

Report title	Quarterly Investment Report to 30 September 2021	
Originating service	Pension Services	
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Recommendations for decision:

The Pensions Committee is asked to note:

1. The global market and investment update paper prepared by the Fund's Investment Consultant, Redington.
2. Asset Allocation and Performance Reporting for the West Midlands Pension Fund (WMPF), Main Fund and Admitted Body Sub Funds.

1.0 Purpose

- 1.1 The investment report covers developments in investment markets, asset allocation and investment performance over the latest quarter in relation to the West Midlands Pension Fund (Main Fund and Admitted Body Sub 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. WMPF'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 and the levels of returns investment policies will be benchmarked against.
 - III. This report provides separate commentary on the Main Fund and Admitted Body Sub 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. This report previously referred to Fund positioning against 2019 ISS and SIAB policy targets. These were refreshed as part of the 2020 ISS review as approved by the Pensions Committee in March 2020. Implementation of the ISS changes continues to progress and this report now adopts an interim benchmark comprising policy targets that reflect partial transition to the strategic targets outlined in the ISS, designed to better meet the future needs of the WMPF.

3.0 Executive Summary

- 3.1 As at 30 September 2021, the West Midlands Pension Fund's market value was £20.0 billion (incl. WMTL and PB ABSF). Over the quarter equity markets generally rose continuing the strong recovery from the sharp falls seen in March 2020. Emerging Markets lagged Developed Markets.
- 3.2 The Main Fund increased by 1.9%% over the quarter exceeding the return of its benchmark. The Fund's growth assets (largely equities) delivered strong positive returns in the quarter and for the 12-month period to end June 2021. Income and stabilising assets performed less well. The Fund's returns are ahead of its benchmark for 1 year, but marginally trailed behind over a 3 year period.

3.3 The Admitted Body Sub Funds are ahead of the benchmark return over 1 year and longer time periods. For WMTL, positive relative performance has been driven by a rebound in Multi-Asset Credit and Diversified Growth Funds. For both ABSF's Multi-Asset Credit contributed positively to deliver excess return over the year.

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 2021, 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 in £):

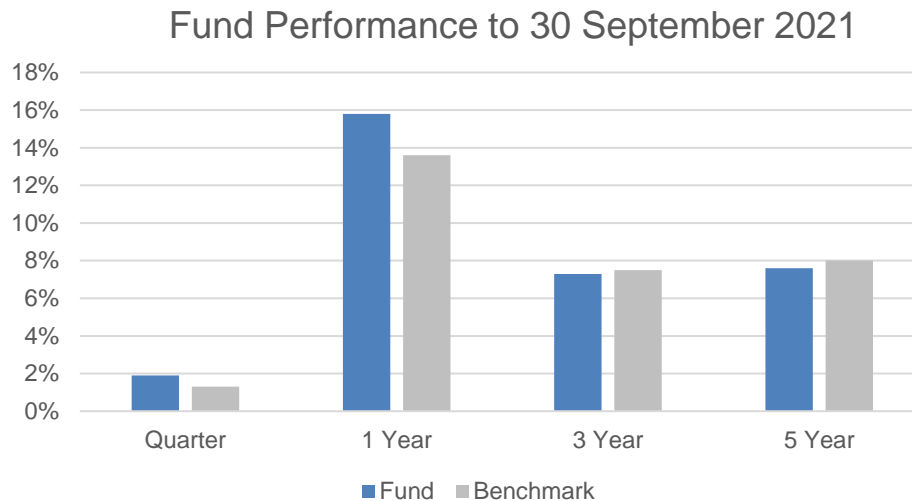
	3 months	12 months
US Equity (S&P 500)	3.1%	24.7%
UK Equity (FTSE All Share)	2.2%	27.9%
Emerging Market Equity	-5.8%	13.3%
UK Gilts (All Maturities)	-1.9%	-7.0%
Corporate Bonds	-1.0%	-0.3%
Global High Yield Bonds	2.1%	5.3%

4.3 Equities advanced further in the quarter although Emerging Markets generally underperformed. UK Government bond yields fell and Corporate Bonds generally outperformed Government Bonds. Uncertainty remains in commercial UK property markets with low transaction levels and ongoing rent deferrals.

5.0 West Midlands Pension Fund

Main Fund Performance Summary

- 5.1 The Main Fund delivered a return of 1.9% over the quarter outperforming the benchmark return. The Fund's relative returns versus its benchmark over various time periods are shown below.



