

Pension Fund Committee

29 November 2023

Pension Fund Administrator's Report For Decision

Local Councillor(s): All

Executive Director: A Dunn, Executive Director, Corporate Development

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Report Status: Public

Brief Summary:

The purpose of this report is to update the Committee on the pension fund's funding position, and the valuation and overall performance of the pension fund's investments as at 30 September 2023. The report provides a summary of the performance of all external investment managers and addresses other topical issues for the pension fund that do not require a separate report.

The estimated value of the pension fund's assets at 30 September 2023 was £3,542M compared to £3,517M at the start of the financial year.

The pension fund's investment strategy statement (ISS) has been updated to reflect the target asset allocations agreed by the Committee at its meeting in June 2023 (see Appendix 1).

The pension fund's actuary, Barnett Waddingham, undertakes a full assessment of the funding position every three years. The results of the latest assessment as at 31 March 2022 are that the pension fund had a funding level of 96% compared to 92% as at 31 March 2019.

The total return from the pension fund's investments over the quarter to 30 September 2023 was -0.3%, compared to the combined benchmark return of 1.2%. The total return for the 12 months to 30 September 2023 was 5.5% compared to the benchmark return of 6.0%. Annualised returns for three years

were 5.2% compared to the benchmark return of 6.5% and for five years were 3.5% compared to the benchmark of 4.5%.

As at 30 September 2023, approximately 78% of the pension fund's assets were under the management of Brunel Pension Partnership (Brunel), the pension fund's Local Government Pension Scheme (LGPS) investment pooling manager.

Recommendation:

That the Committee:

- i. review and comment upon the activity and overall performance of the pension fund's investments.
- ii. approve the revised Investment Strategy Statement (ISS) for publication on the pension fund's website.

Reason for Recommendation:

To ensure that the pension fund has the appropriate management and monitoring arrangements in place, and to ensure that asset allocation in line with agreed strategic targets.

1. Asset Valuation Summary

1.1 The table below shows the pension fund's asset valuation by asset class at the beginning of the financial year and as at 30 September 2023, compared with the target allocation agreed by the Committee June 2023.

Asset Class	31-Mar-23		30-Sep-23		Target Allocation	
	£M	%	£M	%	£M	%
UK Equities	310.0	8.8%	315.7	8.9%	318.8	9.0%
Global Equities	1,567.5	44.6%	1,583.3	44.7%	1,593.9	45.0%
Emerging Markets Equities	142.2	4.0%	138.8	3.9%	141.7	4.0%
Total Listed Equities	2,019.7	57.4%	2,037.8	57.5%	2,054.4	58.0%
Corporate Bonds	229.1	6.5%	233.7	6.6%	230.2	6.5%
Multi Asset Credit	232.4	6.6%	250.5	7.1%	230.2	6.5%
Diversified Returns	236.5	6.7%	243.8	6.9%	247.9	7.0%
Infrastructure	276.2	7.9%	277.8	7.8%	283.4	8.0%
Private Equity	135.8	3.9%	143.5	4.1%	177.1	5.0%
Property	302.8	8.6%	311.0	8.8%	318.8	9.0%
Liability Driven Investment	19.0	0.5%	-	0.0%	-	0.0%
Cash	58.8	1.7%	49.8	1.4%	-	0.0%
F/X Hedging	7.1	0.2%	5.9	-0.2%	-	0.0%
Total Asset Valuation	3,517.4	100.0%	3,542.0	100.0%	3,542.0	100.0%

