

Review of Investment Performance

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1. Summary

1.1 This report is to inform the Committee about the performance of the Pension Fund's investments for the quarter ending 30 September 2024 and related matters.

2. Recommendation

2.1 That the Committee note the contents of the report.

3. Brunel - LGIM (Passive Global Equity)

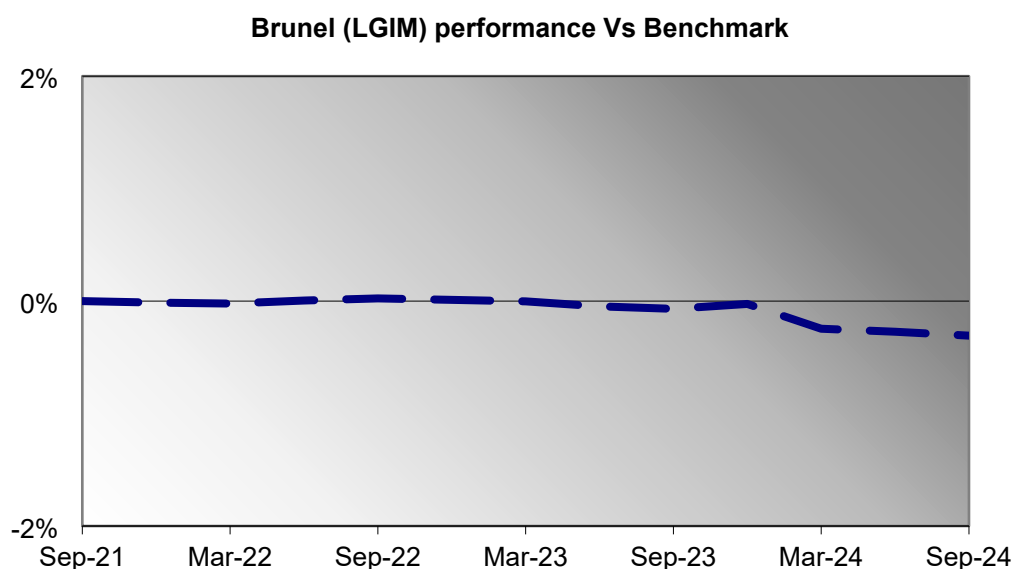
3.1 The performance for Quarter 2, 1 July 2024 to 30 September 2024 is summarised in the following table:

| 1 July 2024 to 30 September 2024 | | | | |
|-----------------------------------|--------------------------|--|-------------------------------|-------------|
| Value as at 30 Sept 2024 £m | Fund for quarter % | Performance Benchmark for Quarter % | Relative to Benchmark % | |
| 692.9 | Global equities | 0.4 | 0.4 | +0.0 |

3.2 During the quarter to 30 June 2022 passive equity was switched from the standard FTSE Developed Equity benchmark to the Paris aligned FTSE Carbon Transition Benchmark (CTB) in accordance with the new Investment Strategy Statement approved by the Committee at its March 2022.

3.3 The portfolio matched the performance of the benchmark during the quarter. Absolute performance was positive.

3.4



3.5 The table below shows annualised performance over a range of time periods:

| | Fund % p.a. | Benchmark % p.a. | Relative to Benchmark % p.a. |
|-----------------|---------------------------------|-----------------------------|---|
| 1 year | 18.4 | 18.6 | -0.2 |
| 3 years | 9.5 | 9.5 | +0.0 |
| 5 years | 11.5 | 11.5 | +0.0 |
| 10 years | Initial investment in July 2018 | | |

4. Brunel - (Global High Alpha Equity)

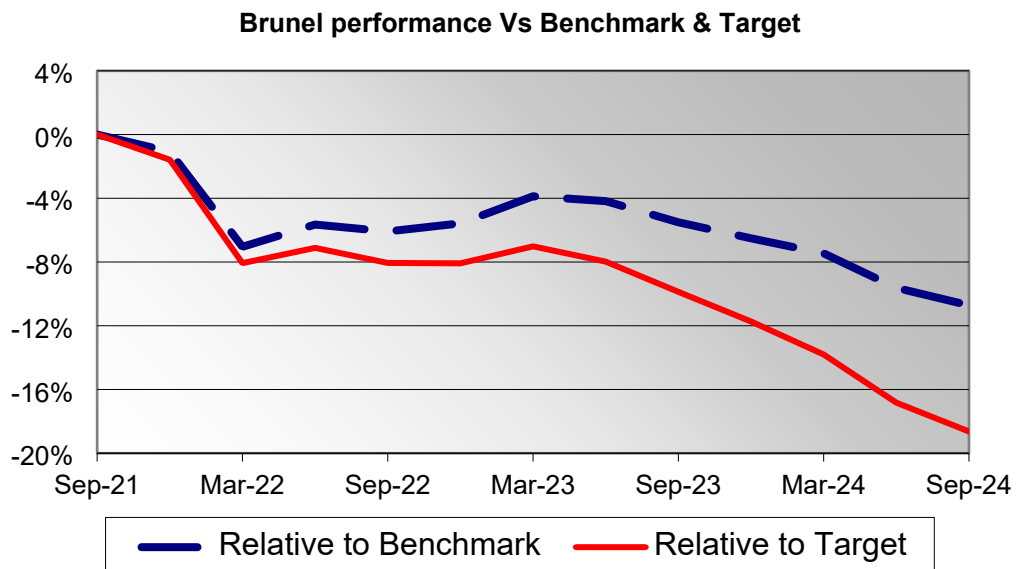
4.1 The performance for Quarter 2, 1 July 2024 to 30 September 2024 is summarised in the following table:

| 1 July 2024 to 30 September 2024 | | | |
|--|-----------------------------------|--|--|
| Value as at 30 Sept 2024 £m | Fund for quarter % | Performance Benchmark for Quarter % | Relative to Benchmark % |
| 922.2 Global equities | -0.5 | 0.3 | -0.8 |

4.2 The Brunel Global High Alpha portfolio is managed by a combination of Alliance Bernstein, Baillie Gifford, Fiera Capital, Harris Associates and Royal London Asset Management. The benchmark for the portfolio is the MSCI World Index.

4.3 The portfolio underperformed the benchmark during the quarter. Absolute performance was negative.

4.4 The Brunel GHA portfolio's target is to outperform the benchmark by an annualised return of 2%-3% over continuous three to five-year periods after fees have been deducted. The graph below shows performance against 2%.



