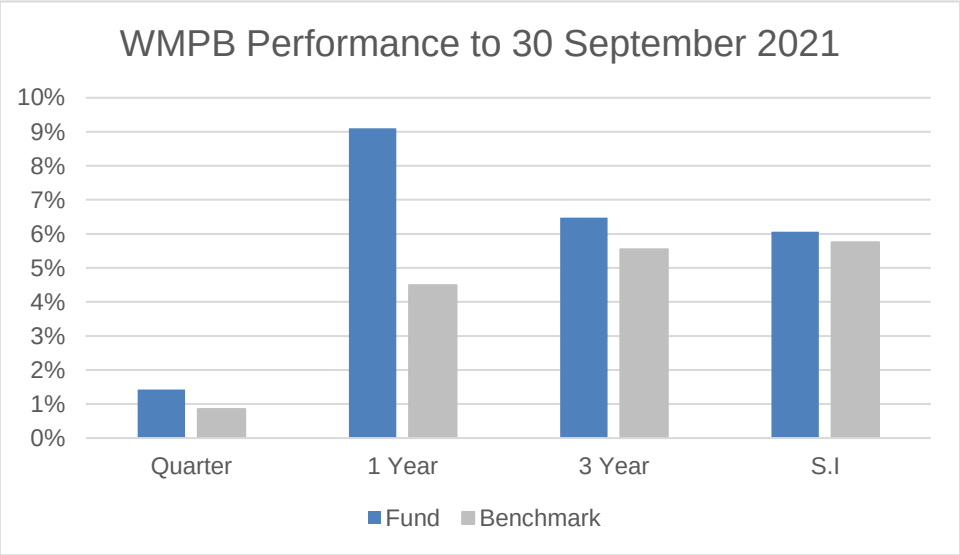
7.4 Multi-Asset Credit was introduced in Q3 2018. The fund has continued its recovery through 2021 and has performed strongly since the onset of the pandemic.

Diversified Growth Funds

7.5 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

7.6 PB performance is summarised below. The Fund outperformed for the latest quarter and 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).



7.7 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 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 direct equal opportunities implications.

12.0 Other implications

12.1 There are no other implications.

13.0 Schedule of background papers

13.1 Investment Strategy Statement - https://www.wmpfonline.com/CHttpHandler.ashx?id=16022&p=0

13.2 Funding Strategy Statement - https://www.wmpfonline.com/CHttpHandler.ashx?id=12481&p=0

14.0 Schedule of appendices

14.1 Appendix A – Redington Economic and Market Update Q3 2021/22

YOUR MARKET AND INVESTMENT UPDATE

Q3 2021

West Midlands Pension Fund

REDINGTON

West Midlands Pension Fund

ISO/IEC 27001 Information Security Management

QAS Institute and Faculty of Actuaries Quality Assurance Scheme

Private and Confidential

WHAT HAPPENED DURING THE QUARTER

Philip Rose
(CIO, Strategy & Risk)

Market Summary

The third quarter saw continued good performance from risk assets, with fiscal and monetary stimulus providing the conditions for positive asset returns. The reaction of both interest rate and inflation markets to recent US inflation statistics suggests than investors view these as transitory, related to re-opening supply constraints rather than the start of a reversal of the disinflation trend over the last few decades. While both central banks and governments have significant scope to tighten policy if inflation remains a problem, the problem of correcting a persistent period of low growth in the developed world should not be ignored.

Key Points for You

- Expected return decreased marginally over the quarter, moving from Gilts + 3.5% at 30 June 2021 to Gilts + 3.4% at 30 September 2021.
- Asset-side risk, as measured by VaR 95%, decreased from 16.7% at 30 June 2021 to 16.2% at 30 September 2021. This was partly driven by a slightly lower allocation to equities and a higher allocation to cash, with equities being the dominant driver of risk and return, as well as by changes in our risk modelling.