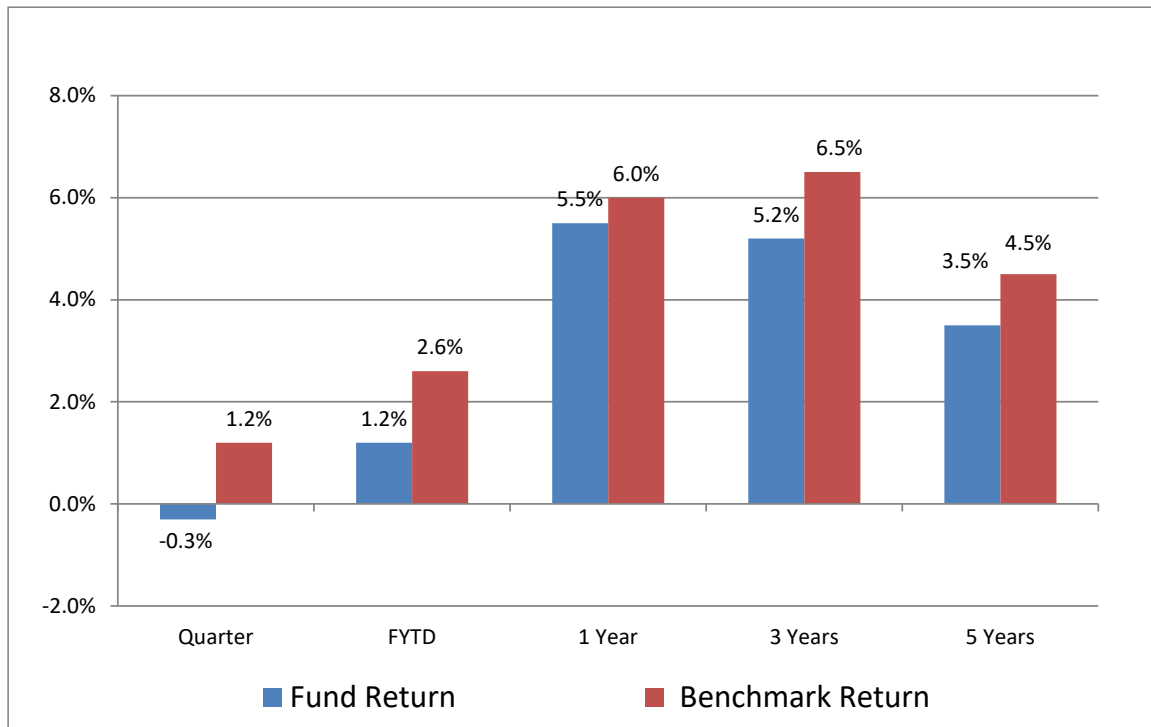
1.2 The pension fund's investment strategy statement (ISS) has been revised to reflect the target asset allocations agreed by the Committee at its meeting in June 2023 (see Appendix 1).

2. Funding Level

2.1 The pension fund's actuary, Barnett Waddingham, undertakes a full assessment of the funding position every three years. The results of the latest full assessment as at 31 March 2022 are that the pension fund had a funding level of 96% i.e. assets were estimated to be 96% of the value that they would have needed to be to pay for the expected benefits accrued to that date, based on the assumptions used, compared to 92% at the last valuation as at 31 March 2019.

3. Investment Performance Summary

3.1 The overall performance of the pension fund's investments to 30 September 2023 is summarised below (returns for three and five years are annualised figures).



4. Investment Pooling

4.1 In accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, Dorset participates with nine other LGPS funds to pool investment assets

through the Brunel Pension Partnership. Brunel is wholly owned in equal shares by the ten administering authorities that participate in the pool and is authorised by the Financial Conduct Authority (FCA).

- 4.2 As at 30 September 2023, approximately 78% of the pension fund's assets were under the management of Brunel.
- 4.3 Brunel's performance report for the quarter ending 30 September 2023 is considered as a separate item on the agenda for this meeting. This report includes market summaries from Brunel's investment officers and an overall performance summary for the pension fund, together with more detailed information in relation to Dorset's assets under Brunel's management.

5. Performance by Investment Manager

- 5.1 The following tables summarise by investment manager and investment vehicle the value of Assets Under Management (AUM) as at 30 September 2023 plus each investment's return compared to its benchmark for the quarter, one, three and five years, and 'Since Initial Investment' (SII). All percentages quoted for periods over one year are annualised returns.

Brunel Pension Partnership

Investment	AUM £m	Qtr %	1 Yr %	3 Yr %	5 Yr %	SII %
Global Equities:						
Brunel Global Sustainable Equities	333.6	-4.1	3.7	-	-	1.9
MSCI AC World GBP Index		0.7	11.0	-	-	6.8
Excess		-4.8	-7.3	-	-	-4.9
Brunel Global High Alpha Equity	278.9	-0.6	13.6	8.3	-	11.3
MSCI World TR Index		0.7	12.1	10.7	-	9.8
Excess		-1.3	1.5	-2.4	-	1.5
Brunel Smaller Companies Equities	221.0	-2.3	5.3	-	-	-0.5
MSCI World Small Cap		-0.3	4.8	-	-	1.2
Excess		-2.0	0.5	-	-	-1.7
Brunel Emerging Market Equity	138.8	-0.1	2.3	-1.6	-	-0.3
MSCI Emerging Markets		1.3	2.6	0.6	-	1.8
Excess		-1.4	-0.3	-2.2	-	-2.1
LGIM Passive Developed Equities	107.2	0.7	12.1	10.4	-	8.8
FTSE World Developed		0.7	12.3	10.4	-	8.8
Excess		0.0	-0.2	0.0	-	0.0
LGIM Passive Dev. Equities (Hedged)	101.8	-2.5	20.3	9.1	-	7.5
FTSE World Developed Hedged		-2.4	20.3	9.2	-	7.6
Excess		-0.1	0.0	-0.1	-	-0.1