4.5 The table below shows annualised performance over a range of time periods:

| | Fund % p.a. | Benchmark % p.a. | Relative to Benchmark % p.a. |
|----------------|-------------------------------------|-----------------------------|---|
| 1 year | 17.1 | 21.1 | -4.0 |
| 3 years | 6.7 | 9.8 | -3.1 |
| 5 years | Initial investment in November 2019 | | |

5. Brunel (UK Equities)

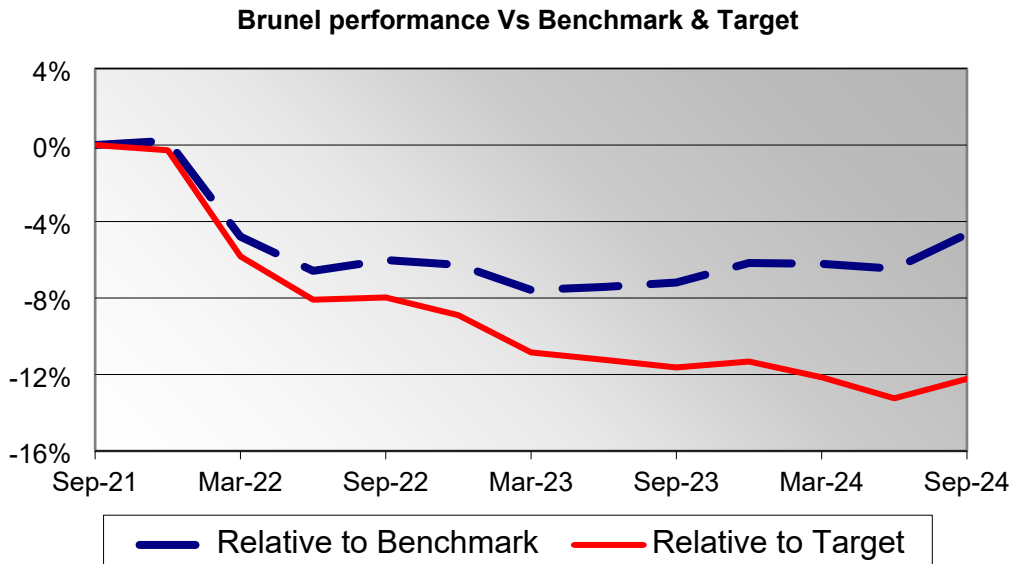
5.1 The performance for Quarter 2, 1 July 2024 to 30 September 2024 is summarised in the following table:

| 1 July 2024 to 30 September 2024 | | | | |
|-----------------------------------|-----------|--------------------------|--|-------------------------------|
| Value as at 30 Sept 2024 £m | | Fund for quarter % | Performance Benchmark for Quarter % | Relative to Benchmark % |
| 355.3 | UK | 4.1 | 2.4 | +1.7 |

5.2 The Brunel UK portfolio is managed by a combination of Invesco and Baillie Gifford. The benchmark for the portfolio is the FTSE All-Share excluding Investment Companies Index.

5.3 The portfolio underperformed the benchmark during the quarter. Absolute performance was positive.

5.4 The Brunel UK portfolio’s target is to outperform the benchmark by an annualised return of 2% over continuous three to five-year periods after fees have been deducted.



5.5 The table below shows annualised performance over a range of time periods:

| | Fund % p.a. | Benchmark % p.a. | Relative to Benchmark % p.a. |
|-----------------|-------------------------------------|-----------------------------|---|
| 1 year | 16.6 | 13.3 | +3.3 |
| 3 years | 6.7 | 8.0 | -1.3 |
| 5 years | 5.3 | 6.1 | -0.8 |
| 10 years | Initial investment in November 2018 | | |

6. Brunel (Global Smaller Companies Equity)

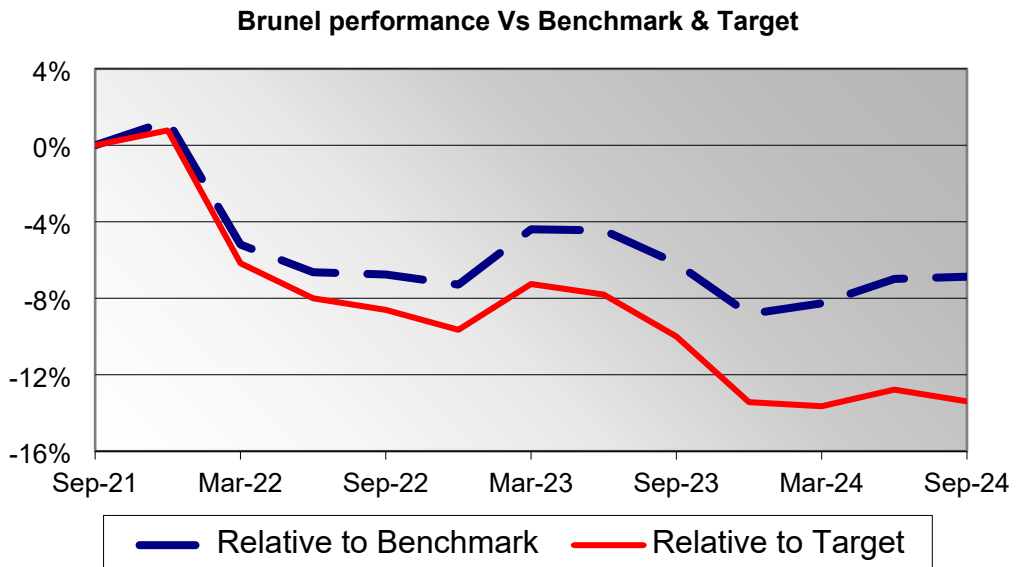
6.1 The performance for Quarter 2, 1 July 2024 to 30 September 2024 is summarised in the following table:

| 1 July 2024 to 30 September 2024 | | | |
|--|-----------------------------------|--|--|
| Value as at 30 Sept 2024 £m | Fund for quarter % | Performance Benchmark for Quarter % | Relative to Benchmark % |
| 204.9 Smaller Companies | 3.4 | 3.1 | +0.3 |

6.2 The Brunel Smaller Companies Market portfolio is managed by a combination of Montanaro Asset Management, American Century and Kempen Capital Management. The benchmark is the MSCI World Small Cap Index

6.3 The portfolio outperformed the benchmark during the quarter. Absolute performance was positive.

6.4 The Brunel Smaller Companies portfolio's target is to outperform the benchmark by an annualised return of 2% over continuous three to five-year periods after fees have been deducted.



