YOUR MARKET AND INVESTMENT UPDATE

Q2 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

WHAT HAPPENED DURING THE QUARTER

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(CIO, Strategy & Risk)

Market Summary

The second quarter of 2021 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.

Market Data

Equity Index	Level	Change since 31-Mar-21	Change since 30-Jun-20
FTSE 100 (Total Return)	6848	5.7%	18.0%
S&P 500 (Total Return)	8943	8.5%	40.8%
EuroStoxx 50 (Total Return)	1757	5.2%	29.0%
Nikkei 225 (Total Return)	47970	-1.2%	31.3%
MSCI World (Total Return)	6831	7.6%	36.9%
MSCI Emerging Markets (Total Return)	804	3.8%	36.1%
FX			
USD vs GBP	1.38	0.3%	11.5%
EUR vs GBP	1.17	-0.7%	5.6%
JPY vs GBP	0.7	-0.7%	-12.9%
Credit Spreads			
Sterling Non-Gilt Index	82	-8 bps	-67 bps
Sterling Non-Gilt 15Y+ Index	142	-2 bps	-60 bps
Global Investment Grade	87	-5 bps	-78 bps
US Investment Grade	97	-5 bps	-85 bps
Global High Yield	322	-30 bps	-262 bps
European High Yield	269	-21 bps	-198 bps

Market Data

UK Gilts	Level	Change since 31-Mar-21	Change since 30-Jun-20
10Y	0.82	-12 bps	63 bps
30Y	1.25	-16 bps	58 bps
UK Nominal Swaps			
10Y	0.97	-10 bps	61 bps
30Y	1.10	-15 bps	67 bps
Gilt Breakeven Inflation			
10Y	3.52	-10 bps	42 bps
30Y	3.35	-2 bps	37 bps
UK RPI Swap			
10Y	3.67	39 bps	177 bps
30Y	3.64	14 bps	77 bps
UK Gilt Real Rates			
10Y	-2.70	-2 bps	21 bps
30Y	-2.10	-14 bps	20 bps
US TIPS			
20Y	-0.27	-26 bps	-20 bps
30Y	-0.11	-31 bps	-3 bps

VIEWS FROM THE ASSET CLASS SPECIALISTS

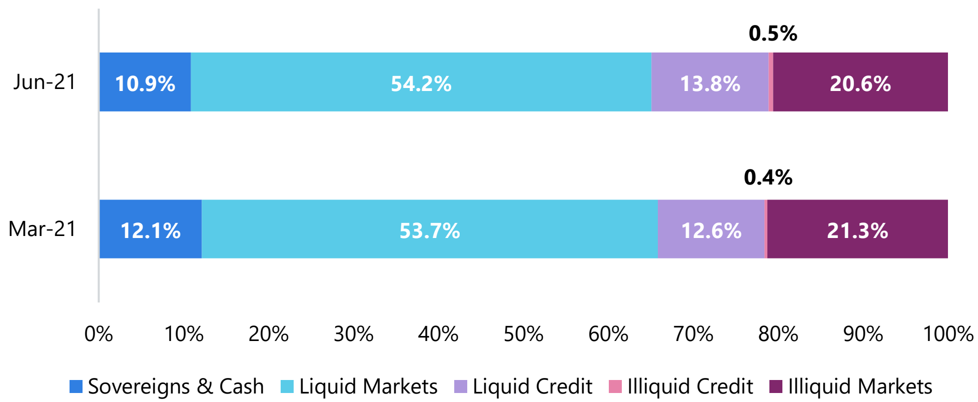
		**Kate Mijakowska** **Government Bonds**	Over the second quarter of 2021, nominal gilt yields fell across the curve, with the 20-year point down 15bps. Over the same period, breakeven inflation fell too, although this was more pronounced at the short end of the curve – with the 5-year breakeven rate falling 11bps, while the 20-year point was down only 6bps. Swap spreads remained stable. Throughout the quarter, as the economy continued to reopen, the market's attention was on Consumer Price Index ("CPI") figures. June's (year-on-year) CPI print was at 2.5%, 0.5% above the Bank of England's target. In May, the Debt Management Office announced its intention to issue the first green gilt in September 2021. On 30th June, the UK government issued its Green Financing Framework, offering more information about the expected use of proceeds, impact reporting, etc. More detail on this can be found in our recent e-mail communication. Please reach out to a Redington team member if you would like a copy.
		**Oliver Wayne** **Liquid Markets (Equities)**	Developed markets delivered positive returns during the second quarter of 2021, with several indices reaching new all-time highs. The strongest-performing markets were the US and the UK. Japan was the only major market to deliver negative returns over the quarter. Emerging markets also registered strong returns despite concerns about inflation and global monetary policy tightening. From a sector perspective, information technology, communication services and energy were amongst the strongest areas of the market. Utilities and industrials lagged. From a factor perspective, quality and growth factors broadly outperformed, whereas value factors underperformed, which presented a headwind to more valuation-focused managers. Momentum was a strong performer in emerging markets but underperformed in developed markets. From a size perspective, larger companies broadly outperformed smaller companies, in a reversal from the previous quarters.
		**Tom Wake-Walker** **Liquid Markets (Multi-Asset)**	Q2 saw most multi-asset and liquid alternative strategies generating positive performance as risk-on assets – equities and commodities – continued to rise on expectations of an economic recovery led by a successful global COVID vaccine roll-out. Further fiscal stimulus helped drive inflation expectations, lifting commodity pricing – particularly in energies. Bond performance was mixed from a regional perspective. Risk parity performed strongly and discretionary multi-asset strategies that were positioned more risk-on profited. Trend following was flat over the quarter, as short bond positioning offset returns from long commodity positions. Equity style premia strategies were generally positive; however, managers that were overweight to value signals underperformed as the factor suffered a reversal after an extremely strong recovery over the last 2 quarters. This principally came in June, as the reflation theme that benefited cheaper cyclically oriented names faltered.

