

Pensions Committee

21 September 2022

Report title	Quarterly Investment Report to 30 June 2022	
Originating service	Pension Services	
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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 Separate 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 WMPF (Main Fund and Admitted Body Separate 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. 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 30 June 2022, the WMPF's market value was £19.2 billion (incl. WMTL and PB ABSF). Stock markets and fixed income generally fell over the quarter although performance varied by region and sector.
- 3.2 The Main Fund decreased by 4.9% over the quarter, outperforming its benchmark by 0.3%. Over the 1 year the Fund decreased by 1.4%, outperforming the benchmark by 0.5%. Performance has trailed the benchmark over longer time periods.
- 3.3 The ABSF underperformed against their benchmarks over the quarter. Underperformance over the quarter and 1 year has impacted longer-term numbers. Negative relative performance was driven by the allocations to Diversified Growth Funds

and Multi-Asset Credit which lagged their 'base rate plus' target performance as equity and credit markets fell over the period.

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 June 2022, 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:

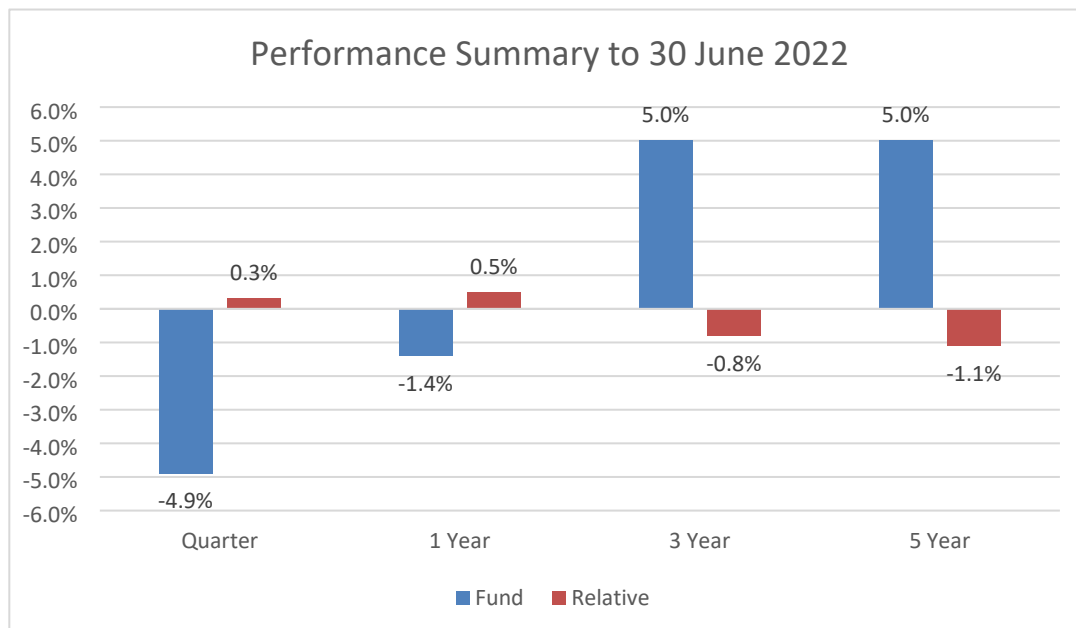
Total Return (£)	<u>Quarter</u>	<u>12 months</u>
Global Equity (MSCI World)	-9.1%	-2.6%
US Equity (S&P 500)	-9.0%	1.7%
Emerging Markets (MSCI Emerging Markets)	-4.0%	-15.0%
UK Equity (FTSE All Share)	-5.0%	1.6%
 Gilts (GBI UK All Mats)	 -7.7%	 -14.1%
Corporate Bonds (BofA ML Non-Gilts)	-6.7%	-12.9%
High Yield (BofA ML Global High Yield)	-3.9%	-6.3%

4.3 Over the quarter there was strong negative returns across both equities and fixed income. UK equities outperformed the broader global equity index whilst both corporate bonds and government bonds produced substantial negative returns.