6.5 The table below shows annualised performance over a range of time periods:

| | Fund % p.a. | Benchmark % p.a. | Relative to Benchmark % p.a. |
|----------------|--------------------------------------|-----------------------------|---|
| 1 year | 13.8 | 13.6 | +0.2 |
| 3 years | 0.1 | 2.4 | -2.3 |
| 5 years | Initial investment in September 2020 | | |

7. Brunel (Emerging Market Equity)

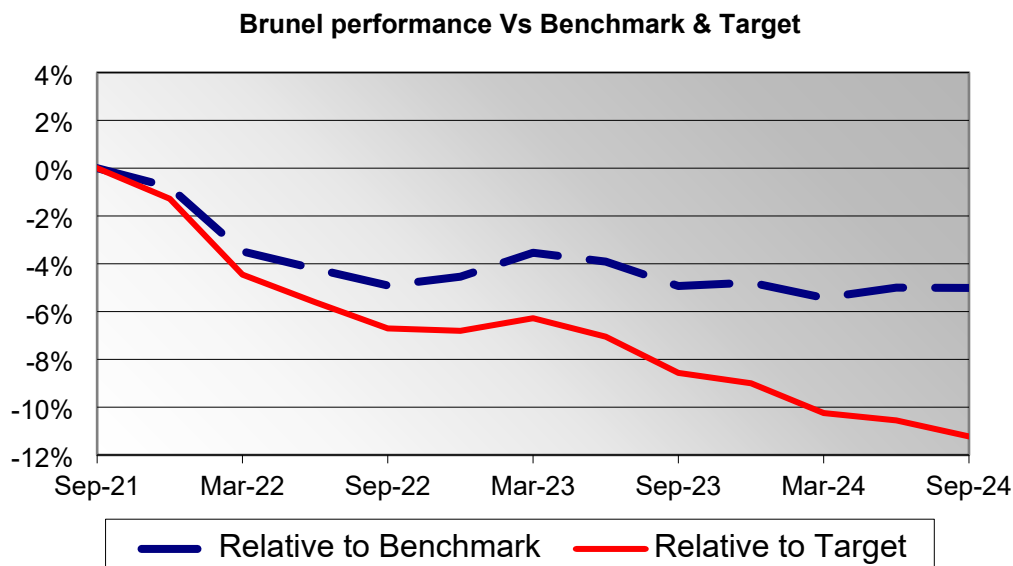
7.1 The performance for Quarter 2, 1 July 2024 to 30 September 2024 is summarised in the following table:

| 1 July 2024 to 30 September 2024 | | | | |
|-----------------------------------|--------------------------|--|-------------------------------|------|
| Value as at 30 Sept 2024 £m | Fund for quarter % | Performance Benchmark for Quarter % | Relative to Benchmark % | |
| 115.5 | Emerging Market | 2.6 | 2.5 | +0.1 |

7.2 The Brunel Emerging Market portfolio is managed by a combination of Genesis Investment Management, Wellington Management and Investec Asset Management. The benchmark is the MSCI Emerging Markets Index.

7.3 The Brunel portfolio outperformed during the quarter. Absolute performance was positive.

7.4 The Brunel Emerging Market portfolio's target is to outperform the benchmark by an annualised return of 2%-3% over continuous three to five-year periods after fees have been deducted. The graph below shows performance against 2%.



7.5 The table below shows annualised performance over a range of time periods:

| | Fund % p.a. | Benchmark % p.a. | Relative to Benchmark % p.a. |
|---------|------------------------------------|---------------------|------------------------------------|
| 1 year | 15.5 | 14.7 | +0.8 |
| 3 years | -1.1 | 0.6 | -1.7 |
| 5 years | Initial investment in October 2019 | | |

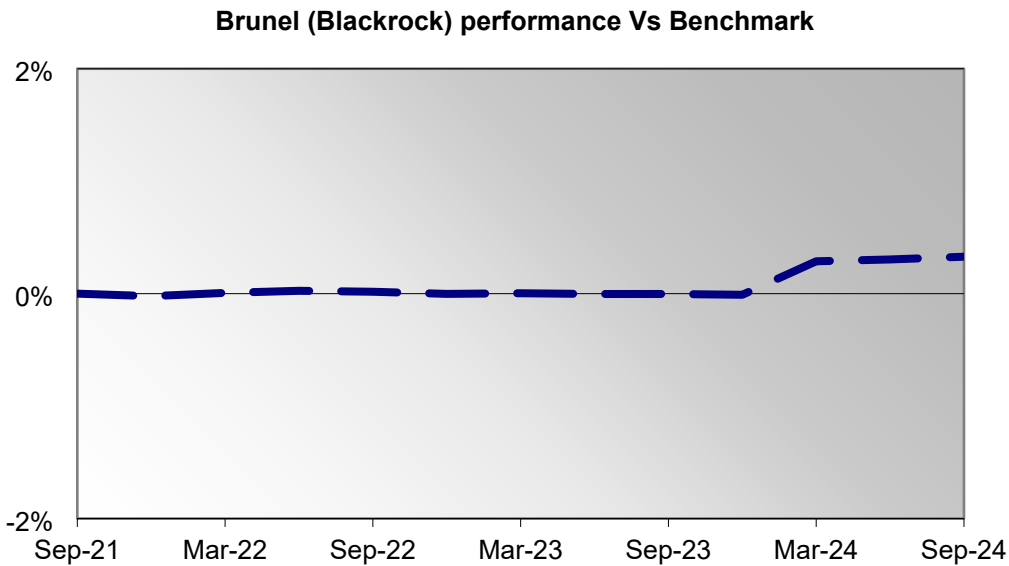
8. Brunel (Passive Gilts)

8.1 The performance for Quarter 2, 1 July 2024 to 30 September 2024 is summarised in the following table:

| 1 July 2024 to 30 September 2024 | | | |
|-----------------------------------|--------------------------|--|-------------------------------|
| Value as at 30 Sept 2024 £m | Fund for quarter % | Performance Benchmark for Quarter % | Relative to Benchmark % |
| 62.2 UK Gilts | 2.7 | 2.6 | +0.1 |

8.2 The Blackrock managed passive UK Gilts Fund matched the performance of the benchmark for the quarter. The benchmark is FTSE Actuaries UK Gilts over 15 years index. Absolute performance was positive.

