WIRRAL COUNCIL

PENSIONS BOARD

14 SEPTEMBER 2020

SUBJECT:	**INVESTMENT PERFORMANCE 2019-20**
WARD/S AFFECTED:	**NONE**
REPORT OF:	**DIRECTOR OF PENSIONS**
KEY DECISION?	**NO**

1.0 EXECUTIVE SUMMARY

1.1 This report sets out the investment performance of Merseyside Pension Fund for the fiscal year ended March 2020.

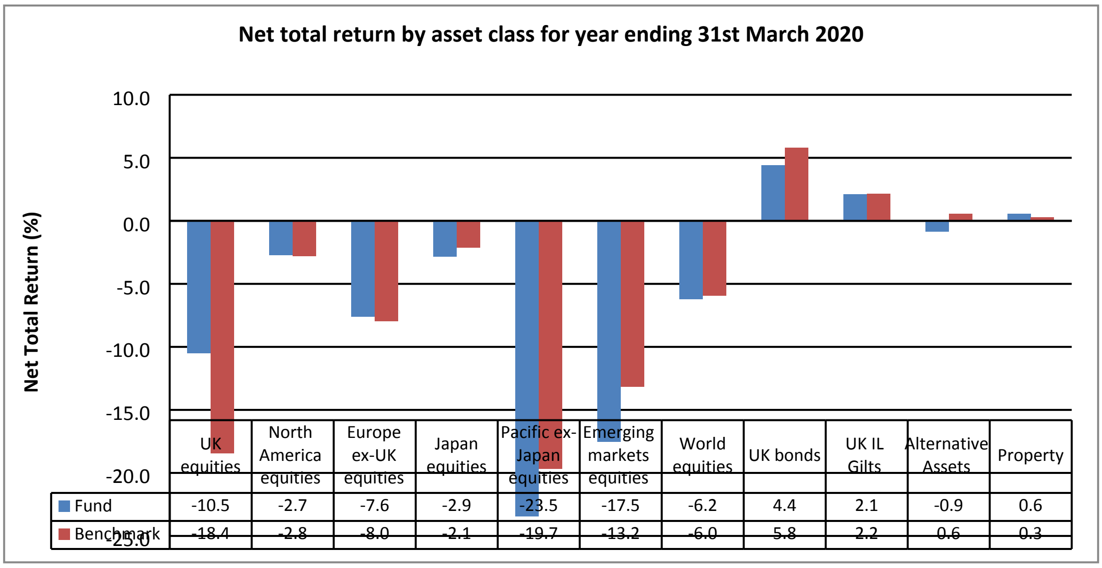
2.0 BACKGROUND AND KEY ISSUES

2.1 The Fund returned -2.1 per cent in the financial year to the end of March 2020 compared to its bespoke benchmark return of -5.9 per cent, an outperformance of 3.8 per cent. This was behind the Consumer Price Index and the increase in Average Earnings which advanced by 1.5% and 2.4% respectively. Longer-term numbers are set out in the table below.

Table 1

	1 year	3 year (annualised)	5 year (annualised)	10 year annualised)
MPF	-2.13	2.35	5.68	7.15
Benchmark	-5.87	0.53	3.58	5.52
Relative return	3.98	1.81	2.03	5.14

2.2 The Fund's 1-year investment performance against its benchmarks across all asset classes is illustrated in the chart below.



	UK equities	North America equities	Europe ex-UK equities	Japan equities	Pacific ex-Japan equities	Emerging markets equities	World equities	UK bonds	UK IL Gilts	Alternative Assets	Property
Fund	-10.5	-2.7	-7.6	-2.9	-23.5	-17.5	-6.2	4.4	2.1	-0.9	0.6
Benchmark	-18.4	-2.8	-8.0	-2.1	-19.7	-13.2	-6.0	5.8	2.2	0.6	0.3

The global economy experienced a slower pace of growth in 2019 as the introduction of tariffs by the US and the inevitable response from China had a sizable impact on global trade. The bigger hit was taken by China as both their imports and exports fell substantially. So, whilst economic momentum was supported by domestic activity, the rate of expansion for China during the second quarter of the year was at the slowest pace since 1992. Knock on effects of the dispute reverberated through to other regions, particularly those most open to trade, such as Japan, South Korea and Singapore. In Europe, Germany narrowly avoided a recession as their manufacturing sector felt the strain. Fortunately, the demand for services across developed countries, particularly in the US, remained robust, being sustained by high employment levels and real wage growth.

