

MEETING: **PENSIONS COMMITTEE**
DATE: **17 MARCH 2022**
TITLE: **WALES PENSION PARTNERSHIP UPDATE**
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1. Introduction

The collaboration has been going from strength to strength since its establishment in 2017 and by 31st December 2021, 83% of the Gwynedd fund has been pooled with Wales Pension Partnership – 56% through the main funds and 27% through passive investments.

The performance to date has been very satisfactory and many developments are underway and therefore this paper provides an update for the Committee.

2. Global Equity funds

Global Growth Fund

This is a Global fund consisting of three underlying investment managers (Baillie Gifford, Veritas and Pzena) and Link as the investment manager.

This fund has made great strides in responsible investment with Baillie Gifford completing a portfolio change in 'Global Alpha Paris Aligned' by screening out fossil fuel providers and fossil fuel extractors, which has significantly reduced greenhouse gas density. Veritas and Pzena continually assess their portfolio for the impact of environmental, economic and governmental factors, and act responsibly as necessary.

	Three Months	One Year	Since Inception
Performance	1.6	13.8	15.5
Benchmark	6.2	19.6	15.9
Excess returns	-4.6	-5.8	-0.4

The Fund has consistently performed well above the benchmark with strong performance since inception, but performance has recently fallen behind the benchmark. Performance has been below the benchmark in the last quarter with concerns about the economic recovery but this was to be expected given the recent strong performance. Baillie Gifford and Pzena performed below the benchmark due to certain stocks, but Veritas outperformed the benchmark with conditions favourable to them. More information from these managers can be found in our investment panel which is held on the same day as this committee.

Global Opportunities Fund

This is a Global and Regional fund consisting of eight underlying investment managers (Morgan Stanley, Numeric, Sanders, Jacobs Levy, SW Mitchell, NWQ, Oaktree and Nissay) and Russell Investments as the investment manager. A 'decarbonisation overlay' has been implemented by Russell Investments, reducing the carbon footprint by 25% of this fund.

Performance to 31st December 2021 has been as follows:

	Three Months	One Year	Since Inception
Performance	5.2	19.1	15.7
Benchmark	6.2	19.6	15.5
Excess returns	-1.0	-0.5	0.2

This fund is based on a blended approach with a number of different styles (such as value and growth) that complement each other. The Fund has performed well since inception but finished behind the benchmark in the quarter to 31st December 2021. The Fund registered positive absolute returns over the fourth quarter but finished behind the benchmark on a relative basis. In terms of performance, investors preferred quality over the quarter, which was also the best performing factor in 2021. The protection offered by large-cap holdings was also favoured, while growth outperformed value. As such, the multi-factorial approach of Jacobs Levy proved to be beneficial over the period, as well as the Numeric core strategy, which has overweight and large caps. Surprisingly, Morgan Stanley and SW Mitchell's growth managers struggled over the period, particularly due to Morgan Stanley's exposure to technology and SW Mitchell's under-allocation to the strong performing consumer sector. However, Sanders' value strategy did perform better, benefiting from overweight for some of the best performing sectors (i.e., technology, healthcare) over the period. Small caps, momentum, low volatility and yield were the main factors behind in the fourth quarter. This prevented Numeric's low volatility strategy. Meanwhile, Emerging Markets and Japan's equity market underperformed over the period. This weighed on earnings for Oaktree.

3. Fixed Income Funds

The Partnership launched five fixed income sub funds in 2020 and Gwynedd Pension Fund has invested in two of them: Multi Asset Credit Fund and Absolute Return Bond Fund.

Multi Asset Credit Fund

This fund has five underlying investment managers (ICG, Man GLG, BlueBay, Barings and Voya) and Russell Investments as the investment manager. There are responsible investment practices across all managers and future commitments are very strong in the field.

