



REPORT PREPARED FOR
Oxfordshire Pension Fund Committee

8 September 2023

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Summary

The value of the Fund in the quarter rose to £3.21bn, an increase of £53m compared to the end March value of £3.15bn. The Fund produced a return of 1.4% over the quarter, which was in line with the benchmark. The flat return has some pluses and minuses, including negative relative returns from Sustainable Global Equities and Emerging Markets, but balancing positives within Fixed Income. Over a 12-month period the Fund recorded a negative relative return against the benchmark of -1.5% (4.6% v.6.1%). Although the scale of the recent underperformance has now eased somewhat, there is still an impact on the longer-term performance periods, now behind the benchmark over the three and five year periods and in line over the ten year period, details of which can be found below.

The highlights

1. It is encouraging to see another lift in value for the Fund over the first quarter of the 2023-24 financial year. The flat relative performance is disappointing in some ways, but hopefully this will be a turning point towards less turbulent times ahead.
2. Bond valuations are still under pressure, but higher yields are providing a welcome entry point as we seek to rebalance weightings in this area.
3. The listed Private Equity portfolio had an excellent quarter, with all stocks significantly outperforming the FTSE All Share Index. This was primarily due to the reassurance provided by end 2022 audited valuations that showed that Net Asset Values have held up very well during the uncertainties of last year.
4. The rapidly growing Private Debt sector is seeing further excellent business opportunities as the traditional banks are once again under regulatory scrutiny.

The lower points

1. I note with concern that within their latest report Brunel now consider that the 3 month performance data for Private markets is “Not Material” and has been excluded. While it is important not to attach too much significance to short term performance information, particularly within Private Markets, I do not consider they should control the information flow to Members in this way. It is available in their private reports and within the State Street report that Members do not usually have sight of. For the record returns for this quarter were almost universally negative, with the exception of Private Debt. Not good from a transparency perspective.
2. I ask you to note the comments made by the Brunel CIO in his report relating to the impact on performance of Global Equities that is exerted by the very largest US companies in the All World indices, and in particular the potential influence that Apple alone has on performance. It’s a “lower point” because of the concentration risk that this poses.
3. This theme is developed further within the report on Sustainable Global Equities. Only one manager out of the roster of 5 outperformed over the quarter (Mirova), as they held sizeable positions in two of the “Magic 7” mega stocks. The distortion on

the Index makes it very difficult for active managers to take a strong stance against these names, but in simple terms one day they will fall to earth (remember Nokia?). The question is, when? I do wonder if managers should seek to hedge their positions for or against ownership of these stocks, at least in part. If not the managers, then maybe Brunel or Funds should consider this.

Points for consideration

1. Clearly we have just gone through the disciplined process of the Strategic Asset Allocation review, with some useful developments in the portfolio of Equity investments flowing from that in terms of maintaining a balanced portfolio which are increasingly aligned with Fund's investment beliefs. A good example of that is the decision to reduce exposure to the China market to an absolute minimum. Other issues will develop over time, so constant monitoring of those is important. The dominance of a small number of stocks in the global market is a good example of this.
2. Likewise maintaining a balanced view concerning the transition from fossil fuel dependency is essential from the fiduciary and environmental duty perspective. There is a growing realisation that achieving an absolute Net Zero emissions position globally is increasingly unlikely in the near term. In the meantime, it is the duty of responsible investors to ensure that legacy fuel assets are managed in an appropriate manner, rather than allowing those assets to fall into the hands of irresponsible investors who have no interest in environmental issues.
3. Once the staff recruitment and retention issues at Brunel are resolved, a plan for investigating and progressing some of the outstanding outcomes from the Strategic Asset Allocation review needs to be agreed. This includes developing an appropriate strategy to investing more responsibly in the UK, both in listed and private markets.
4. It has been an ongoing concern of mine that Members have very limited access to the personnel at Brunel who manage the Fund investments on our behalf. I do not agree with a policy of a "Need to know" basis and that all information should flow via the Fund Officers. I was therefore disappointed to learn recently that the quarterly Performance Review meeting with Brunel's CIO might be discontinued, as apparently this is a duplication of reporting that already exists with Officers. Effectively this meeting is the only direct route for the Fund's Independent Investment Advisor to question Brunel representatives and if necessary to provide challenge to them.

Outstanding Action Points and Recommendations

Strategic Asset Allocation review

1. UK Equity exposure. It was agreed at the Pensions Committee meeting on 9th June that the discreet UK equity portfolio would be reduced to 20% of total equities and that while appreciating that Brunel has resource constraints at the current time, further research should be undertaken into the characteristics of companies represented within the FTSE 250 index, looking in particular at the Paris Alignment criteria and their contribution to and from the UK economy. Subject to satisfactory analysis, this would form the future discreet UK equity exposure.
2. Emerging Markets (EM) exposure. It was agreed at the Pensions Committee meeting on 9th June to divest from this sub Fund. The funds realised from the reduction in the UK exposure and from Emerging Markets would be reinvested in the Brunel Sustainable Equities Fund and the Paris Aligned Global Passive Equities Fund, such as to have an equal weighting in each.
3. Local Investment Proposals. Progress with considering possible options has again been hindered by lack of resource at Brunel. However, the Funds are continuing to look at possible local investment opportunities. As part of that and subject to checking the status of outstanding commitments in the Infrastructure portfolio, a commitment of £30m may be made to a renewable energy Fund investing in the Brunel geographical area with a particular focus on solar energy generation with associated battery storage facilities.

