

**REPORT TITLE: Gloucestershire Pension Fund Update – Part 1 – Funding & Investment**

<b>Meeting:</b>	Pension Committee
<b>Date:</b>	7 December 2023
<b>Item Type:</b>	For information
<b>Purpose of Report:</b>	<p>To update the Committee on Fund performance and funding position, in support of the statutory responsibilities with which the Fund must comply. The bulk of the detail is set out in the associated Appendices, and officers can provide such clarifications and further information as the Committee may require.</p> <p>The provision of this information to the Committee is important in ensuring the Committee discharges its responsibilities with regard to the governance of the Fund.</p> <p>The recommendation is considered to be appropriate in the context of the obligations flowing from the Regulations.</p>
<b>Recommendations or Actions Sought:</b>	That the Committee notes, the Fund’s position as at 30 September 2023, including the investment performance as detailed in the report and associated Appendix, and requests such clarifications and further information from officers as maybe required.
<b>Background Documents:</b>	<p>The Pensions Committee last received a Funding and Investments summary update at its meeting on the 22 September 2023. The report and related minutes can be found at item 37 of the following link.</p> <p><a href="#">Agenda for Pension Committee on Friday 22 September 2023, 10.00 am (gloucestershire.gov.uk)</a></p>
<b>Appendices:</b>	<p>Appendix 1 – Investment Performance Summary</p> <p>Appendix 2 – Strategic Asset Allocation</p>
<b>Contact Information (For information on the report)</b>	<p>Matthew Trebilcock Head of Pensions – 01452 328920</p>

## Introduction

This report summarises the Fund's funding position, market value, asset allocation, investment performance, responsible investment activity and engagement activity since the previous Committee meeting.

Administering Authorities, under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 must keep under review the performance of the investment managers. This report fulfils this requirement.

There is a related report providing the Committee with information that is exempt from publication.

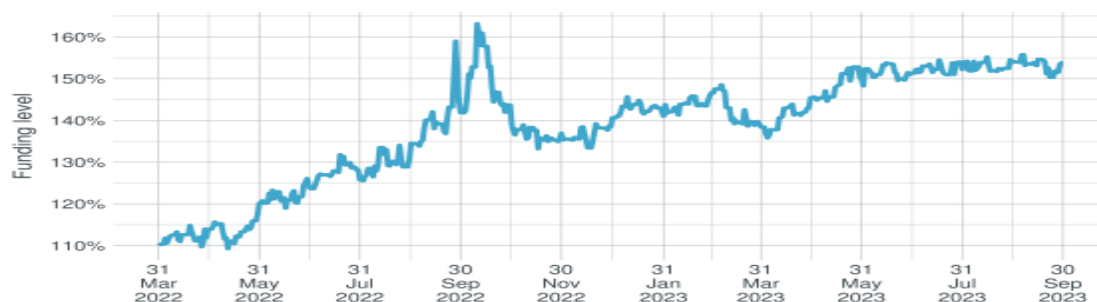
## Funding

The table below shows the estimated funding position at 31 March 2022 and 30 September 2023. Please note that the asset value at 30 September 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.

Monetary amounts in £bn	Ongoing basis	
	31 March 2022	30 September 2023
<b>Assets</b>	3.11	3.13
<b>Liabilities</b>		
– Active members	0.98	0.67
– Deferred pensioners	0.61	0.39
– Pensioners	1.24	0.98
<b>Total liabilities</b>	2.83	2.03
<b>Surplus/(deficit)</b>	0.29	1.09
<b>Funding level</b>	110%	154%
<b>Required return assumption (% pa) for funding level to be 100%</b>	3.7%	3.9%
<b>Likelihood of assets achieving this return</b>	81%	94%

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



The full funding report for the period to 30 September 2023 can be found here:

[Gloucestershire Pension Fund - Quarterly Funding Update - 30 Sept 2023](#)

## Investment update

### Performance

Over the quarter to 30 September 2023, the Fund's total market value increased by £3.116m, to £3,115.884m.

Over the quarter, total Fund assets underperformed the strategic benchmark by 1.1%.

Performance over the 3 years to 30 June 2023 was 5.1% annualised which is 0.6% behind the strategic benchmark.

The summary of investment performance is attached as appendix 1 to this report. The comprehensive performance report produced by Brunel can be found here: [Brunel Pension Partnership Investment Report - Gloucestershire Pension Fund - 30 Sep 2023](#). This report contains detailed information and commentary on the individual portfolios as well as stewardship and climate metrics.

### Macro Market Commentary

The optimism that carried equity markets into the third quarter dissipated as investors grew sceptical of a narrative that the rate hike cycle was ending 'soon'. Instead, markets had to digest mounting evidence that central banks were still in 'higher for longer' mode. Policy rates were increased in most major economies (Japan an ongoing exception), although the Bank of England baulked in September on a second rate hike after inflation came in below expectations.

A volatile September, in part driven by a bond market sell off and surging oil prices, capped a weak quarter for equity markets as the MSCI AC World Index returned +0.7% in GBP terms, reflecting the impact of US dollar strength. Year to date, the MSCI AC World is still up 8.9% in GBP. By region, eurozone equities tended to fare better than the US, although that varied by country, while the UK stock market outperformed both.