Investment	AUM	Qtr	1 Yr	3 Yr	5 Yr	SII
	£m	%	%	%	%	%
LGIM Passive Dev. Equities PAB	57.3	0.2	-	-	-	8.8
FTSE Developed Paris Aligned Net Index		0.2	-	-	-	9.0
Excess		0.0	-	-	-	-0.2
LGIM Passive Dev. Equities PAB (Hedged)	57.2	-3.0	-	-	-	10.1
FTSE Developed Paris Aligned Net Index (hdgd)		-3.0	-	-	-	10.2
Excess		0.0	-	-	-	-0.1
LGIM Passive Dev. Equities CTB	57.5	0.3	-	-	-	11.4
FTSE Developed Climate Transition Index		0.3	-	-	-	11.6
Excess		0.0	-	-	-	-0.2
LGIM Passive Dev. Equities CTB (Hedged)	57.3	-3.0	-	-	-	10.1
FTSE Developed Climate Transition Index (hdgd)		-2.9	-	-	-	10.3
Excess		-0.1	-	-	-	-0.2
LGIM Passive Smart Beta	161.6	1.4	7.8	10.8	7.3	7.7
SciBeta Multifactor Composite		1.3	7.3	10.2	6.9	7.3
Excess		0.1	0.5	0.6	0.4	0.4
LGIM Passive Smart Beta (Hedged)	149.8	-1.8	15.8	9.6	5.8	6.2
SciBeta Multifactor Hedged Composite		-1.9	15.2	9.0	5.4	5.9
Excess		0.1	0.6	0.6	0.4	0.3
UK Equities:						
Brunel UK Active Equity	188.8	2.4	14.4	9.6	-	4.3
FTSE All Share ex Investment Trusts		2.0	14.8	12.4	-	5.4
Excess		0.4	-0.4	-2.8	-	-1.1
LGIM Passive UK Equities	126.9	1.9	13.9	12.0	3.8	3.3
FTSE All Share		1.9	13.8	11.8	3.7	3.2
Excess		0.0	0.1	0.2	0.1	0.1
Fixed Income:						
Brunel Multi Asset Credit	250.5	1.9	10.6	-	-	-0.6
SONIA + 4%		2.3	8.2	-	-	6.1
Excess		-0.4	2.4	-	-	-6.7
Brunel Sterling Corporate Bonds	77.6	2.4	-	-	-	0.4
iBoxx Sterling Non Gilts Overall Return		2.3	-	-	-	-0.3
Excess		0.1	-	-	-	0.7
Other:						
Brunel Diversifying Returns Fund	243.8	2.1	4.2	3.1	-	2.5
SONIA + 3%		2.0	7.1	4.6	-	4.5
Excess		0.1	-2.9	-1.5	-	-2.0
Private Markets:						
Brunel Private Equity Cycle 1	55.2	4.8	0.0	23.6	-	23.4
MSCI AC World Index		0.7	11.0	9.5	-	10.4
Excess		4.1	-11.0	14.1	-	13.0
Brunel Private Equity Cycle 3	0.8	40.6	-	-	-	42.0
MSCI AC World Index		0.7	-	-	-	4.3
Excess		39.9	-	-	-	37.7
Brunel Secured Income Cycle 1	54.2	-2.2	-13.3	0.2	-	0.9
CPI		0.4	6.6	6.6	-	4.5
Excess		-2.6	-19.9	-6.4	-	-3.6
Brunel Secured Income Cycle 3	16.6	-0.9	-	-	-	5.1
CPI		0.4	-	-	-	0.5
Excess		-1.3	-	-	-	4.6
Brunel Infrastructure Cycle 3	11.3	-1.0	-	-	-	-2.4
CPI		0.4	-	-	-	6.6
Excess		-1.4	-	-	-	-9.0