8.3



8.4 The table below shows annualised performance over a range of time periods:

| | Fund % p.a. | Benchmark % p.a. | Relative to Benchmark % p.a. |
|---------|---------------------------------|---------------------|------------------------------------|
| 1 year | 10.7 | 10.1 | +0.6 |
| 3 years | -14.6 | -14.8 | +0.2 |
| 5 years | Initial investment in June 2021 | | |

9. Brunel (Passive (index-Linked Gilts))

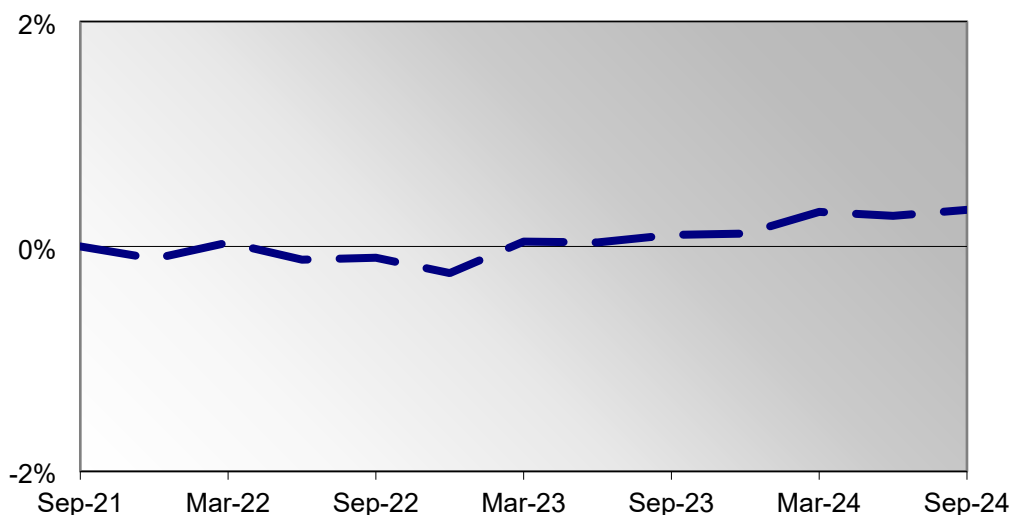
9.1 The performance for Quarter 2, 1 July 2024 to 30 September 2024 is summarised in the following table:

| 1 July 2024 to 30 September 2024 | | | | |
|----------------------------------|-----------------------|-----------------------|--|----------------------------|
| Value as at 30 Sept 2024 £m | | Fund for quarter % | Performance Benchmark for Quarter % | Relative to Benchmark % |
| 72.4 | UK Index-Linked Gilts | 1.6 | 1.5 | +0.1 |

9.2 The Blackrock managed passive UK Index-Linked Gilts Fund matched the performance of the benchmark for the quarter. The benchmark is FTSE Actuaries UK Index Linked Gilts over 5 years index. Absolute performance was positive.

9.3

Brunel (Blackrock) performance Vs Benchmark



9.4 The table below shows annualised performance over a range of time periods:

| | Fund % p.a. | Benchmark % p.a. | Relative to Benchmark % p.a. |
|---------|---------------------------------|---------------------|------------------------------------|
| 1 year | 6.8 | 6.4 | +0.4 |
| 3 years | -14.1 | -14.3 | +0.2 |
| 5 years | Initial investment in June 2021 | | |

10. Brunel (Sterling Corporate Bonds)

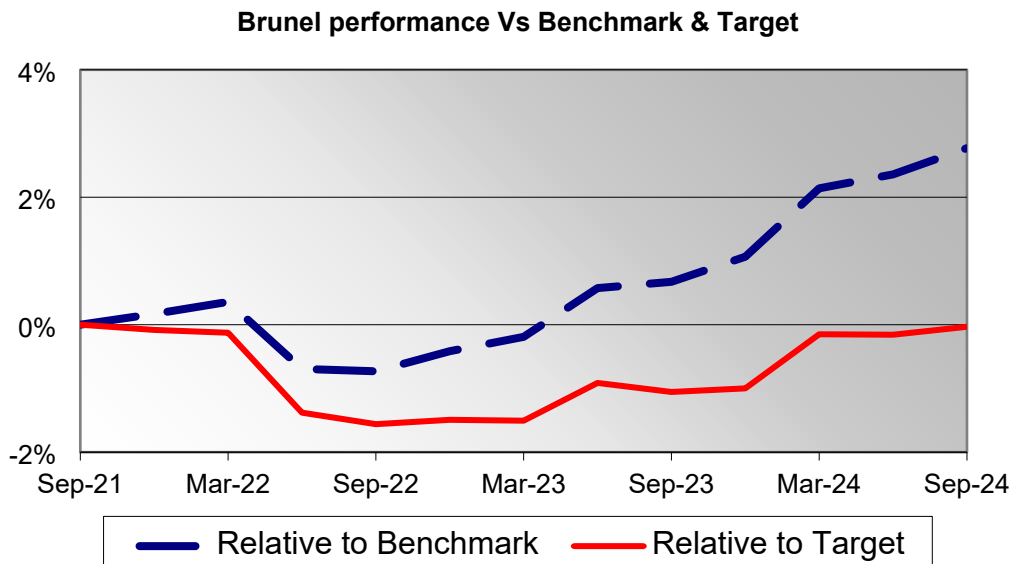
10.1 The performance for Quarter 2, 1 July 2024 to 30 September 2024 is summarised in the following table:

| 1 July 2024 to 30 September 2024 | | | | |
|----------------------------------|--------------------------|--|----------------------------|-------------|
| Value as at 30 Sept 2024 £m | Fund for quarter % | Performance Benchmark for Quarter % | Relative to Benchmark % | |
| 271.3 | £ Corporate Bonds | 2.7 | 2.3 | +0.4 |

10.2 The Brunel Sterling Corporate Bond portfolio is managed by Royal London Asset Management. The benchmark is iBoxx Sterling Non-Government bonds index.

10.3 The portfolio outperformed the benchmark during the quarter. Absolute performance was positive.

10.4 The Brunel Sterling Corporate Bond portfolio's target is to outperform the benchmark by an annualised return of 1% over continuous three to five-year periods after fees have been deducted.



