

**REPORT TITLE: Gloucestershire Pension Fund Update – Part 1 – Funding & Investment**

<b>Meeting:</b>	Pension Board
<b>Date:</b>	31 July 2024
<b>Item Type:</b>	For information
<b>Purpose of Report:</b>	<p>To update the Board on Fund performance and funding position. The bulk of the detail is set out in the associated Appendices, and officers can provide such clarifications and further information as the Board may require.</p> <p>The provision of this information to the Board is important in ensuring the Pensions Committee discharges its responsibilities with regard to the governance of the Fund.</p> <p>The recommendation is considered to be appropriate in the context of the obligations flowing from the Regulations.</p>
<b>Recommendations or Actions Sought:</b>	That the Board notes, the Fund’s position as at 31 March 2024, and the governance undertaken and subsequent recommendations agreed by the Pensions Committee at their meeting held on 13 June 2024.
<b>Background Documents:</b>	<p>The Pensions Board last received a Funding and Investments summary update at its meeting on the 30 April 2024. The report and related minutes can be found at the following link.  <a href="https://www.gloucestershire.gov.uk">Browse meetings - Pension Board (gloucestershire.gov.uk)</a></p> <p>The Pensions Committee received a Funding and Investments summary update at its meeting on the 13 June 2024. The report and related minutes can be found at the following link.  <a href="https://www.gloucestershire.gov.uk">Browse meetings - Pension Committee (gloucestershire.gov.uk)</a></p>
<b>Appendices:</b>	<p>Appendix 1 – Investment Performance Summary</p> <p>Appendix 2 – Strategic Asset Allocation</p>
<b>Contact Information (For information on the report)</b>	<p>Matthew Trebilcock  Head of Pensions – 01452 328920</p>

## Introduction

This report summarises the Fund's funding position, market value, asset allocation, investment performance, responsible investment activity and engagement activity since the previous Committee meeting.

Administering Authorities, under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 must keep under review the performance of the investment managers. This report fulfils this requirement.

There is a related report providing the Committee with information that is exempt from publication.

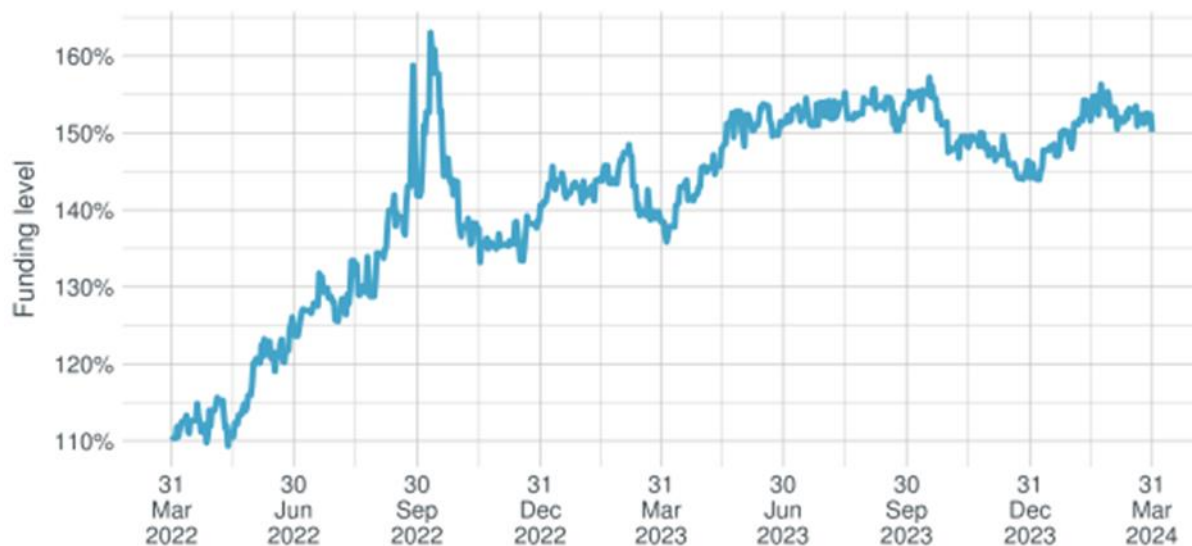
## Funding

The table below shows the estimated funding position at 31 March 2022 and 31 March 2024. Please note that the asset value at 31 March 2024 shown in this table may differ to the actual asset value at that date because it is an estimate based on estimated cashflows. However, the estimated value is consistent with the liabilities and therefore gives a more reliable estimate of the funding position than the actual asset value at the same date.

