

# **Pension Fund Committee**

## **Thursday, 26 November 2020**

### **Pension Fund Administrator's Report**

#### **For Decision**

**Local Councillor(s):** All

**Executive Director:** A Dunn, Executive Director, Corporate Development

**Report Author:** David Wilkes  
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**Report Status:** Public

#### **Recommendation:**

That the Committee review and comment upon the activity and overall performance of the pension fund.

#### **Reason for Recommendation:**

To ensure that the pension fund has the appropriate management arrangements in place and are being monitored, and to keep the asset allocation in line with the strategic target.

#### **1. Executive 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 2020. 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 2020 was £3,045M compared to £2,696M at the start of the financial year. This has been driven by rises across all listed markets after the falls in March 2020 in reaction to the impact of COVID 19.

This estimated funding position at 30 September 2020 is 83% i.e. assets were estimated to be 83% of the value needed pay for the expected benefits accrued to that date. This compares to 92% calculated by the pension fund's actuary following their full assessment as at 31 March 2019 for the most recent triennial valuation.

The total return from the pension fund's investments over the financial year to 30 September 2020 was 12.9%, compared to the combined benchmark return of 10.8%. Over the last 12 months the pension fund's investments have returned -3.1%, below the Fund's combined benchmark return of -2.7% and the actuarial discount rate of 5.0%.

As at 30 September 2020, approximately 32% of the pension fund's liabilities were hedged against inflation sensitivity through the Liability Driven Investment (LDI) mandate with Insight Investment.

As at 30 September 2020, approximately 46% of the pension fund's assets were under the management of Brunel Pension Partnership.

David Vickers has been appointed by Brunel as Chief Investment Officer, replacing Mark Mansley who left in May 2020.

## **2. Financial Implications**

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.

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.

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 returns on contributions invested prior to benefits becoming payable.

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.

### **3. Wellbeing and Health Implications**

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

### **4. Climate implications**

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.

### **5. Other Implications**

No other implications arising from this report have been identified.

### **6. Risk Assessment**

The risks associated with the pension fund's investments are assessed in detail and considered as part of the strategic allocation

### **7. Equalities Impact Assessment**

There are no equalities implications arising from this report.

### **8. Appendices**

- Appendix 1: Brunel Performance Report Q3 2020
- Appendix 2: Corporate Bonds (RLAM) Q3 2020
- Appendix 3: Multi Asset Credit (CQS) Q3 2020
- Appendix 4: Property (CBRE) Q3 2020
- Appendix 5: Liability Driven Investment (Insight) Q2 2020

### **9. Background Papers**

- Investment Strategy Statement (March 2018)
- Funding Strategy Statement (March 2020)

### **10. Asset Valuation Summary**

- 10.1 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 2020, together with the target allocation as agreed at the meeting of the Committee on 10 September 2020.