Market Data

Equity Index	Level	Change since 30-Jun-21	Change since 30-Sep-20
FTSE 100 (Total Return)	6982	2.0%	25.4%
S&P 500 (Total Return)	9103	1.8%	31.6%
EuroStoxx 50 (Total Return)	1755	-0.1%	29.8%
Nikkei 225 (Total Return)	49402	3.0%	29.1%
MSCI World (Total Return)	6871	0.6%	29.0%
MSCI Emerging Markets (Total Return)	750	-6.7%	16.9%
FX			
USD vs GBP	1.35	-2.6%	4.3%
EUR vs GBP	1.16	-0.3%	5.5%
JPY vs GBP	0.7	2.5%	-9.2%
Credit Spreads			
Sterling Non-Gilt Index	72	-10 bps	-63 bps
Sterling Non-Gilt 15Y+ Index	136	-6 bps	-52 bps
Global Investment Grade	83	-4 bps	-57 bps
US Investment Grade	94	-3 bps	-62 bps
Global High Yield	334	12 bps	-184 bps
European High Yield	271	2 bps	-163 bps

Market Data

UK Gilts	Level	Change since 30-Jun-21	Change since 30-Sep-20
10Y	1.03	22 bps	77 bps
30Y	1.39	14 bps	57 bps
UK Nominal Swaps			
10Y	1.21	24 bps	81 bps
30Y	1.27	17 bps	70 bps
Gilt Breakeven Inflation			
10Y	3.87	35 bps	60 bps
30Y	3.52	17 bps	55 bps
UK RPI Swap			
10Y	5.90	222 bps	336 bps
30Y	4.49	85 bps	132 bps
UK Gilt Real Rates			
10Y	-2.83	-13 bps	18 bps
30Y	-2.14	-4 bps	2 bps
US TIPS			
20Y	-0.27	-26 bps	-20 bps
30Y	-0.11	-31 bps	-3 bps

VIEWS FROM THE ASSET CLASS SPECIALISTS

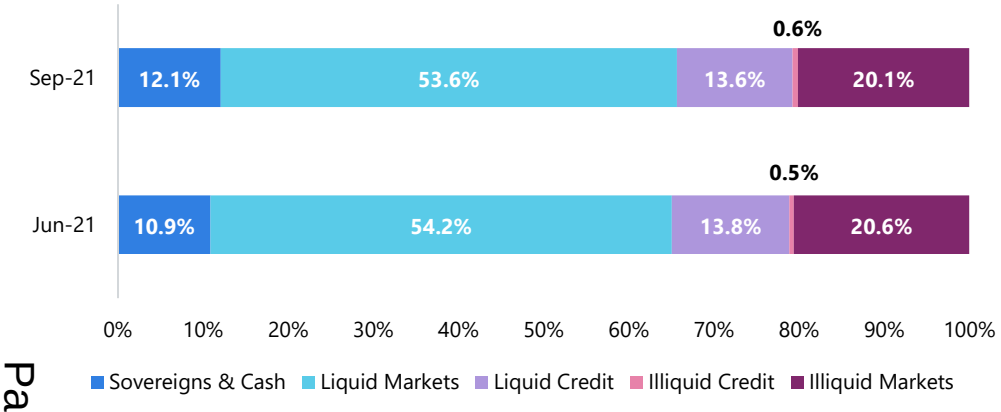
		**Kate Mijakowska** **Government Bonds**	Nominal yields rose over the quarter, with the 20-year point up 15bps. Over the same period breakeven inflation rose sharply too, although this was more pronounced at the short end, with 5-year breakeven rates rising 61bps, while the 20-year was up by 30bps. Throughout the quarter, fears emerged about the path of inflation as energy prices soared. The August (year-on-year) UK Consumer Price Index print is at 3.0%, 1.0% above the Bank of England's target. The Debt Management Office issued its first green gilt on 21st September. The size was £10bn and the tenor was 12 years. The syndication saw significant demand of c.£100bn and the premium over a non-green gilt was estimated to be between 1bp and 2.5bps at the point of issuance. More detail on this and expected future issuance can be found in our recent email communication.
		**Oliver Wayne** **Liquid Markets (Equities)**	Global developed markets (DM) delivered flat returns (in USD). The strongest-performing market was Japan, as investors initially reacted positively to the resignation of Prime Minister Shinzo Abe. Emerging market (EM) equities underperformed meaningfully as the offshore Chinese companies listed in Hong Kong and the US sold off during the quarter. Investors were concerned about broader regulatory action from the Chinese government following the actions taken to restrict private education companies from making profits and to limit the time children can spend on online video games. Factor returns varied substantially between DM and EM. In DM the only outperforming factor was momentum, whereas it was the only underperforming factor in EM. There were strong returns for value and quality factors in EM. From a size perspective, larger companies broadly outperformed smaller companies in DM, whereas smaller companies significantly outperformed in EM. This combination of positive factor and small-cap returns in EM was a tailwind for many active managers.
		**Tom Wake-Walker** **Liquid Markets (Multi-Asset)**	The third quarter was modestly profitable for the majority of multi-asset and liquid alternative strategies. With developed equity markets generally flat, returns came from commodity and alternative risk premia allocations. Commodity markets – particularly energies and metals – rose as pent-up demand fed through the system following the COVID-19 driven slump. Inflation-linked bonds also performed strongly, supporting strategies with explicit allocations in both systematic and discretionary strategies. Risk parity was flat to mildly positive, while the performance of discretionary multi-asset strategies was more mixed. Strong positive returns from long commodity holdings in trend following were offset by unprofitable short dollar and short bond positioning. Equity style premia strategies were mixed, with managers overweight to value signals underperforming. Fixed income and commodity carry strategies also contributed meaningfully to returns for strategies with these sub-components.