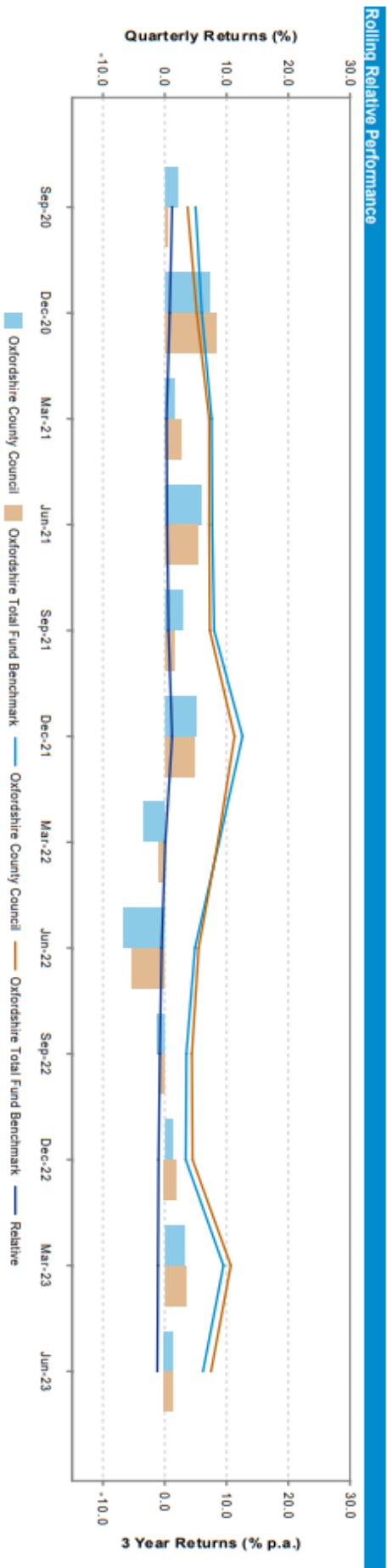
Other outstanding action points/recommendations

4. To progress a Brunel led training programme for Fund elected members and others that will provide information about the asset classes that they manage and their processes.
5. To work with Brunel to identify suitable income generating assets, both from within the existing portfolio and from potential new investments. This is to enable the Fund to manage potential cashflow challenges as and when they develop over the next five years, as flagged in the Strategic Asset Allocation review.
6. To consider the use of an equity protection strategy on a selective and as required basis to mitigate identified equity investment risks. An example of this is currently within the US market, with a high concentration risk in a small number of stocks.

Fund performance and rolling relative performance



	3 Month (%)	Fiscal YTD (%)	1 Year (%)	3 Year (% p.a.)	5 Year (% p.a.)	10 Year (% p.a.)	Since Inception (% p.a.)
Oxfordshire County Council	1.4	1.4	4.6	6.2	4.9	7.5	7.2
Oxfordshire Total Fund Benchmark	1.4	1.4	6.1	7.5	5.5	7.6	7.5
Excess	0.0	0.0	-1.5	-1.3	-0.6	-0.1	-0.3



OXFORDSHIRE COUNTY COUNCIL PENSION FUND
OVERALL VALUATION OF FUND AS AT 30 JUNE 2023

Investment	COMBINED PORTFOLIO 31.03.2023		COMBINED PORTFOLIO 30.06.2023		Target %
	Value £' 000	% of Total Value	Value £' 000	% of Total Value	
EQUITIES					
UK Equities	508,239	16.1%	506,778	15.8%	10.0%
Emerging Market Equities					
Global Equities					
Overseas Equities					
Total Overseas Equities	1,215,443	38.5%	1,253,618	39.1%	41.0%
BONDS					
UK Gilts	19,421	0.6%	18,463	0.6%	
UK Corporate Bonds	121,613	3.9%	118,410	3.7%	
Overseas Bonds	11,148	0.4%	11,074	0.3%	
Index-Linked	167,642	5.3%	154,595	4.8%	
Multi Asset - Credit	134,500	4.3%	136,968	4.3%	
Total Bonds	454,324	14.4%	439,510	13.7%	16.0%
ALTERNATIVE INVESTMENTS					
Property	217,719	6.9%	220,415	6.9%	8.0%
Private Equity	359,992	11.4%	386,620	12.1%	10.0%
Multi Asset - DGF	116,202	3.7%	67,729	2.1%	0.0%
Infrastructure	93,521	3.0%	94,122	2.9%	5.0%
Secured Income	94,714	3.0%	122,661	3.8%	5.0%
Private Debt	40,443	1.3%	50,244	1.6%	5.0%
Total Alternative Investments	922,591	29.3%	941,791	29.4%	33.0%
CASH	53,289	1.7%	65,585	2.0%	0.0%
TOTAL ASSETS	3,153,886	100.0%	3,207,282	100.0%	100.0%

