

Pension Fund Committee

Wednesday, 8 September 2021

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

Recommendation:

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

Reason for Recommendation:

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

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 June 2021. 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 June 2021 was £3,534M compared to £3,340M 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.

The pension fund's estimated funding position at 30 June 2021 was approximately 86% - that is, assets were estimated to be 86% 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 June 2021 was 5.8%, compared to the combined benchmark return of 4.5%. The total return for the 12 months to 30 June 2021 was 17.9% compared to the benchmark return of 13.9%.

As at 30 June 2021, approximately 30% of the pension fund's liabilities were hedged against inflation sensitivity through the Liability Driven Investment (LDI) mandate with Insight Investment.

As at 30 June 2021, approximately 62% of the pension fund's assets were under the management of Brunel Pension Partnership.

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.

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.

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 2021, 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 £41M (1.2% of total investment assets).

5. Other Implications

No other implications arising from this report have been identified.

6. Risk Assessment

The pension fund's Investment Strategy Statement requires all external investment managers to consider and manage all financially material risks

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

7. Equalities Impact Assessment

There are no equalities implications arising from this report.

8. Appendices

- Appendix 1: Brunel Pension Partnership Q2 2021
- Appendix 2: Corporate Bonds (RLAM) Q2 2021
- Appendix 3: Property (CBRE) Q2 2021
- Appendix 4: Liability Driven Investment (Insight) Q2 2021

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 June 2021, together with the target allocation as agreed at the meeting of the Committee on 10 September 2020.

Asset Class	31-Mar-21		30-Jun-21		Target Allocation	
	£M	%	£M	%	£M	%
UK Equities	348.6	10.4%	370.1	10.5%	353.4	10.0%
Global Equities	1,210.2	36.2%	1,293.8	36.6%	1,237.0	35.0%
Emerging Markets Equities	169.3	5.1%	177.1	5.0%	176.7	5.0%
Total Listed Equities	1,728.1	51.7%	1,841.0	52.1%	1,767.2	50.0%
Corporate Bonds	192.3	5.8%	198.6	5.6%	141.4	4.0%
Multi Asset Credit	170.4	5.1%	172.7	4.9%	176.7	5.0%
Diversified Returns	164.2	4.9%	204.7	5.8%	212.1	6.0%
Infrastructure	220.0	6.6%	226.6	6.4%	282.8	8.0%
Private Equity	96.1	2.9%	111.8	3.2%	176.7	5.0%
Property	313.2	9.4%	321.2	9.1%	353.4	10.0%
Cash	74.1	2.2%	63.8	1.8%	-	0.0%
F/X Hedging	0.7	0.0%	-0.4	0.0%	-	0.0%
Total Return Seeking Assets	2,959.1	88.6%	3,140.0	88.8%	3,110.3	88.0%
Liability Matching Assets	381.3	11.4%	394.4	11.2%	424.1	12.0%
Total Asset Valuation	3,340.4	100.0%	3,534.4	100.0%	3,534.4	100.0%

10.2 As at 30 June 2021, approximately 62% of the pension fund's assets were under the management of Brunel Pension Partnership.

