

# Gloucestershire Pension Fund

Fund Account for the year ended 31<sup>st</sup> March 2022

2020/21		2021/22	Note
£'000		£'000	
<b>Contributions</b>			
-123,689	employer contributions	-82,992	N18
-20,110	member contributions	-21,119	N18
-143,799		-104,111	N7
<b>Transfers in from other pension funds</b>			
-5,883	individual transfers from other schemes or funds	-6,928	
-	group transfers from other schemes or funds	-	
-5,883		-6,928	
<b>Other income</b>			
-94	recoveries for services provided	-89	N20
<b>Benefits</b>			
75,033	pensions	77,261	N30
11,358	commutation of pensions and lump sum retirement benefits	13,328	
1,908	lump sum death benefits	1,647	
88,299		92,236	N7
<b>Payments to and on account of leavers</b>			
227	refunds to members leaving scheme or fund	335	
-2	payments for members joining state scheme or fund	-2	
5,706	individual transfers to other schemes or funds	6,867	
-	group transfers to other schemes or funds	1,069	N28
5,931		8,269	
-55,546	<b>Net (additions) / withdrawals from dealings with members</b>	<b>-10,623</b>	
12,202	<b>Management Expenses</b>	<b>18,530</b>	N20
-43,344	<b>Net (additions) / withdrawals including fund management expenses</b>	<b>7,907</b>	
<b>Returns on investments</b>			
-23,888	Investment income	-18,776	N13
-43	Taxes on income	-	N3 & N13
-590,652	Profit(-) and losses on disposal of investments and changes in market value of investments	-197,484	N4
-614,583	<b>Net returns on investments</b>	<b>-216,260</b>	
-657,927	<b>NET INCREASE (-) / DECREASE IN THE NET ASSETS AVAILABLE FOR BENEFITS DURING THE YEAR</b>	<b>-208,353</b>	
2,244,563	<b>Opening net assets of the scheme</b>	<b>2,902,490</b>	
2,902,490	<b>Closing net assets of the scheme</b>	<b>3,110,843</b>	

# Gloucestershire Pension Fund

Net Assets Statement as at 31<sup>st</sup> March 2022

2020/21		2021/22	Note
£'000		£'000	
<b>Investment assets</b>			
360,751	Bonds	-	
2,257,529	Pooled investment vehicles	2,773,831	N10
202,134	Pooled property investments	246,138	
1,106	Derivative contracts	-	N2 & N15
4,856	Other investments - Venture Capital/Private Equity	3,853	
15,816	Cash held on behalf of the investment managers	75,988	N25
5,800	Other investment balances	1,129	
2,847,992		3,100,939	N12
<b>Long term investment assets</b>			
112	Brunel Pension Partnership Ltd.	71	
112		71	
<b>Investment liabilities</b>			
-813	Derivative contracts	-	N2 & N15
-	Other investment balances	-	
-813		-	N12
2,847,291	<b>Total net investments</b>	<b>3,101,010</b>	
<b>Long term assets</b>			
308	Contributions due from employers	181	
308		181	N12 & N22
<b>Current assets</b>			
4,974	Contributions due from employers	5,256	
277	Other current assets	1,382	
275	Payments in advance	5	
50,668	Cash balances	4,495	N2, N21, N25
56,194		11,138	N12 & N22
<b>Current liabilities</b>			
-7	Unpaid benefits	-13	
-1,296	Other current liabilities	-1,473	
-1,303		-1,486	N12 & N23
2,902,490	<b>Net assets of the scheme available to fund benefits at the reporting period end</b>	<b>3,110,843</b>	N4, N5, N12 & N16

The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end but rather summarise the transactions and net assets of the scheme.

The actuarial present value of promised retirement benefits is disclosed at Note N24.

The notes on the following pages form part of these Financial Statements.

# Gloucestershire Pension Fund

## Notes to Pension Fund Accounts

### N1. Introduction

The County Council is the administering body for the Gloucestershire Pension Fund which is a contributory defined benefit scheme. This is not only for County Council employees but also for District Councils within the County and other local bodies providing public services. A full list of all employing bodies who are members of the Fund are shown in the Pension Fund's Annual Report alongside the detailed accounts of the Gloucestershire Pension Fund.

The Fund is governed by the Public Service Pensions Act 2013 and administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended)

The Fund exists to provide pensions and certain other benefits to former employees. The Pension Fund is not a Gloucestershire County Council fund and is subject to its own audit; therefore balances are not included in the Gloucestershire County Council Consolidated Balance Sheet. The Fund is administered by the Pension Committee, which is a committee of Gloucestershire County Council. The Pension Board was set up with effect from the 1st April 2015 to assist the Pensions Committee in securing compliance with the relevant laws and Regulations and to help the Pension Committee ensure the effective and efficient governance and administration of the Fund.

### Membership Breakdown

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Pension Fund include the following:

- Scheduled bodies, which are automatically entitled to be members of the Fund.
- Admitted bodies, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

Fire fighters, police and teachers have their own separate nationally-administered schemes.

Membership details are set out below:

	31st March 2021	31st March 2022
Number of employers	204	217
<b>Number of employees in the scheme</b>		
County Council	10,074	9,762
Other employers	9,148	9,158
	<u>19,222</u>	<u>18,920</u>
<b>Number of pensioners</b>		
County Council	10,176	10,630
Other employers	7,114	7,498
	<u>17,290</u>	<u>18,128</u>
<b>Deferred pensioners</b>		
County Council	11,744	11,939
Other employers	8,530	8,875
	<u>20,274</u>	<u>20,814</u>
<b>Total number of members in pension scheme</b>	<u>56,786</u>	<u>57,862</u>

In addition, to the membership numbers above, there were 5,389 (5,110 2020/21) undecided or unprocessed leavers.

Undecided leavers are those members who are no longer accruing service and to whom a refund of contributions or transfer out may be due.

Unprocessed leavers are those members which represent cases where we are aware that a member has left, but that case has not yet been processed.

### Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the Local Government Pension Scheme Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31st March 2022. Employers' contributions are set based on triennial actuarial funding valuations. The last such valuation was at 31st March 2019. When setting contribution rates the Actuary takes into account the funding target, the time horizon over which the funding target is to be achieved and the strength of the employer covenant; further information can be found within the Fund's Funding Strategy Statement. During 2021/22 employer contribution rates ranged from 0% to 36.5% of pensionable pay.

## Benefits

Prior to 1st April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1st April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, disability pensions and death benefits, as explained on the LGPS website - see [www.lgpsmember.org](http://www.lgpsmember.org).

## N2. Summary of significant accounting policies

### Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2021/22 financial year and its position at year end as at 31st March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts summarise the transactions of the Fund and reports on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial value of promised retirement benefits, valued on an International Accounting Standard (IAS19) basis, is disclosed at Note 24 of these accounts. The accounts are prepared on a going concern basis.

### Critical judgements in applying accounting policies

The net Pension Fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

The critical judgement is made by senior management of the Pension Fund, with advice from the Actuary, of the assumptions to be used in the Valuation but because they are assumptions, they could be a source of estimation uncertainty and are also covered in the following section. The Pension Fund Liability is subject to significant variances based on changes to the underlying assumptions and these have been summarised in Note N24.

These actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant investment management policies.

### Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end-date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates. Income and expenditure have been accounted for on an accruals basis.

The items within the Financial Statements as at 31st March 2022, for which there is a significant risk of material adjustment in the forthcoming year, are highlighted below:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 24)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, salary increases, changes in retirement ages, mortality rates and returns on fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied	The effects on the net pension liability of changes in the individual assumptions can be measured as follows:  - A 0.1% decrease in the discount rate would increase the liability by £79m  - A 0.1% increase in the pension increase rate would increase the liability by £72m  - A 0.1% increase in the salary increase rate would increase the liability by £7m  - A 1 year increase in member life expectancy would increase the liability by £160m
Private Equity, Infrastructure and Private Debt	Due to the normal delay in receiving quarterly valuation statements for some of the underlying funds, investments in Private Equity, Infrastructure and Private Debt funds totalling £151.5m have a valuation date earlier than 31st March 2022 and may be different when the 31st March prices are known. The percentages used in the next column highlight the volatility that might occur.	The total value of Private Equity, Infrastructure and Private Debt investments in the financial statements as at 31st March 2022 was £174.421m.  A change in market price of those holdings with a valuation date prior to the 31st March 2022 would equate to a potential movement of  - Private Equity & Infrastructure £30.4m, 31.2% - Private Debt £4.9m, 9.0%  There is a risk that these investments may be under or overstated in the accounts, see Note 26.

## Pooled Property Funds

Investments are not publicly listed and as such there is a degree of estimation involved in the valuation. Managers either apply open market values or a fair value process, open market values are in accordance with RICS valuation standards and fair value processes are driven by International Private Equity and Venture Capital Valuation guidelines. Due to the normal delay in receiving quarterly valuation statements for the underlying funds, investments in Pooled Property Funds totalling £66.9m have a valuation date earlier than 31st March 2022.

The total value of Pooled Property Funds in the financial statements as at 31st March 2022 was £246.138m. A change in market price of those holdings with a valuation date prior to the 31st March 2022 would equate to a potential movement of £10.0m, 15.0%. There is a risk that these investments may be under or overstated in the accounts, see Note 26.

## Revenue and expense recognition

### Contribution income

Contributions have been accounted for on an accruals basis where amounts due have been determined in time for inclusion in the accounts. Additional employer's contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Employer deficit contribution lump sum payments are accounted for in the year the payment is made. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

### Benefits payable and refunds of contributions

Benefits payable and refunds of contributions have been brought into the accounts on the basis of all valid claims approved during the year.

### Transfers to and from other schemes

Individual transfer values are accounted for when they are paid or received. Bulk transfer value calculations are made towards the end of the bulk transfer process and based on payment being made on a specific day. Bulk transfer values are accrued when the value has been determined.

### Management expenses

Pension Fund expenses have been accounted for in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*. A more detailed breakdown of management expenses can be found in Note N20.

#### a) Investment management expenses

Investment Management Expenses comprise of expenses which are incurred in relation to the management of pension fund assets. Broadly, these are based on the market value of the investments in the investment manager's portfolio and therefore increase or reduce as the value of these investments change. Where an investment manager's fee has not been received by the reporting period end date, an estimate based upon the market value of the mandate at the end of the reporting period has been used. Where fees are netted off investment market values by investment managers, these expenses are grossed up to increase the change in value of investments.

