

Report title	Quarterly Investment Report to 30 September 2023	
Originating service	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, 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 September 2023, the West Midlands Pension Fund's market value was £19.5 billion (incl. WMTL and PBL ABSF's). In local currency terms, global stock markets declined, as did bonds, including UK government bonds and corporate bonds, due to yields rising.
- 3.2 The Main Fund (WMPF) returned 0.2% over the quarter underperforming its benchmark by 0.5%. Over the 1-year period the Fund returned 4.6% underperforming the benchmark by 1.3%. Performance relative to the benchmark was 0.5% p.a. and -0.8% 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 September 2023, one year and three years performance was also negative, weighed down by the Liability Driven Investment (LDI) portfolio. 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, multi-asset credit and corporate bonds were positive 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 September 2023, which further sets out the outlook for the Fund's key asset classes over the coming months, can be found in Appendix A.

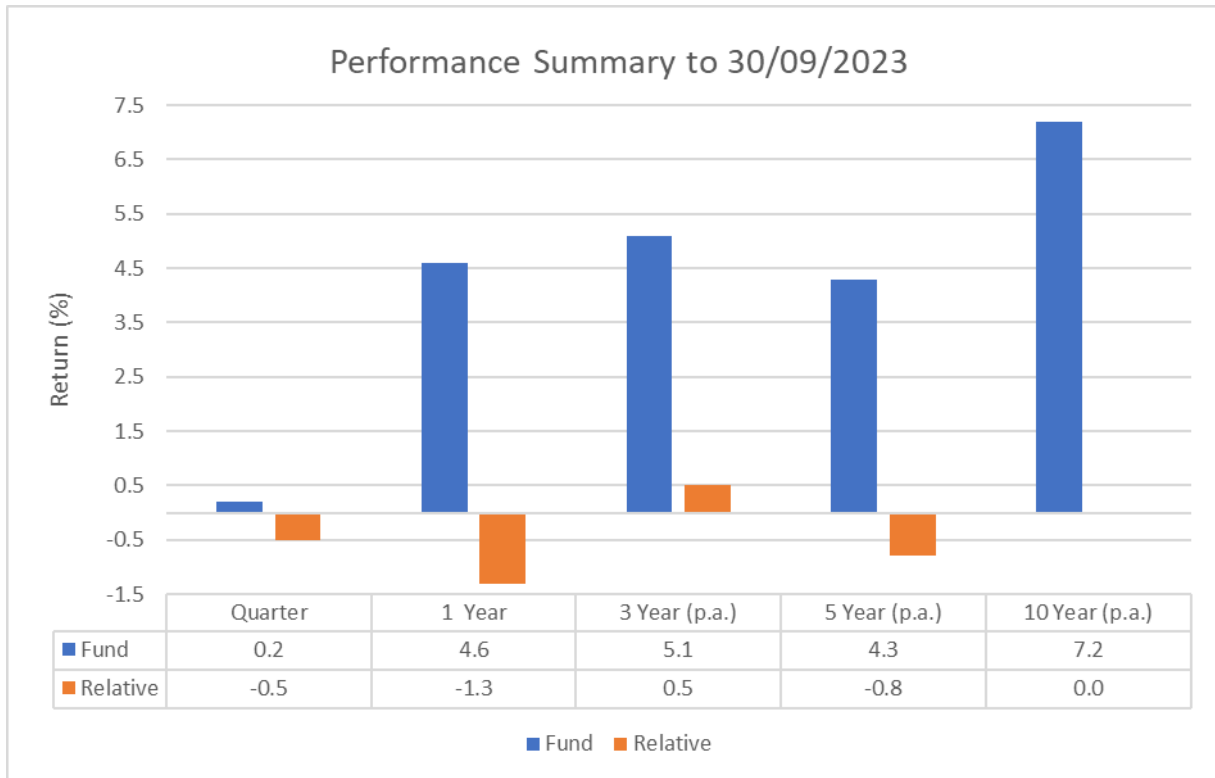
4.2 Returns for the major asset classes for the period are shown below:

