

Agenda Item 8

Pension Committee

18 June 2021

Gloucestershire Pension Fund update – Part 1 Quarter ending 31 March 2021

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 March 2021.

Administering authorities, under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 must keep under review the performance of their 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 March 2021, the Fund's total market value increased by £55.378m, to £2,898.248m.

Over the quarter, total Fund assets produced a positive return of 1.9%, compared to a target of 2.3%, underperforming the strategic benchmark by 0.4%.

Performance over the 3 years to 31 March 2021 was 7.6% slightly behind the benchmark by 0.2%, with the last 12 months providing a return 3.5% ahead of the benchmark of 26.6%

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

Market Commentary

The opening quarter of 2021 was an eventful one from many perspectives. For financial markets, a big story was the bond market sell off that saw longer dated yields move notably higher, particularly for US Treasuries. The approval and rollout of vaccines helped underpin economic sentiment. Global equity markets enjoyed strong gains with the MSCI World Index returned 3.7% in GBP. The MSCI Emerging Markets Index trailed somewhat in rising 1.4% in GBP as a stronger US dollar and high COVID infection rates in some regions hit sentiment.

Agenda Item 8

The UK stock market, as measured by the UK FTSE All Share (ex-Investment Trusts) index, gained 5.6% in GBP in Q1 as the tailwind from its well organised vaccine program helped offset the January/February lockdown and some lingering trade issues resulting from Brexit. Approximately 60% of adults have now received at least one vaccine dose. Sterling continued to strengthen on hopes for the economy and as the Bank of England appeared to rule out negative policy rates.

The strong performance of Europe's stock markets belied the deterioration in infection rates that necessitated an extension of restrictions on activities. Overall, the Europe (ex UK) Index returned 2.5% in GBP. The US equity index achieved a positive GBP total return of 4.9%, ending Q1 2021 near its record high amid a new \$1.9 trillion stimulus package and a rapid rollout of vaccinations. Investors favoured stocks seen as beneficiaries of faster economic growth; energy and financials attracted support. Markets also saw some turbulence as buoyant risk appetite among a cohort of investors spurred a number of individual stocks sharply higher and prompted some concern about 'bubble' valuations.

Japan's stock market advanced 1.2% in the first quarter. While the economy grew by an annualised 11.7% in the final quarter of 2020, Japanese GDP shrank by -4.9% for the full calendar year. In the wider Asia-Pacific region, the ex-Japan index was up by 2.9% in GBP terms.

Global bonds posted losses for the first quarter as optimism for the post pandemic economy spurred investors away from fixed income instruments amid expectations that rebounding growth and the effect of stimulus measures and increasing demand could stoke higher inflation. Government bonds in the US and UK, countries where vaccine rollouts are more advanced, experienced significant sell-offs that saw yield curves steepen. The, ICE BofA £ non-Gilt Index, returned -4.1% over the quarter while the, FTA UK Government Bond 5+ Year TR Index, returning -9.6% and the, FTSE UK Gilts Index Linked Government (5+ Y), returning -7.0%

Among commodities, industrial metals and oil prices were lifted by economic optimism, while gold retreated against the backdrop of increased investor risk appetite and rising bond yields.

The US dollar and British pound were among the stronger currencies, reflecting vaccination progress and speculation about tighter monetary policy. The euro lost 4% versus USD and about 5% against sterling; the Japanese yen lost about 7% on the dollar.

On cash markets the UK three-month LIBOR returned 0.0%.

The MSCI/AREF UK All Balanced Property Index returned 2.2% over the quarter.

Agenda Item 8

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:

- Rebalancing of the Strategic Asset Allocation by reducing the allocation to the Brunel Global High Alpha portfolio by £135m to bring the portfolio to within its target allocation range, with the proceeds being allocated into the Diversified Risk Fund, awaiting future drawdown for the private markets allocations. The cost of this rebalancing was £364k, equivalent to 27bps of the value of the transaction.
- Strategic Asset Allocation change of transitioning £168m from the LGIM Developed Equity Passive allocation to the Global Sustainable Portfolio to bring the portfolio towards its target allocation. The cost of this transition was £168k, equivalent to 10bps of the value of the transition.
- Top up allocation to Brunel Private Markets portfolios to achieve strategic asset allocation targets, based upon anticipated cashflows:
 - Private Equity - £10m
 - Private Debt - £40m
 - Infrastructure - £50m

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.

Over the last quarter Hermes EOS made voting recommendations at 104 meetings on 1,036 resolutions (108 meetings and 749 resolutions in the previous quarter).

At 36 meetings they recommended opposing one or more resolutions, recommended voting with management by exception at three meetings and supported management on all resolutions at the remaining 65 meetings.

Agenda Item 8

Global

We made voting recommendations at **104** meetings (**1,036** resolutions) over the last quarter.



- Total meetings in favour **62.5%**
- Meetings against (or against AND abstain) **34.6%**
- Meetings with management by exception **2.9%**

Developed Asia

We made voting recommendations at **32** meetings (**263** resolutions) over the last quarter.



