

<b>Report title</b>	Quarterly Investment Report to 31 March 2023	
<b>Originating service</b>	Pension Services	
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**Recommendations for action:**

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 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 West Midlands Pension Fund (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. The Fund'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.
  - III. This report provides separate commentary on the Main Fund and Admitted Body Separate 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 Fund has undertaken a fundamental review of the Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS) in conjunction with the triennial actuarial valuation. The Committee approved the new ISS in March 2023. The new SIAB policy and any new interim targets will be reflected in future quarterly reports, in line with the 2023 ISS.

## **3.0 Executive Summary**

- 3.1 As of 31 March 2023, the West Midlands Pension Fund's market value was £19.5 billion (incl. WMTL and PB ABSF). Despite the volatility during the quarter, global stock markets finished the quarter higher, driven by receding global recession concerns. The demise of Silicon Valley Bank and Credit Suisse caused financial market volatility during the quarter but rapid action by Central Banks and governments meant that markets quickly calmed down.
- 3.2 The Main Fund returned 2.4% over the quarter underperforming its benchmark by 0.4%. Over the 1 year the Fund returned -1.8% outperforming the benchmark by 1.6%. Performance relative to the benchmark was 0.5% p.a. and -0.5% p.a. over the 3- and 5-year period respectively.

3.3 Whilst the ABSFs experienced positive performance over the quarter to 31 March 2023, the one year and three years performance was negative. Negative performance was predominantly driven by the Liability Driven Investment (LDI) and corporate bond allocations. The LDI portfolios are designed to move in a similar fashion to the expected change in the value of the ABSFs' liabilities, in response to changes in interest rates and inflation expectations.

#### 4.0 Markets and Investment Background

4.1 The Fund's Investment Consultant, Redington provides a quarterly update on the market background and market performance over the quarter. The report for the quarter to 31 March 2023, which further sets out the outlook for the Fund's key asset classes over the coming months, can be found in Appendix A.

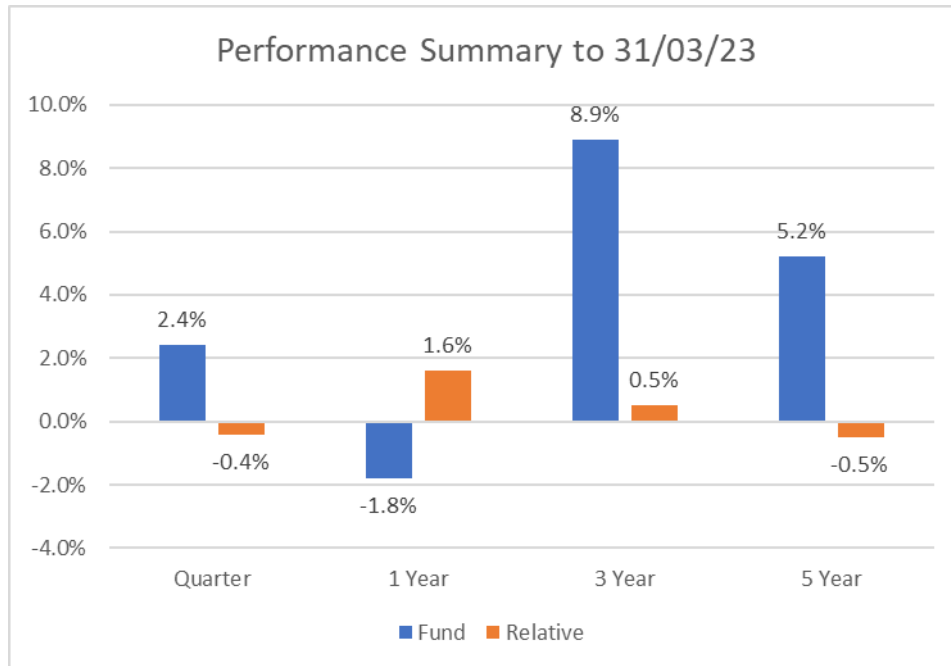
4.2 Returns for the major asset classes for the period are shown below:

<b>Total Return (£)</b>	<b><u>Quarter</u></b>	<b><u>12 months</u></b>
Global Equity (MSCI World)	4.8%	-1.0%
US Equity (S&P 500)	4.6%	-1.7%
Emerging Markets (MSCI Emerging Markets)	1.1%	-4.9%
UK Equity (FTSE All Share)	3.1%	2.9%
Gilts (GBI UK All Mats)	2.2%	-16.7%
Corporate Bonds (BofA ML Non-Gilts)	2.4%	-10.3%
High Yield (BofA ML Global High Yield)	0.8%	1.8%

#### 5.0 West Midlands Pension Fund

##### ***Main Fund Performance Summary***

5.1 The Main Fund delivered an absolute return of 2.4% over the quarter underperforming the benchmark return by 0.4%. The Fund's relative returns versus its benchmark over various time periods are shown on the following page.