Overview and Outlook thoughts

Global overview

Macroeconomic data was generally resilient globally in the quarter, with headline inflation falling in the US and Europe, and remaining steady in Japan. Labour markets remained surprisingly robust and GDP growth remains below trend, but generally positive. Chinese and European manufacturing data has softened in recent months leading to some concern over the anticipated post-COVID rebound for China. The UK was an exception to the disinflation trend, with inflation at an uncomfortably high 8.7% in May. Despite falling inflation, the US Fed and ECB continued to hike rates and maintain a hawkish posture because of tight labour markets and stubborn core inflation data. The Q1 banking crisis appears to have been contained, but there are signs of consumer credit card defaults starting to tick up, and it is likely that the effects of the interest rate increases will take time to filter into real economies.

•Q2 was another strong quarter for equities, with global equities (MSCI World) rising around +7% in local currency (+4% in GBP terms). Equity markets were led by growth-oriented stocks (+10.1% for growth, +2.2% for value) as investors jumped on board the new innovation of Artificial Intelligence (AI). Japanese equities performed particularly strongly (+18.5% in local currency, and up +5.9% in GBP terms), as the Bank of Japan has maintained a more accommodative policy than its peers. The Tokyo Stock Exchange has also urged listed companies to become more focused on value creation, such as using cash stockpiles to remedy the low book values to market capitalisations. The combination of the very weak JPY and potential corporate governance improvement has attracted investors to the region. US equities returned just under +5%, though gains have been very concentrated in a few large tech stocks, leaving the rest of the index flat. UK equities, on the other hand, have lagged peers (slightly down in Q2) after a relatively strong 2022, and markets view more risk of recession and negative impacts to employment than for some other developed markets. Bonds, too, faced headwinds as interest rates continued to rise with central banks not yet ready to signal a shift in direction in the fight to reduce inflation. Global investment grade credit was flat over the quarter, but UK long index-linked gilts fell around -10% as yields jumped higher in light of stubborn inflation, and investors now expect UK rates to peak above 6%. Energy prices softened further (oil down -6%), while GBP has continued to strengthen against both JPY and USD, retracing a fair amount of its weakness during 2022.

Quarterly GDP Growth Rate and Monthly CPI

%	GDP		CPI		
	Q1 2023	Q2 2023	Apr	May	Jun
UK	0.1	0.1**	8.7	8.7	n/a*
US	0.5	n/a*	4.9	4.0	n/a*
Eurozone	-0.1	0.3**	7.0	6.1	5.5**
Japan	0.7	1.1**	3.5	3.2	n/a*

Source: Bloomberg; Trading Economics. Notes ** Forecasts based on leading indicators

UK: UK CPI EU Harmonised YoY NSA (Ticker: UKRPCJYR Index); US: US CPI Urban Consumer YoY NSA (Ticker: CPI YOY Index); Eurozone: Eurostat Eurozone MUICP All Items YoY Flash Estimate (Ticker: ECCPEST Index); Japan: Japan CPI Nationwide YOY (Ticker: JNCPIYOY Index)

Outlook thoughts

It is worth highlighting the following themes, impacting investment markets:

Credit spreads indicate a sanguine sentiment to risk. Credit spreads have tightened since the March banking crisis with US investment grade credit spreads ending Q2 at 120bps, having reached a year to date high of 165bps in March. US high yield bonds spreads have similarly tightened, from a high of 516bps, to 392bps at quarter end, despite incipient signs of rising delinquencies. In the first half of 2023, for example, US Chapter 11 bankruptcies have risen sharply on the same period last year.

Inflation – heading towards target, but core inflation proving sticky. The UK was again the outlier in the quarter with annual CPI only falling to 8.7% in the quarter, compared to 4.0% for the US and 5.5% for Eurozone. However, core inflation (excluding energy and food prices) has been telling a different story. UK core inflation has worryingly risen to a new high at 7.1% in Q2, while US core inflation is now above headline inflation at 5.3% and has only slowly decreased from 6.0% 12 months prior. Similarly Eurozone core inflation rose in June to 5.4% and is well above the 3.8% figure of 12 months ago. This all suggests the high inflation / high rates environment may last for rather longer than currently discounted.

A narrow range of stocks is driving global equities performance. In May, Nvidia announced a vastly improved earnings forecast (50% above Wall Street consensus for Q2) driven by the demand for high specification chips used by entities pursuing AI efforts. This prompted a 52% rise in the share price over Q2, and has been emblematic of the recent attention investors are paying to companies with any form of potential for AI products. Indeed, Nvidia, Tesla and Meta have risen by 196%, 142%, and 130% respectively over the year to date. This characteristic, of performance being concentrated in a narrow number of stocks can be symptomatic of the late phases of equity bull markets.

