

Report title	Quarterly Investment Report to 31 December 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 31 December 2023, the West Midlands Pension Fund's market value was £20.5billion (incl. WMTL and PB ABSF's).
- 3.2 The Main Fund (WMPF) returned 4.8% over the quarter outperforming its benchmark by 0.2%. Over the 1-year period the Fund returned 7.8% underperforming the benchmark by 2%. Performance relative to the benchmark was +0.4% p.a. over the last 3 years and broadly in line with the benchmark over 10 years with absolute performance being 4.7% p.a. over 3 years and 7.5% p.a. over 10 years.
- 3.3 The Admitted Body Separate Funds performed positively over the quarter to 31 December 2023 with WMTL and PB producing absolute returns of 8.8% and 11.4% respectively. Equities, multi asset credit and corporate bonds were positive over the quarter.

The 3-year performance numbers for both ABSF's was negative, weighed down by the 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.

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

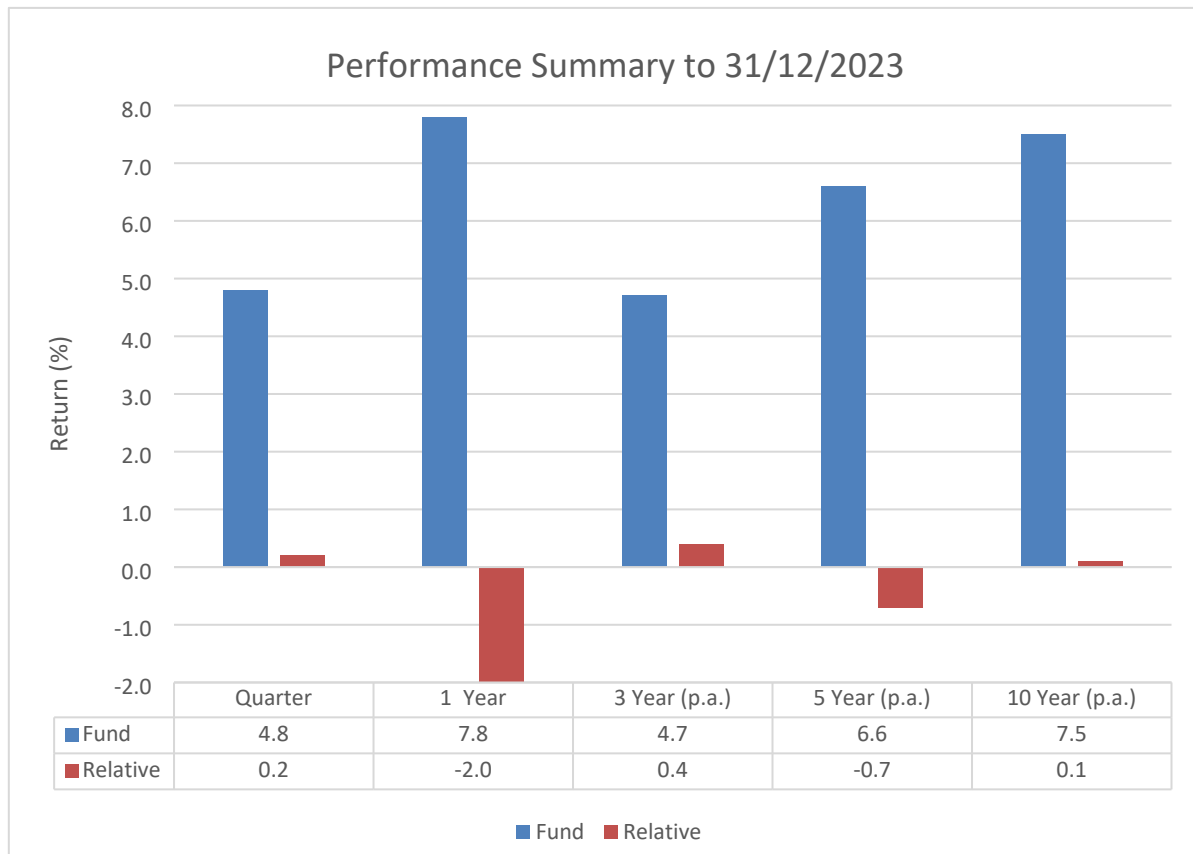
4.2 Returns for the major asset classes for the period are shown below:

Total Return (£)	<u>Quarter</u>	<u>12 months</u>
Global Equity (MSCI World)	6.7%	16.8%
US Equity (S&P 500)	6.9%	19.2%
Emerging Markets (MSCI Emerging Markets)	3.3%	3.6%
Europe ex UK Equity (FTSE)	7.6%	15.7%
UK Equity (FTSE All Share)	3.2%	7.9%
Gilts (GBI UK All Mats)	8.4%	3.8%
Corporate Bonds (BofA ML Non-Gilts)	7.4%	8.6%
High Yield (BofA ML Global High Yield)	3.0%	7.0%

5.0 West Midlands Pension Fund

Main Fund Performance Summary

5.1 The Main Fund delivered an absolute return of 4.8% over the quarter outperforming the benchmark return by 0.2%. The Fund's relative returns versus its benchmark over various time periods are shown below.



- 5.2 Fund outperformance over the quarter to 31 December 2023 was predominantly driven by the Private Equity and Private Debt portfolios as well as positive contributions from Multi-Asset Credit.
- 5.3 The Fund's Equity portfolio underperformed its benchmark over the quarter, with Emerging Market Equities being the largest detractor. Emerging Market Debt had positive returns over the quarter but underperformed its benchmark by -1.1%.
- 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 put in place an implementation plan to transition to the new target allocation. The transition is being phased from July 2023 to March 2025. From October to December 2023 the Fund continued to redeem from passive equities and started allocating significant capital to Gilts. 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 @ 31/12/2023	Final ISS target	Interim Benchmark (Q4 2023)
TOTAL GROWTH	53.7%	37.5%	52.0%
Total Liquid Growth	45.4%	31.5%	45.0%
Developed Market Equity	40.7%	26.5%	40.0%
Emerging Market Equity	4.7%	5.0%	5.0%
Total Illiquid Growth	8.4%	6.0%	7.0%
Private Equity	7.6%	5.0%	6.0%
Special Opportunities	0.8%	1.0%	1.0%
TOTAL INCOME	33.6%	44.5%	37.5%
Total Liquid Income	17.8%	19.5%	17.0%
Corporate Bonds	3.8%	8.5%	5.0%
Multi-Asset Credit/Specialist	3.5%	3.5%	3.5%
Emerging Market Debt	3.8%	2.5%	3.5%
Liquid Stable Income	6.7%	5.0%	5.0%
Total Illiquid Income	15.8%	25.0%	20.5%
Private Debt	3.9%	7.0%	4.5%
Infrastructure	5.2%	9.0%	7.0%
Property	6.7%	9.0%	9.0%
TOTAL STABILISING	12.7%	18.0%	10.5%
Government Bonds	4.5%	4.0%	3.0%
Index-Linked Bonds	8.2%	14.0%	7.5%

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, totalling £125m in the quarter. Over the same period, the Fund received distributions from older Private Market assets of £111m. Sufficient liquidity is maintained to meet future calls. 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.

6.0 West Midlands Pension Fund

Detailed Performance Commentary

Growth Assets

- 6.1 The total combined Listed Equity portfolio delivered positive absolute returns of 5.5% during the quarter, underperforming its benchmark by 0.2%. Though the Listed Equity portfolio has posted positive absolute performance over the long-term, relative performance has been mixed.
- 6.2 The Main Fund's passive equity assets are now exclusively managed by the investment pool company, LGPS Central Ltd. (LGPSC). All passive funds performed broadly in line with their respective benchmarks during the quarter. Performance for different components is shown below.

	Quarter	12 months
LGPSC UK (FTSE All Share)	3.4%	8.0%
LGPSC Global ex UK	6.7%	14.5%
LGPSC Climate Multi-Factor	6.4%	11.7%

- 6.3 The Fund's actively managed global Developed Market Equities comprises the LGPSC Global Active Equity fund and an allocation to three sustainable equity managers. The LGPSC Global Active Equity Fund 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. Two of the sustainable equity managers underperformed their benchmarks over the quarter, while the other manager performed in line with the benchmark. Since their inception in 2020/21 all three sustainable managers have underperformed their benchmarks.
- 6.4 Emerging Market equities performed positively over the quarter, however, underperformed relative to the benchmark by -1.2%. Performance over 1-year, 3-year and 5-year periods is also below the benchmark.
- 6.5 The Private Equity portfolio returned 3.1% above the benchmark during the quarter and has significantly outperformed over longer time periods (3-, 5- and 10-year 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	4.3%	6.2%	19.4%	14.9%
FTSE All World +1% (3m lagged)	1.1%	12.2%	10.5%	10.9%