VIEWS FROM THE ASSET CLASS SPECIALISTS

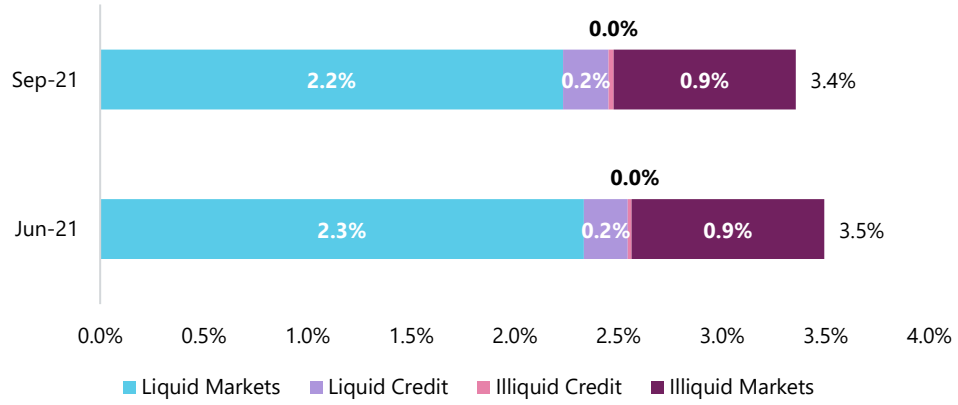
		**Chris Bikos** **Liquid & Semi-Liquid Credit**	US and UK sovereign bond yields increased over the quarter, but the main difference was the magnitude of the change. The UK 10-year yield increased from 0.72% to 1.02%, with the move occurring in September while the US 10-year Treasury yield finished at 1.49%, just 1bp higher. In corporate bonds, long-duration credit posted negative returns in both the US and the UK, driven by the negative impact of rising yields. Short-duration credit across investment grade and high yield delivered positive returns. In Europe, investment grade outperformed government bonds. Volatility in September was compounded by the news that the second-largest property developer in China, Evergrande, was likely to default on debt payments. The impact was felt across both sovereign and corporate emerging market debt. In addition, the US dollar strengthened against most emerging market currencies, pushing the local currency benchmark into negative territory.
		**Tricia Ward** **Illiquid Credit**	Private debt AUM has exceeded $1 trillion for the first time (as reported by Preqin); continued momentum in private equity markets and pending refinancing underpin growing demand. Driven by the direct lending market, the COVID flight to safety has led to larger fund sizes, fewer fund raises and larger deals, with the top 10 funds having raised 41% of capital in 2021, according to Deloitte. This may further support the opportunity for non-sponsor-led and specialty lenders to finance the underserved lower-middle markets. Competition amongst sponsor-led direct lenders has increased, leading to limited ability to improve terms. Whilst yields and illiquidity premia remain attractive, leverage has on average increased from c.5.0 to c.5.5x EBITDA since Q3 2020, albeit typically supported by a larger equity cushion. Retained focus on discipline in diligence and covenant structures remains vital. As anticipated, default rates (as released by the Proskauer Private Credit Default Index during Q3 2021) declined further in Q2 2021 to 1.3%, vs 8.1% in Q2 2020.
		**Jaspal Phull** **Illiquid Markets**	UK commercial property growth was reported at 3.8% for the quarter, the highest since Q1 2010. The trend is similar across all sectors, with retail assets experiencing exceptional capital growth, and industrials reporting the strongest quarter on record at 7.5%. The return of office workers across the UK has supported the sector, with total take-up for 2021 already 7% above the total take-up recorded for the whole of 2020. Demand is largely focused on high-quality assets, with the majority of space taken up so far being grade A. Wholesale gas prices hit new all-time highs over the quarter, up 250% since the beginning of the year, leading to a surge in energy prices. This is the result of a shortage of gas, driven by a combination of factors: low storage levels due to a cold winter, post-pandemic economic recovery, low winds in the North Sea and the closure of a major gas storage facility in the UK. Industries that are major users of natural gas and electricity are experiencing a major increase in wholesale energy prices that could force many UK factories to close.