Total Return (£)	<u>Quarter</u>	<u>12 months</u>
Global Equity (MSCI World)	0.6%	11.5%
US Equity (S&P 500)	0.8%	11.2%
Emerging Markets (MSCI Emerging Markets)	1.1%	2.2%
Europe ex UK Equity (FTSE)	-1.6%	20.5%
UK Equity (FTSE All Share)	1.9%	13.8%
Gilts (GBI UK All Mats)	-0.7%	-2.6%
Corporate Bonds (BofA ML Non-Gilts)	2.2%	7.4%
High Yield (BofA ML Global High Yield)	4.2%	3.1%

5.0 West Midlands Pension Fund

Main Fund Performance Summary

5.1 The Main Fund delivered an absolute return of 0.2% over the quarter underperforming the benchmark return by 0.5%. The Fund's relative returns versus its benchmark over various time periods are shown below.



- 5.2 Fund underperformance over the quarter to 30 September 2023 was predominantly driven by the Developed and Emerging Market Equity portfolios as well as negative contributions from Private Equity and Infrastructure.
- 5.3 The Fund's Property portfolio underperformed its benchmark over the quarter. Emerging Market Debt, despite returning a negative return over the quarter, outperformed its benchmark.
- 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 new strategic targets outlined in the Fund's new ISS effective 31st 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 being phased from July 2023 to March 2025. Initial steps were taken during the quarter to reduce the allocation to growth assets. Interim benchmark weights have been adjusted to reflect the implementation plan and will continue to be reviewed throughout the implementation period.
- 5.6 The Fund remained overweight at quarter end to growth assets versus policy targets. Reducing this overweight position is incorporated into the implementation plan for the new SIAB.

	Weight @ 30/09/2023	Final ISS target	Interim Benchmark
TOTAL GROWTH	58.0%	37.5%	53.5%
Total Liquid Growth	49.4%	31.5%	46.5%
Developed Market Equity	43.0%	26.5%	40.0%
Emerging Market Equity	6.4%	5.0%	6.5%
Total Illiquid Growth	8.6%	6.0%	7.0%
Private Equity	7.8%	5.0%	6.0%
Special Opportunities	0.9%	1.0%	1.0%
TOTAL INCOME	37.4%	44.5%	37.5%
Total Liquid Income	21.4%	19.5%	17.0%
Corporate Bonds	3.6%	8.5%	5.0%
Multi-Asset Credit/Specialist	3.2%	3.5%	3.5%
Other Fixed Interest	0.3%	0.0%	0.0%
Emerging Market Debt	3.8%	2.5%	3.5%
Liquid Stable Income	10.5%	5.0%	5.0%
Total Illiquid Income	16.0%	25.0%	20.5%
Private Debt	3.5%	7.0%	4.5%
Infrastructure	5.4%	9.0%	7.0%
Property	7.1%	9.0%	9.0%
TOTAL STABILISING	4.6%	18.0%	9.0%
Government Bonds	1.2%	4.0%	2.0%
Index-Linked Bonds	3.4%	14.0%	7.0%
TOTAL	100%	100%	100%

Note: Totals may not sum exactly 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. Higher levels of cash are currently being held in money-market funds in the short-term as part of the transition to the new SIAB. These assets benefit from relatively attractive rates currently available in money-market funds and help reduce exposure to market volatility while the income and stabilising allocations are developed.

6.0 West Midlands Pension Fund

Detailed Performance Commentary

Growth Assets

- 6.1 The total combined Listed Equity portfolio delivered negative absolute returns of -0.1% during the quarter, underperforming its benchmark by 0.9%. Though the Listed Equity portfolio has posted absolute performance over the long-term, relative performance has been mixed.
- 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. Performance for different components is shown below.