The performance up to 31st December 2021 was as follows:

	Three Months	One year	Since Inception
Performance	-0.1	2.4	5.5
Benchmark	1.0	4.1	4.1
Excess returns	-1.1	-1.7	1.4

The Fund recorded a flat absolute profit in the fourth quarter. Core fixed income markets struggled relative to global equities of this period despite the spread of the Covid-19 Omicron variant. Global central banks have indicated that they will significantly reduce the economic support of the pandemic amid ever-increasing inflation. European loan specialist ICG - the strongest performing strategy since its inception - posted earnings this quarter. Higher inflation data pushed up interest rate expectations and the associated demand for floating rate instruments. European loans were further supported by the continuing demand for expected low yields and deficits. The spread of corporate high-yields has been moderately tightened in the US but has expanded significantly in the EU amid new lock-in measures to include an increase in coronavirus outbreaks. Barings and multi-sector specialist BlueBay underperformed, returning some of their better performance in the longer term this time. Meanwhile, openness to commercial non-agency mortgage-backed securities underpinned Voya's excellence. Emerging Market Debt was flat over the period. Man GLG's specialist manager finished just behind his benchmark, suffering under pressure for Middle East names.

Absolute Return Bond Fund

The fund has four underlying managers (Wellington, Putnam, Aegon and Insight) and Russell Investments as the investment manager. The investment managers are improving responsible investing practices supported by detailed consideration and a number of initiatives.

The performance up to 31st December 2021 was as follows:

	Three Months	One year	Since Inception
Performance	-0.7	0.2	0.5
Benchmark	0.5	2.1	2.1
Excess returns	-1.2	-1.9	-1.6

The Fund returned earnings below its target in the quarter. Core fixed income markets struggled relative to global equities at this time despite the spread of the Covid-19 Omicron variant. The Bank of England surprised markets in November by keeping rates steady, before surprising again with a rate increase of 15 basis point in December (to 0.25%). After reaching a yield of 0.69% in mid-December, the UK gilt 10-year benchmark sold off following the announcement ending just five bps lower for the quarter at 0.97%. Elsewhere, the US Treasury's 10-year benchmark yield and German 10-year bund profit increased two bps to 1.51% and -0.18% respectively. All underlying strategies recorded negative absolute profits during this period.

4. Developments

4.1 Emerging Markets

The Gwynedd fund has transferred its Emerging Markets from Fidelity to the WPP fund on 20th October 2021.

The managers within the new fund are: Artisan, Bin Yuan, Barrow Hanley, Axiom, Numeric and Oaktree, with Bin Yuan being a China specialist. A 'decarbonisation overlay' has been implemented on this fund, reducing the carbon footprint by 25%.

4.2 Private Markets

A working group has been established looking at the options of combining assets into this category with the assistance of Hymans Robertson. An assessment of the requirements of each fund has been made with ongoing discussion to determine the appropriate structure and mechanism for the investments.

Private Credit and Infrastructure has been the first focus with a procurement process undertaken with specialist adviser, Bfinance, to select investment managers in this area. A recommendation will be made to the 24th March 2022 Joint Governance Committee to appoint the successful managers.

The group will next move on to search for a private equity manager, before moving on to discuss the options for pooling the rest of the private markets, including property.

4.3 Member Representative on the Joint Governance Committee

At the Full Council meeting on 7th October 2021, changes were approved to the Inter Authority Agreement which allows a member representative on the Joint Governance Committee.

The appointment process has now taken place and a recommendation will be presented to the Joint Governance Committee on March 24th 2022. It is recommended that Osian Richards, Gwynedd Pension Fund Pension Board member, will be appointed as the first member representative for a period of two years.

4.4 Stewardship Code

On March 10th 2022 it was confirmed that Wales Pension Partnership has met the expected standard of reporting in 2021 and will be listed as a signatory to the UK Stewardship Code. This is a significant achievement and reflects the strong governance and stewardship within the Partnership.

5. Recommendation

The Committee is asked to note the information.