- 5.2 The Fund outperformed its benchmark over the 12 months. Private Equity was a large contributor to positive relative performance as strong performance from the portfolio outperformed the listed equity index to which it is compared. A three-month lag has now been introduced to the benchmark for this asset class to make performance comparisons more meaningful.
- 5.3 Despite delivering positive returns over the quarter, Infrastructure continues to be a major negative contributor to relative performance over longer time periods. Strong performance from Active Equity and Direct Property portfolio are the main positives.
- 5.4 Over 3 years the main detractors remain Infrastructure and Insurance Linked Securities.
- 5.5 The asset allocation of the Main Fund as at the quarter end is set out overleaf. Interim benchmark weights are in place to reflect partial transition to the strategic targets outlined in the Fund's ISS. Full adoption of the ISS targets will take some time, especially for illiquid assets such as Infrastructure and Private Debt.
- 5.6 The Fund remained overweight in growth assets versus previous policy targets, as a result of existing equity positions and the strong performance from these asset types.

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	Value (£m)	Weight	ISS target	Interim Benchmark
Developed Market Equity	9,171	46.5%	30.0%	40.0%
Emerging Market Equity	1,409	7.1%	12.0%	8.0%
Total Equity	10,580	53.7%	42.0%	48.0%
Private Equity	1,439	7.3%	6.0%	6.0%
Opportunistic	319	1.6%	2.0%	2.0%
TOTAL GROWTH	12,338	62.6%	50%	56.0%
Corporate Bonds	986	5.0%	4.0%	4.0%
Multi-Asset Credit/Specialist Credit	708	3.6%	5.5%	5.5%
Emerging Market Debt	785	4.0%	4.5%	4.5%
Private Debt	124	0.6%	6.0%	1.0%
Infrastructure	825	4.2%	9.0%	7.0%
Property	1,389	7.0%	9.0%	9.0%
TOTAL INCOME	4,817	24.4%	38.0%	31.0%
Gilts	429	2.2%	2.0%	2.0%
Index Linked Securities	1,231	6.2%	3.0%	5.0%
Low risk strategy	314	1.6%	5.0%	4.0%
Cash	590	3.0%	2.0%	2.0%
TOTAL STABILISING (incl. low risk)	2,564	13.0%	12.0%	13.0%
TOTAL	19,719	100.0%	100.0%	100.0%

5.7 The Fund's focus remains on implementing the Strategic Asset Allocation (SAA) changes as agreed as part of the 2020 investment strategy review. Efforts have primarily focused on fixed income assets, with steps being taken to move towards new target weights in Multi-Asset Credit and Private Debt in particular, with Equity holdings will likely to be trimmed over the coming quarter quarters. Options to add to the Fund's Infrastructure investments are also being explored.

6.0 West Midlands Pension Fund

Detailed Performance Commentary

Growth Assets

- 6.1 The total Combined Equity Fund delivered strong absolute performance during the quarter and for the 12 months to 30 September 2021.
- 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 in line with the respective benchmarks during the quarter but with significant divergence between region and strategy as shown below.

	Quarter	12 months
LGPSC UK (FTSE All Share)	2.2%	27.1%
LGPSC Global ex UK	1.5%	22.1%
LGPSC Dividend Growth (Blended)	0.7%	6.9%
LGPSC Climate Multi-Factor	2.2%	19.5%

- 6.3 The Fund's actively managed global equities comprise the LGPSC Active Equity fund, an allocation to sustainable equity managers and a basket of global equity futures.
- 6.4 For the quarter the LGPSC Global Active Equity Fund returned 2.7% outperforming the benchmark by 0.8%. The fund is comfortably ahead of its benchmark over 1 year (returning 28.8%). The LGPSC Global Active Equity Fund is a blended multi-manager portfolio consisting of 3 underlying portfolios.
- 6.5 Emerging markets lagged developed markets over the quarter and the Fund's Emerging Market Equity portfolio also lagged its benchmark. A review of these managers is being undertaken prior to effecting the increase in allocation set within the 2020 ISS.
- 6.6 The Private Equity outperformed during the quarter and significantly outperformed over 1 year. The benchmark used for this asset class comprises listed equities plus an outperformance target. A 3-month lag to the benchmark return has now been introduced. Over longer time periods the portfolio has met expectations.