	Quarter	12 months
LGPSC UK (FTSE All Share)	1.9%	13.9%
LGPSC Global ex UK	0.2%	13.7%
LGPSC Climate Multi-Factor	0.2%	8.8%

- 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. All three of the sustainable equity managers underperformed their benchmarks over the quarter, given their growth style focus and underweight exposure to the energy sector.
- 6.4 Emerging Market equities performed negatively over the quarter with the Fund's portfolio underperforming its benchmark. Performance over 1-, long term 3- and 5-year periods is below the benchmark. As part of the implementation of the new strategy, next year the Fund will be undertaking a review of its Emerging Market equity portfolio.
- 6.5 Though the Private Equity portfolio underperformed during the quarter, it has significantly outperformed over 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	1.8%	0.9%	19.2%	14.6%
FTSE All World +1% (3m lagged)	3.6%	12.8%	11.4%	11.3%

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 portfolio performed in line with the benchmark over the quarter and 1-year periods but has outperformed the benchmark over the longer-term.
- 6.7 The Infrastructure portfolio underperformed its benchmark over the quarter, as it did over 1-year and 3-years. This is due to the high rates of inflation over the period which has influenced the benchmark of UK CPI +4.0% p.a. Over a 10-year period Infrastructure has outperformed the benchmark, with strong relative return.

	Quarter		1 Year		3 Year		10 Year	
	Return	Relative	Return	Relative	Return	Relative	Return	Relative
Infrastructure	0.0%	-1.5%	1.5%	-8.8%	8.1%	-2.0%	5.9%	2.2%
Property	-0.9%	-0.9%	-12.8%	-5.9%	2.6%	-2.6%	6.8%	-0.7

- 6.8 Within the Fund's fixed interest holdings, Emerging Market Debt outperformed its benchmark over both the quarter and longer time periods. The Corporate Bond and Multi-Asset Credit portfolio performed positively but underperformed their respective benchmarks in the short-term. Longer term performance is however mixed.

	Quarter		1 Year		3 Year	
	Return	Relative	Return	Relative	Return	Relative
Corporate Bonds	1.8%	-0.5%	6.0%	-1.0%	-4.2%	1.8%
Multi Asset Credit	1.1%	-1.1%	6.0%	-4.2%	0.0%	-2.1%
Emerging Market Debt	-0.4%	0.8%	7.3%	3.6%	-1.5%	2.3%

Stabilising Assets

- 6.9 The stabilising portfolio comprises the Fund's exposure to government bonds and index linked securities. The stabilising component of the fixed interest portfolio delivered negative absolute returns in the quarter, but positive relative to its benchmark.
- 6.10 The stabilising portfolio has outperformed its benchmark over 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 @30/09/2023	Target	Current
Growth		16%	17%
Equity	£ 37,844,752	16%	17%
Illiquid Income		29%	12%
Private Debt	£ 26,682,154	29%	12%
Liquid Income		35%	48%
Multi-Asset Credit	£ 52,381,589	19%	23%
Corporate Bonds	£ 37,038,492	16%	16%
Cash & Equivalents	£ 18,152,453	-	8%
Stabilising		20%	24%
LDI	£ 52,984,994	20%	23%
TOTAL	£ 225,084,435	100%	100%

Note: Totals may not sum exactly due to rounding.

Following approval of the new target asset allocation in March 2023 the transition to the new strategy has been completed. The underweight to Private Debt and overweight to Liquid Income and LDI is as a result of commitments that have been made to Private Debt but not yet drawn down. Allocations will move towards the target over time.