5.0 West Midlands Pension Fund

Main Fund Performance Summary

- 5.1 The Main Fund delivered a return of -4.9% over the quarter, outperforming the benchmark return by 0.3%. 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 the end of June. 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 The Fund's combined global equity portfolio and infrastructure allocation continue to be negative contributors to relative performance over longer time periods.
- 5.4 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.
- 5.5 The Fund remained overweight in growth assets versus previous policy targets, as a result of existing equity positions and the strong absolute performance from these asset types over longer time periods.

	Weight @ 30/06/22	Final ISS target	Interim Benchmark
Total Equity	52%	42%	48%
Private Equity	8%	6%	6%
Opportunistic	2%	2%	2%
TOTAL GROWTH	62%	50%	56%
Corporate Bonds	5%	4%	4%
Multi-Asset Credit/Specialist	3%	6%	6%
Emerging Market Debt	4%	5%	5%
Private Debt	1%	6%	1%
Infrastructure	5%	9%	7%
Property	9%	9%	9%
TOTAL INCOME	26%	38%	31%
Gilts	2%	2%	2%
ILG	6%	3%	5%
Low risk strategy (orphan liabilities)	1%	5%	4%
Cash	3%	2%	2%
TOTAL STABILISING (incl. low risk)	12%	12%	13%
TOTAL	100.0%	100.0%	100.0%

- 5.6 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 and private market assets, with steps being taken to move towards new target weights in multi-asset credit, emerging market debt, private debt and infrastructure in particular, with equity holdings expected to be trimmed over the coming quarters.

6.0 West Midlands Pension Fund

Detailed Performance Commentary

Growth Assets

- 6.1 The total combined equity fund delivered negative returns during the quarter and 1 year but has positive returns over longer time periods to 30 June 2022.
- 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)	-5.1%	1.4%
LGPSC Global ex UK	-8.5%	-6.4%
LGPSC Dividend Growth (Blended)	-4.2%	0.8%
LGPSC Climate Multi-Factor	-6.8%	-0.3%

- 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 The LGPSC Global Active Equity Fund has outperformed the benchmark over the quarter and longer time periods. The LGPSC Global Active Equity Fund is a blended multi-manager portfolio consisting of 3 underlying portfolios.
- 6.5 Emerging markets performed negatively over the quarter, with the Fund's Emerging Market Equity portfolio underperforming its benchmark. The portfolio has lagged its benchmark over longer time periods.
- 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	2.0%	26.3%	22.0%
FTSE All World +1% (3m lagged)	-2.1%	13.8%	14.9%

Income Assets

- 6.7 The Fund's income segment outperformed its respective benchmark over the quarter but has underperformed over longer time periods. The aggregate property portfolio provided positive returns over the quarter and has delivered strong absolute returns over the 1 year and longer time periods.
- 6.8 The infrastructure portfolio has delivered a positive return over the course of the quarter and year, outperforming its return objective (CPI +4%), however, the portfolio has underperformed against its return objective over longer time periods.

	Quarter		1 Year		3 Year	
	Return	Relative	Return	Relative	Return	Relative
Infrastructure Portfolio	9.0%	4.8%	14.4%	2.1%	3.5%	-4.3%
Property Portfolio	2.6%	-1.3%	17.5%	-2.5%	8.4%	0.0%

- 6.9 The Fund's fixed interest holdings produced negative performance as a result of the increasing interest rate environment. Within the Fund's fixed interest holdings, corporate bonds have outperformed the benchmark over the quarter and longer time periods. The emerging market debt and multi-asset credit holdings underperformed their respective benchmarks over the quarter and 1 year.