Federated Hermes deducts its fees from a combination of assets held and income distributions and is included within Investment Management Expenses. Technology Venture Partners (TVP) and Yorkshire Fund Managers Ltd. (YFM) deduct their fees from the value of the assets under their management. Fees for TVP and YFM have not been included as they are the legal responsibility of the managers and not the Fund. Management costs for Arcmont are deducted from distributions. Brunel's investment managers and Golub deduct their fees from the value of the pooled funds under their management. The investment manager for Brunel's passive global equity pooled funds encashes units to cover their fees and all these fees have also been included within Investment Management Expenses.

#### b) Acquisition and transaction costs of investments

Acquisition costs of investments (e.g. stamp duty) and transaction costs are included within Investment Management Expenses with a corresponding offset against Profit on Disposal of Investments. In addition to the transaction costs disclosed, indirect costs are incurred through the bid/offer spread on investments within pooled investment vehicles. A more detailed breakdown of management expenses, including transaction costs, can be found in Note N20.

#### c) Administration expenses

All administrative expenses are accounted for on an accrual basis. All staff costs associated with administration is charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. Further information on administrative expenses can be found in Note N20.

#### d) Oversight & governance expenses

All Oversight and Governance expenses are accounted for on an accrual basis. All staff costs associated with Oversight and Governance is charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund. The cost of investment advice from external consultants is included in Oversight & Governance. Further information on Oversight and Governance expenses can be found in Note N20.

### **Investment Income**

Dividends are accounted for when the holding is declared ex-dividend. Any amount not received by the end of the reporting period is recognised as a current financial asset. Investment income arising from the underlying investments of Pooled Investment Vehicles is reinvested within the Pooled Investment Vehicle and reflected in the unit price.

### **Cash and cash equivalents**

Cash comprises cash in hand (bank) and demand deposits (money market funds) which also includes amounts held by the Fund's custodian on behalf of its investment managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to minimal risk of changes in value.

Cash balances held in accordance with the County Councils' Treasury Management Strategy and those held with the Fund's custodian, State Street Bank & Trust Company, on behalf of investment managers, are in instant access accounts.

### **The Actuarial Present Value of Promised Retirement Benefits**

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 Post-Employment Benefits and relevant actuarial standards.

As permitted under the Code, the Fund has included a note disclosing the actuarial present value of promised retirement benefits by way of a note to the Net Asset Statement in Note N24.

### **Contingent assets and contingent liabilities**

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the Net Asset Statement but are disclosed by way of narrative in the notes.

### **Valuation of assets**

The SORP requires securities to be valued on a Fair Value Basis therefore assets and liabilities, where there is an active and readily available market price, are valued at the bid price. Where assets do not actively trade through established exchange mechanisms, a price is obtained from the manager of the investment asset through their quarterly reports. Further details of their approach to establishing fair value can be found within Note N26, Basis of Valuation table. Any amounts due or payable in respect of trades entered into but not yet completed at 31st March each year, accrued dividend income, Fund debtors and creditors and cash and cash instruments are accounted for as financial instruments held at amortised cost. Investments held in foreign currencies are shown at market value translated into sterling at the exchange rates prevailing as at 31st March 2022. Purchases and sales during the year which require settlement in a foreign currency are converted from/to sterling at the exchange rate prevailing on the trade date. Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is re-invested in the fund, net of applicable withholding tax. The Pooled Property Investments are independently valued either in accordance with the Royal Institute of Chartered Surveyors valuation standards or by a fair value process driven by International Private Equity and Venture Capital Valuation guidelines. Private Equity and Infrastructure funds are valued using the latest financial statements published by the respective fund managers and in accordance with the International Private Equity and Venture Capital Guidelines. The valuation standards followed by the managers are in accordance with the industry guidelines and the constituent management agreements. Such investments may not always be valued on year end valuation as information may not be available, and therefore will be valued based on the latest valuation provided by the managers adjusted for movements to the year end. A detailed breakdown of investments can be found under Note N12.

Financial assets are included in the financial statements on a fair value basis at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from the changes in the fair value of the asset are recognised in the Fund Account.

The values of investment as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 26). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association).

Gloucestershire Pension Fund together with nine other shareholders each hold a 10% share in Brunel Pension Partnership Ltd (company number 10429110). As such, no fund is deemed to have a significant influence and this long term investment is accounted for at fair value. The asset was initially measured at cost and is subsequently revalued for any impairment.

The accounts for the year ended 31st March 2022 use the valuations for the Fund's assets based on the figures provided by the Fund's custodian, State Street.

### **Derivatives**

Derivative contracts are valued at fair value and are determined using exchange prices at the reporting date. The fair value is the unrealised profit or loss at the current bid or offer market quoted price of the contract. Derivative contract assets, those with a positive value, are valued at bid price and derivative contract liabilities, those with a negative value, are valued at the offer price. The amounts included in change in market value are the realised gains and losses on closed futures contracts and the unrealised gains and losses on open futures contracts. The fair value of the forward currency contracts are based on market forward exchange rates at the year end date.

### **N3. Taxation**

The Fund is a registered public service scheme under Section 1(1) of Schedule 36 of the Finance Act 2004 and is exempt from UK capital gains tax on the proceeds of investments sold and UK income tax on interest received. Corporation Tax is deducted from UK equity dividends; tax deducted from property unit trusts can be reclaimed. Withholding tax is payable on income from overseas investments. This tax is recovered wherever local tax laws permit.

#### N4. Investment movements summary

2021/22

Asset Class	Market Value at 31 <sup>st</sup> March 2021	Purchases during the year at cost and derivative payments	Sales proceeds during the year and derivative receipts	Change in market value during the year	Market Value at 31 <sup>st</sup> March 2022
	£'000	£'000	£'000	£'000	£'000
Bonds	360,751	775,844	-1,143,493	6,898	-
Equities	-	-	-	-	-
Pooled Investments	2,257,529	1,298,998	-934,775	152,079	2,773,831
Pooled Property Funds	202,134	53,600	-48,439	38,843	246,138
Private Equity/Venture Capital	4,856	-	-1,516	513	3,853
	<u>2,825,270</u>	<u>2,128,442</u>	<u>-2,128,223</u>	<u>198,333</u>	<u>3,023,822</u>
Derivative contracts:					
Futures	-206	387	-383	202	-
Forward currency contracts	499	-	-	-499	-
	<u>293</u>	<u>387</u>	<u>-383</u>	<u>-297</u>	<u>-</u>
<b>Long term investment assets</b>					
Brunel Pension Partnership Ltd.	112	-	-	-41	71
	<u>112</u>	<u>-</u>	<u>-</u>	<u>-41</u>	<u>71</u>
Net Investment Assets	<u>2,825,675</u>	<u>2,128,829</u>	<u>-2,128,606</u>	<u>197,995</u>	<u>3,023,893</u>

In addition to the investments there was £86,950k (£76,815k 2020/21) in cash, cash equivalents and accruals. Cash movements, currency adjustments and other end of year settlements totalled -£511k (£359k 2020/21). As a result the total profit (-) and losses on disposal of investments and changes in market value of investments was -£197.5m (-£590.6m 2020/21).

2020/21

Asset Class	Market Value at 31 <sup>st</sup> March 2020	Purchases during the year at cost and derivative payments	Sales proceeds during the year and derivative receipts	Change in market value during the year	Market Value at 31 <sup>st</sup> March 2021
	£'000	£'000	£'000	£'000	£'000
Bonds	331,206	63,441	-52,290	18,394	360,751
Equities	-	-	-	-	-
Pooled Investments	1,673,162	507,876	-496,390	572,881	2,257,529
Pooled Property Funds	200,277	8,032	-2,509	-3,666	202,134
Private Equity/Venture Capital	4,491	-	-57	422	4,856
	<u>2,209,136</u>	<u>579,349</u>	<u>-551,246</u>	<u>588,031</u>	<u>2,825,270</u>
Derivative contracts:					
Futures	415	777	-1,857	459	-206
Forward currency contracts	-1,619	-	-	2,118	499
	<u>-1,204</u>	<u>777</u>	<u>-1,857</u>	<u>2,577</u>	<u>293</u>
<b>Long term investment assets</b>					
Brunel Pension Partnership Ltd.	427	-	-	-315	112
	<u>427</u>	<u>-</u>	<u>-</u>	<u>-315</u>	<u>112</u>
Net Investment Assets	<u>2,208,359</u>	<u>580,126</u>	<u>-553,103</u>	<u>590,293</u>	<u>2,825,675</u>

In addition to the investments there was £76,815k (£36,204k 2019/20) in cash, cash equivalents and accruals. Cash movements, currency adjustments and other end of year settlements totalled £359k (-£550k 2019/20). As a result the total profit (-) and losses on disposal of investments and changes in market value of investments was -£590.6m (£168.4m 2019/20).

The change in market value of investments comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

The closing market value of the derivatives in the previous tables represents fair value as at the year end date. In the case of derivative contracts, which are traded on exchanges, this value is determined using exchange prices at the reporting date. Forward foreign exchange contracts are over the counter contracts and are valued by determining the gain or loss that would arise from closing out the contract at the reporting date and entering into an equal and opposite contract as at that date. The profit or loss arising is included within the cash and accruals figure.

All derivative contracts settled during the period are reported within the table as purchases and sales.

