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Pension Board
21 July 2022

Gloucestershire Pension Fund update – Part 1 Quarter ending 31 March 2022

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 2022.

The information contained in this report was taken to the Pensions Committee on 16 June 2022 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.

Executive summary

Reported funding position	31 March 2019	31 March 2022
Assets (£m)	2,379	3,111
Past service liabilities (£m)	2,338	2,696
Surplus/(Deficit) (£m)	41	415
Funding level	102%	115%
Assumed future investment return	4.2%	4.2%
Likelihood of achieving this return*	70%	75%
Fully funded target	31 March 2019	31 March 2022
Funding target	100%	100%
Future investment return required to be 100% funded	4.1%	3.4%
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 Fund has a surplus of £415m as at 31 March 2022 compared to a surplus of £41m at 31 March 2019, however this is down from £490m as at 31 December. The improvement since 2019 has been largely driven by strong investment performance.

Investment outlook: Prudent expectations of future investment returns have remained broadly the same at 4.2% p.a., but the likelihood of this return being achieved is higher (75% likelihood at 31 March 2022, compared to a 70% likelihood at 31 March 2019).

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 a 83% chance of achieving the returns needed).

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

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

Fund Investment Performance

Over the quarter to 31 March 2022, the Fund's total market value decreased by £120.655m, to £3,106.093m.

Over the quarter, total Fund assets produced a negative return of **-3.8%**, compared to a target of **-1.5%**, underperforming the strategic benchmark by 2.3%.

Performance over the 3 years to 31 March 2022 was 8.3% annualised slightly behind the benchmark by 0.2%.

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 £50m from the Passive Global Developed Equity (Hedged) portfolio to fund capital calls into the alternative asset classes.
- Full divestment from the Passive Low Carbon and Smart Beta portfolios with £70m being invested into the Global Sustainable portfolio and the remainder invested into the Passive Paris Aligned portfolio as per the new strategic asset allocation
- The following commitments to maintain the Strategic Asset Allocation were made to Cycle 3 of the Brunel Private Markets portfolios:
 - Infrastructure - £20m
 - Private Equity - £16m
 - Private Debt - £38m
- During the quarter there has been a number of calls into the alternative asset classes of circa £10m in GBP terms and circa £7m in GBP terms into international property, resulting in the Fund moving more towards its target allocation to alternatives and property.

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The current Strategic Asset Allocation is as follows:

Asset Class	Target Allocation %	Range +/- %	Allocation as at 31 March 2022 %	Variation from Target %
Equities	55.0	3.0	57.9	2.9
Fixed Interest	22.0	2.0	18.2	-3.8
Alternatives*	23.0	2.0	23.8	0.8

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

Responsible Investment update

The 2022 Brunel Responsible Investment and Stewardship outcomes report and the Hermes EOS Annual Review 2021 have been shared with Committee and Pension Board members since the last Committee meeting in March 2022.

Both these reports provide in-depth analysis and case studies of the voting, engagement and RI outcomes undertaken on the Funds behalf throughout 2021.

Due to the size of these reports, they are not provided as part of your Committee papers. The reports were circulated via email on 6 May and can also be located on the Funds website via the following links:

[2022 Brunel Responsible Investment and Stewardship outcomes report](#)

[Hermes EOS Annual Review 2021](#)

Fund Administration

The Administration Team are still currently continuing 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. Full performance statistics are provided at appendix 4 to this report.

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

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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 remain under challenge due to the volume of casework, which has returned to 2019/20 levels in most areas and new working practises (i.e. agile working) that remain in place. Also, the level of complexity continues to develop, as has been seen in new regulations and checks that now must be performed before the Fund can make a transfer payment.

Staffing update

I am pleased to advise that we have appointed Zoe Bowen-Viner and Chris Payne to the roles of Group Pension Leaders with effect from 1 June.

The recruitment for Lead Pensions Officers (internal only) closed on 31 May and we received 6 applications for the 3 posts (1 new post and 2 resulting from Zoe and Chris appointments). Interviews for these 3 posts are currently being scheduled. Once the outcomes of this recruitment process have been completed, we will then commence the recruitment of the additional Pension Officer posts.

The recruitment of the Pension Investment & Accounting Manager post is currently active with a closing date of 20 June 2022.

The Funds Pension Administration Manager, Alan Marshall applied for and has been granted flexible retirement, which will come into effect from 1 November 2022. With the impending projects such as McCloud and Pensions Dashboard retaining Alans vast knowledge within the Fund is key as well as developing succession planning and reducing the key person risk that currently exists. The recruitment process for a new Pension Administration Manager will commence shortly.

