worcestershire
countycouncil

Pensions Committee
Wednesday, 16 October 2019, 10.00 am, County Hall, Worcester

Agenda

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Worcestershire Pension Fund

Annual Report and Financial Statements

for the year ending 31 March 2019

Find out more online:
www.worcestershire.gov.uk/pensions

worcestershire county council

Contents

Appendices

1. Chair's Foreword

1. Chair's Foreword

Welcome to the annual report for the Worcestershire Pension Fund for the year ending 31st March 2019.

On behalf of the Pensions Committee, I am pleased to introduce an annual report which looks back on a scheme year of significant activity, continuing growth and considerable achievement. The most notable achievements were:

- At the year end our assets under management totalled £2.795 billion an increase of 3.5% on the previous year. The overall Funding level has improved from 75% (at the last valuation on 31st March 2016), to around 92% at the end of 2018-19.
- Investment returns for the year were 4.4%, 2.3% below the benchmark return of 6.7%, tempered somewhat by the equity protection strategy in place. However, the Fund's track record of out-performance over 3, 5 and 10 year time periods continued.
- Management of risk through equity protection and our reviews of investment strategy and asset allocation.
- Development and implementation of a Business Plan.
- Reconciliation of the Fund's Guaranteed Minimum Pensions (GMPs).
- Being part of the establishment of a new investment pool, LGPS Central Limited comprising 8 Funds.
- Strengthening our management of and working with individual employers, for example by the introduction of employer covenant monitoring and monthly employer newsletters.
- Improving governance including the introduction of a training policy and delivery of an ongoing training programme for members of the Pensions Committee / Pension Board.
- Delivering a new engagement approach with employers including monthly newsletters, on-line training and increasing 'hits' to our website following a major refresh of the content.

In the course of the year, the highlights of what was agreed by the Committee were:

- A Pension Administration Strategy.
- Additional investments to Walton Street US Property Fund II and Hermes Infrastructure Fund II.
- Future transition of emerging market and corporate bond mandates to LGPS Central Limited in 2019.
- A Statement of Compliance with the UK Stewardship Code for Institutional Investors.
- Extra manpower and robust succession planning to support the Chief Financial Officer and to increase the Fund's engagement with its stakeholders.
- Procurement and delivery of our Guaranteed Minimum Pension (GMP) reconciliation and rectification programme.

Scheme membership has also continued to grow and is now in excess of 62,000.

As readers will be aware, the Fund primarily exists to pay pensions. This core activity of pension scheme administration was again delivered successfully throughout the year. From a Fund management perspective it is worth noting that the increase in pensioners since 2009 reflects the fact that people are

living longer these days. This in turn means that the Fund needs to have more money available for longer to meet the 'guaranteed pension for life' promises made to its pensioners compared to what was needed in the past.

The year saw the total employers reduce from 208 to 196. However, this was due to a number of schools merging together as Multi Academy Trusts and thus treated as one employer, rather than individual school employers as they were previously. We anticipate that the total number of employers will continue to increase over the next few years due to further outsourcing of services and schools converting to academy status.

Whilst this annual report by its nature looks back on 2018 / 2019, our Business Plan is provided at each Pensions Committee meeting. It reviews our ongoing progress in our key target areas and towards achieving our aspirations. It details our latest investment performance v benchmark and our latest performance against our target turnarounds for our key pension administration processes.

I'd like to finish my foreword by thanking all new and continuing members of the Committee, the Chair and members of the Pension Board, our advisers, staff at the Fund and our employers for all their continuing hard work for the Fund and its members. In particular I'd like to thank Councillor Bob Banks who was the Chair of the Committee for 2018/19

Councillor Paul Middlebrough
Chair
Worcestershire Pension Fund Pensions Committee

2. Management & Financial Performance

2. Management & Financial Performance

Scheme Management and Advisors (as at 31 March 2019)

Administering Authority: Worcestershire County Council
Address: County Hall, Spetchley Road, Worcester WR5 2NP
Scheme Manager: Michael Hudson LLB (Hons), LLM, CPFA Chief Financial Officer

Pensions Committee as at 31 March 2019

Representative	Meetings attended in 18/19					Training received	
	22/06	05/10	28/11	21/01	19/03	18/09	18/12
Cllr B Banks (Chair)	✔	✔	✔	✔	✔	✔	
Cllr R Lunn	✔		✔	✔	✔	✔	
Cllr P Middlebrough	✔	✔		✔	✔	✔	✔
Cllr A Hardman	✔		✔		✔	✔	
Cllr P Tuthill	✔	✔	✔	✔	✔		✔
Cllr R Phillips (Herefordshire)		✔					✔
Adrian Becker – Unison (Employee Representative)	✔	✔		✔	✔	✔	
Vic Allison (Employee Representative)	✔	✔	✔	✔	✔	✔	✔

Pension Board as at 31 March 2019

Representative	Meetings attended in 18/19					Training received	
	22/06	05/10	28/11	21/01	19/03	18/09	18/12
Keith Bray (Chair)	✔	✔	✔	✔	✔		
Lyn-Marie Chapman	✔	✔	✔	✔	✔	✔	✔
Kim Wright		✔	✔	✔	✔	✔	
Phil Grove	✔		✔	✔	✔	✔	
Nigel Shaw	✔	✔	✔	✔	✔		✔

Notes:

(1) The training on 18 September covered the administration lifecycle, GMPs, covenant monitoring, asset allocation and investment pooling.

(2) The training on 18 December covered data quality, the administration lifecycle, equities and transitioning assets.

Pension Investment Advisory Panel (2018 / 19)

Councillor A I Hardman (Chair)
Councillor R W Banks
Councillor L Mallet
Mrs D Duggan – Unison
Mrs J Bennet – Unison
Michael Hudson LLB (Hons), LLM, CPFA Chief Financial Officer
Rob Wilson Pensions Investment, Treasury Management Manager

LGPS Central Limited shareholder representative

Councillor A I Hardman

Fund Investment Managers as at 31 March 2019

JP Morgan Asset Management
Nomura Asset Management UK Ltd
Legal & General Investment Management
Schroder Investment Management
Venn Partners
Hermes Investment Management
Invesco Real Estate
UK Green Investment Bank
Walton Street Capital, LLC
First State Investments
Stonepeak Infrastructure partners
AEW
EQT
River & Mercantile

Global Custodian (2018 / 19)

BNY Mellon

Independent Investment Adviser (2018 / 19)

M J Hudson Allenbridge

Actuary to the Fund

Mercer Human Resource Consulting

Environmental Social Governance (ESG) adviser

LGPS Central Limited

Bankers

Barclays

Auditors to the Fund

Grant Thornton UK LLP

Legal adviser

Worcestershire County Council

In house AVC provider

Scottish Widows

LGPS Central Ltd

Mike Weston Chief Executive

Pension Administration Advisory Forum

The Fund invites all employers to these which are held at least twice a year.

3. Risk Management

3. Risk Management

Risk management is the process of identifying risks, evaluating their likelihood and potential impact and determining the most effective methods for controlling or responding to them.

The Pensions Fund has a dedicated risk register that is regularly reviewed by the Pensions Leadership Team in light of new information and updated when necessary (at least quarterly). The Pensions Committee receives regular updates on the key risks facing the Fund and the latest risk register is reported to each regular **Committee meeting**.

Each risk is initially assigned a score designed to reflect the likelihood of it occurring and impacts faced by the Fund If it were to occur.

Risks are then categorised against a series of mitigations designed to reduce the likelihood and / or impact. Risks are colour coded and assigned a red, amber or green status according to the degree of risk posed.

As at 31 March 2019 the Fund's most significant risks were:

- Mismatch in asset returns and liability movements
- Failure to pool assets using LGPS Central Ltd
- Employers cannot pay their contributions.

The nature and extent of risks arising from Financial Instruments are detailed in note 16 of the Pension Fund Accounts further on in this document.

Further assurance is provided by the work of Internal Audit who audit a number of key aspects of the Fund.

4. Financial Performance

4. Financial Performance

Triennial Valuation

Every three years the Pension Fund is subject to a formal valuation by the Fund Actuary which produces two key outputs.

Firstly, it quantifies the Funding level, i.e. the level to which the Funds, pension liabilities for the accrued benefits of current employees, deferred pensioners and pension in payment are matched by the market value of the Fund's assets. A Funding level of less/more than 100% implies that there is a deficit in the Fund valuation at that date.

Secondly, it also sets the rate at which employers should contribute to the Fund for the following three years.

The table summarises the Funding position as at the 31st March 2016 compared to the Funding position of the last formal valuation as at the 31st March 2013.

Summary Valuation Results

£m	31 March 2013	31 March 2016
Total past service liability	2,488	2,606
Fund assets	1,721	1,952
Surplus / (deficit)	(767)	(654)
Funding Level	**69%**	**75%**

As at 31st March 2019 we estimate that the Fund was 92% Funded. The actual Funding position as at 31st March 2019 will be confirmed by the actuarial valuation.

To meet the requirements of the regulations, we have set a clear long-term Funding objective; to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis.

In tandem with the actuarial valuation the Actuary helps us to produce a Funding Strategy Statement that is available from our website. This focuses on the pace at which future benefits will be Funded and on practical measures to ensure that employers pay for their own liabilities.

Contribution Rates

Members' contributions are set at a rate which covers only part of the cost of accruing benefits after the valuation date. Employers pay the balance of the cost of delivering future benefits to members.

At the 2016 actuarial valuation a common rate of contribution of 15.3% of pensionable pay per annum was set for employers.

As the Actuary assessed the particular circumstances of each employer, including the strength of its covenant, and its individual membership experience within the Fund, the Actuary applied individual adjustments to each employer to reflect these circumstances.

This resulted in a higher contribution rate than the baseline 15.3% and / or an annual cash contribution at a fixed amount being set for many employers.

The next actuarial valuation and review of the Funding Strategy Statement will be carried out as at 31st March 2019, with any changes to employers' contribution rates being implemented with effect from 1 April 2020. The **2016 actuarial valuation report** and our Funding Strategy Statement is available in Appendix A.

Analytical Review of Fund Account and Net Assets Movement

The following table provides a brief overview of the major movements in the Fund Account and Net Assets Statement for the financial year 2018/19. The full statement of accounts are included from page 49 of this report.

Fund Account	2017/18 £'M	2018/19 £'M	Notes
Net Contributions	79	(33.4)	In 2017/18 a number of employers elected to pay their 3 year fixed deficit as lump sums in advance
Return on Investments	141.1	127.7	The decrease in the return on investments is attributable to lower investment returns of 4.4% during the year compared to 5.4% in 2017/18
Net Increase in the Fund	**220.1**	**94.3**	

Operational Expenses- Comparison of 2018/19 forecast to actual

	2018/19 Budget £'000	2018/19 Actual £'000	2018/19 Variance £'000
Administration / Oversight & Governance			
Employees	647	664	17
Supplies & Services	40	37	-3
Actuarial Fees	215	274	59
Investment Advisor expenses	82	57	-25
IT Costs	212	150	-62
External Audit Fees	27	19	-8
Legal Fees	33	10	-23
Total	**1,256**	**1,211**	**-45**
Investment Management			
External Fund Managers	9,097	10,768	1,671
Transaction Costs	500	761	261
Custodian	360	360	0
Total	**9,957**	**11,889**	**1,932**

Administration and Management costs per member past 5 years

Process	2014/15	2015/16	2016/17	2017/18	2018/19
Investment Management Expenses					
Total cost (£'M)	5.3	6.7	7.1	8.9	11.9
Total membership (Nos)	55,275	57,821	59,196	60,336	62,254
Cost per member (£)	**96**	**116**	**120**	**148**	**191**
Administration Costs					
Total cost (£'M)	1.1	1.2	1	0.8	1.1
Total membership (Nos)	55,275	57,821	59,196	60,336	62,254
Cost per member (£)	**20**	**21**	**17**	**13**	**18**
Oversight and Governance Costs					
Total cost (£'M)	0.1	0.1	0.1	0.1	0.1
Total membership (Nos)	55,275	57,821	59,196	60,336	62,254
Cost per member (£)	**1.8**	**1.7**	**1.7**	**1.7**	**1.6**
Total cost per member (£)	**118**	**138**	**139**	**162**	**210**

The Increase in Investment Management expenses in 2018/19 was due mainly to diversifying asset allocation into property and infrastructure assets where management fees tend to be higher and disinvesting in passive equities in line with the Investment Strategy Statement.

The table below outlines the Fund's performance for key financial variables for the past 5 years

	2018-19	2017-18	2016-17	2015-16	2014-15
	£'M	£'M	£'M	£'M	£'M
Contributions and Benefits					
Contributions receivable	81.8	185.2	107.8	104.3	99.6
Individual Transfers	12.9	10.4	8.0	5.4	4.1
	94.7	**195.6**	**115.8**	**109.7**	**103.7**
Benefits Payable	-106.3	-98.0	-95.5	-93.9	-92.8
Payments to and on account of leavers	-8.7	-8.8	-7.0	-7.3	-57.3
	-115.0	**-106.8**	**-102.5**	**-101.2**	**-150.1**
Management & Admin expenses	-13.1	-9.8	-8.2	-8.0	-6.5
	-33.4	**79.0**	**5.1**	**0.5**	**-52.9**
Return on Investments					
Investment income	50.2	35.8	29.4	38.1	40.8
Change in market value of investments	77.5	105.3	494.1	-73.6	202.3
Net return on investments	**127.7**	**141.1**	**523.5**	**-35.5**	**243.1**
Net increase in the Fund during the year	**94.3**	**220.1**	**528.6**	**-35.0**	**190.2**

3 year forecast management expenses 2019-20 to 2021-22

	2019/20 Budget £'000	2020/21 Actual £'000	2021/22 Variance £'000
Administration / Oversight & Governance			
Pension scheme Administration recharge	1,031	1,016	1,040
Actuarial services*	300	240	247
Audit	28	28	28
Legal Fees	34	35	36
Committee and Governance recharge	11	11	12
Total	**1,404**	**1,330**	**1,363**
Investment Administration Costs			
Investment Administration Recharge	177	181	184
Investment Custodial and related services	367	375	382
Investment Professional fees	78	68	68
Performance Measurement	15	16	16
Total	**637**	**640**	**650**
Investment Management			
External Fund Managers**	10,599	11,041	11,496
Transaction Costs	780	810	840
Total	**11,379**	**11,851**	**12,336**
Overall Total	**13,420**	**13,821**	**14,349**

* Actuarial Fees are higher in 2019/20 due to this being a valuation year

** External Managers fees are subject to market valuations

5. Administration Report 2018/19

5. Administration Report 2018/19

As usual, paying pensions, processing retirements, processing deaths, processing reFunds, delivering our year end and issuing annual benefit statements were our major administration deliverables. New employers, employer restructures and delivering training for Pensions Committee and Pension Board members also required significant resource.

The introduction of employer covenant monitoring was a notable achievement. This monitoring forms part of the Fund's wider risk management strategy. This analysis is a first step towards categorising employers into broad risk groups and then prioritising action in relation to those employers where there is potentially a higher risk to the Fund. Employers can be investigated further and/or further data can be gathered to refine the covenant rating.

The years monitoring revealed 7 employers where further discussion and consideration was needed. The intention is to undertake this exercise annually and monitor on a quarterly basis.

We deliver our service using:

- The Altair pensions administration system.
- Our website that we refreshed during the year and that saw an increase in page views to 8,735 monthly page views in March 2019 compared to 3,679 in March 2018, a 137% increase.
- Dedicated resource for each member requirement.
- An Engagement Manager to support Employer relationships including monthly employer newsletters and on-line training.
- Computer hardware, software and the Council's computer network which will be upgraded to more modern equipment and software versions to improve the speed, reliability, collaboration and security of your IT over the next 2 years.

We have arrangements in place to ensure the accuracy and confidentiality of personal data. The Fund conforms with (Worcestershire County Council) WCC's breach notification process and WCC's data policy, for example through the use of data encryption and password protection. Systems are reviewed by internal and external audit and set up in line with data protection regulations. A complete address update is done regularly by employers. Mitigating processes include the Business Continuity Plan (BCP), data breach, addresses being checked by a dedicated checker and communication taking place with member / employer before a payment is made. There was one data breach in 2018/19.

The major administration pieces of work / projects undertaken during the year were:

- A Guaranteed Minimum Pensions reconciliation exercise.
- Introducing a Pension Administration Strategy which sets out the responsibilities of both the Fund and Employers, in accordance with Regulations and The Pensions Regulator (TPR) Code of Practice.
- Reporting to the TPR / Occupational Pension Schemes Survey.
- Producing a new standard Admission Agreement.
- Introducing a new Termination Policy.
- Delivering annual benefit statements for employee and deferred members.

- Delivering pensioner P60s and payslips.
- Providing FRS information to employers.
- Delivering Pension Savings Statements.
- Improving the quality of data held and actions required to improve it.
- Development and improvement of the Pensions website.

Internal Disputes Resolution Procedure

There are times when Scheme members, employers and the administering authority may find themselves in disagreement about a pension issue. The first approach in these situations is for those involved to talk to each other to reach resolution. However, should this not prove possible, the Fund has an Internal Disputes Resolution Procedure (IDRP). The Administering Authority did not receive any stage 2 (IDRP) appeals decisions during the year. Our appeals procedure is detailed on our **website**.

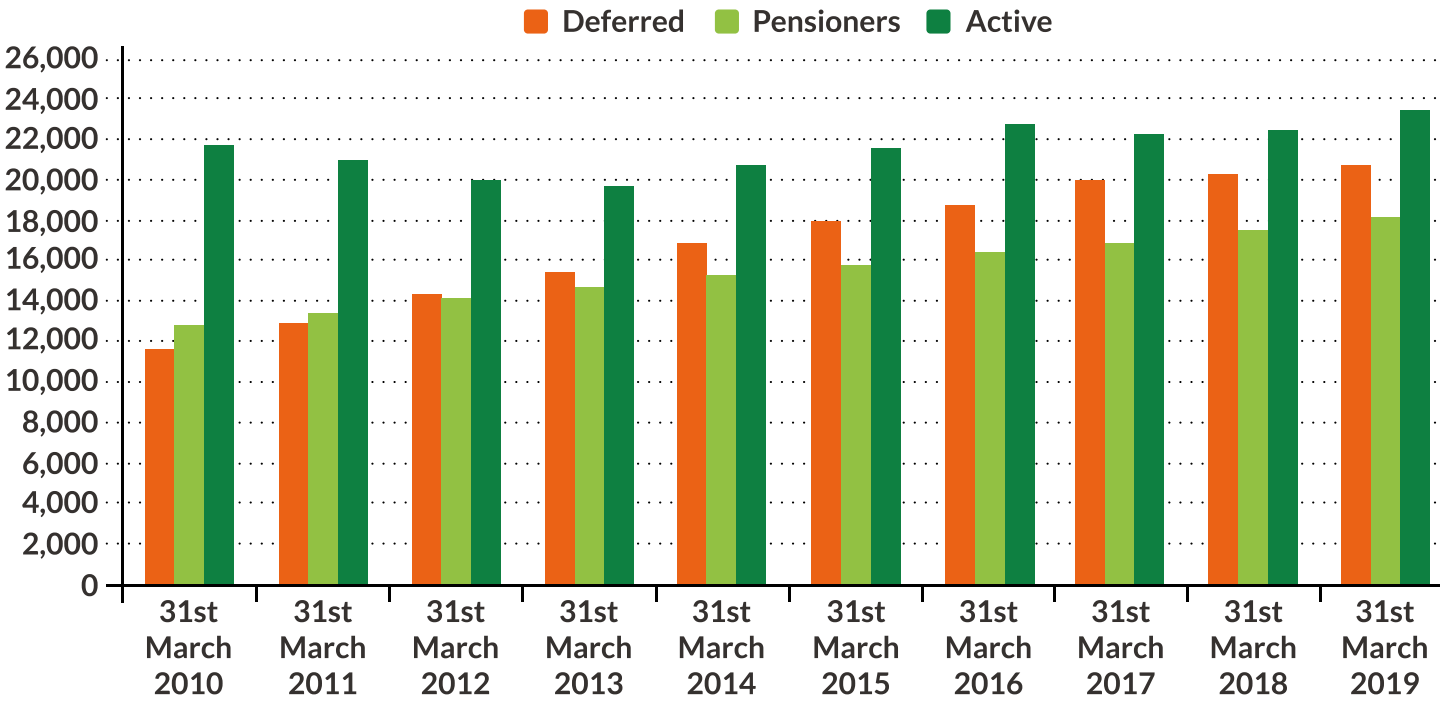
Policy Statement on Communications

The Statement provides an overview of how the Fund will communicate with its stakeholders. An effective communications strategy is vital for the Fund to meet its objective of providing a high quality and consistent service. Scheme communications are a critical activity; they are the external face of the Fund and provide a key link with its stakeholders. The Fund continuously looks at ways to enhance its communication offering to the various audiences and the Policy Statement will be reviewed annually and a revised version will be published following any material change. Our Policy Statement on Communication is at Appendix B below.

Membership and Employer Movement and Scheme complexity

The Fund continues to experience a year on year increase in the number of members across all categories (Active, Deferred and Pensioners).

