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| From: | Chairman Pension Fund Committee<br>Corporate Director of Finance |
| To: | Pension Fund Committee – 22 June 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 March 2022

**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 March 2022, the Fund's value was £7.67bn, a decrease of £80m 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** | 1,541 | 20.1 | 23.5 | -3.4 |
| **Global Equity** | 2,966 | 38.6 | 32 | 6.6 |
| **Fixed Income** | 1,121 | 14.6 | 15 | -0.4 |
| **Private Equity** | 273 | 3.6 | 4 | -0.4 |
| **Infrastructure** | 168 | 2.2 | 3.5 | -1.3 |
| **Property** | 905 | 11.8 | 13 | -1.2 |
| **Absolute Return** | 567 | 7.4 | 8 | -0.6 |
| **Cash** | 129 | 1.7 | 1 | 0.7 |
| **Total** | **7,674** | **100** | **100** | |

2.2 The Ukraine conflict and the stringent financial sanctions imposed by Western Governments on Russia has dominated the impact on the investments in this quarter. Inflation which was already high prior to that has further worsened and the central bank's response of increasing interest rates has dampened returns.

2.3 As Global Equities have fallen and cash has been drawn for Private Equity and infrastructure investments, the relative overweight positions of Equities and Cash has reduced. However, all asset classes remain within the target allocation range and therefore do not necessitate rebalancing.

**3. Investment performance quarter to 31 March 2022**

3.1 The uncertain geopolitical environment, coupled with continued supply chain and inflationary pressures created a perfect storm for global stocks and bonds both of which have seen negative returns in the quarter. On the other hand, it is UK Equity portfolios with oil stocks, as well as property assets that have held up the returns and cushioned the falls for diversified portfolios.

3.2 In the quarter, the Fund returned a negative performance of -0.94% compared to a benchmark return of 0.26%.

3.3 This was mainly due to the large drawdown in the Baillie Gifford mandate which continues to suffer from growth stocks being out of favour in the current political environment.

3.4 On the other hand, the M&G and Schroders global equity portfolios with their cyclical and value strategies respectively have achieved positive returns in a falling market.

3.5 Pleasingly, the Fund's UK Equity and property managers provided positive returns close to or above their benchmarks.

3.6 The Fund also benefitted from the protection strategy on its Global Equities which pays out in a falling market.

**4. Longer term investment returns**

4.1 The last twelve months saw high returns on most asset classes on the back of lifting of lockdowns and the prospect of economic recovery. Property has returned the highest benchmark returns of over 23% in the last year followed by UK equities (14.5%) and Global equities (12.4%). High inflation has also pushed benchmark returns on absolute return portfolios which are linked to RPI+ 5% to 14%. Bond returns were a more modest 4%. Other asset classes had a lower benchmark return; this has resulted in an overall benchmark return of 11.2% for the Fund.

4.2 For the year ended March 2022, the Fund significantly underperformed its benchmark and achieved a return of 2.3%. The Fund's large allocation to the Baillie Gifford portfolio which suffered from a reversal of sentiment away from growth stocks returned -16.3% was the most significant drag on performance.

4.3 The remaining active managers across all asset classes underperformed their one-year benchmarks with the exception of Schroders Global Active Value Fund and the M&G Global Dividend Fund which outperformed benchmarks.

4.4 Over the three-year period ending March 2022, the Fund achieved an annualised return of 7.43% compared to 7.63%, with global equities and property driving the returns.

4.5 Whilst growth equities provided best returns in the first half of the pandemic, value and cyclical stocks caught up in the latter half, making equities the best performing asset class overall in the 3-year period to March 22. Property has also recorded near double digit growth pulled by the recent uptick in valuations driven by industrial assets. Fixed income was the poorest performing asset class over this period.

4.6 Private Equity returns have been strong during the last three years. 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.

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**June 2022**