

Pension Fund Committee

26 November 2024

Pension Fund Investments

For Review and Consultation

Local Councillor(s): All

Executive Director: A Dunn, Executive Director, Corporate Development

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Report Status: Public

Brief Summary:

The estimated value of the pension fund's assets at 30 September 2024 was £4,018m compared to £3,918m at the start of the financial year, an increase of £100m.

The total return from the pension fund's investments over the quarter to 30 September 2024 was 2.2%, compared to the combined benchmark return of 1.6%. The total return for the 12 months to 30 September 2024 was 13.8% compared to the benchmark return of 13.7%. Annualised returns for three years were 3.7% compared to the benchmark return of 5.6% and for five years were 5.1% compared to the benchmark of 6.0%.

The drivers of the better performance this quarter were fixed income and UK Active Equities. The pension fund's currency hedging arrangements were also helpful to the overall performance due to the appreciation of sterling during the period. A key aspect driving markets continues to be the performance of the so-called Magnificent Seven mega-cap stocks (Apple, Amazon, Alphabet, Meta, Nvidia, Microsoft and Tesla) representing a significant concentration risk.

David Vickers, Chief Investment Officer at Brunel Pension Partnership, will be leaving in Spring 2025 and Brunel has begun the process of finding and appointing his successor.

The government has launched a consultation on proposed measures focussed on improvements to LGPS investment pooling alongside its Pensions Investment Review interim report. Officers will share a draft response with Committee members before the deadline of 16 January 2025.

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 in line with agreed strategic targets.

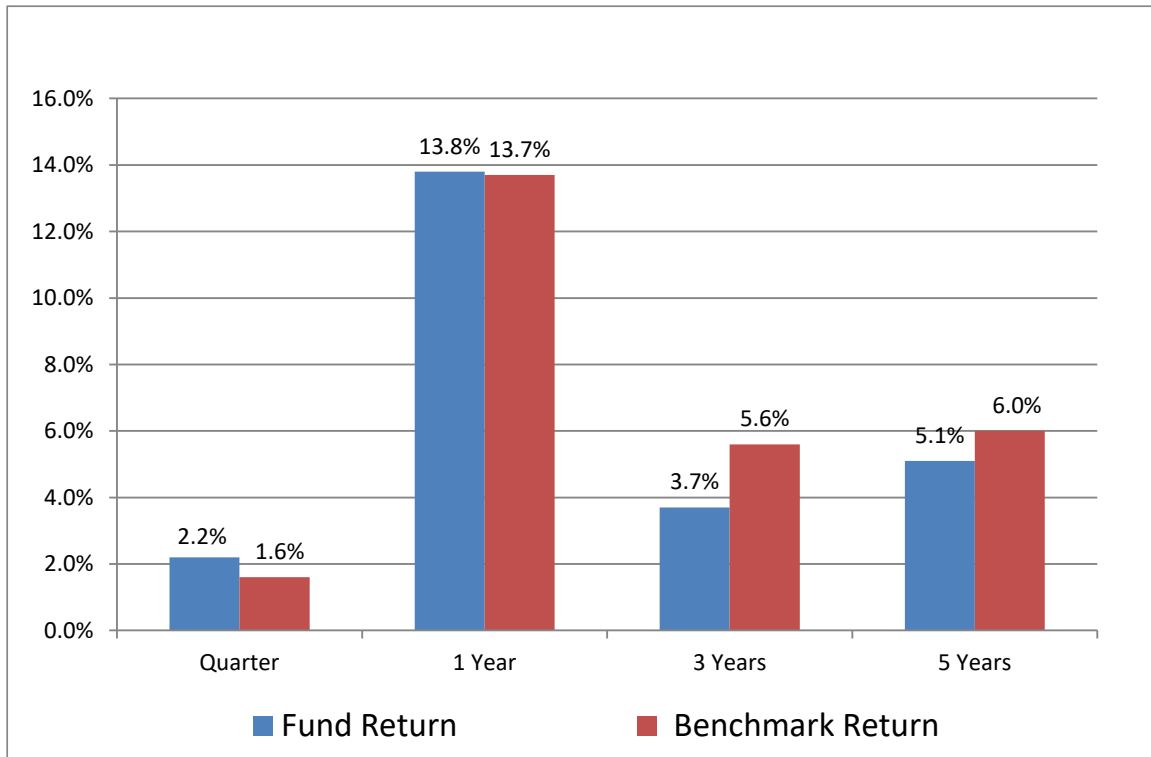
1. Asset Valuation Summary

- 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 2024, compared with the target allocation agreed by the Committee June 2023. There were no significant variances between actual and target allocations.