Analysis of membership profile over the last 10 years



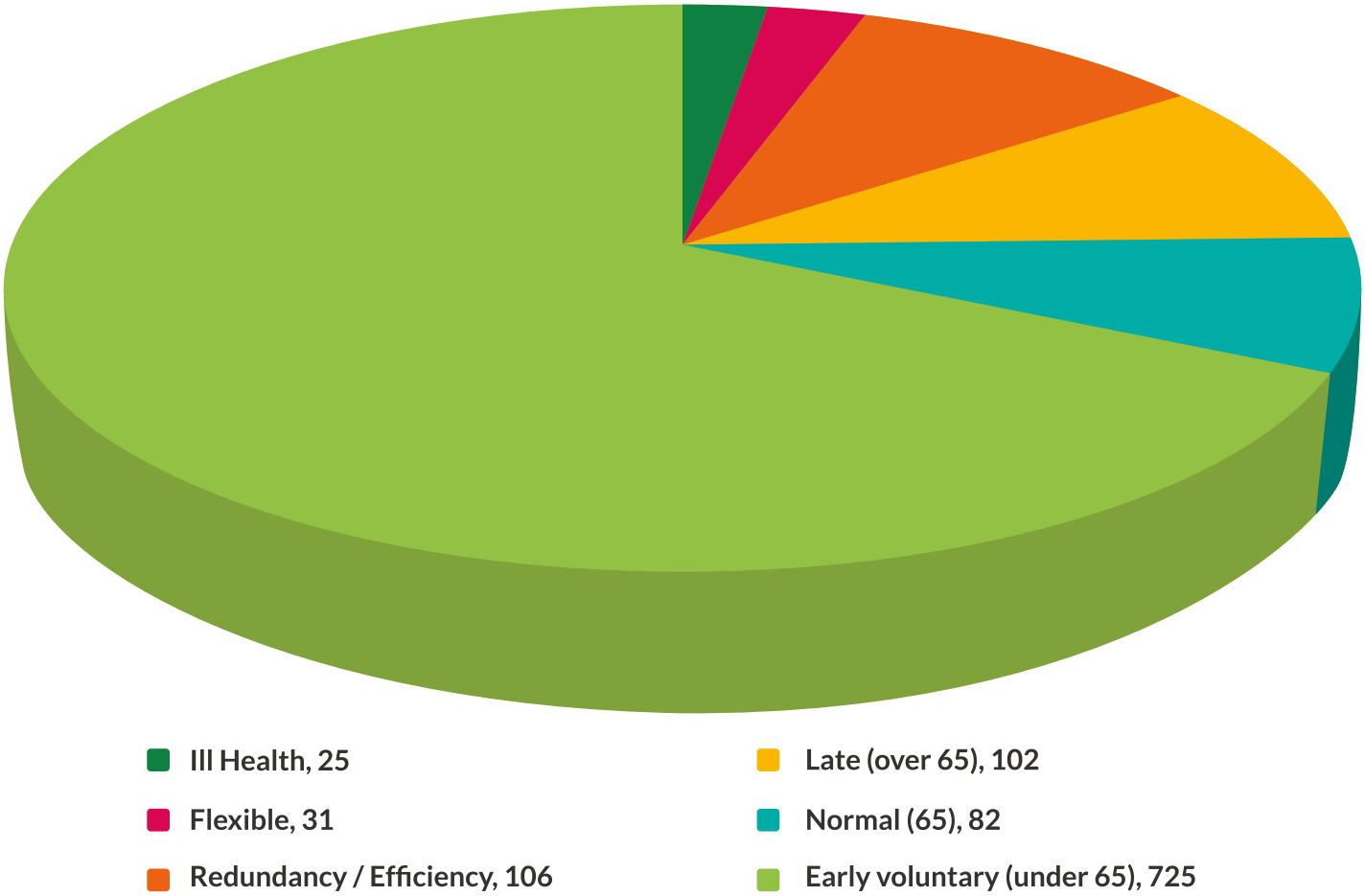
The table below summarises the age ranges of the membership over the three categories of Active,

Deferred and Pensioner as at 31 March 2019:

Age Group	Active	Pensioner	Deferred	Total	%
0-20	264	71	7	342	0.55%
21-25	1,040	9	257	1,306	2.10%
26-30	1,484	2	1,136	2,622	4.21%
31-35	1,935	4	1,877	3,816	6.13%
36-40	2,466	13	2,340	4,819	7.74%
41-45	2,906	28	2,631	5,565	8.94%
46-50	4,044	60	3,879	7,983	12.82%
51-55	4,023	190	4,503	8,716	14.00%
56-60	3,185	1,075	3,105	7,365	11.83%
61-65	1,736	3,326	897	5,959	9.57%
66-70	289	4,299	77	4,655	7.50%
71-75	63	3816	21	3,900	6.26%
76-80	0	2,266	0	2,266	3.64%
81-85	0	1,557	0	1,557	2.50%
86-90	0	893	0	893	1.43%
91-95	0	391	0	391	0.63%
96-100	0	79	0	79	0.13%
101+	0	10	0	10	0.02%
Total	**23,435**	**18,089**	**20,730**	**62,254**	**100.00%**

Retirements during 2018/19

There were 1,071 retirements during 2018/19 as summarised in the chart below:



The Fund has 196 employers whose employees are members of the LGPS:

	Active as at the 31/03/2019
Scheduled bodies	128
Designated bodies	30
Admitted bodies	38
Total	**196**

Notes:

- Scheduled (in the regulations) bodies are organisations whose employees qualify to become members of the LGPS by right. These include county councils, district councils, foundation schools / colleges and academies
- Designated bodies are organisations that have passed resolutions with town or parish councils to offer the LGPS to their employees.
- Admitted bodies are organisations that fall into none of the previous 2 categories. Admitted bodies are voluntary / charitable bodies and other organisations to whom local government employees have been transferred under the outsourcing of local government services whose staff can, at the discretion of their employer, become members of the LGPS.

Our performance

The Fund benchmarks its performance on administration casework using the CIPFA benchmarks as outlined in the table below. The Fund achieved 100% compliance. We measure how we perform against our target turnarounds for our key processes:

Activity / Process 2018/19	Average Turnaround Achieved (working days)	Target (working days)
Joiners notification of date of joining	5	40
Process and pay reFund	**2**	**10**
Calculate and notify deferred benefits	19	30
Letter notifying actual retirement benefits	**3**	**15**
Letter notifying amount of dependant's benefits	6	10
Letter acknowledging death of member	**5**	**5**
Letter detailing CETV for divorce	2	45
Letter notifying estimate of retirement benefits	**3**	**15**
Letter detailing transfer in quote	3	10
Process and pay lump sum retirement grant	**18**	**23**
Letter detailing transfer out quote	3	10
Letter detailing PSO implementation	**n/a**	**15**

We continue to monitor this and improve our data capturing of the information against the CIPFA benchmarks.

The administration team comprises of 16.7 full time equivalent (FTE) staff. The Fund therefore has a ratio of one full time equivalent member of the team for every 3,728 Fund members.

Value for Money

At £1.1m our administration costs for 18/19 were the same as in 2014/15. Whilst our costs in 2017/18 were lower than in 18/19, because of reduced Actuary and system costs, our 2018/19 administration cost per member was lower than in 2 of the preceding 4 years. In 2018/19 our administration team of 16.7 FTE achieved the average CIPFA benchmark turnaround target for all 12 standard processes. To improve the efficiency and effectiveness of our service to our stakeholders, in Oct 2018 we appointed our first ever Engagement Manager who has taken a lead role in enabling us to introduce monthly employer newsletters, to expand / focus the content available from our website and to develop stronger governance, for example enabling us to launch a Pension Administration Strategy in March 2019 after consultation with our employers. In relation to the Pensions Regulator's common data standards we achieved 99% overall. Looking ahead, we are committed to delivering an even more modern and efficient value for money service.

6. Investment Policy & Performance

6. Investment Policy & Performance

Investment Management

Subject to the LGPS regulations on allowable investments, the Fund may invest in a wide range of assets including quoted equity, government bonds, corporate bonds, money markets, traded options, financial futures / derivatives and alternative strategies including infrastructure / property pooled Funds.

The Fund's investment objective is to support the Funding strategy by adopting an investment strategy and structure which incorporate an appropriate balance between risk and return. Our Investment Strategy Statement is available at Appendix C.

The Pensions Committee retains responsibility for the investment strategy of the scheme but has delegated oversight of its implementation to the Chief Financial Officer. The Committee regularly reviews the Fund's investment management arrangements. In broad terms, at 31 March 2019 the Fund's strategic allocation was to be invested 75% in equities, 10% in fixed income and 15% in property / alternatives. The Fund's assets are managed day to day by the Fund's appointed specialist, external investment managers.

Strategic Asset Allocation

The table below shows the actual distribution of assets across the main asset categories which change year on year as a result of the strategic asset allocation, the performance of the underlying asset classes, managers, rebalancing across managers and asset classes.

Strategic Actual and Target Asset Allocations

Asset Class 2018/19	Actual Portfolio Weight	Actual Portfolio Weight	Target Portfolio Weight
	31.03.18	31.03.19	31.03.19
Total Equities	**86.4%**	**83.0%**	**75.0%**
Total Actively Managed Equities	**29.4%**	**27.3%**	**20.0%**
Far East Developed	15.8%	14.3%	10.0%
Emerging Markets	13.6%	13.0%	10.0%
Total Passively Managed Equities – Market Capitalisation Indices	**33.0%**	**31.5%**	**40.0%**
United Kingdom	14.9%	13.8%	23.5%
North America	11.0%	11.3%	9.0%
Europe ex UK	7.1%	6.4%	7.5%

Asset Class 2018/19	Actual Portfolio Weight	Actual Portfolio Weight	Target Portfolio Weight
	31.03.18	31.03.19	31.03.19
Passively Managed Equities – Alternative Indices	**14.5%**	**15.3%**	**15.0%**
Equity Protection	9.5%	8.9%	
Total Fixed Interest	5.3%	5.9%	10.0%
Actively Managed Bonds & Corporate Private Debt	5.3%	5.9%	10.0%
Total Actively managed Alternative Assets	**8.3%**	**11.1%**	**15.0%**
Property	4.7%	5.1%	15.0%
Infrastructure	3.6%	6.0%	
TOTAL	**100.0%**	**100.0%**	**100.0%**

The equity protection strategy applies to the Passively Managed Equities – Market Capitalisation Indices

There are still a number of undrawn capital commitments related to Property and Infrastructure. These take a number of years and are being Funded from disinvestments in the equity portfolio to meet the strategic target allocations

Details of the Largest Equity investments as at the 31st March 2019

Top 10 Direct Equity Investments	Market Value of holding as at the 31st March 2019 (£)	Percentage of Total Fund Assets
Tencent Holdings Ltd	24,719,100	0.90%
Taiwan Semiconductor Manufacturing	**20,676,217**	**0.76%**
Alibaba Group Holding Ltd	18,414,392	0.67%
Bhp Group Ltd	**10,566,877**	**0.39%**
Honda Motor Co Ltd	10,353,099	0.38%
Aia Group Ltd	**8,748,969**	**0.32%**
Samsung Electronics Co Ltd	8,248,612	0.30%
Sumitomo Mitsui Financial Group	**7,906,360**	**0.29%**
Daiwa House Industry Co Ltd	7,782,142	0.28%
Shionogi & Co Ltd	**7,302,957**	**0.27%**

Global Overview from the Fund's Investment Advisor

Those of us of a certain vintage will remember a very popular film, "It's a Mad, Mad, Mad, Mad World". It used to be classified as comedy, but now it should be under the description of current affairs. That Big Dipper? Replace it with the acrobatics aeroplane, soaring and diving all over the place.

The falls of Q4 2018 turned out to be Much Ado About Nothing as we turned into 2019, but the same threats still remain. The main issues were easing of concerns about a China/USA trade war (since heightened again) and central banks stepping back from quantitative tightening, at least for the time being.

The term "Shouty politics" has been used to describe how President Trump goes about his business. Nothing new about that; just look at how Prime Minister's Questions used to be conducted. However it would be true to say that US politics is certainly noisy these days, what with calls for the President to be impeached simply not going away and trade negotiations seemingly being conducted with the aid of a megaphone. However what is going on beneath the surface is where we should focus our attention, and with the Fed lowering its projections for growth and inflation the spectre of recession reappeared. That, linked to the renewed concerns about trade with China (and possibly Europe), is something that should be taken seriously. Frankly impeachment talk is just a side show, for now.

Oh dear Mrs May, this really was a rather long goodbye. Goodbye to Europe and goodbye to her. I am not brave enough to predict what the outcome(s) will be, but almost any way it does not make Britain look exactly Great in the eyes of the rest of the world. Under the surface here, mixed messages; growth and anticipated growth is slowing on one hand, while on the other employment statistics remain robust with wages gently picking up. I've said it before, markets do not like uncertainty, but it can provide opportunities for the savvy investor. See, I haven't mentioned the "B" word!

The future direction of travel of the EU is up for grabs. Continued progress with federalism, or ultimately a disintegration of the Union? In the meantime, trade issues loom, not just with the UK but also the USA.

In contrast to other countries the bounce back in Japanese markets was distinctly muted. This seemed to be more to do with a series of negative surprises which then started to undermine confidence. Observations of economic news in the USA and resulting interest rate trends caused some reassessment of the outlook. Including China in particular, there is an expectation of lower external trade, including cars and electrical items, which when coupled to higher wage costs working through are serving to depress the corporate earnings outlook. All this may turn out to be overly pessimistic, but possibly explains the impact on sentiment. Looking at Asia ex Japan and Emerging Markets together two main issues were at play. For the Asian region the more benign tone of the China/USA trade issues settled some nerves (since rattled again) helped sentiment. For China the technical change in weighting of their listed shares in MSCI benchmark indices also helped markets recover, however artificial that seems. Elsewhere geopolitical tensions in the region didn't help, including the spat between India and Pakistan, and the abrupt end to the USA/North Korea summit.

The other factor was the strong rally in the oil price which helped some of the producer nations, such as Russia and Columbia. With increasing tension between the USA and Iran, that recovery may be sustained. There seems to be a common theme in this overview, wherever the USA is mentioned there is increased tension. Food for thought.

Investment monitoring and Performance

The Pension Investment Sub Committee monitors external managers' performance and makes investment manager and asset allocation recommendations. The Fund does not automatically rebalance mandates in line with the long-term investment policy as set out in the Investment Strategy Statement. Therefore portfolio weights may vary compared to their long-term strategic total Fund weight. The Fund's actual asset valuations across UK, Non UK and Global as at 31 March 2019 are shown below.

	UK £m	Non-UK £m	Global £m	Total £m
Equities	388.2	1,200.7	417.8	2,006.7
Bonds	227.4	134.1	0	361.5
Pooled property investments	86.8	85.0	0	171.8
Pooled infrastructure investments	159.4	0	0	159.4
Pooled Debt Investments	12.4	0	0	12.4
Cash and cash equivalents	17.8	15.1	0	32.9
Other	-0.1	13.8	0	13.7
Total	**891.9**	**1,448.7**	**417.8**	**2,758.4**

The Fund's investment performance is measured quarterly by Portfolio Evaluation Ltd. against a number of benchmarks. The table below details the Fund's performance against these benchmarks for 1 year, 3 years and 5 years.

Fund performance by Asset Class

Asset Class	1 Year Actual	1 year Benchmark Return	3 Year Actual	3 Year Benchmark	5 Year Actual	5 Year Benchmark
	Return	Return	Return	Return	Return	Return
	%	%	% p.a.	% p.a.	% p.a.	% p.a.
Active Equities	-1.5	1.7	14.5	13.8	10.7	10.4
Passive Equities	9.4	8.3	12.1	11.7	0.0	0.0
Alternative passive equities	13.2	13.7	13.8	14.3	0.0	0.0
Bonds	3.3	3.2	3.3	2.8	3.7	3.4
Pooled Private Debt	1.4	1.6	0.0	0.0	0.0	0.0
Pooled Property	5.2	7.0	8.3	7.1	0.0	0.0
Pooled Infrastructure	2.5	8.4	6.7	8.1	0.0	0.0
TOTAL FUND	**4.6**	**7.0**	**12.8**	**12.7**	**9.2**	**8.9**

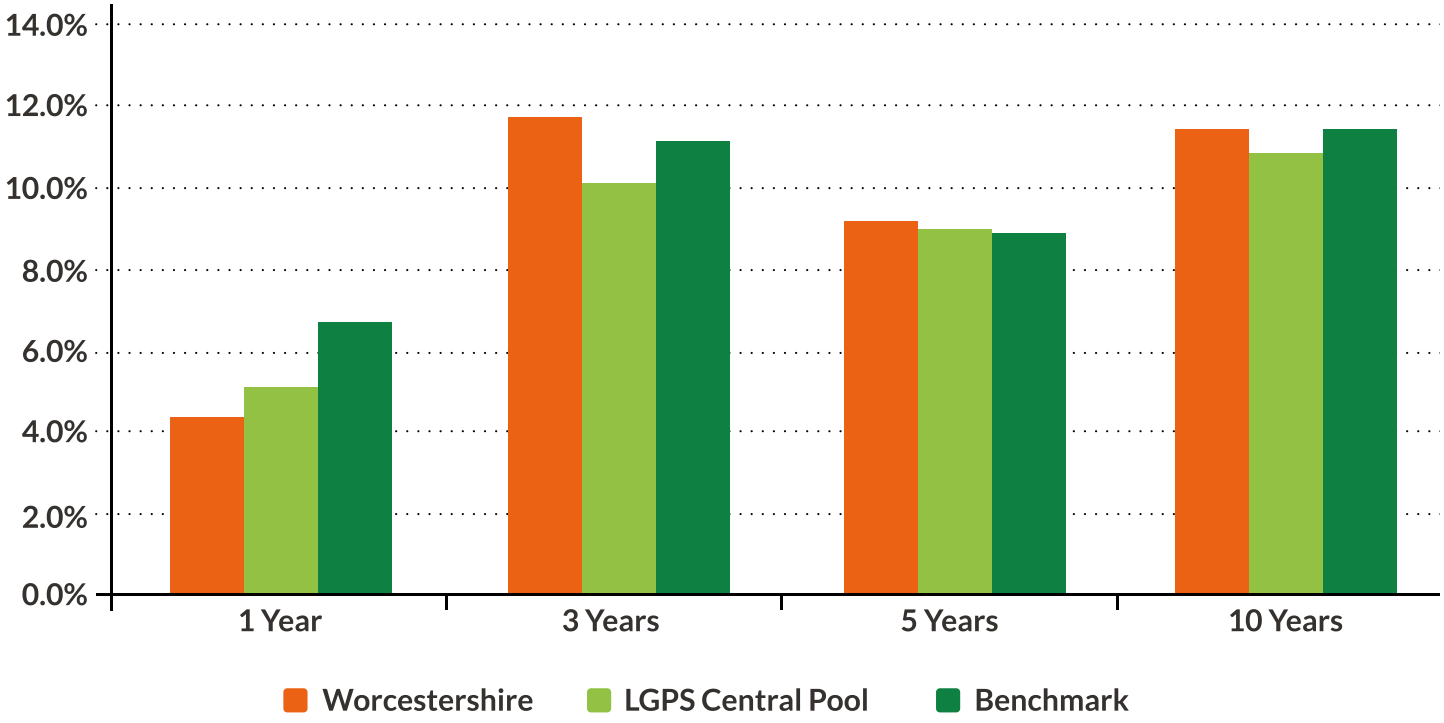
The Fund produced a return of 4.6% for the year, which gave an underperformance against the benchmark of 2.4%. This was mainly attributable to a notional negative contribution from the equity protection strategy as markets experienced a significant recovery from the falls seen in Q4 2018. The underperformance from the active equity managers and the underweight position in UK equities also detracted from total Fund performance during this period. However the Fund's performance continued to be strong over the 3 and 5 year periods.

As the majority of the improvement in the Fund's assets since the 2016 valuation was attributable to the rally in equity markets over the period, in late February / early March 2018 the Fund implemented an equity protection strategy using a 'static' options hedge solution to:

- Manage the risk of markets falling
- Reduce the likelihood that further deficit contributions will be required at the 2019 valuation
- Seek to 'bank' some of the recent upside with a view to potentially reducing contributions at future valuations

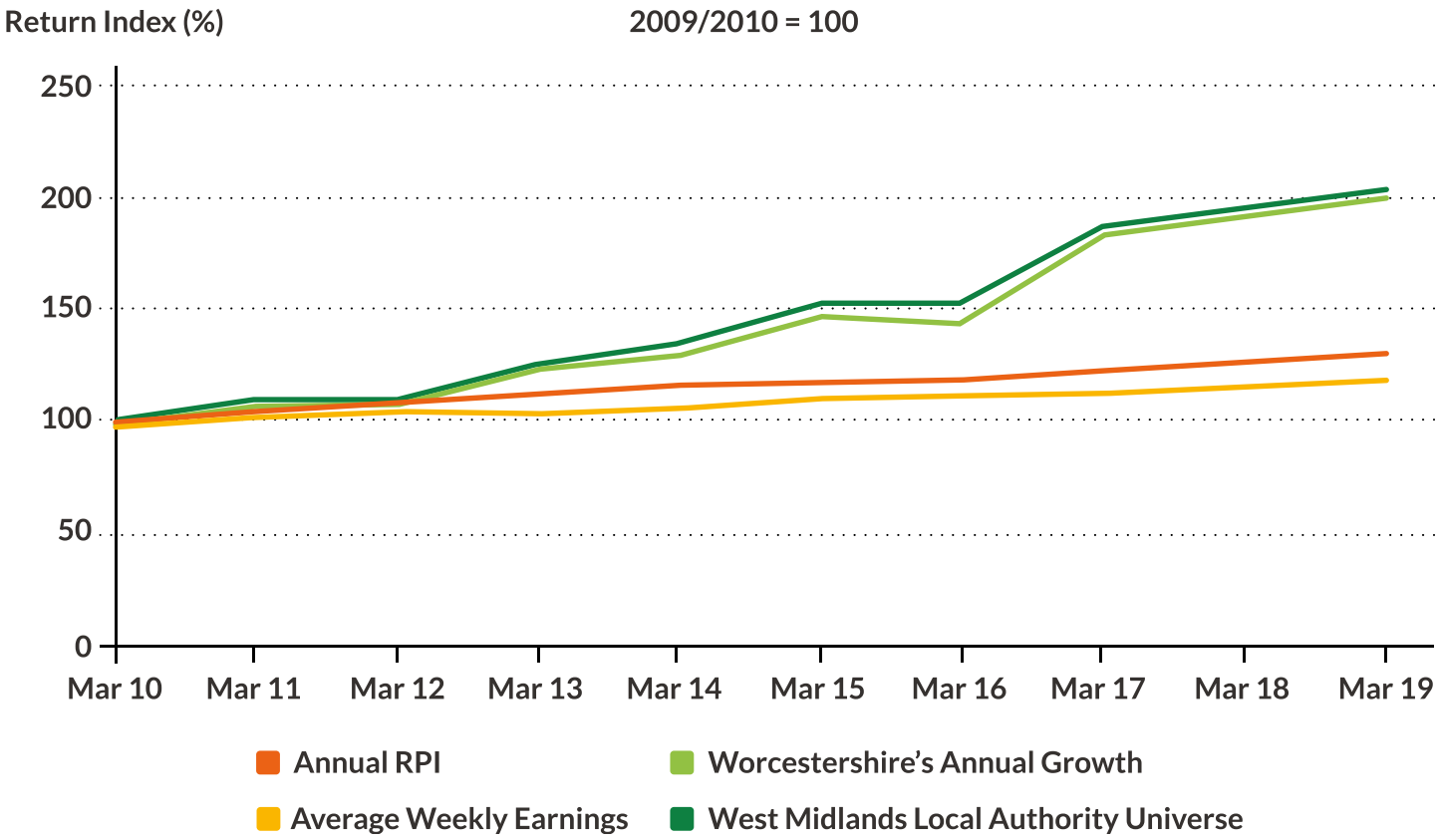
The following chart shows the performance of the Fund relative to its strategic benchmark, and LGPS Central pool partners. Although the performance was lower than the benchmark and LGPS Central pool partners this year, the Fund has outperformed both the benchmark and LGPS Central Pool partners over 3, 5 and 10 years.

Comparison of average annual performance of the Fund with the LGPS Central Fund's median return and the Funds composite index benchmark



The following chart tracks the cumulative impact of long term Fund performance since 2009/10 relative to the following key measures, the West Midlands Local Authority Universe, the Retail Prices Index (RPI) and annual average weekly earnings.