Equity valuations rise despite earnings risk. Equities rose for another quarter, despite analysts' forecasting S&P 500 Q2 earnings declining 7.2% on the year prior. This has led the forward earnings ratio for the S&P 500 to rise to 18.9x, from 17.8x in Q1, and comfortably above its 10-year average of 17.4x. Profit margins for US equities have declined to c.12%, from 14% in 2021 but remain above longer term averages and equity markets appear to be looking past the potential effects of high interest rates and discounting a "soft landing" scenario. This would seem to leave the asset class exposed to disappointment.

Equities

Global equities rose sharply in Q2, led by US and Japanese equities for varying reasons. The VIX declined over the quarter from 19 to 14, well down on its average level of 21 for the 5 calendar years 2017 to 2022.

In the US, the S&P 500 rose by +8.7% and the NASDAQ soared by +15.2%. Markets rallied as enthusiasm for AI boosted a number of stocks and an upward adjustment to the Q1 annualised GDP figure (from 1.3% to 2.0%) provided support to the view that the US economy may avoid a recession or 'hard landing' despite the sharp rise in interest rates.

UK equities fell -0.4% and underperformed global equities. Inflation has remained too high in the UK for the Bank of England, resulting in the base rate being raised to 5.0%, from 4.25% at the end of Q1. The BoE had slowed the pace of rate rises from 50bps to 25bps, but

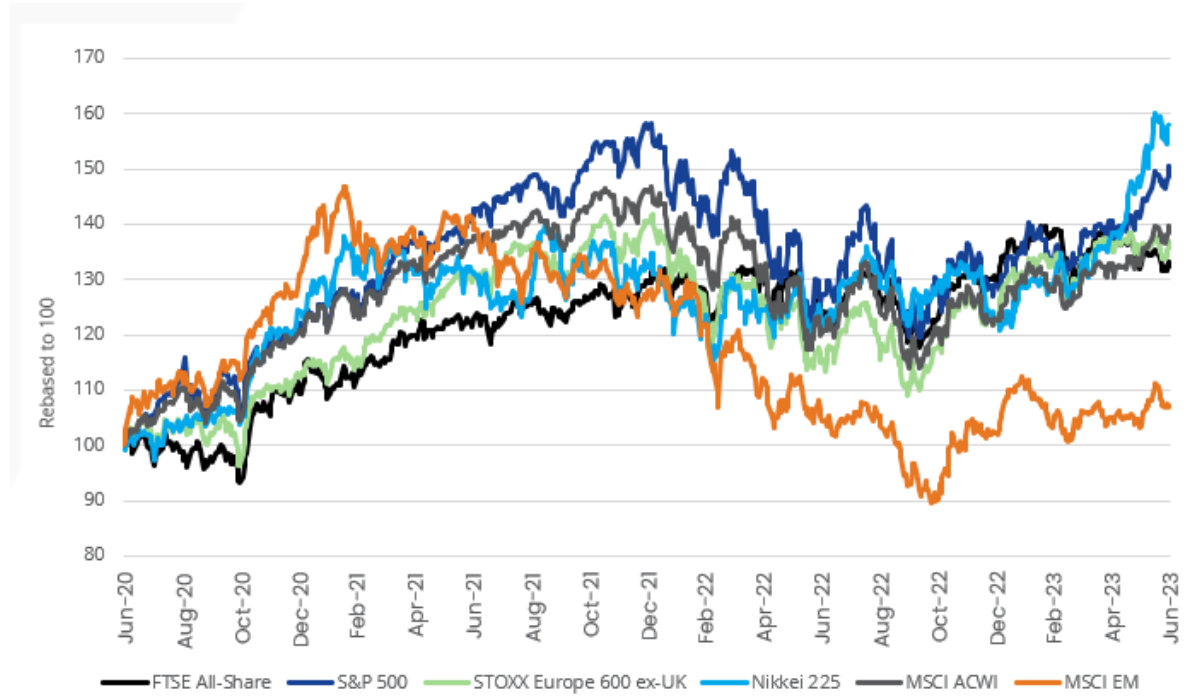
moved back to a 50bps rise in Q2. UK CPI was 8.7% in May, well above the 6.1% figure for the Eurozone.

The Euro Stoxx 50 rose by 4.2% in Q2. Economic data was better than expected with inflation continuing to move downwards, although the ECB has maintained a hawkish rhetoric. The composite PMI has however been declining in Q2 and in June fell just into contractionary territory at 49.9.

Japanese equities continued their strong run, rising by +18.5% in Q2. A weakening JPY has boosted exporters, as the BoJ maintains very accommodative monetary policy with core inflation currently at 3.2%, as well as the mentioned prospective corporate governance reform. The yen fell 8.6% vs the USD over the quarter.

