

# Agenda Item 7

Pension Committee

3 March 2022

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

#### Executive summary

| Reported funding position                           | 31 March 2019 | 31 December 2021 |
|---|---------------|------------------|
| Assets (£m)   | 2,379         | 3,227            |
| Past service liabilities (£m)                       | 2,338         | 2,737            |
| Surplus/(Deficit) (£m)                              | 41            | 490              |
| Funding level                                       | 102%          | 118%             |
| Assumed future investment return                    | 4.2%          | 3.7%             |
| Likelihood of achieving this return*                | 70%           | 75%              |
| Fully funded target                                 | 31 March 2019 | 31 December 2021 |
| Funding target                                      | 100%          | 100%             |
| Future investment return required to be 100% funded | 4.1%          | 2.8%             |
| Likelihood of achieving this return*                | 71%           | 85%              |

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

# Agenda Item 7

**Past service funding position:** The Fund has a surplus of £490m as at 31 December 2021 compared to a surplus of £41m at 31 March 2019, however this is down from £504m as at 30 September. Although assets increased over the quarter, the liabilities grew at a faster rate. The improvement since 2019 has been largely driven by strong investment performance.

**Investment outlook:** Prudent expectations of future investment returns have fallen to 4.1% p.a. at 31 December 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 September 2021.

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

## Fund Investment Performance

Over the quarter to 31 December 2021, the Fund's total market value increased by £126.733m, to £3,226.748m.

Over the quarter, total Fund assets produced a positive return of 4.1%, compared to a target of 4.3%, slightly underperforming the strategic benchmark by 0.2%.

Performance over the 3 years to 31 December 2021 was 12.3% ahead of the benchmark by 0.9%.

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:

- Divestment of £70m from the Global High Alpha (GHA) portfolio to bring back within its strategic asset allocation range
- Investment of £25m into the Emerging Market portfolio to bring back towards strategic asset allocation
- Investment of £20m into the Sustainable Equity portfolio to bring back towards strategic asset allocation
- c£25m retained in cash to manage the capital calls into the alternative asset classes.
- During the quarter there has been a number of calls into the alternative asset class of circa £9m in GBP terms, resulting in the Fund moving more towards its target allocation to alternatives.

# Agenda Item 7

The current Strategic Asset Allocation is as follows:

| Asset Class    | Target Allocation % | Range +/- % | Allocation as at 31 December 2021 % | Variation from Target % |
|----------------|---------------------|-------------|-------------------------------------|-------------------------|
| Equities       | 55.0                | 3.0         | 60.8                                | 5.8                     |
| Fixed Interest | 22.0                | 2.0         | 18.4                                | -3.6                    |
| Alternatives   | 23.0                | 2.0         | 20.8                                | -2.2                    |

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 92 meetings (867 resolutions). At 39 meetings they recommended opposing one or more resolutions. They recommended voting with management by exception at 2 meetings. They supported management on all resolutions at the remaining 51 meetings. A detailed quarterly voting report is attached as Appendix 4 to this report.

Hermes EOC engaged with 250 companies held in the Gloucestershire Pension portfolios on a range of 838 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.

The annual Responsible Investment and Stewardship outcomes report will provide greater information on the effectiveness and outcomes of the voting and engagement undertaken and will include case studies. The report for 2021 is currently being prepared by Brunel and this will be issued to all Committee and Board members as soon as it becomes available.

## Fund Administration

The Administration Team have continued to operate working practises that were introduced at the start of the pandemic in 2020. This sees half of the team working in the office and the other half working from home on a week on, week off basis. This approach was undertaken to mitigate the impact on the service delivery and ensure staff safety during the pandemic.

As we emerge from the pandemic, we are now working towards implementing agile working

# Agenda Item 7

for the team, as per GCC guidelines, which will see greater flexibility across the team, but will result in a major change to the overall teams working behaviours that were in place prior to the pandemic in 2020.

The working processes and procedures that were in place prior to the pandemic, were in place to ensure that the team met one of the main objectives of the Fund, to pay the right benefits, to the right person at the right time. Over the last decade the administration of the Fund has become vastly more complex, with increasing regulations, volumes of enquiries, governance and information requirements, such as recently been seen with the increase in checks that the Fund now has to undertake before we can make a transfer payment to another pension arrangement.

The current performance indicators have been under challenge due to the current working practises, which in most cases suffer from delays due to members of the team not being in the office. Although, we are likely to see improvements on this with the upcoming implementation of agile working.