Funds Annual Growth Compared to retail price index, national average weekly earnings and WM Local Authority Universe Returns



Investment Fees

The Fund generally has an ad-valorem fee scale applied in respect of the investment management services it receives. This is generally accepted practice for passive tracking mandates and is easily understood. A performance related fee basis is sometimes set. However, if it is believed to be in the overall financial interests of the Fund, particularly for active mandates where higher fees are paid for more consistent outperformance of market indices. The approach taken varies depending on the type of investment and the target being set.

The Fund is required to report in line with the CIPFA requirements under the Transparency Code and requires its investment managers to provide sufficient information to fulfil this requirement. Further detailed work is being undertaken in 2019/20. The table below shows the fees paid to managers in each asset class.

	Management Fees £'000	Performance & Other Fees £'000	Total Fees £'000
Fixed interest securities	245	0	245
Equities	3,629	0	3,629
Pooled investment vehicles	827	0	827
Pooled Property investments	1,465	0	1,465
Pooled Infrastructure Investments	3,496	184	3,680
Private Debt	163	0	163
Pool Company	565	0	565
Other	194	0	194
TOTAL FUND	**10,584**	**184**	**10,768**

Custodial arrangements

Custody of the Fund's assets is provided by the Global Custodian, BNY Mellon Asset Servicing.

In addition to the custodian's role in the safe-keeping of the Fund's total assets, the custodian also provides settlement and income collection services, the exercise of voting rights and the execution of corporate actions in conjunction with the investment managers. The appointment of a global custodian also secures an independent confirmation of the Fund's assets and their value.

Asset Pooling

The Fund is a partner Fund of the LGPS Central (LGPSC) Limited pool. During 2018 / 2019 no assets were transitioned to LGPSC, but costs were incurred by all the partner Funds under a cost sharing agreement and our contribution was as follows:

	Total / £s
Set-Up Costs	0
Recruitment	27
Procurement	2
Professional Fees	187
IT	97
Staff Costs	142
Other Costs:	
Other (Premises)	49
Other (Staffing-Related Costs)	5
Other (Travel and Expenses)	1
Other (Training and Events)	1
Other (FCA Fees)	1
Other (General Admin Costs)	2
Set-Up Costs Before Funding	514
Share Capital	1,315
Debt	685
Other Costs	-
Set-Up Costs After Funding	**2,514**

Recharges by Partner Funds to LGPSC in Respect of Set-Up Costs

	At 1 April 2018 £000	Recharges in Year £000	Settled in Year £000	At 31 March 2019 £000
Set-Up Cost Recharges	502	-	(502)	-

Governance, Operator and Product Development Charged by LGPSC to Partner Fund

	At 1 April 2018 £000	Recharges in Year £000	Settled in Year £000	At 31 March 2019 £000
Governance Costs	-	198	(182)	16
Operator Costs	-	272	(249)	23
IMMC	-	3	(3)	-
Product Development Costs	-	68	(62)	6
Sub Total	**-**	**541**	**(496)**	**45**
ACS	-	-	-	-
LP	-	-	-	-
Pensions Entry Debt	-	24	-	24
Other Recharges	-	-	-	-
Total	**-**	**565**	**(496)**	**69**

Statement of Responsible Investment

The Worcestershire Pension Fund (the Fund) is a long term investor aiming to deliver a sustainable pension Fund for all stakeholders.

Worcestershire County Council as the administering authority has a fiduciary duty to act in the best long term interests of the Funds, employers and scheme members. The Fund believes that in order to fulfil this duty, it must have a clear policy on how it invests in a responsible manner.

Responsible investment is a Fundamental part of the Funds overarching investment strategy as set out in the Investment Strategy Statement. That is, to maximise returns subject to an acceptable level of risk

whilst increasing certainty of cost for employers and minimising the long term cost of the scheme. The Fund believes that consideration of environmental, social and corporate governance (ESG) factors are Fundamental to this, particularly where they are likely to impact on the overarching investment objective.

The Fund is committed to ensuring that the companies in which it invests have good corporate governance, adopt a responsible attitude towards the environment and adopt high ethical standards.

The Funds, approved policy on responsible investment is contained within its Investment Strategy Statement which is appended to this document.

Policies adopted

The Fund adopts a positive engagement with the companies in which it invests in order to promote high standards of corporate governance. It believes that this will help to raise standards across all markets and that this is in the long term interests of the Fund and its stakeholders.

Investment performance is monitored on a quarterly basis and the Fund expects investment managers to engage with companies to address concerns affecting performance.

The Fund believes that the greatest impact on behaviour can be achieved when working together with others. It is a member of the Local Authorities Pension Fund Forum (LAPFF), to enable it to act collectively with other local authorities on corporate governance issues. The Forum currently has over 70 member Funds representing assets of more than £200 billion. LAPFF's mission is to protect the long-term investment interests of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies.

The Fund continues to exercise its ownership rights by adopting a policy of voting stocks it holds. The Fund delegates responsibility for voting to its appointed investment managers who are required to vote wherever the Fund has a voting interest. Wherever practicable votes must be in accordance with industry best practice as set out in the combined code of corporate governance with a clear focus on enhancing long term shareholders value.

In order to ensure that the governance practices employed by the Funds, investment managers are aligned to that of the Fund, investment managers quarterly performance reports are required to include specific briefing in corporate governance detailing all votes cast on the Funds, behalf as detailed in the table below.

	Total	%
Votes Cast in Favour	13,461	84
Votes Cast Against	2,162	13
Votes Abstained / Withheld	454	3
Total number of Resolutions	**16,077**	**100**

Statement of compliance with the UK Stewardship code for institutional investors

The introduction of the Stewardship Code in July 2010 by the Financial Reporting Council strongly encouraged best practice in respect of investor engagement. The expectation is that institutional investors should publish a statement in respect of their adherence to the code. Compliance with the Code is currently on a voluntary basis and we have completed our **Statement of Compliance** in line with the UK Code for Institutional Investors. All of our global equity managers comply fully with the code.

7. Governance Arrangements

7. Governance Arrangements

Our governance arrangements take account of:

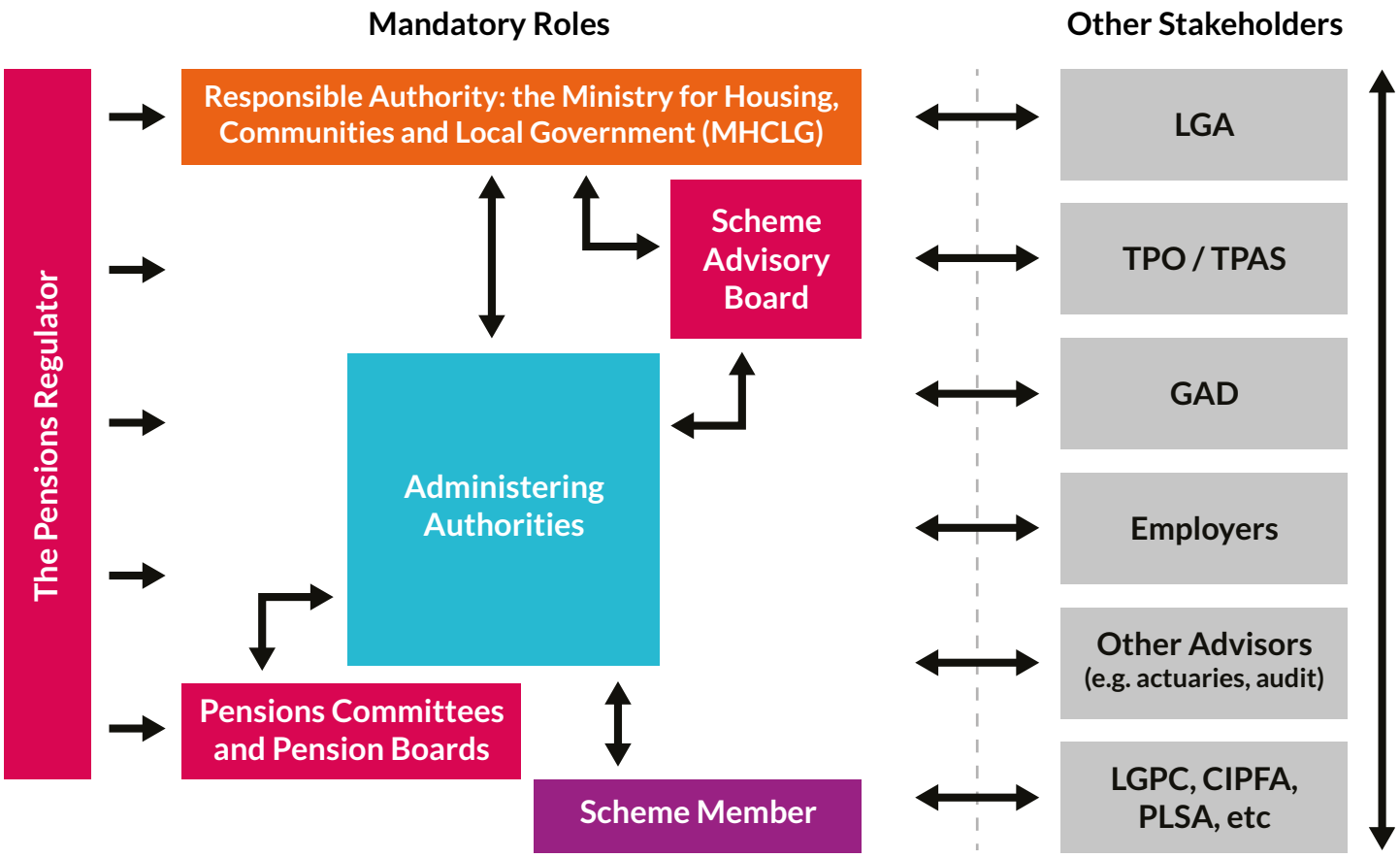
- The way in which the LGPS is governed.
- The governance arrangements of LGPS Central Limited.
- The guidance issued by The Pensions Regulator.

Overall responsibility for managing the Fund lies with the full Council of Worcestershire County Council who have delegated the management and administration of the Fund to the Section 151 Officer. The Full Council reviews the discharge of its responsibilities through the Council's Audit and Governance Committee. The Local Pension Board assists the Council to deliver efficient governance and administration of the Pension Fund's responsibilities through the Council's Audit and Governance Committee.

The section 151 Officer is advised by the Pensions Committee and also takes appropriate advice from the Fund Actuary and from the Funds, appointed Investment Advisor. The Pensions Committee receives recommendations from the Pensions Investment Sub Committee to enable it to discharge its responsibilities effectively. The current governance arrangements and Terms of Reference for the Pension Fund Committee and the Investment Sub Committee have been updated to take on board LGPS Central and details are contained in our **Governance Policy Statement.**

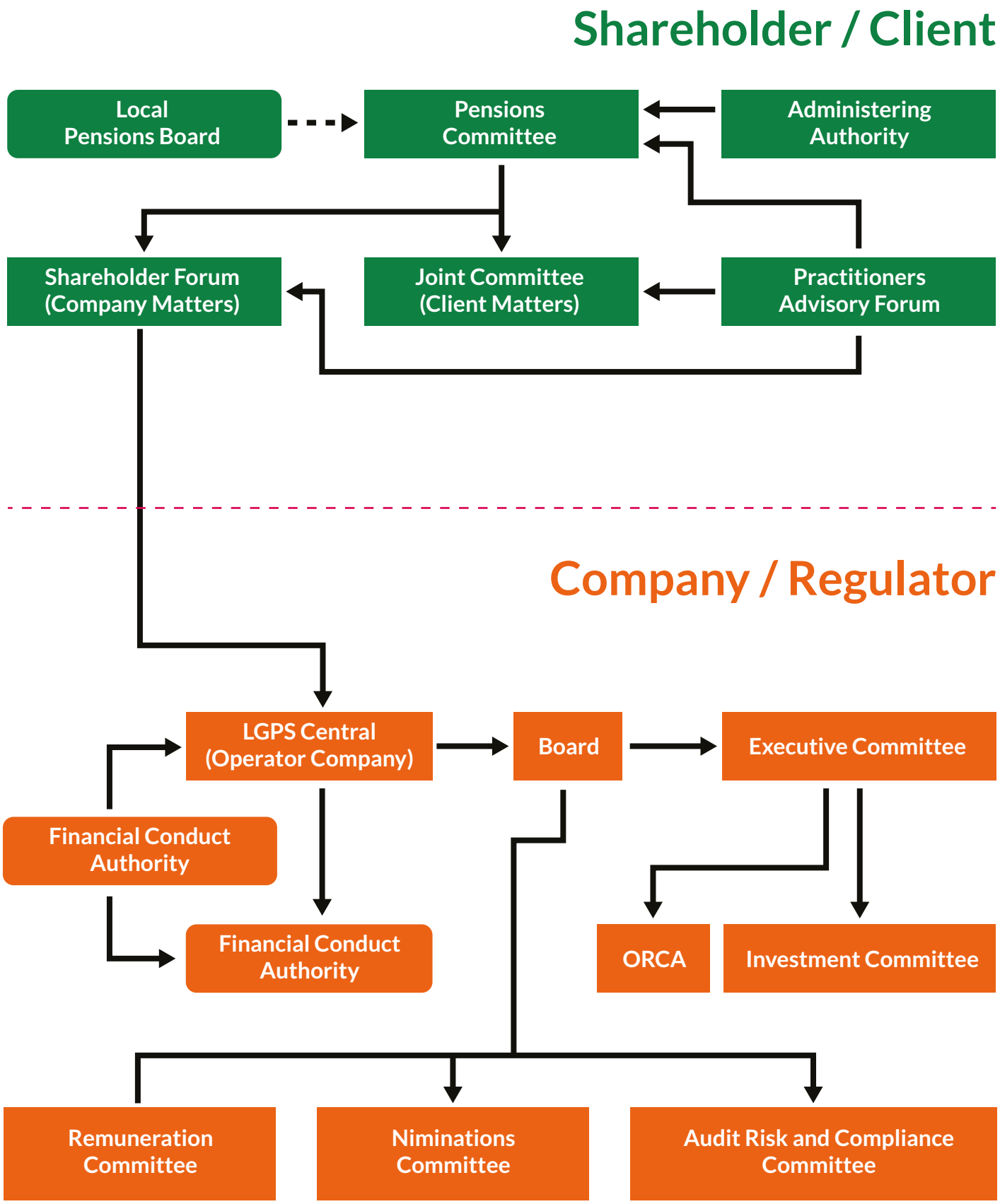
The formation of LGPS Central Limited on 1 April 2018 will begin to have an impact on the roles of the Worcestershire County Council Pensions Committee and the Pensions Investment Sub Committee. However, changes will be gradual as the transfer of the management activity to the new company progresses. Consequently, the existing Governance arrangements and Terms of Reference need to run concurrently with new terms required to facilitate changes.

LGPS Governance Model



LGPS Central Limited

In collaboration with eight other Local Authorities (Cheshire, Leicestershire, Shropshire, Staffordshire, West Midlands, Derbyshire, Nottinghamshire, and West Midlands Integrated Transport Authority) we plan to pool actively managed assets using LGPS Central Limited using the following governance model.



Worcestershire County Council

Pensions Committee (section 101)

Key duties:
To take all decisions needed:

- to discharge the Administering Authority's LGPS responsibilities
- for managing the Fund
- for administering the LGPS

Pension Board

Key duties:

- To assist the Administering Authority in complying with LGPS regulations, other relevant legislation and any requirements imposed by The Pensions Regulator
- To assist the Administering Authority in Ensuring effective and efficient scheme Governance and administration

Pension Investment Sub Committee

Key duties:

- To develop investment strategy
- To monitor investment performance
- To assisting in the selection and appointment of investment managers
- To set and review investment mandates and guidelines
- To monitor cash flows

Pension Administration Advisory Forum

Key duties:

- To provide the Pensions Committee with advice concerning the administration of the Fund
- To bring stakeholders' perspective to all aspects of the Fund's business

8. Governance Compliance Statement

8. GOVERNANCE COMPLIANCE STATEMENT

Ref	Principles	Compliance Status	Evidence of Compliance
A	**Structure**		
a.	That the management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing council.	Compliant	The responsibilities of the Pensions Committee (PC) and its Sub-Groups are set out in the Fund's Governance Policy Statement. The Governance Policy Statement was approved by Full Council.
b.	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	The Pensions Committee membership includes an employee and employer representative. Full membership details are set out in the Fund's Governance Policy Statement.
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Pension Investment Sub Committee provides strategic advice to the Pensions Committee regarding the management of the Fund's assets. The Chairman of the Pensions Committee also sits on the Pension Investment Sub Committee to ensure effective communication. The Pension Committee receives quarterly investment updates from the Pension Investment Sub Committee. An Administration forum has been established. The employer and employee representatives from the Pensions Committee attend the forum and there is a standing invitation to the Pension Board to attend the forum.

Ref	Principles	Compliance Status	Evidence of Compliance
B	**Representation**		
a.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers, e.g., admitted bodies) ii) scheme members (including deferred and pensioner scheme members) iii) where appropriate, independent professional observers, and iv) expert advisers (on an ad-hoc basis).	Compliant	Membership of the Pensions Committee and Pension Investment Sub Committee include employer and employee representatives and an independent investment adviser. Full membership details are set out in the Fund's Governance Policy Statement. Expert advisors attend the Pensions Committee as required for the nature of the main decisions. For example, the Actuary attends when the valuation is being considered, and the main Investment Consultant attends when the Strategic Asset Allocation decision is being made. The Investment Consultant regularly attends the Pensions Investment Sub Committee meeting. All members are treated equally in terms of access to papers and to training that is given as part of the Committee process.
C	**Selection and role of lay members**		
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	The Pensions Committee has noted its terms of reference and the Fund's Governance Policy Statement. Minutes of the Pension Committee meetings are published on the Council's website. A detailed Training programme is also provided to Committee members and Pensions Investment Sub Committee members.
b.	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Compliant	Declaration of interests is a standing agenda item at the start of all Pensions Committee meetings. The Pension Committee and Pensions Investment Sub Committee are serviced by Legal and Democratic Services who invite members to declare any financial or pecuniary interest related to specific matters on the agenda. Minutes of the Pensions Committee and Pensions Investment Sub Committee meetings are published on the Council's website.

Ref	Principles	Compliance Status	Evidence of Compliance
D	**Voting**		
a.	That the individual administering authorities on voting rights are clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	Voting rights are clearly set out in the Fund's Governance Policy Statement.
E	**Training / facility time / expenses**		
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Compliant	A policy on expenses is set out in the Fund's Governance Policy Statement along with the number of Committee meetings required each year. The Fund has an approved Joint Training Policy for the Pensions Committee, Investment Sub Committee and the Local Pension Board
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	These polices apply to all committee members and this is clearly set out in the Fund's Governance Policy Statement, Knowledge and Skills Policy Statement & the Joint Training Policy for the Pensions Committee, Pensions Investment Sub Committee and the Local Pension Board.
c.	That the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.	Compliant	The Fund's Knowledge and Skills Policy Statement sets out the requirement for annual training plans to be developed and maintained for committee members and for a log of all such training undertaken to be maintained. Regular feedback on training events is provided to Pensions Committee

Ref	Principles	Compliance Status	Evidence of Compliance
F	**Meetings (frequency / quorum)**		
a.	That an administering authority's main committee or committees meet at least quarterly.	Compliant	The Pensions Committee meets quarterly. This requirement is set out in the Fund's Governance Policy Statement.
b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	The Pensions Investment Sub Committee meets quarterly. These meetings are synchronised with the dates when the Pensions Committee sits. These requirements are set out in the Fund's Governance Policy Statement. The Pensions Administration Advisory Forum meets twice a year.
c.	That an administering authority that does not include lay members in its formal governance arrangements must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Compliant	The Fund has established a Pensions Administration Advisory Forum which meets twice yearly. All Fund employers are invited to attend the Forum meetings. The Forum arrangement and terms of reference are set out in the Fund's Governance Policy Statement.
G	**Access**		
a.	That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.	Compliant	All members of the Pension Committee, Pension Investment Sub Committee and the Pensions Administration Advisory Forum have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee. The Pension Committee agendas and associated papers are published on the Council's website prior to the committee meeting.

Ref	Principles	Compliance Status	Evidence of Compliance
H	**Scope**		
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	The Pensions Administration Advisory Forum which meets twice yearly is also attended by the employer and employee representatives who sit on the Pension Committee. This ensures flow of information between the wider scheme employers and the main committee. Scheme employers are invited to bring wider scheme issues to the attention of the Pension Committee through the established communication routes.
I	**Publicity**		
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.	Compliant	The Fund's Governance Policy Statement is published on the Council's website and all scheme employers are invited to attend the Pensions Administration Advisory Forum meetings. The Fund ran an open recruitment process for the employer and employee representative appointments to the now established Pension Board. Contact details are provided in the Communications Policy and in the Annual Report, as well as on the website, so other interested parties can find out more if they wish.

9. Local Pension Board Annual Report

9. Local Pension Board annual Report

The Public Services Pensions Act 2013 required the Administering Authority for each Local Government Pension Scheme (LGPS) Fund in England and Wales to establish a Local Pension Board.

The role of local pension boards is to assist the Administering Authority to secure compliance with LGPS Scheme Regulations and other legislation relating to the governance and administration of the Fund, together with any requirements imposed by the Pensions Regulator. In short, the Board's role is to ensure the effective and efficient governance and administration of the Worcestershire Fund.

The Regulations require the membership of the Board to be made up of equal numbers of employer and scheme member representatives with a minimum of four members i.e. at least two employer representatives and two employee representatives. The employee representatives on the Board must be independent of the Fund - that is to say they must have no involvement with the day to day management of the Fund.

The membership of the Worcestershire Local Pension Board and how often the Board met during 2018/19 is detailed on page 5 of this report.

During the year the Board's work programme has covered the following areas:

Board meeting - 25 July 2018

- The Board received the Agenda papers and draft Minutes of the Pensions Committee held on 22 June 2018
- The Board received an Administration Update which confirmed that the delivery of Annual Benefit Statements was on schedule and that good progress was being made with the national GMP (guaranteed minimum pension) reconciliation with HMRC.
- The new Chief Financial Officer confirmed that he was content with the working of the Equity Protection Strategy which he considered to be necessary given the Fund's heavy weighting in equities and the need to protect the Fund's Funding level. He also indicated that he would be commissioning a review of the of the Fund's investment strategy
- The Board approved its Annual Report and the Fund's Annual Report and Accounts was received by the Board
- The Board received an update on progress at LGPS Central but it was too early to assess. The Pool's performance. Its Business Plan would be assessed by the Shareholders' Forum, where each Fund member of the Pool has a power of veto. Progress at the Pool was also overseen by an officer group with representatives from each Fund. Discussion is ongoing regarding scheme member representation on the Pool's governance bodies and about public access to Shareholders' Forum meetings.
- It was confirmed that the Fund's Communications Strategy would be reviewed later in the year and the Chief Financial Officer advised the Board that the Fund's website and branding was under review.
- The Board was reminded that the Fund provided information about benefits and about options, where available, but it was not authorised to give advice. Fund members were advised to take independent advice when necessary.