## N5. Management of fund assets

The market value of investments managed by each external manager at the end of the financial year was:

	2020/21		2021/22	
	£'000	%	£'000	%
<b>Investments managed by the Brunel regional asset pool</b>				
Legal & General Investment Management	498,512	17.2	443,916	14.3
Brunel Global High Alpha Fund	436,140	15.0	408,878	13.1
Brunel ACS UK Equity Fund	373,224	12.9	405,123	13.0
Brunel Sterling Corporate Bonds Portfolio	-	-	365,269	11.7
Brunel Global Sustainable Fund	254,269	8.8	362,852	11.7
Brunel Property Fund	208,809	7.2	246,138	7.9
Brunel Diversifying Returns Fund	217,761	7.5	233,716	7.5
Brunel Multi Asset Credit Portfolio	-	-	200,543	6.4
Brunel Emerging Equity Fund	176,328	6.1	179,114	5.8
Brunel Private Equity and Infrastructure Portfolio	29,709	1.0	97,394	3.1
Cash, cash instruments and accruals with Brunel	-	-	76,181	2.5
Brunel Private Debt Portfolio	-	-	20,921	0.7
Brunel Pension Partnership Ltd. (Shareholding)	112	0.0	71	0.0
	<u>2,194,864</u>	<u>75.7</u>	<u>3,040,116</u>	<u>97.7</u>
<b>Investments managed outside of the Brunel regional asset pool</b>				
Western Asset Management Company Ltd.	582,266	20.1	-	-
Arcmont Asset Management Ltd.	33,360	1.1	23,602	0.8
Golub Capital Partners International	31,710	1.1	33,228	1.1
Technology Venture Partners	3,817	0.1	3,842	0.1
Yorkshire Fund Managers Ltd.	1,039	0.0	11	0.0
	<u>652,192</u>	<u>22.4</u>	<u>60,683</u>	<u>2.0</u>
<b>Total - External Managers</b>	<u>2,847,056</u>	<u>98.1</u>	<u>3,100,799</u>	<u>99.7</u>
In-house cash and accruals	55,199	1.9	9,833	0.3
Cash instruments with Custodian	235	0.0	211	0.0
	<u>2,902,490</u>	<u>100.0</u>	<u>3,110,843</u>	<u>100.0</u>

Where the value of an investment exceeds 5% of the total value of net assets, details have been disclosed in note N16.



## N6. Actuarial position of the Fund

- In line with the Local Government Pension Scheme Regulations, actuarial valuations of the Fund are required to be undertaken every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The latest valuation took place as at 31st March 2019 and established the minimum contribution payments for the three years until 31st March 2023. Work on the 2022 valuation has commenced with results being issued towards the end of 2022.

The key elements of the actuarial valuation are:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations

The aim is to achieve 100% solvency over a period not exceeding 17 years depending on the type of employer and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions, are sufficient to meet expected future pension benefits payable.

- The market value of the Fund's assets at the March 2019 triennial valuation date was £2,379m (£1,703m March 2016) and represented 102% (79.7% March 2016) of the Fund's accrued liabilities.
- The table below summarises the whole fund Primary and Secondary Contribution rates at the 2019 valuation. The 2016 valuation results of the Fund are shown for comparison.

	Last Valuation 31st March 2016		This Valuation 31st March 2019	
Primary Rate (% of pay)	19.6%		20.9%	
Secondary Rate (£)	2017/18	32,487,000	2020/21	30,652,000
	2018/19	36,638,000	2021/22	26,850,000
	2019/20	40,905,000	2022/23	24,353,000

- Individual employers' rates will vary depending on the demographic and actuarial factors particular to each employer. Full details of the contribution rates payable can be found in the 2019 actuarial valuation report and the Funding Strategy Statement on the Fund's website. The Actuary has made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1st April 2020 to 31st March 2023 in order to maintain the solvency of the Fund.
- The contribution rate has been calculated using the projected evolution of each employers' assets and benefit payments and the main actuarial assumptions used are as follows:

	Funding Basis	
	2016	2019
Rate of return on investments (Discount Rate)	4.0% pa	4.2% pa
Rate of general pay increases	2.4% pa	2.6% pa
Rate of increase to pensions in payment (in excess of guaranteed minimum pension)	2.1% pa	2.3% pa

- The estimate of the pension fund liability is subject to significant variations, based on changes to the underlying assumptions used - please see table above.
- The full actuarial valuation reports for 2013, 2016 and 2019 are published on the Pension pages of the County Council's website
- See note N24 for details of the Actuarial Present Value of Promised Retirement Benefits.

## N7. Analysis of contributions receivable and benefits payable

	2020/21		2021/22	
	Contributions receivable £'000	Benefits payable £'000	Contributions receivable £'000	Benefits payable £'000
Gloucestershire County Council <i>[Administering authority]</i>	**60,830	47,185	49,440	47,761
Scheduled bodies (177 21/22) (167 20/21)* <i>[Bodies admitted by right]</i>	**76,371	35,530	49,768	37,377
Admitted bodies (39 21/22) (36 20/21)* <i>[Bodies admitted by agreement]</i>	***6,598	5,584	4,903	7,098
	143,799	88,299	104,111	92,236

Scheduled bodies now include 109 (102 20/21) schools who have converted to academy status.

\* These numbers relate to active employers with active members

\*\* During 2020/21 Gloucestershire County Council and four scheduled bodies made the decision to pay lump sum deficit contributions of £38.8m to the Fund to benefit from earning greater investment returns in the short term resulting in reduced contribution payments owing in future years.

\*\*\* Contributions Receivable for Admitted Bodies for 2020/21 contained deficit payments of £2.1m in relation to employers who left the scheme.

## N8. Investment Strategy Statement

The Fund's Investment Strategy Statement (ISS) as required by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 can be found on the Fund's website <https://www.gloucestershire.gov.uk/pensions/investments>. It includes a statement on the Fund's approach to pooling its investment assets as required under the Regulations.

## N9. Related party transactions

Gloucestershire County Council, as Administering Authority for the Fund, incurred the following costs in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Pension Fund. All monies owing to and due from the Fund were paid or accrued for in the year.

	2020/21 £'000	2021/22 £'000
<b>Administrative expenses</b>	2,144	2,299

Part of the Pension Fund's cash holdings are invested on the money markets by the Treasury Management team of Gloucestershire County Council, see notes N2, N21 and N25.

Of the County Council's key management personnel, some of the Deputy Chief Executive & Executive Director of Corporate Resources and the Director of Finance remuneration costs were charged to the Fund to reflect time spent supporting the Fund. These consisted of salary, fees and allowances of £12,781 (£28,528 2020/21) and employers' pension contributions of £2,594 (£8,815 2020/21). The decrease on the year reflects the reduction in time spent by the Director of Finance following the appointment of the new Head of Pensions.

The Deputy Chief Executive & Executive Director and Director are members of the Fund as contributing Gloucestershire County Council employees. This does not impact on their role as Finance Director and S151 officer, which is clearly defined.

The Pensions Committee is the decision making body for the Fund and Gloucestershire County Council nominates 7 voting committee members. Councillor Gray is also a County Councillor but is the District Council's representative on the Pension Committee.

Each member of the Pension Committee is required to declare their interests at each meeting. Mr. P. Clark, the Scheme Member Representative, is a non-voting member of the Pension Committee. Mr. Clark is a contributing member of the Pension Fund and this does not impact on his Pension Committee role. Three members of the Pension Committee were also District Council members as at 31st March 2022 and these are detailed below:

Member	District Council
Cllr. M. Babbage	Cheltenham Borough Council
Cllr. D. Brown	Gloucester City Council
Cllr. D. Gray	Tewkesbury Borough Council

Cllr L. Stowe represents the Gloucestershire Pension Fund on the Brunel Oversight Board and is corporate shareholder representative for Gloucestershire County Council for UBICO Limited which is an employer in the Fund.

The Pension Board was created on the 1st April 2015. Four members of the Board are members of the Fund as contributing employees. This does not impact on their roles as members of the Pension Board given the nature of the Board's functions.

Transactions between employers and the Fund are disclosed in note N7.

### **Brunel Pension Partnership Ltd. (Company Number 10429110)**

Brunel was formed on the 14th October 2016 and oversees the investment of pension fund assets for Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset and Wiltshire Funds.

Each of the ten local authorities, including Gloucestershire County Council own 10% of Brunel. As part of Gloucestershire's investment in Brunel the Fund provided regulatory capital. This is subject to regular review by the regulator which could result in additional calls for capital.

Pension Fund transactions with Brunel are as follows:

	2020/21	2021/22
	£'000	£'000
Income	-	-46
Expenditure	909	836
Debtors	-	-
Payments in Advance	271	-

In addition to his role as Pension Committee member, Cllr. L. Stowe represents the Fund on the Brunel Oversight Board.

In 2020/21 the Pension Fund, together with the other nine Funds in Brunel, entered into a Pension Cost Recharge Agreement whereby each Fund agreed to reimburse Brunel with its share of regular ongoing pension related cashflows via its Annual Operating Charge. As part of this arrangement the Fund also agreed to pay or receive its share of any exit payment or credit should Brunel cease to be a member of the Local Government Pension Scheme. At the end of September 2021 the Fund's share of the possible charge was £768k.

### **N9a Key management personnel**

The key management personnel of the Fund are the Section 151 Officer and the Head of Pensions. A proportion of the Section 151 Officer's costs have been charged to the Fund to reflect time spent supporting the Fund and those costs are included with those of the Head of Pensions in the table below.

The Head of Pensions position, formerly a 0.5 full time equivalent, was vacant between June and October 2020 before the new Head of Pensions commenced in November 2020 as one full time equivalent. Therefore in relation to the Head of Pensions post the 2020/21 figure in the below table contains two months at 0.5 of a full time equivalent and 5 months at one full time equivalent. The costs for 2021/22 includes one full time equivalent for the whole year.

	2020/21	2021/22
	£'000	£'000
Short-term benefits	54	92
Post-employment benefits	3	-
Other long-term benefits	1	23
Termination benefits	-	-
Share-based payments	-	-
	<hr/>	<hr/>
	58	115

## N10. Contingent liabilities and contractual commitments

### Investment commitments

The Fund has investment commitments with three managers where the investment manager has not yet drawn down all monies due. These commitments relate to investments in private debt, private equity and infrastructure and are requested as and when the respective investment manager identifies an investment opportunity. The amounts requested can therefore be irregular in both size and timing.

In March 2022 the Fund increased its commitment to Brunel's infrastructure mandate by £20m, private equity mandate by £16m and private debt mandate by £38m. Brunel anticipates that commitments in Cycle 1 and Cycle 2 will be fully drawn down by 2026 and Cycle 3 by 2027.

Of the Golub Capital Partners commitment, 87.5% has been drawn down. Golub do not anticipate any further draw downs but reserve the right to still do so. The commitment draw down period will end on the 1st July 2023 and Golub will return monies as investments mature.

In relation to the Fund's private debt funds managed by Arcmont 76% of the Fund's total commitment has been drawn down and the private debt fund will start returning monies as investments mature rather than draw down the entire commitment.

The following table shows the Fund's total commitment and the remaining liability, following drawdowns, at the year end.

