

# Agenda Item 5

**Pension Board  
9 March 2021**

## **Gloucestershire Pension Fund update – Part 1 Quarter ending 31 December 2020**

### **Report of the Head of Pensions**

#### **Summary**

This report summarises the Fund's funding position, market value, asset allocation, investment performance for the quarter ending 31 December 2020.

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.

This report also summarises the Funds administration performance and activities up to the same period.

#### **Fund Performance**

Over the quarter to 31 December 2020, the Fund's total market value increased by £193.4m, to £2,842.87m This puts the total value of the Fund to above pre-COVID levels. The rise in assets was again mainly due to the further recovery seen across global markets during Q4 2020, following the losses in Q1 due to the global COVID-19 pandemic.

Over the quarter, total Fund assets produced a positive return of 7.2%, compared to a target of 6.4%, outperforming the benchmark by 0.8%.

A detailed investment performance report is attached as Appendix 1 to this report.

#### **Market Commentary**

In the final quarter of a year beset by the worst pandemic in a century and a steep decline in economic activity, the performance of global equities continued to be remarkable. After selling off in October amid concerns around accelerating coronavirus infections and pre-election uncertainty, stock markets then trended higher as central banks remained supportive and effective vaccines were announced. Led by more cyclical sectors, the MSCI World Index rose 8.6% in GBP, while emerging markets sustained recent outperformance as the MSCI Emerging Markets Index returned +13.3% in GBP.

UK equities gained in Q4, although the UK FTSE All Share ex Investment Trusts index return

# Agenda Item 5

of 11.9% was behind many peers as uncertainty around whether a UK-EU trade deal could be achieved weighed on sentiment for much of the period. A rapidly-spreading new strain of the coronavirus also necessitated increasingly restrictive measures as the quarter progressed. The market rallied into year-end as a Brexit deal was finally agreed, with sterling also strengthening on the news.

Europe's stock markets posted strong returns in Q4, with the Europe ex UK Index up by 9.1%.

In North America the equity index closed out 2020 with a Q4 GBP return of 6.8%, driven largely by hopes that COVID vaccines will allow for robust growth in 2021. The best performing sectors in Q4 included financials and energy, two areas seen as beneficiaries of a return to 'normality' in a post-vaccine world. Other cyclical sectors such as materials and industrials also outperformed, while 'defensive' sectors like consumer staples, utilities and healthcare lagged.

Japan's stock market built on Q3 gains to return 8.5% in the latest quarter. The economy expanded by an annualized rate of 22.9% in Q3, driven by household consumption – GDP remains more than 5% below its peak of a year earlier. In the wider Asia-Pacific region, the Ex Japan index was up 19.4% in GBP terms.

Global bonds posted a broadly positive set of returns in Q4, with US Treasuries an exception. Led by peripheral countries, European yields declined as the ECB expanded its bond purchase program by €500 billion. Against the backdrop of Brexit trade talks that ultimately delivered a deal in late December, UK Gilt returns were positive, if more modest than most European peers. Gilts were supported by the Bank of England stating it will expand its asset purchase facility by a further £150bn.

USD weakness was the major currency story for yet another quarter, with the US dollar index down over 4%. UK sterling was a strong performer – hitting a 32-month high against the dollar en route to gaining almost 6%. The Euro rallied about 4% versus USD.

## **Investment Strategy and Activities**

Strategic asset allocation reflects the new strategy to be implemented as part of the Investment Strategy Review (approved April 2020); as a result, a number of asset classes will be underweight or overweight for an interim period until the portfolio is fully constructed.

A detailed asset allocation report is attached as Appendix 2 to this report.

During the Quarter the following investment activity took place:

- £14m investment into the Brunel UK Property Portfolio
- £50m investment into the Brunel International Property Portfolio

# Agenda Item 5

## Voting Statistics

Hermes Equity Ownership Services (EOS) are the Partnership's engagement and voting overlay provider. The following contains a summary of the voting activities undertaken in line with the Partnership's policy and guidelines during the quarter, on behalf of the Gloucestershire Pension Fund, to promote global best practices.

### Global

We made voting recommendations at 108 meetings (749 resolutions) over the last quarter.



- Total meetings in favour 57.4%
- Meetings against (or against AND abstain) 39.8%
- Meetings abstained 0.9%
- Meetings with management by exception 1.9%

### Australia and New Zealand

We made voting recommendations at two meetings (15 resolutions) over the last quarter.



- Meetings against (or against AND abstain) 100%

### Developed Asia

We made voting recommendations at seven meetings (ten resolutions) over the last quarter.