- 5.2 The Fund outperformed its benchmark over the 12 months to the end of March 2023. Developed equities were the largest positive contributor to relative performance. This was followed by private equity which outperformed the listed equity index to which it is compared. The Private Equity allocation has also been a significant contributor to positive relative performance over the longer-term.
- 5.3 The Fund's Corporate Bond and Emerging Market Debt Portfolios have outperformed their respective benchmarks over 1 year and longer periods as has Private Debt. Property and Multi-asset credit has underperformed their benchmark over both shorter and longer time periods.
- 5.4 The asset allocation of the Main Fund as at the quarter end is set out below. Interim benchmark weights have been introduced to reflect partial transition to the strategic targets outlined in the Fund's ISS in force over the quarter. Following the triennial review revised strategic targets have now been approved and changes to targets will be reflected in future reporting. The major highlight in the 2023 ISS is the significant reduction in growth assets, especially listed equities.
- 5.5 The Fund remained overweight in growth assets versus existing policy targets, as a result of existing equity positions and the strong absolute performance from these asset types over longer time periods.

	Weight @31/03/2023	Existing ISS Target	Interim Benchmark
Total Equity	55%	42%	48%
Private Equity	8%	6%	6%
Opportunistic	2%	2%	2%
<b>TOTAL GROWTH</b>	<b>64%</b>	<b>50%</b>	<b>56%</b>
Corporate Bonds	4%	4%	4%
Multi-Asset Credit/Specialist	3%	6%	5%
Emerging Market Debt	4%	5%	5%
Private Debt	3%	5%	1%
Infrastructure	5%	9%	7%
Property	7%	9%	9%
<b>TOTAL INCOME</b>	<b>27%</b>	<b>38%</b>	<b>31%</b>
Gilts	1%	2%	2%
ILG	3%	3%	5%
Low risk strategy (orphan liabilities)	1%	5%	4%
Cash	3%	2%	2%
<b>TOTAL STABILISING (incl. low risk)</b>	<b>9%</b>	<b>12%</b>	<b>13%</b>
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Note: Totals may not sum due to rounding.

5.6 The Fund continues to see a good level of capital calls in relation to commitments made to Infrastructure and Private Debt Funds. Higher levels of cash are expected to be retained over this coming quarter, as approved changes to the ISS begin implementation, in the context of the long term allocation benchmark and short term market outlook.

## 6.0 West Midlands Pension Fund

### *Detailed Performance Commentary*

#### *Growth Assets*

6.1 The total combined equity fund delivered positive absolute returns of 3.7% during the quarter, in line with its benchmark. The equity portfolio performance has been positive

over all periods with absolute performance of 14.3% over 3 years and 7.5% over 5 years. It has outperformed its benchmark over recent years but lagged relative to market indices over longer periods.

- 6.2 The Main Fund's passive equity assets are now almost exclusively managed by the investment pool company, LGPS Central Ltd (LGPS) with a large proportion of these assets held in an LGPS Global Equity passive fund. All passive funds performed broadly in line with the respective benchmarks during the quarter. Performance for different components is shown below.

	<b>Quarter</b>	<b>12 months</b>
LGPS UK (FTSE All Share)	3.1%	2.9%
LGPS Global ex UK	5.0%	1.7%
LGPS Dividend Growth (Blended)	1.7%	0.8%
LGPS Climate Multi-Factor	2.7%	0.6%

- 6.3 The Fund's actively managed global developed market equities comprises the LGPS Active Equity fund and an allocation to three sustainable equity managers.
- 6.4 The LGPS Global Active Equity Fund outperformed the benchmark over the quarter, one year and three-year period. The LGPS Global Active Equity Fund is a blended multi-manager portfolio consisting of three underlying portfolios. Two of the three sustainable equity managers have outperformed over the quarter and year with the third underperforming in both periods.
- 6.5 Emerging markets performed positively over the quarter with the Fund's Emerging Market Equity portfolio outperforming its benchmark. The portfolio has broadly performed in line with benchmark since inception.
- 6.6 The private equity portfolio underperformed during the quarter, however, has significantly outperformed over the one year and longer time periods. The benchmark used for this asset class comprises listed equities plus an outperformance target (with a three-month lag). Over longer time periods the portfolio has met expectations.

	<b>Quarter</b>	<b>1 Year</b>	<b>3 years</b>
Private Equity Portfolio	0.7%	3.7%	19.4%
FTSE All World +1% (3m lagged)	2.4%	-6.3%	8.9%

### ***Income Assets***

- 6.7 The Fund's income segment has underperformed its respective benchmark over the quarter and longer time periods. The aggregate property portfolio provided negative returns over the quarter and one year but has delivered positive absolute returns over longer time periods especially since inception.