	Quarter	1 Year	3 year
Private Equity Portfolio	10.4%	44.6%	15.5%
FTSE All World +1% (with lag)	7.4%	26.0%	14.3%

Income Assets

- 6.7 The Income segment performed in-line with its respective benchmark over the quarter and over 12 months. The aggregate property portfolio trailed the benchmark for the 3 month period. The Direct portfolio has performed particularly well (significantly ahead of

IPD/MSCI indices) due to resilient performance from sectors such as industrial, supermarket and offices. As previously highlighted, valuation uncertainty persists, and future rental levels remain unclear. The Indirect portfolio performance has been weaker over most time periods.

- 6.8 The infrastructure portfolio delivered a positive return over the course of the year to end September but trailed its performance target. The portfolio has significantly underperformed its target return (CPI +4%) over 3 years but has done better on a longer-term basis. The Funds UK assets have struggled during the pandemic, and the US portfolio has also fared poorly.

	Quarter		1 Year		3 Year	
	Return	Relative	Return	Relative	Return	Relative
Property Portfolio	3.5%	-0.4%	13.0%	1.4%	4.6%	-0.3%
Infrastructure Portfolio	2.1%	0.2%	4.2%	-2.8%	1.2%	-4.6%

- 6.9 The Fund's Fixed Interest holdings have generally performed well. Both Emerging Market Debt holdings are ahead of benchmark (the LGPS Central fund making a strong start since launch in December 2020). The Fund's Multi Asset Credit investment has enjoyed recent strength (despite underperforming at the onset of the pandemic) as high duration assets such as sovereign and investment grade bonds underperformed high yield. The Fund remains tilted to floating-rate assets. The Fund's Corporate Bond allocations continue to outperform their benchmarks.

	Quarter		1 Year		3 Year	
	Return	Relative	Return	Relative	Return	Relative
Corporate Bonds	-0.4%	0.5%	1.1%	1.5%	6.2%	1.7%
Multi Asset Credit	0.9%	0.5%	5.4%	-0.9%		
Emerging Market Debt	0.7%	1.0%	3.2%	4.7%	5.2%	2.0%

Stabilising Assets

- 6.10 Stabilising Fixed Income: The stabilising portfolio comprises the Fund's exposure to government bonds and index linked securities and cash. The stabilising component of the fixed interest portfolio delivered negative returns for the quarter as yields on sovereign debt rose (meaning prices fell). Inflation linked bonds have performed strongly year-to-date
- 6.11 Over 1 and 3 year timeframes the stabilising portfolio has outperformed its benchmark.

Currency

- 6.12 The Fund changed its hedge ratios from 50% EUR and 25% USD to 25% EUR effective 16 September 2020. The hedge has had a positive impact on performance over the course of the last 12 months. It has however, had a larger impact on the performance of

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the benchmark (which reflect higher hedge ratios for these currency pairs) impacting relative returns (i.e. versus benchmark). The hedge overlay is primarily a risk reduction tool.

7.0 Admitted Body Sub Funds (ABSFs)

7.1 The current allocation for the two ABSFs is shown below.

WMTL asset allocation (excluding buy-in policy):

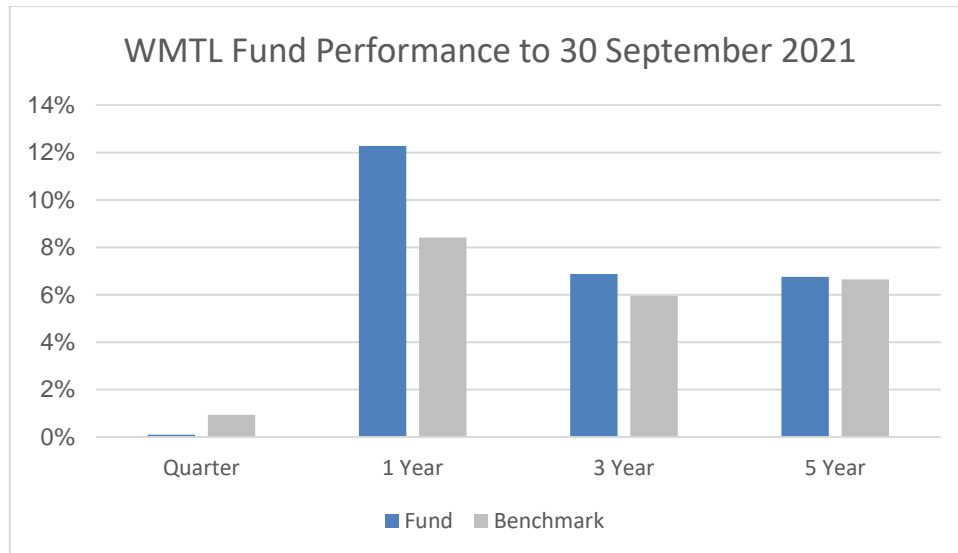
	Value (£000's)	Allocation (%)
Equities	92,265	31%
Diversified Growth Funds	96,103	33%
Total Growth	188,368	64%
Corporate Bonds	10,261	3%
Multi Asset Credit	52,682	18%
LDI/Index Linked Bonds	41,366	14%
Cash	2,754	1%
Total Defensive	107,063	36%
TOTAL	294,966	100%

