

MEETING: **PENSION BOARD**
DATE: **23 APRIL 2024**
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 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. Wales Pension Partnership Funds

Global Equity Funds

These funds were established in February 2019 and their performance up to 31st December 2023 can be seen below.

Global Growth Fund

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

| | Three Months | One Year | Since Inception |
|-----------------------|--------------|-------------|-----------------|
| Performance | 6.3 | 13.6 | 10.0 |
| Benchmark | 6.3 | 15.3 | 10.9 |
| Excess returns | 0.0 | -1.7 | -0.9 |

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.

Equity markets performed well in the fourth quarter delivering the highest quarterly returns of 2023 in GBP term. Growth stocks rebounded driving out-performance for Baillie Gifford and largely reversing the underperformance of the prior quarter. Value styles underperformed. Pzena outperformed the value style but still trailed the fund's benchmark. Quality styles matched the returns to Growth however Veritas' value bias dominated to leave returns for the quarter trailing the index.

Since inception, this active fund has fallen behind it's benchmark and therefore the Partnership are currently looking at options for the redevelopment of this fund.

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 | 5.6 | 14.1 | 12.0 |
| Benchmark | 6.3 | 15.3 | 10.9 |
| Excess returns | -0.7 | -1.2 | 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. 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.

Growth was the best-performing style over the quarter spurred by strengthening expectations that interest rates have peaked with cuts to come in the first half of 2024. Although large cap growth was the standout performer, generally small and mid-caps did better than large caps, except in Europe. Value generally underperformed with the exception of small cap value stocks (the best performing style in the UK). High dividend yielding and minimum volatility styles were the worst-performing factors over the quarter. The Fund's tilt to small caps was additive, although stock selection was negative. In sectors, stock selection within industrials was unhelpful.

Over the long- term, since inception the fund has been performing well and is comfortably in front of it's benchmark.

Sustainable Equity Fund

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

This sub fund consists of five underlying investment managers and Russell Investments as the investment manager.

| | Three Months | Since Inception |
|-----------------------|--------------|-----------------|
| Performance | 6.6 | 6.5 |
| Benchmark | 6.3 | 9.1 |
| Excess returns | 0.3 | -2.6 |

In a reversal from the preceding period, equity markets rose to deliver the best quarterly performance since the fourth quarter of 2020. All sectors made gains over the quarter except energy, which suffered from falling oil prices amid a volatile market, and real estate which was flat. Within this market environment, the Fund's underweight to energy was additive. Selection within financials was also positive. However, selection within technology detracted.

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.

Multi Asset Credit Fund

This fund has five underlying investment managers and Russell Investments as the investment manager. The performance up to 31st December 2023 was as follows:

| | Three Months | One year | Since Inception |
|-----------------------|---------------------|-----------------|------------------------|
| Performance | 5.9 | 12.1 | 2.1 |
| Target | 2.3 | 9.0 | 5.9 |
| Excess returns | 3.6 | 3.1 | -3.8 |

As in the previous two quarters, high yield (HY) credit outperformed investment grade. From November investors became increasingly comfortable about taking on more risk, prompted by growing conviction that the Fed will achieve a “soft landing” for the US economy and implement interest rate cuts in the first half of 2024. In this environment, the Fund outperformed its target return. A key contributor to returns was RBC’s overweight exposure to European credit, particularly high yield financials. Barings also contributed to the performance. Their positioning in US credit was beneficial with overweights to investment grade financials and industrials contributing positively.

Absolute Return Bond Fund

This fund has four underlying managers and Russell Investments as the investment manager. The performance up to 31st December 2023 was as follows:

| | Three Months | One Year | Since inception |
|-----------------------|---------------------|-----------------|------------------------|
| Performance | 1.2 | 5.8 | 3.1 |
| Target | 1.8 | 6.9 | 3.9 |
| Excess returns | -0.6 | -1.1 | -0.8 |

The Fund recorded a positive return for the quarter. Insight was a key driver of returns with its exposure to duration, which was a key contributor to positive performance, driven by the long duration position in US treasuries and a short duration position in the UK and Korea. A headwind for performance was Wellington. In contrast to the previous period, macro strategies detracted this quarter. Wellington’s underweight exposure to duration in Japan, the UK and Australia did not suit the market environment.

Global Credit Fund

This fund has four underlying managers and Russell Investments as the investment manager. The performance up to 31st December 2023 was as follows:

| | Three Months | One Year | Since inception |
|-----------------------|--------------|-------------|-----------------|
| Performance | 7.0 | 6.7 | -2.6 |
| Target | 7.0 | 7.6 | -2.5 |
| Excess returns | 0.0 | -0.9 | -0.1 |

The Fund's overweight to European high yield and investment grade credit financials and industrials contributed positively. An overweight to UK high yield debt was also helpful. In US credit, although an overweight to US high yield industrials was effective this was offset by an underweight to high yield financials which detracted. An underweight to US investment grade detracted due to underweights in utilities and industrials, which weighed on returns. In hard currency emerging market debt, underweights to investment grade credit in Europe, the Middle East and Latin America were ineffective. Elsewhere, an underweight to Spanish sovereign debt was detrimental

Emerging Markets Fund

This fund has six primary managers and Russell Investments as the investment manager. The performance up to 31st December 2023 was as follows:

| | Three Months | One Year | Since inception |
|-----------------------|--------------|-------------|-----------------|
| Performance | 2.6 | 3.1 | -4.8 |
| Benchmark | 3.3 | 3.6 | -4.5 |
| Excess returns | -0.7 | -0.5 | -0.3 |

Quality was the standout factor in the fourth quarter. Value slightly outperformed growth with a smaller dispersion compared to developed markets. Meanwhile, small and mid-capitalisation stocks extended their positive 2023 outperformance over large cap stocks. Momentum and low volatility were the weakest-performing factors. The Fund's positive exposure to growth slightly weighed on relative performance. Stock selection within China across consumer-oriented sectors was a key detractor. Positioning and selection within Thailand (overweight) and South Africa (underweight) was also negative. However, an overweight to Brazil suited the market environment. Stock selection within Taiwan (semiconductor names) also contributed positively.

3. Developments

3.1 Private Markets

The private markets work is developing well with the following allocators appointed, with the funds now active:

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

Property: The procurement exercise for the Real Estate managers is on track. The ITT was issued 19 January 2024, responses have been received and are currently being evaluated. The recommendation report is due to go to the July 2024 JGC for approval, with the contract being awarded in August 2024.

3.2 Operator Update

The current Operator contract with Waystone Management (UK) Ltd comes to an end in December 2024. An open tender process has been undertaken and the evaluation process is now complete. Having completed the evaluation process, a preferred bidder recommendation report was presented to the JGC.

The recommended bidder was approved by the JGC, and the report has now been sent to all eight Constituent Authorities for their written approval. This was approved by the Gwynedd Pension Fund Committee on 19th March 2024.

3.3 Voting and Engagement

In March 2020, Robeco was appointed as WPP's Voting & Engagement Provider to undertake Voting and Engagement functions on behalf of the WPP. Robeco commenced their engagement service in April 2020, and they provide quarterly updates to the Joint Governance Committee. An engagement theme is chosen every quarter and this is explained to the JGC e.g. the theme for this quarter was Responsible Executive Remuneration.

It is apparent that when there is poor engagement from companies, it is difficult to take action and therefore the Wales Pension Partnership are in the process of formulating an escalation policy so this can be addressed.

4. Recommendation

The Board is asked to note the information.