Income Assets

- 6.7 The Fund's income segment has outperformed its respective benchmark over the quarter by 0.2%, however, it has underperformed the benchmark over 1- and 3-year periods, with excess returns of -2.6% and -1.7% respectively. Since inception, the Income segment has performed in-line with the benchmark.
- 6.8 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. The aggregate property portfolio provided negative relative returns over the quarter and longer time periods, however, the Fund's Direct Property portfolio has outperformed its benchmark over the 3 and 5-year periods. The Fund's Private Debt portfolio has outperformed the benchmark by 6.7% p.a. over the 3-year period.

	Quarter		1 Year		3 Year		10 Year	
	Return	Relative	Return	Relative	Return	Relative	Return	Relative
Infrastructure	0.5%	-0.8%	2.4%	-5.7%	7.7%	-2.4%	6.1%	2.1%
Property	-1.8%	-1.4%	-3.6%	-5.0%	0.7%	-3.4%	6.2%	-0.4%
Private Debt	4.9%	2.7%	2.2%	-6.6%	9.7%	6.7%		

- 6.9 Within the Fund's fixed interest holdings, Corporate Bonds and Multi Asset Credit outperformed their benchmarks over both the quarter and 1 year. The Emerging Market Debt portfolio performed positively but underperformed the benchmark in the short-term. Longer-term relative performance is however positive.

	Quarter		1 Year		3 Year		10 Year	
	Return	Relative	Return	Relative	Return	Relative	Return	Relative
Corporate Bonds	8.3%	0.9%	9.9%	1.4%	-2.8%	1.9%	4.0%	1.2%
Multi Asset Credit	4.9%	2.2%	9.0%	0.2%	0.7%	-0.9%		
Emerging Market Debt	6.6%	-1.1%	9.1%	1.0%	-0.7%	1.4%	5.3%	2.6%

Stabilising Assets

- 6.10 The stabilising portfolio comprises the Fund's exposure to government bonds and index linked securities. The total stabilising portfolio delivered positive absolute returns of 10.2% in the quarter, with all mandates tracking their respective benchmarks.
- 6.11 The stabilising portfolio has outperformed its benchmark over longer time periods helped by the Gilt Futures and US TIPS positions. The Fund no longer holds the Gilt Futures and US TIPS but has been increasing its allocation to stabilising assets through UK

Government Bonds over the quarter and into 2024 as part of the managed move towards the new SIAB.

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 @31/12/2023	Target	Current
Growth		8%	17%
Equity	£ 40,241,075	8%	17%
Illiquid Income		29%	14%
Private Debt	£ 34,099,332	29%	14%
Liquid Income		35%	44%
Multi-Asset Credit	£ 54,571,997	19%	23%
Corporate Bonds	£ 39,815,278	16%	16%
Cash & Equivalents	£ 11,084,201	0%	5%
Stabilising		28%	26%
LDI	£ 61,889,140	28%	26%
TOTAL	£ 241,701,023	100%	100%

Note: Totals may not sum 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 a result of commitments that have been made to Private Debt which are not yet drawn down. Allocations will move towards the target over time.

PB asset allocation:

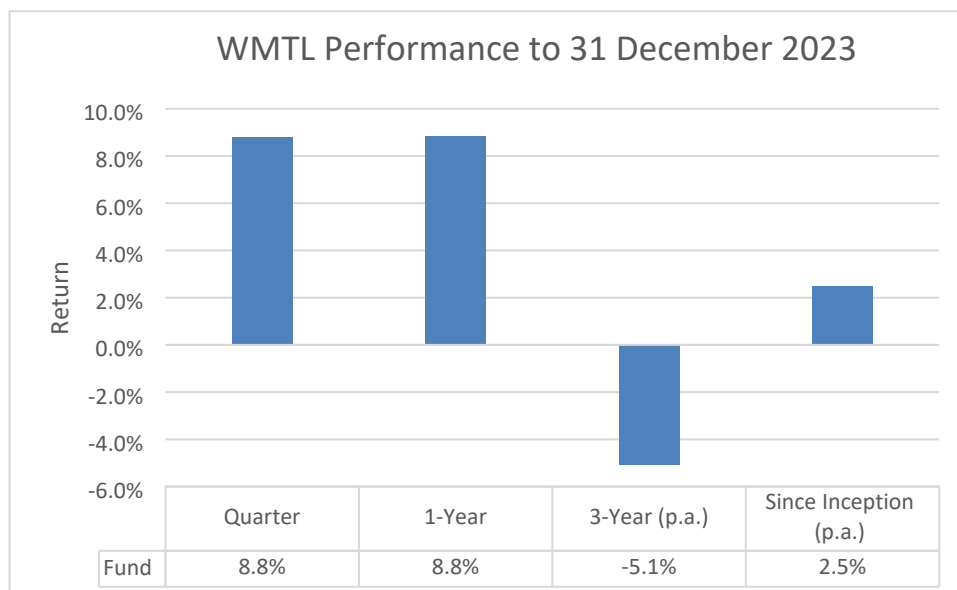
Asset Class	Value @31/12/2023	Target	Current
Growth		0%	13%
Equity	£ 1,914,174	0%	13%
Liquid Income		40%	54%
Corporate Bonds	£ 2,736,357	40%	19%
Multi-Asset Credit	£ 4,421,709	0%	30%
Cash & Equivalents	£ 779,128	0%	5%
Stabilising		60%	33%
Gilts & LDI	£ 4,802,488	60%	33%
TOTAL	£ 14,653,856	100%	100%

Note: Totals may not sum due to rounding.

Implementation towards the target allocation has been paused to allow for continued dialogue with employer which has now taken place. Following this dialogue plans are being made to move towards the target allocation over the coming quarters.

WMTL Performance

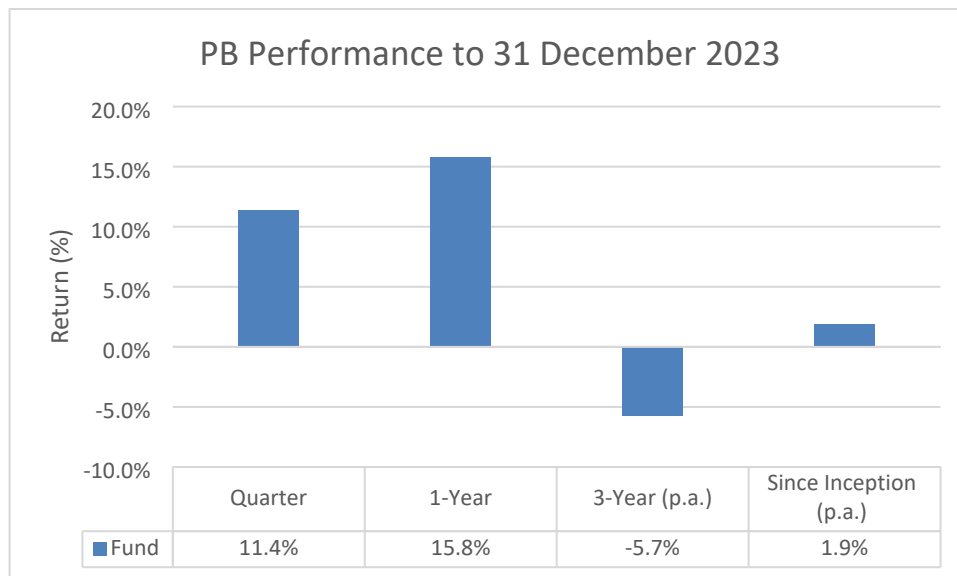
7.2 WMTL had positive returns over the quarter and 1-year. Over 3-years, performance was weighed down by falls in the Liability Driven Investment (LDI) portfolio, which fell in line with liabilities. Over the 1-year period, equities and fixed income assets performed positively. The LDI portfolio performed 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 above.

PB Performance Summary

7.4 The Fund produced positive returns over the quarter, 1-year and Since Inception to 31 December 2023.



7.5 The majority of positive performance was driven by Equity and Fixed Income Assets. The negative performance over 3-years was due to the LDI portfolio, given the sharp increase in UK gilt yields experienced over the 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 and multi-asset credit also 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 above.

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 appropriate.

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.