10.5 The table below shows annualised performance over a range of time periods:

| | Fund % p.a. | Benchmark % p.a. | Relative to Benchmark % p.a. |
|----------------|---------------------------------|---------------------|------------------------------------|
| 1 year | 12.1 | 9.7 | +2.4 |
| 3 years | -1.9 | -2.9 | +1.0 |
| 5 years | Initial investment in July 2021 | | |

11. Brunel (Multi Asset Credit)

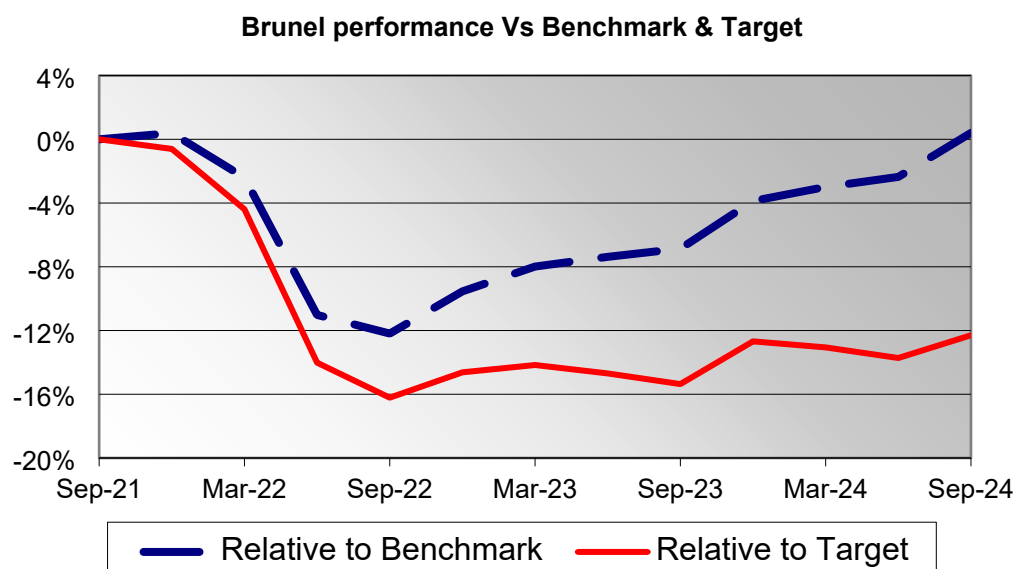
11.1 The performance for Quarter 2, 1 July 2024 to 30 September 2024 is summarised in the following table:

| 1 July 2024 to 30 September 2024 | | | |
|----------------------------------|-----------------------|--|----------------------------|
| Value as at 30 Sept 2024 £m | Fund for quarter % | Performance Benchmark for Quarter % | Relative to Benchmark % |
| 123.0 Multi Asset Credit | 3.9 | 1.3 | +2.6 |

11.2 The Brunel Multi Asset Credit portfolio is managed by a combination of CQS, Neuberger Berman and Oaktree. The Benchmark is Cash (SONIA).

11.3 The portfolio outperformed the benchmark during the quarter. Absolute performance was positive.

11.4 The Brunel Multi Asset Credit portfolio's target is to outperform the benchmark by an annualised return of 4% to 5% over continuous three to five-year periods after fees have been deducted. The graph below shows performance against 4%.



11.5 The table below shows annualised performance over a range of time periods:

| | Fund % p.a. | Benchmark % p.a. | Relative to Benchmark % p.a. |
|----------------|---------------------------------|---------------------|------------------------------------|
| 1 year | 14.0 | 5.3 | +8.7 |
| 3 years | 3.7 | 3.3 | +0.4 |
| 5 years | Initial investment in June 2021 | | |

12. Brunel (Property Fund of Funds)

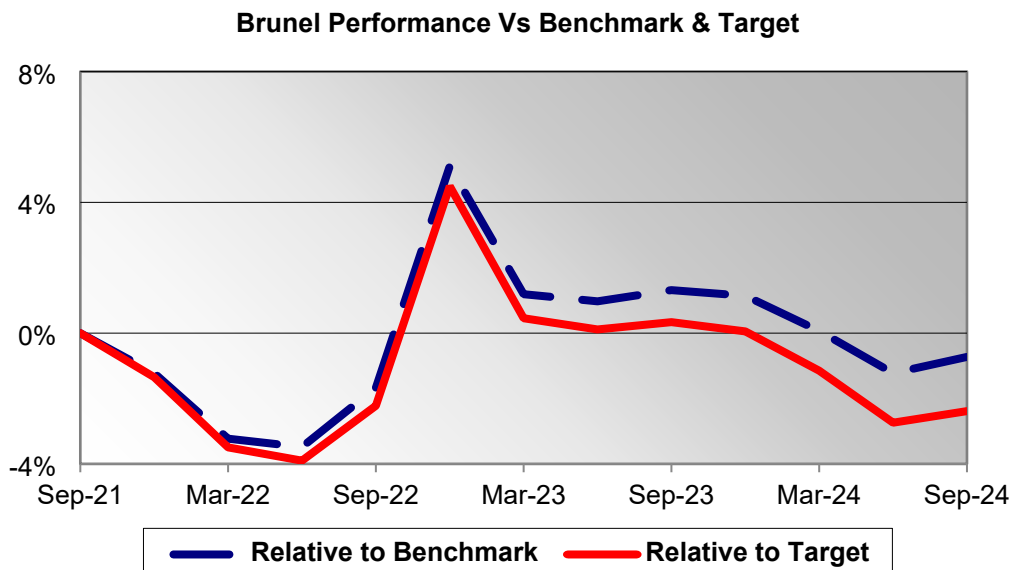
12.1 The performance for Quarter 2, 1 July 2024 to 30 September 2024 is summarised in the following table:

| 1 July 2024 to 30 September 2024 | | | | |
|-----------------------------------|-------------|--------------------------|--|-------------------------------|
| Value as at 30 Sept 2024 £m | | Fund for quarter % | Performance Benchmark for Quarter % | Relative to Benchmark % |
| 218.8 | UK Property | 1.7 | 1.2 | +0.5 |
| 6.4 | Cash | | | |
| 225.2 | Total | 1.8 | 1.2 | +0.6 |

12.2 Management of the property portfolio moved from LaSalle to Brunel on 1st November 2020. Unlike other asset classes Brunel simply took over management with no underlying change in holdings. Going forward performance records will report the full history of this portfolio. The benchmark is MSCI/AREF All balanced funds index.

12.3 The portfolio outperformed the benchmark for the quarter. Absolute performance was positive.

12.4 Brunel's target is to outperform the benchmark by an annualised return of 0.5% over continuous five to seven year periods after all fees have been deducted.