The additional resources for the team are currently being recruited and this will ultimately assist in the delivery of services, however, due to the complex nature of the LGPS regulations, the impact of the additional resources will take some time to be realised.

The volume of membership continues to increase, as do the complexities of peoples circumstances, therefore, to ensure that we are able to deliver the ongoing level of service required we will need to undertake a review of all our processes to see how we can improve them either with efficiencies or with the implementation of IT systems. Alongside this, we will also be undertaking a review of the administration strategy and the performance indicators, that were previous reviewed in 2017 to see if they remain appropriate, this activity is built into the Funds business plan for 2022/23 alongside other key projects such as the Pensions Dashboard and McCloud.

In the meantime, we as a team remain focussed on paying the right benefits, to the right people at the right time, adapting where possible and ensuring we strive to deliver an equal service to all members.

At their meeting in January 2022 the Local Pensions Board requested that we reflected the statutory timeframes in our performance indicators to aid oversight. We are currently looking at how best to incorporate these and this will form part of the performance indicator review, but I can advise that we are meeting our statutory timeframes and we do not have any reportable breaches at this time.

Finally, through engagement with our LGPS Funds, the above circumstances are being replicated in the majority of cases. Some Funds agreed to reduce their performance indicators at the beginning of the pandemic and these still remain in operation at this time, whilst other Funds are experience similar performance levels to ours for the same reasons we have outlined above.

# Agenda Item 7

## 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 |
| Annual review against The Pensions Regulators Code of Practise<br><br><i>Comment: moved onto the 2022/23 business plan, as currently awaiting the new code to be issued</i> |         |    |    | ✓  |

### Investment Management

| Task   | 2021/22 |    |    |    |
|--|---------|----|----|----|
|  | Q1      | Q2 | Q3 | Q4 |
| Responsible Investment Reporting<br><br><i>Comment: working in conjunction with the Brunel Business Plan 2022/23</i>   | ✓       | ✓  | ✓  | ✓  |
| Review the recommendations of the Taskforce for Climate-related Financial Disclosure (TCFD) and requirements for UK Stewardship code signatory status<br><br><i>Comment: awaiting further consultation and regulations</i> | ✓       | ✓  | ✓  | ✓  |
| Review the Funds Investment Strategy Statement<br><br><i>Comment: moved to Q1 2022/23</i>  |         |    |    | ✓  |
| Review the Funds Responsible Investment Policy<br><br><i>Comment: - moved to 2022/23 to coincide with Brunel Climate Stocktake outcomes</i>  |         |    | ✓  | ✓  |

# Agenda Item 7

## Administration

| Task  | 2021/22 |    |    |    |
|---|---------|----|----|----|
|   | Q1      | Q2 | Q3 | Q4 |
| Possible implementation of McCloud judgement<br><i>Comment: Awaiting further guidance/regulations and IT support.</i> | ✓       | ✓  | ✓  | ✓  |
| Possible implementation of revised 95k cap regulations<br><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      | New Schedule Deliver        |
|--|--|-----------------|-----------------------------|
| <b>Review the Funds' Breaches log</b><br><i>Comment: Policy was agreed by Committee in December 2021. New log adopted from Jan 2022, thereby first reportable period will be 31 March 2022</i>   | Ensure breaches log covers all expected areas and ensure this is populated and taken to PC and LPB for information.  | Q3 - Q4 2021/22 | June 2022 Committee Meeting |
| <b>Update the Fund's Governance Compliance Statement and Policy</b><br><i>Comment: We were expecting the guidance on the SAB Good Governance Review to be received in Q4 2021/22. However, this is now schedule to be received in Q1 2022/23. Review realigned as a result</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.<br><br>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 | June 2022 Committee Meeting |

# Agenda Item 7

|  |   |                 |                             |
|--|---|-----------------|-----------------------------|
| <b>Review of Scheme of Delegation</b><br><br><i>Comment: We were expecting the guidance on the SAB Good Governance Review to be received in Q4 2021/22. However, this is now schedule to be received in Q1 2022/23. Review realigned as a result</i> | Review Council's Scheme of Delegation to ensure that pension fund matters are covered.<br><br>Consider this in conjunction with recommendation from SAB Good Governance review regarding LGPS senior officer. | Q3 - Q4 2021/22 | June 2022 Committee Meeting |
|--|---|-----------------|-----------------------------|

## Recommendation

That the Committee notes in accordance with the regulations, the Funds position and activities as at 31 December 2021.

## Contact Officer

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