YOUR ASSET ALLOCATION AND EXPOSURE

Asset Allocation Change

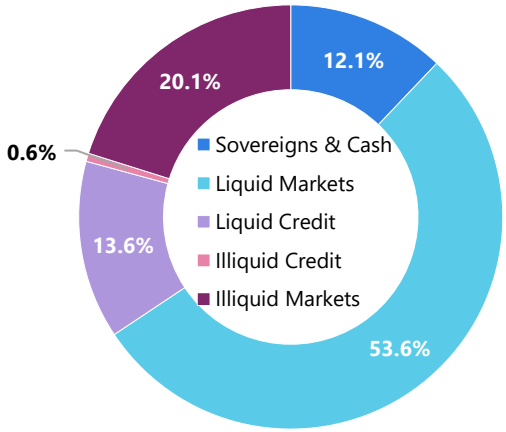


Expected Return Contribution Change (over gilts)



Note, asset class expected returns are in the appendix.

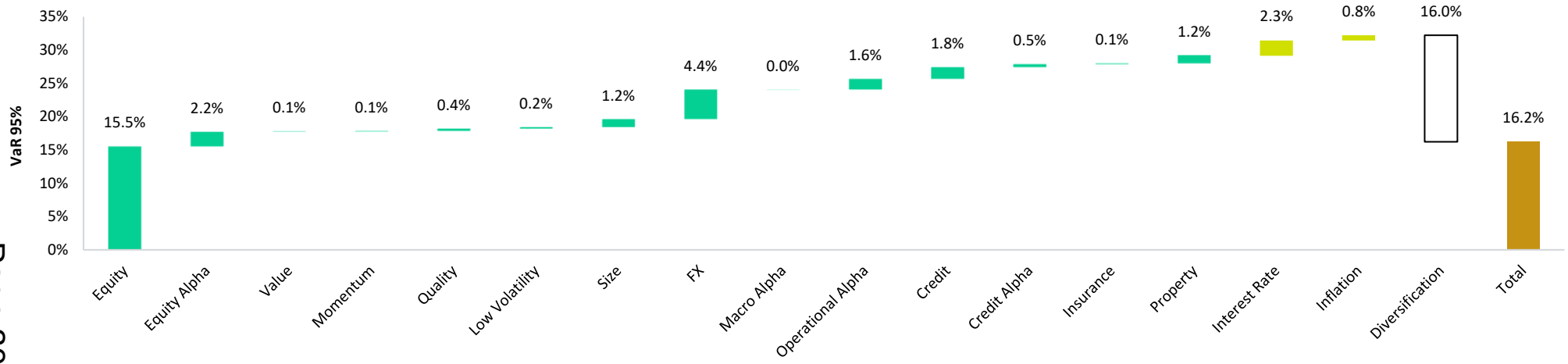
Detailed Asset Allocation



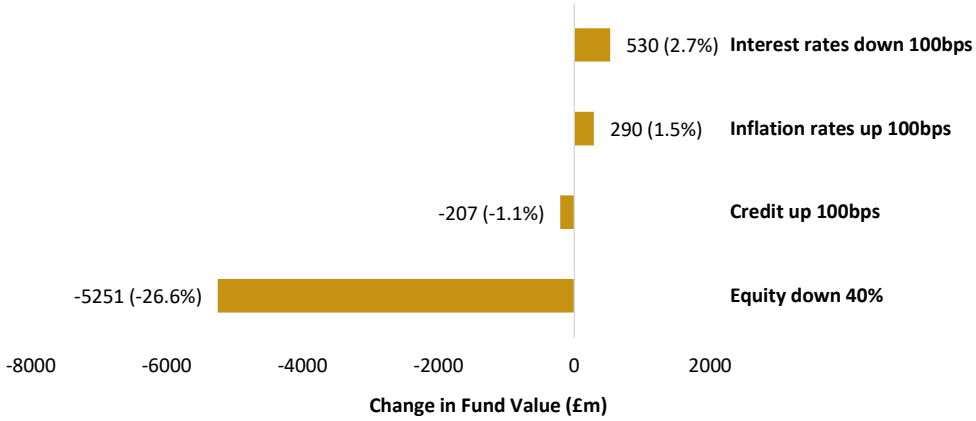
3.1% Cash
5.2% Index-Linked Gilts
1.6% Nominal Gilts
0.5% LGIM Overseas Bond Fund
1.7% US TIPS
5.9% ACS LGPS UK Equity Passive Fund
13.9% ACS LGPS Global Ex UK Passive Equity Fund
3.0% ACS LGPS Global Equity Dividend Growth Factor Fund
10.4% ACS LGPS All World Equity Climate Multi Factor Fund
5.9% LGPS Central Global Equity Multi Manager Fund
0.3% LGIM UK All Share
1.0% Global Active Futures