	<b>Total Commitment</b>	<b>Outstanding liability 2020/21</b>	<b>Outstanding liability 2021/22</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Arcmont Asset Management Ltd. (private debt)	<b>50,000</b>	14,992	<b>12,018</b>
Golub Capital Partners International (private debt)	<b>40,000</b>	5,798	<b>5,038</b>
Brunel Pension Partnership Ltd. (private equity) Cycle 1	<b>43,000</b>	31,638	<b>23,596</b>
Brunel Pension Partnership Ltd. (private equity) Cycle 2	<b>70,000</b>	69,563	<b>58,139</b>
Brunel Pension Partnership Ltd. (private equity) Cycle 3	<b>16,000</b>	-	<b>16,000</b>
Brunel Pension Partnership Ltd. (infrastructure) Cycle 1	<b>43,000</b>	30,664	<b>17,503</b>
Brunel Pension Partnership Ltd. (infrastructure) Cycle 2	<b>130,000</b>	122,865	<b>95,276</b>
Brunel Pension Partnership Ltd. (infrastructure) Cycle 3	<b>20,000</b>	-	<b>20,000</b>
Brunel Pension Partnership Ltd. (private debt) Cycle 2	<b>120,000</b>	120,000	<b>99,104</b>
Brunel Pension Partnership Ltd. (private debt) Cycle 3	<b>38,000</b>	-	<b>38,000</b>
	<b>570,000</b>	395,520	<b>384,674</b>

### Pension bonds

During 2021/22, eleven (eleven 2020/21) admitted body employers in the Pension Fund held insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default. No such defaults have occurred in 2021/22 (2020/21 nil).

### Contingent liability

In 2020/21 the Pension Fund, together with the nine other Funds in Brunel, entered into a Pension Cost Recharge Agreement whereby each Fund agreed to reimburse Brunel with its share of regular ongoing pension related cashflows via its Annual Operating Charge. As part of this arrangement the Fund also agreed to pay or receive its share of any exit payment or credit should Brunel cease to be a member of the Local Government Pension Scheme. At the end of September 2021 the Fund's share of the possible charge was £768k (2020/21 £657k).

## **N11. Stock lending**

The Pension Funds' custodian is authorised to release directly held stock to third parties under a stock lending arrangement, however during the early part of 2021/22 all of the Fund's assets were transferred into pooled funds and the stock lending programme ceased. Stock lending commission of £1k (2020/21 £3k) was received by the Fund for the part-year.

Brunel also operates a stock lending programme in relation to the underlying assets in two of the Fund's pooled funds. At 31st March 2022 the market value of shares out on loan was £22.2m (2020/21 £17.1m) and the value of collateral held £24.3m (2020/21 £18.5m) equal to 109.3% (2020/21 108.2%) of stock out on loan. Income of £68k (2020/21 £40k) was reinvested into the pooled funds.

These investments continue to be recognised in the Fund's financial statements. During the period the stock is on loan, the voting rights of the loaned stocks pass to the borrower

**N12. Financial asset analysis**

	2020/21	2021/22	Note
<b>Investment Assets</b>	<b>£'000</b>	<b>£'000</b>	
Bonds			
Public Sector	45,381	-	
Corporate	315,370	-	
	360,751	-	
Pooled investment vehicles			
Equities	1,738,473	1,799,883	
Bonds	208,677	565,811	
Diversified Growth	217,761	233,716	
Private Equity	11,407	37,290	
Infrastructure	16,141	60,104	
Private Debt	65,070	77,027	
	2,257,529	2,773,831	N10
Other investments			
Pooled Property Investments	202,134	246,138	
Venture Capital/Private Equity	4,856	3,853	
	206,990	249,991	
Derivative Contracts			
Futures	583	-	
Forward Foreign Exchange Contracts	523	-	
	1,106	-	N15
Cash (Managers)			
Cash instruments	13,239	35,969	
Cash deposits	2,577	40,019	
	15,816	75,988	
Other investment balances			
Debtors			
Outstanding settlement of investment sales	1	51	
Accrued dividend income and tax reclaims due on dividend income	5,799	1,078	
	5,800	1,129	
<b>Long term financial assets</b>			
Brunel Pension Partnership Ltd.	112	71	
	112	71	
<b>Total Investment Assets</b>	<b>2,848,104</b>	<b>3,101,010</b>	
	2020/21	2021/22	Note
<b>Investment Liabilities</b>	<b>£'000</b>	<b>£'000</b>	
Derivative Contracts			
Futures	-789	-	
Forward Foreign Exchange Contracts	-24	-	
	-813	-	N15
<b>Total Investment Liabilities</b>	<b>-813</b>	<b>-</b>	
<b>Long Term Assets</b>			
Contributions due from employers	308	181	
	308	181	N22
<b>Current Assets</b>			
Contributions due from employers	4,974	5,256	
Other current assets (debtors)	277	1,382	
Payments in advance	275	5	
Cash balances	50,668	4,495	N21
	56,194	11,138	N22
<b>Current Liabilities</b>			
Unpaid benefits	-7	-13	
Other liabilities (creditors)	-1,296	-1,473	
	-1,303	-1,486	N23
<b>TOTAL</b>	<b>2,902,490</b>	<b>3,110,843</b>	

### N13. Investment income

Investment income arises from the following investment categories:

	2020/21 £'000	2021/22 £'000
Bonds	11,751	3,440
Pooled investment vehicles	3,608	7,355
Pooled property investments	8,325	7,672
Interest on cash deposits	140	107
Private equity	7	-
Other income from stock lending, underwriting and class actions	57	202
	23,888	18,776
Withholding tax	43	-
	23,931	18,776

### N14. Separately invested additional voluntary contributions (AVC's)

Gloucestershire Pension Fund provides additional voluntary contribution (AVC) schemes for its members with The Prudential Assurance Company Limited and Phoenix Life Limited. The AVC's are invested separately in funds managed by them. These are in the form of with-profits, unit-linked and deposit accounts and secure additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement receive an annual statement confirming amounts held to their account and movements in the year. These amounts are not included in the Pension Fund Accounts in accordance with Regulation 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

Value of separately invested additional voluntary contributions

	31st March 2021 £'000	31st March 2022 £'000
The Prudential Assurance Company Limited	6,922	not available
Phoenix Life Limited	19	19
	<u>6,941</u>	<u>19</u>

Contributions paid by members in the Prudential scheme during 2021/22 totalled not available (2020/21 £610,385).

## N15. Derivatives

In May 2021 the directly invested fixed income manager, who was employing the use of derivatives to reduce currency risk and duration risk, the risk associated with the sensitivity of a bond's price to a one percent change in interest rates, was terminated and all derivative positions closed. Pooled funds investing in Sterling Corporate Bonds and Multi-asset Credit were purchased in their place. Managers of these pooled funds are allowed the modest use of derivatives primarily for currency and interest rate hedging purposes. Due to the nature of pooled funds where units are purchased in the fund itself rather than the underlying assets, details of derivative contracts are at fund level and not disclosed.

A derivative is a generic term for financial instruments used in the management of portfolios and is a financial contract between two parties, the value of which is determined by the underlying asset. Derivatives include futures, forwards, swaps and options.

The table below reflects the outstanding contracts at 31st March 2021 which were subsequently closed in early 2021/22.

### Derivative Contract Analysis

	Contract type*	2020/21 Economic Exposure £'000	2021/22 Economic Exposure £'000	Expiration	2020/21 Market Value £'000	2021/22 Market Value £'000
<b>INVESTMENT ASSETS</b>						
<u>Futures</u>						
US 10yr Note Future	ET	-16,608	-	Less than 3 months	478	-
US Ultra Bond Future	ET	-1,839	-	Less than 3 months	105	-
Overseas Futures		-----18,447	-		583	-
<b>Total Futures</b>		-18,447	-		583	-
Forward foreign exchange contracts	OTC	36,753	-	Less than 6 months	523	-
<b>Total Derivative Assets</b>		18,306	-		1,106	-
<b>INVESTMENT LIABILITIES</b>						
<u>Futures</u>						
UK - Fixed Interest						
UK Long Gilt Future	ET	4,976	-	Less than 3 months	-----52	-
UK Futures		4,976	-		-----52	-
Overseas - Fixed Interest						
German Euro-Bund Future	ET	-----7,733	-	Less than 3 months	-----24	-
US 5yr Note Future	ET	47,671	-	Less than 3 months	-----654	-
US Treasury Long Bond Future	ET	1,120	-	Less than 3 months	-----59	-
Overseas Futures		41,058	-		-737	-
<b>Total Futures</b>		46,034	-		-789	-
Forward foreign exchange contracts	OTC	5,804	-	Less than 6 months	-24	-
<b>Total Derivative Liabilities</b>		51,838	-		-813	-
<b>Net Futures</b>					293	-

\* Contract types ET (exchange traded) OTC (over the counter)

### Open forward Currency Contracts

	Asset Value £'000	Liability Value £'000
Open forward currency contracts at 31st March 2022	-	-
Net forward currency contracts at 31st March 2022	-	-
Prior year comparative		
Open forward currency contracts at 31st March 2021	523	-24
Net forward currency contracts at 31st March 2021		499



## N16. Investments exceeding 5% of Total Net Assets

At 31<sup>st</sup> March 2022 the Pension Fund held seven (2020/21, eight) investments that each exceeded 5% of the total value of the net assets of the scheme. These seven investments totalled £2,262,698k out of a total market value for the Fund of £3,110,843k. These are detailed as follows:

<b><u>Investments exceeding 5% of Total Net Assets</u></b>	<b>2020/21</b>		<b>2021/22</b>	
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>%</b>
Brunel Global High Alpha Equity Fund	436,140	15.0	<b>408,878</b>	<b>13.1</b>
Brunel UK Equity Fund	373,224	12.9	<b>405,122</b>	<b>13.0</b>
Royal London Pooled Pension Company - Brunel Sterling Corporate Bond Fund	-	-	<b>365,269</b>	<b>11.7</b>
Brunel Global Sustainable Fund	254,269	8.8	<b>362,852</b>	<b>11.7</b>
Legal & General FTSE Paris Aligned Developed Equities Index Fund	-	-	<b>307,747</b>	<b>9.9</b>
Brunel Diversifying Returns Fund	217,761	7.5	<b>233,716</b>	<b>7.5</b>
Brunel Emerging Markets Equity Fund	176,328	6.1	<b>179,114</b>	<b>5.8</b>
Legal & General Developed World Equity Hedged Currency Index Fund	167,613	5.8	*	*
Legal & General SSciBeta Multi Factor Developed Equity Index Fund	263,530	9.1	-	-
Legg Mason Global Funds - WA GMS	201,044	6.9	-	-
	<b>2,089,909</b>	<b>72.1</b>	<b>2,262,698</b>	<b>72.7</b>

\* The Fund continues to hold the Legal & General Developed World Equity Fund, however it's value has dropped below 5% of Total Net Assets standing at £136,169,000 (4.4 %).

