

MEETING: PENSION BOARD

DATE : 20 JULY 2023

TITLE: PENSION FUND INVESTMENT PERFORMANCE 2022/23

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

RECOMMENDATION: NOTE THE INFORMATION

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1. Introduction

The investment performance of individual asset managers is monitored by the Investment Panel on a quarterly basis. The asset managers are invited to present to the Panel in turn.

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 2022/23

As at 31st March 2023, the market value of the Pension Fund was £2,762 million with performance against the benchmark set out below:

	3 Months %	1 Year %
Fund	2.9	-1.5
Benchmark	2.7	-0.3
Relative Performance	+0.2	-1.2

During the year, the value of the Pension Fund has stabilised at £2.7 billion which is consistent with last year's value. The year has been challenging with the effect of the war in Ukraine and the effect of high inflation affecting the money markets. The Fund achieved a performance of -1.5%, although this was behind the benchmark, this was a strong performance in challenging circumstances and in the highest quartile of the LGPS funds in the official PIRC statistics for 2022/23.

Equity Investment Manager's Performance

The table below summarises the performance of the individual equity Investment Managers as at 31st March 2023:

	Market Value 31/03/23 £m	Performance 3 Months %	Performance 1 Year %
Black Rock Aquila Life UK Equity	246.4	3.1	3.0
Benchmark		3.1	2.9
Relative Performance		+0.0	+0.1
Black Rock ACS Low Carbon	331.8	3.2	-4.1
Benchmark		3.0	-4.7
Relative Performance		+0.2	+0.6
Black Rock Aquila Life Global Dev	207.9	1.6	3.5
Benchmark		1.4	3.0
Relative Performance		+0.2	+0.5
WPP Emerging Markets Fund	57.6	2.4	-10.6
Benchmark		1.1	-10.0
Relative Performance		+1.3	-0.6
WPP Global Growth Fund	426.9	5.5	-0.9
Benchmark		4.4	-1.4
Relative Performance		+1.1	+0.5
WPP Global Opportunities Fund	430.1	3.3	-0.3
Benchmark		4.4	-1.4
Relative Performance		-1.1	+1.1

Equity markets started the year strongly with investors encouraged by signs that inflation was being tamed and the prospect of China's reopening from Covid-19 restrictions boosting demand. In contrast, equities fell broadly in February amid slowing progress on inflation and resilient economic data, which implied interest rates may stay higher for longer.

Emerging Markets recorded a positive return in a volatile quarter but underperformed developed market equities. The first quarter of 2023 saw a dampening in risk appetite and doubts surrounding the strength of China's recovery following its reopening and the impact on global economic growth. Despite this, China's strength continued for another quarter as the market outperformed the broader emerging markets index for the second-successive quarter.

Fixed Income Manager's Performance

	Market Value 31/03/23 £m	Performance 3 Months %	Performance 1 Year %
WPP Multi Asset Credit Fund	200.6	3.3	-6.2
Benchmark		1.9	6.1
Relative Performance		+1.4	-12.3
WPP Absolute Return Bond Fund	386.1	1.0	2.1
Benchmark		1.4	4.3
Relative Performance		-0.4	-2.2

The fixed income funds launched in 2021 have had a challenging year with a negative start to 2022 from the global financial markets. Market volatility was driven by Russia's attack on Ukraine. During the period, inflation has been at its highest for decades leading to the US Federal Reserve and the Bank England increasing interest rates.

Property Investment Manager's Performance

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

	Market Value 31/03/23 £m	Performance 3 Months %	Performance 1 Year %
UBS	74.9	1.8	-14.8
Lothbury Property Trust	57.3	-0.6	-20.5
Black Rock Property Fund	55.0	0.0	-15.7
Threadneedle Property Fund	34.1	0.5	-13.8
Threadneedle Property Unit Trust		-0.2	-13.7
Benchmark		-0.2	-14.5

Property returns have been mainly negative in the year with uncertainty over the long-term use of office buildings and high street shops. Growth has continued in the industrial and logistics areas as e-commerce continued to increase in popularity.