- Total meetings in favour **65.6%**
- Meetings against (or against AND abstain) **31.2%**
- Meetings with management by exception **3.1%**

Emerging and Frontier Markets

We made voting recommendations at **42** meetings (**342** resolutions) over the last quarter.



- Total meetings in favour **66.7%**
- Meetings against (or against AND abstain) **31.0%**
- Meetings with management by exception **2.4%**

Europe

We made voting recommendations at **seven** meetings (**116** resolutions) over the last quarter.



- Total meetings in favour **71.4%**
- Meetings against (or against AND abstain) **28.6%**

North America

We made voting recommendations at **six** meetings (**76** resolutions) over the last quarter.



- Total meetings in favour **16.7%**
- Meetings against (or against AND abstain) **66.7%**
- Meetings with management by exception **16.7%**

United Kingdom

We made voting recommendations at **17** meetings (**239** resolutions) over the last quarter.



- Total meetings in favour **58.8%**
- Meetings against (or against AND abstain) **41.2%**

Agenda Item 8

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

Global

We recommended voting against or abstaining on **83** resolutions over the last quarter.



Developed Asia

We recommended voting against or abstaining on **25** resolutions over the last quarter.



Emerging and Frontier Markets

We recommended voting against or abstaining on **27** resolutions over the last quarter.



Europe

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



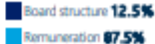
North America

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



United Kingdom

We recommended voting against or abstaining on **16** resolutions over the last quarter.



Agenda Item 8

Engagement Statistics

Over the quarter, EOS engaged with 418 (368 in the previous quarter) companies held in the Gloucestershire Pension Fund portfolios on a range of 1,409 (1,062 in the previous quarter) environmental, social and governance issues and objectives.

Engagement by region

Global

We engaged with **418** companies over the last quarter.



- Environmental **28.1%**
- Social and Ethical **21.2%**
- Governance **36.1%**
- Strategy, Risk and Communication **14.5%**

Australia & New Zealand

We engaged with **eight** companies over the last quarter.



- Environmental **83.3%**
- Governance **8.3%**
- Strategy, Risk and Communication **8.3%**

Developed Asia

We engaged with **44** companies over the last quarter.



- Environmental **37.4%**
- Social and Ethical **26.0%**
- Governance **27.6%**
- Strategy, Risk and Communication **8.9%**

Emerging & Developing Markets

We engaged with **33** companies over the last quarter.



- Environmental **29.3%**
- Social and Ethical **17.2%**
- Governance **34.3%**
- Strategy, Risk and Communication **19.2%**

Europe

We engaged with **122** companies over the last quarter.



- Environmental **28.5%**
- Social and Ethical **19.3%**
- Governance **40.0%**
- Strategy, Risk and Communication **12.2%**

North America

We engaged with **167** companies over the last quarter.



- Environmental **23.1%**
- Social and Ethical **22.8%**
- Governance **36.7%**
- Strategy, Risk and Communication **17.4%**

United Kingdom

We engaged with **44** companies over the last quarter.



- Environmental **36.1%**
- Social and Ethical **20.3%**
- Governance **33.1%**
- Strategy, Risk and Communication **10.5%**

Agenda Item 8

Engagement by theme

Environmental

Environmental topics featured in **28.1%** of our engagements over the last quarter.



Climate Change	80.1%
Forestry and Land Use	5.1%
Pollution and Waste Management	10.9%
Supply Chain Management	1.3%
Water	2.8%

Social and Ethical

Social and Ethical topics featured in **21.2%** of our engagements over the last quarter.



Bribery and Corruption	1.7%
Conduct and Culture	13.4%
Diversity	24.1%
Human Capital Management	21.1%
Human Rights	32.1%
Labour Rights	5.4%
Tax	2.3%

Governance

Governance topics featured in **36.1%** of our engagements over the last quarter.



Board Diversity, Skills and Experience	22.6%
Board Independence	16.1%
Executive Remuneration	44.0%
Shareholder Protection and Rights	12.8%
Succession Planning	4.5%

Strategy, Risk and Communication

Strategy, Risk and Communication topics featured in **14.5%** of our engagements over the last quarter.



Audit and Accounting	7.3%
Business Strategy	42.0%
Cyber Security	1.5%
Integrated Reporting and Other Disclosure	26.3%
Risk Management	22.9%

Brunel Pension Partnership – Responsible Investment and Stewardship outcomes report 2021

Committee previously commented that the above information on voting and engagement, while useful in understanding that stewardship and voting is being undertaken, does not convey the effectiveness of the engagement that is being undertaken on the Funds behalf. As development continues on the reporting on these matters that the Committee will receive, attached at Appendix 3 is the 2021 Brunel Responsible Investment and Stewardship outcomes report. This report contains case studies and further statistical analysis which the Committee may find useful at this time.

Brunel provide an outcomes report on an annual basis, and this report will be made available to Committee on an ongoing basis.

