

# Agenda Item 5

**Pension Board  
19 October 2023**

## **Gloucestershire Pension Fund update – Part 1 Quarter ending 30 June 2023**

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

#### **Introduction**

This report provides information in relation to the following areas of Fund for the quarter ending 30 June 2023:

- Funding
- Investment
- Governance and Operations

The information contained in this report was taken to the Pensions Committee on 15 June 2023 and fulfils the requirement for administering authorities, under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 must keep under review the performance of their investment managers.

#### **Funding**

The table below shows the estimated funding position at 31 March 2022 and 30 June 2023. Please note that the asset value at 30 June 2023 shown in this table may differ to the actual asset value at that date because it is an estimate based on estimated cashflows.

However, the estimated value is consistent with the liabilities and therefore gives a more reliable estimate of the funding position than the actual asset value at the same date.

The table also shows what assumed investment return would be required at each date for the deficit to be exactly zero, along with the likelihood of the investment strategy achieving this return. An increase in this likelihood corresponds to an improvement in the funding position.

# Agenda Item 5

Monetary amounts in £bn	Ongoing basis	
	31 March 2022	30 June 2023
<b>Assets</b>	3.11	3.12
<b>Liabilities</b>		
- Active members	0.98	0.67
- Deferred pensioners	0.61	0.40
- Pensioners	1.24	1.00
<b>Total liabilities</b>	2.83	2.06
<b>Surplus/(deficit)</b>	0.29	1.06
<b>Funding level</b>	110%	151%
<b>Required return assumption (% pa) for funding level to be 100%</b>	3.7%	3.5%
<b>Likelihood of assets achieving this return</b>	81%	95%

The chart below shows the estimated funding level (ratio of assets to liabilities) over time between 31 March 2022 and 30 June 2023. It allows for changes in market conditions and other factors described in Appendix 1 attached.



# Agenda Item 5

## Investment

### Performance

Over the quarter to 31 March 2023, the Fund's total market value increased by £61.370m, to £3,112.790m.

Over the quarter, total Fund assets produced a positive return of 1.5%, which was equal to the strategic benchmark.

Performance over the 3 years to 30 June 2023 was 6.0% annualised which is 0.1% ahead of benchmark.

The summary of investment performance is attached as appendix 2 to this report. The comprehensive performance report produced by Brunel has previously been circulated to Committee members and the link to the document can be found here: [Brunel Pension Partnership Investment Report - Gloucestershire County Council - 30 Jun 2023](#). This report contains detailed information and commentary on the individual portfolios as well as stewardship and climate metrics.

### LGPS Performance Benchmarking

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

For the 2022/23 analysis the universe comprised 63 LGPS Funds (63 in 2021/22), with a combined value of £243bn (£250bn in 2021/22). For information, five Funds, including Gloucestershire, who form part of the Brunel Pension Partnership, took part in the universe for 2022/23.

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

	1 Year Performance %	3 Year Performance %	5 Year Performance %	10 Year Performance %
<b>Gloucestershire</b>	-2.0	9.9	5.5	7.3
<b>Universe average</b>	-1.6	9.6	5.9	7.3
<i>Range of Results</i>				
<i>Upper Quartile</i>	-1.6	10.1	6.2	7.6
<i>Median</i>	-3.3	9.2	5.7	7.2
<i>Lower Quartile</i>	-4.6	8.0	5.1	6.6

# Agenda Item 5

The underperformance versus the universe average over the 1 year was primarily driven by the higher weighting in equities and bonds than the majority of universe.

The Fund has been exposed to the high volatility associated with the slightly larger equity allocation, but over the last 10 this has delivered a return in line with the average.

Attached as appendix 3 to this report, is the full report on performance to March 2023, prepared by PIRC for the Gloucestershire Pension Fund.

## Responsible Investment

On 1 September 2022, the UK Government launched their [consultation](#) on Governance and Reporting of climate risks. The consultation closed on 24 November 2022. The relevant regulations were expected to be in force by April 2023 with our first report due by December 2024 covering the 2023/24 scheme year. At this time regulations have not been laid, therefore we expect a delay in the regulatory reporting requirements, however, based on the current activities of the Committee we will look to proceed to incorporate improved reporting in this area as part of the Responsible Investment policy currently being drafted.

The output of the workshop day held on 15 November were reported back to Committee in March 2023. We have now received the analysis to establish an emissions baseline as at 31 December 2019, and this also captures of progress against this baseline to 31 December 2022. This analysis will enable potential targets/measures to be set as part of the Funds responsible Investment Policy on the pathway to net zero.

The outcomes from the workshop on TCFD, TNFD and levelling up were also captured and assisted in the further defining of the investment and RI beliefs of the Committee, which will feed into an RI policy. A further ½ day workshop is scheduled for 20 November 2023 to receive the analysis and further develop the Responsible Investment Policy, with the anticipation that the Policy including targets/measures will be brought back to Committee at its December 2023 meeting.

