

CITY OF WOLVERHAMPTON COUNCIL	Pensions Committee 27 September 2023
--	--

Report title	Quarterly Investment Report to 30 June 2023	
Originating service	Pension Services	
Accountable employee	Paul Nevin Email	Assistant Director, Investment Strategy paul.nevin@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Email	Executive Director of Pensions rachel.brothwood@wolverhampton.gov.uk

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, shown as Appendix A.
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 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 completed a fundamental review of the Investment Strategy Statement (ISS) and Funding Strategy Statement (FSS) in conjunction with the triennial actuarial valuation. The new SIAB policy and interim targets have been updated in line with the 2023 ISS as approved by the Committee in March 2023.

3.0 Executive Summary

- 3.1 As of 30 June 2023, the West Midlands Pension Fund's market value was £19.5 billion (incl. WMTL and PBL ABSF's). Global stock markets were generally positive over the quarter driven by enthusiasm over Artificial Intelligence which boosted technology stocks. There was, however, divergence in performance across regions. Major Central Banks continued to raise interest rates over the quarter to combat inflation. As a result, bond markets, including UK government gilts and corporate bonds, fell over the quarter.
- 3.2 The Main Fund (WMPF) returned 0.1% over the quarter underperforming its benchmark by 1.2%. Over the 1-year period the Fund returned 3.4% underperforming the benchmark by 0.1%. Performance relative to the benchmark was 0.3% p.a. and -0.7% p.a. over the 3 and 5-year periods respectively and in line with the benchmark over 10 years.
- 3.3 The ABSF's experienced negative performance over the quarter to 30 June 2023, one year and three years performance was also 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. Equities and multi-asset credit were positive performers over the quarter.

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 2023, which further sets out the outlook for the Fund's key asset classes over the coming months, can be found in Appendix A.

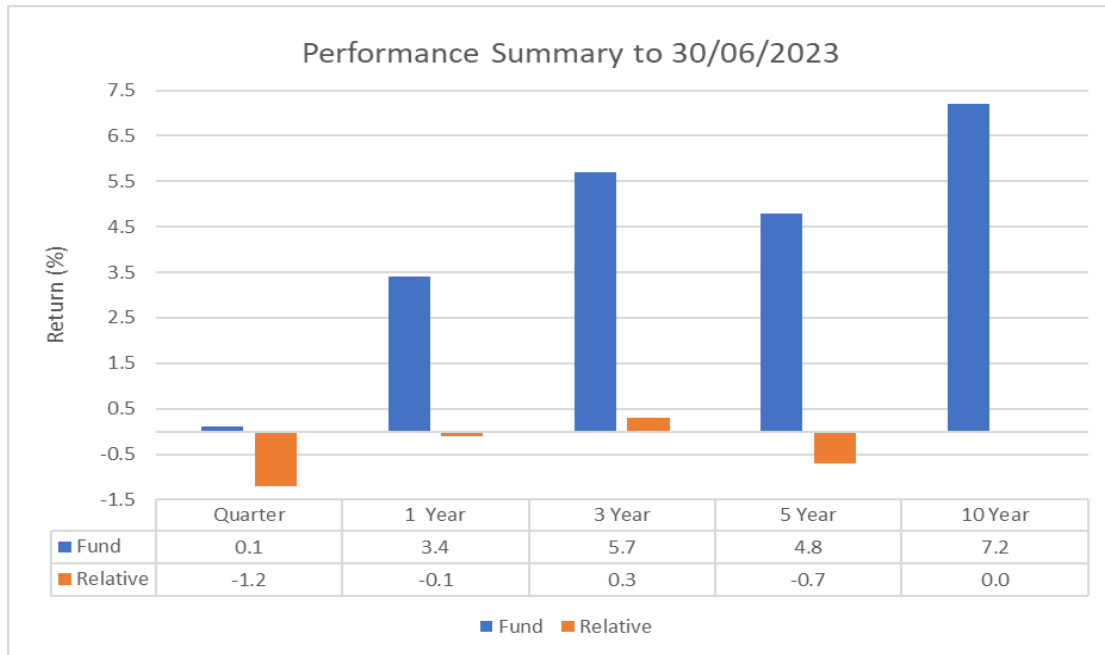
4.2 Returns for the major asset classes for the period are shown below:

Total Return (£)	<u>Quarter</u>	<u>12 months</u>
Global Equity (MSCI World)	3.9%	13.2%
US Equity (S&P 500)	5.8%	14.2%
Emerging Markets (MSCI Emerging Markets)	-1.9%	-2.8%
Europe ex UK Equity (FTSE)	0.6%	19.6%
UK Equity (FTSE All Share)	-0.5%	7.9%
Gilts (GBI UK All Mats)	-5.7%	-14.9%
Corporate Bonds (BofA ML Non-Gilts)	-3.4%	-7.1%
High Yield (BofA ML Global High Yield)	-1.2%	4.8%

5.0 West Midlands Pension Fund

Main Fund Performance Summary

5.1 The Main Fund delivered an absolute return of 0.1% over the quarter underperforming the benchmark return by 1.2%. The Fund's relative returns versus its benchmark over various time periods are shown below.



- 5.2 Fund underperformance over the quarter to 30 June 2023 was predominantly driven by the Developed Market Equity and Private Equity portfolios. Both these portfolios have, however, provided strong absolute returns over the longer-term. Over the quarter the Fund's Emerging Market Equity allocation also contributed negatively to relative performance but has contributed positively over 1 and 3 years.
- 5.3 The Fund's Corporate Bond and Emerging Market Debt portfolios have outperformed their respective benchmarks over the quarter and longer-term. The Fund's Illiquid Income allocations (Private Debt, Infrastructure and Property) underperformed relative to their benchmarks.
- 5.4 The asset allocation of the Main Fund as at the quarter end is set out below. The interim benchmark weights were introduced as part of the phased transition of the Fund's assets to the ISS in place prior to March 2023. New interim benchmark weights will be introduced from next quarter to reflect the commencement of the phased transition to the strategic targets outlined in the Fund's revised ISS approved at Committee in March 2023.
- 5.5 Following approval of the new SIAB in March 2023 the Fund has been working with its advisors on an implementation plan to transition to the new target allocation. The transition is expected to be phased over an 18 to 24 month period with initial steps taken post quarter-end to reduce the allocation to growth assets and correspondingly increase the allocation to stabilising assets. As indicated above, the interim benchmark weights will be adjusted from next quarter to reflect the implementation plan.
- 5.6 The Fund remained overweight at quarter end in growth assets versus the legacy interim targets, as a result of existing equity positions and the strong absolute performance from these asset types over longer time periods. Reducing this overweight position is incorporated into the earlier phases of the implementation plan for the new SIAB.

	Weight @ 30/06/2023	Revised Final ISS target	Interim Benchmark (from previous ISS)
TOTAL GROWTH	63.5%	37.5%	56.0%
Total Liquid Growth	54.8%	31.5%	48.0%
Developed Market Equity	48.3%	26.5%	40.0%
Emerging Market Equity	6.6%	5.0%	8.0%
Total Illiquid Growth	8.7%	6.0%	8.0%
Private Equity	7.5%	5.0%	6.0%
Special Opportunities	1.2%	1.0%	2.0%
TOTAL INCOME	32.0%	44.5%	37.0%
Total Liquid Income	16.1%	19.5%	20.0%
Corporate Bonds	4.4%	8.5%	4.0%
Multi-Asset Credit/Specialist	3.2%	3.5%	5.0%
Other Fixed Interest	0.3%	0.0%	0.5%
Emerging Market Debt	3.8%	2.5%	4.5%
Low risk strategy (orphan liabilities)	1.2%	5.0%	4.0%
Cash	3.2%	0.0%	2.0%
Total Illiquid Income	15.9%	25.0%	17.0%
Private Debt	3.3%	7.0%	1.0%
Infrastructure	5.4%	9.0%	7.0%
Property	7.2%	9.0%	9.0%
TOTAL STABILISING	4.4%	18.0%	7.0%
Government Bonds	1.2%	4.0%	2.0%
Index-Linked Bonds	3.2%	14.0%	5.0%
TOTAL	100%	100%	100%

Note: Totals may not sum due to rounding.