Emerging market equities rose +1.0%, underperforming global equities as Chinese stocks fell. Investors had previously pinned hope on a rebound in Chinese stimulus and growth which had propelled Chinese equities in late 2022 and early 2023; however the country has not yet provided meaningful policy stimulus.

Global Equity Markets Performance



Source: Bloomberg. All in local currency.
FTSE All-Share Index (Ticker: ASX Index) S&P 500 Index (Ticker: SPX Index) STOXX Europe 600 (Ticker: SXXP Index)
Nikkei 225 Index (Ticker: NKY Index) MSCI World Index (Ticker: MXWO Index) MSCI Emerging Markets (Ticker: MXEF Index)

Fixed Income

Medium- and longer-term bond yields rose over the quarter, generally rising with rate hikes from central banks resulting in negative performance for government bonds. The US yield curve inversion as measured by the 10 year–2 year ended the quarter at -106bps, as short and mid term rates rose more so than longer bond yields. In corporate bonds, high-yield credit outperformed as credit spreads tightened over the quarter. Emerging market bonds rose 2.7% in local currency, and 2.2% in hard currency.

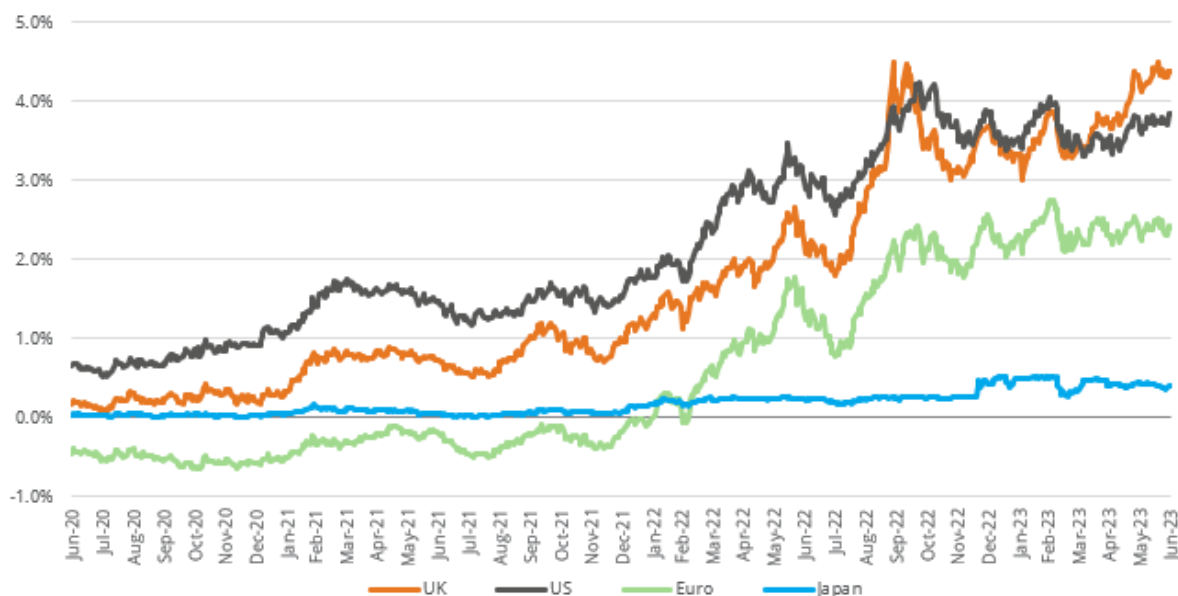
The US 10-year Treasury yield rose in Q2, ending at 3.81% from 3.48%. US rates rose steadily through the quarter, with US GDP being revised upwards for Q1 and job openings (JOLTS) at a strong 9.8 million, compared to 7.2 million in January 2020. The Fed raised their policy rate by 0.25% just once in the quarter (to 5.0%-5.25%).

The UK 10-year Gilt yield rose sharply from 3.49% to 4.39% and 2-year from 3.44% to 5.27%. Over the quarter, the spread between UK and German 10 year bond yields widened, reflecting the increased stress viewed on the UK economy (UK 10p approx. +200bps now vs +120bps in Q1, and close to the +228bps in September 2022 during the 'mini budget'). The BoE hiked rates by 25bps two times in the quarter.

European government bonds returns were flat in Q2. Yield curves steepened further over Q2, as short end rates rose with rate hikes with the main refinancing rate now at 4.0% (up from 3.5%), while longer term bond yields were little changed. The German 10-year bund yield rose to 2.39% from 2.29%, while Italy's fell from 4.09% to 4.07%.

US high-yield bonds outperformed investment grade, returning +1.7% and -0.3% respectively. European high-yield bonds returned 1.8%, outperforming the 0.2% for European investment grade and -3.1% for UK investment grade.

Government Bond Yields



Source Bloomberg. US Generic Govt 10 Year Yield (Ticker: USGG10YR Index); UK Govt Bonds 10 Year Note Generic Bid Yield (Ticker: GUKG10 Index); Euro Generic Govt Bond 10 Year (Ticker: GECU10YR Index).

