From:	Chairman Kent Pension Board Corporate Director of Finance
To:	Kent Pension Board – 13 September 2022
Subject:	Fund Position
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 30 June 2022

FOR INFORMATION

1. Introduction

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

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

2. Fund value and asset allocation

2.1 As of 30 June 2022, the Fund's value was £7.57bn, a decrease of £99m over the quarter.

2.2 All asset classes remain within their target allocation ranges and therefore no rebalancing is required.

3. Investment performance quarter to 30 June 2022

3.1 Financial markets have come under pressure in the first half of 2022, as pandemic-induced supply chain constraints and the war in Ukraine have brought inflation risks to the fore. In a bid to control price rises, central banks have begun to reverse pandemic era monetary stimulus, raising interest rates and withdrawing quantitative easing. This in turn has put pressure on valuations in nearly all asset classes as well as increasing the likelihood of recession in the world's major economies.

3.2 Under these circumstances, the Fund generated a negative absolute return of -1.63% in Q2. The equity and fixed income allocations (which together make of 72% of the Fund's current asset allocation) detracted from performance during the quarter although this was partially offset by positive contributions from the Fund's equity protection programme as well as its allocations to property, private equity, and infrastructure.

3.3 As a result, overall Fund performance compared favourably to the benchmark return of -2.97%

3.4 It should also be noted that whilst the Fund's actively managed fixed income mandates have underperformed their designated cash plus benchmarks, they have performed better than wider credit markets.

4. Longer term performance

4.1 For the year ended June 2022, the Fund achieved a return of -2.47% against a benchmark return of 3.66%, a significant underperformance of 6.13%. Whilst equity and fixed income detracted generally over this time horizon, the largest negative contribution came from growth manager Baillie Gifford, who returned -38.83% over 12 months. Conversely, the M&G Global Dividend Fund and the Schroders Global Active Value Fund added value over the year, a period in which cyclical/value strategies prospered as economies emerged from lockdown. The Fund diversifies its equity allocation across a range of styles and expects this strategy to provide superior returns over the long term.

4.2 Private equity and property were the Fund's best performing allocations overall in the year to June 2022, while infrastructure also outperformed. These illiquid asset classes are an important source of long term returns for the Fund, although performance can be highly volatile in the short term.

4.3 Over three years, the Fund has outperformed with a return of 5.63% per annum compared to 5.49% p.a. from the benchmark.

5. Outlook

5.1 With inflation pressures expected to persist for some time, financial markets are pricing in a series of further interest rate increases in the world's major economies, which in turn is likely to induce lower – even negative - economic growth.

5.2 These stagflationary conditions (high inflation combined with low growth) represent a highly challenging environment for investors: eventually, tighter monetary policy should bring demand back into equilibrium with supply although only at the cost of lower economic growth. However, there is significant uncertainty around how far central banks will need to go in their programme of interest rate rises, and indeed whether and when supply constraints will eventually subside (either due to the easing off pandemic induced constraints and/or a material reduction in geopolitical risks). Under these circumstances we should expect short term returns to remain highly volatile.

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