- Total meetings in favour 100%

### Emerging and Frontier Markets

We made voting recommendations at 56 meetings (299 resolutions) over the last quarter.



- Total meetings in favour 60.7%
- Meetings against (or against AND abstain) 37.5%
- Meetings with management by exception 1.8%

### Europe

We made voting recommendations at 12 meetings (66 resolutions) over the last quarter.



- Total meetings in favour 41.7%
- Meetings against (or against AND abstain) 50%
- Meetings abstained 8.3%

### North America

We made voting recommendations at seven meetings (91 resolutions) over the last quarter.



- Meetings against (or against AND abstain) 85.7%
- Meetings with management by exception 14.3%

### United Kingdom

We made voting recommendations at 24 meetings (268 resolutions) over the last quarter.



- Total meetings in favour 66.7%
- Meetings against (or against AND abstain) 33.3%

# Agenda Item 5

The issues on which EOS recommended voting against management or abstaining on resolutions are shown below.

## Global

We recommended voting against or abstaining on 9.6 resolutions over the last quarter.



## Australia and New Zealand

We recommended voting against or abstaining on two resolutions over the last quarter.



## Emerging and Frontier Markets

We recommended voting against or abstaining on 4.2 resolutions over the last quarter.



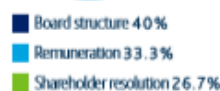
## Europe

We recommended voting against or abstaining on 2.0 resolutions over the last quarter.



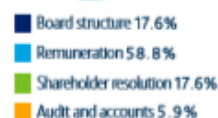
## North America

We recommended voting against or abstaining on 1.5 resolutions over the last quarter.



## United Kingdom

We recommended voting against or abstaining on 1.7 resolutions over the last quarter.



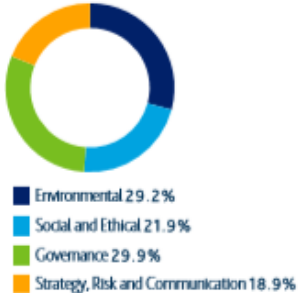
# Agenda Item 5

## Engagement Statistics

Over the quarter, EOS engaged with 368 companies held in the Gloucestershire Pension Fund portfolios on a range of 1,062 environmental, social and governance issues and objectives.

## Engagement by region

**Global**  
We engaged with 368 companies over the last quarter.



**Australia & New Zealand**  
We engaged with 30 companies over the last quarter.



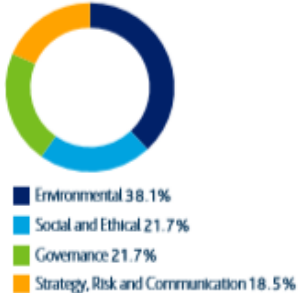
**Developed Asia**  
We engaged with 51 companies over the last quarter.