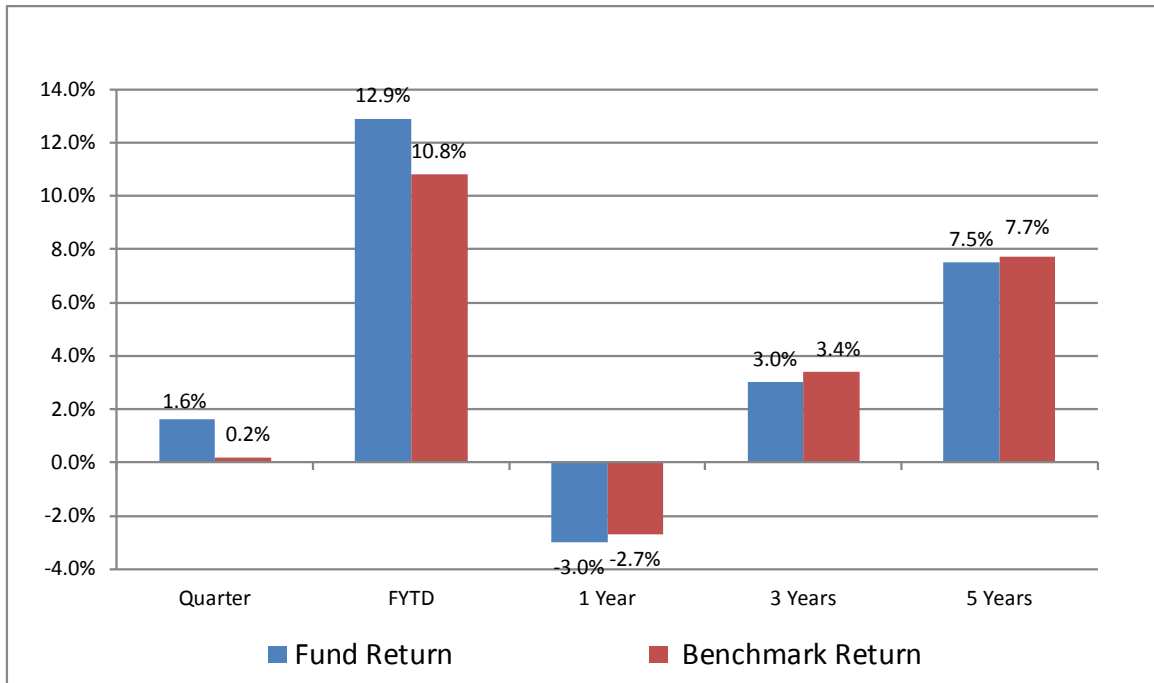
<b>Asset Class</b>	<b>31-Mar-20</b>		<b>30-Sep-20</b>		<b>Target Allocation</b>	
	<b>£M</b>	<b>%</b>	<b>£M</b>	<b>%</b>	<b>£M</b>	<b>%</b>
UK Equities	491.0	18.2%	466.1	15.3%	304.5	10.0%
Overseas Equities	682.8	25.3%	918.9	30.2%	1,065.6	35.0%
Emerging Markets Equities	83.8	3.1%	105.3	3.5%	152.2	5.0%
<b>Total Listed Equities</b>	<b>1,257.6</b>	<b>46.6%</b>	<b>1,490.3</b>	<b>49.0%</b>	<b>1,522.3</b>	<b>50.0%</b>
Corporate Bonds	220.6	8.2%	241.7	7.9%	121.8	4.0%
Multi Asset Credit	120.4	4.5%	139.9	4.6%	152.2	5.0%
Diversified Returns	152.8	5.7%	167.8	5.5%	182.7	6.0%
Infrastructure	195.3	7.2%	215.8	7.1%	243.6	8.0%
Private Equity	98.1	3.6%	98.5	3.2%	152.2	5.0%
Property	301.0	11.2%	296.2	9.7%	304.5	10.0%
Cash	53.4	2.0%	33.0	1.1%	-	0.0%
F/X Hedging	-9.7	-0.4%	2.1	0.1%	-	0.0%
<b>Total Return Seeking Assets</b>	<b>2,389.5</b>	<b>88.6%</b>	<b>2,685.3</b>	<b>88.2%</b>	<b>2,679.2</b>	<b>88.0%</b>
Liability Matching Assets	306.8	11.4%	359.2	11.8%	365.3	12.0%
<b>Total Asset Valuation</b>	<b>2,696.3</b>	<b>100.0%</b>	<b>3,044.5</b>	<b>100.0%</b>	<b>3,044.5</b>	<b>100.0%</b>

## 11. Funding Update

- 11.1 The pension fund's actuary, Barnett Waddingham, undertakes a full assessment of the funding position every three years. This was last completed as at 31 March 2019 when the pension fund had a funding level of 92% i.e. assets were estimated to be 92% 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.
- 11.2 Barnett Waddingham also carry out an indicative update on the funding position at the end of each quarter. Whilst this is not a full review it is intended to give an understanding of movements in the pension fund's overall funding position between triennial valuations. As at 30 September 2020 the estimated funding position was approximately 83%.

## 12. Investment Performance Summary

- 12.1 The overall performance of the pension fund's investments to 30 September 2020 is summarised below (returns for three and five years are annualised figures).



12.2 The Brunel Pension Partnership’s performance report for the quarter ending 30 September 2020 is attached as Appendix 1. 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.

### 13. Performance by Asset Class and Investment Manager

#### UK Equities

13.1 The performance of the pension fund’s external managers is summarised in the tables below.

#### **Brunel/LGIM Passive - £256.3m assets under management (AUM)**

	Performance	Benchmark	Relative
Quarter	-2.8%	-2.9%	0.1%
Financial Year to Date	7.1%	7.0%	0.1%
12 months	-16.5%	-16.6%	0.1%
Since inception p.a.	-7.3%	-7.3%	0.0%

**Brunel UK Active - £143.4m AUM**

	Performance	Benchmark	Relative
Quarter	-1.7%	-2.9%	1.2%
Financial Year to Date	9.8%	7.0%	2.8%
12 months	-15.1%	-16.6%	1.5%
Since inception p.a.	-4.1%	-4.5%	0.4%

**Schroders - £53.9m AUM**

	Performance	Benchmark	Relative
Quarter	6.3%	-1.7%	8.0%
Financial Year to Date	28.7%	13.7%	15.0%
12 months	-0.3%	-13.8%	13.5%
3 years p.a.	0.2%	-7.2%	7.4%
5 years p.a.	7.5%	0.8%	6.7%
Since inception p.a.	9.1%	4.5%	4.6%

**Global Developed Markets Equities**

- 13.2 The performance of the pension fund's external global equities managers is summarised in the tables below.

