

# Agenda Item 4

**Pension Board  
19 October 2021**

## **Gloucestershire Pension Fund update Quarter ending 30 June 2021**

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

#### **Summary**

This report summarises the Fund's financial position and operational activities for the quarter ending 30 June 2021.

The information contained in this report was taken to the Pensions Committee on 24 September and fulfils the requirement for 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.

#### **Funding position**

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

Reported funding position	31 March 2019	30 June 2021
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

# Agenda Item 4

**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 quarterly investment performance report is attached as Appendix 2 to this report.

The Fund participates in the LGPS Investment Performance benchmark undertaken by PIRC.

For the 2020/21 analysis the universe comprised 64 LGPS Funds, with a combined value of £230bn. For information, five Funds, including Gloucestershire, whom form part of the Brunel Pension Partnership, took part in the universe for 2020/21.

Below is a summary of the Total Fund Performance verses the universe average and range for 1, 3 and 5 years

# Agenda Item 4

	1 Year Performance %	3 Year Performance %	5 Year Performance %
<b>Gloucestershire</b>	26.6	7.7	9.6
<b>Universe average</b>	22.8	7.6	9.5
<i>Range of Results</i>			
<i>Top Quartile</i>	28.1	8.9	10.2
<i>Median</i>	24.5	7.9	9.3
<i>Bottom Quartile</i>	20.6	6.8	8.6

Attached as appendix 3 to this report, is the full report on performance to March 2021, prepared by PIRC for the Gloucestershire Pension Fund. Committee reviewed this report at its meeting on 24 September and requested that the Fund continue to participate in the universe for 2021/22.

## 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 its meeting in December 2021.

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

The detailed Strategic Asset Allocation report is attached as Appendix 4 to this report.

# Agenda Item 4

## **Investment Solutions**

As requested by the Partner Funds, Brunel have developed and launched 2 new investment opportunities within the passive portfolio range delivered by LGIM, with climate aligned benchmarks following extensive work with FTSE Russell in their development.

The increased range of passive investment options now offer the Fund, Net Zero-aligned passive investment opportunities, as well as providing a path forward for the wider industry.

The new indices reflect FTSE Russell's expertise in index design. The Paris-aligned Benchmark meets the minimum requirement of the EU's Paris-aligned benchmarks by achieving a 50% reduction in carbon emissions over a ten-year period. It also integrates the Transition Pathway Initiative's analysis of how the world's largest and most carbon-exposed companies are managing the climate transition.

At its meeting on 24 September, Committee requested that Fund Officers and the Fund's Investment Adviser, John Arthur, undertake a review of the Funds current passive investments in Low Carbon and Smart Beta against the newly launched Paris Aligned benchmarks to determine whether they will meet the Funds investment and risk objectives and offer options for the Committee to consider. It was agreed for this report to be brought back to the December 2021 meeting.

## **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 5 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 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.

# Agenda Item 4

## 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 6 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  <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>	✓	✓	✓	✓

# Agenda Item 4

## Administration

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

## Pension Board Knowledge Assessment Results

Thank you to Board 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 Board and Committee, with the results feeding into training plans being developed (for each group).

In total there were 3 respondents from the Board and there were 4 respondents from the Committee. 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

The results show the knowledge of Board Members was best in Pensions Governance, Pensions Accounting & Audit Standards and Financial Markets and Product Knowledge, whilst Committee respondents was significantly higher for Financial Markets and Product Knowledge, and Pension Governance than other areas. Both Board and Committee respondents ranked their current knowledge on Actuarial Methods, Standards and Practices lowest at this time.

# Agenda Item 4

## 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 Board 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 Board 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.

It is intended to re-run the knowledge assessment in 18 to 24 months, time to monitor the effectiveness of the training that has been delivered.

## Other Training Opportunities

### Brunel Investor Days – Online Seminars

Brunel Pension Partnership held 2 investor sessions on 27 September and 3 October. Thank you to those board members that attended and this will be added to your training logs.

For those members unable to attend one or either, recordings 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.

# Agenda Item 4

## **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 5 Pension Board members enrolled and 3 Pension Committee members.

## **Recommendation**

That the Board notes the report.

## **Contact Officer**

Matthew Trebilcock – Head of Pensions (01452 328920)