Worcestershire County Council

Agenda

Pensions Committee

Monday, 13 March 2017, 10.00 am
County Hall, Worcester

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کوردی سۆرانی. ئەگەر ناتوانی تێبگەی لە ناوەڕۆکی ئەم بەڵگەیە و دەستت بە هیچ کەس ناگات کە وەیبگێڕێتەوە بۆت، تکایە تەلەفۆن بکە بۆ ژمارەی 01905 765765 و داوای ڕێنوێنی بکە. *(Kurdish)*

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DISCLOSING INTERESTS

There are now 2 types of interests:
<u>'Disclosable pecuniary interests'</u> and <u>'other disclosable interests'</u>

WHAT IS A 'DISCLOSABLE PECUNIARY INTEREST' (DPI)?

- Any **employment**, office, trade or vocation carried on for profit or gain
- **Sponsorship** by a 3rd party of your member or election expenses
- Any **contract** for goods, services or works between the Council and you, a firm where you are a partner/director, or company in which you hold shares
- Interests in **land** in Worcestershire (including licence to occupy for a month or longer)
- **Shares** etc (with either a total nominal value above £25,000 or 1% of the total issued share capital) in companies with a place of business or land in Worcestershire.

NB Your DPIs include the interests of your <u>spouse/partner</u> as well as you

WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days <u>and</u>
- **Declare** it where you have a DPI in a matter at a particular meeting
  - you must **not participate** and you **must withdraw**.

NB It is a criminal offence to participate in matters in which you have a DPI

WHAT ABOUT 'OTHER DISCLOSABLE INTERESTS'?

- No need to register them but
- You must **declare** them at a particular meeting where:
  You/your family/person or body with whom you are associated have a **pecuniary interest** in or **close connection** with the matter under discussion.

WHAT ABOUT MEMBERSHIP OF ANOTHER AUTHORITY OR PUBLIC BODY?

You will not normally even need to declare this as an interest. The only exception is where the conflict of interest is so significant it is seen as likely to prejudice your judgement of the public interest.

DO I HAVE TO WITHDRAW IF I HAVE A DISCLOSABLE INTEREST WHICH ISN'T A DPI?

Not normally. You must withdraw only if it:

- affects your **pecuniary interests OR**
  relates to a **planning or regulatory** matter
- **AND** it is seen as likely to **prejudice your judgement** of the public interest.

DON'T FORGET

- If you have a disclosable interest at a meeting you must **disclose both its existence and nature** – 'as noted/recorded' is insufficient
- **Declarations must relate to specific business** on the agenda
  - General scattergun declarations are not needed and achieve little
- Breaches of most of the **DPI provisions** are now **criminal offences** which may be referred to the police which can on conviction by a court lead to fines up to £5,000 and disqualification up to 5 years
- Formal **dispensation** in respect of interests can be sought in appropriate cases.

Simon Mallinson Head of Legal and Democratic Services July 2012 WCC/SPM summary/f

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Pensions Committee
Monday, 13 March 2017, 10.00 am, County Hall, Worcester

Membership: Mr R W Banks (Chairman), Mr A I Hardman, Mr R C Lunn (Vice Chairman), Mr R J Sutton and Mr P A Tuthill

Coopted Members

Mr V Allison	Employer Representative
Mr A Becker	Employee Representative
Mr R J Phillips	Herefordshire Council

Agenda

Item No	Subject	Page No
1	**Named Substitutes**	
2	**Apologies/Declarations of Interest**	
3	**Public Participation** *Members of the public wishing to take part should notify the Head of Legal and Democratic Services in writing or by e-mail indicating the nature and content of their proposed participation no later than 9.00am on the working day before the meeting (in this case 10 March 2017). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address below.*	
4	**Confirmation of Minutes** To confirm the Minutes of the meeting held on 7 December 2016 (previously circulated)	

Agenda produced and published by Simon Mallinson, Head of Legal and Democratic Services, County Hall, Spetchley Road, Worcester WR5 2NP

To obtain further information or a copy of this agenda contact Simon Lewis, Committee Officer on 01905 846621, slewis@worcestershire.gov.uk

All the above reports and supporting information can be accessed via the Council's website

Date of Issue: Thursday, 2 March 2017

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AGENDA ITEM 5

PENSIONS COMMITTEE
13 MARCH 2017

ADMINISTERING AUTHORITY – ADMINISTRATION UPDATE

Recommendation

The Head of Human Resources and Organisational Development recommends that the Committee notes the general update from the Administering Authority.