Partners Group

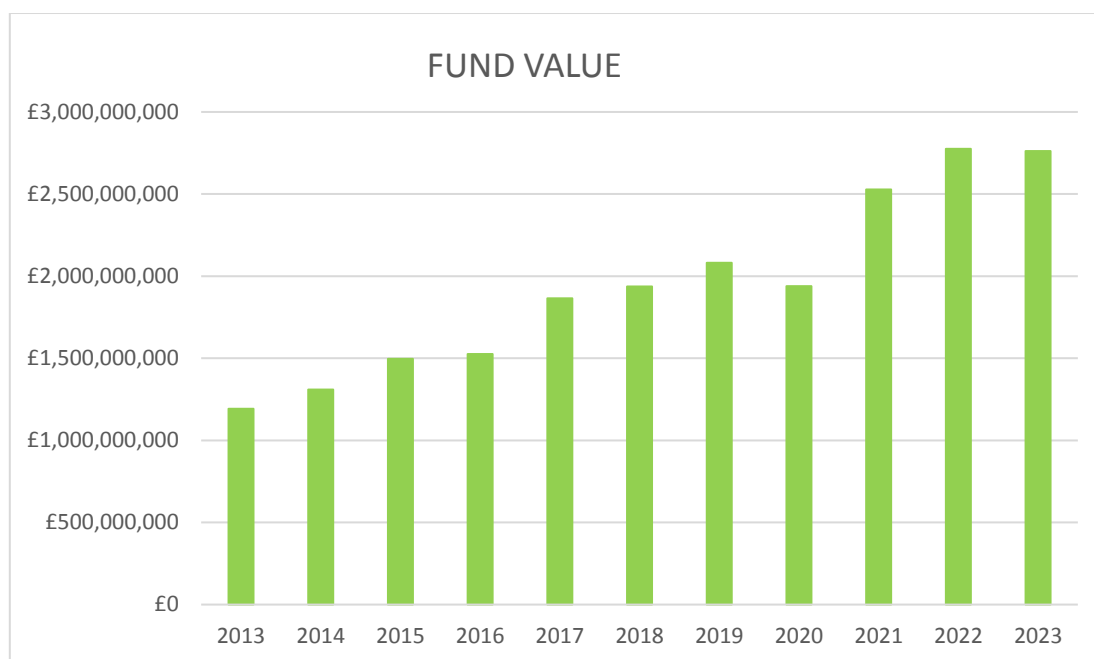
Partners Group is responsible for managing the Fund's private equity investments and infrastructure.

	Market Value 31/03/23 £m
Partners Private Equity	166.6
Partners Infrastructure	67.6
Total	234.2

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 programme for private equity and infrastructure investments is reviewed annually by our consultants, Hymans Robertson.

3. Pension Fund historical performance over 10 years

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

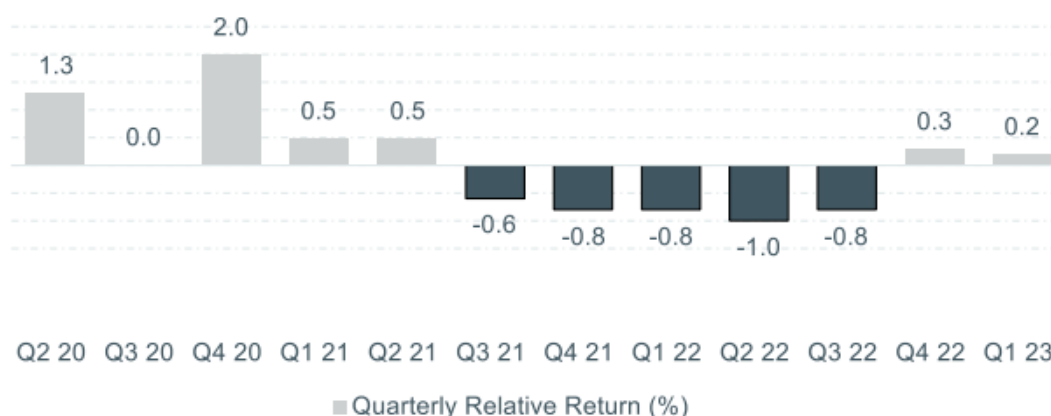


The Gwynedd Pension Fund is in a relatively healthy position with the value of the fund gradually increasing over time. The performance of the fund's investments has been lower than the benchmark in the year, mainly due to the performance of some of the equity, fixed income and property funds, but over a period of three years, the performance has been higher than the benchmark, as seen in the table below:

	1 Year %	3 Years % p.a.
Fund	-1.5	11.7
Benchmark	-0.3	11.4
Relative Performance	-1.2	+0.3

The 3 year performance of the Fund has been very strong and is in the 3rd position from all LGPS funds. The following chart shows the quarterly performance of the fund over the last 3 years.

Relative performance (quarterly)



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. Strategic Asset Allocation

The Fund undertook an investment strategy review following the results of the triennial valuation and new benchmark asset allocations were agreed. In particular, it was decided to reduce the benchmark allocation to equity growth assets by 10% and make new commitments to private debt and infrastructure funds being introduced by WPP. The Fund has also earmarked a 5% allocation to the WPP Global Credit Fund and this investment is expected to be completed during Q2 2023.

A plan has been developed to move the Fund towards the new benchmark allocations over the next 12 months.

5. Recommendation

The Board is asked to note the information.