

MEETING: PENSION BOARD

DATE : 10 DECEMBER 2019

TITLE: UPDATE ON PENSION FUND INVESTMENT PERFORMANCE 2019/20

PURPOSE: TO INFORM THE BOARD OF THE MONITORING AND PERFORMANCE OF PENSION FUND INVESTMENTS

RECOMMENDATION: NOTE THE INFORMATION

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1. Introduction

Quarterly performance of the Pension Fund is monitored by members of the Pensions Committee in quarterly meetings of the Investment Panel.

The investment performance of individual asset managers is monitored by the Investment Panel. The asset managers are invited to present to the Panel in turn. The active equity and active bond managers attend two meetings each year and the other investment managers attend once each year.

Whilst quarterly and annual monitoring takes place, it should be noted that pension fund returns over the longer term are the aim, and there will inevitably be some fluctuations from year to year, and more volatile performance from quarter to quarter. Generally, individual asset managers' performance is assessed over 3 years.

2. Pension Fund investment performance in 2019/20

As at 30 September 2019, the market value of the Pension Fund was £2,203 million with performance against the benchmark set out below:

	Q1 2019/20 %	Q2 2019/20 %	1 year %
Fund	4.0	2.7	5.4
Benchmark	4.4	2.2	4.5
Relative Performance (Gross)	-0.4	+0.5	+0.9

Performance was weak in quarter 1 with two of the top equity investment managers underperforming their benchmarks, as well as the uncertainty of Brexit. Performance was stronger in quarter 2, with year-end performance expected to exceed the benchmark.

Equity Investment Manager's Performance

The table below summarises the performance of the individual equity Investment Managers:

	Market Value 30/09/19 £m	Performance Q1 2019/20 %	Performance Q2 2019/20 %
Black Rock Market Cap Benchmark	493.5	4.0 3.9	1.2 1.2
Relative Performance		+0.1	0.0
Black Rock Fundamental Indexation Benchmark	152.8	5.7 5.5	3.5 3.3
Relative Performance		+0.2	+0.2
Fidelity Global Equity Benchmark	158.5	6.9 6.5	3.4 3.8
Relative Performance		+0.4	-0.4
Fidelity Emerging Market Equity Benchmark	52.8	3.9 2.9	1.4 -1.2
Relative Performance		+1.0	+2.6
Wales PP Global Growth Fund Benchmark	348.3	6.0 6.1	2.2 3.3
Relative Performance		-0.1	-1.1
Wales PP Global Opportunities Fund Benchmark	355.1	7.2 6.1	3.4 3.3
Relative Performance		+1.1	+0.1
Insight Benchmark	285.7	-0.1 0.2	0.2 0.2
Relative Performance		-0.3	+0.0
	1,846.7		

During the period, there were positive returns on bonds and equities, with strong performance in the US and Japan. Returns converted to sterling have been enhanced by the continued depreciation of sterling against other currencies. In Britain, growth has been very slow as there has been uncertainty in the period with Brexit which has had a negative impact on business investment.

Property Investment Manager's Performance

The table below summarises the performance of the individual Property Asset Managers:

	Market Value 30/09/19 £m	Performance Q1 2019/20 %	Performance Q2 2019/20 %
UBS Triton Property Unit Trust	50.2	0.9	1.1
UBS Real Estate - Euro core		3.9	-0.2
Lothbury Property Trust	63.2	1.0	0.8
Black Rock Property Fund	52.7	0.4	0.2
Threadneedle Property Fund	21.0	0.3	0.3
Threadneedle Property Unit Trust		0.6	0.4
Total Property	187.1	0.7	0.6
Benchmark		0.6	0.4
Relative Performance		+0.1	+0.2

Property returns have been fairly consistent compared to the benchmark. There has been a positive increase in rental growth and income returns over the period which has been somewhat reduced with a reduction in capital value.

Partners Group

Partners Group is responsible for managing the Fund's private equity investments and infrastructure.