The hitherto strong-performing Japanese market was not immune to global trends in posting

a negative return. After lagging developed peers in prior quarters, the MSCI Emerging Markets index did somewhat better in Q3 in posting a return of +1.3% in GBP.

The UK FTSE All Share ex Investment Trusts Index was among the better performers in Q3, posting a gain of 2.0%. The uplift was supported by an unexpected Bank of England decision not to raise interest rates in September, while the oil prices surge boosted the UK market's sizable energy sector. Relative sterling weakness provided an additional tailwind. A pick-up in consumer confidence as the economy proved more resilient than predicted also bolstered some domestic-focused stocks.

European markets typically posted negative returns in Q3, against the backdrop of the ECB raising rates by 25bps in both July and September.

The US Equity Index lost -3.3% in local terms, trimming the year-to-date gain to about 13%, as investors considered whether a period of stagflation was more likely than a soft economic landing amid a more hawkish tone to Fed comments in September.

Japan's stock market gave up some of its strong year-to-date gain, as it posted a negative return of over -3.0%. In the wider region, the MSCI Pacific ex Japan Index recorded a negative return of -0.8% in GBP, weighed down in part by poor sentiment around China's economy.

Benchmark 10-year yields touched multi-year highs in many places, although UK bonds performed relatively better on the surprise Bank of England decision not to hike in September.

Corporate bonds largely outperformed sovereigns, with spreads narrowing in both investment grade and high yield – the The iBoxx Sterling Non Gilts returned 2.3% over the quarter.

Global government bonds posted losses as yields tracked higher against the backdrop of still-rising central bank rates and resilient, if generally weaker, economic data that could ensure those rates are kept at higher levels for longer than previously projected.

On cash markets the SONIA returned 1.3% in the three months.

The AREF/IPD UK All Property Fund Index returned -0.7% for the quarter and -13.9% over the last year.

## **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£3.5m
  - Private Equity - c£6.5m
  - Private Debt - c£5.7m
  - **Total - c£15.7m**

The current SAA is as follows:

Asset Class	Target Allocation %	Range +/- %	Allocation as at 30 June 2023 %	Variation from Target %
<b>Equities</b>	53.0	3.0	54.0	+1.0
<b>Fixed Interest</b>	17.0	2.0	17.7	+0.7
<b>Alternatives*</b>	30.0	2.0	28.8	-1.7

Detailed SAA analysis for each portfolio is attached as appendix 2 to this report.

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

### **Schroders Greencoat**

At its meeting in June 2023, Committee approved the additional 2% (£60m) allocation to Infrastructure, be allocated to the Schroders-greencoat, Local Impact Fund, which has now been named 'Wessex Gardens'.

Wessex Gardens launched in October 2023 with total commitments of £330m from 6 partner funds within Brunel.

The mandate will make long-term investments in renewable infrastructure and energy transition assets across the South West of England.

Schroders Greencoat will target investments in a wide range of renewable energy technologies, including in traditional sectors of solar PV and wind, and innovative energy transition sub-sectors such as battery storage and green hydrogen production. With a large amount of capital being deployed into a concentrated geography, the investments are expected to deliver significant local impact across the region, creating jobs in the SouthWest while providing clean energy to the national grid.

The mandate targets investments in the counties of Dorset, Somerset, Avon, Cornwall, Devon, Wiltshire, Oxfordshire, Buckinghamshire and Gloucestershire, and represents the largest-ever commitment by UK local government pensions into place-based and locally-focused renewable energy infrastructure.

## **Responsible Investment update**

The Pensions Committee has a fiduciary duty to act in the best interest of its members. To do this effectively, the Committee recognises the importance of managing Environmental, Social and Corporate Governance (“ESG”) issues, including climate change, that are financially material to the Fund, both in terms of opportunities and risks.

The Committee instigated a work programme to develop a Responsible Investment Policy for the Fund and a number of workshops and training events have been held in 2022 and 2023 to enable this development

The Fund has also received 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 RI Policy on the pathway to net zero.

The outcomes from these workshops and analysis have now been combined into a draft RI policy that is being brought back under a separate agenda item at this meeting for Committee to consider.

### **LAPFF Quarterly Engagement Report**

The Fund is a member of The Local Authority Pension Fund Forum (LAPFF). LAPFF is the UK’s leading collaborative shareholder engagement group with combined assets of over £300 billion. The report which can be accessed at: [LAPFF Quarterly Engagement Reports | Publications Categories | LAPFF \(lapfforum.org\)](#), contains a summary of LAPFF’s engagement activities over the quarter, along with a company progress report detailing all engagements undertaken over the quarter, and the outcomes.

### **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 September 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: [Gloucestershire Pension Fund - Equity Holding Analysis 30 Sept 23](#)

### **Brunel – Climate Change Progress Report 2023**

Brunel’s Climate Change Progress Report 2023 can be found here: [Brunel Climate Change Progress Report 2023](#). The Report aims to pull together all the aspects of Brunels climate reporting, capturing the outcomes of the steps they have taken to meet the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), but also those aspects of Brunels commitment to Net Zero, as set out in the Paris Aligned Asset Owner Commitment and reflected in the Climate Change Policy 2023-2030.