Currencies

In currencies, sterling strengthened against the US dollar (+3.0%) and the euro (+2.3%) over the quarter, as the ongoing high and uncertain inflation in the UK is viewed as requiring a more lengthy period of tighter monetary policy. The US dollar rose modestly in Q2 (Dollar index +0.4%).

Commodities

Energy prices were mixed over Q2, as gas prices rebounded somewhat although still sharply down from the pre-winter figures. Oil prices have traded down driven by concerns over global growth and oil demand.

US gas prices rose 26% in Q2. Prices have fallen dramatically from their 2021/ 2022 peaks. Brent crude oil fell -6.1% over Q2, to \$75 per barrel. Falling prices since 2022 has triggered various OPEC+ announcements of production cuts which have thus far only resulted in small reactions from the market. The US released oil from its Strategic Petroleum Reserve in 2021/ 2022 to meet demand and address high prices, but has yet to restock the inventory. Gold and Copper fell -2.0% and -8.6% respectively over Q2. Gold fell as investors returned to risk assets, and with high yields available on cash alternatives. Copper fell over the quarter from a high in April, with the growth outlook for China a headwind. Gold and Copper closed Q2 at 1,929 USD/toz and 374 USD/lb, respectively.

Property

Global listed property continued to decline, with the FTSE EPRA Nareit Global Index falling - 2.4% in Q2.

The Nationwide House Price Index in the UK has continued its decline, with the price index down -0.3% for the quarter, and down -3.5% on annual basis.

European commercial property has also continued to decline in the face of higher interest rates, with the Green Street Commercial Property Price Index down by -2.3% this quarter and -15.9% over the past 12 months.

Key Indicators at a Glance

Index (Local Currency)		Q2 2023	Q2	YTD
Equities		Total Return		
UK Large-Cap Equities	FTSE 100	7,532	-0.4%	1.7%
UK All-Cap Equities	FTSE All-Share	4,096	-0.6%	1.1%
US Equities	S&P 500	4,450	8.7%	17.3%
European Equities	EURO STOXX 50 Price EUR	4,399	4.2%	17.2%
Japanese Equities	Nikkei 225	33,189	18.5%	30.5%
EM Equities	MSCI Emerging Markets	989	1.0%	5.0%
Global Equities	MSCI World	2,967	7.0%	15.2%
Government Bonds				
UK Gilts	FTSE Actuaries UK Gilts TR All Stocks	2,913	-5.4%	-3.5%
UK Gilts Over 15 Years	FTSE Actuaries Uk Gilts Over 15 Yr	3,481	-8.3%	-5.8%
UK Index-Linked Gilts	FTSE Actuaries UK Index-Linked Gilts TR All Stocks	3,897	-6.6%	-2.6%
UK Index-Linked Gilts Over 15 Years	FTSE Actuaries UK Index-Linked Gilts TR Over 15 Yr	4,298	-10.2%	-5.8%
Euro Gov Bonds	Bloomberg EU Govt All Bonds TR	214	0.0%	2.5%
US Gov Bonds	Bloomberg US Treasuries TR Unhedged	2,223	-1.4%	1.6%
EM Gov Bonds (Local)	J.P. Morgan Government Bond Index Emerging Markets Core Index	133	2.7%	7.6%
EM Gov Bonds (Hard/USD)	J.P. Morgan Emerging Markets Global Diversified Index	836	2.2%	4.1%
Bond Indices				
UK Corporate Investment Grade	S&P UK Investment Grade Corporate Bond Index TR	327	-3.1%	-0.8%
European Corporate Investment Grade	Bloomberg Pan-European Aggregate Corporate TR Unhedged	218	0.2%	2.2%
European Corporate High Yield	Bloomberg Pan-European HY TR Unhedged	408	1.8%	4.8%
US Corporate Investment Grade	Bloomberg US Corporate Investment Grade TR Unhedged	3,063	-0.3%	3.2%
US Corporate High Yield	Bloomberg US Corporate HY TR Unhedged	2,304	1.7%	5.4%
Commodities				
Brent Crude Oil	Generic 1st Crude Oil, Brent, USD/bbl	75	-6.1%	-12.8%
Natural Gas (US)	Generic 1st Natural Gas, USD/MMBtu	2.8	26.3%	-37.5%
Gold	Generic 1st Gold, USD/toz	1,929	-2.0%	5.7%
Copper	Generic 1st Copper, USD/lb	374	-8.6%	-1.8%
Currencies				
GBP/EUR	GBPEUR Exchange Rate	1.1637	2.3%	3.0%
GBP/USD	GBPUSD Exchange Rate	1.2703	3.0%	5.1%
EUR/USD	EURUSD Exchange Rate	1.0909	0.6%	1.9%
USD/JPY	USDJPY Exchange Rate	144.3100	8.6%	10.1%
Dollar Index	Dollar Index Spot	102.9120	0.4%	-0.6%
USD/CNY	USDCNY Exchange Rate	7.25	5.5%	5.1%
Alternatives				
Infrastructure	S&P Global Infrastructure Index	2,697	-0.1%	3.5%
Private Equity	S&P Listed Private Equity Index	175	7.7%	13.5%
Hedge Funds	Hedge Fund Research HFRI Fund-Weighted Composite Index	17,684	-0.8%	0.9%
Global Real Estate	FTSE EPRA Nareit Global Index TR GBP	3,433	-2.4%	-4.4%
Volatility		Change in Volatility		
VIX	Chicago Board Options Exchange SPX Volatility Index	14	-27.3%	-37.3%

* All return figures quoted are total return, calculated with gross dividends/income reinvested.