Board meeting - 31 October 2018

- The Board received the Agenda papers and draft Minutes of the Pensions Committee held on 5 October 2018
- Arising from these papers the Board received an Administration Update and were introduced to Chris Frohlich, the Fund's newly appointed Engagement Manager.
- The contractor appointed to undertake the GMP/HMRC reconciliation was on schedule to meet the 31 October 2018 deadline. The Pensions Committee had agreed that any differences below £2 per week would be disregarded. This was a standard tolerance level being used by a number of LGPs Funds but it meant that Fund members could be unaware of gains or losses of up to £100p.a. The Fund's Actuary was being kept fully informed of progress in this context.
- The Board was informed that the LGPS Central Pool was seeking a new Chief Executive.
- The Pool was somewhat behind schedule with transfer of assets and a revised cost sharing model was awaited. Many of the staff employed by LGPS Central had transferred from the West Midland and the Derbyshire pension funds because both had longstanding 'in house' investment management expertise. Concern was expressed by Board members about the potential conflicts of interest that might arise from this, but were reassured that staff operated to a strict code of practice and Financial Conduct Authority regulations.
- The Fund remained well Funded and due diligence checks were being undertaken on its property and infrastructure investments. The suitability of all investments was assessed with the benefit of independent external advice. The Equity Protection Strategy was kept under review and Board members requested that future training should cover transfers in and out of the Fund, ill heath retirements, death in service and retirement benefits.
- The Training needs of Board members was discussed
- The Board considered the Risk Register. There was a wide-ranging discussion about the risks arising from the covenant arrangements that existed with some employers admitted to the Fund. This issue had been and would continue to be kept under review. The Board was informed that the Pensions Regulator had not expressed particular interest in this but would be reviewing all aspects of LGPS Funds' administrative arrangements
- The Board received and considered the LGPS Central Partners Funds' Audit Assurance Framework being led by Ernst and Young, the external auditors to the Staffordshire Fund.
- The Board received the minutes of the LGPS Central Local Pension Board Chairs Meeting held on 10 October 2018 which the Chairman had been unable to attend due to a long-standing prior commitment. He would attend and report back following the next meeting on 20 February 2019.

Board meeting – 4 February 2019

- The Board received the Agenda papers and draft Minutes of the Pensions Committee meetings held on 28 November 2018 and 21 January 2019
- Further consideration was given to the efficacy of the Equity Protection Scheme. It was noted that the external providers had a vested interest in securing the continuation of the policy, but the Board was reassured that decisions about its continuation would be made solely in the interest of the Fund and further reports would be provided at future meetings.
- In reviewing the ongoing relationship with LGPS Central, the Board shared the concerns of the Pensions Committee about the relatively small and reducing financial benefit to the Fund arising from membership of the LGPS Central Pool as indicated by the LGPS Budget and Business Plan. The Business Plan was poor and lacked a clear Executive Summary. Officers reported that the concerns of the Worcestershire Committee were recognised and shared by other Funds in the Pool. It was hoped that the appointment of a new Chief Executive would prove beneficial. The Board was advised that it was too early to have any useful comparison of the costs of the various pooling arrangements but more meaningful comparisons should be available in future.
- Board members were reminded that while stock selection and the appointment of Fund managers would vest with LGPS Central in future, strategic asset allocation would still rest with the Fund and that it was this that had far greater impact on the investment performance outcomes for the Fund. This Fund's Asset Allocation Strategy would be considered in detail at the next Committee.
- As all members of LGPS Central were now members of the Local Authority Pension Fund Forum, LGPS Central qualified for complimentary membership of the Forum.
- The Board noted that the target recovery period set out in the Financial Strategy Statement was 18 years when the Fund was 75% Funded, but this would be reviewed following the actuarial valuation in view of the higher Funding level anticipated.
- The monitoring of the covenant arrangements with some employers remained a cause for concern but this was work in progress and it was anticipated that response rate would improve.
- The Board received and noted the detailed Administration Strategy and some suggestions to improve the clarity of the document were accepted.
- The Board were advised that the Government had sought leave to appeal the McCloud and Sergeant legal judgements with regard to age discrimination and pension protection. (NOTE the Supreme Court subsequently denied this request on 27th June 2019. At the time of writing the potentially very significant implications for the LGPS are under consideration by the Scheme Advisory Board and others nationally).

Finally, the members of the Board would wish to express their thanks and appreciation to the officers of the Fund for the assistance they have provided during the year.

Keith Bray
Independent Chairman
July 2019

10. Statement of Accounts 2018/19

10. Statement of Accounts 2018/19

Fund Account (money received and spent during 2018/19)

2017/18			2018/19
£m	Total	Notes	£m
	Dealings with members, employers and others directly involved with the Fund		
185.2	Contributions	4	81.8
10.4	Transfers in from other pension Funds	5	12.9
195.6			**94.7**
(98.0)	Benefits	6	(106.3)
(8.8)	Payments to and on account of leavers	7	(8.7)
(106.8)			**(115.0)**
88.8	**Net additions / (Withdrawals) from dealings with members**		**(20.3)**
(0.8)	Administrative expenses	8	**(1.1)**
(9.0)	Management expenses	9	**(12.0)**
79.0	**Net additions / (Withdrawals) including Fund management and administrative expenses**		**(33.4)**
	Returns on investments		
37.2	Investment income	10	51.7
(1.4)	Taxes on income	11	(1.5)
105.3	Profit and losses on disposal of investments and changes in the market value of investments	12a & 15b	77.5
141.1	**Net return on investments**		**127.7**
220.1	**Net increase / (decrease) in the net assets available for benefits during the year**		**94.3**
2,480.9	**Opening Fund net assets of the scheme**		**2,701.0**
2,701.0	**Closing Fund net assets of the scheme**		**2,795.3**

The key reason for the difference in contributions is due to a number of organisations prepaying their 3 year (2017/18 to 2019/20) employer deficit recovery contributions and 90% of their normal contributions in 2017/18 up to the next triennial valuation due to take effect from the 1st April 2020. Management expenses have increased mainly due to disinvesting some existing passive equity Funds into Infrastructure and Property Funds which by their nature have larger management fees. The increase in investment income is mainly due to dividends from the managed Equity Protection Fund which is retained within the pooled Funds and reinvested to maintain the collateral required for the strategy.

Net Assets Statement for the year ended 31 March 2019 (showing the financial position at 31 March 2018 and 2019)

2017/18			2018/19
£m	Total	Notes	£m
1.9	**Long term Investment Assets**	12	1.4
2,692.6	Investment Assets	12 &13	2,753.1
27.1	Cash Deposits	12	32.9
2,721.6			**2,787.4**
(32.2)	Investment Liabilities	12	(29.0)
25.6	Current Assets	17	39.2
1.8	Non-Current Assets	18	1.5
(15.8)	Current Liabilities	19	(3.8)
2,701.0	**Net Assets of the Fund available to Fund benefits at the period end**		**2,795.3**

These Financial Statements do not take into account liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits (determined in accordance with IAS 19) is disclosed in the Actuarial Statement (note 2 to the Accounts). Note 14 to the Accounts provide details on the Fair Value of assets.

Financial assets are included in the Net Assets Statement above on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the Fund Account. The values of investments as shown in the Net Assets Statement have been determined as follows:

i) Market-quoted investments the value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments the fair value of investments for which market quotations are not readily

available is determined as follows:

a. Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Fund expects to receive on wind-up, less estimated realisation costs.

b. Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.

c. Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

d. Investments in unquoted property and infrastructure pooled Funds are valued at the net asset value or a single price advised by the Fund manager.

e. Investments in unquoted listed partnerships are valued based on the Fund's share of the net assets in the limited partnership using the latest financial statements published by the respective Fund managers in accordance with the International Private Equity and Venture Capital Valuation Guidelines 2012.

iv) Limited partnerships Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.

v) Pooled investment vehicles Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation Funds, change in market value also includes income which is reinvested in the Fund, net of applicable withholding tax.

Financial Liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value or amortised cost of the liability are recognised by the Fund.

Notes to the Accounts (providing additional information for the Fund Account and Net Assets Statement)

These now comprise of a summary of significant accounting policies (shown against the relevant note as opposed to a prescribed list of accounting policies in previous year's accounts). Further information and detail of entries in the prime statements and other explanatory information and disclosures are as follows:-

NOTE 1: DESCRIPTION OF FUND

a) General

The Fund is administered by Worcestershire County Council on behalf of their own employees, those of the Herefordshire Council, the District Councils, Private Sector admitted bodies with staff transferred under TUPE from the Administering Authority and other bodies in the county of Worcestershire, other than teachers, police officers, and fire fighters.

In matters relating to the management of the Fund's assets the Pensions Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Pension Investment sub committee, which includes an independent investment adviser and the Scheme Manager. The Pensions Committee consists of County Councillors and an Employer an Employee Representative. Formal monitoring takes place on a quarterly basis through meetings with investment managers to discuss their performance. Asset allocation is reviewed at least annually, and pension administration issues are discussed quarterly at the Pension Administration Advisory Forum with any resulting recommendations considered by the Pensions Committee. The day to day management of the Fund's investments is divided between external investment managers who operate in accordance with mandates set out in the Investment Strategy Statement.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose to join the scheme, remain in the scheme or make their own personal arrangement outside the scheme. Organisations participating in Worcestershire County Council Pensions Fund include the following:

- Scheduled bodies which are automatically entitled to be members of the Fund. These include county councils, district councils, foundation schools / colleges and academies
- Admitted bodies, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable and similar not for profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector
- Designated bodies which are organisations that have passed resolutions with town or parish councils

Membership details are set out below:

	31 March 2018	31 March 2019
Number of employers	208	196
Employee Members of the Fund		
County Council	8,083	8,256
Other Employers	14,395	15,180
Total	**22,478**	**23,436**
Pensioner Members of the Fund		
County Council	4,968	5,240
Other Employers	12,539	12,849
Total	**17,507**	**18,089**
Deferred Members of the Fund		
County Council	8,296	8,379
Other Employers	12,055	12,350
Total	**20,351**	**20,729**
Total Number of Members in the Fund	**60,336**	**62,254**

c) Funding

Benefits are Funded by contributions and investment earnings. Contributions are made by employee members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending March 2019. Employee contributions are matched by employer contributions which are set based on actuarial valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 5.5% to 41.9% of pensionable pay. The common 2018 / 2019 employer contribution rate for the Fund is 15.3%. In order to ensure employer contribution increases, required by the Fund's Actuary following the 31 March 2013 actuarial valuation, remained affordable, the Administering Authority agreed with employers to phase in any increases in their Secondary rate over a period of up to 6 years.

d) Pension Benefits

Prior to 1 April 2014 pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

A range of other benefits are also provided including early retirement, disability pensions and death benefits, as explained on the **LGPS website**.

Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme Actuary in accordance with the requirements of the Internation Accounting Standard (IAS) 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 2 below)

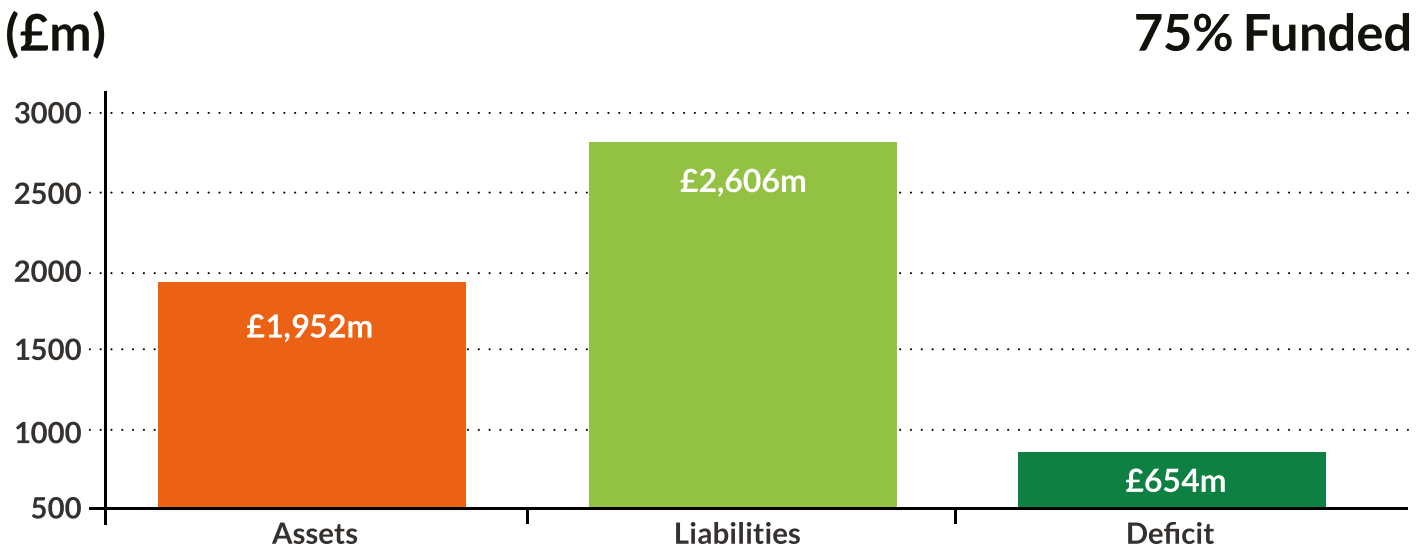
NOTE 2: FUNDING ARRANGEMENTS AND ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

Funding Arrangements

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Worcestershire Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £1,952 million represented 75% of the Fund's past service liabilities of £2,606 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £654 million.



The valuation also showed that a common rate of contribution of 15.3% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The Funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and maintain a solvency Funding level of 100% of liabilities (the solvency Funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to reFund any surplus).

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period adopted is 18 years, and the total initial recovery payment (the "Secondary rate") for 2019/20 is approximately £37 million. This amount makes allowance for some employers to phase in any increases in their Secondary rate over a period of up to 6 years.

For all other employers, their Secondary rate will increase at 3.7% per annum. Finally, some employers have opted to prepay their Secondary rate, either on an annual basis each April or by paying all 3 years' total amount in April 2017. In each case, that contribution is discounted to reflect its earlier payment.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2017. In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to

the Fund by the employers.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.35% per annum	4.95% per annum
Rate of pay increases (long term)*	3.7% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.2% per annum

* Allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for Funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of pay increases*	3.6% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2% per annum	2.3% per annum
Rate of CPI Inflation/CARE benefits revaluation	2.1% per annum	2.2% per annum

* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for Funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2% p.a. Both of these factors

combined served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £3,826 million. Interest over the year increased the liabilities by c£100 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£34 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). We have also included an amount of £24 million by way of an estimate of the effect of the McCloud judgement (see note below for further details). There was then an increase in liabilities of £218 million made up of "actuarial losses" (given the changes in the actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2019 is therefore £4,202 million.

The McCloud Case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unFunded pension schemes and the Judicial pension arrangements. In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. The Government attempted to appeal the cases, but it was announced on 27 June 2019 that the appeal had been refused by the Supreme Court. Remedial action in the form of increases in benefits for some members of the Firefighter and Judicial arrangements will almost certainly be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action. At this stage it is uncertain whether remedial action will be required, nor is it clear what the extent of any potential remedial action might be. We have carried out some costings of the potential effect of McCloud as at 31 March 2019, based on the individual member data as supplied to us for the 2016 actuarial valuation and this results in an additional liability of £24 million using the IAS26 assumptions outlined above. The approach to the calculations is as instructed by the administering authority after consideration of the categories of members potentially affected, but in very broad terms calculates the cost of applying a "final salary underpin" (on a member by member basis) to those active members who joined the Fund before 1 April 2012 and who would not otherwise have benefited from the underpin.

GMP Equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the "Barber" judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that "public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

Laura Evans
Fellow of the Institute and Faculty of Actuaries - Mercer Limited

NOTE 3: EVENTS AFTER THE REPORTING DATE

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Events taking place after this date are not reflected in the financial statements or notes. Management have reviewed and can confirm that there are no significant events after the reporting period.

NOTE 4: CONTRIBUTIONS RECEIVABLE

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the percentage rate recommended by the Fund's Actuary in the payroll period to which they relate.

Employer deficit Funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme Actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets. The contributions received are detailed below:

	2017/18	2018/19
By Category	**£m**	**£m**
Employers		
Normal contributions	52.9	36.5
Deficit recovery contributions	36.5	18.8
Augmentation contributions	2.0	3.2
Additional contributions	71.2	0.0
Employees		
Normal contributions	22.3	23.0
Additional contributions	0.3	0.3

	2017/18	2018/19
By Category	**£m**	**£m**
	185.2	81.8

	2017/18	2018/19
By authority:	**£m**	**£m**
Worcestershire County Council	77.9	9.4
Scheduled bodies	91.6	58.2
Community admission bodies	6.5	5.4
Transferee admission bodies	8.2	7.8
Designated bodies	1.0	1.0
	185.2	**81.8**

The key reason for the difference in contributions is due to a number of organisations prepaying their 3 year (2017/18 to 2019/20) employer deficit recovery contributions and 90% of their normal contributions in 2017/18 up to the next triennial valuation due to take effect from the 1st April 2020

NOTE 5: TRANSFERS IN AND FROM OTHER PENSION FUNDS

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with LGPS regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement. The transfers in and from other pension funds are as follows:

	2017/18	2018/19
	£m	**£m**
Individual transfers	10.4	12.9
	10.4	**12.9**

NOTE 6: BENEFITS PAYABLE

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities. The benefits paid are as follows:

	2017/18	2018/19
By category:	**£m**	**£m**
Pensions	80.4	84.3
Commutations and lump sum retirement benefits	15.7	19.9
Lump sum death benefits	1.9	2.1
	98.0	**106.3**

	2017/18	2018/19
By authority:	**£m**	**£m**
Worcestershire County Council	36.8	39.1
Scheduled bodies	50.5	55.7
Admitted bodies	1.9	1.7
Community admission bodies	5.5	6.4
Transferee admission bodies	2.6	2.8
Designated bodies	0.7	0.6
	98.0	**106.3**

NOTE 7: PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2017/18	2018/19
	£m	**£m**
Individual transfers	8.8	8.7
Group transfers	0.0	0.0
	8.8	**8.7**

At year-end there were no potential liabilities in respect of individuals transferring out of the Fund upon whom the Fund is awaiting final decisions.

NOTE 8: ADMINISTRATIVE EXPENSES

All administrative expenses are accounted for on an accruals basis. All staff costs of the Fund's administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

	2017/18	2018/19
	£m	**£m**
Employee expenses	0.5	0.6
Support services	0.1	0.1
Actuarial services	0.2	0.4
Other expenses	0.0	0.0
	0.8	**1.1**

The audit fee for work completed by the Fund's external auditors for the year ended 31 March 2019 was £19,222 1.9% of total admin costs (£26,156 for the year ended 31 March 2018 3.25% of total admin costs).

NOTE 9: MANAGEMENT EXPENSES

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 permit costs incurred in connection with the investment and administration of the Fund to be charged against the Fund.

The Code of Practice does not require any breakdown of the Fund's administrative expenses. However in the interests of greater transparency, the Fund discloses its management expenses in accordance with CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

	2017/18	2018/19
	£m	£m
Oversight and Governance	0.1	0.1
Investment Management Expenses	50.5	55.7
Administration, management and custody fees*	8.9	11.9
Other expenses	0.0	0.0
	9.0	**12.0**

NOTE 9A: INVESTMENT MANAGEMENT EXPENSES

Fixed income and equity investment managers' expenses are charged on a percentage basis of the market value of assets under management and therefore increase or reduce as the value of these investments change. Global Custodian fees are agreed in the respective mandate governing their appointment.

The cost of obtaining investment advice from the Fund's Independent Investment Adviser is included in investment management charges. All investment management expenses are accounted for on an accruals basis. The management costs are as follows:

	2017/18	2018/19
	£m	£m
Management fees	7.7	10.7
Custody fees	0.3	0.4
Transaction costs	0.9	0.8
	8.9	**11.9**

The £11.9m management expenses incurred in 2018/19 represent 42% or 42 basis points (bps) of the market value of the Fund's assets as at 31st March 2019 (0.33% or 33bps 31 March 2018).

The cash for the pooled property investments, pooled infrastructure investment and Equity Protection solution drawdowns were transitioned from the overweight position held in UK passive equities, which have a very low management fee in comparison. The reason for the investment in pooled property investments and pooled infrastructure investments was to further diversify the Fund's assets whilst maintaining long term target investment returns. These investments have a J-Curve return profile, so are expected to provide increased returns as the pooled Funds mature.

The Equity Protection Strategy was implemented to reduce the likelihood that further deficit contributions will be required at the 2019 valuation and seeks to 'bank' some of the recent upside with a view to potentially reducing contributions at future valuations.

* The Fund has applied CIPFA's guidance 'Accounting for Local Government Pension Scheme Management Costs', which requires external investment management fees and transaction costs to be deducted from asset values (rather than invoiced and paid directly). These are shown gross: the application of the guidance increases management expenses from £9.7 million to £12.0 million for 2018/19 (£7.2 million to £9.0 million for 2017/18). It is important to note that the application of the guidance does not represent an actual increase in costs, or a decrease in the Fund's resources to pay pension benefits.

NOTE 10: INVESTMENT INCOME

Income from equities (dividend income) is accounted for on the date stocks are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset. Income from fixed interest, cash and short-term deposits is accounted for on an accruals basis, using the effective interest rate of the financial institution as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis. Income from other investments is accounted for on an accruals basis.

The changes in market value of investments during the year are recognised as income and comprise all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value.