0.6% Equities held with Merrill Lynch
0.1% Smaller Equity Positions
2.4% Sustainable Equities - Impax
2.3% Sustainable Equities - RBC
0.6% Sustainable Equities - WHEB
2.5% Emerging Markets Equities - AGF
2.8% Emerging Markets Equities - BMO
1.8% Emerging Markets Equities - Mondrian
1.5% Aegon Short Dated Investment Grade Bond Fund
3.4% UK Corporate Bonds
1.1% LGPS Central Global Active IG Corporate Bond Fund
3.6% Multi-Class Credit
4.0% Emerging Market Debt Funds
0.6% Schroders FOCUS II / LGPS Credit Fund II
4.2% Infrastructure
7.0% Property
1.6% Opportunistic Funds
7.3% Private Equity

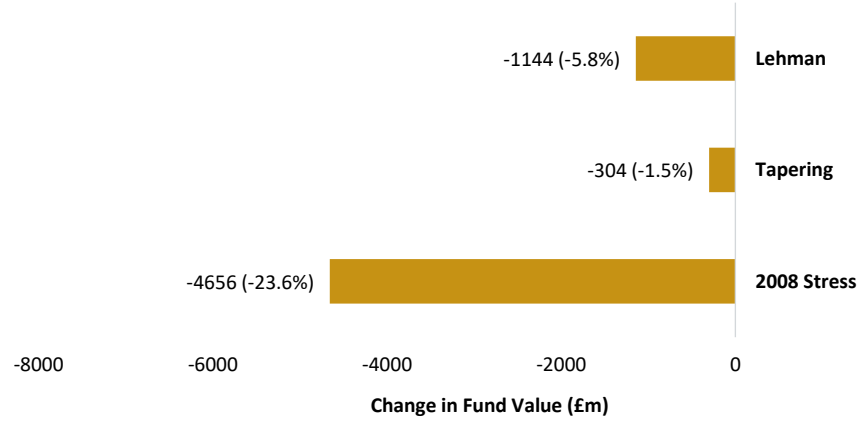
HELPING YOU UNDERSTAND YOUR RISK

Current Value-at-Risk 95% (Asset Only)