**Wellington - £217.9m AUM**

	Performance	Benchmark	Relative
Quarter	3.8%	3.2%	0.6%
Financial Year to Date	25.7%	23.6%	2.1%
12 months	8.4%	5.2%	3.2%
3 years p.a.	11.1%	9.1%	2.0%
Since inception p.a.	14.3%	12.7%	1.6%

**Brunel/LGIM Smart Beta - £142.4m AUM**

	Performance	Benchmark	Relative
Quarter	1.6%	1.6%	0.0%
Financial Year to Date	17.2%	17.3%	-0.1%
12 months	-5.5%	-5.3%	-0.2%
Since inception p.a.	3.9%	4.1%	-0.2%

**Brunel/LGIM Smart Beta (Hedged) - £143.6m AUM**

	Performance	Benchmark	Relative
Quarter	4.7%	4.7%	0.0%
Financial Year to Date	19.5%	19.4%	0.1%
12 months	-3.7%	-3.5%	-0.2%
Since inception p.a.	1.6%	2.1%	-0.5%

**Brunel/LGIM Passive Developed - £93.4m AUM**

	Performance	Benchmark	Relative
Quarter	3.3%	3.3%	0.0%
Financial Year to Date	23.8%	23.8%	0.0%
12 months	5.8%	5.8%	0.0%
Since inception p.a.	8.2%	8.3%	-0.1%

**Brunel/LGIM Passive Developed (Hedged) - £116.7m AUM**

	Performance	Benchmark	Relative
Quarter	6.3%	6.4%	-0.1%
Financial Year to Date	25.8%	26.0%	-0.2%
12 months	7.4%	7.6%	-0.2%
Since inception p.a.	5.2%	5.3%	-0.1%

**Brunel Emerging Markets Equities - £105.3m AUM**

13.3 The performance of the Brunel Emerging Markets Equity Fund is summarised below.

	Performance	Benchmark	Relative
Quarter	5.7%	4.8%	0.9%
Financial Year to Date	25.6%	24.3%	1.3%
Since inception	1.1%	2.4%	-1.3%

**Corporate Bonds - £241.7m AUM**

13.4 The performance of the pension fund's external Corporate Bonds manager, RLAM, is detailed in Appendix 2, and summarised below.

	Performance	Benchmark	Relative
Quarter	1.6%	1.3%	0.3%
Financial Year to Date	9.5%	10.5%	-1.0%
12 months	4.9%	4.8%	0.1%
3 years p.a.	6.5%	6.0%	0.5%
5 years p.a.	7.4%	6.9%	0.5%
Since inception p.a.	8.6%	8.5%	0.1%

### **Multi Asset Credit (MAC) - £139.9m AUM**

- 13.5 The performance of the Fund's external MAC manager, CQS, is detailed in Appendix 3 and summarised below.

	Performance	Benchmark	Relative
Quarter	3.3%	1.0%	2.3%
Financial Year to Date	16.2%	2.1%	14.1%
12 months	-2.0%	4.5%	-6.5%
Since inception p.a.	1.3%	4.7%	-3.4%

- 13.6 The target for the CQS fund is cash (1 month LIBOR) plus 4% over the longer term, and this is used as the benchmark for the investment.

### **Property (CBRE) - £293.1m AUM**

- 13.7 The performance of the Fund's external property manager, CBRE, is detailed in Appendix 4, and summarised below.

	Performance	Benchmark	Relative
Quarter	0.7%	0.1%	0.6%
Financial Year to Date	0.4%	-3.1%	3.5%
12 months	-1.7%	-2.9%	1.2%
3 years p.a.	3.1%	2.4%	0.7%
5 years p.a.	5.0%	4.2%	0.8%
Since inception p.a.	7.2%	7.1%	0.1%

- 13.8 In addition to assets under the management of CBRE, the pension fund also has some holdings in secured long income property funds under the management of Brunel.

### **Private Equity**

- 13.9 Private Equity is an asset class that takes several years for commitments to be fully invested. The table below summarises the commitment the pension fund has made in total to each manager, the drawdowns that have taken place to date and the percentage of the total drawdown



against commitments. It also shows the distributions that have been returned to the pension fund, the valuation as at 30 September 2020 and the total gains or losses on investments.

**Private Equity Commitments, Drawdowns and Valuations**

<u>Manager</u>	<u>Commitment Drawdown Distribution</u>			<u>Valuation</u>	<u>Gain</u>
	<u>£m</u>	<u>£m</u>	<u>%</u>	<u>£m</u>	<u>£m</u>
HarbourVest	113.2	85.5	76%	83.2	56.1
Aberdeen Standard	80.8	75.4	93%	71.5	30.2
Brunel	60.0	9.3	16%	0.0	12.1
<b>Total</b>	<b>254.0</b>	<b>170.3</b>	<b>67%</b>	<b>154.8</b>	<b>98.4</b>

13.10 In order to meet the target allocation, there is a requirement to keep committing to Private Equity funds. Officers are in regular discussions with HarbourVest, Aberdeen Standard and the Brunel private markets team to identify further opportunities for investment.

