

MEETING: PENSION BOARD
DATE: 19 APRIL 2021
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 with officers meeting frequently.

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

2. Global Equity funds

These funds were established in February 2019 and their performance up to 31 December 2020 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	13.30	17.41	16.86
Benchmark	8.46	12.67	14.02
Excess returns	4.84	4.74	2.84

The Fund performed well above the benchmark in the December quarter of 2020. Value stocks outperformed their growth peers for the first time on a quarterly basis since 2018. This enabled Pzena to perform very well in the quarter. Baillie Gifford generated sterling annual returns of nearly 33%, investing in companies where they believe they have a sustainable competitive advantage in their industries and will grow earnings faster than the market average.

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.

A decarbonisation overlay has been recently commissioned which reduces the carbon footprint of the fund by 25%.

	Three Months	One Year	Since Inception
Performance	9.86	13.63	14.63
Benchmark	8.46	12.67	13.34
Excess returns	1.40	0.96	1.29

The Fund recorded positive returns over the fourth quarter and finished above the benchmark. This quarter saw a significant recovery in value, most notably in November, on the back of more favorable fundamentals. This boosted Sanders' earnings and Jacobs Levy's more multi-factorial approach. While it remains an underperforming factor for the year, the value has been slowly recovering its losses. Small-cap stocks also experienced a positive quarter as investor appetite increased with the release of COVID-19 vaccines. As such, Numeric's low volatility strategy struggled to find traction in the overall market environment. On the other side of the spectrum, momentum and growth methods dragged on for the first time this year, pressing Morgan Stanley.

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 31 December 2020 was as follows:

	Three Months	Since Inception
Performance	5.71	5.49
Benchmark	1.00	1.56
Excess returns	4.71	3.93

The Fund outperformed the benchmark in this period. Investors' positive risk appetite boosted credit demand in this quarter. The Fund's corporate credit position was rewarded in this environment. In the USA, the underweight for high yield industrial and financial elements added relative value. In Europe, prolonged exposure to high yield industrial components

contributed to this. Elsewhere, an underweight to investment grade credit in Latin America declined. Within rates, an underweight to Spain was negative at a time when earnings fell.

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 31 December 2020 was as follows:

	Three Months	Since Inception
Performance	0.91	0.91
Benchmark	0.51	0.51
Excess returns	0.40	0.40

The Fund finished ahead of the benchmark in the fourth quarter. Financial support and reduced direct concerns about volatility provided a positive environment for the fund. The fund's exposure to advance strategies was a key driver of its positive returns. Exposure to developing market rates, mainly Indonesia, Mexico, Colombia and Russia, was positive. Prolonged exposure to the high earnings of Europe and the USA reduced the fund overall.

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 Board is asked to note the information.