- 6.8 The infrastructure portfolio was positive both over the quarter and other periods, with strong returns over the one-year period, outperforming its return objective (CPI +4%). However, the portfolio has underperformed against its return objective over 3 years.

	Quarter		1 Year		3 Year	
	Return	Relative	Return	Relative	Return	Relative
Infrastructure Portfolio	2.2%	0.1%	16.5%	3.6%	6.3%	-3.0%
Property Portfolio	-1.8%	-2.6%	-13.5%	-6.3%	2.0%	-2.7%

- 6.9 The Fund's fixed interest holdings produced positive performance over the quarter. Within the Fund's fixed interest holdings, corporate bonds and emerging market debt have underperformed the benchmark over the quarter but have outperformed over longer time periods. Though the multi asset credit portfolio has performed in line its benchmark over the quarter, it has underperformed one year and three-year time periods.

	Quarter		1 Year		3 Year	
	Return	Relative	Return	Relative	Return	Relative
Corporate Bonds	2.0%	-0.4%	-18.1%	2.1%	-1.3%	1.8%
Multi Asset Credit	2.0%	0.0%	-4.0%	-0.9%	2.7%	-1.6%
Emerging Market Debt	0.5%	-0.5%	-0.2%	1.8%	1.6%	2.6%

### ***Stabilising Assets***

- 6.10 The stabilising portfolio comprises the Fund's exposure to government bonds and index linked securities and cash. The stabilising component of the fixed interest portfolio delivered positive returns for the quarter as yields on sovereign debt fell (meaning prices rose).
- 6.11 Whilst over the quarter the portfolio underperformed its benchmark, over the one- and three-year timeframes the stabilising portfolio has outperformed its benchmark.

### **7.0 Admitted Body Separate Funds (ABSFs)**

- 7.1 The current allocation for the two ABSFs is shown on the following page.

WMTL asset allocation (excluding buy-in policy):

Asset Class	Value @31/03/2023	Target	Current
Total Equity & DGF	£78.2m	16%	33%
UK Equities	£4.2m		2%
North America Equity Index	£21.9m		9%
Europe (ex. UK) Equity Index	£14.4m		6%
Japan Equity Index	£4.7m		2%
Asia Pac exJap Dev Equ Ind	£4.6m		2%
World Emerging Markets Equ Ind	£6.7m		3%
DGF	£21.7m		9%
Total Credit & LDI	£146.8m	84%	62%
Corporate Bonds	£8.7m		4%
Multi Asset Credit	£49.6m		21%
Private Debt	£23.0m		10%
LDI	£65.5m		28%
Cash	£11.8m	0%	5%
<b>TOTAL</b>		<b>100%</b>	<b>100%</b>

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.

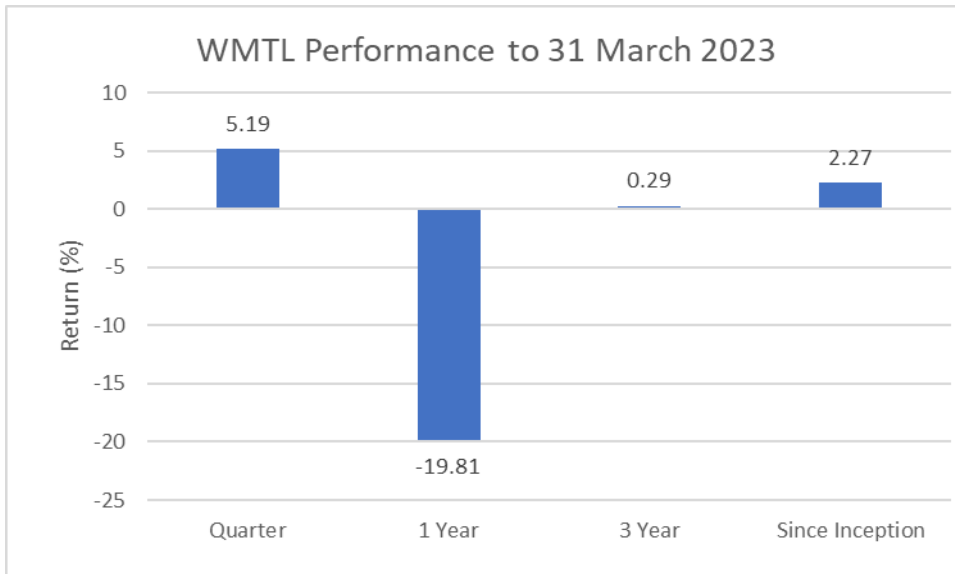


PB asset allocation:

Asset Class	Value @31/03/2023	Target	Current
Total Equity	£1.8m	15%	12%
UK Equities	£0.2m		1%
North America Equity Index	£0.8m		5%
Europe (ex. UK) Equity Index	£0.3m		2%
Japan Equity Index	£0.2m		1%
Asia Pac excl. Jap Dev Equ Ind	£0.1m		1%
World Emerging Markets Equ Ind	£0.2m		2%
Total Fixed Interest, LDI & Cash	£12.8m	85%	88%
Multi Asset Credit	£4.0m		28%
Corporate Bonds	£2.6m		18%
LDI	£4.8m		33%
Cash	£1.4m		9%
<b>TOTAL</b>	<b>£14.5m</b>	<b>100%</b>	<b>100%</b>

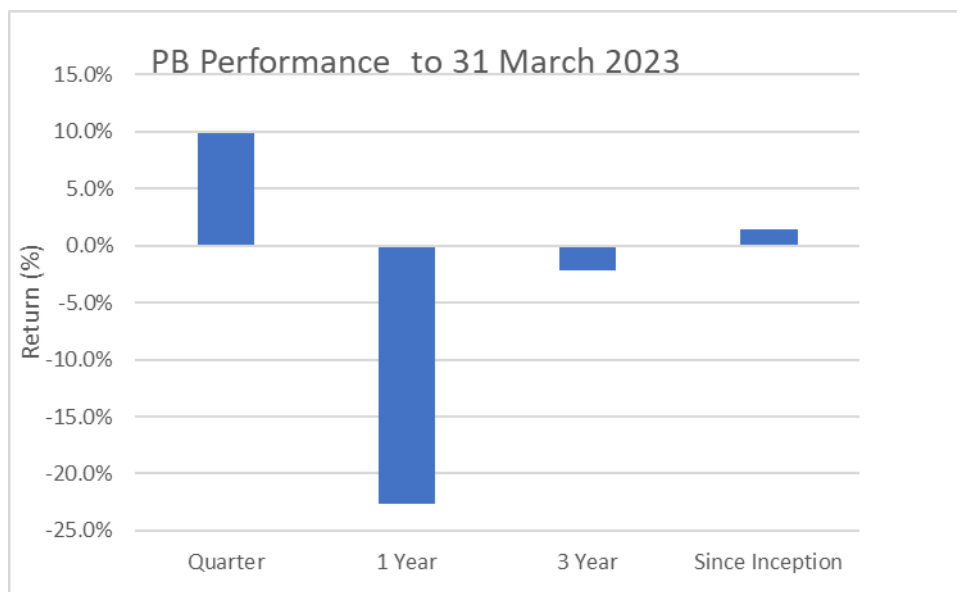
**WMTL Performance**

- 7.2 Whilst the Fund has produced positive returns over the quarter and the 3-year period to 31 March 2023, the one-year performance was negative. Over the 1-year period, the fixed interest and diversified growth assets posted negative returns. Though the Fund's listed equities performance was positive, they underperformed the benchmark over the 1-year period.
- 7.3 Large falls in the value of the Liability Driven Investment (LDI) portfolio were experienced over the one-year period due to sharp increases in UK gilt yields. Whilst this resulted in negative asset returns for the LDI portfolio, the Fund's liabilities are expected to have decreased by a greater extent than the fall in the LDI portfolio.
- 7.4 The diversified growth funds and the multi-asset credit allocation continued to underperform their 'base rate plus' target performance. The corporate bond mandate has outperformed its benchmark over the quarter but underperformed over the one-year period.
- 7.5 A review of the Fund's benchmark is currently being undertaken and therefore only absolute Fund returns have been shown on the following page.



### PB Performance Summary

- 7.6 PB performance is summarised below. Whilst the Fund produced positive returns over the quarter, it delivered negative returns over one year and three-year periods to 31 March 2023 with the recent performance impacting longer-term numbers.
- 7.7 The majority of negative performance was driven by the fixed interest holdings, in particular the LDI portfolio given the sharp increase in UK gilt yields experienced over the one-year period. The LDI mandate is designed to move in a similar manner to the Fund's liabilities in response to changes in interest rates and inflation expectations.
- 7.8 A review of the Fund's benchmark is currently being undertaken and therefore only absolute Fund returns have been shown below.



## **8.0 Financial Implications**

8.1 The financial implications are set out throughout the report.

## **9.0 Legal Implications**

9.1 This report contains no direct legal implications.

## **10.0 Equalities Implications**

10.1 This report contains no direct equalities implications.

## **11.0 Other Implications**

11.1 There are no other implications.

## **12.0 Schedule of Background Papers**

12.1 None.

## **13.0 Schedule of Appendices**

13.1 Appendix A – Redington Economic and Market Update