Asset Class	31-Mar-24		30-Sep-24		Target Allocation	
	£M	%	£M	%	£M	%
UK Equities	339.9	8.7%	364.3	9.1%	361.6	9.0%
Global Equities	1,826.2	46.6%	1,871.9	46.6%	1,808.2	45.0%
Emerging Markets Equities	147.8	3.8%	160.3	4.0%	160.7	4.0%
Total Listed Equities	2,313.9	59.1%	2,396.5	59.6%	2,330.6	58.0%
Corporate Bonds	256.4	6.5%	263.5	6.6%	261.2	6.5%
Multi Asset Credit	269.7	6.9%	285.6	7.1%	261.2	6.5%
Diversified Returns	262.2	6.7%	265.5	6.6%	281.3	7.0%
Infrastructure	290.4	7.4%	296.6	7.4%	321.5	8.0%
Private Equity	138.4	3.5%	132.9	3.3%	200.9	5.0%
Property	307.2	7.8%	304.6	7.6%	361.6	9.0%
Liability Driven Investment	0.0	0.0%	0.2	0.0%	-	0.0%
Cash	82.7	2.1%	63.8	1.6%	-	0.0%
F/X Hedging	- 2.8	-0.1%	9.1	0.2%	-	0.0%
Total Asset Valuation	3,918.1	100.0%	4,018.3	100.0%	4,018.3	100.0%

2. Investment Performance Summary

- 2.1 The overall performance of the pension fund's investments to 30 September 2024 is summarised below (returns for three and five years are annualised figures).



2.2 Appendix 1 summarises by investment manager and investment vehicle the value of Assets Under Management (AUM) as at 30 September 2024 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.

3. Economic and Market Background

3.1 The quarter was positive for most financial assets but saw significant volatility. For example, the share price of Nvidia, one of the so-called 'magnificent seven' mega-cap US technology stocks, fell significantly before recovering before the quarter end. Emerging markets performed well largely driven by the announcement of the first phase of a government stimulus package in China. US, UK and European Central Banks Recession all cut interest rates, but market expectations are that rates will reduce more slowly than previously expected.

3.2 Further information relating to the economic and market background relevant to the pension fund's investments can be found in the independent investment adviser's quarterly report (Appendix 2) and in Brunel's quarterly report (Appendix 3).

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 2024, approximately 84% of the pension fund's assets were under the management of Brunel.
- 4.3 Brunel's performance report for the quarter ending 30 September 2024 is included as Appendix 3 to this report. 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.
- 4.4 David Vickers, Chief Investment Officer at Brunel Pension Partnership, will be leaving the company in Spring 2025, having served in his role for four years, to take up a new opportunity at a large endowment fund. Brunel has begun the process of finding and appointing his successor.

[Brunel CIO set to depart after four years - Brunel Pension Partnership](#)

- 4.5 On 14 November 2014, the government published the interim report of the Pensions Investment Review together with a consultation on proposed measures focussed on investment pooling "to overhaul the way the LGPS invests to deliver large pools of professionally managed capital in line with international best practice, while embedding investment in local communities as a priority, placing the scheme on a stronger, more sustainable footing in the interest of members, employers and local taxpayers."
- 4.6 Key elements of the government's proposals include:
- i. Requiring LGPS pools to be FCA regulated entities with the capability to manage assets internally, and to give investment advice to their LGPS partner funds.
 - ii. LGPS funds will retain responsibility for setting their fund's strategic asset allocation, but would be required to fully delegate the implementation of their investment strategy to the pool, and to take their principal advice on their investment strategy from the pool.

- iii. LGPS funds would be required to transfer legacy assets to the management of the pool.
 - iv. LGPS funds and pools will be asked to formulate a plan for more investments in local growth, taking account of local growth plans.
- 4.7 Officers will share a draft response to this consultation with Committee members before the deadline of 11.59pm 16 January 2025.

[Pensions Investment Review: interim report, consultations and evidence - GOV.UK](#)

5. Private Markets

- 5.1 The pension fund has investments in private equity funds managed by two external managers, HarbourVest and Patria (formerly managed by Abrdn), and Brunel.
- 5.2 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 2024.

