

Pensions Committee

20 June 2018

Report title	Asset Allocation and investment performance – Period to 31 March 2018 West Midlands Pension Fund	
Originating service	Pension Services	
Accountable employee(s)	Jill Davys Tel Email	Assistant Director – Investment & Finance 01902 550555 jill.davys@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 551715 rachel.brothwood@wolverhampton.gov.uk

Recommendation for noting:

The Committee is asked to note:

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

1.0 Purpose

- 1.1 The quarterly asset allocation and investment performance report attached in Appendix 1 covers the performance of the Fund and the implementation of its investment strategy for the period to 31 March 2018. All major transactions are reported along with the position of the portfolio at the end of the reporting period.

2.0 Background

- 2.1 The Fund's investment strategy is outlined in the approved Investment Strategy Statement (ISS), set in conjunction with the Funding Strategy Statement 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 and returns investment policies will be benchmarked against. The quarterly monitoring report provides an overview of the implementation of investment strategy and an update on performance against the SIAB.

3.0 Summary

- 3.1 During the quarter the Fund's market value decreased from £15.5 billion to £15.2 billion as global equity markets fell following a correction in February 2018. Over the last 12 months the market value of the Fund's invested assets has increased by £1.0 billion, reflecting positive net cashflow and appreciation in market value.
- 3.2 In the quarter ended 31 March 2018 the Fund outperformed its benchmark by 0.2%, delivering a return of -2.1% compared to the benchmark return of -2.3%. The negative returns were due to the fall in global equity markets, which recorded a loss over the quarter, although recognising that this followed a period of very strong returns for equity markets. The outperformance was attributable to strong relative returns from the private equity portfolio and, to a lesser extent, the special opportunities segment of the absolute return portfolio. Over the 12 months to 31 March the Fund was below its benchmark by 1.0%; this was principally due to the negative impact of a number of natural disasters on the insurance linked portfolio, although over the longer term, 5 years, this area has outperformed the benchmark for the sector.
- 3.3 Over the medium-term, 3 years, the Fund has achieved its performance target of outperforming against benchmark by 0.5% returning 8.9% versus the benchmark of 8.4%. Over 10 years, the Fund is also meeting its target with annualised returns of 7.4% against the benchmark of 6.9%.
- 3.4 Following the record highs achieved by global equity markets during 2017, the Fund considered it prudent to reduce the risk associated with its overweight exposure to growth assets (and equities in particular). Consequently, the Fund allowed its European and emerging market equity index futures positions to expire in March 2018, which reduced the Fund's overweight position in growth assets by 5.1%, to reduce levels of risk in the portfolio when measured against the Fund's Strategic Investment Allocation Benchmark (SIAB).

- 3.5 The Fund consolidated its regional overseas passive equity portfolios into a global (ex-UK) fund during the first quarter of 2018 in preparation for the transition of the internal passive assets to LGPS Central. The fund is equally weighted between three regions (North America, Europe ex UK and Asia). The Fund also expanded its factor-based equity offering by investing in a £250 million global dividend growth fund, comprising its existing US Dividend Aristocrats portfolio and two new regional growth funds (Europe and Asia). This necessitated investments of £75.9 million in Europe and £78.7 million in Asia, funded by the sale of equities required for the restructuring of the global (ex UK) fund detailed above.
- 3.6 During the quarter the Fund made a £55 million commitment to an Asian private equity fund focused on buyout and strategic minority investments in Asian markets. This investment fits with the Fund's desire to increase its geographic exposure to Asia/Rest of World in the private equity arena. In addition, the Fund has taken the opportunity to increase exposure in the insurance linked area to capture premium increases as the industry looks to recover from losses following the hurricane season in 2017 and other natural disasters, subsequently, the Fund increased its exposure further by an additional commitment to another fund post the quarter end.
- 3.7 The Fund's passive currency hedging programme achieved its objective of protecting the Fund against currency losses arising from a strengthening in sterling over the quarter. The appreciation in the pound relative to the US dollar and the euro between December 2017 and the maturity of the hedge in mid-March 2018 resulted in a gain of £36.7 million, at which point the contracts were rolled forward for a further three months. By the end of the quarter the positions held from the latter half of March had made an unrealised gain of £44.6 million.
- 3.8 At the quarter-end the Fund had small overweight positions in growth assets and stabilising assets, the latter being due to the return of the cash that was used to back the Fund's futures positions. Income assets, including infrastructure, property and specialist fixed income were underweight but the Fund continues to seek suitable investments in this area and invested £72m into an infrastructure fund at the start of the current quarter. In addition, the Fund has identified a suitable multi-asset credit fund for investment, which will form part of the specialist fixed interest segment of the portfolio. Other investments post the year end include an office property and further investments in the insurance linked sector, as noted earlier, again increasing the income element of the portfolio and moving towards the medium term strategic asset allocation target.
- 3.9 Since the quarter end the Fund has commenced transition of its internal passive equity assets to LGPS Central amounting to around a third of the portfolio transferring into LGPS Central ACS passive equity sub-funds covering UK, Global ex UK and Global Dividend Growth and is now receiving weekly updates on the value of the 3 portfolios. It is anticipated that the transfer of WMPF external active global equities will take place to LGPS Central in the autumn of 2018 once the current procurement exercise completes and LGPS Central has established the active global equity sub-fund. A procurement

exercise for external emerging market managers has also commenced with LGPS Central Ltd having sought Partner Fund views on the preferred make-up of this portfolio.

- 3.10 The Fund continues to review its internal and external manager performance and fees to ensure the effective implementation of its investment strategy in line with the Fund's Investment Strategy Statement.

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 Investment Strategy Statement.

- 10.2 Funding Strategy Statement.

11.0 Schedule of appendices

- 11.1 Appendix 1 – asset allocation and investment performance report for the period ending on 31 March 2018.