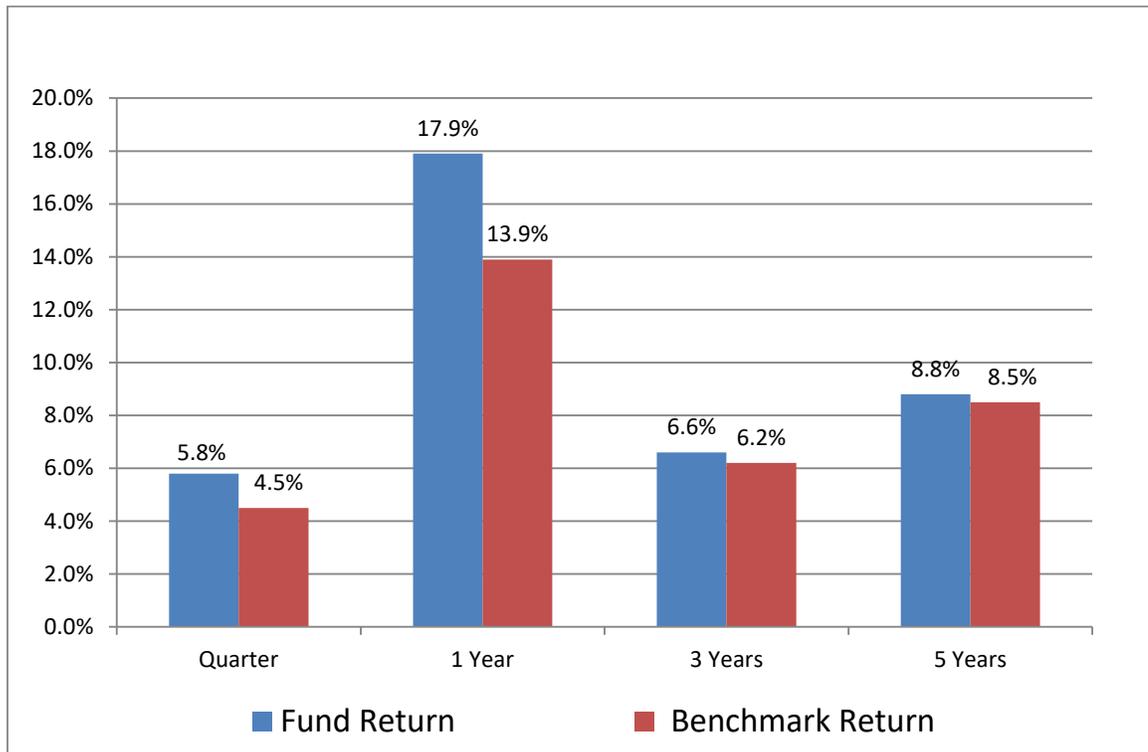
11. Funding Update

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 June 2021 the estimated funding position was approximately 86%.

12. Investment Performance Summary

12.1 The overall performance of the pension fund's investments to 30 June 2021 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 June 2021 is attached as an appendix to this report. This 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 investments in UK equities is summarised in the tables below.

Brunel/LGIM Passive - £113.4m assets under management (AUM)

	Performance	Benchmark	Relative
Quarter	5.7%	5.6%	0.1%
12 months	21.8%	21.5%	0.3%
Since inception p.a.	1.9%	1.8%	0.1%

Brunel UK Active - £175.1m AUM

	Performance	Benchmark	Relative
Quarter	5.2%	5.5%	-0.3%
12 months	20.1%	20.3%	-0.2%
Since inception p.a.	5.0%	4.9%	0.1%

Schroders - £81.6m AUM

	Performance	Benchmark	Relative
Quarter	9.1%	10.6%	-1.5%
12 months	61.0%	65.2%	-4.2%
3 years p.a.	12.0%	9.3%	2.7%
5 years p.a.	18.4%	12.3%	6.1%
Since inception p.a.	11.7%	7.8%	3.9%

Developed Markets Global Equities

- 13.2 The performance of the pension fund's investments in developed market global equities is summarised in the tables below.

Brunel/LGIM Smart Beta - £144.2m AUM

	Performance	Benchmark	Relative
Quarter	5.7%	5.7%	0.0%
12 months	22.9%	23.1%	-0.2%
Since inception p.a.	9.5%	9.8%	-0.3%

Brunel/LGIM Smart Beta (Hedged) - £146.5m AUM

	Performance	Benchmark	Relative
Quarter	5.6%	5.6%	0.0%
12 months	34.6%	34.4%	0.2%
Since inception p.a.	10.3%	10.6%	-0.3%

Brunel/LGIM Passive Developed - £96.6m AUM

	Performance	Benchmark	Relative
Quarter	7.5%	7.5%	0.0%
12 months	25.0%	25.1%	-0.1%
Since inception p.a.	15.4%	15.5%	-0.1%

Brunel/LGIM Passive Developed (Hedged) - £100.5m AUM

	Performance	Benchmark	Relative
Quarter	7.5%	7.5%	0.0%
12 months	36.3%	36.5%	-0.2%
Since inception p.a.	19.5%	19.8%	-0.3%

Brunel Global High Alpha Equity - £270.1m AUM

	Performance	Benchmark	Relative
Quarter	9.3%	7.8%	1.5%
12 months	32.2%	24.9%	7.3%
Since inception p.a.	26.7%	16.5%	10.2%

Brunel Global Sustainable Equities - £352.8m AUM

	Performance	Benchmark	Relative
Quarter	8.4%	7.3%	1.1%
Since inception p.a.	11.6%	11.1%	0.5%

Brunel Smaller Companies Equities - £174.7m AUM

	Performance	Benchmark	Relative
Quarter	6.1%	4.9%	1.2%
Since inception p.a.	7.6%	7.0%	0.6%

Brunel Emerging Markets Equities - £177.1m AUM

- 13.3 The performance of the pension fund's investment in the Brunel Emerging Markets Equity Fund is summarised below.