12.5 The table below shows annualised performance over a range of time periods:

| | Fund % p.a. | Benchmark % p.a. | Relative to Benchmark % p.a. |
|-----------------|------------------------|-----------------------------|---|
| 1 year | -0.4 | 1.7 | -2.1 |
| 3 years | -0.7 | -0.4 | -0.3 |
| 5 years | 0.4 | 1.7 | -1.3 |
| 10 years | 3.3 | 4.5 | -1.2 |

13. Neuberger Berman (Global Private Equity)

13.1 The performance for Quarter 2, 1 July 2024 to 30 September 2024 is summarised in the following table:

| 1 July 2024 to 30 September 2024 | | | |
|--|-----------------------------------|--|--|
| Value as at 30 Sept 2024 £m | Fund for quarter % | Performance Benchmark for Quarter % | Relative to Benchmark % |
| 68.6 Private Equity | -4.9 | 1.3 | -6.2 |

13.2 The return indicated above is significantly affected by currency movements, specifically the change in the value of the US dollar against GBP. The benchmark is Cash (Bank of England Base Rate)

13.3 There is a delay in the reporting of returns on private equity of about a quarter and this needs to be considered when looking at returns.

13.4 The table below shows annualised performance over a range of time periods, unlike in the table above a broad global equity index has been used as the benchmark as over long time periods this is more appropriate:

| | Fund % p.a. | Benchmark % p.a. | Relative to Benchmark % p.a. |
|-----------------|------------------------|-----------------------------|---|
| 1 year | -7.7 | 18.6 | -26.3 |
| 3 years | 8.1 | 9.5 | -1.4 |
| 5 years | 12.9 | 11.5 | +1.4 |
| 10 years | 14.8 | 12.6 | +2.2 |

14. Brunel (Global private equity)

14.1 The performance for Quarter 2, 1 July 2024 to 30 September 2024 is summarised in the following table:

| 1 July 2024 to 30 September 2024 | | | |
|-----------------------------------|--------------------------|--|-------------------------------|
| Value as at 30 Sept 2024 £m | Fund for quarter % | Performance Benchmark for Quarter % | Relative to Benchmark % |
| 37.2 Private Equity | -2.1 | 1.3 | -2.4 |

14.2 Brunel have invested in a number of private equity funds on the Fund's behalf. The portfolio is still very immature but appears to be making good progress at generating positive returns. The benchmark is Cash (Bank of England Base Rate).

14.3 The table below shows annualised performance over a range of time periods, unlike in the table above a broad global equity index has been used as the benchmark as over long time periods this is more appropriate:

| | Fund % p.a. | Benchmark % p.a. | Relative to Benchmark % p.a. |
|----------------|-------------------------------------|---------------------|------------------------------------|
| 1 year | -1.1 | 18.6 | -19.7 |
| 3 years | 5.7 | 9.5 | -3.8 |
| 5 years | Initial investment in December 2020 | | |

15. South West Ventures Fund

15.1 The fund continues to make reasonable progress.

16. Combined Fund

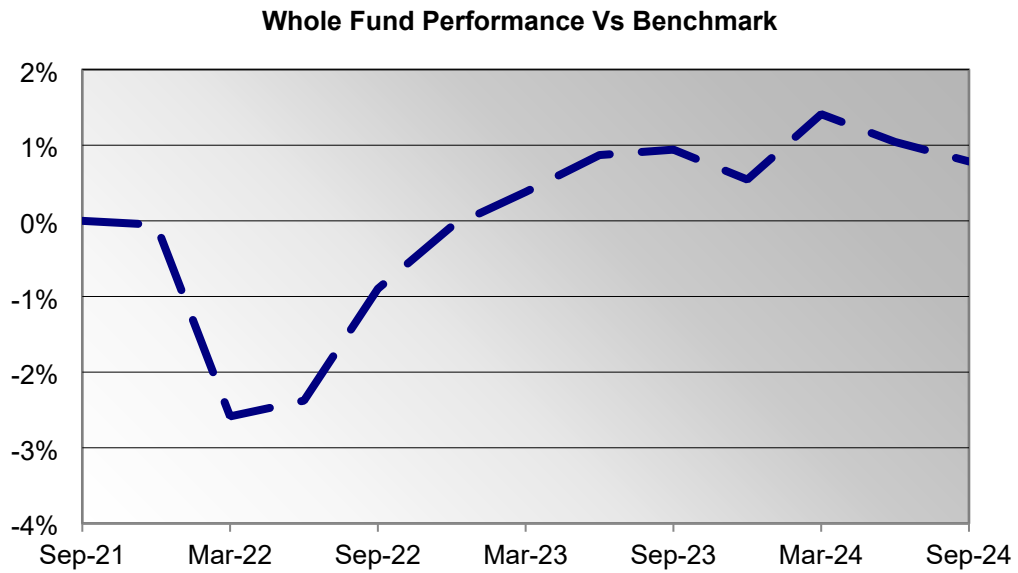
16.1 The performance for Quarter 2, 1 July 2024 to 30 September 2024 is summarised in the following table:

| 1 July 2024 to 30 September 2024 | | | | |
|--|------------------------|-----------------------------------|--|--|
| Value as at 30 Sept 2024 £m | | Fund for quarter % | Performance Benchmark for Quarter % | Relative to Benchmark % |
| 692.9 | Brunel (Passive GI Eq) | 0.4 | 0.4 | +0.0 |
| 922.2 | Brunel (GHA Eq) | -0.5 | 0.3 | -0.8 |
| 355.3 | Brunel (UK Eq) | 4.1 | 2.4 | +1.7 |
| 204.9 | Brunel (Small Cap Eq) | 3.4 | 3.1 | +0.3 |
| 115.5 | Brunel (EM Eq) | 2.6 | 2.5 | +0.1 |
| 62.2 | Brunel (Passive Gilts) | 2.7 | 2.6 | +0.1 |
| 72.4 | Brunel (Passive I-L) | 1.6 | 1.5 | +0.1 |
| 271.3 | Brunel (£ Corporate) | 2.7 | 2.3 | +0.4 |
| 123.0 | Brunel (MAC) | 3.9 | 1.3 | +2.6 |
| 225.2 | Brunel (Property) | 1.8 | 1.2 | +0.6 |
| 1.4 | SWRVF | 0.0 | 1.3 | -1.3 |
| 68.6 | Neuberger Berman | -4.9 | 1.3 | -6.2 |
| 37.2 | Brunel (Private Eq) | -2.1 | 1.3 | -3.4 |
| 0.8 | Brunel (holding in Co) | 0.0 | 0.0 | +0.0 |
| 93.6 | Cash | 1.3 | 1.3 | +0.0 |
| 3,246.5 | Whole Fund | 1.1 | 1.3 | -0.2 |

16.2 The fund, as a whole, underperformed its benchmark during the quarter. The level of absolute return was positive.

16.3 Asset allocation was positive for the quarter, overall fund manager performance was negative with the most significant contributor being the GHA portfolio.