*The Brunel Funds are Unit Trusts.*

*The Legg Mason Global Fund is an O.E.I.C. investing in overseas fixed interest.*

*The Legal & General Funds are passively managed Unitised Insurance Policies.*

*The Royal London Pooled Pension Company Fund is an Unitised Insurance Policy investing in sterling corporate bonds.*

## N17. Agency services

The Pension Fund pays discretionary pension awards to former employees on behalf of some Pension Fund employers. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed below.

	2020/21	2021/22
	£'000	£'000
Discretionary Payments	1,109	1,091

## N18. Contributions breakdown

	2020/21	2021/22
	£'000	£'000
From Employers:		
Normal contributions	62,440	67,026
Augmentation contributions	-	-
Deficit recovery contributions	57,267	15,063
Section 75 debt (cessation of employer)	2,066	-9
Other	1,916	912
	<b>123,689</b>	<b>82,992</b>
From Members:		
Normal contributions	19,937	20,923
Additional voluntary contributions	173	196
	<b>20,110</b>	<b>21,119</b>

The Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The primary contribution rate, the rate which all employers in the Fund will pay was set at 20.9%, in addition most employers will also pay a secondary contribution rate depending on their own particular circumstances. Full details of the contribution rates payable can be found in the 2019 Actuarial Valuation Report and the Pension Fund's Annual Report.

The employers' monthly contributions are expressed as a percentage of pensionable pay. Deficit recovery payments are either based on a percentage of pensionable pay or paid as a lump sum. Both monthly contributions and deficit funding payments have been identified above. The deficit recovery contributions relate to past service benefit accrual and are payable over an agreed recovery period, not exceeding 17 years.

During 2020/21 Gloucestershire County Council and four scheduled bodies made the decision to pay lump sum deficit contributions of £38.8m to the Fund to benefit from earning greater investment returns in the short term resulting in reduced contribution payments owing in future years.

In addition Gloucestershire County Council also paid a higher percentage contribution rate in 2020/21 equivalent to £2.8m to benefit from earning greater investment returns.

Employers who leave the scheme may need to pay outstanding deficit payments and this is included under Section 75 debt.

A revision to the Regulations in May 2018 and a further, more recent revision permits, at the discretion of the Pension Fund, the payment of an exit credit to an employer. Exit credit payments are also included within Section 75 debt.

Other contributions are those contributions paid by an employer to compensate the Pension Fund for early retirement or the recovery of ill health retirement costs.

These payments follow the principles outlined in the Funding Strategy Statement. Early retirement costs are usually paid in one lump sum or were historically paid over several years dependent on the status of the employer. When a payment is spread there is an extra cost to reflect the delay in total payment. There are currently no early retirement costs being spread. At 31<sup>st</sup> March 2022, £34k (2020/21 £0) was due to the Pension Fund for early retirements and has been accrued.

The majority of employers are covered by an ill health insurance policy and claims are made as they arise. Excess ill health retirement costs, not covered by the insurance policy, are invoiced for where necessary. At 31<sup>st</sup> March 2022, £50k (2020/21 £454k) was due to the Pension fund for ill health retirement costs and has been accrued.

It had been agreed previously that an employer who left the Fund in 2008/09 could spread the payment of their deficit over a number of years. The total amount was credited to the Pension Fund and an accrual made for the outstanding amount. The accrual is rolled forward each year and adjusted for deficit payments made.

### N19. Custody of investments

The accounts for the year ended 31<sup>st</sup> March 2022 use the valuations for the Fund's assets provided by our custodian, State Street Bank & Trust Company. This reflects the position of the custodian who is ultimately the master book of record. Custodian records are regularly reconciled with the Fund Managers' records. Using the custodian's valuations ensures that the various portfolios are priced consistently, so that the same stocks, in different portfolios, are valued on the same basis. Investments held in custody by State Street Bank & Trust Company on behalf of the Pension Fund, are ring-fenced from the assets of the Bank and segregated within its books as belonging to Gloucestershire County Council's Pension Fund.

### N20. Management expenses

Pension Fund expenses have been accounted for in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*.

<u>Management expenses</u>	2020/21 £'000	2021/22 £'000
Investment management expenses *	10,146	16,306
Administration expenses	1,556	1,553
Oversight & governance	500	671
	<b>12,202</b>	<b>18,530</b>

\* Please see a more detailed breakdown of the investment management expenses below.

### Investment management expenses

#### 2021/22

	Management Fees £'000	Performance fees £'000	Transaction Costs £'000	Total £'000
Bonds	74	-	-	74
Pooled Investment Vehicles	9,331	1,160	3,243	13,734
Pooled Property Investments	1,038	165	245	1,448
Derivative Contracts	-	-	7	7
Brunel Pension Partnership Ltd.	969	-	-	969
	<b>11,412</b>	<b>1,325</b>	<b>3,495</b>	<b>16,232</b>
Custody Fees				71
Tax and Legal Costs				3
				<b>16,306</b>

## Investment management expenses

2020/21

	Management Fees	Performance fees	Transaction Costs	Total
	£'000	£'000	£'000	£'000
Bonds	573	-	-	573
Pooled Investment Vehicles	6,699	-	554	7,253
Pooled Property Investments	1,040	-	-	1,040
Derivative Contracts	-	-	142	142
Brunel Pension Partnership Ltd.	1,049	-	-	1,049
	<b>9,361</b>	<b>-</b>	<b>696</b>	<b>10,057</b>
Custody Fees				89
				<b>10,146</b>

Investment management expenses are generally set on a fixed fee basis, calculated using the market value of each portfolio. The cost of investment management expenses varies with the value of assets under management.

The increase on investment management expenses during the period of £6.2 million arose as a result of four key factors:

- Two of the Private Debt funds starting to return profits from which fees were deducted which also included a performance fee of £1.2m.
- The change in the Strategic Asset Allocation of the Fund and the final transitions to the Investment Pool and resultant transition costs.
- An increase in the amount invested in private equity and infrastructure which attract a higher fee structure.
- An increase in reported transaction costs.

### Change in Strategic Asset Allocation

In accordance with the agreed strategic asset allocation, the existing fixed interest holdings were sold and the proceeds invested in a Sterling Corporate Bond Fund and Multi Asset Credit Fund managed by Brunel. This move resulted in transition costs of £1,231k (transition costs £492k in 2020/21) and £132k in investment management costs. In addition the Fund sold its Low Carbon and Smart Beta pooled funds and invested in a Paris Aligned pooled fund to increase investments in climate solutions in line with the Paris goals, this resulted in transition costs of £273k. These changes, which were supported by the Independent Investment advisor to the Fund, are designed to improve investment returns, and increase diversification and reduce investment risks to the Fund.

### Transaction and transition costs

When an asset is purchased or sold a cost is incurred for broker commission and stamp duty, when appropriate, based on a small percentage of the value of assets being transacted. When an asset is directly held these costs are easily identified, when a pooled fund is held these indirect costs are less transparent as details of the underlying investments and transactions are not generally disclosed.

For the first time the Fund has included indirect transaction costs within the accounts to show a complete reflection of the costs. These costs have been identified from cost transparency templates provided by the investment managers as part of the LGPS Scheme Advisory Board Code of Transparency and Compliance initiative and accounts for the majority of the increase in transaction costs of £3,495k including transition costs of £1,231k compared to £696k (of which transition costs were £492k) in 2020/21. As recommended by CIPFA transactions costs have been added to Investment Management Expenses with a corresponding offset against Profit on Disposal of Investments.

### Administration expenses and Oversight & Governance expenses

Administration Expenses remained broadly even with a reduction in staff costs offset by an increase in IT and legal costs. Whilst the increase in Oversight & Governance was mainly due to increased actuarial fees in readiness for the triennial valuation and professional fees incurred in improving the Fund's corporate governance structure.

Within Oversight and Governance costs there were actuarial expenses of £61,330 (£87,680 2020/21) generated by specific employer requirements, these were recharged back to the employer. The corresponding income is included within Recoveries for Services Provided in the Fund Account.

In addition to the recharged actuarial expenses, recoveries for services provided includes £27,977 (£5,959 20/21) for pension and fee reimbursements.

#### **Audit fees**

Audit fees of £45,206 (£22,575 in 2020/21) were incurred in relation to Grant Thornton UK LLP, the auditors appointed by Public Sector Audit Appointments Ltd. (PSAA) for external audit services.

Of the £45,206, £6,001 was in relation to additional fees for 2019/20 less a refund of £3,620 for 2020/21 as agreed by the PSAA and £21,500 for additional IAS19 assurance work. The Fund recharged £8,500 to employers on whose behalf the IAS19 assurance work was undertaken in 2021/22. This recharge is included within Recoveries for Services Provided on the Fund Account. A further £4,000 will be recharged in 2022/23.

#### **N21. Cash**

From the 1<sup>st</sup> April 2010 the Pension Fund has had its own bank account. At 31<sup>st</sup> March 2022 cash of £4.5m (£50.7m in 2020/21) was invested through the County Council's short-term investment procedures. During the year the average investment balance was £27.76m (£55.4m 2020/21) earning interest of £7k (£54.5k 2020/21).

#### **N22. Current & long term assets**

	2020/21	2021/22
	£'000	£'000
<b>Current assets</b>		
Contributions due - Employees	925	1,100
Contributions due - Employers	4,049	4,156
Sundry debtors	277	1,382
Payment in advance	275	5
	5,526	6,643
Cash balances	50,668	4,495
	56,194	11,138

	2020/21	2021/22
	£'000	£'000
<b>Long term assets</b>		
Long term debtors	308	181

It had been agreed that an employer who left the Fund could spread the payment of their deficit over a number of years. The total amount was credited to the Pension Fund and an accrual made for the outstanding amount. The accrual is rolled forward each year and adjusted for deficit payments made. A payment of £127,200 is due to the Pension Fund within the next twelve months and is included in Current Assets - Sundry Debtors.