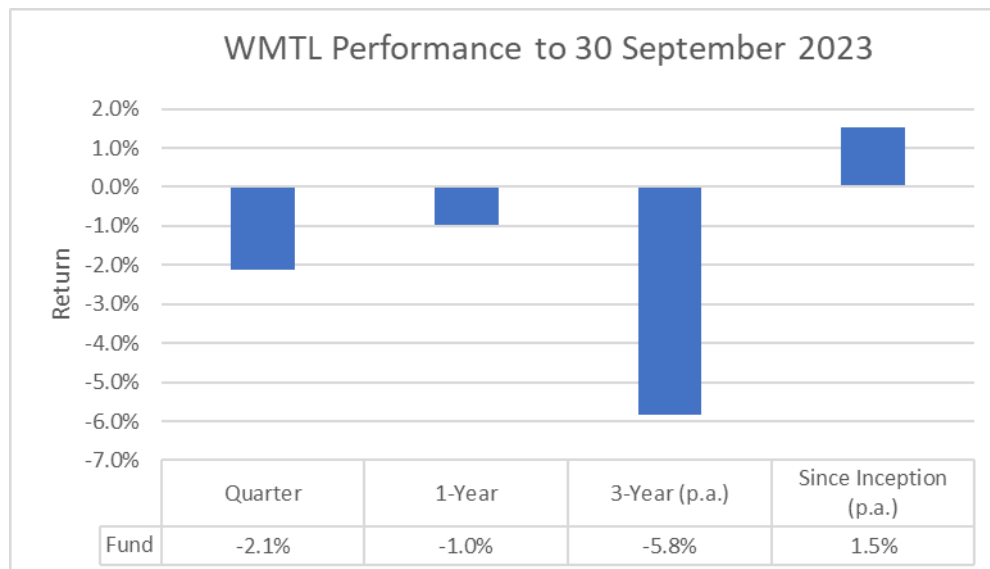
PB asset allocation:

Asset Class	Value @30/09/2023	Target	Current
Growth		0%	
Equity	£ 1,808,801	0%	13%
Liquid Income		40%	
Corporate Bonds	£ 2,545,519	40%	18%
Multi-Asset Credit	£ 4,244,231	0%	31%
Cash & Equivalents	£ 960,104	0%	7%
Stabilising		60%	
Gilts & LDI	£ 4,228,568	60%	31%
TOTAL	£ 13,787,222	100%	100%

Note: Totals may not sum exactly due to rounding

WMTL Performance

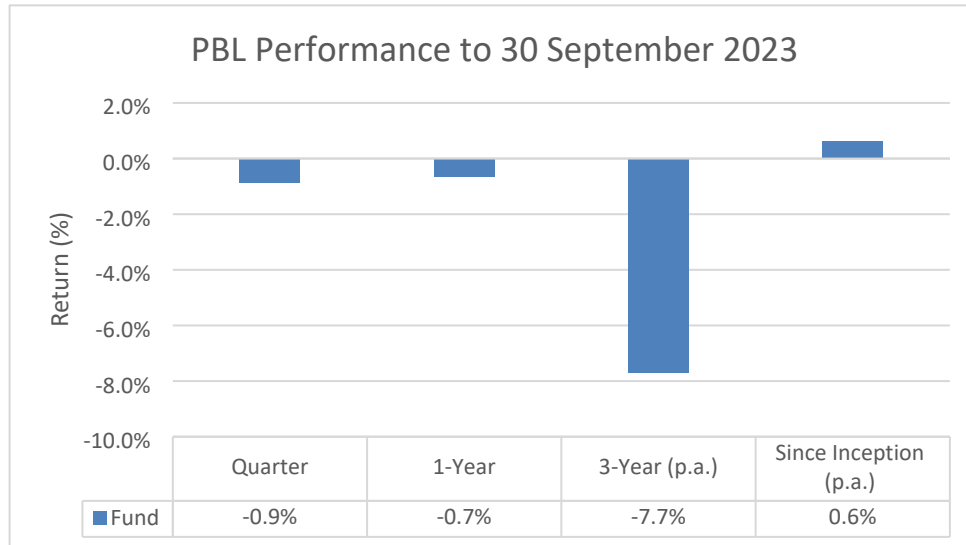
7.2 WMTL had negative returns over the quarter, 1-year and 3-year periods, weighed down by falls in the LDI portfolio. Over the 1-year period, equities and fixed income assets performed positively. The LDI portfolio performed in line with its target over the quarter and over the 12 months period.



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

PB Performance Summary

7.4 The Fund produced negative returns over the quarter, 1-year and 3-year periods to 30 September 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, multi-asset credit and equities performed positively over the quarter.

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

8.0 Investment Pooling

8.1 The Fund continues to work closely with its investment pool company LGPS Central Ltd (LGPSC) to review the ongoing suitability of investment products and look for opportunities to transition assets to the pool where relevant.

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.