	Performance	Benchmark	Relative
Quarter	4.6%	5.0%	-0.4%
12 months	28.7%	26.4%	2.3%
Since inception	14.5%	15.0%	-0.5%

Corporate Bonds - £198.6m AUM

- 13.4 The performance of the pension fund's investments in Corporate Bonds, managed by RLAM, is detailed in Appendix 2 and summarised below.

	Performance	Benchmark	Relative
Quarter	3.2%	2.4%	0.8%
12 months	5.1%	1.5%	3.6%
3 years p.a.	7.0%	5.9%	1.1%
5 years p.a.	6.4%	4.9%	1.5%
Since inception p.a.	8.4%	8.0%	0.4%

Multi Asset Credit (MAC) - £171.0m AUM

- 13.5 The performance of the pension fund's investments in MAC, managed by CQS, is summarised below.

	Performance	Benchmark	Relative
Quarter	1.4%	1.0%	0.4%
12 months	12.7%	4.1%	8.6%
3 years p.a.	3.8%	4.5%	-0.7%
Since inception p.a.	3.5%	4.5%	-1.0%

- 13.6 As at 1 June 2021 the pension fund's holdings in the CQS fund transitioned to Brunel's newly launched MAC portfolio.

Property (CBRE) - £284.8m AUM

- 13.7 The performance of the pension fund's property investments managed by CBRE is detailed in Appendix 3 (and Agenda Item 13) and summarised below.

	Performance	Benchmark	Relative
Quarter	3.7%	3.4%	0.3%
12 months	6.6%	6.5%	0.1%
3 years p.a.	2.9%	2.3%	0.6%
5 years p.a.	4.8%	4.3%	0.5%
Since inception p.a.	7.3%	7.0%	0.3%

- 13.8 In addition to the 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 June 2021 and the total gains or losses on investments.

	<u>Commitment</u>	<u>Drawdown</u>		<u>Distribution</u>	<u>Valuation</u>	<u>Gain</u>
	<u>£m</u>	<u>£m</u>	<u>%</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
HarbourVest	103.4	81.0	78%	83.1	69.7	71.8
Aberdeen Standard	75.9	60.1	79%	70.6	23.5	34.0
Brunel	60.0	18.4	31%	1.9	18.6	2.1
Total	239.3	159.5	67%	155.5	111.8	107.9

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 - £69.7m AUM

	Performance	Benchmark	Relative
Quarter	40.0%	5.6%	34.4%
12 months	59.0%	21.5%	37.5%
3 years p.a.	27.5%	2.0%	25.5%
5 years p.a.	22.6%	6.5%	16.1%
Since inception p.a.	13.9%	5.5%	8.4%

Aberdeen Standard - £23.5m AUM

	Performance	Benchmark	Relative
Quarter	3.4%	5.6%	-2.2%
12 months	12.1%	21.5%	-9.4%
3 years p.a.	8.0%	2.0%	6.0%
5 years p.a.	8.6%	6.5%	2.1%
Since inception p.a.	3.6%	5.8%	-2.2%

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 as the benchmark for these investments. Performance is summarised in the tables below:

Hermes - £94.5m AUM

	Performance	Benchmark	Relative
Quarter	0.4%	2.3%	-1.9%
12 months	-3.6%	10.0%	-13.6%
3 years p.a.	2.6%	10.0%	-7.4%
5 years p.a.	5.5%	10.0%	-4.5%
Since inception p.a.	6.6%	10.0%	-3.4%

IFM - £115.3m AUM

	Performance	Benchmark	Relative
Quarter	7.3%	2.3%	5.0%
12 months	8.0%	10.0%	-2.0%
3 years p.a.	10.3%	10.0%	0.3%
5 years p.a.	11.9%	10.0%	1.9%
Since inception p.a.	12.9%	10.0%	2.9%

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) - £394.4m 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 June 2021 11.2% of the pension fund's assets were invested in the mandate but 30% 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 £30M.

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 pension 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 4 and summarised below.

	Performance	Benchmark	Relative
Quarter	4.0%	4.0%	0.1%
12 months	10.6%	10.1%	0.6%
3 years p.a.	3.8%	3.7%	0.1%
5 years p.a.	10.1%	7.9%	2.2%
Since inception p.a.	9.1%	8.0%	1.0%

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.