

PENSIONS PANEL – 5 SEPTEMBER 2023

Report of the Director of Finance

PENSION FUND INVESTMENT PERFORMANCE 2023/24

Purpose of Report

1. To provide, for information;
 - (a) a summary of performance of the Staffordshire Pension Fund at 30 June 2023; and
 - (b) a portfolio of the Pension Fund’s investments at 30 June 2023 (Appendix 1).

Performance Summary

2. Fund performance for the first quarter of the current financial year is shown in the table below:

Period	Fund	Benchmark	Relative Performance
	%	%	%
June 2023 Quarter	1.7	2.0	-0.3

3. Global equities continued to perform well in the second quarter of 2023, with the MSCI World Index rising by 6.8%, despite the volatility caused by the collapse of First Republic Bank, the US debt ceiling crisis, ongoing geopolitical instability, high inflation, and continued uncertainty over interest rates. Almost the entirety of the increase in the MSCI Index occurred in June (6.1%) with April and May being broadly flat. The Index continues to be led by large US technology stocks with the ‘Magnificent 7’ (e.g., Amazon, Microsoft, Apple etc) significantly outperforming the Index due to enthusiasm for Artificial Intelligence.
4. In the US, the Federal Reserve (Fed) delivered a May rate increase of 0.25% during the quarter, leaving the Federal funds target range at 5.00% - 5.25%, but with two more forecast rate rises to come during the year. US inflation remains persistent, and unemployment has increased slightly with indications that consumer spending is tightening.
5. UK equities were negative over the quarter, as the UK market is heavily weighted towards commodity companies, which performed poorly. UK inflation remained the highest of the developed markets, with headline inflation flat at 8.7% in May and core inflation rising to 7.1%. Pay growth figures released in the quarter were high at 7.7% whilst GDP remained relatively flat at 0.2%. In response to the inflation shock, the Bank of England raised interest rates by 0.25% in April and then surprised the market with a 0.50% hike in June, taking the policy rate to 5.0%.

6. The Eurozone narrowly avoided a technical recession during the quarter, as revised data showed GDP in the bloc was flat in Q1 2023, after a 0.1% fall in Q4 2022. Headline CPI in the bloc fell to 5.5% in June, down from 6.9% in March. Core inflation remained above 5.0%, leading the European Central Bank to raise its main refinancing rate to 4.0%, its highest level since 2008.
7. In Asia-Pacific, Japan was the best performing major equity market in local currency terms, both over the recent quarter and over the first half of the year. Weakness in the yen supported Japanese stocks, many earning a significant proportion of profits abroad. Moreover, revised data showed GDP growing at an annualized rate of 2.7% during the first quarter of 2023, fuelled by increased spending. In China, the post-pandemic recovery cooled down after its initial reopening rally, holding back emerging market stocks during the period.

Fund Market Value

8. The Fund had a market value of £6.746 billion as of 30 June 2023, an increase of £0.111 billion since 31 March 2023.
9. Over the quarter the Fund returned 1.7%, underperforming its Strategic Asset Allocation benchmark return of 2.0%, by 0.3%. Listed equities were the highest performing asset class over the quarter, notably global passive equities. Private equity was the biggest detractor from performance, after performing strongly for the past few years. Index Linked Gilts also generated negative returns in the face of high inflation and increasing interest rates.
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 8.5% per annum, above the investment return assumptions used by the Actuary as part of the triennial valuation.

Portfolio of Investments at 30 June 2023

11. A copy of the Staffordshire Pension Fund's portfolio of investments at 30 June 2023 is attached at Appendix 1.

Rob Salmon - Director of Finance

Contact: Tim Byford, Strategic Investment Manager
Telephone No. (01785) 278196

Background Documents:
Portfolio Evaluation Performance Measurement Data