	Quarter		1 Year		3 Year	
	Return	Relative	Return	Relative	Return	Relative
Corporate Bonds	-6.2%	0.6%	-11.1%	2.0%	-0.1%	1.9%
Multi-Asset Credit	-7.9%	-1.5%	-9.6%	-3.2%	-0.8%	-1.6%
Emerging Market Debt	-6.4%	-3.9%	-13.9%	-4.6%	-4.0%	-0.1%

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).
- 6.11 Over the quarter, 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 had a neutral impact on performance over the quarter but has had a positive impact over the 1 and 3 year period. The hedge overlay is primarily a risk reduction tool.

7.0 Admitted Body Separate Funds (ABSFs)

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

WMTL asset allocation (excluding buy-in policy):

Asset Class	Value @30/06/22	Target weight %	Current %
Total Equities	£ 86,238,428		
UK Equities	£ 6,447,303		3%
North America Equity Index	£ 33,790,519		15%
Europe (ex UK) Equity Index	£ 20,171,896		9%
Japan Equity Index	£ 7,018,579		3%
Asia Pac exlap Dev Equ Ind	£ 7,408,752		3%
World Emerging Markets Equ Ind	£ 11,401,380		5%
Newton Real Return	£ 26,720,095		12%
Baillie Gifford DGF	£ 26,332,458		12%
Total Equities & DGF	£ 139,290,981	16%	61%
Corporate Bonds	£ 8,995,751		4%
Multi Asset Credit	£ 47,932,536		21%
Private Debt	£ 3,321,038		1%
LDI	£ 26,911,940		12%
Total Credit & LDI	£ 87,161,264	84%	38%
Cash	£ 1,006,696	0%	0%
Total	£ 227,458,942	100%	100%

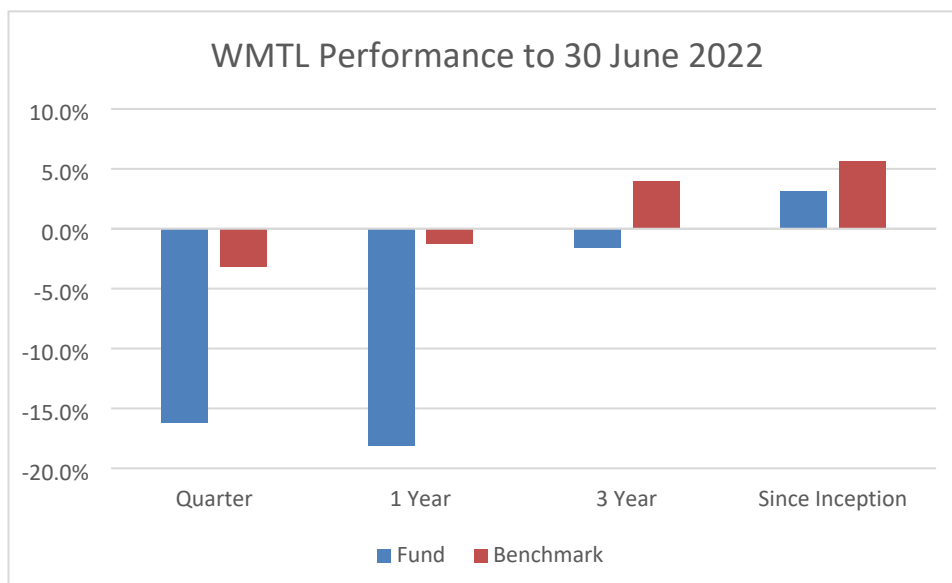
7.2 The allocation to private debt is expected to increase over time. Commitments have been made in this area, however, given the private nature of these assets, these commitments will draw down from the growth portfolio over a period of time, moving the allocation towards the target.