## Investment Activities and Strategic Asset Allocation (SAA)

During the Quarter the following investment activity took place:

- During the quarter there has been a number of calls into the private markets (exc property) asset classes of:

○ Infrastructure	-	c£1.8m
○ Private Equity	-	c£6.5m
○ Private Debt	-	c£9.1m
<b>Total</b>	-	<b>c£17.4m</b>

# Agenda Item 5

The current SAA is as follows:

Asset Class	Target Allocation %	Range +/- %	Allocation as at 31 March 2023 %	Variation from Target %
Equities	53.0	3.0	54.4	+1.4
Fixed Interest	17.0	2.0	17.4	+0.4
Alternatives*	30.0	2.0	28.2	-1.8

Detailed SAA analysis for each portfolio is attached as appendix 4 to this report.

*\*includes the monies being held in the DRF awaiting drawdown into the private markets portfolios*

## Fund Equity Analysis

In order to provide members with more in depth analysis of the fund holdings within the specific portfolios, we provide an analysis of the Equity holdings at whole Fund level held as at 30 June 2023. Analysis of equity exposure by the top 20 companies, by sector and by countries are provided.

To improve transparency and greater awareness of the investments held by the Fund, this analysis is published on the Pension Fund website and a link to this analysis can be found here: [equity-holding-analysis-30-june-23.pdf \(gloucestershire.gov.uk\)](#)

# Agenda Item 5

## Governance & Operations

### Consultations update

On the 30 May, the Department of Levelling Up, Housing and Communities (DLUHC) issued a consultation on [‘McCloud’ remedy in the LGPS – supplementary issues and scheme regulations - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/mccloud-remedy-in-the-lgps-supplementary-issues-and-scheme-regulations). The consultation closed on 30 June. On Friday 8 September a response was issued by DLUHC to this consultation which advised regulations would be paid by 30 September. We will need to await further guidance and information to be able to apply the regulations once laid. Further clarifications and timeframes will be published shortly.

On the 11 July, the Department for Levelling-Up, Housing and Communities launched a consultation entitled: Next Steps on Investment. This related to the awaited consultation of pooling guidance. .

### Background

Since the Government announced proposals for investment pooling in 2015 eight investment pools have been created across England and Wales, including the Brunel Pension Partnership, set up by 10 LGPS administering authorities, which included Gloucestershire.

Whilst around 90% of Brunel clients’ investment assets have now transitioned to the pool, (97% for Gloucestershire) progress in some of the other pools has been much slower. In London, two of the boroughs have yet to transition any assets across to the London Collective Investment Vehicle. Different pools have set up different structures to support the pooling initiative, and some have worked less well than others.

### Pooling Scale

The current consultation aims to address the issues with those pools where progress has been slow, or where the structure is seen as not being in line with the Government’s objectives for investment pooling. Whilst this may not be an issue for Brunel, the Government is also looking for pools to be a larger size, each with assets under management of at least £50 billion. The combined assets under management of the 10 Brunel funds is currently around £36 billion, so Brunel is below the Government’s recommended £50 billion figure. This would suggest some form of realignment of the current pools is required, which may include mergers or expansion of some pools and the termination of others.

From the Gloucestershire perspective, the biggest concern would be that a realignment of pools might result in further transition costs at the expense of the Fund. We continue to deliver against the original business case on the savings achieved from pooling and we are now nearing the position of benefiting from significant savings each year over and above the level of management fees being paid pre-pooling. As a Fund we would not want to see those net savings being put at risk by a new round of transition costs. Larger pools may also result in more governance issues and a reduction in their accountability and accessibility to local funds. The proposed response to the consultation highlights these issues.

# Agenda Item 5

## **Levelling Up and Private Equity**

The consultation also highlights the Government's desire to see more funds invested in the levelling up agenda and in support of UK businesses via private equity.

The Fund already has significant investments in UK infrastructure. In addition, the Pensions Committee has recently agreed to allocate 5% of the Fund to Social and Affordable Housing. We believe that these investments will contribute to the Government's levelling up agenda.

The proposed response asks for more clarity around the Government's definition of private equity and whether it also includes unlisted infrastructure. It also draws out the benefits of the current Brunel area being broadly aligned with the South West region, which supports the agenda of investing in the local area.

## **Other Issues**

The consultation also set out proposals with regard to ensuring that pensions committee members are appropriately trained. The Fund has put significant emphasis on training, with the adoption of a training strategy and training plan; therefore we welcome these proposals. We expect the proposals to be built on further when the Government issues another expected consultation around governance.

The consultation also has questions on tidying up rules around investment consultancy and the definition of investments. These are non-controversial and welcomed.

The Committee approved a response, attached as appendix 5 to this report, which has been submitted.

We are still waiting for the consultations/regulations on Good Governance, exit payments (£95k cap) and TCFD reporting.