5.7 The Fund continues to see capital calls in relation to commitments made to Infrastructure and Private Debt Funds. The Fund is receiving distributions from older Private Market assets but these are not certain and hence the Fund needs to ensure that sufficient

liquidity is maintained, including to support overall Fund cashflow requirements. Higher levels of cash are being held in the short-term as part of the implementation of the investment strategy and to fund commitments to Private Markets.

6.0 West Midlands Pension Fund

Detailed Performance Commentary

Growth Assets

6.1 The total combined Listed Equity portfolio delivered positive absolute returns of 1.0% during the quarter, however, underperformed its benchmark by 1.5%. This underperformance is not reflective of the performance of individual component strategies but rather a measure of how the portfolio has performed against a model global portfolio. Over shorter periods relative performance can be skewed. Over the quarter most significant components of the Listed Equity portfolio performed in line with their benchmarks with the exception of the three sustainable equity managers who all underperformed. There was no significance to the underperformance of the sustainable managers which was as a result of a combination of sectorial bias and stock selection.

6.2 The Main Fund's passive equity assets are now almost exclusively managed by the investment pool company, Local Government Pensions Scheme Central Ltd. (LGPSC) with a large proportion of these assets held in an LGPSC Global Equity passive fund. They represent 35.6% of total fund assets. All passive funds performed broadly in line with the respective benchmarks during the quarter. Performance for different components is shown below.

	Quarter	12 months
LGPSC UK (FTSE All Share)	-0.5%	7.9%
LGPSC Global ex UK	2.1%	13.6%
LGPSC Dividend Growth (Blended)	0.9%	6.2%
LGPSC Climate Multi-Factor	2.0%	10.0%

6.3 The Fund's actively managed global Developed Market Equities comprises the LGPSC Active Equity fund and an allocation to three sustainable equity managers. The LGPSC Global Active Equity Fund slightly underperformed the benchmark over the quarter but has outperformed over the 1-year and 3-year periods. The LGPSC Global Active Equity Fund is a blended multi-manager portfolio consisting of three underlying portfolios. The three sustainable equity managers have underperformed over the quarter, whilst the 1-year and since inception (2020) performance is mixed across the different managers.

6.4 Emerging markets performed negatively over the quarter with the Fund's portfolio underperforming its benchmark. 1 and 3-year performance is satisfactory.

6.5 Although the private equity portfolio underperformed during the quarter, it 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.

	Quarter	1 Year	3 years	10 years
Private Equity Portfolio	-1.2%	0.6%	20.2%	14.2%
FTSE All World +1% (3m lagged)	4.6%	0.1%	17.0%	11.2%

Income Assets

- 6.6 The Fund's income segment has underperformed its respective benchmark over the quarter and longer time periods. The aggregate property portfolio provided negative relative returns over the quarter and one year but has delivered positive absolute returns over longer time periods. The Fund's Direct Property holdings have performed satisfactorily in absolute terms over a 10-year period but lagged the benchmark used by the Fund.
- 6.7 The infrastructure portfolio was broadly flat over the quarter but underperformed its benchmark as it did over 1-year and 3-years. This is mainly due to the high rates of inflation over the period which has influenced the benchmark return of UK CPI +4.0% p.a. Over a 10-year period Infrastructure has outperformed the benchmark.