All Other Managers

Manager / Investment	AUM	Qtr	1 Yr	3 Yr	5 Yr	SII
	£m	%	%	%	%	%
Royal London / Corporate Bonds	156.1	1.1	7.0	-6.7	-0.7	5.6
iBoxx Sterling Non Gilts > 5 Years		1.1	6.8	-9.1	-2.3	5.0
Excess		0.0	0.2	2.4	1.6	0.6
CBRE / Property	257.7	0.0	-10.8	2.4	1.9	6.7
MSCI UK All Properties (Quarterly)		-0.7	-12.0	2.3	1.2	6.5
Excess		0.7	1.2	0.1	0.7	0.2
Harbourvest / Private Equity	71.4	5.7	-9.0	24.1	19.9	13.7
FTSE All Share		1.9	13.8	11.8	3.7	5.4
Excess		3.8	-22.8	12.3	16.2	8.3
Aberdeen Standard / Private Equity	16.1	4.9	7.1	17.7	12.5	5.7
FTSE All Share		1.9	13.8	11.8	3.7	5.7
Excess		3.0	-6.7	5.9	8.8	0.0
Federated Hermes / Infrastructure	87.5	-5.7	-8.8	4.3	3.9	6.0
10% Absolute Return		2.4	10.0	10.0	10.0	10.0
Excess		-8.1	-18.8	-5.7	-6.1	-4.0
IFM / Infrastructure	161.6	4.1	5.5	15.1	11.7	13.9
10% Absolute Return		2.4	10.0	10.0	10.0	10.0
Excess		1.7	-4.5	5.1	1.7	3.9

6. Private Markets

- 6.1 The pension fund has private equity investments managed by two external managers, HarbourVest and Abrdn (formerly Aberdeen Standard), and Brunel.
- 6.2 Private Equity is an asset class that takes several years for commitments to be fully invested. The table below summarises the pension fund's commitments, drawdowns, distributions received and closing valuations by manager as at 30 September 2023.

	<u>Commitment</u>	<u>Drawdown</u>	<u>Distributions</u>	<u>Valuation</u>
	<u>£m</u>	<u>£m</u>	<u>%</u>	<u>£m</u>
HarbourVest	113.8	102.8	90%	130.3
Abrdn	79.7	71.2	89%	100.0
Brunel	120.0	44.3	37%	3.8
Total	313.5	218.4	70%	234.1

- 6.3 The pension fund has two external infrastructure managers, Federated Hermes and IFM. The target for each manager is a 10% absolute annual return and this is used at the benchmark for these investments. In addition to the assets under the management of Federated Hermes and

IFM, the pension fund also has holdings in infrastructure funds under the management of Brunel.

- 6.4 The performance of the pension fund's property investments managed by CBRE is detailed in Appendix 1. In addition to the assets under the management of CBRE, the pension fund also has holdings in secured long income property funds under the management of Brunel.

7. Financial Implications

- 7.1 The Local Government Pension Scheme (LGPS) is a national pension scheme administered locally. Dorset Council is the administering authority for the LGPS in Dorset which provides pensions and other benefits for employees of the Council, other councils and a range of other organisations within the county.
- 7.2 The LGPS is a 'defined benefit' scheme which means that benefits for scheme members are calculated based on factors such as age, length of membership and salary. Member benefits are not calculated on the basis of investment performance as they would be in a 'defined contribution' scheme.
- 7.3 Administering authorities are required to maintain a pension fund for the payment of benefits to scheme members funded by contributions from scheme members and their employers, and from the returns on contributions invested prior to benefits becoming payable.
- 7.4 Contribution levels for scheme members are set nationally, and contribution levels for scheme employers are set locally by actuaries engaged by administering authorities. As scheme member rates cannot be changed locally and benefits are defined, the risk of investment underperformance is effectively borne by scheme employers.

8. Climate Implications

- 8.1 The pension fund's Investment Strategy Statement requires all external investment managers to consider and manage all financially material risks arising from environmental issues, including those associated with climate change.
- 8.2 At its meeting in September 2020, the Committee agreed to a strategy of decarbonisation meaning a reduction in allocations of investment to companies which are high carbon emitters and looking to influence the demand for fossil fuels and their financing, not just their supply.

8.3 The pension fund no longer has any direct investments in individual companies, including 'fossil fuel' companies, but it does have indirect exposure to such companies through its holdings in pooled investment vehicles. As at 31 March 2023, the value of the pension fund's investments in companies primarily involved in the exploration, production, mining and/or refining of fossil fuels was estimated at approximately £66M (1.8% of total investment assets).

9. **Well-being and Health Implications**

9.1 No wellbeing and health implications arising from this report have been identified.

10. **Other Implications**

10.1 No other implications arising from this report have been identified.

11. **Risk Assessment**

11.1 The risks associated with the pension fund's investments are assessed in detail and considered as part of the strategic asset allocation. The pension fund's Investment Strategy Statement requires all external investment managers to consider and manage all financially material risks.

12. **Equalities Impact Assessment**

12.1 There are no equalities implications arising from this report.

13. **Appendices**

Appendix 1: Investment Strategy Statement (ISS) November 2023

Appendix 2: CBRE Quarterly Investment Report 30 September 2023

14. **Background Papers**

Funding Strategy Statement