Somewhat perversely, President Trump’s trade war with China worked to drive financial markets higher through 2019. The slower global growth was the spur for a significant change in policy from the US Federal Reserve and it was this element that lifted the spirits of equity and bond investors. In early 2018, expectations were set for a continuation of interest rate hikes that would have taken the US Federal Funds rate beyond the 2% – 2.25% range that prevailed at the beginning of the year, but as global growth slowed into the Spring of 2019, the US Federal Reserve hinted towards a looser monetary stance. On 1 August it implemented the first of three 0.25% cuts. To the delight of investors this more accommodative stance was followed by easing measures elsewhere as the European Central Bank acted by cutting its official interest rate into even deeper negative territory and Central Banks across Asia and Latin America made cuts to their key lending rates. For UK markets, investors had to contend with the additional uncertainties brought on by the UK’s decision to leave the European Union.

The biggest shock to the markets, however, came during the opening quarter of 2020 when the world’s attention moved firmly to the emergence and spread of the Covid-19 pandemic. As infection rates and deaths spread across the globe, governments took drastic action to contain the virus causing economic activity to virtually stall. All of this had a crushing effect on investor risk appetite and global equities, which had reached a new high only on 17 January, fell by over 30% in Sterling terms in the period of a month.

Thankfully, governments and monetary authorities across the globe, responded quickly to the crisis. The US Federal Reserve cut interest rates by 150 bps in March and announced plans to restart asset purchases and support market liquidity. US Congress passed a $2.2 trillion spending bill to help firms and individuals impacted by shutdown measures. In the UK, the Bank of England cut rates from 0.75% to 0.10%. Meanwhile, the Government announced a huge fiscal package, stating that it would pay temporarily laid-off employees up to 80% of their salaries (capped at £2,500 per month). Sterling briefly dropped to a low against the dollar that was last seen in the 1980's.

Given the macro environment it is unsurprising that equity markets across all regions delivered negative returns for the one-year period to the end of March 2020. Japan and North America fared better than other regions as both equity markets have large exposures to technology companies which in some instances are beneficiaries of an economy in lockdown. The other end of the performance table is occupied by UK equities, Asia Pacific equities and Emerging Market Equities, which fell by 18.7%, 19.4% and 13.2% respectively.

These regions have greater exposure to cyclical sectors of the economy where the Covid-19 impact was most acutely felt such as Energy, Commodities, Banking and Airlines.

Bond markets reflected investor preference for defensive assets and UK government bonds (Gilts) provided returns to investors of 9.9% over the period. Corporate bond performance, whilst positive at +1.5%, was not quite so stellar as credit spreads over government bonds widened in Q1 of 2020 and some borrowers, such as Ford, Lufthansa and Heinz had their debt downgraded to below investment grade.

On 15 April 2019, the Fund implemented the first of a series of derivative trades aimed at protecting the equity portfolio in the event of a significant market downturn. The trades were implemented at a most opportune time given the sharp corrections experienced through February and March of 2020 and this strategy was the main contributor to the strong overall performance of the Fund against its benchmark.

3.0 RELEVANT RISKS

3.1 The performance of the Fund, relative to its benchmark, is a key indicator of the successful implementation of the Fund's investment strategy which is established with a view to meeting the Fund's longer term liabilities.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 Not relevant for this report

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are none arising from this report.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 There are none arising directly from this report.

9.0 LEGAL IMPLICATIONS

9.1 There are none arising from this report.

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are none arising from this report.

13.0 RECOMMENDATION/S

13.1 That Members note the report.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 The performance of the Fund, relative to its benchmark, is a key indicator of the successful implementation of the Fund's investment strategy which is established with a view to meeting the Fund's liabilities over the long-term.

REPORT AUTHOR: **PETER WALLACH**
Director of Pensions
telephone (0151) 2421309
email peterwallach@wirral.gov.uk

APPENDICES

Pooling update and minutes of Joint Committee meeting 6 February 2020.

BACKGROUND PAPERS/REFERENCE MATERIAL

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
An update report is brought to each Pensions Committee	