

MEETING: PENSION BOARD
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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 by October 2021 83% of the Gwynedd fund has been pooled with Wales Pension Partnership – 56% through the main funds and 27% through passive investments.

The performance to date has been very satisfactory and 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 30th September 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	0.8	27.1	16.8
Benchmark	1.4	22.2	14.9
Excess returns	-0.6	4.9	1.9

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 performing well.

The performance of the fund has been below benchmark in the last quarter with concerns about the economic recovery but this was to be expected given the recent strong performance. Baillie Gifford and Pzena performed below the benchmark due to certain stocks, but Veritas outperformed the benchmark due to favorable conditions for its stocks.

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 30th September 2021 has been as follows:

	Three Months	One Year	Since Inception
Performance	0.5	24.3	15.6
Benchmark	1.4	22.2	14.5
Excess returns	-0.9	2.1	1.1

This fund is based on a blended approach with a number of different styles (such as value and growth) that complement each other. The Fund has performed well since inception but finished behind the benchmark in the quarter to 30th September 2021. During the period there was strong performance from quality, momentum and growth stocks, but there was volatility in the developing markets and underperformance within value stocks that led the fund to underperform on a collective basis.

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 30th September 2021 was as follows:

	Three Months	One year	Since Inception
Performance	0.1	8.4	7.3
Benchmark	1.0	4.1	4.1
Excess returns	-0.9	4.3	3.2

The fund has performed strongly over the medium term but has underperformed in the last quarter. In the quarter there were concerns about inflation with the 'Delta' variant and political instability (e.g. China tightening in some sectors and German elections) which led to high yields spreading over the period. Barings and BlueBay performed well over the period with high yield investments in the industrial area. Performance was below the benchmark by some of the managers due to uncertainty with developing markets and fixed income investments.

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 30th September 2021 was as follows:

	Three Months	One year	Since Inception
Performance	0.2	2.2	2.3
Benchmark	0.5	2.1	2.1
Excess returns	-0.3	0.1	0.2

The Fund has performed to a high standard since its inception and is very close to the benchmark. There was positive momentum at the start of the period, but this was reversed in September. There were concerns in the period about inflation resulting in large banks to act defensively. The fund's exposure to long dated bonds coupled with the exposure to emerging market debt drove underperformance. European Asset backed securities performed well over the period, contributing positively to the fund's performance.

4. Developments

4.1 Emerging Markets

The Gwynedd fund has transferred its Emerging Markets from Fidelity to the WPP fund on 20th October 2021.

The fund managers within the new fund are: Artisan, Bin Yuan, Barrow Hanley, Axiom, Numeric and Oaktree, with Bin Yuan being a China specialist.

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.

The launch of private market investments is more complex than listed market equivalents and the inability to utilise the Authorised Contractual Scheme (ACS) which already holds the WPP's equity and fixed income assets, and therefore an alternative legal structure is required.

In July 2021, the JGC approved the appointment of a specialist search advisor, Bfinance who will assist the WPP and its constituent authorities in search and selection of the appropriate investment managers to manage its private markets allocations. A revised timetable for expected launch and commitment to Private Credit and Infrastructure is being developed with the WPP intent on launching these asset classes by during 2022.

4.3 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.

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 requires changes to the Inter Authority Agreement which require full Council approval from each constituent authority. The changes to the IAA were agreed by the full Council in Gwynedd on October 7th 2021.

4.4 WPP Annual Return 2020/21

The Wales Pension Partnership is not legally required to prepare a full set of annual report and accounts in the same way as the Pension Fund, the requirement is that accounts are prepared in the form of an annual return. The costs of the WPP for 2020/21 stood at £706,000.

The annual report and all WPP policies and documents can be seen on the Wales Pension Partnership website: www.walespensionpartnership.org

5. Recommendation

The Board is asked to note the information.