The table also shows what assumed investment return would be required at each date for the deficit to be exactly zero, along with the likelihood of the investment strategy achieving this return. An increase in this likelihood corresponds to an improvement in the funding position.

Monetary amounts in £bn	Ongoing basis	
	31 March 2022	31 March 2024
Assets	3.11	3.44
Liabilities		
– Active members	0.98	0.80
– Deferred pensioners	0.61	0.45
– Pensioners	1.24	1.04
Total liabilities	2.83	2.29
Surplus/(deficit)	0.29	1.15
Funding level	110%	150%
Required return assumption (% pa) for funding level to be 100%	3.7%	3.8%
Likelihood of assets achieving this return	81%	93%

The chart below shows the estimated funding level (ratio of assets to liabilities) over time between 31 March 2022 and 31 March 2024. It allows for changes in market conditions and other factors.



The full funding report for the period to 31 March 2024 can be found here: [goucestershire-pension-fund-funding-update-31-march-2024.pdf](https://www.goucestershire-pension-fund.co.uk/wp-content/uploads/2024/03/goucestershire-pension-fund-funding-update-31-march-2024.pdf)

## Investment update

### Performance

Over the quarter to 31 March 2024, the Fund's total market value increased by £155.384m, to £3,418.525m.

Over the quarter, total Fund assets outperformed the strategic benchmark by 0.3%, with a return of 4.8%.

Performance over the 3 years to 31 March 2024 was 5.3% annualised which is 0.4% behind the strategic benchmark.

The summary of investment performance is attached as appendix 1 to this report. The comprehensive performance report produced by Brunel can be found here: [Brunel Pension Partnership Investment Report - Gloucestershire County Council - 31 Mar 2024](#). This report contains detailed information and commentary on the individual portfolios as well as stewardship and climate metrics.

## Investment Activities and Strategic Asset Allocation (SAA)

During the Quarter the following investment activity took place:

- During the quarter there has been a number of calls into the private markets (exc property) asset classes of:
  - Infrastructure - c£49.9m
  - Private Equity - c£4.9m
  - Private Debt - c£1.7m
  - **Total** - **c£56.5m**

The current SAA is as follows:

Asset Class	Target Allocation %	Range +/- %	Allocation as at 31 March 2024 %	Variation from Target %
<b>Equities</b>	53.0	3.0	56.0	+3.0
<b>Fixed Interest</b>	17.0	2.0	17.5	+0.5
<b>Alternatives*</b>	30.0	2.0	26.5	-3.5

Detailed SAA analysis for each portfolio is attached as appendix 2 to this report.

*\*includes the monies being held in the DRF awaiting drawdown into the private markets portfolios*

At quarter ending 31 March 2024 the allocation to equities has moved to its maximum target range due to the strong performance of the 2 largest equity mandates. Although overall performance on Alternatives was positive over the quarter, the strategy allocation has reduced due to the strength of the equity return over the period.

## Responsible Investment update

### LAPFF Quarterly Engagement Report

The Fund is a member of The Local Authority Pension Fund Forum (LAPFF). LAPFF is the UK's leading collaborative shareholder engagement group with combined assets of over £300 billion. The report which can be accessed at: [LAPFF Quarterly Engagement Reports | Publications Categories | LAPFF \(lapffforum.org\)](#), contains a summary of LAPFF's engagement activities over the quarter, along with a company progress report detailing all engagements undertaken over the quarter, and the outcomes.

### Fund Equity Analysis

In order to provide members with more in depth analysis of the fund holdings within the specific portfolios, we provide an analysis of the Equity holdings at whole Fund level held as at 31 March 2024. Analysis of equity exposure by the top 20 companies, by sector and by countries are provided.