Scenario Analysis





APPENDICES

REDINGTON'S EXPECTED RETURNS – SEPTEMBER 2021

Asset Class	Expected Return (Gilts +)	Volatility	Expected Fees (p.a.)
Equity			
Developed Market Equities	3.8% ↓	16.8% ↓	0.0%-0.1%
Sustainable Equities	4.1% ↓	15.6% ↓	0.2%-0.4%
Emerging Markets Equities	4.4% ↓	20.3% ↓	0.1%-0.2%
China A Share Equities	5.7% ↓	30.8% ↑	0.3%-0.8%
Liquid Credit			
Corporate Debt GBP – Passive	0.7% ↓	6.3% ↑	0.1%-0.2%
Corporate Debt GBP – Active	1.0% –	6.4% ↑	0.2%-0.3%
Emerging Market Debt – Corporates	2.0% ↑	7.9% ↑	0.4%-0.6%
Emerging Market Debt – Local Currency Sovereign	2.7% ↑	14.6% ↑	0.5%-0.8%
Emerging Market Debt – Hard Currency Sovereign	1.8% ↑	9.5% ↑	0.5%-0.8%
Multi-Class Credit Global	2.2% ↑	7.7% ↑	0.4%-0.7%
Illiquid Credit			
Diversified Matching Illiquids (Uninvested)	2.5% ↑	7.1% ↑	0.3%-0.5%
Opportunistic Illiquid Credit	3.7% –	12.2% ↑	1.0%-1.5% (+ performance fee)
Securitised Opportunities	2.7% ↑	6.0% ↑	0.5%-0.7%
Special Situations	4.4% ↑	17.2% ↑	1.0%-1.5% (+ performance fee)
Illiquid Markets			
Private Equity	5.7% ↓	30.7% ↓	1.0%-1.5% (+ performance fee)
Insurance-Linked Securities	4.8% ↑	8.4% ↓	1.0%-1.5%
Renewable Infrastructure (Whole Projects)	3.7% ↓	13.9% ↑	0.5%-0.7% (+ performance fee)

The increase in volatility of credit assets is driven by changes in our credit risk modelling.
Fee data is estimated based on fees of preferred managers in each strategy. In practice, each fee would be negotiated for West Midlands and may be considerably lower.

GLOSSARY

Term	Description
Annual Management Charge (AMC)	The fee charged by the asset manager for managing the fund, typically expressed as an annual percentage on the invested assets. This excludes additional expenses, e.g. administrative costs, which when combined with the AMC make up a fund's total expense ratio (TER).
Credit Risk	The risk of financial loss as a result of the inability or unwillingness of an entity to make payments as they become due. Many types of relationships involve credit risk, such as those in which a company owes money to its suppliers (trade debt) or where a counterparty is required to make payments under a derivative contract (counterparty credit risk).
Credit Spread	The difference in the yield between two different bonds, due to different credit quality. The credit spread reflects the additional yield an investor can earn from taking incremental credit risk. Is it often quoted in relation to the yield on government bonds.
Inflation	The average rate at which prices (of products and services) increase over time. It gradually reduces the value of money over time – the higher the rate of inflation, the greater the erosion of value.
Risk Attribution	The process of attributing certain components of total risk to various sources such as inflation risk, credit risk, equity risk, etc.
Stress Testing	A tool used to assess a portfolio's exposure to large – but plausible – shocks. In the broadest sense, stress testing is a 'what if' exercise and can be modelled across various scenarios. For example, a stress test can be used to simulate the performance of a portfolio during 9/11, Black Monday and the Global Financial Crisis of 2007-08.
Value-at-Risk (VaR)	The minimum value that the Fund would expect to lose (at risk) for a given confidence level, over a given time horizon. We have used a 1-in-20 (i.e. 95%) confidence level. For example, if a portfolio's 95% 1-year VaR is £200 million, it would have a 5% chance (1-in-20) of suffering a loss over the year of £200 million or more.
Volatility	A measure of variability that is used as a common metric for risk. It represents the value of one standard deviation change in the value of an assets' return. Under certain assumptions, we are able to use this measure to calculate the probability of a given change in the value of the asset or portfolio.
Yield	The income return on an investment. It is based on the received cash flows of a security and is usually expressed as an annual percentage.
Yield Curve	A graphical representation showing the yields of a set of financial instruments by maturity. For example, the par interest rate swap curve or the UK Gilt curve.

CONTACTS

Floor 6, One Angel Court, London. EC2R 7HJ
+44 (0)20 7250 3331 | www.redington.co.uk

Pete Drewienkiewicz

Chief Investment Officer

Tel: +44 20 3326 7138
pete.drewienkiewicz@redington.co.uk

Karen Heaven

Managing Director

Tel: +44(0) 20 3326 7134
karen.heaven@redington.co.uk

Charlie Sheridan

Associate

Tel: +44(0) 203 326 7136
charlie.sheridan@redington.co.uk

Nicole Toselli

Analyst

Tel: +44(0) 203 540 5868
nicole.toselli@redington.co.uk