

MEETING: PENSION BOARD

DATE : 8 JULY 2024

TITLE: PENSION FUND INVESTMENT PERFORMANCE 2023/24

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

RECOMMENDATION: NOTE THE INFORMATION

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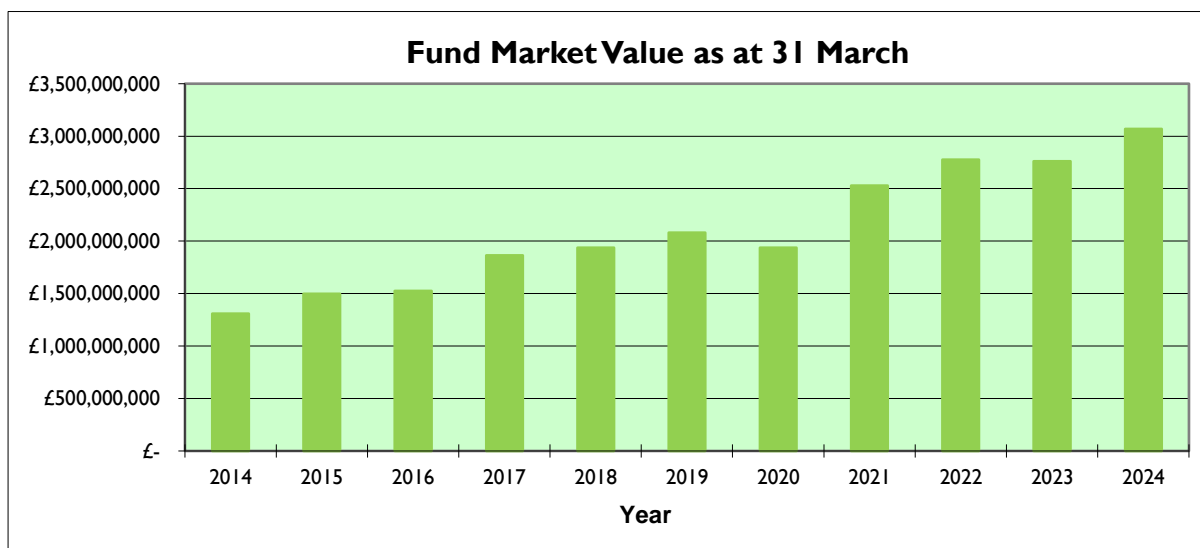
1. Introduction

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. Gwynedd Pension Fund Market Value

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



The Gwynedd Pension Fund is in a healthy position with the value of the fund gradually increasing over time. As at 31st March 2024, the market value of the Pension Fund was £3,070 million.

3. Pension Fund Investment Performance in 2023/24

The fund's performance against the benchmark is set out in the table below:

	3 Months %	1 Year %
Fund	4.7	11.2
Benchmark	4.6	11.4
Relative Performance	+0.1	-0.2

The Fund saw positive returns over 3 months and 1 year periods. The average LGPS fund delivered a return of 9.2% for the year. While the absolute return delivered was strong, most funds failed to achieve their strategic benchmark return over the period. This was the result of a variety of factors, the key being relatively poor actively managed equity results and alternative assets delivering below many of the absolute return benchmarks set. Therefore, even though Gwynedd Pension fund did not achieve its benchmark, this was common within the LGPS funds and the fund did achieve returns that were better than average during the year.