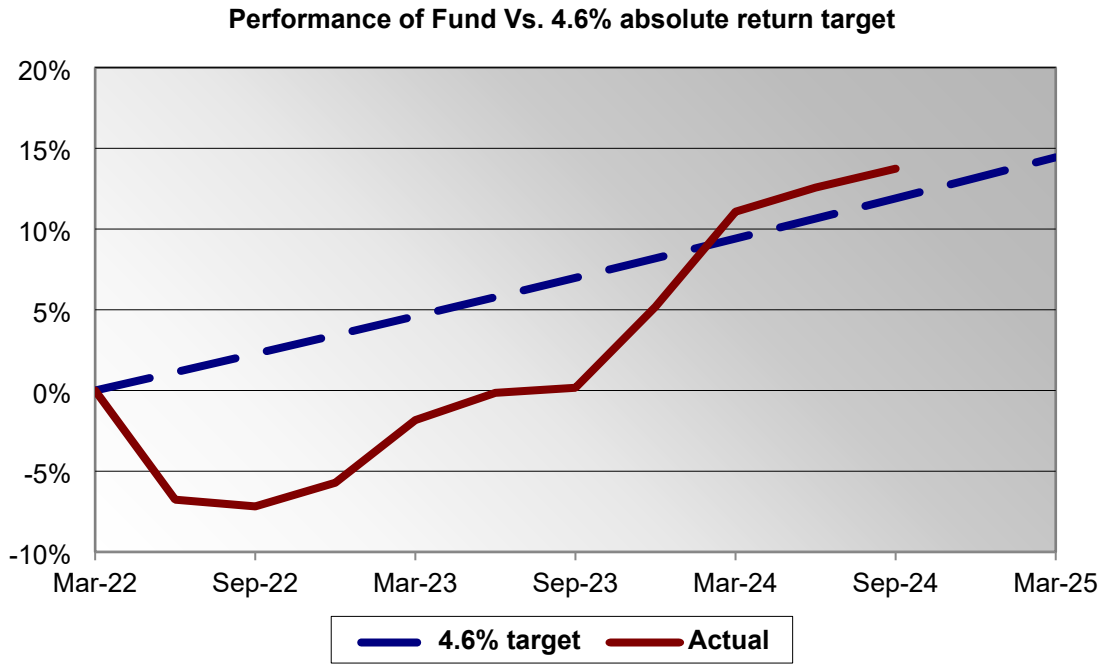
16.4



16.5 The table below shows annualised performance over a range of time periods:

| | Fund % p.a. | Benchmark % p.a. | Relative to Benchmark % p.a. |
|-----------------|------------------------|-----------------------------|---|
| 1 year | 13.6 | 13.8 | -0.2 |
| 3 years | 4.5 | 4.2 | +0.3 |
| 5 years | 6.6 | 5.6 | +1.0 |
| 10 years | 8.0 | 7.5 | +0.5 |
| 20 years | 11.1 | 10.8 | +0.3 |

16.6 At the March 2024 committee meeting the committee adopted an absolute return target of 4.6% for the fund as this is consistent with the fund becoming fully funded within the timescales indicated by the actuary as part of the 2022 valuation. Progress against this target for the 2022 to 2025 actuarial cycle is shown in the graph below.



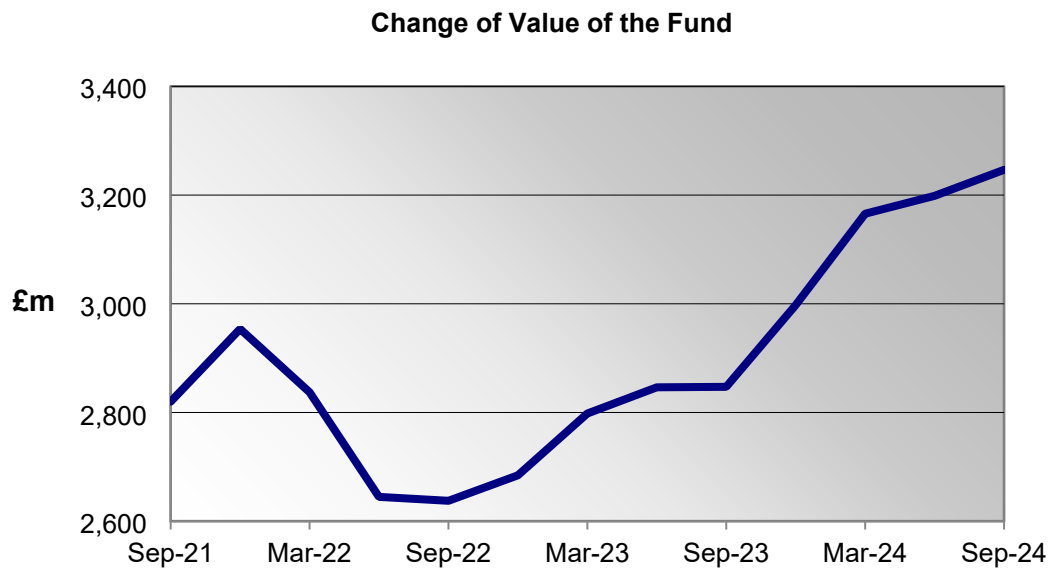
16.7 The movement in the value of the fund over the quarter is summarised in the table below.

| | Value as at 30 June 2024 | | Value as at 30 Sept 2024 | | Strategic Weighting % |
|-------------------------------|--------------------------|------------|--------------------------|------------|-----------------------|
| | £m | % | £m | % | |
| Brunel (Passive GI Eq) | 690.3 | 22 | 692.9 | 21 | 20 |
| Brunel (GHA Eq) | 927.2 | 29 | 922.2 | 29 | 25 |
| Brunel (UK Eq) | 341.4 | 11 | 355.3 | 11 | 10 |
| Brunel (Small Cap Eq) | 198.1 | 6 | 204.9 | 6 | 5 |
| Brunel (EM Eq) | 112.6 | 4 | 115.5 | 4 | 5 |
| Brunel (Passive Gilts) | 60.6 | 2 | 62.2 | 2 | 4 |
| Brunel (Passive I-L) | 71.3 | 2 | 72.4 | 2 | 4 |
| Brunel (Corp bonds) | 264.3 | 8 | 271.3 | 8 | 8 |
| Brunel (MAC) | 118.4 | 4 | 123.0 | 4 | 3 |
| Brunel/LaSalle (Prop) | 223.1 | 7 | 225.2 | 7 | 10 |
| SWRVF | 1.5 | 0 | 1.4 | 0 | 0 |
| Neuberger Berman | 72.2 | 2 | 68.6 | 2 | 0 |
| Brunel (Private Eq) | 37.8 | 1 | 37.2 | 1 | 5 |
| Brunel (holding in Co) | 0.8 | 0 | 0.8 | 0 | 0 |
| Cash | 79.0 | 2 | 93.6 | 3 | 1 |
| Whole Fund | 3,198.6 | 100 | 3,246.5 | 100 | 100 |

16.8 During the quarter the following movements of cash between funds took place:

- £0.080m was withdrawn from SWRVF.
- £1.6m was added to the Brunel private equity fund as the underlying investments continued to drawdown on commitments.