## **Fund Administration**

### **Key Performance Indicators**

The key performance indicators (KPI's), which are attached as appendix 6 to this report are now based on the revised targets as agreed by Committee in June 2023. In addition the KPIs will now be developed on a rolling 12 month basis.

We have included a trend analysis against the new KPIs as if they had been applied since April 2020. This analysis also now tracks the case volumes and this reflects a marked increase in case volumes over the same period.

# Agenda Item 5

## Business Plan 2023/24

The following is a summary, together with commentary of the amber key tasks from the work plan agreed as part of the business plan for 2023/24.

A detailed report against all items is attached as appendix 7 to this report

### Governance

Task	2022/23	2023/24			
	Q4	Q1	Q2	Q3	Q4
Annual review against The Pensions Regulators Code of Practise	Moved onto the 2023/24 business plan				

### Core projects tracking from 2023/24 business plan

Below is a brief tracking of the core projects identified in the 2023/24 business case.

1) Responsible Investment Policy and TCFD reporting	The Responsible investment policy aspect of the project is now scheduled for completion in December 2023, one quarter later than originally anticipated. The TCFD reporting aspect is still operating to target.		
2) Review pensions administration system contract	On schedule		
3) Pensions Dashboard (including a Data Improvement Strategy)	Commenced and on track with initial data check		
4) McCloud	Expected legislation effective from 1 October 2023		

### Governance Review

A detailed report on the tasks from the work plan agreed by Committee in September 2021 is attached as appendix 8 to this report.

The following activities were scheduled to commence, but have been held. All other activities are operating to schedule. The development of a Fund Cyber Strategy has been rescheduled to coincide with the Core Project 1 of the business plan 2023/24.



# Agenda Item 5

Action	Reason	Timescales	Current action/comment
Carrying out a review of Fund's practices against TPR's New Code of Practice	As part of best practice, we would expect the Administering Authority to carry out a regular review of their practices against the New Code.	Awaiting code of practice from TPR	On hold

## Pension Fund Audit 2022/23 - Update

At its meeting in July 2023, the Board received and noted the Audit Plan, in relation to the audit to be undertaken by Grant Thornton (GT) on the Fund for 2022/23. This was followed by the draft Statement of Accounts in relation to the Fund which were provided to Board.

I am now pleased to attach, as appendix 9, the draft Audit Findings Report (AFR) received from Grant Thornton, in respect of the audit on the Fund for 2022/23.

### Headlines

Grant Thorntons audit work was completed remotely during July - September. Grant Thornton have not identified any adjustments to the financial statements that have resulted in an adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix D of the AFR. Grant Thornton have also raised recommendations for management as a result of their audit work in Appendix B of the AFR. Grant Thorntons follow up of recommendations from the prior year's audit are detailed in Appendix C of the AFR.

### Conclusion

Grant Thorntons have substantially completed the audit of the Funds financial statements and subject to outstanding queries being resolved, they anticipate issuing an unqualified audit opinion. The outstanding items include:

- finalisation of GTs outstanding testing of journal entries, level 3 investments, cash, contributions, benefits, and purchases, sales, and management expenses;
- completion of final quality review by the engagement manager and key audit partner and any points arising from this;
- receipt of management representation letter;
- receipt and review of the final Annual report; and
- review of the final set of financial statements.

At its meeting in June 2023, Committee requested an explanation of the differences between internal and external audit and it seemed appropriate to also provide this to the Pension Board for information. The following table has been provided by the Institute of

# Agenda Item 5

internal auditors. While sharing some characteristics, internal and external audit have very different objectives. These are explained in the table below:

	External audit	Internal audit
<b>Reports to</b>	shareholders or members who are outside the organisations governance structure.	The board and senior management who are within the organisations governance structure.
<b>Objectives</b>	Add credibility and reliability to financial reports from the organisation to its stakeholders by giving opinion on the report	Evaluate and improve the effectiveness of governance, risk management and control processes. This provides members of the boards and senior management with assurance that helps them fulfil their duties to the organisation and its stakeholders.
<b>Coverage</b>	Financial reports, financial reporting risks.	All categories of risk, their management, including reporting on them.
<b>Responsibility for improvement</b>	None, however there is a duty to report problems.	Improvement is fundamental to the purpose of internal auditing. But it is done by advising, coaching and facilitating in order to not undermine the responsibility of management.

## Pensions Committee review

The Committee noted the Funds position and governance activities as at 30 June 2023.

1. The Committee noted the Fund's position, investments and governance activities as at the 30 June 2023.
2. The Committee acknowledged the Audit Findings Report provided by Grant Thornton for year to 31 March 2023.

## Recommendation

The Board is recommended to note the position of the Fund as at 30 June 2023 and the governance undertaken and subsequent recommendations agreed by the Pensions Committee at their meeting held on 22 September 2023.

## Contact Officer

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