	2017/18	2018/19
	£m	£m
Fixed interest securities	5.0	14.4
Equity dividends	22.0	23.8
Pooled property investments	5.1	7.3
Pooled infrastructure investments	4.7	5.5
Interest on cash deposits	0.4	0.6
Securities lending	0.0	0.1
	37.2	**51.7**

NOTE 11: TAXES ON INCOME

The Fund is a registered public service scheme under section (1) of schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

	2017/18	2018/19
	£m	£m
Withholding tax – equities	(1.4)	(1.5)
	(1.4)	**(1.5)**

NOTE 12: INVESTMENTS

	Market value 31 March 2018	Market Value 31 March 2019
	£m	£m
Long term Investment Assets		
LGPS Central –AFIM	0.5	0.0
LGPS Central shares	1.4	1.4
Investment assets	0.4	0.6
Fixed interest securities	359.8	361.5
Equities	752.5	715.7
Pooled investment vehicles	1,292.0	1,291.0
Pooled property investments	128.5	171.8
Pooled Infrastructure investments	96.1	159.4
Pooled Debt Assets	0.0	12.4
Derivatives - futures	54.7	32.1
Derivatives - forward FX	1.8	0.1
Cash deposits	27.1	32.9
Investment income due	6.5	7.3
Amounts receivable for sales	0.7	1.8
Total investment assets	**2,721.6**	**2,787.4**
Investment liabilities		
Derivatives - futures	(30.2)	(20.8)
Derivatives - forward FX	(0.2)	(2.8)
Amounts payable for purchases	(1.8)	(5.4)
Total investment liabilities	**(32.2)**	**(29.0)**
Net investment assets	**2,689.4**	**2,758.4**

NOTE 12A: RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 31 March 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2019
	£m	£m	£m	£m	£m
Long term Investment Assets					
LGPS Central – AFIM	0.5	0.0	(0.5)	0.0	0.0
LGPS Central – Shares	1.4	0.0	0.0	0.0	1.4
	1.9	**0.0**	**(0.5)**	**0.0**	**1.4**
Investment assets					
Fixed interest securities	359.8	90.9	(88.3)	(0.9)	**361.5**
Equities	752.5	301.8	(304.5)	(34.1)	**715.7**
Pooled investment vehicles	1,292.0	1.7	(131.3)	128.6	**1,291.0**
Pooled Property investments	128.5	64.2	(22.8)	1.9	**171.8**
Pooled Infrastructure Investments	96.1	77.9	(16.0)	1.4	**159.4**
Pooled Debt investments	0.0	15.0	(2.9)	0.3	**12.4**
	2,630.8	**551.5**	**(566.3)**	**97.2**	**2,713.2**
Derivative contracts:					
Futures	24.5	1.4	(1.3)	(13.3)	11.3
Forward currency contracts	1.6	13.7	(7.3)	(10.7)	(2.7)
	2,656.9	**566.6**	**(574.9)**	**73.2**	**2,721.8**
Other investment balances:					
Cash deposits	27.1			4.3	32.9
Investment income due	6.5				7.3
Amount receivable for sales of investments	0.7				1.8
Amounts payable for purchases of investments	(1.8)				(5.4)
Net investment assets	**2,689.4**			**77.5**	**2,758.4**

Prior year comparators:

	Market value 31 March 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2019
	£m	£m	£m	£m	£m
Long-term Investment Assets					
LGPS Central – AFIM	0.1	0.4	0.0	0.0	0.5
LGPS Central – Shares	0.0	1.4	0.0	0.0	1.4
	0.1	**1.8**	**0.0**	**0.0**	**1.9**
Investment Assets					
Fixed interest securities	130.7	324.8	(84.2)	(11.5)	**359.8**
Equities	676.2	277.7	(258.0)	56.6	**752.5**
Pooled investment vehicles	1,437.6	115.0	(290.3)	29.7	**1,292.0**
Pooled Property investments	101.5	51.6	(27.2)	2.6	**128.5**
Pooled Infrastructure Investments	98.6	7.8	(16.5)	6.2	**96.1**
	2,444.7	**778.7**	**(676.2)**	**83.6**	**2,630.8**
Derivative contracts:					
Futures	(0.1)	49.3	(39.1)	14.4	**24.5**
Forward currency contracts	1.0	10.4	(16.5)	6.7	**1.6**
	2,445.6	**838.4**	**(731.8)**	**104.7**	**2,656.9**
Other investment balances:					
Cash deposits	22.4			0.6	27.1
Investment income due	5.3				6.5
Amount receivable for sales of investments	2.2				0.7
Amounts payable for purchases of investments	(4.8)				(1.8)
Net investment assets	**2,470.7**			**105.3**	**2,689.4**

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are not included in the cost of purchases and sale proceeds, as they have been included in Investment Management Expenses as per CIPFA guidance. Transaction costs include costs charged directly to the scheme such as fees, commissions, and other fees. Transaction costs incurred during the 2018 / 2019 year amounted to £0.8 million, (2017 / 2018 £0.8 million). These transaction costs represent 0.03% or 3bps of the Market Value of the Fund's assets as at 31 March 2019 (3bps at 31 March 2018). Indirect costs are incurred through the bid-offer spread on investments within pooled investments vehicles. The amount of indirect costs is not provided separately to the Fund.

NOTE 12B ANALYSIS OF INVESTMENTS (EXCL. DERIVATIVE CONTRACTS, CASH AND OTHER BALANCES)

		31 March 2018	31 March 2019
		£m	£m
Long term Investment Assets			
LGPS Central – AFIM		0.5	0.0
LGPS Central – shares		1.4	1.4
		1.9	**1.4**
Fixed interest securities			
UK Gilts		228.3	220.1
UK corporate quoted		10.9	7.3
Overseas public sector quoted		0.0	0.0
Overseas corporate quoted		120.6	134.1
		359.8	**361.5**
Equities:			
UK quoted		13.1	13.2
Overseas quoted		739.4	702.5
		752.5	**715.7**
Pooled Investment Vehicles			
Other UK managed Funds	– UK equities	398.0	375.0
	– Overseas equities	485.2	483.5
	– Global equities	387.1	417.8
Other overseas managed Funds	– Overseas equities	21.7	14.7
		1,292.0	**1,291.0**

	31 March 2018	31 March 2019
	£m	£m
Pooled Funds - Additional Analysis		
Pooled property investments - UK	45.1	86.8
Pooled property investments - overseas	83.4	85.0
	128.5	**171.8**
Pooled Infrastructure investments	96.1	159.4
	96.1	**159.4**
Pooled Debt investments	0.0	12.4
	0.0	**12.4**
Derivatives - futures	54.7	32.1
Derivatives - forward FX	1.8	0.1
Cash deposits	27.1	32.9
Investment income due	6.5	7.3
Amounts receivable for sales	0.7	1.8
Total investment assets Investment liabilities	**2,721.6**	**2,787.4**
Derivatives - futures	(30.2)	(20.8)
Derivatives - forward FX	(0.2)	(2.8)
Amounts payable for purchases	(1.8)	(5.4)
Total investment liabilities	**(32.2)**	**(29.0)**
Net investment assets	**2,689.4**	**2,758.4**

NOTE 12C: PENSION FUND INVESTMENTS ANALYSED BY FUND MANAGER

The proportion of the market value of investment assets held by external Fund managers at the year-end was:

External Fund Manager	2017/18		2018/19	
	£m	%	£m	%
JP Morgan Asset Management (Bonds)	139.8	5	144.6	5
JP Morgan Asset Management (Emerging Markets)	173.5	6	165.4	6
Nomura Asset Management UK Ltd	420.5	16	382.8	14
Schroder Investment Management	187.3	7	189.9	7
Legal and General Asset Management	1,270.3	47	1276.2	46
Green Investment Bank	49.2	2	48.3	2
Hermes (Fund I and II)	44.1	2	48.6	2
Invesco (Euro and a UK Property Fund)	70.2	3	108.2	4
VENN	26.3	1	26.7	1
Walton Street	17.3	1	17.0	1

External Fund Manager	2017/18		2018/19	
	£m	%	£m	%
AEW	18.8	1	19.9	1
Stonepeak	2.8	0	10.6	0
First State	0.0	0	51.9	2
EQT	0.0	0	12.4	0
River and Mercantile	255.8	9	241.8	9
WCC Managed Account	5.1	0	5.4	0
	2,681.0	**100**	**2,749.7**	**100**

The above excludes £1.4m (2017/18 £1.9m) Invested in LGPS Central and £7.3m (2017/18 £6.5m) of Investment Income due.

The following investments represent more than 5% of the net assets of the Fund:

	Market value 31 March 2018	% of total Fund	Market value 31 March 2019	% of total Fund
Security	£m	%	£m	%
LGIM – UK Equity Index Pooled Fund	398.0	15.0	375.0	13.7
LGIM – North America Index Pooled Fund	293.1	11.0	307.5	11.2
River and Mercantile UK Gilts	228.3	8.6	220.1	8.0
LGIM – Europe (ex-UK) Index Pooled Fund	192.1	7.2	176.0	6.4
LGIM - FTSE Developed Equity Pooled Fund	155.3	5.8	159.6	5.8

NOTE 12 D STOCK LENDING

The Fund operates the practice of lending stock to a third party for a financial consideration. Securities released to a third party under the stock lending agreement with the Fund's custodian, BNY Mellon, are included in the net assets statement to reflect the Fund's continuing economic interest of a proprietorial nature in those securities. The total amount of stock lent at the year-end was £25.9 million (2018 £35.9 million). Counterparty risk is managed through holding collateral at the Fund's custodian bank. The total collateral, which consisted of acceptable corporate and sovereign debt as well as equities was £28.1 million (2018 £38.3 million) representing 108.3% of stock lent. Income received from stock lending activities was £0.1 million for the year ending 31 March 2019 (2018 £0.1million). This is included within the 'Investment Income' figure detailed on the Fund Account. Stock lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stocks are passed to the borrower. There are no liabilities associated with the loaned assets.

NOTE 13A: ANALYSIS OF DERIVATIVES

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the

broker are the amounts outstanding in respect of the initial margin and variation margin. The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

Objectives and Policies for Holding Derivatives

Most of the holding in derivatives is to hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement between the Fund and its investment managers. In 2018/19 the Fund entered into a contract with River and Mercantile, to hedge the recent gains in Equities. This involved entering into exchange-traded options on 3 major indices and purchasing a collateral pool of Gilts.

a) Futures

The Fund's investment managers hold cash balances in order to ensure efficient and timely trading when opportunities arise. The Fund's management did not want this cash to be 'out of the market' and so enabled a number of investment managers to buy and sell futures contracts which had an underlying economic value broadly equivalent to the cash held. The economic exposure represents the notional value of the stock purchased under futures contracts and is therefore subject to market movements. The portfolio cannot be geared to and must have the liquidity needed to cover open positions. Derivative receipts and payments represent the realised gains and losses on futures contracts.

b) Forward Foreign Currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, the Fund's bond mandate targets outperformance against a global benchmark index. To reduce volatility associated with the fluctuating currency rates, the Fund has enabled the bond mandate investment manager to purchase and sell forward foreign currencies as a hedge.

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

Futures

Outstanding exchange traded futures contracts are as follows:

ASSETS		Economic Exposure	Market Value 31 March 2018	Economic Exposure	Market Value 31 March 2019
Type of future	**Expiration**	**£m**	**£m**	**£m**	**£m**
UK gilt exchange traded	Under one year	0	0.0	1.9	0.0
UK FTSE exchange traded option	Under one year	0	25.9	0.0	23.5
EUROSTOXX exchange traded option	Under one year	0	14.3	0.0	4.5
US S+P exchange traded option	Under one year	0	14.3	0.0	3.8
Overseas exchanged traded	under one year	24.9	0.2	27.6	0.3
Total assets			**54.7**		**32.1**

ASSETS		Economic Exposure	Market Value 31 March 2018	Economic Exposure	Market Value 31 March 2019
Type of future	**Expiration**	**£m**	**£m**	**£m**	**£m**
UK gilt exchange traded	Under one year	(1.4)	0.0	0.0	0.0
UK FTSE exchange traded option	Under one year	0.0	(10.0)	0.0	(12.8)
EUROSTOXX exchange traded option	Under one year	0.0	(11.3)	0.0	(2.7)
US S+P 500 exchange traded option	Under one year	0.0	(8.7)	0.0	(5.1)
Overseas exchanged traded	Under one year	(19.6)	(0.2)	(21.4)	(0.2)
Total assets			**(30.2)**		**(20.8)**
Net futures			**24.5**		**11.3**

OPEN FORWARD CURRENCY CONTRACTS AS AT 31 MARCH 2019

Settlement	Currency Bought	Local Currency Value	Currency Sold	Local Currency Value	Asset Value	Liability Value
Type of future		**£m**		**£m**	**£m**	**£m**
One to six months	GBP	1.1	EUR	1.2	0.0	
One to six months	GBP	0.7	USD	0.9	0.0	
One to six months	USD	5.2	GBP	3.9	0.1	
One to six months	GBP	0.3	CAD	0.6		0.0
One to six months	GBP	60.2	EUR	70.1		(0.2)
One to six months	GBP	207.5	USD	274.0		(2.6)
					0.1	**(2.8)**
Net forward currency contracts at 31 March 2019						**(2.7)**
Prior year comparative:						
Open forward currency contracts at 31 March 2018					**1.8**	**(0.2)**
Net forward currency contracts at 31 March 2018						**1.6**

ANALYSIS OF CASH

Cash comprises demand deposits and cash equivalents; these include amounts held by the Fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

ASSETS	2017/18	2018/19
Cash	£m	£m
Cash deposits	19.4	18.2
Cash instruments	7.7	14.7
	27.1	**32.9**

NOTE 14: FAIR VALUE

NOTE 14 A: BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market-Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Fixed Interest Securities	Level 1	Fixed interest securities are valued at net market value based on current yields	Not required	Not required
Pooled Equity Funds	Level 2	Closing bid price where bid and offer prices are published; or the single price, as applicable	Net Asset Value (NAV)-based pricing set on a forward pricing basis and in the case of accumulation Funds, reinvested income net of applicable withholding tax.	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Derivatives -Futures	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not required
Property, Infrastructure and Debt Funds	Level 3	Unit or security price as advised by Investment Manager or responsible entity.	Funds share of net assets in limited partnership, using Financial Statements published by the manager as at the final day of the accounting period.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Please see paragraphs under the Net assets Statement for more detail of our basis for measurement for the above Financial Instruments.

NOTE 14 B: FAIR VALUE HIERARCHY

Level 1: Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities and quoted index linked securities. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2: Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3: Financial instruments at level 3 are those where at least one input could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, pooled property investments and pooled infrastructure investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. The following table provides an analysis of the financial assets and liabilities of the pension Fund into levels 1 to 3, based on the level at which the fair value is observable:

Values at 31 March 2019	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Fair Value Financial assets				
Financial assets at fair value through profit and loss	1,086.3	1,323.2	343.6	2,753.1
Total fair value financial assets	**1,086.3**	**1,323.2**	**343.6**	**2,753.1**
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss		(29.0)		(29.0)
Total fair value financial liabilities	**0.0**	**(29.0)**	**0.0**	**(29.0)**
Net fair value financial assets	**1,086.3**	**1,294.2**	**343.6**	**2,724.1**

Values at 31 March 2018	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	£m	£m	£m	£m
Fair Value Financial assets				
Financial assets at fair value through profit and loss	1,119.5	1,348.5	224.6	2,692.6
Financial Assets at Amortised Cost	54.5	0.0	0.0	54.5
Total fair value financial assets	**1,174.0**	**1,348.5**	**224.6**	**2,747.1**
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss	0.0	(32.2)	0.0	(32.2)
Total fair value financial liabilities	**0.0**	**(32.2)**	**0.0**	**(32.2)**
Net fair value financial assets	**1,174.0**	**1,316.3**	**224.6**	**2,714.9**

NOTE 14 C: SENSITIVITY OF ASSETS VALUED AT LEVEL 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described in Note 14a are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

Sensitivity Analysis	Valuation range	Value as at 31st March 2019	Valuation Increase	Valuation Decrease
	+/- %	£m	£m	£m
Pooled Investments - Property Funds	6.1%	171.8	182.3	161.3
Pooled Investments - Infrastructure Funds	6.1%	159.4	169.1	149.7
Pooled Investments - Debt Funds	6.1%	12.4	13.2	11.6
Total		**343.6**	**364.6**	**322.6**

Reconciliation of Fair Value Measurements within Level 3

Investment Movement	Pooled Investments – Property Funds	Pooled Investments – Infrastructure Funds	Pooled Investments - Debt Funds	Total
	+/- %	£m	£m	£m
Market Value 1st April 2018	128.5	96.1	0.0	224.6
Transfers into Level 3	0.0	0.0	0.0	0.0
Transfers out of Level 3	0.0	0.0	0.0	0.0
Purchases and derivative Pymts	64.2	77.9	15.0	157.1
Sales and derivative receipts	(22.8)	(16.0)	(2.9)	(41.7)
Unrealised gains/(losses)	1.7	(1.4)	(0.2)	0.1
Realised gains/(losses)	0.2	2.8	0.5	3.5
Market value 31st March 2019	**171.8**	**159.4**	**12.4**	**343.6**

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the Fund account.

NOTE 15: FINANCIAL INSTRUMENTS

In line with the adoption of IFRS 9 in the 2018/19 financial year, there were some presentational changes resulting from the removal of the "Loans and Receivables" classification. This concerned items such as Cash, Current Assets (Debtors and Income receivable) and Non-current assets. All such items gave rise to solely payments of principal and interest and the Pension Fund's business model is solely concerned with collecting the payments. Therefore the Assets concerned will be classified at Amortised Cost. The below table reconciles the presentation between IFRS 9 and IAS 39. Assets and Asset classes not shown below are unaffected and shall be disclosed as in previous years:

IAS 39 2017/18 SOA			IFRS 9 Starting position in 2018/19 SOA
Loans and Receivables 2017/18	Financial instruments at amortised cost 2017/18		Financial instruments at amortised cost 2017/18
£m	£m		£m
		Financial assets	
	1.9	Other share capital	1.9
39.2		Cash	39.2
13.5		Current Assets	13.5
1.8		Non-Current Assets	1.8
54.5	**1.9**		**56.4**
		Financial liabilities	
	(15.8)	Current Liabilities	(15.8)
0.0	**(15.8)**		**(15.8)**
54.5	**(13.9)**		**40.6**

NOTE 15 A: CLASSIFICATION OF FINANCIAL INSTRUMENTS

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. The Loans and Receivables category was removed when IFRS 9 was adopted and the presentational changes are discussed above.

Fair value through profit and loss 2017/18	Financial Instruments at Amortised Cost 2017/18		Fair value through profit and loss 2018/19	Financial Instruments at Amortised Cost 2018/19
£m	£m		£m	£m
		Financial assets		
	1.9	Other share capital		1.4
359.8		Fixed interest securities	361.5	
752.5		Equities	715.7	
1,292.0		Pooled investment vehicles	1,291.0	
128.5		Pooled property investments	171.8	
96.1		Pooled Infrastructure investments	159.4	
		Pooled Debt investments	12.4	
54.7		Derivatives - Futures	32.1	
1.8		Derivatives - Forward FX	0.1	
	39.2	Cash		58.7
7.2		Other investment Balances	9.1	
	13.5	Current assets		13.4
	1.8	Non-current assets		1.5
2,692.6	**56.4**		**2,753.1**	**75.0**
		Financial liabilities		
(30.2)		Derivatives - Futures	(20.8)	
(0.2)		Derivatives - Forward FX	(2.8)	
(1.8)		Other investment balances	(5.4)	
	(15.8)	Current liabilities		(3.8)
(32.2)	**(15.8)**		**(29.0)**	**(3.8)**
2,660.4	**40.6**		**2,724.1**	**71.2**

NOTE 15 B: NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31 March 2018		31 March 2019
£m		£m
	Financial assets	
83.6	Fair value through profit and loss	97.2
0.6	Financial Assets at Amortised Cost	4.3
	Financial liabilities	
21.1	Fair value through profit and loss	(24.0)
105.3	**Total**	**77.5**

Fair value through profit and loss is the combination of realised and unrealised profit and loss.

The Fund has not entered into any financial guarantees that are required to be accounted for as financial instruments.

NOTE 16: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

In the course of every day operating, the Fund is subject to a number of risk factors arising from the holding of financial instruments. The main risks arising from the holding of the Fund's financial instruments are market risk, credit risk and liquidity risk. As detailed in the Investment Strategy Statement, the Fund holds equity and bond instruments in order to meet its investment objectives. The Fund's investment objectives and risk management policies are as follows;

1) The investment objective for the Fund is to:
    a. ensure that sufficient assets are available to meet liabilities as they fall due;
    b. Maximise the return at an acceptable level of risk.
2) Risk management is mostly concerned with:
    a. avoiding the possibility of loss, or
    b. limiting a deficiency in the underlying Fund, or
    c. Avoiding a contribution rate increase in the future.

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. There are three main types of market risk that the Fund is exposed to as at 31 March 2019:

- Equity Risk
- Interest Rate Risk
- Foreign Exchange Risk

Equity risk refers to the risk arising from the volatility in stock prices; this can be systematic risk, the risk due to general market factors and affects the entire industry, or unsystematic risk, which refers to the risk specific to a company that arises due to the company specific characteristics. Interest rate risk is the risk that the value of a security will fall as a result of increase in interest rates. Foreign exchange risk arises because of fluctuations in the currency exchange rates.

The Fund reduces its unsystematic equity risk by diversifying investments across global markets, investing in over 1,000 companies worldwide through active segregated mandates and passive pooled Funds. Investment restrictions are built into contracts held with each investment manager to ensure risk concentration is minimal and gearing of the Fund's equity and fixed income assets cannot take place. An Equity Protection Strategy has also been implemented to protect against significant market falls in its passive equity portfolio.

Interest rate risk has been reduced through the holding of fewer bonds as a percentage of the Fund's total assets.

Foreign Exchange risk exists in relation to the Fund's overseas equity investments. The Fund runs un-hedged equity portfolios and therefore is subject to currency fluctuations. It is the Administering Authority's view that in the long-run currency volatility trends to an average of nil against Sterling and therefore any hedging of currency would just be an additional cost to the Fund.

The Fund contracts Portfolio Evaluation Ltd to measure the Fund's investment returns, absolute and relative risk for each portfolio and also for the Fund as a whole independently. The Fund receives quarterly reports from Portfolio Evaluation Ltd listing returns and risk. The Fund's Independent Investment Adviser also provides a yearly report to the Pension Investment Advisory Panel, providing details of the Fund's risk and comparisons to other LGPS Funds.

Equity Risk Analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's Independent Investment Adviser and Portfolio Evaluation Ltd, the Fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period:

Asset Type	Potential Market Movements (+/-)
Fixed interest securities	3.3%
UK equities	9.2%
Overseas equities	12.1%
UK pooled investment vehicle	9.2%
Overseas pooled investment vehicle	10.5%
Global pooled investment vehicle	10.5%
Pooled property investments	6.1%
Pooled Infrastructure investments	6.1%
Pooled Debt Investments	6.1%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. The analysis assumes that all other variables, in particular foreign exchange rates and interest rates, remain the same.