Recruitment remains a challenging area across the entire LGPS and there are a vast number of Funds actively recruiting at this time in both administration and investment arenas and as 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 part of 2022/23 business plan 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.

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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.

Business Plan 2022/23

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 2022/23.

A detailed report against all items is attached as Appendix 5 to this report

Governance

Task	2021/22	2022/23			
	Q4	Q1	Q2	Q3	Q4
Annual review against The Pensions Regulators Code of Practise	✓ - on the 2022/23 business plan				

Investment Management

Task	2021/22	2022/23			
	Q4	Q1	Q2	Q3	Q4
Review the recommendations of the Taskforce for Climate-related Financial Disclosure (TCFD) and requirements for UK Stewardship code signatory status	✓ - on the 2022/23 business plan	x – awaiting consultation from DHLUC			

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Core projects tracking from 2022/23 business plan

Below is a brief tracking of the core projects identified in the 2022/23 business case. Further updates are provided in Appendix 5 to this report

1) 2022 Actuarial valuation and associated tasks	On track and operating to schedule	
2) Review pensions administration system contract	On schedule – project planning in phase	
3) Pensions Dashboard (including a Data Improvement Strategy)	Scheduled Q2/Q3 2022/23	
4) McCloud	Awaiting guidance	

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.

Committee were asked and confirmed their support to the revised timeline on certain activities below. A detailed report against all items is attached as Appendix 6 to this report.

Action	Reason	Timescales	Current action/comment
Update the Fund's Governance Compliance Statement and Policy	<p>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.</p> <p>We understand that an updated Compliance Statement has been drafted so we assume that our input would be to review the draft updated policy</p>	Q3 - Q4 2021/22	✓ - will be brought to the September 2022 meeting

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Review of Scheme of Delegation	<p>Review Council's Scheme of Delegation to ensure that pension fund matters are covered.</p> <p>Consider this in conjunction with recommendation from SAB Good Governance review regarding LGPS senior officer.</p>	Q3 - Q4 2021/22	✓ - will be brought to the September 2022 meeting
Review the Fund's Communications Policy	We understand that a review was due to be undertaken in 2019/20 but this did not take place	Q4 2021/22 – Q1 2022/23	Revised timeline - Will commence in Q4 2022/Q1 2023
Review the Fund's Administration Strategy	Last reviewed in 2017	Q4 2021/22 – Q1 2022/23	Revised timeline - Will commence in Q4 2022/Q1 2023
Develop a Fund Business Continuity Policy / Plan	<p>Expected to be included in TPR New Code.</p> <p>We understand that the Fund currently relies on the Council's approach to Business Continuity.</p>	Q2 2022/23	Revised timescale
Develop a Fund Cyber Strategy	<p>Expected to be included in TPR New Code.</p> <p>We understand that the Fund currently relies on the Council's approach to Cyber Security.</p>	Q3 – Q4 2022/23	Revised timescale
Carrying out a review of Fund's practices against TPR's New Code of Practice	As part of best practice, we would expect the Administering Authority to carry out a regular review of their practices against the New Code.	Awaiting code of practice from TPR	On hold

Employer Representatives – Local Pension Board and Pensions Committee

An employer representative position on the Gloucestershire Local Pension Board recently became vacant, therefore, a communication was issued to all fund employers on 20 April 2022 requesting expressions of interest in the role. I am pleased to advise that after consultation with Cllr Lynden Stowe in his capacity as Chair of the Pensions Committee, in

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accordance with the approval process, Mr Colin Williams from the Lower Severn Internal Drainage Board, has been appointed to the role for a 4-year term.

I can also advise that as recommended by the Pensions Committee and approved by Council as a result of the governance review, at the culmination of the above process a further communication was issued to the Fund employers on 26 May 2022 requesting expressions of interest in the role of Employer Representative on the Gloucestershire Pensions Committee. Expression of interest have been requested to be received by Wednesday 15 June, a verbal update on the progress of this process will be given at the formal meeting.

Gloucestershire Pension Fund audit plan year ending 31 March 2022

Attached as Appendix 7 is the Audit Plan produced by Grant Thornton (the Fund's external auditor) for the financial year ending 31 March 2022. The Audit Plan provides an overview of the planned scope of the statutory audit of the Fund and the identified significant risks, materiality, and the audit logistics.

It is planned that the Pension Fund accounts and the audit findings report in relation to the Fund will also be brought to the September 2022 Pensions Committee meeting ahead of the formal approval by the Audit and Governance Committee.

Recommendation

The Board is recommended to note the position of the Fund as at 31 March 2021 and the governance undertaken and subsequent recommendations agreed by the Pensions Committee at their meeting held on 16 June 2022.

Contact Officer

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