From:	Chairman Kent Pension Board Corporate Director of Finance
To:	Kent Pension Board – 14 March 2023
Subject:	Fund Position December 2022
Classification:	Unrestricted

Summary:

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

Recommendation:

The Board to note the Fund's asset allocation and performance as of 31December 2022.

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 December 2022, the Fund's value was £7.74bn, an increase of £94m 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 31 December 2022

3.1 UK equities performed strongly over the final quarter of the year with the FTSE All-Share index returning +8.80% in the three months to 31 December. UK equities reacted positively to the new government's reversal of many of the unfunded tax cuts introduced by the short-lived Truss administration. The UK index also benefited from a weak sterling as well as from a large allocation to Financials, which typically benefit from rising interest rates.

3.2 Global equities and bonds generally improved on signs that inflation may have peaked and expectations that central banks might be able to ease interest rate rises. European markets in particular, had a strong quarter as a mild start to overwinter eased concerns about energy supplies and costs, and the reopening of China's economy and slowing pace of the US rate hikes aided positive sentiment.

3.3 Against this backdrop, the Fund's active equity as well as fixed income managers returned above benchmark performance except for the Baillie Gifford Global Equity Core Fund and the Schroders Bond fund.

3.4 Rising interest rates, and prospects of slowing economic growth continued to have a negative impact on the property markets which fell drastically by -14.5% in the quarter, although the fund's property mandates fell by less than the index.

3.5 A rise in the global equities meant that the equity protection program lost £36m 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 the RPI linked benchmark whilst the private equity and Infrastructure mandates had mixed returns.

3.7 Overall, during the quarter, the Fund returned 1.12%, a little short of its benchmark return of 1.27%

4. Longer term performance

4.1 For the year ended December 2022, the Fund achieved a return of -0.31% against a benchmark return of -1.99%, an outperformance of 1.68%.

4.2 The year has been one of two halves. Whilst the first six months saw asset prices buffeted by a number of challenges including the escalation of the Ukraine conflict and resultant energy crisis, soaring of inflation, rising interest rates, and slowing economic growth prospects, the second half of the year saw some calm being restored by a sense of peaking of inflation, easing of central banks' monetary tightening policies, and a less severe winter providing relief from the energy crisis. Despite the late recovery, global equity valuations failed to recover the earlier losses and have fallen by 8.08% during the one-year period.

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 had a severe fall of 33%, although this followed on from a period of exceptional outperformance coming into 2022. In contrast, both the Fund's value managers, Schroders GAV and M&G global dividend fund outperformed the benchmark significantly.

4.4 The bond markets similarly experienced reversing fortunes between the first and second half of the year. Despite the recovery in the last quarter, the bond managers recorded a negative return for the year, with GSAM recording the worst performance of -11% for the year and M&G MAC fund the best of -0.02%.

4.5 After recording strong growth recovering from post covid lockdown in the first half of the year, property assets have continued to fall in the face of rising interest rates and have recorded a net fall of over 10% for the year. The fund's property managers have however 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 5.3% per annum compared to the benchmark return of 4.6% p.a.

5. Outlook

5.1 The investment outlook remains uncertain. Whilst there seems to be a general view that inflation might have peaked, this is far from guaranteed. Market sentiment remains highly sensitive to economic news and there is limited consensus on the how long it will take to normalise. 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.

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