To improve transparency and greater awareness of the investments held by the Fund, this analysis is published on the Pension Fund website and a link to this analysis can be found here: [Equity Holding Analysis @ 31 March 2024](#)

## **Cash Management Strategy - Money Market Funds & Sustainability**

Following the approval of the Fund's Cash Management Strategy in February 2024, Pensions Committee members requested more information on the approach taken in the management of short-term cash balances and whether any sustainability assessment or criteria was applied within this process.

### **In House Cash**

As detailed within the approved Cash Management Strategy, the Pension Fund utilises the Council's Strategic Finance Treasury Management Team to manage in house operational cash balances. The Pension Fund operate a formal bank account with Lloyds plc. In addition, the Fund have the use of the three money market funds where surplus cash balances can be transferred to receive higher interest returns whilst maintaining instant liquidity. (Aberdeen Standard; Federated; Goldman Sachs)

### **Custodial Cash Management**

The Fund's custodian is State Street Bank and Trust company; cash received/paid out to the investment managers will be through the custody account. This custody account has been setup with a daily sweep, which moves cash balances into State Street Bank and Trust company's Money Markets Funds daily, to ensure that the most optimum rate on cash balances is achieved.

### **Sustainability Links within the management of cash balances**

Whilst the Fund is developing a responsible investment policy, the Fund does not currently make any separate assessment for sustainability or indeed ESG factors of the bank and money market funds which are used to manage cash balances. However, the actual approach taken by financial institutions and investment funds can be assessed by their classification under the Sustainable Finance Disclosure Regulations (SFDR). This European legislation forms part of the European Commission's action plan for sustainable finance and to redirect capital flows to sustainable activity.

Under these regulations financial products are separated into three different categories or classifications. These begin with those funds which do not have any sustainable considerations in the management of its fund, these are classified as Article 6 funds. Those funds which promote environmental, social and governance (ESG) practices are classified as Article 8 funds. For Funds that have sustainability as a key objective within its investment strategy are classified as Article 9.

The current classifications for the money market funds available to the Fund are as follows:

Aberdeen Standard	Article 6
Federated Management	Article 8
Goldman Sachs	Article 8
State Street MMF's	Article 8 (2 Funds)

Although the Fund does not current actively seek to ensure that the money market funds are using ESG criteria's in managing their investments within the funds, the majority of the money

market funds currently being utilised are classified under Article 8, indicating that the promotion of sustainable activity is being undertaken.

The Funds cash management strategy is due to be reviewed by Committee in March 2025, or earlier, if requested by Committee.

### **Brunel Pension Partnership**

Brunel have published their Responsible Investment & Stewardship Outcomes Report 2024. This has been placed onto the Funds website and is available here: [Brunel Pension Partnership Responsible Investment and Stewardship Outcomes 2024](#)

The report demonstrates the extensive range of tools and strategies Brunel employed to make progress against the seven agreed priority RI themes across 2023.

It shows the work to improve data and reporting, harness industry coordination on key themes and initiatives, influence public policy, maximise its engagement & voting impact, and improve its portfolios' exposures, to meet our partnerships ambitions and to encourage faster RI & stewardship progress across the industry.

The report provides a wealth of examples of the impact and real-world change brought about by Brunel's Responsible Investment (RI) approach.

Key take-aways include:

- Fresh approach to human rights, starting with internal Brunel workshop
- Tackling climate change from all angles – 600+ companies engaged on climate and 83% (nearly £1bn) in committed capital to infrastructure in sustainable themes
- Pioneering new work on [asset owner-asset manager alignment](#) in climate stewardship
- Engagement successes following [co-filing on climate at Barclays](#), and on diversity at Charter Communications
- Collaboration within the partnership to engage with consumer staples companies on physical climate risk and [biodiversity](#)
- Quantifying the biodiversity impacts and dependencies through footprinting
- How the policy of advocacy & [engagement](#) continued as a key driver of systemic change:
  - 99.8% of meetings voted
  - 805 companies engaged
  - 121 public policy interactions
  - 1,331 meetings instructed
  
- Introduction of AI into our stewardship evaluation

In June, Brunel published their next Climate Progress Report. Which demonstrates how they measure up against the agreed Climate Change Policy 2023-2030 targets, set last year.

[Brunel Pension Partnership Limited Climate Change Progress Report 2024](#)