

# Agenda Item 7

**Pension Committee  
24 September 2021**

## **Gloucestershire Pension Fund update – Part 1 Quarter ending 30 June 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 30 June 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.

#### **Funding position**

The Fund is now more likely to have sufficient assets to meet earned benefit payments than at the previous valuation.

<b>Reported funding position</b>	<b>31 March 2019</b>	<b>30 June 2021</b>
Assets (£m)	2,379	3,058
Past service liabilities (£m)	2,338	2,536
<b>Surplus/(Deficit) (£m)</b>	<b>41</b>	<b>522</b>
Funding level	102%	121%
<b>Assumed future investment return</b>	<b>4.2%</b>	<b>4.0%</b>
Likelihood of achieving this return*	70%	70%
<b>Fully funded target</b>	<b>31 March 2019</b>	<b>30 June 2021</b>
Funding target	100%	100%
Future investment return required to be 100% funded	4.1%	2.8%
Likelihood of achieving this return*	71%	83%

\* likelihood of the Fund's portfolio achieving these returns over the next 20 years

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**Past service funding position:** The reported past service funding position has improved. The Fund has a surplus of £522m at 30 June 2021 (compared to a surplus of £41m at 31 March 2019). The improvement has been largely driven by strong investment performance since 31 March 2019.

**Investment outlook:** Prudent expectations of future investment returns have fallen to 4.0% p.a. at 30 June 2021 based on a 70% likelihood of being achieved (at 31 March 2019, the equivalent return was 4.2%p.a.).

**Fully funded required return:** The likelihood of achieving the future investment returns needed to have sufficient assets to pay past service benefits has increased since the last valuation (there is now an 83% chance of achieving the returns needed).

The detailed funding report, prepared by Hymans, is attached at Appendix 1.

## Fund Investment Performance

Over the quarter to 30 June 2021, the Fund's total market value increased by £159.506m, to £3,057.754m.

Over the quarter, total Fund assets produced a positive return of 5.4%, compared to a target of 4.6%, outperforming the strategic benchmark by 0.8%.

Performance over the 3 years to 30 June 2021 was 8.4% ahead of the benchmark by 0.4%.

A detailed investment performance report is attached as Appendix 2 to this report.

## Investment Strategy and Activities

During the Quarter the following investment activity took place:

- The transition of the Funds fixed interest allocations to Sterling Corporate Bonds and Multi-Asset Credit were commenced to the Brunel Portfolios during the quarter. The allocations to Multi-Asset Credit and Sterling Corporate Bonds, were previously managed by Western Asset Management (WAMCO).
- The Brunel Sterling Corporate Bond portfolio will be managed by a single manager, Royal London (RLAM). This transition was not completed by quarter end and therefore shows up as 'Blackrock Transition' in the attached reporting.
- The Brunel Multi-Asset Credit portfolio contains three managers, Neuberger Berman, Oaktree and CQS.

This transition outcome will be reviewed by Officers and reported back to Committee at the next meeting.

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The current Strategic Asset Allocation is as follows:

Asset Class	Target Allocation %	Range +/- %	Allocation as at 30 June 2021 %	Variation from Target %
Equities	55.0	3.0	60.8	5.8
Fixed Interest	22.0	2.0	19.4	-2.6
Alternatives	23.0	2.0	19.7	-3.3

A detailed Strategic Asset Allocation report is attached as Appendix 3 to this report.

## Voting and Engagement Statistics

Hermes Equity Ownership Services (EOS) are the Partnership's engagement and voting overlay provider.

Over the last quarter Hermes EOS made voting recommendations at 397 meetings (5,769 resolutions). At 257 meetings they recommended opposing one or more resolutions. They recommended voting with management by exception at 24 meetings and abstaining at three meetings. They supported management on all resolutions at the remaining 113 meetings. A detailed quarterly voting report is attached as Appendix 4 to this report

Hermes EOC engaged with 536 companies held in the Gloucestershire Pension portfolios on a range of 1,446 environmental, social and governance issues and objectives. A detailed quarterly engagement report is attached as Appendix 5 to this report.

This information is provided to ensure that appropriate levels of engagement and voting are being undertaken on the Funds behalf, but the annual Responsible Investment and Stewardship outcomes report, provides greater information on the effectiveness and outcomes of the voting and engagement undertaken and will include case studies.

## Fund Administration

The Pensions Administration Team are currently continuing to operate under working practises that are enforced due to the pandemic and these have impacted on operational delivery. However, the steps undertaken have mitigated the impact on the service delivery and we continue to monitor the balance between service delivery and staff safety.

The current performance figures for the quarter to 30 June 2021 and previous whole year comparisons are attached as appendix 6 to this report.

The quarter to 30 June each year is always a challenging quarter, as the Administration Team have to process and reconcile the year end data for all employers, which then leads to the preparing for the Annual Benefit Statements. In addition, the pension increase process is also

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required to be undertaken, therefore, resources are redeployed accordingly to focus on these activities.

Performance indicators for this period are normally challenging and not a reflection of the performance that will be achieved as the year progresses. During this period, we continue to focus on delivering an equal service level to all members, which can be demonstrated by the average days taken for cases which exceed target, as outlined to table 2 in appendix 6.

During the quarter to 30 June, we have also seen a marked increase in the number of retirement estimates (201), which appear to have returned to pre-covid levels. The team are also experiencing higher levels of individual member questions and engagement, then has been experienced in a while.

## Business Plan 2021/22

The following is a summary, together with commentary of the amber key tasks from the work plan agreed as part of the business plan for 2021/22.