If the market price of the Fund's investments increases/decreases in line with the potential market movements above, the change in the net assets available to pay benefits will be as follows (the actual prior year movement in all asset classes is shown in note 12):

Asset Type	Value as at 31 March 2019	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Cash and cash equivalents	32.9	0.0%	32.9	32.9
Investment portfolio assets:				
UK fixed interest securities	227.4	3.3%	234.9	219.9
Overseas fixed interest securities	134.1	3.3%	138.5	129.7
UK equities	13.2	9.2%	14.4	12.0
Overseas equities	702.5	12.1%	787.5	617.5
UK pooled investment vehicle	375.0	9.2%	409.5	340.5
Overseas pooled investment vehicle	498.2	10.5%	550.5	445.9
Global pooled investment vehicle	417.8	10.5%	461.7	373.9
Pooled property investments	171.8	6.1%	182.3	161.3
Pooled Infrastructure investments	159.4	6.1%	169.1	149.7
Pooled Debt Investments	12.4	6.1%	13.2	11.6
Net derivative assets	8.6	0.0%	8.6	8.6
Investment income due	7.3	0.0%	7.3	7.3
Amounts receivable for sales	1.8	0.0%	1.8	1.8
Amount payable for purchases	(5.4)	0.0%	-5.4	-5.4
Total	**2,757.0**		**3,006.8**	**2,507.2**

Prior-year comparators

Asset Type	Value as at 31 March 2018	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Cash and cash equivalents	27.1	0.0%	27.1	27.1
Investment portfolio assets:				
UK fixed interest securities	10.9	3.4%	11.3	10.5
Overseas fixed interest securities	120.6	3.4%	124.7	116.5
UK equities	13.1	8.2%	14.2	12.0
Overseas equities	739.4	12.5%	832.1	646.7
UK pooled investment vehicle	398.0	8.2%	430.5	365.5
Overseas pooled investment vehicle	506.9	12.4%	569.8	444.0
Global pooled investment vehicle	387.1	12.4%	435.1	339.1
Pooled property investments	128.5	7.4%	138.0	119.0
Pooled Infrastructure investments	96.1	7.4%	103.2	89.0
Net derivative assets	26.1	0.0%	26.1	26.1
Investment income due	6.5	0.0%	6.5	6.5
Amounts receivable for sales	0.7	0.0%	0.7	0.7
Amount payable for purchases	(1.8)	0.0%	(1.8)	(1.8)
Total	**2,459.2**		**2,717.5**	**2,200.9**

Interest Rate Risk Analysis

The Fund's direct exposure to interest rate movements is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	Value as at 31 March 2018	Value as at 31 March 2019
	£m	£m
Cash and cash equivalents	27.1	32.9
Cash balances	12.1	25.8
Fixed interest securities	359.8	361.5
Total	**399.0**	**420.2**

Interest Rate Risk Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. The Fund's performance reporting advisor, Portfolio Evaluation Limited, has advised that medium to long-term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits as at 31 March 2019 of a +/- 100 Basis Points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2019	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and cash equivalents	32.9	33.2	32.6
Cash balances	25.8	26.1	25.5
Fixed interest securities	361.5	365.1	357.9
Total change in assets available	**420.2**	**424.4**	**416.0**

Asset Type	Carrying amount as at 31 March 2018	Change in year in the net assets available to pay benefits	
		+100 BPS	-100 BPS
	£m	£m	£m
Cash and cash equivalents	27.1	27.3	26.8
Cash balances	12.1	12.2	12.0
Fixed interest securities	359.8	363.4	356.2
Total change in assets available	**399.0**	**402.9**	**395.0**

A 1% increase in interest rates will not affect the interest received on fixed income but will reduce their fair value and vice versa. Changes in interest rates do not impact the value of cash deposits / cash and cash equivalent balances but they will have a small effect on the interest income received on those balances. Charges to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency Risk

The following table summarises the Fund's currency exposure:

Currency exposure - asset type	Asset value as at 31 March 2018	Asset value as at 31 March 2019
	£m	£m
Overseas quoted securities	739.4	702.5
Overseas pooled investment vehicle	506.9	483.0
Global pooled investment vehicle	387.1	433.0
Overseas pooled property investments	83.4	85.0
Total overseas assets	**1,716.8**	**1,703.5**

Overseas bonds are 100% hedged to GBP at 31 March 2019.

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's performance measurement provider, the Fund considers the likely volatility associated with foreign exchange rate movements to be 11.0% (as measured by one standard deviation).

This analysis assumes that all other variables, in particular interest rates, remain constant.

An 11.0% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 2019	Change to net assets available to pay benefits	
		+11.0%	-11.0%
	£m	£m	£m
Overseas quoted securities	702.5	779.9	625.1
Overseas pooled investment vehicle	498.2	553.1	443.3
Global pooled investment vehicle	417.8	463.8	371.8
Overseas pooled property investments	85.0	94.4	75.6
Total change in assets available	**1,703.5**	**1,891.2**	**1,515.8**

Currency exposure - asset type	Asset value as at 31 March 2018	Change to net assets available to pay benefits	
		+11.0%	-11.0%
	£m	£m	£m
Overseas quoted securities	739.4	799.3	679.5
Overseas pooled investment vehicle	506.9	548.0	465.8
Global pooled investment vehicle	387.1	418.5	355.7
Overseas pooled property investments	83.4	90.2	76.6
Total change in assets available	**1,716.8**	**1,856.0**	**1,577.6**

Credit Risk

Credit risk is an investor's risk of loss arising from a borrower who does not make payments as promised. In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives position, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner. Investment restrictions are listed in the contract held with the manager, which limit the amount of credit risk the manager is allowed to take and also states an average credit rating with regards to bonds held that should be maintained.

The bond manager provides a quarterly investment report to the Fund, which details the credit risk held in the portfolio. The Fund's Independent Investment Adviser also provides a yearly report to the Pension Investment Advisory Panel, providing details of the Fund's bond portfolio absolute and relative risk.

Deposits are not made with banks and financial institutions unless they are rated independently and have a strong credit rating. In addition, the Funds invests an agreed percentage of its Funds in the money markets to provide diversification. Money market Funds chosen all have an 'AAA' rating from a leading rating agency.

The Fund's cash holding at 31 March 2019 was £58.4 million (31 March 2018: £39.2million). This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2018	Balances as at 31 March 2019
		£m	£m
Money market Funds			
BNY Mellon Sterling Liquidity Fund	AAA	2.7	0.0
BNY Mellon US Dollar Liquidity Fund	AAA	3.2	6.4
JPM liq-ster Liquidity-x	AAA	0.8	0.0
JPM GBP Liquidity LVNAV	AAA	0.0	6.7
JPM liq-USD Liquidity-XDI	AAA	1.1	1.7
Bank deposit accounts			
The Bank of New York Mellon	A-1+	19.3	17.8
Bank current accounts			
Barclays Bank PLC	A-1	12.1	25.8
Total		**39.2**	**58.4**

The above Assets are held at Amortised Cost and are either liquid or very short dated securities in high-quality counterparties. Therefore the expected loss is assessed as a trivial sum and no allowance has been set aside for this.

Liquidity Risk

Market liquidity risk is the risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss (or make the required profit) or to meet the financial obligations of the Fund as they fall due. The Fund's investment managers purchase quoted and tradable securities. Equities held are listed on major world stock markets and managers employed are highly experienced in equity trading. The liquidity risk relating to the bond holdings is monitored and managed by the bond manager on an on-going basis. The Council also takes steps to ensure that the pension Fund has adequate cash resources to meet commitments.

NOTE 17: CURRENT ASSETS

	2017/18	2018/19
	£m	£m
Contributions due from employer in respect of:		
Employer	5.5	8.8
Members	2.1	1.7
Magistrates Courts Bulk Transfer Payment Due	0.4	0.6
Augmentation	0.9	0.1
Cash balances	12.1	25.8
Other Debtors	4.6	2.2
	25.6	**39.2**

The above Assets are carried at Amortised cost, other than cash balances and other debtors (see below), the Funds are due from Government institutions and therefore no allowance for expected losses has been set aside.

NOTE 18: NON CURRENT ASSETS

	2017/18	2018/19
	£m	£m
Magistrates Courts Bulk Transfer Payment Due	0.8	0.0
*LGPS Central Capital Advance treated as loan	0.7	0.7
**Reimbursement of lifetime tax allowances	0.0	0.2
Augmentation	0.3	0.6
	1.8	**1.5**

*This was part of the regulatory capital required to set up the company LGPS Central Limited.

**This includes debtor in relation to the lifetime tax allowance limit as the Fund pays all the tax upfront on behalf of the pensioner and is reimbursed from additional pension deductions over time

NOTE 19: CURRENT LIABILITIES

	2017/18	2018/19
	£m	£m
Investment management expenses	(7.0)	(3.6)
Payroll and external vendors	(5.1)	(0.2)
Other expenses	(3.7)	(0.0)
	(15.8)	**(3.8)**

NOTE 20: RELATED PARTY TRANSACTIONS

Worcestershire County Council

The Fund is administered by Worcestershire County Council. Consequently there is a strong relationship between the Council and the Fund.

The Council incurred costs of £1.0 million in 2018/2019 (2017/2018: £0.8 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses. The Council is also the single largest employer of members of the Fund and contributed £9.4 million to the Fund in 2018/2019 (2017/2018: £77.6 million of which £46.9 million related to the payment of contributions for years 2 and 3 up to the next valuation).

LGPS Central Limited has been established to manage investment assets on behalf of nine LGPS Funds across the Midlands. It is jointly owned in equal shares by the eight Administering Authorities participating.

A total of £0.5 million was reFunded to the Fund by LGPS Central during 2018/2019 reflecting the cost of setting up the enterprise to the end of March 2018. The annual running costs of £0.5m was charged to the Fund in 2018.19 by LGPS Central

Key Management Personnel

The posts of Chief Financial Officer, Senior Finance Manager and HR Service Centre Manager are deemed to be key management personnel with regards to the Fund. The financial value of their relationship with the Fund (in accordance with IAS24) is set out below:

	2017/18	2018/19
	£000	£000
Short term benefits*	33	50
Long term/ post-retirement benefits**	418	389
	451	**439**

*This is the pension's element of short term remuneration for key management personnel, i.e. annual salary, benefits in kind and employer contributions

**This is the accrued pension benefits, expressed as cash equivalent transfer value.

Governance

The Pensions Committee Employer Representative, Employee Representative and Chief Financial officer are active members of the Fund.

NOTE 21: CONTINGENT LIABILITIES

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events.

Outstanding capital commitments (investments) at 31 March 2019 totalled £294.5 million (31 March 2018: £260.4 million).

These commitments relate to outstanding call payments due on unquoted limited partnership Funds held in the Pooled Property Investments, Pooled Infrastructure investments and Pooled Debt Investments part of the portfolio. The amounts 'called' by these Funds are irregular in both size and timing over a period of between one and three years from the date of the original commitment.

NOTE 22: CONTINGENT ASSETS

A contingent asset arises where an event has taken place that gives the Fund a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Fund.

Contingent assets are not recognised in the financial statements, but are disclosed as a note to the accounts.

The Councils below have provided guarantees to a number of organisations that have been admitted to the Fund to Fund any potential pension liability. The organisations with a pension liability in excess of £195,000 (which the Fund considers to be material for these purposes) are:-

- Balfour Beatty Living Places (£0.740miIllion), Herefordshire Council
- Hoople Ltd joint venture company (£0.500million), Herefordshire Council
- Civica UK Ltd (£0.360million), Wychavon District Council
- Bromsgrove District Housing Trust (£0.610 million), Bromsgrove District Council

There are a further 27 organisations with a pension liability less than £195,000. The Fund has considered various factors in determining the potential risk of having to Fund any future liability, including risk of failure of the business and membership profile, and is satisfied that they do not represent a significant potential liability.

Eleven admitted body employers in the Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Fund and payment will only be triggered in the event of employer default. No bonds were called upon in this financial year.

Note that although there have been no changes to the existing bonds and guarantees from the previous financial year; they have all been discussed with the Actuary ' Mercers'. It has been agreed that these will be reviewed as part of the next Triennial valuation which takes effect from the 1st April 2020 and the framework to review them going forward will also be agreed at that point.

NOTE 23: ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCS)

The Fund provides an in-house AVC scheme for its members. In 2018 / 2019 some members of the Fund paid voluntary contributions and transfers to Scottish Widows and Equitable Life to buy extra pension benefits when they retire. Retirement benefits were also purchased during the year. The contributions are paid directly from scheme employers to the AVC provider. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the pension Fund accounts in accordance with Regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, but are disclosed as a note only.

The amounts administered under AVC arrangements are as follows:

	2017/18	2018/19
	£m	£m
Contributions received	0.2	0.2
Investments purchased	0.2	0.2
Change in market value	0.3	0.2
Retirement benefits paid or transferred	0.4	0.3

The combined value of the AVC Funds at 31 March 2019 was £2.8 million, (31 March 2018 £2.9 million).

NOTE 24: AGENCY SERVICES

The Fund pays discretionary awards to the former employees of Herefordshire County Council. The amounts paid are not included within the Fund's Accounts but are provided as a service and fully reclaimed from the employer. The sums are disclosed below.

	2017/18	2018/19
	£m	£m
Payments on behalf of Herefordshire County Council	0.1	0.1
	0.1	0.1

NOTE 25: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Fund's liabilities are calculated every three years by the appointed Actuary. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in note 2. This estimate is subject to significant variances based on changes to the underlying assumptions.

There were no significant changes to the CIPFA code of practice on local authority accounting (the code), the key change in international financial reporting standards (IRFS) was the adoption of IFRS 9 accounting standard for the 2018-19 accounts. IFRS 9 requires the investment assets to be accounted for at fair value within the accounts. The adoption of IFRS 9 had no impact on the accounts for pension Funds as the investment assets were already held at fair value through profit and loss as directed by the code. As a consequence there was no requirement to change the measurement or classification of these assets.

The adoption of IFRS 15 revenue from customers with contracts was also introduced from 1 April 2018. This had no impact on the pension Fund accounts as the Funds revenue is primarily Investment Interest and Contributions, both of which are outside the scope of the standard.

NOTE 26: ASSUMPTIONS MADE ABOUT THE FUTURE AND ANY OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The item in the notes to the accounts at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows.

Item	Uncertainties	Effect is actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 2)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance: ■ a 0.5% increase in the discount rate assumption would result in an 8% decrease in the pension liability, which is equivalent to £229m ■ a 0.25% increase in assumed earnings inflation would result in a 0.8% increase in the value of liabilities, which is equivalent to £23m ■ a one-year increase in assumed life expectancy would result in a 2% increase in the value of liabilities, which is equivalent to £69m.

VALUATION OF INVESTMENTS LEVEL 3

Financial instruments at level 3 are those where at least one input could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments, pooled property investments and pooled infrastructure investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. Further detail is provided in Notes 14a to c above.

Independent auditor's report to the members of Worcestershire County Council on the consistency of the pension Fund financial statements included in the Pension Fund Annual Report.

Opinion

The pension Fund financial statements of Worcestershire County Council (the "Authority") for the year ended 31 March 2019 which comprise the Fund Account, the Net assets statement and the notes to the financial statements, of Worcestershire County Council are derived from the audited pension Fund financial statements for the year ended 31 March 2019 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension Fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19 and applicable law.

Pension Fund annual report - Pension Fund financial statements

The Pension Fund Annual Report and the pension Fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts.

Reading the pension Fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension Fund financial statements in the Statement of Accounts in our report dated 31 July 2019.

Chief Financial Officer's responsibilities for the pension Fund financial statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer of the Authority is responsible for the preparation of the pension Fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices.

Proper practices for the pension Fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

Auditor's responsibility

Our responsibility is to express an opinion on whether the pension Fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension Fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Audits and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might stated to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other that the Authority and the Authority's members as a body for our audit work, for this report, or for the opinions we have formed.

Peter Barber

Peter Barber for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

12th August 2019

Worcestershire Pension Fund

Appendix A

Funding Strategy Statement
November 2018

This Funding Strategy Statement has been prepared by Worcestershire County Council (the Administering Authority) to set out the funding strategy for the Worcestershire County Council Pension Fund (the "Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Find out more online:
www.worcestershire.gov.uk/pensions

worcestershire county council

Contents

Executive Summary

Ensuring that the Worcestershire County Council Pension Fund (the "Fund") has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority (Worcestershire County Council). The Funding Strategy adopted by the Worcestershire County Council Pension Fund will therefore be critical in achieving this.

The purpose of this Funding Strategy Statement ("FSS") is to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met going forward.

The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the Worcestershire County Council Pension Fund. It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with the Worcestershire County Council Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

The Fund's Objective

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered on an employer specific level where appropriate.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions already in payment to continue to be paid, and to reflect the commitments that will arise from members' accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund's investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected.

Solvency and Long Term Cost Efficiency

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Local Government Pension Scheme (the "LGPS") so far as relating to the Fund.

Deficit Recovery Plan and Contributions

As the solvency level of the Fund is 75% at the valuation date (i.e. the assets of the Fund are less than the liabilities), a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority.

The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may also elect to make prepayments of contributions which could result in a cash saving over the valuation certificate period.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the deficit contributions at least at the expected monetary levels from the preceding valuation (including any indexation in these monetary payments over the recovery period). Full details are set out in this FSS.

The target recovery period for the Fund as a whole is 18 years at this valuation which is 3 years shorter than the corresponding recovery period from the previous valuation. Subject to affordability and other considerations, individual employer recovery periods would also be expected to reduce by 3 years at this valuation.

Where there is an increase in contributions required at this valuation, at the sole discretion of the Administering Authority, the employer will be able to step-up their contributions over a period of up to 3 years.

Actuarual Assumptions

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the "Secondary" rate) are set out in Appendix B to this FSS.

The discount rate in excess of CPI inflation (the "real discount rate") has been derived based on the expected return on the Fund's assets based on the long term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities is 2.15% per annum and for determining the future service ("Primary") contribution rates is 2.75% per annum (further detail on the assumptions is provided in Appendix A).

Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole. Following a period of consultation with the employer, such cases will be determined by the Section 151 Officer and reported to the Pension Committee.

The demographic assumptions are based on the Fund Actuary's bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant.

Employer Asset Shares

The Fund is a multi-employer pension fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving each employer's asset share.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

Fund Policies

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's practice and policies in a number of key areas:

1. Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

After the valuation, the Fund will continue to monitor employers' covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer. More details are provided in Appendix D to this statement.

2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based and the approach taken is set out in Appendix C. Examples of new employers include:

- Fund Employers
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

3. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate.

Where there is no guarantor who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to government bond yields and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. Any exit credits (surplus assets over liabilities) will be paid from the Fund to the exiting employer following certification by the Actuary. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

Where there is a guarantor who would subsume the liabilities the policy is that any deficit or surplus would normally be subsumed into the guarantor and taken into account at the following valuation. This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor, in particular any 'Risk-Sharing' agreements that may exist.

1. Introduction

The Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Worcestershire County Council Pension Fund (the "Fund"), the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS) for the Fund published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

Benefits

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full Fund benefits in relation to the member only and pay 50% of the normal member contribution.

Employer Contributuons

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution).

Primary Rate

The "Primary rate" for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates.

Secondary Rate

The "Secondary rate" is an adjustment to the Primary rate to arrive at the total rate of contribution each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation. Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

2. Purpose of FSS in Policy Terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3. Aims and Purpose of the Fund

The aims of the fund are to:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

The purpose of the fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of Fund benefits, transfer values, exit credits, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the Local Government Pension Scheme (Amendment) Regulations 2018.

4. Responsibilities of the Key Parties

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Committee, the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

Key Parties to the FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a Fund employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements including in relation to exit credit payments
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

5. Solvency Funding Target

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer's total contribution rate would ultimately revert to its Primary rate of contribution.

Solvency and Long Term Efficiency

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the LGPS so far as relating to the Fund.

Determination of the Solvency Funing Target and Deficit Recovery Plan

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in **Appendix B**.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this

results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2017 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 actuarial valuation:

- The Fund does not believe it appropriate for deficit contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain unless there is compelling reason to do so.
- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in Appendix B). These principles have resulted in a target recovery period of 18 years being adopted for most Fund employers.
- Individual employer contributions will be expressed and certified as two separate elements:
- the Primary rate: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
- the Secondary rate: a schedule of lump sum monetary amounts over 2017/20 in respect of an employer's surplus or deficit
- For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2020 based on the results of the 2019 actuarial valuation.
- Where increases (or decreases) in employer contributions are required from 1 April 2017, following completion of the 2016 actuarial valuation, at the sole discretion of the Administering Authority the increase (or decrease) from the rates of contribution payable in the year 2017/18 may be implemented in steps, over a maximum period of 3 years.
- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. In such circumstances:

The policy for employers who have a guarantor participating in the Fund:

The residual assets and liabilities and hence any surplus or deficit will normally transfer back to the guarantor but in circumstances where an exiting employer is expected to still be responsible for the termination position, an exit payment/exit credit may be payable from/to the exiting employer.

This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor, in particular any 'Risk-Sharing' agreements that may exist. If all parties do not agree, then the surplus/deficit will be paid directly to/by the exiting employer following cessation (despite any other agreements that may be in place).

The policy for employers who do not have a guarantor participating in the Fund:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process.
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.
- In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately. The termination policy is set out in Appendix C.

Funding for Non-Ill Health and Early Retirement Costs

Employers are required to meet all costs of early retirement strain by immediate capital payments into the Fund, or in certain circumstances by agreement with the Fund, through instalments over a period not exceeding 3 years or if less the remaining period of the body's membership of the Fund.

6. Link to investment policy and the Investment Strategy Statement (ISS)

The results of the 2016 valuation show the liabilities to be 75% covered by the current assets, with the funding deficit of 25% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in a real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 51%.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce

the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current strategy is:

	%
Shares Managed Actively:	
Far East Developed	**12.0**
Emerging Markets	**12.0**
Shares Managed Passively:	
Market Capitalisation Indices	
United Kingdom	**25.5**
North America	**11.0**
Europe ex - UK	**9.5**
Alternative Indices	
Global	**10.0**
Bonds Managed Actively	**10.0**
Property / Infrastructure	**10.0**

The investment strategy set out above equate to an overall best estimate average expected return of around 3.7% per annum in excess of CPI inflation at the valuation date. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

Since the 2016 actuarial valuation the Fund has implemented temporary protection (running up to 2020) against potential falls in the equity markets via the use of derivatives ("Equity Protection"). The aim of the protection is to provide further stability in employer contributions (all other things equal) in the event of a significant equity market fall (although it is recognised that it will not protect the Fund in totality).

7. Identification of Risks and Counter-Measures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term.

Financial

The financial risks are as follows:

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

Demographic

The demographic risks are as follows:-

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations
- The level of take-up of the 50:50 option at a higher or lower level than built into the actuarial assumptions.

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Whilst regulatory procedures are in place to ensure that ill-health retirements are properly controlled, employing bodies also need to recognise that unforeseen costs for them will arise in the event that the number of ill-health retirements were to exceed the assumptions made. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the Fund's cashflow requirements and considers the impact on the investment strategy.