16.9 The change in the value of the investment fund over the last three years can be seen in the graph below.

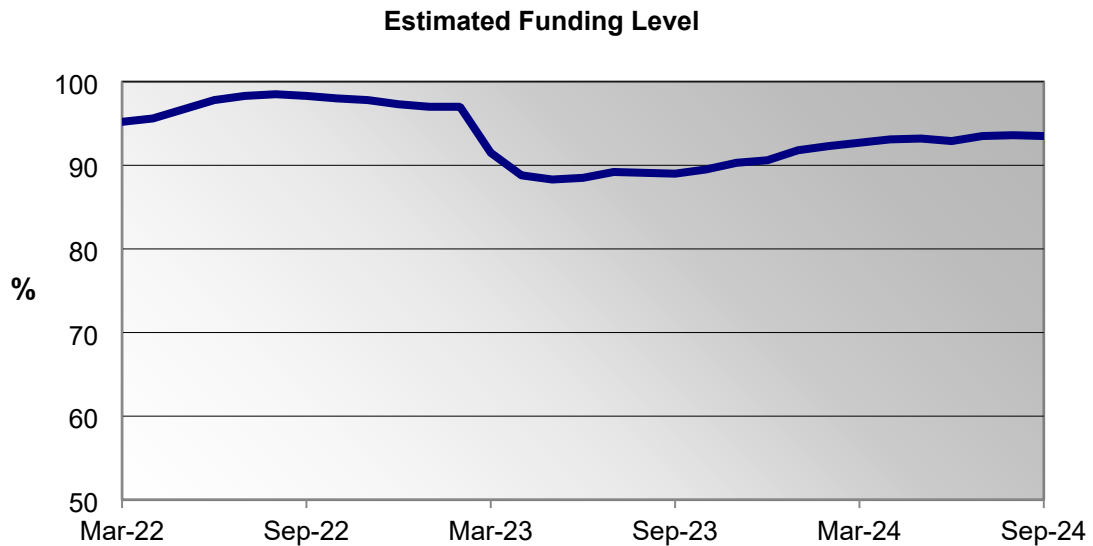


16.10 The Fund's Actuary, Barnett Waddingham, have provided the following update.

"The results of our assessment indicate that:

- *The current projection of the smoothed funding level as at 30 September 2024 is 94.3%*
- *This compares with the reported (smoothed) funding level of 95.2% at the 2022 funding valuation.*
- *The primary rate is estimated at 18.5% as at 30 September 2024.*
- *This compares to with the certified primary rate of 19.8% at the 2022 funding valuation.*

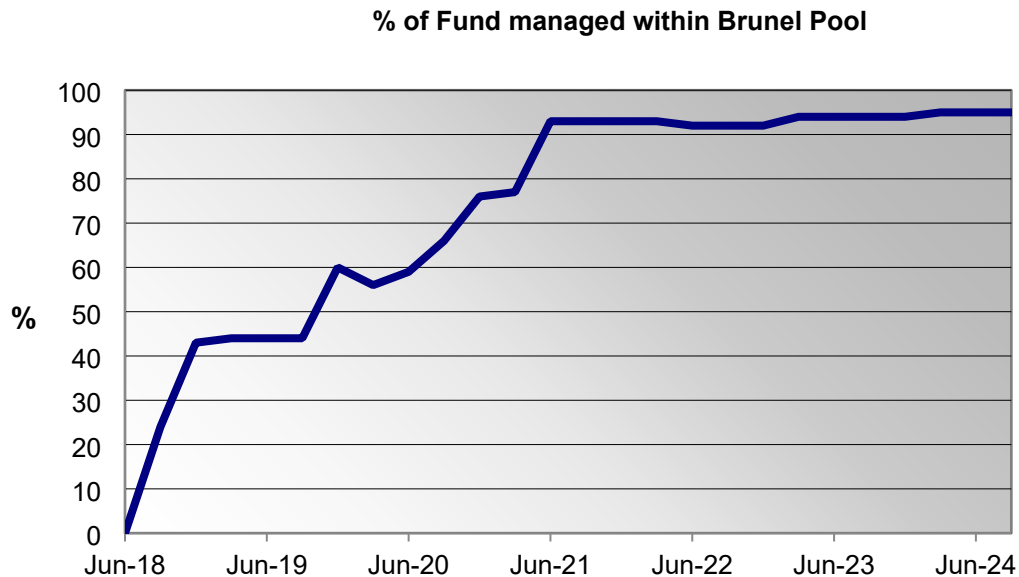
It should be borne in mind that the nature of the calculations is approximate and so the results are only indicative of the underlying position."



17. Pooling Update

- 17.1 Under guidance published by the Government on “LGPS: Investment Reform Criteria and Guidance” in November 2015 we are required to work towards the pooling of the Fund’s investment assets with other LGPS funds with pooling beginning in April 2018.
- 17.2 For the purposes of pooling Somerset Council has aligned itself with 9 other funds in South West England and worked with those funds to create an FCA regulated investment Company, Brunel Pension Partnership Ltd. (BPP).
- 17.3 Somerset largely completed its transition of assets to Brunel in summer 2021, with only some legacy private equity investments and cash not invested via the pool. Progress on moving to pooling can be seen in the table and graph below.

| | Value as at 30 June | | Value as at 30 Sept | |
|------------------------|---------------------|-----|---------------------|-----|
| | £m | % | £m | % |
| Pooled assets | 3,045.1 | 95 | 3,082.1 | 95 |
| Retained assets | 153.5 | 5 | 164.4 | 5 |
| Whole Fund | 3,198.6 | 100 | 3,246.5 | 100 |



18. Consultations undertaken

18.1 None

19. Financial implications

19.1 Over time the performance of the pension fund investments will impact the amount that Somerset Council and other sponsoring employers have to pay into the fund to meet their liabilities. The fund actuary calculates these amounts every three years and sets payments for the intervening periods.

20. Legal implications

There are no specific legal implications associated with this report.

20. Background papers

20.1 None

Note: For sight of individual background papers please contact the report author.