

PENSIONS PANEL – 6 DECEMBER 2022

Report of the Deputy Chief Executive & Director for Corporate Services

PENSION FUND INVESTMENT PERFORMANCE 2022/23

Purpose of Report

1. To provide, for information;
 - (a) a summary of performance of the Staffordshire Pension Fund at 30 September 2022; and
 - (b) a portfolio of the Pension Fund's investments at 30 September 2022 (Appendix 1).

Performance Summary

2. <u>Period</u>	<u>Fund</u> %	<u>Benchmark</u> %	<u>Relative</u> <u>Performance</u> %
June 2022 Quarter	-6.1	-6.4	+0.3
September 2022 Quarter	-0.4	-1.5	+1.0
Year to date 2022/2023	-6.6	-7.8	+1.2

3. Once again, global equity markets fell over the quarter with the MSCI World Index losing more than 6% over the period. Inflation, rising interest rates and the worsening economic outlook all contributed to negative returns.
4. In the US, the Federal Reserve (Fed) raised interest rates by 1.5% during the quarter. US equities fell, as it became clear that a reversal of the Fed's policy of raising interest rates sharply was unlikely to materialise, and more rate rises were likely. Inflation in the US reduced over the quarter, leading to suggestions it that it may have peaked. The US Dollar also rose against most major currencies.
5. In the UK, equity markets fell, inflation remained high, and the Bank of England (BoE) raised the bank rate by 1% during the quarter. But, despite all this, unemployment fell to 3.6%, its lowest level since the 1970's. In September, the UK government announced a package of energy subsidies and tax cuts which led to a drop in the value of sterling and a sharp increase in gilt yields. This led to the BoE stepping in and announcing £65 million of long dated gilt purchases to restore calm to the markets.

6. In Europe, equity markets fell over the quarter, as eurozone inflation reached a record high of 10% in September. The European Central Bank (ECB) raised interest rates to 1.25% and indicated there would be further rises to come. There were also increased gas supply pressures as Russia suspended supplies, leading to even higher gas prices.
7. Emerging market equities also fell over the quarter with China being the key detractor, as it continues with its zero Covid-19 policy. Brazil and India were the only markets to record a positive return.

Fund Market Value

8. The Fund had a market value of £6.3 billion at 30 September 2022, down very slightly on the previous quarterly valuation.
9. Over the quarter the Fund returned -0.4%, which was an outperformance of 1.0% versus the Fund's Strategic Asset Allocation benchmark return of -1.5%. The best performing asset class relative to its benchmark was Private Equity, returning 1.0%. The Fund's Hedge Fund allocation, which is currently being liquidated, was the main detractor from performance, underperforming its benchmark by 0.6%.
10. Longer term, the Fund has outperformed its Strategic Asset Allocation benchmark return over a 3, 5 and 10-year period. Annualised returns over 10 years are 9.1% per annum, well above the investment return assumptions used by the Actuary as part of the triennial valuation.

Portfolio of Investments at 30 September 2022

11. A copy of the Staffordshire Pension Fund's portfolio of investments at 30 September 2022 is attached at Appendix 1.

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Background Documents:

Portfolio Evaluation Performance Measurement Data