Insurance of Certain Benefits

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

Regulatory

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to Fund,
- Changes to national pension requirements and/or HMRC Rules

Membership of the LGPS is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

Governance

The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their representatives on the Local Pension Board) to make their views known to the Fund and to participate in the decision-making process. The previous version of this FSS was consulted on prior to 31 March 2017 with a further consultation taking place following the publication of the Local Government Pension Scheme (Amendment) Regulations 2018 and the introduction of exit credits. The revisions to the FSS have been incorporated into this version and the updated version was finalised following the Pension Committee meeting on 21st January 2019.

Governance risks are as follows:

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.
- Changes in the Committee membership.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk.

8. Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Fund membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund
- has been a change in Regulations or Guidance, which materially impacts on the policies within the funding strategy.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations and this will be considered in conjunction with the employer affected and any associated guarantor of the employer's liabilities (if relevant).

Funding Strategy Statement - Appendix A

Actuarial Method and Assumptions

Method

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, alternative methods are adopted, which make advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

Financial Assumptions - Solvency Funding Target

Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets based on the long-term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation date has been derived based on an assumed return of 2.15% per annum above CPI inflation, i.e. a total discount rate of 4.35% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics. The discount rate will be reviewed as a matter of course at the time of a formal valuation or a formal employer rate review.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities, but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated, and
- an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long-term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. For example for public sector employers this results in a total salary increase of 1.0% per annum to 2019/20 in line with Government policy.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits, which are not fully indexed in line with the CPI (e.g. some Guaranteed Minimum Pensions where the LGPS is not currently required to provide full indexation).

Demographic Assumptions

Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity. The mortality tables used are set out below, with a loading reflecting LGPS experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1.5% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the proportions married/civil partnership assumption has been modified from the last valuation. No allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.4% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

Method and Assumptions used in calculating the cost of future accrual (or primary rate)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the "Primary Rate" (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation and

a slightly higher expected return from the investment strategy has been assumed. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real discount rate of 2.75% per annum above the long term average assumption for consumer price inflation of 2.2% per annum.

Employer Asset Shares

The Fund is a multi-employer pension Fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

Summary of key whole fund assumptions used for calculating funding target and cost of future accrual (The "Primary Rate") for the 2016 Actarual Valuation

	%
Long-term yields	
Market implied RPI inflation	**3.2% p.a.**
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	**4.35% p.a.**
CPI price inflation*	**2.2% p.a.**
Long Term Salary increases	**3.7% p.a.**
Pension increases/indexation of CARE benefits	**2.2% p.a.**
Future service accrual financial assumptions	
Investment return/Discount Rate	**4.95% p.a.**
CPI price inflation	**2.2% p.a.**
Long Term Salary increases	**3.7% p.a.**
Pension increases/indexation of CARE benefits	**2.2% p.a.**

*Short term salary increases may also apply

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation are set out below:

		Base Table	Improvements	Adjustment (M / F)
Current pensioners	Normal health	S2PA	CMI_2015 [1.5%]	99% / 89%
	Ill-health	S2PA	CMI_2015 [1.5%]	Normal health + 3 years
	Dependants	S2PMA / S2DFA	CMI_2015 [1.5%]	123% / 104%
	Future dependants	S2PMA / S2DFA	CMI_2015 [1.5%]	116% / 111%
Current active / deferred	Active normal health	S2PA	CMI_2015 [1.5%]	99% / 89%
	Active ill-health	S2PA	CMI_2015 [1.5%]	Normal health + 4 years
	Deferred	S2PA	CMI_2015 [1.5%]	99% / 89%
	Future dependants	S2PMA / S2DFA	CMI_2015 [1.5%]	116% / 111%

Other demographic assumptions are set out in the Actuary's formal report.

Funding Strategy Statement - Appendix B

Employer Deficit Recovery Plans

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The determination of the recovery periods is summarised in the table below:

Category	Default Deficit Recovery Period	Derivation
Fund Employers	18 years	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure deficit contributions do not reduce versus those expected from the existing recovery plan.
Open Admitted Bodies	18 years	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure deficit contributions do not reduce versus those expected from the existing recovery plan.
Closed Employers	Lower of 18 years and the future working lifetime of the membership	Determined by reducing the period from the preceding valuation by at least 3 years and to ensure deficit contributions do not reduce versus those expected from the existing recovery plan.
Employers with a limited participation in the Fund	Determined on a case by case basis	Length of expected period of participation in the Fund

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations, a key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in these monetary payments over the recovery period).

Other Factors Affecting the employer deficit Recovery Plans

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore may in some cases be willing to use its discretion to accept an evidence based affordable level of contributions for such organisations for the three years 2017/2020. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

Funding Strategy Statement - Appendix C

Admission and Termination Policy

Introduction

This document details the Worcestershire County Council Pension Fund's (WCCPF) policy on the methodology for assessment of ongoing contribution requirements and termination payments in the event of the cessation of an employer's participation in the Fund. This document also covers WCCPF's policy on admissions into the Fund and sets out the considerations for current and former admission bodies. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS).

- Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.
- Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

A list of all current employing bodies participating in the WCCPF is kept as a live document and will be updated by the Administering Authority as bodies are admitted to, or leave the WCCPF.

Please see the glossary for an explanation of the terms used throughout this Appendix.

Entry to the Fund

Unless agreed otherwise by the Administering Authority, prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. If the risk assessment and/or bond amount is not to the satisfaction of the Administering Authority (as required under the LGPS Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the minimum risk methodology and assumptions.

Some aspects that the Administering Authority may consider when deciding whether to apply a minimum risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
- If the admitted body has an expected limited lifespan of participation in the Fund;
- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the LGPS Regulations.

At the discretion of the Administering Authority, where an admission is in respect of 10 or less LGPS posts the Admitted Body will be admitted to the Fund on a 'Pass Through' basis where the Admitted Body's ongoing contribution requirements are agreed between the Letting Employer and the Admitted Body, without an individual contribution assessment being carried out.

Admitted Bodies Providing a Service

Generally, Admitted Bodies providing a service (including those admitted on a Pass Through basis) will have a guarantor within the Fund that will stand behind the liabilities. Accordingly, in general, the minimum risk approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. This assessment would normally be based on advice in the form of a "risk assessment report" provided by the actuary to the WCCPF. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the WCCPF it must also be satisfied (along with the Administering Authority) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Administering Authority, the level of the bond amount will be subject to review on a regular basis. In the case of an Admission Body admitted on a Pass Through basis, the requirement to carry out an assessment of the level of risk on premature termination of the contract may be waived at the agreement of the Administering Authority and the Letting Employer who act as guarantor to the Admission Body.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund's general policy as set out in the FSS.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

In the event of termination of the Admitted Body, any orphan liabilities in the Fund will be subsumed by the relevant Scheme Employer.

An exception to the above policy applies if the guarantor is not a participating employer within the WCCPF, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the WCCPF the Administering Authority may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the minimum risk methodology and assumptions

Pre-Funding for termination

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a minimum risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum risk basis.

For any employing bodies funding on such a minimum risk strategy a notional investment strategy will be assumed as a match to the liabilities. In particular the employing body's notional asset share of the Fund will be credited with an investment return in line with the minimum risk funding assumptions adopted rather than the actual investment return generated by the actual asset portfolio of the entire Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

Exiting the Fund

Termination of an Employers Participation

When an employing body terminates for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where there is a complete transfer of responsibility to another Fund with a different Administering Authority.

In the event that unfunded liabilities arise that cannot be recovered from the employing body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

With the exception of grouped employers (see below), the WCCPF's policy is that a termination assessment will be made based on a minimum risk funding basis, unless the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities (including those for former employees).

The policy for employers who have a guarantor participating in the Fund:

If the employing body (including those admitted on a Pass Through basis) has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities, the WCCPF's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the WCCPF otherwise.

The residual assets and liabilities, and hence any surplus or deficit will normally transfer back to the guarantor of the employing body within the Fund. (For Admission Bodies, this process is sometimes known as the "novation" of the admission agreement.) This may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body. In circumstances where an exiting employer is expected to still be responsible for all or part of the termination position, an exit payment/exit credit may be payable from/to the exiting employer. This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor, in particular any 'Risk-Sharing' agreements that may exist. If all parties do not agree, then the surplus will be paid directly to the exiting employer (despite any other agreements that may be in place).

The policy for employers who do not have a guarantor participating in the Fund:

A termination assessment will be made based on a minimum risk funding basis. This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated).

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process.
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Administering Authority can vary the treatment on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the actuary.

The WCCPF currently groups Town and Parish Councils for contribution rate setting purposes. The WCCPF's policy is that, on termination of participation within the group, the termination assessment will be based on a simplified share of deficit/surplus approach. This involves disaggregating the outgoing body from the group by calculating the notional deficit/surplus share as at the last actuarial valuation of the Fund, in proportion to the respective payrolls for the body and the group as a whole, and then adjusting to the date of exit. The share of deficit/surplus will be assessed based on the ongoing valuation funding basis

for the group as a whole at the last actuarial valuation. The adjustment to the date of exit will normally be made in line with the assumptions adopted as at the last actuarial valuation unless the actuary and Administering Authority consider that the circumstances warrant a different treatment, for example, to allow for actual investment returns over the period from the last actuarial valuation to exit.

Unless agreed otherwise by the Administering Authority, any unfunded liability that cannot be reclaimed from the outgoing grouped body will be underwritten by the group and not all employers in the Fund. Following termination the residual liabilities and assets in respect of that body will be subsumed by any guarantor body for the group, or in the absence of a guarantor, subsumed by the group.

It is possible under certain circumstances that an employer can apply to transfer all assets and current and former members' benefits to another LGPS Fund in England and Wales. In these cases no termination assessment is required as there will no longer be any orphan liabilities in the WCCPF. Therefore, a separate assessment of the assets to be transferred will be required.

Future Terminations

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer. In this case, employing bodies are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

The Fund's standard policy is to recover termination deficits (including interest and expenses) as a one off payment. However, at the discretion of the Administering Authority, the deficit can be recovered over an agreed period as certified by the Actuary. This period will depend on the Administering Authority's view on the covenant of the outgoing employer.

Minimum Rish Termination Basis

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2016) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Least risk assumptions	31 March 2016
Discount Rate	2.2% p.a.
CPI price inflation	2.2% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

All demographic assumptions will be the same as those adopted for the 2016 actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption. The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2% p.a. from 1.5% used in the 2016 valuation for ongoing funding and contribution purposes.

Funding Strategy Statement - Appendix D

Covenant Assessment and Monitoring Policy

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of employer covenant focuses on determining the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

Risk Criteria

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount, which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

Assessing Employer Covenant

The employer covenant will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Greed (RAG) rating structure.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score

Frequency of Monitoring

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

Covenant Risk Management

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent actuarial basis (e.g. the termination basis)
3. Shortened recovery periods and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

Funding Strategy Statement - Appendix E

Glossary

Actuarial Valuation:
An investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

Administering Authority:
The council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies:
A specific type of employer under the Local Government Pension Scheme (the "LGPS") who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark:
A measure against which fund performance is to be judged.

Best Estimate Assumption:
An assumption where the outcome has a 50/50 chance of being achieved.

Bonds:
Loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE):
With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

CPI:
Acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Covenant:
The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

Deficit:
The extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit recovery period:
The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Discount Rate:
The rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employer's Future Service Contribution Rate:
The contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Employing bodies:
Any organisation that participates in the LGPS, including admission bodies and Fund employers.

Equities:
Shares in a company which are bought and sold on a stock exchange.

Equity Protection:
An insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

Exit Credit:
The amount payable from the Fund to an exiting employer in the case where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

Fund / Scheme Employers:
Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers.

Funding or solvency Level:
The ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement:
This is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

Government Actuary's Department (GAD):
The GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantee / guarantor:
A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Investment Strategy:
The long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Letting employer:
An employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

Liabilities:
The actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

LGPS:
The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

Maturity:
A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members:
The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Minimum risk basis:
An approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

Orphan liabilities:
Liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Pass Through:
Arrangement whereby the risks of participating in the LGPS are retained by the Letting Employer with the Admission Body's contributions being a reflection of the rate of the Letting Employer (subject to any specific adjustment required under the separate contractual arrangement).

Percentiles:
Relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/stepping of contributions:
When there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling:
Employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment:
The payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present Value:
The value of projected benefit payments, discounted back to the valuation date.

Primary rate:
The contribution rate required to meet the cost of future accrual of benefits, ignoring any past service surplus or deficit but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

Profile:
The profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent Assumption:
An assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate:
A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Real Return or Real Discount Rate:
A rate of return or discount rate net of (CPI) inflation.

Recovery Plan:
A strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

Scheduled bodies:
Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Secondary rate:
The adjustment to the Primary rate to arrive at the total contribution each employer is required to pay. It is essentially the additional contribution (or reduction in contributions) resulting from any deficit (or surplus) attributable to the employer within the Fund.

Section 13 Valuation:
In accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target:
An assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Valuation funding basis:
The financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

50/50 Scheme:
In the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

Worcestershire Pension Fund

Appendix B

Policy Statement on Communications

Policy Statement on Communications

1. Introduction

We aim to produce clear communications in a plain English style that provide everyone with any interest in the Fund with ready access to all the information they need to make informed decisions.

We may make our communications available in languages other than English or in Braille or in other formats upon request to suit those with special needs.

We can be contacted in person, by letter, by phone or by email.

We aim to respond to all requests in a timely manner and by meeting the enquirer's information objectives.

We will collaborate with other Funds throughout the year to produce communications that benefit from shared expertise and cost saving.

We aim to continually develop our communications / the resource we devote to engagement: our first-ever Engagement Manager joined us on 26 October 2018.

Our flagship communications offering is our website at:

http://www.worcestershire.gov.uk/info/20408/worcestershire_pension_fund

We aim to maintain a compliant website that provides stakeholders with a first port of call for all of their pensions information needs, so that they can make informed decisions. NB we are not able to provide financial advice.

We aim to invest in digitisation to maximise self-service for our members and employers.

2. Communicating with employers

We will engage with our prospective and actual employers to:

- Explain our requirements of them.
- Define their information needs and expectations of us.
- Identify and deliver their training needs.

We will maintain an up to date Pension Administration Strategy.

We will maintain an Employers area on our website to provide regularly updated guidance / forms including monthly employer newsletters.

We will deliver a bi-annual employer forum to discuss, manage and communicate major strategic issues, legislation changes and funding matters.

Of the 5 members of our Pension Board there are 2 employer representatives who scrutinise all Pensions Committee decisions and can take items for discussion to our Pensions Committee on behalf of employer.

The Pensions Committee of 8 has 1 employer representative.

3. Communicating with members

We will make available a range of publications / forms for prospective and actual scheme members including a Guide to the LGPS.

We will provide an annual benefit statement to our employee members and our deferred members by 31 August.

We will provide an annual newsletter to our employee members and our deferred members.

We will provide an annual newsletter, an annual payslip and a P60 to our pensioner members. We will also provide them with a pension payslip when there is a change of more than £1 per month in their pension.

Of the 5 members of our Pension Board there are 2 member / trade union representatives who scrutinise all Pensions Committee decisions and can take items for discussion to our Pensions Committee on behalf of members.

The Pensions Committee of 8 has 1 member / trade union representative.

4. Communications with other stakeholders

Our Annual Report is available from our website.

Our website will also provide up to date information about our governance, funding, investments, finances and operations.

We will deliver appropriate communications to comply with and apply all relevant legislation / guidance (for example from The Pensions Regulator, The Local Government Association, Her Majesty's Revenue & Customs, The Local Government Pension Scheme Advisory Board, etc.).

We will deliver a training programme for members of our Pensions Committee and Pension Board.

Worcestershire Pension Fund

Appendix C

Worcestershire County Council Pension Fund Investment Strategy Statement 2019

Find out more online:
www.worcestershire.gov.uk/pensions

worcestershire county council

1. Introduction

This is the Investment Strategy Statement (the 'Statement') of the Worcestershire County Council Pension Fund (the Fund) as required by regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "Regulations"). In preparing this Statement, the Pensions Committee has consulted with such persons as it considered appropriate.

Worcestershire County Council is the administering authority for the Fund under the regulations. Worcestershire County Council delegates responsibility for the administration and management of the Fund to the Pensions Committee. The Pensions Committee has oversight of the implementation of the management arrangements for the Fund's assets and comprises of Elected Members and one Employee Representative and one Employer Representative.

In addition, the Fund has the statutory Local Pensions Board whose role is to assist in the good governance of the scheme by ensuring compliance with statutory and regulatory duty. Finally, the Pensions Investment Sub Committee advises the Pensions Committee on investment issues relating to the Fund. The Local Pensions Board has no decision-making powers whereas the Pensions Investment Sub Committee does.

This statement which is reflected in the Strategic Allocation in Appendix 1 demonstrates the importance of Asset allocation on returns over the long term.

The Statement is subject to review at least annually and from time to time on any material changes to any aspects of the Fund, its liabilities, finances and its attitude to risk which they judge to have a bearing on the stated investment policy. In preparing this statement, the Committee has considered advice from the investment consultant.

The responsibilities of relevant parties are set out in Appendix 2.

The Fund's Statement of Investment Beliefs are set out in Appendix 4.

Related Fund policies and statements are as follows and are publicly available on the Fund's website:

- Funding Strategy Statement (Within Annual Report on website)
- Governance Compliance Statement (Within Annual Report on website)
- Policy Statement on Communication Strategy (Within Annual Report on website)
- Policy Statement on Governance Strategy (Within Annual Report on website)

2. Fund Objectives

The primary objectives of the Fund are to:

(a) ensure that sufficient assets are available to meet liabilities as they fall due;

(b) Maximise the return at an acceptable level of risk.

In addition, the Fund has the following objectives:

- To be a leading performer in the LGPS sector
- To provide excellent customer service

3. Risk

The risk tolerance of the Fund determined through working with the Pensions committee, the investment managers, officers and independent advisors through the setting of investment beliefs, funding and investment objectives. This is incorporated into the Strategic Investment Allocation Benchmark (SIAB), bands and benchmarks. Risk taken against that benchmark is monitored by the Pensions Committee using a risk register and risk management tools as advised by the Fund's fund managers, investment advisers and the Fund's Actuary.

The fund is exposed to Investment, operational, governance and funding risks. These risks are identified, measured, monitored and then managed. This is carried out using risk registers with section responsibility and over sight from the Chief Financial Officer.

The principal risks affecting the Fund are as follows:

Funding Risks Liabilities versus the Strategic Investment Allocation Benchmark (SIAB)

a) The risk of deterioration in the funding level of the Fund. This could be due to assets failing to grow in line with the developing cost of meeting liabilities or economic factors such as unexpected inflation increasing the pension and benefit payments.

The Fund manages this risk by setting a strategic asset allocation benchmark assisted by the Fund's investment advisor. The strategic asset allocation benchmark seeks to achieve the appropriate balance between generating the required long-term return, while taking account of market volatility and the nature of the Fund's liabilities. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark.

b) The risk of changing demographics such as improvement in longevity and other demographic factors, increasing the cost of benefits.

The Fund monitors this by reviewing mortality and other demographic experience and assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

c) Systemic risk, i.e., the possibility of failure of asset classes and/or active investment managers results in an increase in the cost of meeting the liabilities.

The Fund mitigates systemic risk through a diversified portfolio with exposure to a wide range of asset classes, portfolio holdings and different management styles.

d) Inflation risk. The fund mitigates inflation risk through holding a portfolio of growth and inflation linked assets. Inflation risk is considered at least triennially in the setting of the SIAB and triennially as part of the actuarial valuation.

e) Future Investment Returns (Discount rate) risk. The funding and investment strategies are inter-linked and discount rate risk is mitigated through derivation based on the underlying long term investment strategy. Discount rates are considered at least triennially in the setting of the SIAB and triennially as part of the actuarial valuation.

f) Currency risk that the currency of the Fund's SIAB underperforms relative to sterling (i.e., the currency of the liabilities). The currency risk of the benchmark is considered at least triennially in the setting of the SIAB. Recommended changes will be expressed through changes in the benchmark and implemented by the investment managers

Asset Risks (the portfolio versus the SIAB)

a) Concentration risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.

b) Illiquidity risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.

c) Currency risk that the currency of the Fund's assets underperforms relative to the SIAB.

d) Manager underperformance when the fund managers fail to achieve the rate of investment return assumed in setting their mandates.

e) Responsible Investment (RI) risks that are not given due consideration by the Fund or its investment managers.

The Fund manages these asset risks by:

- Constraining how far Fund investments deviate significantly from the SIAB by setting diversification guidelines and the SIAB strategic ranges.
- By investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Fund's expected parameters.
- By investing across a range of liquid assets, including quoted equities and bonds; the Fund has recognised the need for some access to liquidity in the short term.
- Robust financial planning and clear operating procedures for all significant activities including regular review and monitoring manager performance against their mandate and investment process.
- In appointing several investment managers, the Fund has considered the risk of underperformance by any single investment manager.
- The Fund actively addresses environmental, social and governance risks through implementation of its Responsible Investment (RI) beliefs.

The Fund is aware that investing in overseas equities introduces an element of currency risk, but given the level of diversification within the Fund, the Pensions Committee is comfortable taking this risk in general but may take action to mitigate potentially significant risks as and when they are identified.

The Fund invests in accordance with the investment restrictions stipulated by the Local Government Pension Scheme Regulations.

Operational Risk

a) Transition risk of incurring unexpected costs in relation to the transition of assets amongst managers. When carrying out significant transitions, the Fund takes professional advice and considers the appointment of specialist transition managers in order to mitigate this risk when it is cost effective to do so.

b) Custody risk of losing economic rights to Fund assets, when held in custody or when being traded. These risks are managed by:

- The use of a global custodian for custody of assets.
- The use of formal contractual arrangements for all investments.

When the Fund's investments are pooled in LGPS Central from April 2018 onwards the Asset servicer contract will include depositary protection over investment vehicles.

c) Credit default with the possibility of default of a counterparty in meeting its obligations. The Fund monitors this type of risk by means of:

- Maintaining a comprehensive risk register with regular reviews.
- In-depth due diligence prior to making any investment.

The Fund monitors and manages risks in all areas through a process of regular scrutiny/oversight and reporting of KPIs of its service providers and audit of the operations they conduct for the Fund.

4. Investment Strategy

The Committee has translated its objectives into a suitable strategic investment allocation benchmark (SIAB) and structure for the Fund (set out in Appendix 1) taking into account both the liability structure and the objectives set out above. The Fund benchmark is consistent with the Pensions Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. The Investment beliefs in appendix 4 also assist in formulating the investment strategy.

The Pension Committee monitors investment strategy relative to the agreed asset allocation benchmark and strategic ranges. If ranges are breached, then appropriate action is taken by the Chief Financial Officer. In addition to ongoing monitoring the investment strategy is formally reviewed annually by Pensions Committee. Furthermore, specific consideration is given to investment strategy in the light of information arising from each triennial actuarial valuation.