Agenda Item 8

Funding position

The past service position of the Fund has improved since 31 March 2019. This can be considered in two ways:

- Based on a level of investment return of 4.1%, the fund currently has sufficient assets to pay all accrued benefits. The amount of additional assets has increased from £41m to £409m; or
- The investment return required to have sufficient assets to pay all accrued benefits without further payments has decreased from 4.1% to 3.2%. The likelihood of achieving the required return has increased from 71% to 80%.

However, prudent expectations of future investment returns have fallen from 4.2% to 4.1% based on the Fund's current investment strategy (and a 70% likelihood of success). This will increase the cost of providing benefits that continue to be earned in the future.

A detailed update on the funding position as at 31 March 2021, prepared by the Funds actuary, Hymans Robertson is attached as Appendix 4 to this report.

Fund Administration

The Pensions Administration Team to effectively continue to administer the Fund and pay accurate benefits in a timely manner, whilst retaining robust checking and authorisation processes, have maintained an office presence throughout the pandemic. 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.

It must be recognised that these current working practises are enforced due to the pandemic and have impacted on operational delivery. However, the steps undertaken have mitigated the impact on the service delivery. We will continue to monitor the balance between service delivery and staff safety as further restrictions are lifted. The current performance figures are below.

Agenda Item 8

Table 1 – Summary Performance

Service	Target	2017/18 (Actual)	2018/19 (Actual)	2019/20 (Actual)	2020/21 to 31/03/2021
Estimates to employees (15 days)	90%	85%	96%	98%	90%
Retirements and lump sums (15 days)	90%	75%	69%	61%	80%
Refunds Paid (15 days)	90%	96%	98%	99%	93%
Death Grants Paid (8 days)	90%	74%	82%	67%	70%
Annual Benefits Statements issued within the statutory deadline	100%	100% see note 1	100% see note 1	100% see note 1	100% see note 1
“Transfers Out” Paid (15 days)	90%	92%	98%	99%	97%

Table 2 – 2020/21 Performance to 31 March 2021

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%	534	482	90%	9	not available
Retirements and lump sums (15 days)	90%	872	701	80%	12	19
Refunds Paid (15 days)	90%	424	395	93%	10	20
Death Grants Paid (8 days)	90%	89	62	70%	10	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%	136	132	97%	6	22

Agenda Item 8

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 8

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.

Business Plan 2021/22

The following is an update on the Key Tasks/Work Plan which formed part of the agreed business plan for 2021/22.

Comments on each topic are contained within the table. For the amber items, this represents that these activities are yet to commence, but these activities are scheduled to take place over multiple quarters:

Governance

Task	2021/22			
	Q1	Q2	Q3	Q4
Review of Risk Register	✓ - completed	✓	✓	✓
Approval of External Audit Plan	✓ - completed			
Implement outcomes of the Funds Governance Review		✓	✓	✓
Review and approve Business Plan				✓
Annual review against The Pensions Regulators Code of Practise				✓
Approval of audited Fund accounts		✓		

Agenda Item 8

Approval of Annual Report		✓		
Review Policy Statements		✓	✓	✓
Training Needs Analysis	✓ - launched and ongoing			

Funding

Task	2021/22			
	Q1	Q2	Q3	Q4
Review of ongoing funding position	✓ - completed	✓	✓	✓
Cash flow modelling			✓	

Investment Management

Task	2021/22			
	Q1	Q2	Q3	Q4
Monitor Fund performance	✓ - completed	✓	✓	✓
Responsible Investment Reporting	✓	✓	✓	✓
Asset transitions to Brunel Portfolios	✓ - completed			
Review the inflation exposure on the Fund and implemented agreed recommendations	✓	✓	✓	
Review the Funds Investment Strategy Statement				✓
Procure consultancy support in preparation for the next full strategic review in 2022/23				✓
Review the Funds Responsible Investment Policy			✓	✓
Review the recommendations of the Taskforce for Climate-related Financial Disclosure (TCFD) and requirements for UK Stewardship code signatory status	✓	✓	✓	✓

Agenda Item 8

Administration

Task	2021/22			
	Q1	Q2	Q3	Q4
Issue Annual Benefit Statements to active and deferred members		✓		
P60's distributed to pensioner members	✓ - completed			
Recruitment of agreed additional resources	✓ - ongoing	✓	✓	✓
Annual pension in payment and CARE accrual increase exercise	✓ - pension in payment completed, Care accrual ongoing			
Annual submission of HMRC Event report				✓
Issue notices to employees for breaches of HMRC Annual Allowance limits			✓	
Provision of data to actuary to produce financial accounting required for employer accounts	✓ - completed	✓	✓	
Reconciliation of membership data for all employers	✓ - ongoing	✓		✓
Review and correct data errors		✓	✓	
Process and reconcile membership pay and contribution data for year end	✓ - ongoing	✓		
Data quality assessment for the Pensions Regulator		✓		
Possible implementation of McCloud judgement	✓	✓	✓	✓
Possible implementation of revised 95k cap regulations		✓	✓	✓

Recommendation

That the Committee notes in accordance with the regulations, the Funds position as at 31 March 2021 and the performance of the investments.

Contact Officer

Matthew Trebilcock – Head of Pensions (01452 328920)