

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

Meeting:	Pension Committee
Date:	29 February 2024
Item Type:	For information
Purpose of Report:	<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>
Recommendations or Actions Sought:	That the Committee notes, the Fund’s position as at 31 December 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.
Background Documents:	<p>The Pensions Committee last received a Funding and Investments summary update at its meeting on the 7 December 2023. The report and related minutes can be found on the following link.</p> <p>Agenda for Pension Committee on Thursday 7 December 2023, 10.00 am (gloucestershire.gov.uk)</p>
Appendices:	<p>Appendix 1 – Investment Performance Summary</p> <p>Appendix 2 – Strategic Asset Allocation</p>
Contact Information (For information on the report)	<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.

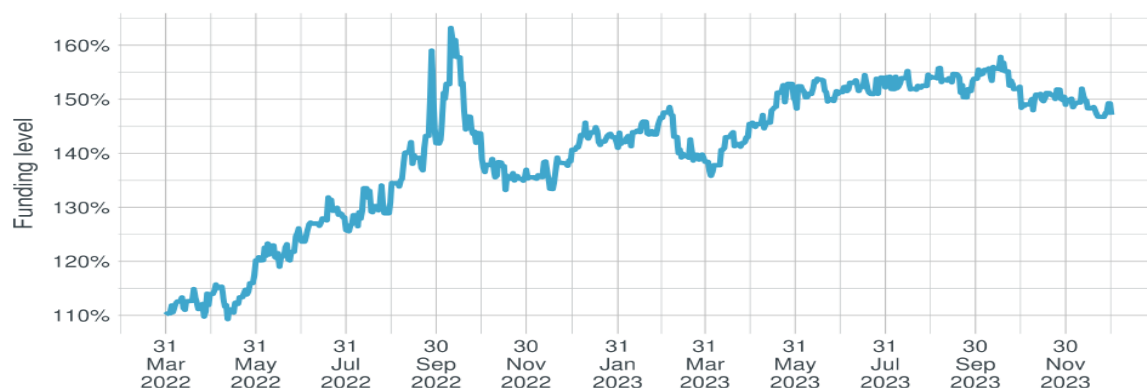
Funding

The table below shows the estimated funding position at 31 March 2022 and 31 December 2023. Please note that the asset value at 31 December 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	31 December 2023
Assets	3.11	3.34
Liabilities		
– Active members	0.98	0.78
– Deferred pensioners	0.61	0.45
– Pensioners	1.24	1.05
Total liabilities	2.83	2.27
Surplus/(deficit)	0.29	1.07
Funding level	110%	147%
Required return assumption (% pa) for funding level to be 100%	3.7%	3.7%
Likelihood of assets achieving this return	81%	92%

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



The full funding report for the period to 31 December 2023 can be found here:

[gloucestershire-pension-fund-funding-update-31-december-2023.pdf](#)

Investment update

Performance

Over the quarter to 31 December 2023, the Fund's total market value increased by £147.257m, to £3,263.141m.

Over the quarter, total Fund assets outperformed the strategic benchmark by 0.4%, with a return of 4.6%.

Performance over the 3 years to 31 December 2023 was 4.3% 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 - 31 December 2023](#). This report contains detailed information and commentary on the individual portfolios as well as stewardship and climate metrics.

Macro Market Commentary

The final quarter of 2023 proved a remarkably positive one for financial markets. A sluggish start to October threatened to extend Q3 weakness into Q4. However, risk assets began to rally amid rising confidence that central banks were edging towards rate cuts. Such was the scale of the market rebound that the US S&P 500 ended December near the record high of nearly two years ago. A catalyst for the rally was bigger than forecast declines in inflation on both sides of the Atlantic. The MSCI AC World Index recorded a gain of 6.4% in GBP terms amid US dollar weakness. For 2023, the MSCI AC World returned +15.9% in GBP.

By region, US equities proved among the top performers, outpacing most European markets in the three months as the large technology sector made strong advances. Europe was a mixed bag with Norway's market lagging as weak energy stocks and an unexpected rate hike in December hit performance, while the Netherlands and Sweden outperformed. Japanese market gains were limited by the yen's recovery against the US dollar on prospects the policy rate differential may narrow in 2024. Despite a weak quarter for Chinese equities, the MSCI Emerging Markets Index gained 3.3% in GBP terms.

The UK FTSE All Share ex Investment Trusts Index posted a gain of 2.9% in Q4 for an annual return of 8.1%. The relatively poor outcome in Q4 is likely in part attributable to sterling strength against the dollar given the importance of non-UK revenues for the large internationally oriented companies in the index. The impact of weak oil prices on the market's energy sector was also a factor, offsetting robust performances by many domestically driven stocks.

