

PENSIONS PANEL – 5 MARCH 2024

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 31 December 2023; and
 - (b) a portfolio of the Pension Fund’s investments at 31 December 2023 (**Appendix 1**).

Performance Summary

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

Performance for Quarter Ending	Fund %	Strategic Benchmark %	Relative Performance %
June 2023	1.70	2.00	-0.30
September 2023	-0.46	0.42	-0.88
December 2023	5.63	5.28	0.35
2023/24 year to date	6.78	7.81	-1.03

3. Global equity markets rallied in the third quarter of 2023/24 with the MSCI ACWI Index rising by 11.4%. This was due to the ‘higher-for-longer’ interest rate narrative that dominated the previous quarter, giving way to a belief that the Federal Reserve (Fed) in the US would lower rates sooner than previously expected as high inflation had been tamed. The rally was broad based geographically with China and the Energy sector the only notable exceptions.
4. The ‘higher-for-longer’ interest rate narrative that opened the third quarter of 2023/24, dominated the first few weeks of October, with the US 10-year treasury yield exceeding 5.0% for the first time since 2007. With this landmark passed, bond yields then fell considerably towards the calendar year-end, following various indications that the Fed had reduced its expectations for holding interest rates high. The fall in bond yields also led to US dollar weakness with the US Dollar Index falling 2% over the quarter but nearly 5% from the intra quarter high.
5. UK equities rose over the quarter as they rebounded from weakness in the previous three-month period; although the strength of the pound and high exposure to energy stocks led to the UK equity marking underperforming global markets. Domestically focused stocks fared better, amid signs of

improving UK consumer confidence and hopes that base interest rates may have peaked, as CPI fell to 3.9% in November.

6. Q4 2023 was also a strong quarter for Europe, with the MSCI EMU Index rising 7.8%. As with global stocks, the rising market was supported by lower inflation figures and the belief that interest rates may have hit their high for the economic cycle. Eurozone inflation fell from 2.9% in October to 2.4% in November.
7. Asia (excluding Japan) equities gained in the fourth quarter of 2023/24 but lagged developed markets. All markets in the MSCI AC Asia ex Japan Index ended the quarter in positive territory apart from China, where shares fell due to investor concerns over weaker economic growth. There were fears that stimulus measures by the Chinese government may not be sufficient to spur growth in the world's second-largest economy. The ongoing real estate crisis and uncertainty over China's regulatory regime also weakened sentiment towards Chinese stocks.

Fund Market Value

8. The Fund had a market value of £7.169 billion as of 31 December 2023, an increase of £0.425 billion since 30 September 2023 and its highest reported market value to date.
9. Over the quarter the Fund returned 5.63%, outperforming its Strategic Asset Allocation benchmark return of 5.28%, by 0.35%. Private Debt was the highest performing asset class compared to benchmark over the quarter whilst Global Active Equities generated the lowest comparative return, due to the positioning of managers portfolios.
10. Longer term, the Fund has outperformed its Strategic Asset Allocation benchmark return over the 3- and 5-year periods. Annualised returns since inception stand at 7.86% 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 31 December 2023 is attached at **Appendix 1**.

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Background Documents:
Northern Trust Performance Report