Source: Bloomberg



Local Authority Fund Statistics

2022/23

ASSET ALLOCATION AT END MARCH

	Equity		Bonds		Alternatives		Property		Cash		Diversified Growth	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Average	51	52	17	18	19	17	9	9	2	2	2	2
Range												
Top Quartile	59	60	22	22	21	17	10	10	3	2	8	9
Median	54	54	17	18	13	11	8	9	1	1	0	0
Bottom Quartile	46	46	12	13	8	6	6	7	1	0	0	0

Oxfordshire Pension Fund 55 53 18 20 14 13 9 8 1 2 4 5

TOTAL FUND PERFORMANCE

	1 Year	Rank	3 Yrs	Rank	5 Yrs	Rank	10 Yrs	Rank	20 Yrs	Rank	30 Yrs	Rank
	(%p.a.)		(%p.a.)		(%p.a.)		(%p.a.)		(% p.a.)		(% p.a.)	
Universe Average	-1.6		9.5		5.9		7.3		8.4		7.7	
Range of Results												
Upper Quartile	-1.6		10.1		6.2		7.6		8.6		7.7	
Median	-3.3		9.2		5.7		7.2		8.3		7.5	
Lower Quartile	-4.6		8.0		5.1		6.6		7.8		7.3	

Oxfordshire Pension Fund -3.9 67 9.4 47 5.7 53 7.2 47 8.1 59 7.3 78

EQUITY PERFORMANCE

	1 Year	Rank	3 Yrs	Rank	5 Yrs	Rank	10 Yrs	Rank	20 Yrs	Rank	30 Yrs	Rank
	(%p.a.)		(%p.a.)		(%p.a.)		(%p.a.)		(% p.a.)		(% p.a.)	
Universe Average	0.0		14.5		7.6		8.8		10.0		8.4	
Range of Results												
Upper Quartile	0.0		15.1		8.7		9.6		10.3		8.6	
Median	-1.2		14.2		7.9		8.9		9.8		8.3	
Lower Quartile	-2.5		13.3		7.0		8.1		9.6		8.0	

Oxfordshire Pension Fund 0.4 23 14.2 47 7.0 76 8.2 69

BOND PERFORMANCE

	1 Year	Rank	3 Yrs (%p.a.)	Rank	5Yrs (%p.a.)	Rank	10 Yrs (%p.a.)	Rank	20 Yrs (% p.a.)	Rank	30 Yrs (% p.a.)	Rank
Universe Average	-9.1		-0.9		0.3		2.6		4.6		5.7	
Range of Results												
Upper Quartile	-4.0		1.9		0.6		2.9		4.7		5.9	
Median	-8.6		-0.7		-0.2		2.3		4.5		5.6	
Lower Quartile	-13.4		-3.1		-1.2		1.6		3.8		5.0	

Oxfordshire Pension Fund -16.0 80 -3.9 79 -0.7 58 2.3 41 4.6 43 5.6 45

ALTERNATIVE PERFORMANCE

	1 Year	Rank	3 Yrs (%p.a.)	Rank	5Yrs (%p.a.)	Rank	10 Yrs (%p.a.)	Rank
Universe Average	6.5		11.6		10.3		9.8	
Range of Results								
Upper Quartile	11.3		13.3		12.7		11.4	
Median	7.3		11.1		9.9		8.2	
Lower Quartile	3.5		8.0		8.1		6.9	

Oxfordshire Pension Fund -0.1 88 19.5 2 15.1 16 14.6 3

PROPERTY PERFORMANCE

	1 Year	Rank	3 Yrs (%p.a.)	Rank	5Yrs (%p.a.)	Rank	10 Yrs (%p.a.)	Rank	20 Yrs (% p.a.)	Rank	30 Yrs (% p.a.)	Rank
Universe Average	-7.9		2.9		3.2		6.8		6.0		7.8	
Range of Results												
Upper Quartile	-7.6		3.5		3.5		7.0		6.2		8.0	
Median	-10.4		2.4		2.5		6.6		5.4		7.4	
Lower Quartile	-13.9		1.4		1.9		5.8		4.8		6.6	

Oxfordshire Pension Fund -6.9 20 2.8 39 3.3 30 6.8 31 4.6 80 6.6 74

DIVERSIFIED GROWTH PERFORMANCE

	1 Year	Rank	3 Yrs (%p.a.)	Rank	5Yrs (%p.a.)	Rank
Universe Average	-4.0		5.3		2.5	
Range of Results						
Upper Quartile	-2.4		6.8		3.4	
Median	-3.5		5.0		2.6	
Lower Quartile	-6.2		3.8		1.4	

Oxfordshire Pension Fund -6.5 78 3.5 83 1.3 80

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Market thoughts



To finish off with some food for thought from one of the more insightful strategists, courtesy of Jeffries.