Most European markets achieved strong returns in Q4 as investor confidence grew that the ECB was unlikely to raise interest rates further. The performance trends were similar to those seen elsewhere, with real estate and technology performing well and health care and energy struggling to keep pace.

The US equity index returned 11.7% in local terms, lifting its full-year return to 26.3%, as easing inflation raised expectations that the Fed would move toward a more dovish monetary policy path and hopes grew for a soft landing.

Japan's stock market returned 5.2% in the quarter for an exceptional 2023 gain of about 30%. The relative underperformance in Q4 versus some peers can be partly attributed to yen appreciation, given the export-oriented nature of many large Japanese firms that had benefited from previous yen weakness.

Global bonds had one their best quarters for many years, buoyed by increased confidence among market participants that major central banks could look to cut interest rates sooner than previously forecast. The 'higher for longer' narrative that had seen benchmark 10-year yields hit multi-year highs as recently as October dissipated as bond prices were driven higher amid slowing inflation. In the UK, better-than-expected inflation prints boosted hopes the Bank of England may move towards rate cuts even though the December meeting of the Monetary Policy Committee saw three of the nine members vote for a 0.25% hike. The ICE BofA Sterling Non-Gilt Index returned 7.4% in Q4.

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

The AREF/IPD UK All Property Fund Index returned -1.1% for the quarter and -1.6% 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£12.1m
 - Private Equity - c£6.0m
 - Private Debt - c£7.1m
 - Total - c£25.2m**

The current SAA is as follows:

Asset Class	Target Allocation %	Range +/- %	Allocation as at 30 June 2023 %	Variation from Target %
Equities	53.0	3.0	54.7	+1.7
Fixed Interest	17.0	2.0	18.1	+1.1
Alternatives*	30.0	2.0	27.3	-2.7

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*

At quarter ending 31 December 2023 the cash held equated to 2.4% (£76.999m). This is high then anticipated in the Treasury Management Strategy, however, Officers were made aware that early in January 2024 a substantial capital call would be received in respect of the 'Wessex Gardens' Fund with Schroders Greencoat, therefore to mitigate against potential risks of reduced trading over the holiday period, the realization of cash for onward investment was undertaken in late December 2023 in preparation of the capital call, which was received in January 2024.

Schroders Greencoat

As previously advised the Wessex Gardens Fund was 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.

I am pleased to advise that the first investment has been completed and involves the Wessex Garden Fund acquiring a stake in the Toucan Energy portfolio, investing c.£230m in the deal to acquire predominately local solar assets.

Wessex Gardens will hold, after the restructuring, predominantly South West assets consistent with the ambitions around place-based/local investing. The end state portfolio held by the partner funds will see around c.£230m invested in 17 assets with a generating capacity of approximately 196MW, equivalent to powering nearly 70,000 homes¹.

Specifically, for the Gloucestershire Pension Fund, this investment represents a drawdown of c£42m of the £60m commitment to the Fund, and the resultant portfolio will have assets held within Gloucestershire.

¹ Total homes powered is 69,363, which is based on the assumption of 2,700 kWh used annually per average household. Source: [Average gas and electricity usage | Ofgem](#)

Responsible Investment update

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 31 December 23](#)

Brunel RI Activity

Taskforce on Nature-related Financial Disclosures (TNFD)

Brunel has been announced as a TNFD early adopter, with a commitment to adopt in financial year 2025-26. There were 320 organisations from 46 countries [announced as early adopters](#) at the Annual Meeting of the the World Economic Forum at Davos.

The TNFD has developed a set of disclosure recommendations and guidance for organisations to report and act on evolving nature-related dependencies, impacts, risks and opportunities.

You can find more about Brunel's approach here on: [Biodiversity & Nature](#).

Barclays engagement outcome

Brunel announced the decision to withdraw the resolution that they co-filed at Barclays with ShareAction and a large group of investors on financing new oil and gas infrastructure. The decision follows constructive and fruitful discussions held with Barclays over the last few months, and progress by the bank on the majority of investor asks, in the form of an updated energy policy.

Brunel expects banks to address transition risks within their client portfolios, improve target-setting, and better define financing policies in alignment with their Net Zero commitments.

Brunel has identified the banking sector as a key player in tackling climate change, due to its crucial role in financing the low-carbon transition.

Brunel has advised Barclays the specific areas where the updated policy needs to be strengthened in future iterations, and they welcome Barclays' willingness to continue to engage with them on implementation, and on furthering their commitments in this crucial area. Further details can be found here: [Successful engagement outcome at Barclays - Brunel Pension Partnership](#)