Equity Investment Managers' Performance

The table below summarises the performance of the individual equity Investment Managers as at 31st March 2024:

	Market Value 31/03/24 £m	Performance 3 Months %	Performance 1 Year %
Black Rock Aquila Life UK Equity	267.1	3.6	8.4
Benchmark		3.6	8.4
Relative Performance		+0.0	+0.0
Black Rock ACS Low Carbon	203.4	9.4	24.5
Benchmark		9.4	24.1
Relative Performance		+0.0	+0.4
WPP Emerging Markets Fund	59.9	3.7	3.9
Benchmark		3.3	5.9
Relative Performance		+0.4	-2.0
WPP Global Growth Fund	415.4	7.9	15.8
Benchmark		9.2	20.6
Relative Performance		-1.3	-4.8
WPP Global Opportunities Fund	434.6	8.9	19.9
Benchmark		9.2	20.6
Relative Performance		-0.3	-0.7
WPP Sustainable Active Equity Fund	317.1	8.1	n/a
Benchmark		9.2	n/a
Relative Performance		-1.1	n/a

Performance from global listed equity mandates was strong over Q1 2024. This reflected continued equity market strength, driven by a resilient US economy (which makes up much of global equity indices) and continued optimism around artificial intelligence.

On a relative basis, the index-tracking funds with BlackRock performed in line with benchmarks, as did the WPP emerging markets equity fund. However, the actively managed global equity mandates underperformed the global index, as underweights to the US and exposure to value-style equities detracted from overall fund returns. There is notable underperformance from the WPP Global Growth Fund and the structure of this fund is currently under review by WPP.

Fixed Income Managers' Performance

	Market Value 31/03/24 £m	Performance 3 Months %	Performance 1 Year %
WPP Multi Asset Credit Fund	226.0	1.9	10.2
Benchmark		2.3	9.4
Relative Performance		-0.4	+0.8
WPP Absolute Return Bond Fund	412.2	2.3	6.8
Benchmark		1.8	7.3
Relative Performance		+0.5	-0.5
WPP Global Credit Fund	223.0	0.3	n/a
Benchmark		0.0	n/a
Relative Performance		+0.3	n/a

The fixed income funds launched in 2021 have had challenging times with market volatility due to Russia's invasion of Ukraine and a period in which inflation and the Bank of England's interest rates are at their highest in decades. Market conditions have now started to settle and the funds' performance is close to the benchmark.

Property Investment Managers' Performance

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

	Market Value 31/03/24 £m	Performance 3 Months %	Performance 1 Year %
UBS	72.9	-0.9	-2.4
Lothbury Property Trust	51.7	-2.4	-8.8
Black Rock Property Fund	53.5	-0.2	-3.3
Threadneedle Property Fund		0.8	0.6
Threadneedle Property Unit Trust	34.2	0.5	0.5
Benchmark		+0.5	-0.7

The UK property market continues to face challenges including uneven demand, continued redemption pressure and high cost of capital. The Fund's mandates saw mixed returns, with Lothbury a notable underperformer compared to its benchmark.

Partners Group

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

	Market Value 31/03/24 £m
Partners Private Equity	158.6
Partners Infrastructure	71.6
Total	230.2

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 and will include the new WPP funds in the future.

4. Pension Fund historical performance

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.

The performance of the fund's investments has been lower than the benchmark in the year and over 3 years, mainly due to the performance of some of the equity, fixed income and property funds, but since inception, the performance has been higher than the benchmark, as seen in the table below:

	1 Year %	3 Years % p.a.	Since inception % p.a.
Fund	11.2	6.4	7.1
Benchmark	11.4	7.5	6.8
Relative Performance	-0.2	-1.1	+0.3

Even though the 3 year performance of the Fund has been behind benchmark, the performance was in the upper quartile of all LGPS funds. The benchmarks given are very challenging (i.e. MSCI AC World) and the fund is performing well in comparison to other LGPS funds.

5. Strategic Asset Allocation

The strategic target allocations were updated at the end of 2023 after the Panel discussed an update to the 2022 strategy review and agreed to partially de-risk the Fund. A plan has been developed to move the Fund towards the new benchmark

allocations over the next 12-18 months. Investments in infrastructure and private debt will increase over time as capital is called. The Fund saw initial capital deployment for the WPP private equity, debt and infrastructure during the last quarter of year ending 31st March 2024 of which the performance will be measured from next year.

6. Recommendation

The Board is asked to note the information.