A detailed report against all items is attached as Appendix 7 to this report

### Governance

Task	2021/22			
	Q1	Q2	Q3	Q4
Review Policy Statements <i>Comment: The activity has yet to commence, but is now linked to the work plan for the Governance Review and is scheduled to take place over multiple quarters. Anticipated to commence in Q3</i>		✓	✓	✓

### Investment Management

Task	2021/22			
	Q1	Q2	Q3	Q4
Responsible Investment Reporting <i>Comment: The activity has yet to commence, but is now is scheduled to take place over multiple quarters. Anticipated to commence in Q4</i>	✓	✓	✓	✓
Review the recommendations of the Taskforce for Climate-related Financial Disclosure (TCFD) and requirements for UK Stewardship code signatory status	✓	✓	✓	✓

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<p><i>Comment: The activity has yet to commence, but is now is scheduled to take place over multiple quarters. Anticipated to commence in Q4</i></p>				
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## Administration

Task	2021/22			
	Q1	Q2	Q3	Q4
<p>Issue Annual Benefit Statements to active and deferred members</p> <p><i>Comment: Issued within the statutory deadline of 31 August.</i></p>		<p>✓ - completed</p>		
<p>Possible implementation of McCloud judgement</p> <p><i>Comment: Awaiting further guidance and IT support.</i></p>	<p>✓</p>	<p>✓</p>	<p>✓</p>	<p>✓</p>
<p>Possible implementation of revised 95k cap regulations</p> <p><i>Comment: Awaiting revised consultation from MHCLG.</i></p>		<p>✓</p>	<p>✓</p>	<p>✓</p>

## Committee Knowledge Assessment Results

Thank you to Committee members for completing the Knowledge Assessment, undertaken by Hymans on the Funds behalf.

The purpose of the assessment is to gain an immediate understanding of knowledge and understanding levels of the new Committee (and the Board), with the results feeding into training plans being developed (for each group).

In total there were 4 respondents from the Committee and there were 3 respondents from the Board. Each respondent was given the same set of 47 questions on the 8 areas below:

1. Committee Role and Pensions Legislation
2. Procurement and Relationship Management
3. Pensions Governance
4. Investment Performance and Risk Management
5. Pensions Administration
6. Financial Markets and Product Knowledge
7. Pensions Accounting and Audit Standards
8. Actuarial Methods, Standards and Practice

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The results show the knowledge of Committee respondents was significantly higher for Financial Markets and Product Knowledge, and Pension Governance than other areas. Committee respondents ranked their current knowledge on Actuarial Methods, Standards and Practices lowest at this time.

## Training Plans

Based on the results of the knowledge assessment we have set out below a set of training priorities below, picking out the key areas for development based on participant assessment results and the training requests.

Period	Topic
2021/22 – Q3	<ul style="list-style-type: none"><li>Actuarial Methods, Practices and Standards</li></ul>
2021/22 – Q4	<ul style="list-style-type: none"><li>Actuarial Methods, Practices and Standards + Pensions Administration</li><li>Committee Role and Pensions Legislation</li><li>Investment Performance and Risk Management</li></ul>
2022/23 – Q1	<ul style="list-style-type: none"><li>McCloud impact, exit credits and Section 13</li></ul>
2022/23 – Q2	<ul style="list-style-type: none"><li>Procurement and Relationship Management</li></ul>
2022/23 – Q3	<ul style="list-style-type: none"><li>Pensions Accounting and Audit Standards</li></ul>
2022/23 – Q4	<ul style="list-style-type: none"><li>Pensions Governance</li><li>Financial Markets and Product Knowledge</li></ul>

Given the proximity of the 2022 triennial valuation, this is the area that requires greatest attention. Therefore, training will be provided immediately prior to the next 2 Committee meetings, by Hymans Robertson on this area. Attendance at these sessions will be recorded on your training logs.

The Fund officers will be looking to supplement this training with bitesize online training sessions and videos between Committee meetings. The Fund will be using the recently launched Hymans Online Learning Academy (LOLA), to assist in this delivery. The system will automatically record a member's completion of a session, and this will automatically be added to your training logs. Further details will be provided to members in

## Other Training Opportunities

### Brunel Investor Days – Online Seminars

Brunel Pension Partnership are holding 2 investor sessions on the following dates/times:

Monday 27 September	-	Topic:	Macro & Listed Markets
14:00 to 16:00		Speakers:	David Vickers – CIO

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David Cox – Head of Listed Markets

Wednesday 3 October - Topic: Private Markets & RI  
10:00 to 12:00 Speakers: Richard Fanshawe – Head of PM  
Faith Ward - CRIO

These sessions are online and members should have received a separate invitation to register. Attendance will be automatically added to your training logs. For those members unable to attend one or either, recording will be made available, but members are reminder that they will need to advise Officers once these have been fully viewed to be recorded on your training logs.

## **LGA – Fundamentals**

The Fundamentals training is a bespoke three-day training course aimed at pension committee and local pension board members. Day 1 – Legal Framework, Day 2 – Investment, Day 3 – Duties and Responsibilities

The training is available at three locations, London, Leeds and Cardiff. The London sessions will be hybrid, so delegates will have the choice of attending in person or virtually. Full details have been circulated to members via email. Currently we have 3 Committee members enrolled and 5 Pension Board members.

## **Recommendation**

That the Committee notes in accordance with the regulations, the Funds position and activities as at 30 June 2021.

## **Contact Officer**

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