5. Diversification

The fund will be diversified across multiple asset classes with different risk return expectations and correlations to deliver the targeted return of the Fund. Appendix 1 shows the Strategic Investment Allocation Benchmark (SIAB) and strategic ranges.

6. Day-to-Day Management of the Assets

Investment management structure

The Pensions Committee retains responsibility for the investment strategy of the scheme but has

delegated oversight of its implementation to the Chief Financial Officer. The day to day management of the Funds' investments is delegated to the Fund's external Investment Managers.

External Investment Managers

The Fund has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The investment managers are required to comply with LGPS investment regulations.

Suitable Investments

Subject to the LGPS regulations on allowable investments the Fund may invest in a wide range of assets and strategies including quoted equity, Government and Non-Government bonds, money markets, traded options, financial futures and derivatives, alternative strategies including Infrastructure and Property Pooled Funds. The fund uses external managers to carry out stock lending ensuring suitable controls/risk parameters are put in place to prevent losses. Where an asset class/strategy is not expected to help in delivering the risk adjusted investment return required it will not be held.

When new asset classes are considered and are not listed above then approval will be sought from the Pensions Committee after receiving advice on its suitability and diversification benefits.

The Fund may also make use of contracts for difference and other derivatives either directly or in pooled funds when investing in these products, for the purpose of efficient portfolio management or to hedge specific risks.

The Fund, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles and a mix of asset types across a range of geographies in order to provide diversification of returns.

Expected Return on the Investments

Over the long-term, it is expected that the investment returns will be at least in line with the assumptions underlying the actuarial valuation (the discount rate). The individual mandates are expected to match or exceed the specific targets set for each portfolio over time.

Investment Restrictions

The investment management arrangements prohibit the holding of investments not defined as 'investments' in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Operating within the investment regulations, the Fund determines investments that are acceptable and approved as such by the Pensions Committee.

Additional Assets

Assets in respect of members' additional voluntary contributions are held separately from the main Fund assets. These assets are held with Scottish Widows.

The Fund monitors, from time to time, the suitability and performance of these vehicles.

Realisation of Investments

In general, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. The Fund's liquidity characteristics

are monitored on a regular basis and the majority of the Fund's investments may be realised quickly if required. A number of the Fund's alternative investments in Pooled Infrastructure and Property Funds, may be difficult to realise quickly in certain circumstances. The Fund will ensure that the Liquidity of the investments is suitable to meet future cash flow requirements.

Monitoring the Performance of Fund Investments

The performance of the external investments is independently measured. In addition, officers of the Fund meet external investment managers (both segregated and pooled) regularly to review their arrangements and the investment performance. The Pensions Committee meets at least quarterly to review markets, asset classes and funds.

7. Day-to-Day Custody of the Assets

The Fund has appointed a global custodian with regard to the safekeeping of the assets in the Fund and other investment administrative requirements.

8. Stocklending

Stocklending is undertaken in respect of the Fund's quoted equities holdings through the custodian / asset servicer. There is a formal stock lending agreement and approved collateral. Stock lending may also take place in pooled investment vehicles held by the Fund.

9. Pooling

The Fund has entered the LGPS Central pool with the understanding that the pooled investments will benefit from lower investment costs, greater investment capability and access to more uncorrelated asset classes. Becoming an FCA registered investment manager will lead to improved governance, transparency and reporting giving the Pension Fund assurance that its investments are being carried out effectively.

The Fund intends to eventually invest the majority of its assets into the LGPS pool but will maintain some cash balances at the fund. Investment strategy will be owned by the fund with advice from the fund manager/operator and Independent advisor.

10. Responsible Investment (RI)

The Fund's approach to Responsible Investment is set out below. The Fund believes that effective management of financially material Responsible Investment risks should support the Fund's requirement to protect returns over the long term. The Fund will seek to further integrate Responsible Investment factors (adding corporate governance, environmental and social factors to the existing financial factors) into the investment process across all relevant asset classes. The Fund will vote on all investments where possible and engage with companies when engagement will add value to the Fund. The Fund works with like-minded investors to promote best practice in long term stewardship of investments. The fund will not seek to exclude investments that are not barred by UK law.

RI Beliefs and Guiding Principles

The Fund's RI beliefs and guiding principles underpin its RI approach.

RI integration

The Fund believes that effective management of financially material RI risks should support the Fund's

requirement to protect returns over the long term. Investment managers will seek to incorporate RI into their investment process. With regard to climate change risks, the Fund recognises that the scale of the potential impacts is such that a proactive and precautionary approach is needed in order to address them.

The Fund considers RI to be relevant to the performance of the entire Fund across asset classes.

There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.

The Fund recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long term growth.

Engagement versus Exclusion

Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. The Fund adopts a policy of risk monitoring and engagement with companies with sub-optimal governance of financially material RI issues, in order to positively influence company behaviour and enhance shareholder value; influence that would be lost through a divestment approach. The Fund extends this principle of "engagement for positive change" to the due diligence, appointment and monitoring of external fund managers.

The Fund believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone. To this end, the Fund uses its membership of the Local Authority Pension Fund Forum (LAPFF) to assist it in pursing engagement activities.

Voting

Where practical, the Fund aims to vote in every single market in which it invests in alignment with corporate governance best practice guidelines. In the interests of sending a consistent signal to investee companies, the Fund has decided to delegate responsibility to its external Investment Managers for analysis of governance issues and executing its proxy voting rights across all markets in which it invests. At the present time, the Fund believes that the advantage of a consistent signal outweighs the inherent disadvantages to disconnecting the voting function from the investment and engagement decisions of external fund managers.

Stewardship Code

The Fund is currently a signatory of the FRC Stewardship Code.

11. Compliance with This Statement

The Fund will monitor compliance with this statement. In particular, it will ensure its investment decisions are exercised with a view to giving effect to the principles contained in the statement, so far as is reasonably practicable.

12. Compliance with Myners

Following from the Myners' report of 2000 into institutional investment in the UK, the Government, after consultation, indicated it would take forward all of the report recommendations identifying investment principles to apply to pension schemes.

These principles cover the arrangements for effective investment management decision-making, setting and monitoring clear investment objectives focus on asset allocation, arrangements to receive

appropriate expert advice, explicit manager mandates, shareholder activism, use of appropriate investment benchmarks, measurement of performance, transparency in investment management arrangements and regular reporting.

The Myners' principles have since been updated, and the Fund continues to support and comply with them. Details of compliance are set out in the Fund's Governance Compliance Statement within the Annual Report, which can be found on the Fund's website.

List of Appendices

Appendix 1 – Strategic Allocation Investment Benchmark (SIAB) and Ranges.

Appendix 2 – Roles and Responsibilities

Appendix 3 – List of Advisers

Appendix 4 – Statement of Investment Beliefs

Investment Strategy Statement - Appendix 1: Strategic Allocation Investment Benchmark and Ranges

Asset Allocation	%	Manager, Method & Performance Target
Actively Managed Equities		
Far East Developed	10.0	Nomura Asset Management - FTSE All World Asia Pacific Index + 1.5%
Emerging Markets	10.0	JP Morgan Asset Management and Schroder Investment Management - FTSE - All World Emerging Market Index +2.0%
Passively Managed Equities – Market Capitalisation Indices		
United Kingdom	23.5	Legal and General Asset Management - FTSE All Share Index
North America	9.0	Legal and General Asset Management - FTSE All World North America - Developed Series Index
Europe ex - UK	7.5	Legal and General Asset Management - FTSE All World Europe ex UK Index - Developed Series Index
Passively Managed Equities – Alternative Indices		
Global	15.0	Legal and General Asset Management: ■ 40% GPAE - FTSE-RAFI Dev. 1000 Equity Fund ■ 30% GPBK - MSCI World Mini Volatility Index ■ 30% STAJ - CSUF - STAJ MF36726/36727
Actively Managed Bonds		
Fixed Interest	10.0	JP Morgan Asset Management - 100% Barclays Global Aggregate Corporate Bond Index – Hedged into GBP and EQT Corporate Private Debt
Actively Managed Alternative Assets		
Property & Infrastructure	15.0	Through a mix of Green Investment Bank, Invesco, Hermes, Walton Street and Venn Partners
Total	**100.0**	

Ranges

Asset Type	Core Asset Allocation	Range %
Equities	75%	70 - 80
Bonds	10%	5 – 15
Infrastructure and Property	15%	10 – 20

Investment Strategy Statement - Appendix 2: Roles and Responsibilities

Pensions Committee

The Pension Committee discharges the responsibilities of the Council as Administering Authority of the Fund pursuant to Section 101 and Regulations under Section 7 of the Superannuation Act 1972.

The Pension Committee discharges the responsibilities for management of the administration of the Fund. However it will take views from the Investment sub committee to enable it to discharge its duties effectively.

The Pension Committee discharges the responsibilities for the strategic management of the Fund's assets. However, it will take strategic advice from the Investment Sub Committee to enable it to discharge its duties effectively. The dates of Pension Committee meetings will be synchronised with those of the Pension Sub Committee to ensure investment decisions are reviewed without unnecessary delay.

The Council appoints the Chairman and Vice-Chairman of the Pension Committee. The Chairman of the particular meeting has a second or casting vote in the case of equality of votes.

The Pension Committee is a formal committee of the Council and comprises a total of 8 voting members:

- 5 Worcestershire County Councillors
- 1 co-opted Councillor as nominated by Herefordshire Council (being the second largest employer in the Fund)
- 1 co-opted voting employer representative and
- 1 co-opted voting employee representative from a relevant Union.

The 5 County Councillor members are formally appointed by the Head of Legal and Democratic Services in accordance with political balance requirements from time to time and the nominations of the relevant Group Leaders and the 3 co-optees are co-opted by the Chairman of the Committee.

The Pension Committee will be advised by on an ad hoc basis by an Independent Financial Adviser and the Fund's Actuary.

Pension Committee Terms of Reference:

The Pension Committee will meet at least quarterly or otherwise as necessary to take decisions on:

- Changes to the Investment Strategy Statement, including the strategic benchmark for asset allocation, Investment Manager benchmarks and Investment Manager targets.
- Transition of investments to LGPS Central or other Pooling arrangements
- The termination and appointment of Investment Managers and associated professional service providers.
- The termination and appointment of the Fund's Independent Financial Adviser, Performance Measurement Consultant, Global Custodian and Actuary.
- The Pensions Administration Strategy Statement, Policy Statement on Communication Strategy, Policy Statement on Governance Strategy, Funding Strategy Statement and Governance Compliance Statement.

- The Triennial and Interim Actuarial Valuations.
- The approval of the Pension Fund Annual Report and Accounts.
- The approval of the Pension Fund annual and triennial budgets.
- Key outstanding risks as identified in the Pension Fund Risk Register.
- The Pension Administration Advisory Forum arrangement and regular Forum reports, which consider and address outstanding member and employer issues and concerns.
- The Pension Sub Committee arrangement and regular Sub Committee reports, which monitor performance of the Fund's assets.
- Requests for admission of qualifying Community and Transferee Bodies wishing to join the Fund.
- Key pension policy discretions that are the responsibility of the Administering Authority.

All elected members and voting co-optees of the Pension Committee are subject to the Worcestershire County Council Code of Conduct for Members, and must therefore register and keep updated their Disclosable Pecuniary Interests as required by the law and Code and disclose potential conflicts of interest as required by that Code.

Members of the Pension Committee are expected to hold the appropriate knowledge and skills to discharge their responsibility effectively – see Section 8.

The responsibility for advising the Pension Committee is delegated to the Chief Financial Officer.

Members of the Pension Committee have equal access to Pension Committee agenda papers and associated appendices in accordance with the legislation and constitutional Rules relating to access to information for committees. Formal meetings of the Committee will take place in public unless it has resolved to move into exempt session in accordance with the applicable access to information provisions.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 formally introduced the concept of asset pooling. Over time, as assets move into pooled structures the Pensions Committee will also become responsible for:

- The selection, appointment and dismissal of an investment pooling operator to manage the assets of the Fund;
- Determining what the administering authority requires the pool to provide to enable it to execute its local investment strategy effectively;
- Receiving and considering reports and recommendations from the Joint Committee and Practitioners Advisory Forum, established to oversee the pool, to ensure that the Fund's investor rights and views are represented effectively;
- Identifying and managing the risk associated with investment pooling;
- Ensuring that appropriate measures are in place to monitor and report on the ongoing costs of investment pooling; and
- Ensuring the responsible investment, corporate governance and voting policies of the Fund are delivered effectively.

Local Pensions Board

The role of the Local Pensions Board is to assist in the good governance of the scheme through the monitoring of Fund performance and adherence to statutory duties.

The Board consists of two employer and two member representatives and an Independent Chair.

The Pensions Board is not a decision-making body, nor does it hold a scrutiny function.

The first core function of the Board is to assist the Administering Authority in securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

a) Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.

b) Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code.

c) Review the compliance of scheme employers with their duties under the Regulations and relevant legislation.

d) Assist with the development of and continually review such documentation as is required by the Regulations.

e) Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation.

f) Monitor complaints and performance on the administration and governance of the scheme.

g) Assist with the application of the Internal Dispute Resolution Process.

h) Review the complete and proper exercise of Pensions Ombudsman cases.

i) Review the implementation of revised policies and procedures following changes to the Scheme.

j) Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.

k) Review the complete and proper exercise of employer and administering authority discretions.

l) Review the outcome of internal and external audit reports.

m) Review draft accounts and Fund annual report.

n) Review the compliance of particular cases, projects or process on request of the Committee.

o) Any other area within the statement of purpose (i.e. assisting the Administering Authority) the Board deems appropriate.

The second core function of the Board is to ensure the effective and efficient governance and administration of the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

a) Assist with the development of improved customer services.

b) Monitor performance of administration, governance and investments against key performance targets and indicators.

c) Review the effectiveness of processes for the appointment of advisors and suppliers to the Administering Authority.

d) Monitor investment costs including custodian and transaction costs.

e) Monitor internal and external audit reports.

f) Review the risk register as it relates to the scheme manager function of the authority.

g) Assist with the development of improved management, administration and governance structures and policies.

h) Review the outcome of actuarial reporting and valuations.

i) Assist in the development and monitoring of process improvements on request of Committee.

j) Assist in the development of asset voting and engagement processes and compliance with the UK Stewardship Code.

Worcestershire County Council Pension Investment Sub Committee (ISC)

The role of the Worcestershire County Council Pension Fund Investment Sub-Committee shall be to consider, in detail matters relating to the investment of the assets within the strategic investment framework and performance of investment managers in achieving the Fund's investment objectives.

The Council appoints the Chairman and Vice-Chairman of the Pension Investment Sub Committee. The Chairman of the particular meeting has a second or casting vote in the case of equality of votes.

The Pension Investment Sub Committee is a formal committee of the Council and comprises a total of 4 voting members:

- 3 Worcestershire County Councillors
- 1 co-opted Councillor as nominated by Herefordshire Council (being the second largest employer in the Fund)

Non-voting

- 1 employee representative from a relevant Union.

The 3 County Councillor members are formally appointed by the Head of Legal and Democratic Services in accordance with political balance requirements from time to time and the nominations of the relevant Group Leaders and the co-optees are co-opted by the Chairman of the Committee.

The ISC will be advised by an Independent Financial Adviser who will attend all meeting and on an ad hoc basis by the Fund's Actuary

The composition of the Pension Investment Sub Committee is intended to reflect the abilities and knowledge of the individuals in matters relating to the investment of the Fund's assets rather than political representation. All members of the Sub Committee are entitled to vote if necessary for the Panel to fulfil its role and provide advice to the Pension Committee regarding the administration of the fund's assets.

The responsibility for advising the Pension Committee is delegated to the Chief Financial Officer.

Terms of reference:

The role of the Worcestershire County Council Pension Fund Investment Sub-Committee shall be to consider, in detail matters relating to the investment of the assets within the strategic investment

framework and performance of investment managers in achieving the Fund's investment objectives.

The ISC may also be occasionally requested to by the Worcestershire County Council Pension Fund Committee to undertake research and report back on a specific investment areas.

All decision taken and recommendations will be reported back to the next available ordinary meeting of the Worcestershire County Council Pension Fund Committee in the form of the minutes of the ISC.

The ISC will be responsible for:

a) Reviewing strategic and emerging opportunities outside the strategic asset allocation and make recommendations to the Committee.

b) Reporting regularly to Committee on the performance of investments and matters of strategic importance.

c) Monitor investment managers' investment performance and recommend decision to terminate mandates on performance grounds to Committee.

d) Monitor the Transition of investments to LGPS Central or other Pooling arrangements

e) Researching and providing a report back to the Worcestershire County Council Pension Fund Committee on any specific investment areas requested.

The ISC will have delegated authority to:

f) Approve and monitor tactical positions within strategic allocation ranges.

g) Implement investment management arrangements in line with strategic policy including the setting of mandate parameters and the appointment of managers.

h) Approve amendments to investment mandates within existing return and risk parameters.

i) Delegate specific decisions to officers as appropriate.

The ISC would meet quarterly ahead of the main Committee meetings to review manager performance and make decisions within the strategic asset allocations agreed.

The ISC is advised by an Independent Financial Adviser who attends all meetings and on an ad hoc basis by the Fund's Actuary.

One of the regular quarterly meetings will include an annual meeting to consider the Fund's full year's performance.

The Fund's Investment Strategy Statement (ISS) sets out the arrangements in place for the management of the investments of the Worcestershire County Council Pension Fund.

The day to day management of the Fund's investments is divided between external Investment Managers, operating in accordance with mandates set out in the Investment Strategy Statement.

The Chairman of the Investment Sub Committee will attend the Pension Committee to ensure flow of information between the 2 bodies.

Members of ISC must not have a conflict of interest and are required to provide the Chief Financial Officer with such information as the Chief Financial Officer reasonably requires for the purposes of ensuring no conflict of interest exists prior to appointment to the ISC and on an ongoing annual basis. Members of the ISC are required to hold the appropriate knowledge and skills to discharge their responsibility effectively.

Pension Administration Advisory Forum

The Pension Administration Advisory Forum provides the Pension Committee with advice concerning the administration of the Fund. It is neither a decision-making body nor formal committee, and will not normally meet in public. No voting rights apply to the Pension Administration Advisory Forum as the purpose of the Forum is to provide transparency of information to scheme employers and for scheme employers to provide advice to, and raise concerns with, the employer representative.

The Pension Administration Advisory Forum comprises:

- all Fund employers who wish to attend following invitation by the Administering Authority
- the Fund's Actuary (ad hoc basis)
- the Administering Authority's Pensions Manager and HR Service Centre Manager
- and the employer representative and employee representative of the Pension Committee.

Pension Administration Advisory Forum Terms of Reference:

The Forum meets at least twice a year or otherwise as necessary to:

- Discuss an Annual Administration Report and respond to any issues raised by employers.
- Discuss Government Consultations relating to the administration and benefits of the LGPS.
- Discuss the outcomes of the triennial/interim valuations and respond to any issues raised by employers.
- Discuss the minutes and updates from the Pension Committee and ensure flow of information between the Pension Committee and the Forum.
- To advise on service delivery to all stakeholders.
- To bring stakeholders perspective to all aspects of the Pension Fund business.
- To ask the Administering Authority and the Pension Committee to consider topics which affect the Pension Fund.

Investment Strategy Statement - Appendix 3: Advisers as of March 2019

MJ Hudson Allenbridge– Philip Hebson

Investment policy, general investment matters.

Mercers

Actuarial matters

LAPFF

Company governance issues.

BNY Mellon

Custodian, Stocklending.

Appendix 4: Statement of Investment Beliefs

The Fund's investment beliefs outline key aspects of how it sets and manages the Fund's exposures to investment risk. They are as follows:

Financial Market Beliefs

- There exists a relationship between the level of investment risk taken and the rate of expected investment return. As taking calculated risks does not guarantee returns, investment losses or below expected returns are possible outcomes.
- Markets are dynamic and are not always efficient, and therefore offer opportunities for skilled active managers.
- In making investments in illiquid assets, a return premium should be sought.
- Diversification is a key technique available to institutional investors for improving risk-adjusted returns.
- The fund believes that investing for the long term can add value to the fund as it allows the fund manager to focus on long term value and use short term volatility to establish favourable investments.
- Where an asset class/strategy is not expected to help in delivering the risk adjusted investment return required it should not be held.

Investment Strategy/Process Beliefs

Clear investment objectives are essential. Return and risk should be considered relative to the Fund's liabilities, funding position and contribution strategy.

Risk should be viewed both qualitatively and quantitatively. Particular focus should be given to the risk of loss and also to the nature and likelihood of extreme events so that the Fund is not a forced seller of assets.

- Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection.
- Equities are expected to generate superior long-term returns relative to Government bonds.
- Alternative asset class investments are designed to further diversify the portfolio and improve its risk-return characteristics.
- Active management can add value over time but it is not guaranteed and can be hard to access. Where generating 'alpha' is particularly difficult, passive management is preferred.
- Operational, counterparty, conflicts of interest and reputational risk need assessment and management, in addition to investment risk.
- Concentrated portfolios (smaller numbers of holdings or less external managers) allow for greater investment focus, lower investment costs and enable more focused engagement with Responsible investment.
- Managing fees and costs matter especially in low-return environments. Fee arrangements with our fund managers – as well as the remuneration policies of investee companies – should be aligned with the Fund's long-term interests.

Organisational Beliefs

- Effective governance and decision-making structures that promote decisiveness, efficiency and accountability are effective and add value to the Fund.
- When outperformance of a desired benchmark is not possible the fund will use index funds, financial instruments or proxies (Investments that share similar characteristics) to gain exposure to the asset class in the most cost effective way.
- Investment costs are necessary to generate outperformance in asset classes where outperformance is achievable. Investment costs are a certain cost that should be fully transparent and managed by the operator in the best interests of the pension Fund.

Responsible Investment Beliefs

- Effective management of financially material ESG risks should support the Fund's requirement to protect returns over the long term.
- Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events.
- There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.
- Responsible Investment should be integrated into the Investment process.
- The Fund will manage Responsible Investment factors through engagement rather than exclusions.

Contacts and Further Information

For more information about the
Worcestershire Pension Fund, please contact:

by email: pensions@worcestershire.gov.uk

by post: Worcestershire Pension Fund, County Hall, Spetchley Road, Worcester, WR5 2NP

by phone: Find out who to contact

Alternatively, you can contact a member of the Pensions Management Team as follows:

Linda Probin - Pensions Manager
lprobin@worcestershire.gov.uk
01905 846511

Rob Wilson – Finance Manager, Pensions & Treasury Management,
rwilson2@worcestershire.gov.uk
01905 846908

Find out more online:
www.worcestershire.gov.uk/pensions

Worcestershire Pension Fund

worcestershire county council