#### **N23. Current liabilities**

	2020/21	2021/22
	£'000	£'000
Benefits payable	-7	-13
Sundry creditors	-1,296	-1,473
	-1,303	-1,486

## N24. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation (See Note N6), the Fund's Actuary also undertakes a valuation of the Pension Fund liabilities on an IAS19 basis every year. The promised retirement benefits at 31st March 2022 have been projected using a roll forward approximation from the latest formal funding valuation as at 31st March 2019. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However the Actuary is satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

### Present Value of Promised Retirement Benefits:

Year Ended	31st March 2021	31 <sup>st</sup> March 2022
	£m	£m
Active members	1,881	1,900
Deferred members	990	922
Pensioners	1,277	1,184
<b>Total</b>	<b>4,148</b>	<b>4,006</b>

It should be noted that the above figures are appropriate only for the preparation of the Fund's accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

### Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31st March 2022 and 31st March 2021. It is estimated that the impact of the change in financial assumptions to 31st March 2022 is to decrease the actuarial present value by £309m (20/21 increase of £837m). It is estimated that the impact of the change in demographic assumptions is to decrease the actuarial present value by £20m (20/21 increase by £49m).

### Significant Actuarial Assumptions Used

#### Financial assumptions:

Year Ended	31 <sup>st</sup> March 2021	31 <sup>st</sup> March 2022
	% pa	% pa
Pension Increase Rate (CPI)	2.85	3.20
Salary Increase Rate	3.15	3.50
Discount Rate	2.00	2.70

#### Demographic assumptions:

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below.

Longevity assumptions as at 31st March 2022	Males	Females
	Years	
Current Pensioners	21.7	24.1
Future Pensioners **	22.6	25.8

Longevity assumptions as at 31st March 2021	Males	Females
	Years	
Current Pensioners	21.9	24.3
Future Pensioners **	22.9	26.0

\*\* Future pensioners are assumed to be aged 45 at the latest formal valuation as at 31st March 2019.  
Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

### Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the obligations are set out below:

<b>Change in assumption at 31st March 2022</b>	<b>Approximate % increase to promised retirement benefits</b>	<b>Approximate monetary amount</b>
	<b>%</b>	<b>£m</b>
0.1% p.a. decrease in the Discount Rate	2	79
0.1% p.a. increase in the Salary Increase Rate	0	7
0.1% p.a. increase in the Pension Increase Rate (CPI)	2	72
1 year increase in member life expectancy	4	160

<b>Change in assumption at 31st March 2021 *</b>	<b>Approximate % increase to promised retirement benefits</b>	<b>Approximate monetary amount</b>
	<b>%</b>	<b>£m</b>
0.5% p.a. decrease in the Discount Rate	10	424
0.5% p.a. increase in the Salary Increase Rate	1	37
0.5% p.a. increase in the Pension Increase Rate (CPI)	9	379
1 year increase in member life expectancy	3-5	n/a

\* The percentage movements used in the Sensitivity Analysis for 31st March 2022 have changed from 0.5% to 0.1% so a direct comparison is not possible.

## **N25. Nature and extent of risks arising from Financial Instruments**

The Gloucestershire Pension Fund's ("The Fund") objective is to generate positive investment returns for a given level of risk. Therefore the Fund holds financial instruments such as collective investment schemes (or pooled funds), cash and cash equivalents and debtors and creditors (which arise as a result of its operations). The value of all these financial instruments in the financial statements approximates to their fair value.

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities i.e. promised benefits payable to members. Therefore the aim of investment risk management is to minimise the risk of an overall reduction on the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

The Fund's investments are managed on behalf of the Fund via Brunel and its appointed Investment Managers. In addition the Fund also has a small number of directly appointed pooled funds. Each Investment Manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus. The Gloucestershire Pension Fund Committee ("Committee") has determined that the investment management structure is appropriate and is in accordance with its investment strategy. The Committee regularly monitors each investment mandate and considers and takes advice on the nature of the investments made and associated risks.

The Fund's investments are held by State Street Bank & Trust Company, who act as custodian on behalf of the Fund.

Because the Fund adopts a long term investment strategy, the high level risks described below will not alter significantly during the year unless there are significant strategic or tactical changes in the portfolio.

### **Market Risk**

Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. The Fund is exposed through its investments in equities, bonds and investment funds, to all these market risks. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical, industry sectors, individual securities, investment mandate guidelines and Investment Managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the Committee as well as appropriate monitoring of market conditions and benchmark analysis.

### **Other Price Risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, caused by factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting all such instruments in the market.

Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited. The Investment Managers mitigate this price risk through diversification in line with their own investment strategies and mandate guidelines.



#### Other Price Risk - Sensitivity Analysis

The sensitivity of the Fund's investments to changes in market prices has been analysed using the volatility of return experienced by each investment portfolio during the year to 31<sup>st</sup> March 2022. The volatility data is broadly consistent with a one-standard deviation movement in the value of the assets. The analysis assumes that all other variables remain constant.

Movements in market prices would have increased or decreased the assets, as held by the Fund's custodian, at 31<sup>st</sup> March 2022 by the amounts shown below:

<b>As at 31st March 2022</b>	<b>Value</b>	<b>Volatility of return</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
UK Bonds	365,269	8.10	394,856	335,682
Overseas Bonds	200,543	8.10	216,787	184,299
UK Equities	405,122	19.90	485,742	324,503
Multi National Equities	1,628,477	18.50	1,929,745	1,327,208
UK Property	220,656	15.00	253,754	187,557
Overseas Property	25,483	15.00	29,306	21,660
Venture Capital/Private Equity/Infrastructure	101,247	31.20	132,836	69,658
Private Debt	77,027	9.00	83,959	70,095
	<b>3,023,824</b>		<b>3,526,985</b>	<b>2,520,662</b>
<b>Total Gloucestershire Fund</b>	<b>3,023,824</b>	<b>13.00%</b>	<b>3,416,921</b>	<b>2,630,727</b>

The above table does not include investment manager cash, cash instruments and debtors or the Brunel Pension Partnership shareholding, long term and current assets and current liabilities of £87,019k as these are not subject to price risk.

<b>As at 31st March 2021</b>	<b>Value</b>	<b>Volatility of return</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
UK Bonds	333,654	8.00	360,346	306,962
Overseas Bonds	235,774	8.00	254,636	216,912
UK Equities	373,224	16.70	435,552	310,896
Multi National Equities	1,583,011	16.60	1,845,791	1,320,231
UK Property	188,361	14.20	215,108	161,614
Overseas Property	13,773	14.20	15,729	11,817
Venture Capital/Private Equity/Infrastructure	32,404	28.50	41,639	23,169
Private Debt	65,070	4.60	68,063	62,077
	<b>2,825,271</b>		<b>3,236,864</b>	<b>2,413,678</b>
<b>Total Gloucestershire Fund</b>	<b>2,825,271</b>	<b>10.50%</b>	<b>3,121,924</b>	<b>2,528,618</b>

The above table does not include investment manager cash, cash instruments and debtors or the Brunel Pension Partnership shareholding, derivative contracts, long term and current assets and current liabilities of £77,219k as these are not subject to price risk.

#### Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risk, which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. This risk will affect the value of both fixed interest and index linked securities. The amount of income receivable from cash balances will also be affected by fluctuations in interest rates.

The Funds exposure to interest rate movements, as a result of its investments in fixed interest pooled funds, as at the 31st March 2022 is set out below along with the interest rate sensitivity analysis data. Information supplied for 2020/21 relates to the Fund's directly held bond investments.

#### Interest Rate Risk Sensitivity Analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. In the UK, the benchmark 10-year gilt yield rose from 0.97% to 1.61% in the March 2022 quarter, a rise of 64bps. There was a respite in the upwards trend following the Russian invasion of Ukraine, but concern about inflation and more hawkish central bank rhetoric meant that the fall in yields proved to be temporary. The same pattern was visible in the US and Germany, where yields rose throughout the period but temporarily dipped around the onset of war in Ukraine: the benchmark treasury yield rose from 1.51% to 2.34% in the March 2022 quarter, while the 10-year bund yield rose from -0.14% to 0.55%. Given the high degree of uncertainty over the future economic situation, the Fund's bond manager has advised that it is entirely possible that yields could fluctuate anywhere within this historic range in the next year, or in extreme circumstances outside these boundaries.

Changes in interest rates do not impact on the value of cash and cash equivalents but they will affect the interest income received on those balances.

The analysis that follows assumes that all other variables, in particular, exchange rates, remain constant and shows the effect in the year on the values of a +/- 100bps (1%) change in interest rates on a time-weighted basis.

Assets exposed to interest rate risk	Carrying	Change in the year in the net	
	amount as at	assets available to pay benefits	
	31st March	+100BPS	-100BPS
	2022	(1% increase)	(1% decrease)
	£'000	£'000	£'000
Cash held directly by the Fund	4,495	-	-
Cash and cash equivalents held on behalf of the Fund	82,305	-	-
Bond Portfolio - Fixed Interest Securities excluding cash	559,244	-32,040	32,040
	646,044	-32,040	32,040

In the above table, cash of £6,567k held in the Bond Portfolio pooled fund has been included with Cash and cash equivalents held on behalf of the Fund and deducted from the value of the Bond Portfolio.

Assets exposed to interest rate risk	Carrying	Change in the year in the net	
	amount as at	assets available to pay benefits	
	31st March	+100BPS	-100BPS
	2021	(1% increase)	(1% decrease)
	£'000	£'000	£'000
Cash held directly by the Fund	50,668	-	-
Cash and cash equivalents held on behalf of the Fund	15,816	-	-
Bond Portfolio - Fixed Interest Securities excluding cash	551,606	-32,568	32,568
	618,090	-32,568	32,568

#### **Foreign Currency Risk**

Foreign currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on both monetary and non-monetary investments denominated in a currency other than Sterling. For a Sterling based investor, when Sterling weakens, the Sterling value of foreign currency denominated investments rises. As Sterling strengthens, the Sterling value of foreign currency denominated investment falls. The Fund's allocation to passive global developed world equities is held in a currency hedged share class, thereby providing the Fund with a certain level of currency exposure protection.

## Currency Risk Sensitivity Analysis

Following analysis of historical data, by the Fund's performance measurement service, the likely volatility associated with foreign exchange rate movements is considered to be 7% (as measured by one standard deviation).