PB asset allocation:

	Value (£000's)	Allocation (%)
Equities	2,994	15%
Total Growth	2,994	15%
Corporate Bonds	5,522	27%
Multi Asset Credit	5,766	29%
LDI/Index Linked Bonds	5,461	27%
Cash	282	1%
Total Defensive	17,031	84%
TOTAL	20,168	100%

WMTL Performance

- 7.2 The Fund underperformed for the quarter but is significantly ahead for 1 year and 3 years. Positive relative performance is driven by the Multi-Asset Credit and Diversified Growth Fund holdings which outperformed their 'base rate plus' performance targets.



Fixed Income

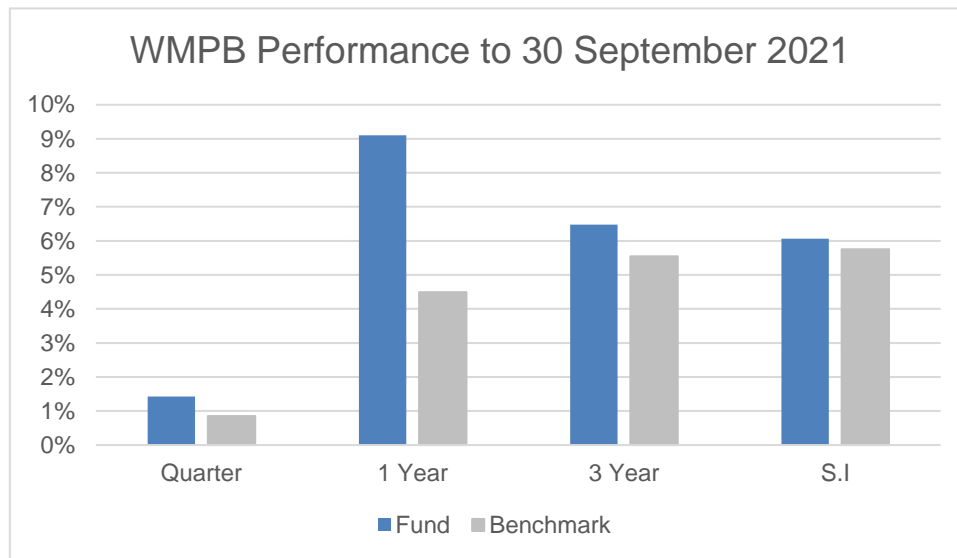
- 7.3 Alongside the Multi-Asset Credit holding in the bond portfolio, there are passive Index Linked Gilts and actively managed Corporate Bonds. The Corporate Bond mandate is performing well.
- 7.4 Multi-Asset Credit was introduced in Q3 2018. The fund has continued its recovery through 2021 and has performed strongly since the onset of the pandemic.

Diversified Growth Funds

- 7.5 Both Diversified Growth Fund holdings delivered positive absolute and relative performance for the quarter and 1 year performance is now ahead of target. In both cases, equities were the largest contributor to quarterly gains. More defensive holdings held back performance for both funds.

PB Performance Summary

7.6 PB performance is summarised below. The Fund outperformed for the latest quarter and significantly outperformed for 1 year. Relative performance for PB is almost entirely driven by the Multi-Asset Credit allocation, for the same reasons as those described above (for WMTL).



7.7 PB's holding in Passive Equities, Index-Linked Gilts, Multi-Asset Credit and Corporate Bonds are the same as those held by WMTL, with performance outlined above.

8.0 Investment Pooling Update – LGPS Central Ltd

8.1 The Fund continues to work closely with its investment pool company LGPS Central Ltd (LGPSC) and Partner Funds to look for opportunities to transition assets where it can see value add from doing so including the opportunity to make cost savings.

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 Investment Strategy Statement -

<https://www.wmpfonline.com/CHttpHandler.ashx?id=16022&p=0>

13.2 Funding Strategy Statement -

<https://www.wmpfonline.com/CHttpHandler.ashx?id=12481&p=0>

14.0 Schedule of appendices

14.1 Appendix A – Redington Economic and Market Update Q3 2021/22