**Emerging & Developing Markets**  
We engaged with 19 companies over the last quarter.



**Europe**  
We engaged with 91 companies over the last quarter.



**North America**  
We engaged with 132 companies over the last quarter.

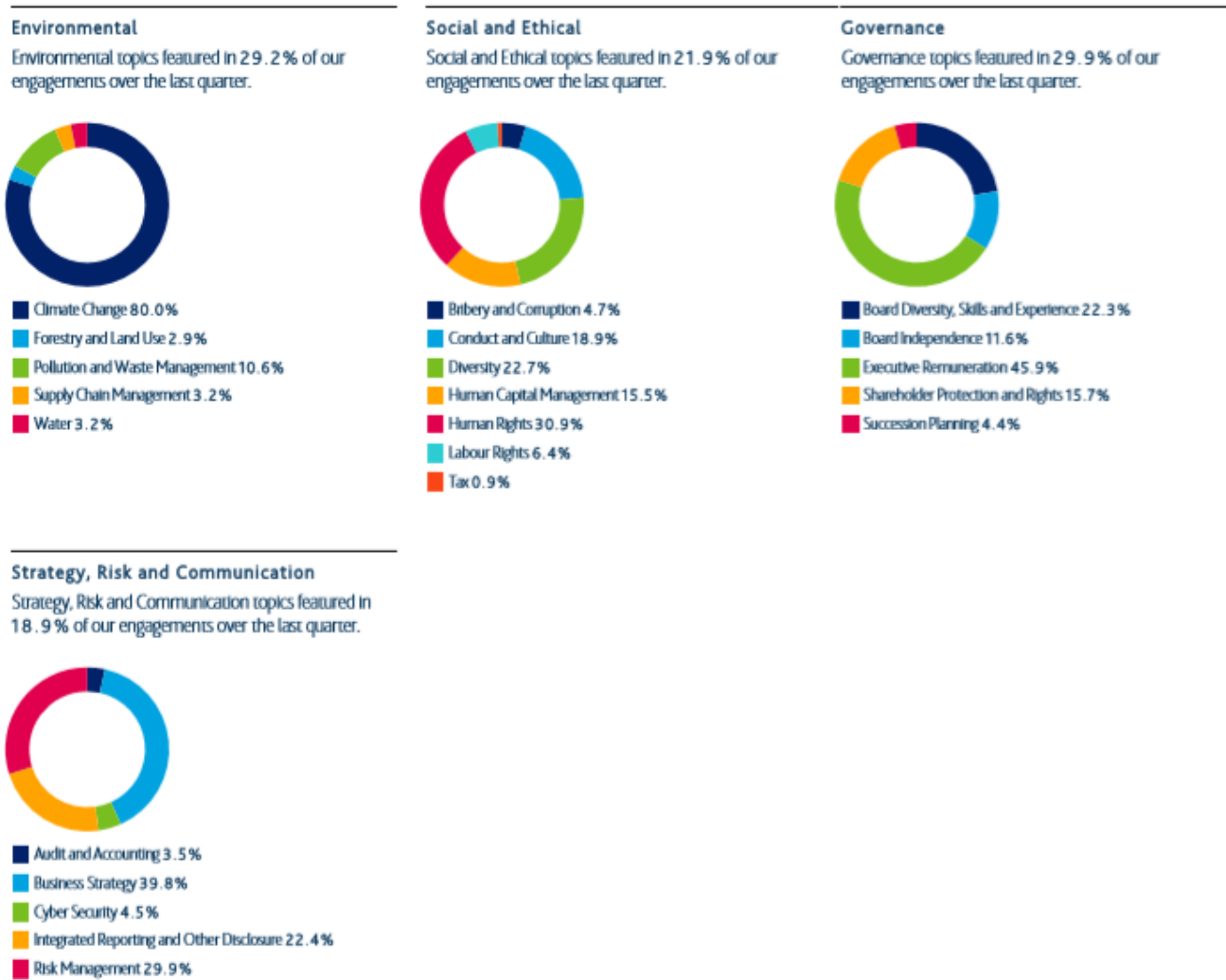


**United Kingdom**  
We engaged with 45 companies over the last quarter.



# Agenda Item 5

## Engagement by theme



# Agenda Item 5

## Funding position

At the last formal valuation, the Fund assets were £2,379m and the liabilities were £2,338m. This represents a surplus of £41m and equates to a funding level of 102%. Since the valuation the funding level has increased by c5% to 106.9% as detailed in the table above.

Funding Level Table

	31 December 2020	Ongoing Funding
Assets		£2,849m
Liabilities		£2,665m
Surplus/(deficit)		£184m
Funding level		106.9%

A detailed Funding and risk report, prepared by the Funds actuary, Hymans Robertson is attached as Appendix 3 to this report.

## Fund Administration

As reported to Committee in September 2020, it was identified that for the Pensions Team to effectively continue to administer the Fund and pay accurate benefits in a timely manner, whilst retaining robust checking and authorisation processes, they required an office presence. In order to deliver the key services whilst protecting the health of staff, the decision was taken from the outset to divide the Pension Administration team into two sub teams. These teams work on a rotational basis of one week in the office, followed by one week working at home.

Under this arrangement the management and staff of the pension administration section have worked through the different tasks and workloads of the section, dividing them into those that can be completed effectively and securely from home, and those that require an office presence for effective delivery.

An additional step that was implemented from the outset, to further improve staff safety, was to separate the “in office” team across the office space of not only the Pensions Section, but also of a neighbouring vacant office. This has delivered an effective service whilst also ensuring substantial “social distancing” from the beginning of the COVID-19 pandemic.

These procedures have resulted in the delivery of an effective service given the difficult circumstances, as evidenced by the performance figures in table 1 below.