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 7% strengthening/weakening of the Pound against the various countries in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

2021/22 Currency exposure - Asset type	Asset value	Change to net assets available	
	as at 31st March 2022 £'000	£'000	£'000
		+7%	-7%
UK Equities*	1,470	1,573	1,367
Global Equities	1,194,914	1,278,558	1,111,270
Global Bonds	34,221	36,616	31,826
Overseas Private Debt	33,235	35,561	30,909
Venture Capital /Private Equity/ Infrastructure	43,284	46,314	40,254
Diversified Growth	16,754	17,927	15,581
Cash/Cash equivalents	14	15	13
	1,323,892	1,416,564	1,231,220

\* Amount of overseas currency within the Brunel UK Equity Pooled Fund

2020/21 Currency exposure - Asset type	Asset value	Change to net assets available	
	as at 31st March 2021 £'000	£'000	£'000
		+6.9%	-6.9%
UK Equities	-	-	-
Global Equities	1,140,344	1,219,028	1,061,660
Emerging Market Equities	-	-	-
Overseas Private Debt	32,611	34,861	30,361
Venture Capital /Private Equity/ Infrastructure	-	-	-
Diversified Growth	10,651	11,386	9,916
Cash/Cash equivalents	739	790	688
	1,184,345	1,266,065	1,102,625

## Credit Risk

Credit risk represents the risk that the counterparty to a transaction or financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the careful selection and monitoring of counterparties including brokers, custodian and investment managers minimises any credit risk that may occur through the failure to settle transactions in a timely manner. The Fund's contractual exposure to credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Bankruptcy or insolvency of the custodian may affect the Fund's access to its assets. However, all assets held by the custodian are ring-fenced as "client assets" and therefore cannot be claimed by creditors of the custodian. Brunel, on behalf of the Fund, manages the risk by monitoring the credit quality and financial position of the custodian.

Credit risk on over the counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

The Fund's bond pooled funds have significant credit risk through their underlying investments. This risk is managed through diversification across sovereign and corporate entities, credit quality and maturity of bonds. The market prices of bonds incorporate an assessment of credit quality in their valuation which reflects the probability of default (the yield of a bond will include a premium that will compensate for the risk of default).

The Fund believes it has managed its exposure to credit risk within an acceptable level and its default experience over the last five financial years is not significantly out of line with the industry.

Another source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion. Internally held cash is managed on the Fund's behalf by the Council's Treasury Management Team in line with the Fund's Treasury Management Policy which sets out the permitted counterparties and limits. The Fund invests surplus cash held with the custodian in diversified money market funds.

Through its securities lending activities, the Fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. This risk is managed by restricting the collateral permitted.

Foreign exchange contracts are subject to credit risk in relation to the counterparties of the contracts which are primarily banks. The maximum credit exposure on foreign currency contracts is any net profit on forward contracts, should the counterparty fail to meet its obligations to the Fund when it falls due.

The credit risk within the bond pooled funds can be analysed using standard industry credit ratings and the analysis as at 31<sup>st</sup> March 2022 is set out below. Information supplied for 2020/21 relates to the Fund's directly held bond investments and has been categorised slightly differently.

#### Credit Analysis

<b>31<sup>st</sup> March 2022</b>	AAA	AA+	A+	BBB+	BB+	B+	CCC+	Unrated
	£'000	to AA- £'000	to A- £'000	to BBB- £'000	to BB- £'000	to B- £'000	to C- £'000	£'000
UK Corporate Bonds	19,511	20,231	79,446	203,133	15,047	9,359	-	13,247
Global Bonds	2,451	159	3,607	18,472	36,048	90,031	40,831	7,672
	<b>21,962</b>	<b>20,390</b>	<b>83,053</b>	<b>221,605</b>	<b>51,095</b>	<b>99,390</b>	<b>40,831</b>	<b>20,919</b>
% of Fixed Interest Pooled Funds	3.9	3.6	14.9	39.6	9.1	17.8	7.3	3.7

Cash of £6,567k held in the Bond Portfolio pooled fund has not been included in the credit analysis table above.

<b>31<sup>st</sup> March 2021</b>	AAA	AA	A	BBB	BB	B	Unrated
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
UK Gilts	-	35,621	-	-	-	-	-
Overseas Govt Bonds	9,224	-	-	-	-	-	-
Corporate Bonds	-	15,468	149,081	110,538	7,130	4,109	1,160
Asset backed	1,098	5,483	4,966	19,044	2,296	-	-
Emerging Markets	-	-	3,796	824	1,023	30	-
Mortgage Backed Securities	-	1,908	-	-	-	-	-
Cash/Cash							
Equivalents/Currency	2	1	-	-	-	-	8,527
Forwards/Derivatives							
	<b>10,324</b>	<b>58,481</b>	<b>157,843</b>	<b>130,406</b>	<b>10,449</b>	<b>4,139</b>	<b>9,687</b>
% of Fixed Interest Portfolio	2.7	15.3	41.4	34.2	2.7	1.1	2.6

## **Treasury Management Year End Cash Balances**

The management of Pension Fund cash balances not held by the Custodian is delegated to Gloucestershire County Council's Treasury Management team to manage in accordance with their Treasury Management Strategy, which reflects the CIPFA Code of Practice on Treasury Management in Public Services. Pension Fund cash is invested separately from Gloucestershire County Council monies.

The Fund's cash holding under its treasury management arrangements at 31st March 2022 is shown below:

<b>Account Name</b>	<b>Balances as at 31st March 2021</b>		<b>Balances as at 31st March 2022</b>	
	<b>Rating*</b>	<b>£'000</b>	<b>Rating*</b>	<b>£'000</b>
Aberdeen Standard Liquidity Fund	AAAm	<b>10,000</b>	AAAm	<b>2,636</b>
Federated Short Term Sterling Prime Fund	AAAm	<b>10,000</b>	AAAm	<b>1,274</b>
Goldman Sachs	AAAm	<b>9,483</b>	AAAm	-
HSBC Instant Access	A-1	<b>21,210</b>	A-1	-
Lloyds Instant Access		-	A-1	<b>545</b>
HSBC Current Account	A-1	<b>-25</b>	A-1	<b>20</b>
Lloyds Current Account		-	A-1+	<b>20</b>
<b>Total</b>		<b><u>50,668</u></b>		<b><u>4,495</u></b>

\* Ratings quoted are all Standard and Poors as at 31st March 2022 and 2021

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. The Pension Fund has not experienced any actual defaults in recent years and in the past the Fund has obtained a guarantee before admitting new employers so that all pension obligations are covered in the event of that employer facing financial difficulties. More recently the Fund has also admitted certain employers on a pass-through basis where the risks inherent in participating in the LGPS are shared between the new employer and the letting employer who is supported by central government. Contributions due as at 31st March 2022 was £5,256k (2020/21 £4,974k) and as at 26th May 2022 £50k remained outstanding.

### **Liquidity Risk**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Council therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. A substantial portion of the Fund's investments consist of readily realisable securities, in particular equities and fixed income investments, even though they are held in pooled funds. However, the main liability of the Fund are the benefits payable, which fall due over a long period and the investment strategy reflects the long term nature of these liabilities. Therefore the Fund is able to manage the liquidity risk that arises from its investments in less liquid asset classes such as property which are subject to longer redemption periods and cannot be considered as liquid as the other investments. The Fund maintains a cash balance to meet working requirements and has immediate access to its cash holdings.

### **Refinancing risk**

Refinancing risk relates to the Fund being required to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. Refinancing risk within the Pooled Bond Funds is mitigated through credit and liquidity analysis of all investments and diversification by issuer and maturity. The Brunel property portfolio managed on behalf of the Pension Fund is not leveraged or subject to refinancing risk. However, the underlying investments within this portfolio are leveraged and so may be subject to refinancing risk. This risk is mitigated by covenants written into the Fund documentation. There are no other financial instruments that have refinancing risk as part of its treasury management and investment strategies.

**N26 Fair value hierarchy**

**Basis of valuation**

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Futures	Level 1	Published exchange prices at the year end	Not required	Not required
Quoted Bonds	Level 2	Fixed interest securities are valued at a market value based on current yields	Source of pricing, valuation methodology documentation	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risks	Not required
Pooled investments	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published.	NAV based pricing set on a forward pricing basis and prices published frequently.	Not required
Property Pooled investments	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis. Ease of redemption	Not required
Quoted Bonds	Level 3	Fixed interest securities are valued at a market value based on current yields	Source of pricing, valuation methodology documentation, trade comparison review	Low volume of trades in trade comparison review cohort.
Property Pooled investments	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published.	NAV-based pricing set on a forward pricing basis. Ease of redemption	Valuations could be affected by changes in the structure of the holdings such as changing from a closed ended fund to an open ended fund.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Private equity	Level 3	Direct investments: valuation performed in accordance with International Financial Reporting Standards, International Private Equity Valuation guidelines, Financial Accounting Standards Board Accounting Standard 820 and respective United States Generally Accepted Accounting Principles	EBITDA multiple, Revenue multiple, Discount for lack of marketability, Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cash flows, and by any differences between audited and unaudited accounts
Private Debt	Level 3	Fair value is determined by the enterprise value of a portfolio company, the nature and realisable value of any collateral, its ability to make payments and its earnings, discounted cash flows, market environment and changes in the interest rate environment. The fair value of Brunel's private debt fund is valued in accordance with International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Principles (US GAAP).	Initial recognition cost, Principal repayments, effective interest method, Impairment reductions	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cash flows, and by any differences between audited and unaudited accounts
Infrastructure Funds	Level 3	Direct investments: valuation performed in accordance with International Private Equity Valuation guidelines and respective United States Generally Accepted Accounting Principles	Future free cash flows from underlying investments. Cost of capital of underlying investments	Valuations could be affected by material events occurring after the preparation of the independent reports, and by changes to expected cash flows

## Fair Value Hierarchy

The Fund is required to classify its investments using a fair value hierarchy that reflects the subjectivity of the inputs used in making an assessment of fair value. Fair value is the value at which the investments could be realised within a reasonable timeframe. This hierarchy is not a measure of investment risk but a reflection of the ability to value the investments at fair value. Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur. The fair value hierarchy has the following levels:

- Level 1 – Unadjusted quoted prices in an active market for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Products classified as Level 1 comprise quoted equities, quoted fixed securities and quoted index linked securities.
- Level 2 – Inputs other than quoted market prices under Level 1, for example, when an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.
- Level 3 – At least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Values at 31st March 2022	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial assets at fair value through profit and loss				
Bonds	-	-	-	-
Pooled investment vehicles	-	2,599,410	-	2,599,410
Pooled property investments	-	221,682	24,456	246,138
Private Equity	-	-	41,143	41,143
Infrastructure	-	-	60,104	60,104
Private Debt	-	-	77,027	77,027
Derivative contracts	-	-	-	-
Cash instruments held on behalf of the investment managers	-	35,969	-	35,969
Cash deposits	44,514	-	-	44,514
Investment income and tax reclaims due	1,078	-	-	1,078
Amounts receivable for investment sales	51	-	-	51
	45,643	2,857,061	202,730	3,105,434
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	-	-	-
Amounts payable for investment purchases	-	-	-	-
<b>Net Investment Assets</b>	45,643	2,857,061	202,730	3,105,434
Brunel Pension Partnership Ltd.				71
Debtors/Creditors*				5,338
<b>Total Net Investment Assets</b>	45,643	2,857,061	202,730	<b>3,110,843</b>

Values at 31st March 2021	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial assets at fair value through profit and loss				
Bonds	-	357,356	3,395	360,751
Pooled investment vehicles	-	2,164,911	-	2,164,911
Pooled property investments	-	56,950	145,184	202,134
Private Equity	-	-	16,262	16,262
Infrastructure	-	-	16,141	16,141
Private Debt	-	-	65,071	65,071
Derivative contracts	1,106	-	-	1,106.00
Cash instruments held on behalf of the investment managers	-	13,239	-	13,239
Cash deposits	53,245	-	-	53,245
Investment income and tax reclaims due	5,799	-	-	5,799
Amounts receivable for investment sales	1	-	-	1
	60,151	2,592,456	246,053	2,898,660
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-813	-	-	-813
Amounts payable for investment purchases	-	-	-	-
<b>Net Investment Assets</b>	59,338	2,592,456	246,053	2,897,847
Brunel Pension Partnership Ltd.				112
Debtors/Creditors*				4,531
<b>Total Net Investment Assets</b>	59,338	2,592,456	246,053	<b>2,902,490</b>

\* Debtors and creditors have been added to this table to reflect the total net assets of the Fund.



## Transfers between Levels 1 and 2

There has been no movement between levels 1 & 2

## Sensitivity of assets valued at level 3

Having consulted with independent advisors, who model 5,000 possible outcomes of future behaviour of each economic variable and asset return, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31st March 2022.

2021/22	Assessed valuation range (+/-)	Value at 31st March 2022 £'000	Value on increase £'000	Value on decrease £'000
UK Pooled Property Investments	15.0%	14,425	16,589	12,261
Overseas Pooled Property Investments	15.0%	10,031	11,535	8,526
Venture Capital/Private Equity/Infrastructure	31.2%	101,247	132,836	69,658
UK Corporate Bonds	8.1%	-	-	-
UK Private Debt	9.0%	43,799	47,740	39,857
Overseas Private Debt	9.0%	33,228	36,219	30,237
<b>Total</b>		<b>202,730</b>	<b>244,919</b>	<b>160,539</b>

  

2020/21	Assessed valuation range (+/-)	Value at 31st March 2021 £'000	Value on increase £'000	Value on decrease £'000
UK Pooled Property Investments	14.2%	145,184	165,800	124,568
Overseas Pooled Property Investments	14.2%	-	-	-
Venture Capital/Private Equity/Infrastructure	28.5%	32,404	41,639	23,169
UK Corporate Bonds	8.0%	3,395	3,667	3,123
UK Private Debt	4.6%	33,360	34,895	31,825
Overseas Private Debt	4.6%	31,710	33,169	30,251
<b>Total</b>		<b>246,053</b>	<b>279,170</b>	<b>212,936</b>

All movements in the assessed valuation range of the above investments derive from changes in the underlying profitability of component companies, the range of the potential movement quoted is caused by how this profitability is measured and the economic circumstances in which the component company operates.

### Reconciliation of Fair Value Measurements within Level 3

2021/22

	UK Property Pooled Funds	Overseas Property Pooled Funds	Venture Capital/Private Equity	Overseas Private Debt	UK Private Debt	UK Corporate Bonds	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Market Value 31st March 2021	145,184	-	32,404	31,710	33,360	3,395	246,053
Transfers into Level 3*	7,509	-	-	-	-	-	7,509
Transfers out of Level 3*	-137,838	-	-	-	-	-	-137,838
Purchases during the year and derivative payments	1,863	9,339	62,177	-	23,787	1,931	99,097
Sales during the year and derivative receipts	-3,183	-	-3,516	-	14,496	-5,824	1,973
Unrealised gains/(losses)	670	691	10,257	-2,468	-28,071	-	-18,921
Realised gains/(losses)	220	1	-75	3,986	227	498	4,857
<b>Market Value 31st March 2022</b>	<b>14,425</b>	<b>10,031</b>	<b>101,247</b>	<b>33,228</b>	<b>43,799</b>	<b>-</b>	<b>202,730</b>

2020/21

	UK Property Pooled Funds	Overseas Property Pooled Funds	Venture Capital/Private Equity	Overseas Private Debt	UK Private Debt	UK Corporate Bonds	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Market Value 31st March 2020	170,116	-	17,111	33,363	30,752	17,699	269,041
Transfers into Level 3**	2,963	-	-	-	-	-	2,963
Transfers out of Level 3**	-24,064	-	-	-	-	-14,369	-38,433
Purchases during the year and derivative payments	25	-	23,501	-	2,540	-	26,066
Sales during the year and derivative receipts	-	-	-8,644	-	-93	-52	-8,789
Unrealised gains/(losses)	-3,856	-	450	-1,653	161	121	-4,777
Realised gains/(losses)	-	-	-14	-	-	-4	-18
<b>Market Value 31st March 2021</b>	<b>145,184</b>	<b>-</b>	<b>32,404</b>	<b>31,710</b>	<b>33,360</b>	<b>3,395</b>	<b>246,053</b>

\* On the 1st April 2021, £137.8m of UK Property Pooled Funds were transferred from level 3 to level 2 due to the restrictions on redemption easing. Similarly £7.5m of UK Property Pooled Funds were transferred from level 2 to level 3 due to restrictions on redemption.

\*\* Following further information received, on the 1st April 2020 £24.1m of Pooled Property Investment was transferred from level 3 to level 2 and £3m Pooled Property Investment was transferred from level 2 to level 3. In the quarter ending March 2021, £14.4m of UK Corporate Bonds were transferred from level 3 to level 2 due to there being more observed trading activity to corroborate the fair values given.

**N27. Financial instrument disclosure**

<b>2021/22</b>	<b>Fair value through profit and loss £'000</b>	<b>Assets at amortised cost £'000</b>	<b>Liabilities at amortised cost £'000</b>
<b>Financial assets</b>			
Bonds	-	-	-
Pooled investment vehicles	2,773,831	-	-
Pooled property investments	246,138	-	-
Venture Capital/Private equity	3,853	-	-
Brunel Pension Partnership Ltd.	71	-	-
Derivative contracts	-	-	-
Cash	-	80,483	-
Other investment balances	-	1,129	-
Debtors	-	1,387	-
	<b>3,023,893</b>	<b>82,999</b>	<b>-</b>
<b>Financial liabilities</b>			
Derivative contracts	-	-	-
Other investment balances	-	-	-
Creditors	-	-	-1,473
Borrowings	-	-	-
	<b>-</b>	<b>-</b>	<b>-1,473</b>
	<b>3,023,893</b>	<b>82,999</b>	<b>-1,473</b>
<b>2020/21</b>			
	<b>Fair value through profit and loss £'000</b>	<b>Assets at amortised cost £'000</b>	<b>Liabilities at amortised cost £'000</b>
<b>Financial assets</b>			
Bonds	360,751	-	-
Pooled investment vehicles	2,257,529	-	-
Pooled property investments	202,134	-	-
Venture Capital/Private equity	4,856	-	-
Brunel Pension Partnership Ltd.	112	-	-
Derivative contracts	1,106	-	-
Cash	-	66,484	-
Other investment balances	-	5,800	-
Debtors	-	552	-
	<b>2,826,488</b>	<b>72,836</b>	<b>-</b>
<b>Financial liabilities</b>			
Derivative contracts	-813	-	-
Other investment balances	-	-	-
Creditors	-	-	-1,296
Borrowings	-	-	-
	<b>-813</b>	<b>-</b>	<b>-1,296</b>
	<b>2,825,675</b>	<b>72,836</b>	<b>-1,296</b>

**N27 (a) Net gains and losses on financial instruments**

	2020/21 £'000	2021/22 £'000
<b>Financial assets</b>		
Fair value through profit and loss	590,652	197,484
Amortised cost - realised gains on de-recognition of assets	-	-
Amortised cost - unrealised gains	-	-
<b>Financial liabilities</b>		
Fair value through profit and loss	-	-
Amortised cost - realised losses on de-recognition of assets	-	-
Amortised cost - unrealised losses	-	-
	<u>590,652</u>	<u>197,484</u>

All realised gains and losses arise from the sale or disposal of financial assets which have been derecognised in the financial statements.

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

**N28. Bulk transfers in and out of the Pension Fund****Transfers to or from other pension funds**

During 2021/22 a bulk transfer value £1,069k was paid to another local authority pension fund in respect of a group of employees moving between funds (£0 2020/21).

**N29. Accounting Standards that have been issued but have not yet been adopted**

The Code requires consideration of the impact of standards that have been issued but not yet adopted. This is to enable users to evaluate the risk of these new standards on the Pension Fund's current financial position.

Amendments to IFRS1 (First-time adoption), IAS37 (Onerous contracts), IFRS16 (Leases), IAS41 (Agriculture) and IAS16 (Property, plant and Equipment) have been issued. These will not have an impact on the Pension Fund and are therefore considered to be immaterial.

**N30. Taxation where lifetime or annual allowances are exceeded**

Where a member's benefit entitlement exceeds the United Kingdom Inland Revenue tax limits (Lifetime Allowance or the Annual Allowance), the member is liable for taxation. This tax can be paid by the member or has to be paid by the Pension Fund on behalf of the member in exchange for a reduction in benefit entitlement. The Pension Fund has paid £63k on behalf of members during 2021/22 (£67k 2020/21). Any lifetime or annual allowance tax paid on behalf of members is recovered from their future pension payments. No accruals are made for the recovery of this tax element on the grounds of materiality and the very long term nature of its recovery.

**N31. Events after the reporting date**

There were no events after the reporting date.