13.11 The tables below summarise performance to date for the pension fund's two legacy managers, HarbourVest and Aberdeen Standard.

**HarbourVest - £56.1m AUM**

	Performance	Benchmark	Relative
Quarter	7.4%	-2.9%	10.3%
Financial Year to Date	0.4%	7.0%	-6.6%
12 months	5.7%	-16.6%	22.3%
3 years p.a.	16.9%	-3.2%	20.1%
5 years p.a.	16.9%	3.5%	13.4%
Since inception p.a.	11.6%	4.1%	7.5%

**Aberdeen Standard - £30.2m AUM**

	Performance	Benchmark	Relative
Quarter	5.7%	-2.9%	8.6%
Financial Year to Date	-8.8%	7.0%	-15.8%
12 months	-2.5%	-16.6%	14.1%
3 years p.a.	11.0%	-3.2%	14.2%
5 years p.a.	10.9%	3.5%	7.4%
Since inception p.a.	3.4%	4.5%	-1.1%

13.12 The benchmark used for these investments is the FTSE All Share index and the investments are held in US dollars and Euros, currency movements can contribute to volatility in relative performance.

**Infrastructure**

13.13 As with Private Equity, Infrastructure is a long-term investment that takes several years for commitments to be fully invested. The pension fund has two external infrastructure managers, Hermes and IFM. The target for each manager is a 10% absolute annual return and this is used at the benchmark for these investments. Performance is summarised in the tables below:

**Hermes - £94.1m AUM**

	Performance	Benchmark	Relative
Quarter	-6.3%	2.5%	-8.8%
Financial Year to Date	-4.9%	4.9%	-9.8%
12 months	-0.2%	10.1%	-10.3%
3 years p.a.	5.0%	10.0%	-5.0%
Since inception p.a.	7.0%	10.0%	-3.0%

**IFM - £105.7m AUM**

	Performance	Benchmark	Relative
Quarter	-0.9%	2.5%	-3.4%
Financial Year to Date	1.2%	4.9%	-3.7%
12 months	-1.1%	10.1%	-11.2%
3 years p.a.	11.8%	10.0%	1.8%
Since inception p.a.	13.0%	10.0%	3.0%

13.14 The investments with IFM are denominated in US dollars but performance is measured in sterling, therefore currency movements can contribute to volatility in performance.

**Liability Driven Investment (LDI) - £360.7m AUM**

13.15 A proportion of the pension fund's assets are held in an inflation hedging strategy, managed by Insight Investments. These assets are not held to add growth, but to match the movements in the pension fund's liabilities.

13.16 LDI strategies allow pension schemes to continue investing in return-seeking assets while hedging out their liability risks through the use of leverage. As at 30 September 2020, 11.8% of the pension fund's assets were invested in the mandate but 32% of the pension fund's liabilities were hedged against inflation sensitivity i.e. if liabilities increased by £100M as a result of changes to inflation expectations, the value of the

assets under management would be expected to increase by approximately £32M.

13.17 The liability matching strategy is intended to hedge against the impact of increasing pensions liabilities which are linked to the Consumer Prices Index (CPI). CPI cannot currently be hedged as there is not a sufficiently developed futures market, so the Fund's strategy targets the Retail Prices Index (RPI) swaps market to act as a proxy for CPI which tends to be lower than RPI.

13.18 The performance of the manager is detailed in Appendix 5 and summarised below.

	Performance	Benchmark	Relative
Quarter	-0.7%	-0.7%	0.0%
12 months	-12.0%	-12.4%	0.4%
3 years p.a.	-0.2%	-0.9%	0.7%
5 years p.a.	6.4%	4.6%	1.7%
Since inception p.a.	8.5%	7.4%	1.0%

#### **14. Brunel Pension Partnership Update**

14.1 As at 30 September 2020, approximately 46% of the pension fund's assets were under the management of Brunel Pension Partnership.

14.2 Following the resignation and departure of Mark Mansley, Brunel's Chief Investment Officer, in May 2020 David Vickers has been appointed to the vacant position. David will take up post in January 2021 and will be invited to a future meeting of the Committee.

14.3 James Russell-Stracey, Brunel's Chief Stakeholder Officer, continues to lead a review of the partnership governance arrangements expected to conclude shortly.

#### **Footnote:**

Issues relating to financial, legal, environmental, economic and equalities implications have been considered and any information relevant to the decision is included within the report.