VIEWS FROM THE ASSET CLASS SPECIALISTS

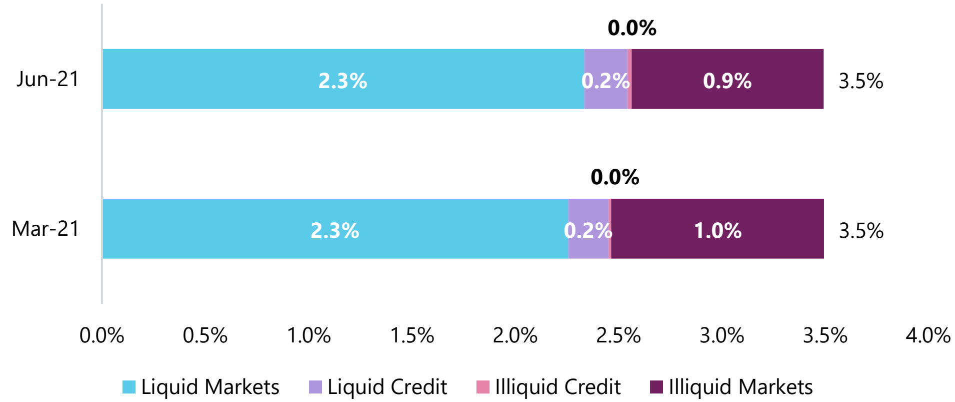
		**Chris Bikos** **Liquid & Semi-Liquid Credit**	Government yields saw divergent performance, with the US and UK 10-year yields dropping to 1.47% and 0.72% respectively. On the other hand, government yields in Europe rose by 9bps (as measured by the 10-year Bund). The first-quarter weakness on the back of rising inflation concerns was followed by positive performance across the credit spectrum. Investment-grade credit was helped by falling yields, while high yield benefited from the economic recovery and positive fundamentals, including low expected default rates. US and European high yield markets posted positive returns of 2.77% and 1.45% respectively. It was a similar picture in leveraged loan markets, with the US returning 1.44% and Europe 1.16%. Returns were positive in Sterling credit as spreads moved tighter. Emerging-market debt rallied back strongly during the second quarter, recouping much of the Q1 losses. Fundamentals and technicals remain supportive and rising commodity prices are a tailwind for the asset class.
		**Sarah Miller** **Illiquid Credit**	Private market activity continues to break records, with Refinitiv recording global M&A deals at $1.6 trillion for the quarter, with a 29% increase in deal count compared to this time last year. 2021 now boasts the strongest H1 activity ever recorded. Investment managers continue to display strong pipelines across private credit. As predicted, we have started to witness a greater amount of refinancing from larger borrowers, who last year were forced to pay higher rates for their debt in the private markets when they were unable to access cheaper bank lending due to COVID-19. We expect this trend to continue as call protections on these loans run out. Direct lending led the way in private debt fundraising over Q2, accounting for c.55% of all private debt capital raised over the quarter, according to Preqin. Default rates in the private credit markets, as recorded by the Proskauer Private Credit Default Index, fell for the fourth consecutive quarter in Q1 and are expected to have fallen again when Q2 data is released.
		**Jaspal Phull** **Illiquid Markets**	Rental collections continue to pick up across all sectors as post-lockdown activity resumes. However, transaction volumes remain somewhat subdued, with all new property investment falling 80% over the quarter, driven largely by liquidity and market uncertainty. There is, however, a sense of optimism in the industrial sector, which saw a slight pick-up in investment transactions over the quarter. The industrial occupation market has thrived, recording a record quarter for the sector, with demand driven by online retailers. Occupier demand has fallen across all sectors, albeit most pronounced for retail and office assets, with rents and capital values expected to fall across both sectors in the coming year. The residential markets, however, have sustained momentum, benefiting from low interest rates, support from lenders and strong continued demand for housing.