	<u>Commitment</u>	<u>Drawdown</u>	<u>Distributions</u>	<u>Valuation</u>
	<u>£m</u>	<u>£m</u>	<u>%</u>	<u>£m</u>
HarbourVest	104.2	96.0	92%	128.0
Patria	74.2	73.1	99%	96.4
Brunel	120.0	55.9	47%	3.8
Total	298.4	225.0	75%	132.9

- 5.3 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.
- 5.4 The performance of the pension fund's property investments managed by CBRE is detailed in Appendix 4. 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.

6. Financial Implications

- 6.1 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.
- 6.2 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.
- 6.3 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.
- 6.4 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.
- 6.5 In September 2024 the LGPS Scheme Advisory Board (SAB) published a statement making clear that that "when decision makers exercise their LGPS investment responsibilities, the primary purpose must be to achieve the required returns in an appropriately risk-managed way to pay pensions when they become due, minimising the need for additional funding in the future."
- 6.5 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 were 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.

7. Natural Environment, Climate & Ecology Implications

- 7.1 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.

- 7.2 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.
- 7.3 Significant decarbonisation has been and will continue to be achieved through the transition of assets to the management of Brunel. Approximately 10% of the pension fund's assets are invested in Brunel's global sustainable equities fund, with all other actively managed Brunel funds are committed to a policy of a 7% year on year reduction in their carbon footprint, and approximately 7% invested in passive equities funds tracking 'Paris Aligned' or 'Climate Transition' benchmarks.
- 7.3 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 2024, 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 £68M (1.7% of total investment assets).

8. Well-being and Health Implications

- 8.1 None.

9. Other Implications

- 9.1 None.

10. Risk Assessment

- 10.1 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.

11. Equalities Impact Assessment

- 11.1 None.

12. Appendices

Appendix 1: Performance summary by investment manager
Appendix 2: Independent Investment Adviser's quarterly report
Appendix 3: Brunel's quarterly report
Appendix 4: CBRE Quarterly Investment Report

13. **Background Papers**

[Funding Strategy Statement \(dorsetpensionfund.org\)](https://www.dorsetpensionfund.org)

[Investment Strategy Statement | Dorset Pension Fund](#)

[Dorset County Pension Fund Holdings Report June 2024 | Dorset Pension Fund](#)

[LGPS Scheme Advisory Board - Home](#)

Appendix 1

Performance by Investment Manager

The following tables summarise by investment manager and investment vehicle the value of Assets Under Management (AUM) as at 30 September 2024 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	391.5	0.0	17.4	2.3	-	5.8
MSCI AC World GBP Index		0.6	20.4	8.8	-	10.2
Excess		-0.6	-3.0	-6.5	-	-4.4
Brunel Global High Alpha Equity	327.1	-0.5	17.3	6.0	-	12.5
MSCI World TR Index		0.3	21.1	9.8	-	12.0
Excess		-0.8	-3.8	-3.8	-	0.5
Brunel Smaller Companies Equities	251.4	3.4	13.8	0.1	-	3.3
MSCI World Small Cap		3.2	14.2	2.9	-	4.7
Excess		0.2	-0.4	-2.8	-	-1.4
Brunel Emerging Market Equity	160.3	2.6	15.5	-1.1	-	2.7
MSCI Emerging Markets		2.6	15.1	1.0	-	4.3
Excess		0.0	0.4	-2.1	-	-1.6
LGIM Passive Developed Equities	123.0	0.3	20.1	9.3	-	11.1
FTSE World Developed		0.3	20.6	9.5	-	11.3
Excess		0.0	-0.5	-0.2	-	-0.2
LGIM Passive Dev. Equities (Hedged)	132.3	4.6	30.0	9.5	-	12.0
FTSE World Developed Hedged		4.6	30.5	9.7	-	12.2
Excess		0.0	-0.5	-0.2	-	-0.2
LGIM Passive Dev. Equities PAB	136.2	0.4	18.6	-	-	14.8
FTSE Developed Paris Aligned Net Index		0.5	18.7	-	-	14.9
Excess		-0.1	-0.1	-	-	-0.1
LGIM Passive Dev. Equities PAB (Hedged)	147.3	4.9	28.4	-	-	21.3
FTSE Developed Paris Aligned Net Index (hdgd)		4.9	28.5	-	-	21.5
Excess		0.0	-0.1	-	-	-0.2

