

# Agenda Item 7

Pension Committee

3 December 2021

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

Reported funding position	31 March 2019	30 September 2021
Assets (£m)	2,379	3,100
Past service liabilities (£m)	2,338	2,596
Surplus/(Deficit) (£m)	41	504
Funding level	102%	119%
Assumed future investment return	4.2%	4.1%
Likelihood of achieving this return*	70%	70%
Fully funded target	31 March 2019	30 September 2021
Funding target	100%	100%
Future investment return required to be 100% funded	4.1%	3.0%
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 £504m at 30 September 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 4.1% p.a. at 30 September 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 position remains similar to the previous quarter as at 30 June 2021. The detailed funding report, prepared by Hymans, is attached at Appendix 1.

## Fund Investment Performance

Over the quarter to 30 September 2021, the Fund's total market value increased by £42.261m, to £3,100.015m.

Over the quarter, total Fund assets produced a positive return of 1.3%, compared to a target of 1.1%, outperforming the strategic benchmark by 0.2%.

Performance over the 3 years to 30 September 2021 was 8.0% 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 was completed to the Brunel Portfolios. 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). The Brunel Multi-Asset Credit portfolio contains three managers, Neuberger Berman, Oaktree and CQS.
- This transition outcome has been reviewed by Officers and has been undertaken appropriately. Further details and outcomes are detailed in the Part 2 report of this meeting.
- During the quarter there has been a number of substantial calls into the alternative asset

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class of circa £51.5m in GBP terms, resulting in the Fund moving more towards its target allocation to alternatives.

The current Strategic Asset Allocation is as follows:

Asset Class	Target Allocation %	Range +/- %	Allocation as at 30 September 2021 %	Variation from Target %
Equities	55.0	3.0	60.8	5.8
Fixed Interest	22.0	2.0	19.1	-2.9
Alternatives	23.0	2.0	20.2	-2.8

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 116 meetings (1,228 resolutions). At 41 meetings they recommended opposing one or more resolutions. They recommended voting with management by exception at 6 meetings and abstaining at 1 meeting. They supported management on all resolutions at the remaining 68 meetings. A detailed quarterly voting report is attached as Appendix 4 to this report

Hermes EOC engaged with 194 companies held in the Gloucestershire Pension portfolios on a range of 602 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 Administration Team are continuing to operate under working practises that were introduced at the start of the pandemic and these continue to impact 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 September 2021 and previous whole year comparisons are attached as appendix 6 to this report.

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The quarter to 30 September sees the team issuing the Annual Benefit Statements (ABS), which is the resultant of the year end processing which takes additional resource from the team across the first 2 quarters of the Fund year.

Performance indicators for the first 2 quarters 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 September, we continue to see an increase in the number of retirements (461 in total with 260 within the quarter), which have now returned to pre-pandemic levels and projected to be greater than 2019/20 which had previously seen the largest yearly number. Additionally, estimates are also likely to be at their highest levels to date if current volumes continue at the same level, and based on the increasing membership this seems likely. The team continue to experience higher levels of individual member questions and engagement.

## 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

## 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>	✓	✓	✓	✓

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## Administration

Task	2021/22			
	Q1	Q2	Q3	Q4
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 DLUHC.</i>		✓	✓	✓

## Governance Review

The following is a summary, together with commentary of the amber key tasks from the work plan agreed by Committee in September 2021.

A detailed report against all items is attached as Appendix 8 to this report.

Action	Reason	Timescales	Completed
<b>Update the Fund's Governance Compliance Statement and Policy</b>  <i>Comment: The activity has yet to commence, but is now scheduled to take place in Q4</i>	The current Compliance Statement is dated July 2017. We would anticipate this document being reviewed in conjunction with the Governance Policy statement which was last reviewed in February 2020.  We understand that an updated Compliance Statement has been drafted so we assume that our input would be to review the draft updated policy	Q3 - Q4 2021/22	Will be undertaken in Q4 2021/22
<b>Review of Scheme of Delegation</b>  <i>Comment: The activity has yet to commence, but is now scheduled to take place in Q4</i>	Review Council's Scheme of Delegation to ensure that pension fund matters are covered.  Consider this in conjunction with recommendation from SAB Good Governance review regarding LGPS senior officer.	Q3 - Q4 2021/22	Will be undertaken in Q4 2021/22

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## **Recommendation**

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

## **Contact Officer**

Matthew Trebilcock – Head of Pensions (01452 328920)