	Quarter		1 Year		3 Year		10 Year	
	Return	Relative	Return	Relative	Return	Relative	Return	Relative
Infrastructure	-0.1%	-3.1%	6.8%	-4.6%	4.9%	-3.2%	5.4%	2.0%
Property	0.8%	-0.7%	-15.0%	-5.7%	2.8%	-2.8%	6.9%	-0.8%

- 6.8 Within the Fund's fixed interest holdings, Corporate Bonds and Emerging Market Debt have outperformed their respective benchmarks over both the quarter and longer time periods. Though the Multi-Asset Credit portfolio has performed positively, it underperformed the benchmark both in the short-term and longer time periods.

	Quarter		1 Year		3 Year	
	Return	Relative	Return	Relative	Return	Relative
Corporate Bonds	-2.2%	1.2%	-4.2%	2.7%	-4.3%	2.0%
Multi Asset Credit	1.7%	-1.0%	5.4%	-5.0%	2.6%	-2.7%
Emerging Market Debt	2.2%	1.7%	8.9%	3.8%	-1.9%	2.5%

Stabilising Assets

- 6.9 The stabilising portfolio comprises the Fund's exposure to government bonds, index linked securities and cash. The stabilising component of the fixed interest portfolio delivered negative absolute returns, but positive relative to benchmark.
- 6.10 The stabilising portfolio has outperformed its benchmark over the quarter and longer time periods.

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 @30/06/2023	Target	Current
Growth		8%	35%
Equity	£ 57,577,643	8%	26%
Diversified Growth	£ 21,303,895	0%	9%
Illiquid Income		29%	11%
Private Debt	£ 24,636,058	29%	11%
Liquid Income		35%	30%
Multi-Asset Credit	£ 51,073,205	19%	23%
Corporate Bonds	£ 8,461,662	16%	4%
Cash & Equivalents	£ 5,880,592	0%	3%
Stabilising		28%	25%
LDI	£ 56,376,768	28%	25%
TOTAL	£ 225,309,825	100%	100%

Note: Totals may not sum due to rounding.

Following approval of the new target asset allocation in March 2023, work has begun on planning the transition to the new strategy. A significant proportion of the new strategy is expected to be in place over the next three months. The allocation to private debt will increase over time. Commitments have been made in this area and as these are drawn down from other assets over a period of time, allocations will move towards the target.

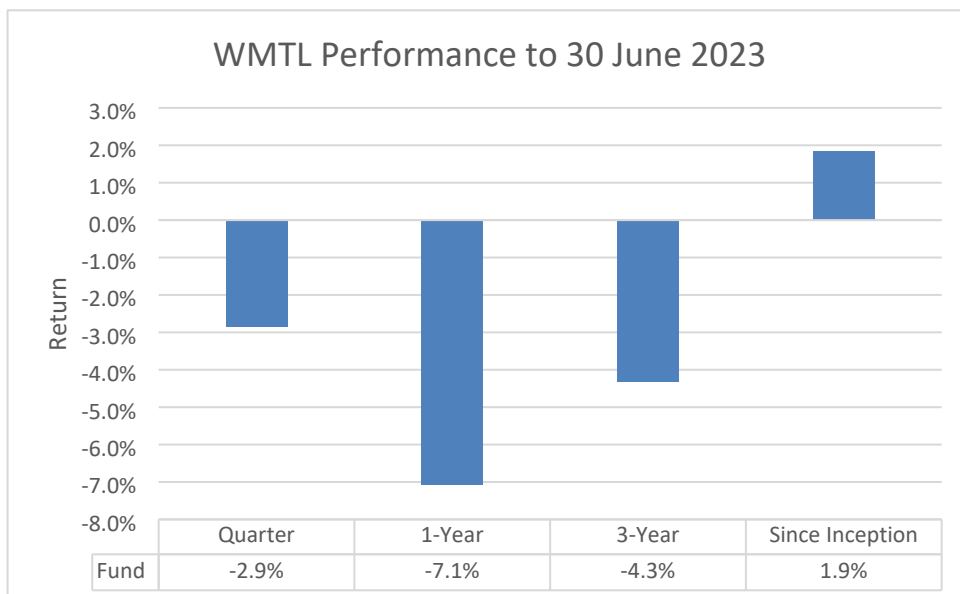
PB asset allocation:

Asset Class	Value @30/06/2023	Target	Current
Growth		0%	
Equity	£ 1,792,148	0%	13%
Liquid Income		40%	
Corporate Bonds	£ 2,491,177	40%	19%
Multi-Asset Credit	£ 4,138,218	0%	31%
Cash & Equivalents	£ 1,167,470	0%	9%
Stabilising		60%	
Gilts & LDI	£ 3,782,846	60%	28%
TOTAL	£ 13,371,859	100%	100%

Note: Totals may not sum due to rounding

WMTL Performance

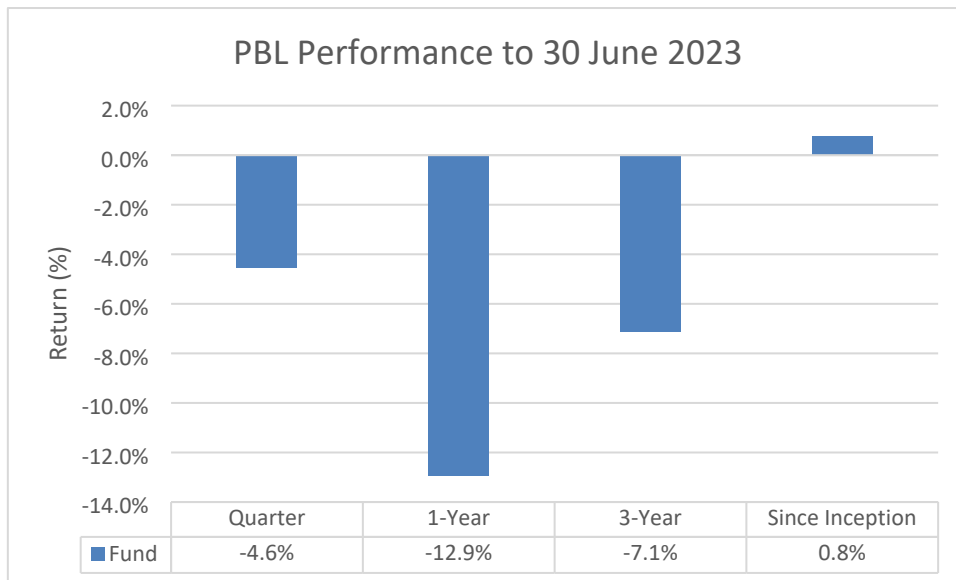
7.2 WMTL had negative returns over the quarter, 1-year and 3-year periods. Over the 1-year period, the equities and fixed income performed positively. This was largely due to significant falls in the value of the Liability Driven Investment (LDI) portfolio due to sharp increases in UK gilt yields over the last year. Whilst this resulted in negative asset returns for the LDI portfolio, the Fund's liabilities have decreased by a similar amount.



7.3 A review of the Fund’s benchmark is currently being undertaken and therefore only absolute Fund returns have been shown above.

PB Performance Summary

7.4 The Fund produced negative returns over the quarter, 1-year and 3-year periods to 30 June 2023.



7.5 The majority of negative performance was driven by 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. Corporate bonds performed negatively over the quarter, however, equities performed positively.

7.6 A review of the Fund’s benchmark is currently being undertaken and therefore only absolute Fund returns have been shown above.

8.0 Investment Pooling

8.1 The Fund continues to work closely with its investment pool company LGPS Central Ltd (LGPSC) to review and develop suitable investment products to support the implementation of Fund investment strategy, seeking opportunities to transition assets to the pool where this can add value and increase efficiency of implementation and monitoring.

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 None.

14.0 Schedule of Appendices

14.1 Appendix A – Redington Economic and Market Update