PB asset allocation:

Asset Class	Value @30/06/22	Target weight %	Current %
Total Equities	£ 2,609,482	15%	17%
UK Equities	£ 225,251		1%
North America Equity Index	£ 1,106,967		7%
Europe (ex UK) Equity Index	£ 356,023		2%
Japan Equity Index	£ 293,458		2%
Asia Pac exJap Dev Equ Ind	£ 208,904		1%
World Emerging Markets Equ Ind	£ 418,879		3%
Multi Asset Credit	£ 5,246,381		33%
Corporate Bonds	£ 2,648,416		17%
LDI	£ 4,946,476		32%
Cash	£ 250,113		2%
Total Fixed Interest, LDI & cash	£ 13,091,387	85%	83%
Total	£ 15,700,869	100%	100%

WMTL Performance

- 7.3 The Fund has underperformed over all periods with recent underperformance impacting longer-term numbers. Recent underperformance has been driven by the diversified growth funds and the multi-asset credit allocation, which underperformed their 'base rate plus' target performance, as equity and credit markets fell over the period.
- 7.4 Additionally, the way in which the Liability Driven Investment (LDI) mandate is currently reflected in the benchmark numbers has resulted in underperformance being reported. Work is currently being undertaken with the Fund's custodian to appropriately reflect LDI performance in the benchmark, any updates will be made retrospectively.



Fixed Income

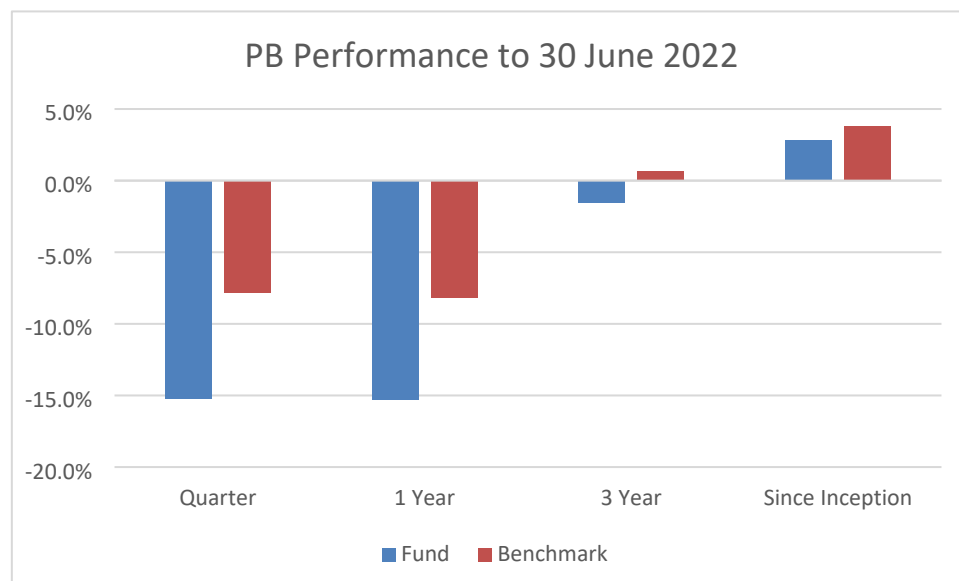
- 7.5 Alongside the multi-asset credit holding in the bond portfolio, the corporate bond mandate underperformed its benchmark over the quarter, however, the corporate bond mandate has outperformed over the 1 year.

Diversified Growth Funds

- 7.6 Both Diversified Growth Fund holdings delivered negative absolute and relative performance over the quarter. Over the 1 year the total Diversified Growth portfolio underperformed the benchmark.

PB Performance Summary

- 7.7 PB performance is summarised below. The Fund has underperformed its benchmark over all periods with recent underperformance impacting longer-term numbers. Recent underperformance has been driven by the multi-asset credit allocation as well as the way in which the LDI mandate is currently reflected for in the benchmark numbers. Work is currently being undertaken with the Fund's custodian to appropriately reflect LDI performance in the benchmark, any updates will be made retrospectively.



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.

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.

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13.1 There are no background papers.

14.0 Schedule of Appendices

14.1 Appendix A – Redington Economic and Market Update