

MEETING: PENSION BOARD
DATE: 16 OCTOBER 2023
TITLE: WALES PENSION PARTNERSHIP UPDATE
AUTHOR: DELYTH JONES-THOMAS, INVESTMENT MANAGER

1. Introduction

The collaboration has been going from strength to strength since its establishment in 2017 and 83% of the Gwynedd fund has been pooled with Wales Pension Partnership.

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 Board.

2. Global Equity Funds

These funds were established in February 2019 and their performance up to 30th June 2023 can be seen below.

Global Growth Fund

This is a Global fund consisting of three underlying investment managers and Link as the investment manager.

	Three Months	One Year	Since Inception
Performance	1.8	10.4	9.8
Benchmark	3.3	11.3	10.5
Excess returns	-1.5	-0.9	-0.7

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 returned 1.8% in GBP over the quarter but underperformed against the benchmark return. Value was the notable underperformer recording a negative return for the quarter. Pzena underperformed the broad market but outperformed the value index. Normal value sectors including energy, staples and materials all underperformed the market. Despite the setbacks in March caused by the collapse of Silicon Valley Bank, stock picking in financials was the most positive of any sector.

Global Opportunities Fund

This is a global and regional fund consisting of eight underlying investment managers and Russell Investments as the investment manager.

	Three Months	One year	Since Inception
Performance	3.0	11.9	11.7
Benchmark	3.3	11.3	10.5
Excess returns	-0.3	0.6	-2

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 recorded positive absolute returns over the second quarter but slightly underperformed against the benchmark on a relative basis. Growth stocks and large caps were the best performing methods, significantly outperforming the index.

3. Fixed Income Funds

The Partnership launched five fixed income sub-funds in July and September 2020 and the Gwynedd Pension Fund has invested since inception in two of them: Multi-Asset Credit Fund and Absolute Return Bond Fund. Recently, the Fund has invested in another as part of the process of moving to the new strategic asset allocation: Global Credit Fund and we will report on the performance of this fund in the next review.

Multi Asset Credit Fund

This fund has five underlying investment managers and Russell Investments as the investment manager. The performance up to 30th June 2023 was as follows:

	Three Months	One year	Since Inception
Performance	2.3	6.0	0.4
Target	2.1	7.3	5.3
Excess returns	0.2	-1.3	-4.9

The Fund recorded positive returns in a quarter when financial markets rallied. Loan specialist, ICG was the best performing manager. In general however the fund has significantly underperformed since inception. Market volatility was largely driven by the ongoing war in the Ukraine and the Covid-19 restrictions in China. Persistently higher inflation, driven by higher oil and commodity prices, labour shortages and supply chain disruptions surprised investors. The hope is therefore that the stability in the financial markets will continue.

Absolute Return Bond Fund

This fund has four underlying managers and Russell Investments as the investment manager. The performance up to 30th June 2023 was as follows:

	Three Months	One Year	Since inception
Performance	0.7	3.7	2.2
Benchmark	1.6	5.2	3.3
Excess returns	-0.9	-1.5	-1.1

The Fund recorded positive returns this quarter. The Fund has performed relatively close to the target since its establishment in a very challenging period and dependent on a number of market factors.

4. Emerging Markets Fund

This fund has six primary managers and Russell Investments as the investment manager. The performance up to 30 June 2023 was as follows:

	Three Months	One Year	Since inception
Performance	-2.3	-0.5	-7.7
Benchmark	-1.5	-1.3	-6.8
Excess returns	-0.8	0.8	-0.9

The Fund underperformed against the negative benchmark returns. The Fund's investments suited the market environment, including value and momentum stocks. However, this Fund has a China specialist and China's performance was negative this quarter, particularly within the consumer discretionary and materials sectors in the country.

5. Developments

5.1 Private Markets

The private markets work is developing well with the following allocators appointed, with some funds active and others about to launch:

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.

Private Equity: Schroders

Discussions are continuing in relation to the property asset class and the procurement process will launch during the next year.

5.2 Sustainable Equity Fund

A Sustainable Equity Fund has been launched in June 2023, with an investment of £270 million by Gwynedd Pension Fund.

The new investment sub-fund offers:

- 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)

The managers within the fund are Sparinvest, Mirova, Neuberger Berman, Wellington and Artemis and will be monitored in the next review.

5.3 WPP Annual Return 2022/23

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 2022/23 stood at £1,264,000 (£1,078,000 in 2021/22), and is shared transparently across the 8 constituent authorities according to the work performed.

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

5.4 Operator Update

The sale of Link Fund Solutions to Waystone Management UK Ltd is expected to be completed on 9 October 2023.

As the current contract expires in 2024, the process of acquiring a new operator has begun and a comprehensive procurement schedule has been created. The Invitation to Tender is still due to be published in mid-October 2023.

6. Recommendation

The Board is asked to note the information.