YOUR ASSET ALLOCATION AND EXPOSURE

Asset Allocation Change

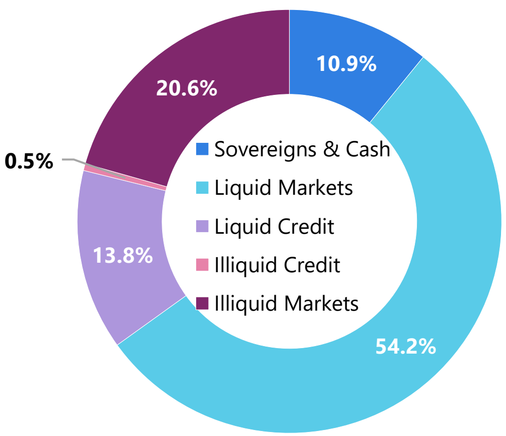


Expected Return Contribution Change (over gilts)



Note, asset class expected returns are in the appendix.

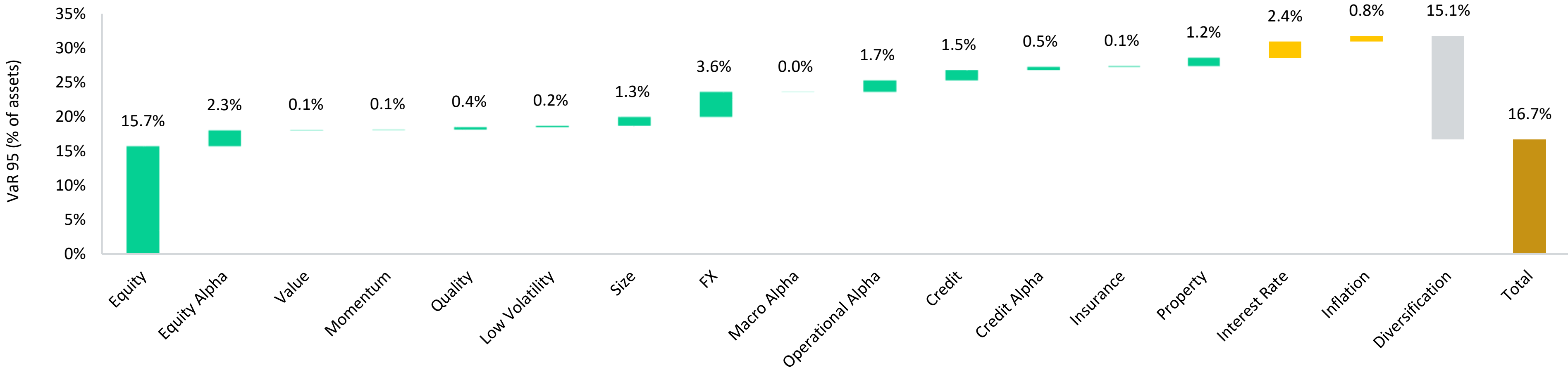
Detailed Asset Allocation



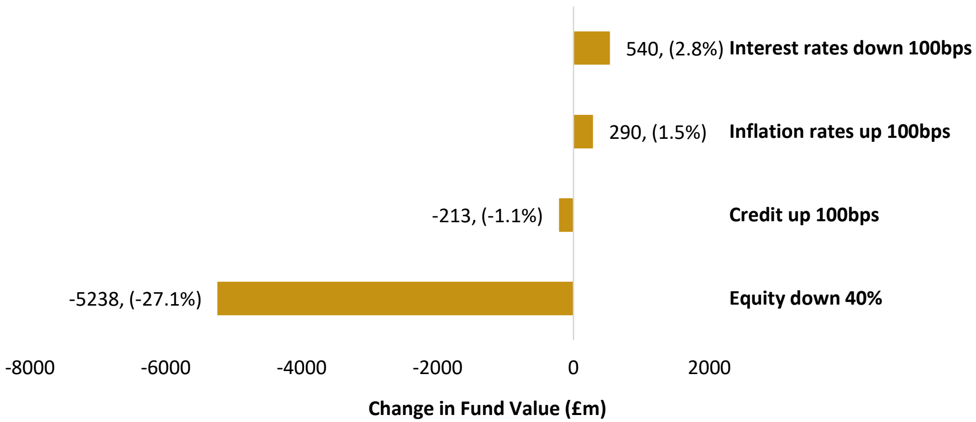
1.8% Cash
5.2% Index-Linked Gilts
1.7% Nominal Gilts
0.5% LGIM Overseas Bond Fund
1.6% US TIPS
5.9% ACS LGPS UK Equity Passive Fund
13.9% ACS LGPS Global Ex UK Passive Equity Fund
3.1% ACS LGPS Global Equity Dividend Growth Factor Fund
10.4% ACS LGPS All World Equity Climate Multi Factor Fund
5.9% LGPS Central Global Equity Multi Manager Fund
0.3% LGIM UK All Share
1.1% Global Active Futures
0.7% Equities held with Merrill Lynch
0.1% Smaller Equity Positions
2.3% Sustainable Equities - Impax
2.3% Sustainable Equities - RBC
0.6% Sustainable Equities - WHEB
2.8% Emerging Markets Equities - AGF
2.9% Emerging Markets Equities - BMO
2.0% Emerging Markets Equities - Mondrian
1.6% Aegon Short Dated Investment Grade Bond Fund
3.5% UK Corporate Bonds
1.1% LGPS Central Global Active IG Corporate Bond Fund
3.6% Multi-Class Credit
4.0% Emerging Market Debt Funds
0.5% Schroders FOCUS II
4.4% Infrastructure
7.0% Property
1.6% Opportunistic Funds
7.6% Private Equity

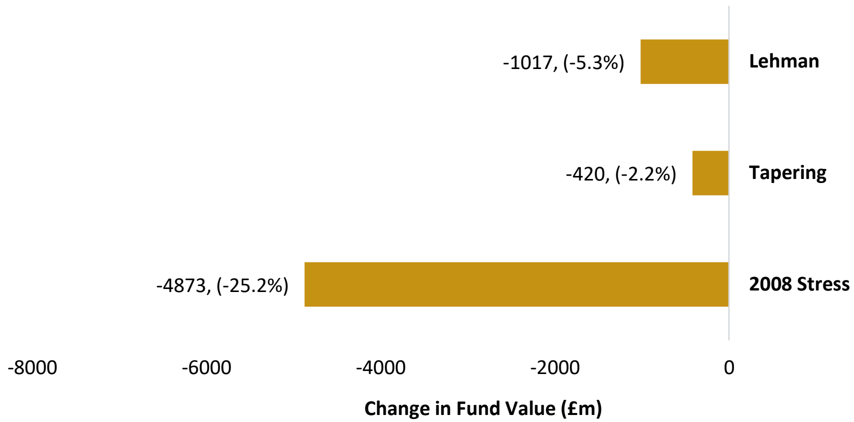
HELPING YOU UNDERSTAND YOUR RISK

