

PENSIONS PANEL – 7 MARCH 2023

Report of the Director of Finance

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 31 December 2022; and
 - (b) a portfolio of the Pension Fund's investments at 31 December 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
December 2022 Quarter	2.0	0.3	+1.7
Year to date 2022/2023	-4.7	-7.5	+2.9
3. Global equities performed strongly over the final quarter of 2022, providing some relief after three previous quarters of negative returns. Investors reacted positively to signs that inflationary pressures may be easing and that central banks may begin to slow the pace of interest rate increases. There is also hope of a potential 'soft landing' in the US and Europe, with recession being either avoided or being short and shallow. The MSCI World Index rose 9.8% over the quarter with energy being the best performing sector.
4. In the US, the Federal Reserve (Fed) raised interest rates by 1.25% during the quarter. Inflation is still above the Fed target level, but with November data coming in below expectations, the US Dollar weakened against most major currencies.
5. In the UK, equity markets rose, with the FTSE 100 increasing by 8.68% over the third quarter of 2022/23 and inflation came in below expectations at 10.7%, though still well above the Bank of England (BoE) target. The BoE raised the bank rate to 3.5% during the quarter and Sterling strengthened by 8.17% against the US Dollar, after being weak for several quarters prior. 10-year Gilt yields fell from 4.08% to 3.66% over the quarter, following BoE

intervention and the new Chancellor Jeremy Hunt reversing much of the controversial September mini budget policy measures.

6. In Europe, equity markets outperformed other developed markets, rising 15.56% over the quarter. The European Central Bank (ECB) raised interest rates to 2.0% and indicated there would be further tightening to calm inflation. A drop in inflation from 10.6% in June, to 10.1% in November, gave hope that inflation may have peaked but it is still well above the 2% target. A warmer than average start to winter and reduced levels of consumption reduced fears of an energy crisis and fears of a deep recession in Europe have reduced.
7. Emerging market equities rose over 3% in the quarter, helped by the weakening US Dollar. China saw a surge in Covid-19 cases following a sudden reversal of its zero covid policy. This led to a disruption in production and demand, but has increased optimism over an increase in growth going forward.

Fund Market Value

8. The Fund had a market value of £6.4 billion as of 31 December 2022, an increase of £0.1 billion since 30 September 2022.
9. Over the quarter the Fund returned 2.0%, which was an outperformance of 1.7% versus the Fund's Strategic Asset Allocation benchmark return of 0.3%. The best performing asset classes relative to their benchmark were property and active global equities. Although property generated a negative return of -7.8% over the quarter, this was much better than the benchmark which had a negative return of -14.6% in the same period. The highest absolute returns were from UK equities, returning +8.9% over the quarter.
10. Longer term, the Fund has outperformed its Strategic Asset Allocation benchmark return over a 1, 3, 5 and 10-year period. Annualised returns over 10 years are 9.0% per annum, well above the investment return assumptions used by the Actuary as part of the triennial valuation.

Portfolio of Investments at 31 December 2022

11. A copy of the Staffordshire Pension Fund's portfolio of investments at 31 December 2022 is attached at Appendix 1.

Rob Salmon
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Background Documents:
Portfolio Evaluation Performance Measurement Data