

MEETING: PENSIONS COMMITTEE

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TITLE: WALES PENSION PARTNERSHIP UPDATE

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1. Introduction

The collaboration has been going from strength to strength since its establishment in 2017 and at 31st March 2021 81% of the Gwynedd fund has been pooled with Wales Pension Partnership – 54% through the main funds and 27% through passive investments.

The performance to date has been very satisfactory, many developments are underway, and therefore this paper provides an update for the Committee.

2. Global Equity funds

These funds were established in February 2019 and their performance up to 31st March 2021 can be seen below.

Global Growth Fund

This is a Global fund consisting of three underlying investment managers (Baillie Gifford, Veritas and Pzena) and Link as the investment manager.

	Three Months	One Year	Since Inception
Performance	5.3	49.5	17.6
Benchmark	3.6	38.9	14.2
Excess returns	1.7	10.6	3.4

The Fund has consistently performed well above the benchmark with strong performance since inception by Baillie Gifford. Baillie Gifford invests in companies where they believe they have a sustainable competitive advantage in their industries and will grow earnings faster than the market average. Pzena has historically been underperforming but has recently benefited with value stocks outperforming their growth peers for the first time on a quarterly basis since 2018. This enabled Pzena to perform significantly better in the last year. Veritas has been performing strongly since inception but has suffered in the past year with growth stocks not performing as well.

Efforts have been made by investment managers within this fund to reduce carbon footprints with Baillie Gifford developing a fund which disinvests from fossil fuel extractor companies and fossil fuel service providers and Pzena have decided to sell their stocks in a company which contributes 35% to the carbon emissions of this fund.

Global Opportunities Fund

This is a Global and Regional fund consisting of seven underlying investment managers (Morgan Stanley, Numeric, Sanders, Jacobs Levy, SW Mitchell, NWQ and Oaktree) and Russell Investments as the investment manager. Performance to 31 March 2021 has been as follows:

	Three Months	One Year	Since Inception
Performance	5.9	42.0	15.6
Benchmark	3.6	38.9	13.6
Excess returns	2.3	3.1	2.0

This fund is based on a blended approach with a number of different styles (such as value and growth) that compliment each other. The Fund has recorded positive returns over the period and finished above the benchmark with strong performance since inception by Morgan Stanley, SW Mitchell and Sanders.

This year has seen a significant recovery in value stocks and it is expected that this will continue for some time, although the biggest impact has occurred. Returns have been strong in the market and the positive impact of the vaccine can be clearly seen on the US and UK markets.

The decarbonisation overlay has been in place on this fund since 31st March 2021. As a result, the mandate of this fund will achieve a targeted reduction of 25% to its carbon footprint and fossil fuel reserves relative to its benchmark. The portfolio will also exclude companies that rely on coal to generate revenue.

3. Fixed Income Funds

The Partnership launched five fixed income sub funds in July and September 2020 and Gwynedd Pension Fund has invested in two of them: Multi Asset Credit Fund and Absolute Return Bond Fund.

Multi Asset Credit Fund

Our global equity from Fidelity transferred to this fund in July 2020. This fund has five underlying investment managers (ICG, Man GLG, BlueBay, Barings and Voya) and Russell Investments as the investment manager. The performance up to 31st March 2021 was as follows:

	Three Months	Since Inception
Performance	0.6	6.0
Benchmark	1.0	2.6
Excess returns	(0.4)	3.4

The fund has performed below the benchmark in this period, but has been above the benchmark since its inception. Investors' positive appetite for risk boosted credit demand in the first quarter and the fund's corporate credit rating was rewarded in this environment. Since then the gilt markets have declined and this has had an impact on performance. This fund is in its infancy and therefore a more typical performance will develop in the future.

Absolute Return Bond Fund

Our bonds from Insight was transferred to this fund in September 2020. This fund has four underlying managers (Wellington, Putnam, Aegon and Insight) and Russell Investments as the investment manager. The performance up to 31st March 2021 was as follows:

	Three Months	Since Inception
Performance	1.7	2.3
Benchmark	0.5	1.0
Excess returns	1.2	1.3

The fund finished ahead of the benchmark in the quarter and since inception. Financial support and reduced direct concerns about volatility provided a positive environment for the fund. This fund is also in its infancy and therefore a more typical performance will develop in the future.

4. Developments

4.1 Emerging Markets

The next transition that will take place is Emerging Markets. The fund structure, potential managers and fee estimates have been approved by the Joint Committee, and the prospectus was approved by the FCA in March 2021.

The Gwynedd fund will move our Emerging Markets share from Fidelity to this fund with an expected launch date of October 2021.

4.2 Private Markets

A working group has been established looking at the options of combining assets into this category with the assistance of Hymans Robertson. An assessment of the requirements of each fund has been made with ongoing discussion to determine the appropriate structure and mechanism for the investments.

Private Credit and Infrastructure are two of the main focus areas with global properties also being considered.

4.3 Publications

The WPP have a number of Publications and policies which are consistently reviewed. These include:

- Responsible Investment Policy
- Voting Policy

- Communication Policy
- Governance Matrix
- Training Policy and Training Plans
- Climate Risk Policy
- Procedures and Conflict of Interest Policy
- Risk Policy and Risk Register
- Business Plan

Further information can be found on the WPP website: www.walespensionpartnership.org.

4.4 Member Representative on the Joint Governance Committee

At its meeting on 24th March 2021 the Joint Committee considered a report on the Scheme Member Representative, which detailed the recommended appointment process and person specification prepared by the Officer Working Group.

With regard to the appointment process, the report recommended that each local Pension Board should nominate one scheme member representative who would submit an expression of interest setting out its particular merits against the person specification. The appointment process would be undertaken by a Joint Governance Committee sub-group who would submit an appointment recommendation for approval by the Joint Governance Committee.

Once the person specification and appointment process had been formally approved, the Inter Authority Agreement would need to be amended and the eight constituent authorities would need to approve the amendments.

In terms of the appointment process it was agreed that the appointment should be two years and that the appointment should include a deputy representative from a different Pension Board to the Scheme Member Representative.

The process is expected to take between six and twelve months as changes to the Inter Authority Agreement require full Council approval from each constituent authority.

5. Recommendation

The Committee is asked to note the information.