

From: Chairman Superannuation Fund Committee
Corporate Director of Finance

To: Superannuation Fund Committee – 30 March 2022

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 of 31 December 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 of 31 December 2021, the Fund’s value was £7.76bn, a decrease of £95m 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	1,511	19.5	23.5	-4.0
Global Equity	3,120	40.2	32	8.2
Fixed Income	1,151	14.8	15	-0.2
Private Equity	261	3.4	4	-0.6
Infrastructure	135	1.7	3.5	-1.8
Property	852	11.0	13	-2.0
Absolute Return	554	7.1	8	-0.9
Cash	171	2.2	1	1.2
Total	7,755	100	100	

- 2.2 During the quarter the fund restructured its equity protection programme to capture the gains made during the last few quarters and to increase the protection level. The Fund sold equities worth £300m from the ACCESS Baillie Gifford Fund and used the proceeds to add collateral to the programme.
- 2.3 At the end of the quarter, the total equity allocation of the Fund (including the synthetic equity and equity protection options) was 59.7%. which continues to remain overweight to its strategic allocation of 55.5%. However, it remains within the target of 63% for the purpose of the rebalancing decision.
- 2.4 The Fund is underweight in all other asset classes other than internally managed cash which remains high at 2.2%. This position is kept under regular review to avoid the “drag” on returns from holding too much cash.

3. Investment performance quarter to 31 December 2021

- 3.1 Global and UK equities extended their rally and the UK commercial property market delivered near double digit returns over the quarter. On the other hand, rising inflation and potentially less quantitative easing from central banks slowed the Fixed Income markets.
- 3.2 The combined effect of the above market movements was a strong positive benchmark return of 4.3% however the Fund returned -1.2%, a significant underperformance
- 3.3 The main contributor to the Fund’s underperformance was the tech focused global equity mandate managed by Baillie Gifford. The mandate constituted over 20% of the total Fund and the -7.6% underperformance swung the balance of the Fund’s performance away from the benchmark. The mandate had achieved very strong performance during the previous couple of years but more recently has seen negative returns for two quarters, as several companies in the portfolio have been impacted by concerns about a post lockdown slowdown in demand.
- 3.4 Performance from the rest of the Fund’s active managers across all asset classes also fell short of benchmark returns, except for the private equity mandates.

4. Longer term investment returns

- 4.1 Both equities and property markets recorded high double-digit 1-year returns followed by moderate double digit returns from the absolute return mandates.
- 4.2 The Fund’s one-year performance was 4.81% compared to the benchmark return of 14.02% for the same period
- 4.3 The Fund has recorded below benchmark returns in the 1-year period due to its two biggest mandates (Baillie Gifford Global Equities and Schroders UK Equity) which constitute nearly 34% of the Fund, underperforming their benchmarks. However, both these mandates and the Fund outperformed in the three-year period.
- 4.4 Most of the Fund’s active managers underperformed their benchmarks except for Schroders in equities (global value equities) and MAC managers CQS and M&G in fixed income and DTZ and Fidelity in property mandates.

- 4.5 The Fund achieved an annualised return of 10.34% compared to 9.45% over the three-year period ending December 2021, with the two biggest mandates again driving the outperformance.
- 4.6 Private Equity returns have been strong during the last three years and had an exceptional rebound in recent quarters. 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.

5. Events post December

- 5.1 The market backdrop has continued to be difficult over the last few months. Concerns from quantitative tightening to inflation and supply chain disruptions have resulted in volatility across major stock markets. The Bank of England's Monetary Policy Committee raised the base rate twice in the period in an attempt to curb inflationary pressures but the impact on the real economy from the Ukraine conflict is likely to limit future rate rises.
- 5.2 Despite months of escalating geopolitical tensions, markets were largely surprised by the scale and severity of the Russia – Ukraine conflict. Bonds and stocks fell on fears that the war will dent growth and increase already rising inflation. The developments in the conflict continue to drive market sentiment. There is a separate paper on the agenda addressing the impact on the Fund in more detail.

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