# Agenda Item 5

**Table 1 – Summary Performance**

Service	Target	2017/18 (Actual)	2018/19 (Actual)	2019/20 (Actual)	2020/21 to 31/12/2020
Estimates to employees (15 days)	90%	85%	96%	98%	<b>91%</b>
Retirements and lump sums (15 days)	90%	75%	69%	61%	<b>83%</b>
Refunds Paid (15 days)	90%	96%	98%	99%	<b>95%</b>
Death Grants Paid (8 days)	90%	74%	82%	67%	<b>81%</b>
Annual Benefits Statements issued within the statutory deadline	100%	100% see note 1	100% see note 1	100% see note 1	<b>100% see note 1</b>
“Transfers Out” Paid (15 days)	90%	92%	98%	99%	<b>97%</b>

**Table 2 – 2020/21 Performance to 31 December 2020**

Service Standards – Processing tasks within internal targets	Target Achievement	No. Processed	No. processed on time	Actual achievement	Average days taken (averaging all cases)	Average days taken (averaging cases exceeding target ONLY)
Estimates to employees (15 days)	90%	368	335	91%	8	not available
Retirements and lump sums (15 days)	90%	662	549	83%	11	19
Refunds Paid (15 days)	90%	337	319	95%	10	20
Death Grants Paid (8 days)	90%	64	52	81%	8	17
2020/21 Annual Benefits Statements issued within the statutory deadline	100%	N/A	N/A	N/A	N/A	100% see note 1
“Transfers Out” Paid (15 days)	90%	86	83	97%	6	17



# Agenda Item 5

**Table 3 – 2019/20 Performance (full year)**

Service Standards – Processing tasks within internal targets	Target Achievement	No. Processed	No. processed on time	Actual % achievement	Average days taken (averaging all cases)	Average days taken (averaging cases exceeding target ONLY)
Estimates to employees (15 days)	90%	739	724	98%	8	not available
Retirements and lump sums (15 days)	90%	983	603	61%	13	19
Refunds Paid (15 days)	90%	649	641	99%	7	23
Death Grants Paid (8 days)	90%	76	51	67%	7	10
2019/20 Annual Benefits Statements issued within the statutory deadline	100%	34434 see note 1	34434 see note 1	100%	N/A	N/A
“Transfers Out” Paid (15 days)	90%	194	192	99%	4	16

**Table 4 - 2018/19 Performance (full year)**

Service Standards – Processing tasks within internal targets	Target Achievement %	No. Processed	No. processed on time	Actual % achievement	Average days taken
Estimates to employees (15 days)	90%	615	587	96%	7
Retirements and lump sums (15 days)	90%	858	592	69%	13
Refunds Paid (15 days)	90%	620	609	98%	7
Death Grants Paid (8 days)	90%	79	65	82%	7
2017/18 Annual Benefits Statements issued within the statutory deadline	100%	34,617 see note 1	34,617 see note 1	100% see note 1	N/A
“Transfers Out” Paid (15 days)	90%	147	144	98	5

# Agenda Item 5

**Table 5- 2017/18 Performance (full year)**

Service Standards – Processing tasks within internal targets	Target Achievement %	No. Processed	No. processed on time	Actual % achievement	Average days taken
Estimates to employees (15 days)	90%	571	485	85%	10
Retirements and lump sums (15 days)	90%	768	575	75%	11
Refunds Paid (15 days)	90%	448	429	96%	6
Death Grants Paid (8 days)	90%	61	45	74%	7
2016/17 Annual Benefits Statements issued within the statutory deadline	100%	31,190 see note 1	31,190 see note 1	100% see note 1	N/A
“Transfers Out” Paid (15 days)	90%	132	122	92%	7

**Note 1** - Regarding Annual Benefits Statements, all of the year end returns from all employers were received by the Administration Team within the statutory deadline. All returns were matched to the member records held within the Administration team, and where a definitive match was made, 100% of the Annual Benefit Statements were distributed to active and deferred members by the statutory deadline.

## 95k Cap

On Friday 12 February the government issued the [Exit Payment Cap Directions 2021](#) which disapply parts of the Restriction of Public Sector Exit Payments Regulations 2020 in England with immediate effect. As the Directions disapply regulation 3, the exit cap no longer applies in England with effect from 12 February 2021.

*‘After extensive review of the application of the Cap, the Government has concluded that the Cap may have had unintended consequences and the [2020] Regulations should be revoked. HMT Directions have been published that disapply the Cap until the Regulations have been revoked.’*

We understand that the Government still intend to apply a cap on exit payments and will come forward with new regulations in the summer of 2021.

Until then, the administration team will have to review and recalculate estimates that have been provided to Employers since 4 November 2020 and review any leavers that have been subject to the now revoked regulations.

## Recommendation

That the Board notes the report.

## Contact Officer

Matthew Trebilcock – Head of Pensions (01452 328920)