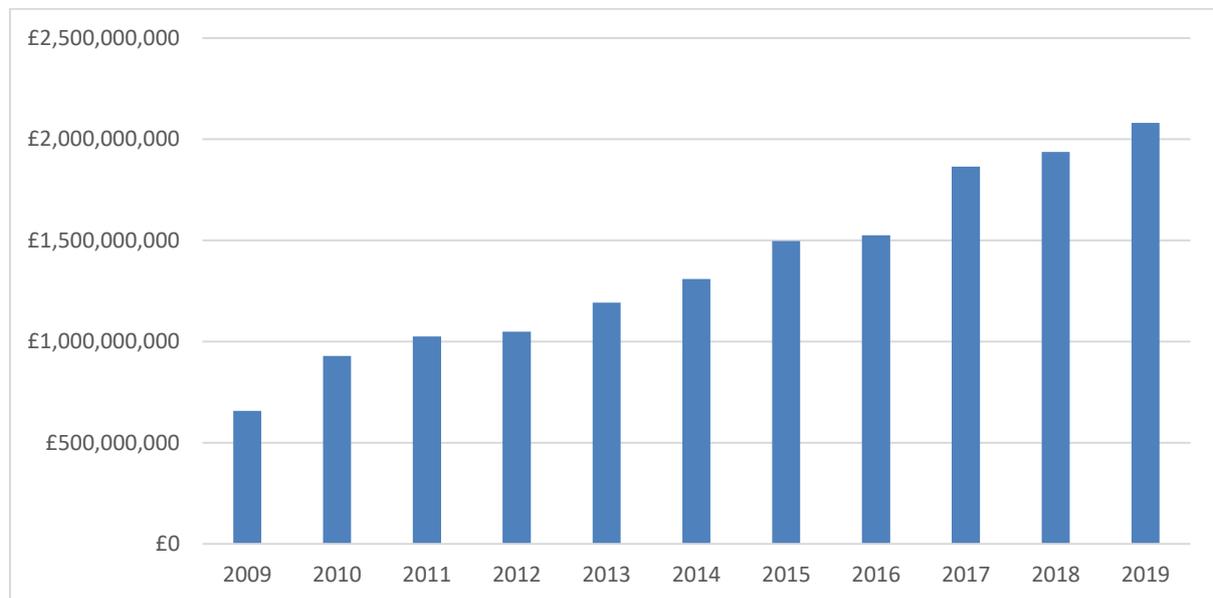
	Market Value 30/06/19* £m
Partners Private Equity	114.8
Partners Infrastructure	53.1
Total	167.9

* Information at 30/09/19 not yet published.

Monitoring the performance of private equity and infrastructure investments is much more difficult than traditional assets, such as quoted bonds and equities. Private equity funds have a fixed life span of about 10-15 years. Real profits / returns can only be confirmed when individual assets are sold, so actual performance cannot be assessed until the fund is closed. The Fund's program for private equity and infrastructure investments is reviewed annually by our consultants, Hymans Robertson.

3. Pension Fund Investment Performance over 10 years

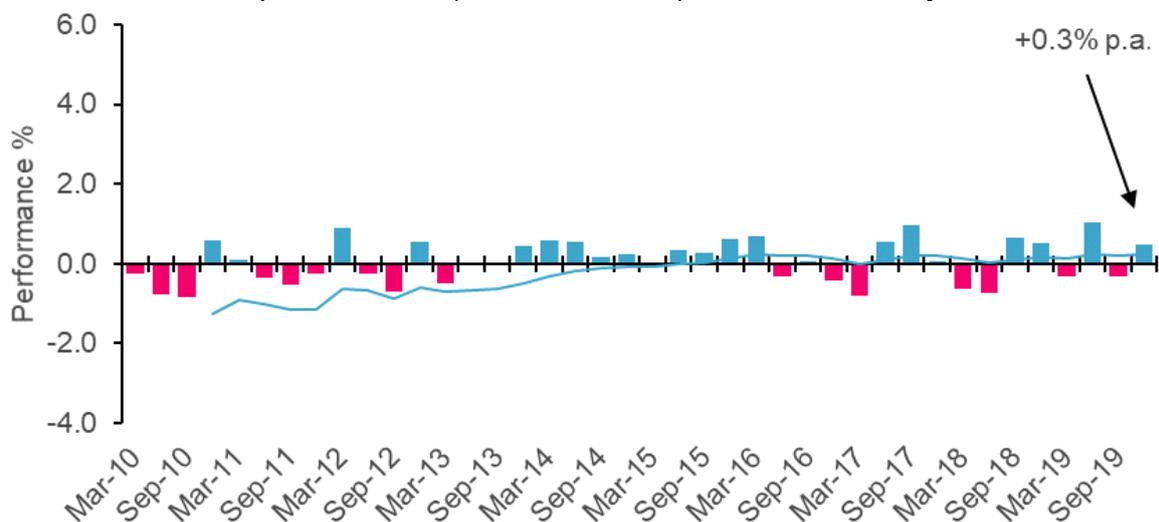
The market value of the Gwynedd Pension Fund over the last 10 years is shown in the graph below:



The Gwynedd Pension Fund is in a relatively healthy position with the value of the fund steadily increasing since 2010. The performance of the fund's investments has been above the benchmark in each of the periods measured, as shown in the table below:

	1 Year %	3 Years % p.a.	5 Years % p.a.	10 Years % p.a.
Fund	5.4	9.0	9.7	9.1
Benchmark	4.5	8.5	9.0	8.8
Relative Performance (Gross)	+0.9	+0.5	+0.7	+0.3

The chart below shows the cumulative quarterly performance of the fund and cumulative annual performance (the dashed line) over the last 10 years.



It is widely recognised that longer-term performance is a more valid performance indicator than a single year because strategies designed for long-term good performance can occasionally suffer short-term losses.

4. Impact of Investment Performance and Triennial Valuation 2019

The Fund's position has improved with the funding level of the Fund increasing from 91% at 31 March 2016 to 108% at 31 March 2019.

Valuation Date	31 March 2016	31 March 2019
Past Service Liabilities	(£m)	(£m)
Employees	761	855
Deferred Pensioners	252	321
Pensioners	657	750
Total Liabilities	1,670	1,925
Assets	1,525	2,081
Surplus / (Deficit)	(145)	156
Funding Level	91%	108%

The funding position has increased from a deficit of £145m to a surplus of £156m. See the movements in the table below:

Change in the surplus/deficit position	Assets (£m)	Liabilities (£m)	Surplus / (Deficit) (£m)
Last valuation at 31 March 2016	1,525	1,670	(145)
Cashflows			
Employer contributions paid in	170		170
Employee contributions paid in	48		48
Benefits paid out	(167)	(167)	0
Net transfers into / out of the Fund*	4		4
Other cashflows (e.g. Fund expenses)	(4)		(4)
Expected changes in membership			
Interest on benefits already accrued		207	(207)
Accrual of new benefits		221	(221)
Membership experience vs expectations			
Salary increases greater than expected		13	(13)
Benefit increases less than expected		(0)	0
Early retirement strain (and contributions)	0	14	(14)
Ill health retirement strain		(5)	5
Early leavers less than expected		(2)	2
Pensions ceasing less than expected		(4)	4
Commutation greater than expected		(0)	0
Impact of GMP equalisation		4	(4)
Other membership experience		(29)	29
Changes in market conditions			
Investment returns on the Fund's assets	505		505
Changes in future inflation expectations		58	(58)
Changes in actuarial assumptions			
Change in demographic assumptions (excl. longevity)		(4)	4
Change in longevity assumptions		(66)	66
Change in salary increase assumption		11	(11)
Change in discount rate		7	(7)
This valuation at 31 March 2019	2,081	1,925	156

There are a number of factors affecting the funding position, but the main factor between 2016 and 2019 appears to be the £505 million increase from investment returns. A proportion of the increase is due to currency exchange rates, as the Fund is valued in terms of pounds, and assets are listed in foreign currency terms e.g. euro and dollars. However, the majority of the movement in the Fund's value is a real increase in local currency due to the favorable performance of the Fund's assets.

Each individual employer of the Fund is different but the Fund's strength has generally allowed a flexible approach to employer contribution rates which will be effective from April 2020.

5. Recommendation

The Board is asked to note the information.