

MEETING: PENSION BOARD
DATE: 3 OCTOBER 2022
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 mixed in very challenging conditions 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 June 2022 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	-8.4	-11.0	8.5
Benchmark	-8.6	-4.2	9.6
Excess returns	0.2	-6.8	-1.1

The managers within this fund have complementary styles, with Baillie Gifford focusing on growth stocks, Pzena on value stocks and Veritas on quality stocks. As such it is expected that not all of the managers will perform in a given quarter. However, their complementary styles offer the prospect of greater stability of returns over the longer term at the total fund level.

The fund fell by 8.4% over the quarter but has delivered strong absolute performance of 8.5% p.a since inception. The fund marginally overperformed its global equity benchmark over the quarter but has underperformed the benchmark over the last 12 months and since inception. Underperformance in the last 12 months comes from Baillie Gifford, whose strategy has suffered because growth stocks have fallen out of favour in response to rising interest rates.

Global Opportunities Fund

This is a Global and Regional fund consisting of eight underlying investment managers (Morgan Stanley, Numeric Low vol, Numeric core, Sanders, Jacobs Levy, SW Mitchell, Nissay and Oaktree) and Russell Investments as the investment manager. Performance to 30th June 2022 has been as follows:

	Three Months	One Year	Since Inception
Performance	-7.5	-3.6	10.3
Benchmark	-8.6	-4.2	9.3
Excess returns	1.1	0.6	1.0

This fund is based on a blended approach with a number of different styles (such as value and growth) that complement each other. While not all of the managers will perform well over a given quarter, the diversified approach is expected to produce greater stability of returns over longer periods. The fund has produced strong absolute and relative performance since inception. Over shorter times periods, absolute performance has been negative but relative performance is ahead of benchmark.

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

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 June 2022 was as follows:

	Three Months	One year	Since Inception
Performance	-9.2	-12.9	-3.3
Benchmark	1.2	4.4	4.1
Excess returns	-10.4	-17.3	-7.4

The fund has underperformed significantly over each performing period. Market volatility was driven in large part by the ongoing war in Ukraine and Covid-19 restrictions in China. There has been persistently higher inflation, fuelled by higher oil and commodity prices, labour shortages and supply chain disruptions which surprised investors. The banks have seen rapid rate hikes and waning consumer confidence also brings forward the likelihood of global recessions.

Within this fund the main underperformer is ICG with fixed rate and lower rated names weighing on performance as the possibility of recession rose.

Absolute Return Bond Fund

This fund has four underlying managers (Wellington, Putnam, Aegon and Insight) and Russell Investments as the investment manager. The performance up to 30th June 2022 was as follows:

	Three Months	One year	Since Inception
Performance	-0.7	0.1	1.0
Benchmark	0.7	2.4	2.2
Excess returns	-1.4	-2.3	-1.2

The Fund has performed relatively close to the benchmark since its inception during a very challenging time. During the recent quarter, Bank of England raised rates twice, reaching 1.25% in June, with the Governor warning inflation could reach 11.0% by the end of 2022. However, the European Central Bank committed to acting in “a determined and sustained manner” to counter inflation pressures, with an initial 25bps hike expected at the next meeting. The main detractors from performance in the last quarter has been Insight as a flattener in the Japanese yield curve detracted as mid term rates rise, and Putnam’s allocation underperformed.

4. Emerging Markets

Our remaining holding with Fidelity was transferred to this fund in October 2021. This fund has six underlying managers (Artisan, Bin Yuan, Barrow Hanley, Axiom, Numeric and Oaktree, with Bin Yuan being a China specialist) and Russell Investments as the investment manager. The performance up to 30th June 2022 was as follows:

	Three Months	Since Inception
Performance	-4.9	-10.4
Benchmark	-4.0	-9.1
Excess returns	-0.9	-1.3

This fund was launched in a difficult time with the effect of China’s ‘zero covid’ policy and more recently the invasion of Ukraine. The fund is still in its infancy and will be looking to take advantage of competitive positioning within this difficult market.

5. Developments

5.1 Private Markets

In July 2021, the Joint Governance Committee appointed Bfinance as WPP’s allocator advisor and they have assisted the WPP with the identification of allocators for the private market asset classes. In March 2022, the private debt and infrastructure allocators were appointed as follows:

Private debt: Russell Investments

Closed- ended infrastructure: GCM Grosvenor

Open-ended infrastructure: CBRE Global Infrastructure Fund, IFM Global Infrastructure Fund and Octopus Renewables Infrastructure SCSp.

The procurement exercise for the private equity allocator is underway, with the appointment due to be made in the upcoming months. The private debt and infrastructure sub funds will be launched later this financial year with the private equity sub fund in 2023/24. Discussions have also started in relation to the property asset class.

5.2 Sustainable Equity fund

Following a detailed presentation to the JGC in July 2022, members agreed to approve the launch of this new sub-fund and it is expected that it will go live from Q1 2023.

The new investment sub-fund will offer:

- i. A solution based on the WPP's bespoke requirements
- ii. A diversified exposure to highly rated specialist sustainable equity managers
- iii. Utilisation of Russell Investments "IPO" (Intent, Purpose, Outcome) framework to ensure suitability of truly sustainable offerings
- iv. Alignment to WPP's sustainability goals including Net Zero alignment and a clear climate focus
- v. Multi-channel approach to engagement and commitment to deliver reporting outcomes aligned with the Sustainable Development Goals (SDGs)
- vi. Offers flexibility to evolve as the WPP's requirements change, or as the sustainable themes develop further. This can be achieved through Russell Investments Enhanced Portfolio Implementation (EPI)

5.3 WPP Annual Return 2021/22

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 2021/22 stood at £1,078,000.

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

6. Recommendation

The Board is asked to note the information.