Investment	AUM £m	Qtr %	1 Yr %	3 Yr %	5 Yr %	SII %
LGIM Passive Smart Beta	176.7	2.8	15.7	8.6	8.2	8.9
SciBeta Multifactor Composite		2.7	15.2	8.0	7.7	8.6
Excess		0.1	0.5	0.6	0.5	0.3
LGIM Passive Smart Beta (Hedged)	186.4	7.2	25.3	8.8	9.7	9.0
SciBeta Multifactor Hedged Composite		7.1	24.7	8.2	9.1	8.7
Excess		0.1	0.6	0.6	0.6	0.3
UK Equities:						
Brunel UK Active Equity	220.3	4.1	16.7	7.1	5.5	6.3
FTSE All Share ex Investment Trusts		2.4	13.3	8.0	5.7	6.7
Excess		1.7	3.4	-0.9	-0.2	-0.4
LGIM Passive UK Equities	143.9	2.2	13.4	7.5	5.9	4.9
FTSE All Share		2.3	13.4	7.4	5.7	4.8
Excess		-0.1	0.0	0.1	0.2	0.1
Fixed Income:						
Brunel Multi Asset Credit	285.6	3.9	14.0	3.7	-	3.6
SONIA + 4%		2.3	9.5	7.5	-	7.1
Excess		1.6	4.5	-3.8	-	-3.5
Brunel Sterling Corporate Bonds	263.5	2.7	12.1	-	-	6.8
iBoxx Sterling Non Gilts Overall Return		2.3	9.7	-	-	5.2
Excess		0.4	2.4	-	-	1.6
Other:						
Brunel Diversifying Returns Fund	265.5	1.7	8.9	3.2	-	4.0
SONIA + 3%		2.1	8.4	6.4	-	5.5
Excess		-0.4	0.5	-3.2	-	-1.5
Private Markets:						
Brunel Private Equity Cycle 1	56.8	-1.6	0.4	12.4	12.7	18.9
MSCI AC World Index		0.6	20.4	8.8	10.8	12.1
Excess		-2.2	-20.0	3.6	1.9	6.8
Brunel Private Equity Cycle 3	6.3	-0.3	-17.2	-	-	12.1
MSCI AC World Index		0.6	20.4	-	-	17.3
Excess		-0.9	-37.6	-	-	-5.2
Brunel Secured Income Cycle 1	53.2	1.5	0.3	-3.0	0.2	0.8
CPI		0.1	1.7	6.1	4.3	4.0
Excess		1.4	-1.4	-9.1	-4.1	-3.2
Brunel Secured Income Cycle 3	30.7	1.7	0.4	-	-	4.1
CPI		0.1	1.7	-	-	1.7
Excess		1.6	-1.3	-	-	2.4
Brunel Infrastructure Cycle 3	28.3	2.2	7.8	-	-	2.6
CPI		0.1	1.7	-	-	4.2
Excess		2.1	6.1	-	-	-1.6

Other Managers

Manager / Investment	AUM	Qtr	1 Yr	3 Yr	5 Yr	SII
	£m	%	%	%	%	%
CBRE / Property	249.3	1.0	3.4	0.7	1.8	6.6
MSCI UK All Properties (Quarterly)		1.4	2.1	0.4	1.2	6.2
Excess		-0.4	1.3	0.3	0.6	0.4
HarbourVest / Private Equity	58.3	-5.9	-9.1	1.3	12.9	12.3
FTSE All Share		2.3	13.4	7.4	5.7	5.8
Excess		-8.2	-22.5	-6.1	7.2	6.5
Patria / Private Equity	11.1	-7.3	-16.3	4.6	5.9	4.4
FTSE All Share		2.3	13.4	7.4	5.7	6.1
Excess		-9.6	-29.7	-2.8	0.2	-1.7
Federated Hermes / Infrastructure	81.4	-2.3	-3.1	1.7	1.9	5.0
10% Absolute Return		2.5	10.0	10.0	10.0	10.0
Excess		-4.8	-13.1	-8.3	-8.1	-5.0
IFM / Infrastructure	158.3	-1.6	-2.0	8.8	8.1	11.9
10% Absolute Return		2.5	10.0	10.0	10.0	10.0
Excess		-4.1	-12.0	-1.2	-1.9	1.9