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



Scenario Analysis





APPENDICES

REDINGTON'S EXPECTED RETURNS – JUNE 2021

Asset Class	Expected Return (Gilts +)	Volatility	Expected Fees (p.a.)
Equity			
Developed Market Equities	4.0% –	17.4% ↓	0.0%-0.1%
Sustainable Equities	4.2% ↓	16.0% ↓	0.2%-0.4%
Emerging Markets Equities	4.6% –	20.5% ↓	0.1%-0.2%
China A Share Equities	5.9% –	30.2% ↓	0.3%-0.8%
Liquid Credit			
Corporate Debt GBP – Passive	0.8% –	5.4% –	0.1%-0.2%
Corporate Debt GBP – Active	1.0% ↓	5.5% –	0.2%-0.3%
Emerging Market Debt – Corporates	1.8% ↓	5.9% ↑	0.4%-0.6%
Emerging Market Debt – Local Currency Sovereign	2.5% ↓	13.3% –	0.5%-0.8%
Emerging Market Debt – Hard Currency Sovereign	1.6% ↓	8.1% ↑	0.5%-0.8%
Multi-Class Credit Global	2.1% ↓	6.6% ↓	0.4%-0.7%
Illiquid Credit			
Diversified Matching Illiquids (Uninvested)	2.4% –	6.6% –	0.3%-0.5%
Opportunistic Illiquid Credit	3.7% ↓	9.6% ↓	1.0%-1.5% (+ performance fee)
Securitised Opportunities	2.6% ↓	5.5% ↓	0.5%-0.7%
Special Situations	4.2% ↓	15.4% ↓	1.0%-1.5% (+ performance fee)
Illiquid Markets			
Private Equity	5.9% –	31.3% ↓	1.0%-1.5% (+ performance fee)
Insurance-Linked Securities	4.4% –	10.0% –	1.0%-1.5%
Renewable Infrastructure (Whole Projects)	3.8% ↑	13.5% ↓	0.5%-0.7% (+ performance fee)

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.

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