

# Pensions Committee

## 20 June 2018

<b>Report title</b>	Asset allocation and investment monitoring performance period to 31 March 2018 West Midlands Integrated Transport Authority (WMITA) Pension Fund	
<b>Originating service</b>	Pension Services	
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### Recommendation for noting:

The Committee is asked to note:

1. The contents of the asset allocation and investment monitoring report for the period ended 31 March 2018.

## **1.0 Purpose**

- 1.1 The asset allocation and investment monitoring report attached in Appendix 1 covers the performance of the WMITA Pension Fund and the implementation of its investment strategy for the period ended 31 March 2018.

## **2.0 Background**

- 2.1 WMITA Pension Fund's investment strategy is set out in its Investment Strategy Statement, which also contains the fund's investment beliefs, the Investment Strategy Statement relevant for monitoring the period to 31 March 2018 was approved by the Pensions Committee at its meeting on 22 March 2017. An updated strategy was approved by the Committee on 21 March 2018.

## **3.0 Review**

- 3.1 In the quarter ended 31 March 2018, the fund achieved a return of -2.2% underperforming the benchmark return of -1.5%. This was due to the diversified growth fund (DGF) allocation underperforming the benchmark over the quarter by 1.9%, which was mainly due to weak performance from Newton, one of the DGF managers. The active corporate bond fund slightly outperformed the benchmark by 0.1%. Over the quarter, equities delivered a lower absolute return (-4.3%) than the diversified growth funds (-0.9%) which in turn delivered lower returns than the defensive element which is invested in gilts and bonds (-0.5%). The annual performance for the fund was 2.4% against a benchmark return of 3.3%. Equities were substantially the strongest performer over the 12 month period although both the diversified growth funds and the defensive element returned positive absolute performance.
- 3.2 The performance of the two employers' segments reflect their respective strategic asset allocations to growth and defensive assets. Preston Bus had a higher return (-1.6%) than National Express (-2.2%). This was due to an higher allocation to defensive assets which performed more strongly over the quarter. Both employer segments underperformed the benchmark. The National Express performance for the year was 2.5% against a benchmark of 3.4%. The Preston Bus portfolio achieved an annual return of 1.9% against a benchmark of 2.3%, the lower absolute return relative to National Express was due to a lower allocation to growth assets (in particular equities). Underperformance relative to the benchmark over the last 12 months was lower in comparison with the National Express portfolio due to its lower exposure to the DGF's. The purpose of holding positions in the DGFs is to reduce the overall level of risk within the portfolios and to reduce volatility, which has been the case. Given the poor performance of one of the external DGF managers, they are being put on close watch to assess whether there are more fundamental issues with the way in which the portfolio is being managed.

3.3 A new Investment Strategy Statement was agreed at the Pensions Committee meeting on 21st March and will apply from April 2018. The policy targets and reporting contained within this quarterly update relate to the strategy that was in place for 2017-2018. The new strategic asset allocation effective from April 2018 is shown in the table below:

Asset class	Total Fund %	National Express % (post-buy-in)*	Preston Bus % (non-buy-in)
<b>Growth</b>			
Quoted equities	27.6	28.0	22.5
Diversified growth funds	37.0	38.3	22.5
<b>Total growth</b>	<b>64.6</b>	<b>66.3</b>	<b>45.0</b>
<b>Income and stabilising</b>			
Fixed income	22.3	19.7	54.4
LDI	13.0	14.0	0.0
Cash	0.1	0.0	0.6
<b>Total income and stabilising</b>	<b>35.4</b>	<b>33.7</b>	<b>55.0</b>

\*The buy-in represented 50% of NX assets as of 31 December 2017.

The tolerance ranges for the combined fund are as follows:

60% - 70% Growth  
30% - 40% Defensive

#### 4.0 Financial implications

4.1 The financial implications are set out throughout the report.

#### 5.0 Legal implications

5.1 This report contains no direct legal implications.

#### 6.0 Equalities implications

6.1 This report contains no equal opportunities implications.

#### 7.0 Environmental implications

7.1 This report contains no environmental implications.

#### 8.0 Human resources implications

8.1 This report contains no direct human resources implications.

#### 9.0 Corporate landlord implications

9.1 This report contains no direct corporate landlord implications.

#### 10.0 Schedule of background papers

10.1 WMITA's Investment Strategy Statement.

10.2 WMITA's Funding Strategy Statement.

**11.0 Schedule of appendices**

11.1 Appendix 1 – Asset allocation and investment performance report quarter to 31 March 2018