From:	Chairman Superannuation Fund Committee Corporate Director of Finance
To:	Superannuation Fund Committee – 1 December 2021
Subject:	Fund Position
Classification:	Unrestricted

Summary:

To provide a summary of the Fund's asset allocation and performance.

Recommendation:

The Committee to note the Fund's asset allocation and performance as at 30 September 2021

FOR INFORMATION

1. Introduction

1.1 This report provides an update on the asset allocation and manager performance.

1.2 A copy of the Fund Position Statement is at appendix 1

2. Asset Allocation

2.1 As at 30 September 2021 the Fund's value was £7.85bn, an increase of £76m over the quarter and table 1 below compares the actual asset allocation to that set out in the Fund's Investment Strategy.

Table 1 asset allocation

Asset Class	Value £m	Actual %	Benchmark %	Over / (Under) weight %
UK Equity	1,473	18.8	23.5	-4.7
Global Equity	3,309	42.2	32	10.2
Fixed Income	1,157	14.7	15	-0.3
Private Equity	243	3.1	4	-0.9
Infrastructure	101	1.3	3.5	-2.2
Property	827	10.5	13	-2.5
Absolute Return	548	7.0	8	-1.0
Cash	193	2.5	1	1.5
Total	**7,850**	**100**	**100**	

2.2 Whilst the synthetic equity has helped maintain the total equity exposure of the fund, the returns have been capped by the equity protection programme.

2.3 At the end of the quarter, the total equity allocation of the Fund (including the synthetic equity exposure as well as the value of the equity protection options) is 60.9%. which continues to remain overweight to its strategic allocation of 55.5%. However, for the purpose of the rebalancing decision the impact of the subsequent restructuring of the equity protection programme carried out in October, will have to be considered.

2.4 The Fund is underweight in all other asset classes other than cash managed internally which remains high at 2.5%.

2.5 The Fund has continued to hold cash in view of the uncertain market conditions. Drawdowns for private equity and infrastructure commitments have also been slower than anticipated.

3. Investment performance quarter to 30 September 2021

3.1 The quarter saw a continued moderation in the momentum of the post Covid economic recovery, and the Fund achieved a return for the quarter of 0.98% against a benchmark of 1.79%. These returns appear subdued compared to the stronger performances in the previous few quarters.

3.2 Whilst the initial recovery in 2021 was stronger than initially expected, the recovery is now entering a much tougher phase as policy support starts to be withdrawn, supply chain disruptions continue to escalate, and energy prices and inflation are surging. There has been a lot of debate whether the rise in inflation is transient or permanent. Fears of rate rises have driven up bond yields and at the same time hit equity valuations.

3.3 Performance from most of the Fund’s active managers also fell short of benchmark returns, except for Sarasin, M&G and Impax managing global equity portfolios which have benefited from their cyclical and environmental exposures and CQS whose multi asset credit portfolio benefitted from short duration and floating rate exposures. The Schroders Bond portfolio suffered due to long duration and short USD exposures.

3.4 Property returns continued to improve with improvement in rent collections and an increase in the volume of property transactions, whilst the industry is waiting to see the result of the review of the landlord and tenant legislation. Property was the strongest performing asset class this quarter with the strongest performance recorded by the DTZ portfolio although all the Fund’s property managers underperformed the benchmark.

3.5 Private equity continued to record a strong growth with double digit figures. The post Covid recovery period has seen an increased deal flow at attractive prices and good businesses have benefitted from the uplift in valuations with the economic recovery.

4. Longer term investment returns

4.1 The Fund has recorded (marginally) below benchmark returns in the 1year period due to its two biggest mandates (Baillie Gifford Global Equities and Schroders UK Equity) which constitute nearly 38% of the fund, underperforming their benchmarks. However, both these mandates and the Fund outperformed in the three-year period.

4.2 The Fund's one-year performance was 15.02% compared to the benchmark return of 16.0% for the same period.

4.3 The one-year performance mainly captured the post covid economic recovery which was reflected in the strong growth in equity markets and the low double digit uplift in property valuations. However, the tech stocks' valuations which peaked in the covid period have seen some unwinding in the latter half of the year. This has mainly affected the Baillie Gifford portfolio which still returned near benchmark returns.

4.4 All active managers in all asset classes have achieved better than benchmark returns in the one-year period except for Baillie Gifford, Schroders (UK Equity) and Pyrford (absolute return) besides M&G and Aegon for property. CQS and Ruffer (with their dynamic investment styles) and Schroders (value strategy) were the star performers in their respective asset classes during this period.

4.5 The Fund achieved an annualised return of 7.59% compared to 5.91% over the three-year period ending September 2021, with global listed equities driving the outperformance.

4.6 Fund manager performance has been mixed over the three-year period with Baillie Gifford achieving a return of 22.36%, more than double its benchmark annual return of 9.32%. Pyrford absolute return, M&G property, and Aegon property funds have been laggards throughout.

4.7 Private Equity returns have been strong during the last three years and had an exceptional rebound post covid. The 'building-up stage' of the bulk of our infrastructure fund investments managed by Partners Group has contributed to the slow movement in valuations in that portfolio.

Alison Mings, Acting Business Partner – Kent Pension Fund

T: 03000 416488

E: Alison.mings@kent.gov.uk

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