

PENSIONS PANEL – 5 DECEMBER 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 September 2023; and
 - (b) a portfolio of the Pension Fund’s investments at 30 September 2023 (Appendix 1).

Performance Summary

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

Quarter Ending	Fund	Benchmark	Relative Performance
	%	%	%
June 2023	1.70	2.00	-0.30
September 2023	-0.46	0.42	-0.88
2023/24 year to date	1.09	2.40	-1.31

3. Global equity markets fell in quarter 3 2023, with the MSCI All World Index (USD) falling 3.4%. Whilst forward earnings expectations for the Index continued to grow, concerns over a higher-for-longer interest rate environment in the US and a stuttering economic recovery in China, weighed on sentiment. Bond markets provided little protection for investors with the Bloomberg Global Aggregate Index falling 2.8% as long-term US Government Bond yields hit their highest levels since 2007.
4. Continued strong US economic data and rising oil prices pushed back market expectations for interest rate cuts into the second half of 2024. This ‘higher for longer’ narrative was reflected in a steepening of the US yield curve, where the yield on the US 10-year bond rose over 0.75% in the quarter, to 4.6%, the highest level since October 2007. Also, the yield on thirty-year fixed rate mortgages in the US reached 7.7%, the highest level since 2000. Technology stocks particularly suffered due to the the higher interest rates, with the technology heavy Nasdaq Composite, which peaked in mid-July 2023 at 38% above its start of year level, falling 8% from this high to the end of the quarter. The rise in oil prices and interest rates did help the Energy and Financial sectors though, with many stocks from both sectors outperforming the index average in the quarter.

5. The UK equity market was the second strongest performer regionally after Japan in quarter 3 2023, in part thanks to a relatively large tilt towards the energy sector, which was supported by a sharp rise in oil prices. Headline inflation in the UK fell to 6.7% in August, its lowest level since Russia's invasion of Ukraine in 2022. Subsequently, the Bank of England (BoE) decided to hold rates, at 5.25%, in its September meeting for the first time in around two years.
6. Eurozone inflation continued its downward trend as consumer prices rose 4.3% year on year in September, the slowest pace since October 2021 and a sharp deceleration from 5.2% in August. The inflation data bolstered hopes that the European Central Bank's (ECB) September 2023 rate increase would be the last.
7. In Asia-Pacific, Japan was the best performing major equity market in local currency terms over the quarter. In China, the post-pandemic macroeconomic recovery has disappointed investors and renewed concerns about the state of the property sector weighed on sentiment, despite several new stimulus measures announced over the quarter. Even though the Chinese economy showed some positive signs in September, weakness in the property market is expected to continue to be a drag on consumption going into 2024.

Fund Market Value

8. The Fund had a market value of £6.744 billion as of 30 September 2023, a decrease of £0.002 billion since 30 June 2023.
9. Over the quarter the Fund returned -0.46%, underperforming its Strategic Asset Allocation benchmark return of 0.42%, by -0.88%. Infrastructure was the highest performing asset class over the quarter whilst Index Linked Gilts generated the largest negative return, due to continuing high inflation and increasing interest rates.
10. Longer term, the Fund has outperformed its Strategic Asset Allocation benchmark return over the 1-, 3- and 5-year periods. Annualised returns since inception stand at 7.72% per annum, well above the investment return assumptions used by the Actuary as part of the triennial valuation.
11. A copy of the Staffordshire Pension Fund's portfolio of investments at 30 September 2023 is attached at Appendix 1.

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Background Documents:
Northern Trust Performance Report