GREED & fear: The return of the oil factor

GREED & fear has been reminded of late about a previously identified correlation. For the renewed strength of the oil price has coincided with a renewed pickup in inflation expectations. This is potentially an awkward development in the context of the prevailing narrative that both the Federal Reserve and the ECB are all but done in this tightening cycle even if the official mantra in both cases remains “data dependent”.

The risk of such an outcome is one reason why GREED & fear has maintained energy stocks in the portfolios despite oil's recent slump. The best explanation for oil's decline in price in the first half of this year remains that the Biden administration has continued to drain oil from the Strategic Petroleum Reserve (SPR) despite an official statement last October that it would do the exact opposite.

The Biden administration has stopped draining oil out of the SPR for the past four weeks which has coincided with the rally in the oil price. Still on 1 August it reportedly withdrew from buying 6m barrels of oil for the SPR because it did not like the price.

The oil market has of late refocused on the fundamental supply constraints long discussed here, in the context of the lack of investment in oil in recent years as a result of the green lobby's political attack on fossil fuels combined with the geological reality that US shale production looks like it has peaked in most regions except the Permian. The result is that OPEC is the swing producer again and OPEC-plus, in terms of the agreement with Russia, seem to be cooperating on supply constraints.

The oil market received another reminder of the lack of supply last week with the largest weekly decline in US commercial crude stockpiles in the last week of July since the weekly data began to be published 41 years ago.

The result is that the Biden administration faces an awkward dilemma since a higher oil price threatens the political imperative in the run up to next year's presidential election to be seen to be prevailing over inflation. Yet a further draining of the SPR invites accusations from political opponents of threatening America's strategic access to oil for the sake of short-term political expediency.

The common media explanation for oil's weakness in the first half of this year, namely a weak Chinese economy, is not borne out by the data. China's imports of crude oil and refined oil products have risen to a level close to the previous peak level reached in mid-2020.

It may seem odd to be going on about oil when EVs are ramping up globally, most particularly in China. Still oil will be a factor in markets for many years to come even though it is also clear that energy producers, from Saudi Arabia down, need to think about diversification as Saudi is doing. The oil price is clearly relevant for the Fed given the main driver of the statistical decline in inflation this year has been the decline in energy prices.

The oil price rally has also coincided of late with a back-up in Treasury bond yields. GREED & fear remains a structural bear on US Treasury bonds and indeed also G7 government bonds. Yet GREED & fear has been expecting a tactical rally in Treasuries, with the resumption of quanto tightening, in the context of the still anticipated downturn in the US economy as a result of the considerable lags in monetary tightening.

This raises the issue of why Treasury bonds have corrected of late in the absence of unusually strong data. Possible explanations include the oil factor and Japanese selling triggered by the Bank of Japan's adjustment of yield curve control. But another is a reaction to the surprisingly timed Fitch downgrade of US sovereign debt from AAA to AA+ on 1 August. GREED & fear says "surprisingly timed" in the sense that there was no obvious catalyst for the move unless it was the growing number of indictments against America's 45th president.

If the timing was a surprise, the reality is that there is never a good time to downgrade from a Washington perspective while America's fiscal situation has been deteriorating dramatically ever since the MMT-lite policy response triggered by Covid. This deterioration has been primarily driven by the rise in the cost of debt servicing which is the consequence of the growing evidence that Treasury bonds are in a bear market.

The fiscal deterioration, now formally confirmed by Fitch, is why foreign official holdings of Treasury bonds continue to decline, and not just the holdings of the two biggest lenders China and Japan. This is also a related reason for the decline in the US dollar's share of foreign exchange reserves.

One logical conclusion of the above growing evidence of foreigners' increasing reluctance to finance America's federal government borrowing is that the dollar may have put in another long-term peak at the high reached last September even though that was 31% below the all-time high reached back in February 1985 based on the US dollar index.

If that is GREED & fear's base case on the US dollar, until proven wrong, this also has positive implications for both the commodity and emerging market asset classes. The key feature of emerging markets for now remains the dramatic divergence in recent years between the outperformance of local currency emerging market government bonds relative to global government bonds in stark contrast to the continuing underperformance of emerging market equities relative to global equities.

The bull case for emerging market equities is clearly that they play catch up on the outperformance of emerging market debt as a result of the more orthodox monetary and fiscal policies pursued in the emerging markets in recent years relative to G7, and the resulting lower cost of capital. But for this to happen the Fed has to start cutting rates at some point in the context of a declining dollar.