

From:	Chairman Kent Pension Board Corporate Director of Finance
To:	Kent Pension Board – 8 June 2023
Subject:	Fund Position 31 March 2023
Classification:	Unrestricted

Summary:

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

Recommendation:

The Board is asked to note the Fund's asset allocation and performance as of 31 March 2023.

FOR INFORMATION

1. Introduction

- 1.1 This report provides an update on the Fund's asset allocation and performance.
- 1.2 A copy of the Fund Position Statement is at Appendix 1

2. Fund value and asset allocation

- 2.1 As of 31 March 2023, the Fund's value was £7.83bn, an increase of £92m over the quarter.
- 2.2 Within the equity portfolio, the current asset allocation is biased towards global equity and underweight UK equity versus the strategic asset allocation. Notwithstanding this, the overall (combined) equity allocation is within the formal tolerance ranges established under the Fund's Investment Strategy Statement. Moreover, the Pension Fund Committee is due to revisit the strategic asset allocation at its meeting on 22 June. Therefore, no rebalancing is recommended at this stage. All other asset classes remain within their target allocation ranges.

3. Investment performance quarter to 31 March 2023

- 3.1 UK equities lagged slightly behind global equity returns over the quarter with the FTSE All-Share index returning +3.0% in the three months to 31 March compared to +4.4% rise in global equities.
- 3.2 Global equities and bonds experienced renewed volatility in March following the failure of Silicon Valley Bank (SVB) and Signature Bank in March. However, softer US inflation data, China's reopening, and falling wholesale gas prices in Europe all helped the MSCI global equity index to rise by 4.4% over the quarter.

- 3.3 Against this backdrop, the Fund's active equity managers lagged the benchmark returns this quarter, with the exception of Impax, which marginally outperformed the benchmark, and the Baillie Gifford Global Equity Core Fund, which outperformed its benchmark by a considerable margin due to a relatively strong return for growth style stocks.
- 3.4 The property market stayed relatively flat this quarter following the significant drop in valuations last quarter. Our property managers mainly outperformed with the exception of M&G Residential Property Fund, which saw negative returns of -0.7% (although this mandate has performed relatively well over the year to 31 March), and Aegon (Kames) which returned 0.0% against a benchmark of 0.2%.
- 3.5 The rise in the global equities meant that the equity protection program lost £118m during the quarter, but the fall was offset by the rise in physical equities held by the Fund.
- 3.6 Both the absolute return managers underperformed again against the RPI linked benchmark whilst the private equity and Infrastructure mandates had mixed returns.
- 3.7 Overall, during the quarter, the Fund returned 1.1%, underperforming against its benchmark return of 2.6%.

4. Longer term performance

- 4.1 For the year ended March 2023, the Fund achieved a return of 1.4% against a benchmark return of 0.3%, an outperformance of 1.11%.
- 4.2 The past year has continued to be one of significant economic challenges, from the cost-of-living crisis, recovery from the pandemic, the invasion of Ukraine, and the banking liquidity crisis, the impact of the now lengthy period of uncertainty continues to be felt throughout financial markets.
- 4.3 Against this backdrop of economic uncertainty, value style investors have outperformed growth stocks, which have struggled. Baillie Gifford, the Fund's global equities manager with a growth style has returned -10.0% over the year, although this followed on from a period of exceptional outperformance coming into 2022, and in the last few months has regained some of the lost ground earlier in the year. In contrast, both the Fund's value managers, Schroders GAV and M&G global dividend fund being the best performing over the year, despite a difficult quarter.
- 4.4 The bond markets similarly experienced reversing fortunes between the first and second half of the year. Despite the recovery in the last 2 quarters, 3 of the 4 bond managers recorded negative returns for the year compared to a benchmark of 2.1%, with CQS delivering the worst performance of -5.1% for the year and M&G MAC fund the best performing with annual returns of +2.4%.
- 4.5 After recording strong growth recovering from post covid lockdown in the first half of the year, property assets have continued to come under pressure from rising interest rates, and the IPD Property Fund benchmark has recorded a net decline of almost 14.9% for the year. However, the Fund's property managers have outperformed the property index, in particular portfolios with less exposure to industrial property assets such as the M&G Residential Property Fund.

- 4.6 The Fund operates a diversified asset allocation, across a range of asset classes and styles, together with an equity protection programme, in order to manage risk and meet its investment objectives.
- 4.7 Over three years, the Fund has outperformed with a return of 11.0% per annum compared to the benchmark return of 9.9% p.a.

5. Outlook

- 5.1 The investment outlook remains uncertain. Inflation remains high although now trending downwards. Market sentiment remains highly sensitive to economic news and there is limited consensus on how long it will take to normalise. The IMF has lowered global growth projections to 2.8% for 2023 and challenges in the US banking sector persist. Against this backdrop our managers continue to focus on stock-picking and look for companies with strong balance sheets and good long-term prospects. The Fund aims to limit volatility by diversifying sources of return within the portfolio. The Fund will be reviewing its investment strategy over the next few months to take advantage of the revised valuation results.

Sangeeta Surana, Investments, Accounting and Pooling Manager

T: 03000 416738

E: sangeeta.surana@kent.gov.uk

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