Membership

1. The Administering Authority continues to provide support and process members through the cycle of current, deferred and pensioner. The current numbers are shown in Table 1 below:

Table 1

	2015	2016	2017
Current Members	20,700	22,700	21,931
Deferred Members	16,800	18,800	19,955
Pensioner Members	16,200	16,400	16,887

2. The number of Employers within the Fund is currently (as at 31 January 2017) 209

Record Keeping – The Pensions Regulator (TPR)

3. Following a recent survey The Pensions Regulator has produced a self-assessment tool to enable funds to review their compliance in relation to the Regulators Code of Practice no 14.

4. The Administering Authority will be undertaking a review from March 2017 of its records, in accordance with the Code of Practice, to maintain compliance.

Up-dating Member database (Altair)

Preparing for April 2017 – tax changes for pensioner members resident in Scotland

5. We are currently making changes to our payroll to ensure that with effect from 6 April 2017 we can accommodate the new higher rate tax threshold (£43,430) for pensioner members who are resident in Scotland.

Government Actuary's Department (GAD)

6. Preparing new reports to meet the GAD needs which will require us to split our records for each member by the Regulation dates e.g. 1997 (80ths) , 2008 (60ths) and 2013 (CARE)

Academies

7. There are now over 20,000 academies within the LGPS. Worcestershire Fund currently has 80 academies (which increase each month) and this has given rise to questions about how do the academies best fit into the scheme. Price Waterhouse Coopers (PwC) has been appointed to carry out a full review of the options and implication. Nothing has been ruled in or out and we are awaiting the report (expected in March 2017). It is expected that there will need to be more work to enable any approaches/recommendations to be fully considered.

Exit Payments

8. Recovery Regulations: This new Regulation covers employees who earn £80k or over and following dismissal return to the public sector within 12 months. They will be legally required to declare that they have received a compensation payment and to repay. The recovery will include pension strain costs.

9. Termination Cap: Exit payments will be capped for all employees at £95k, and the cap includes pension strain cost.

Further consultation

- Severance max 3 weeks per year or 15 months, a max salary of £80k in calculation?
- Pension - Strain to be limited to severance amount? Increase to minimum pension age?
- Discussions with unions, DCLG and HMT

LGPS and Co-Habitants

10. The England and Wales LGPS Regulations were amended in 2013 (as part of the new 2014 LGPS Scheme) to remove the opt-in / nomination requirement for unmarried couples. For deaths that have occurred since 1 April 2014, there has been no requirement for the completion of a form. The Administering Authority uses the Local Government Association (LGA) guidance which requires the member to have paid into the LGPS on or after 1 April 2008 for a pension to be payable to an eligible cohabiting partner. As part of the process the eligible cohabiting partner must confirm to the Fund that they meet all of the following conditions for a continuous period of 2 years to receive a survivors pension:

- You and your cohabiting partner are, and have been, free to marry each other or enter into a civil partnership with each other, and
- You and your cohabiting partner have been living together as if you were a married couple, or civil partners, and
- Neither you or your cohabiting partner have been living with someone else as if you/they were a married couple or civil partners, and
- Either your cohabiting partner is, and has been, financially dependent on you or you are, or have been financially interdependent on each other.

11. For deaths that occurred prior to 1 April 2014, there could potentially be some scope for revisiting such cases but we would expect the funding effect to be negligible at a Fund level. The Chief Financial Officer has confirmed that the funding assumptions for proportions married include an allowance for 'cohabiting spouses' so he would not be proposing to make any changes to the funding assumptions based on the judgement recently published in the press.

Administering Authority Forum Meeting and Communications

12. We are currently planning the next Forum to be held in May 2017 and will be seeking topics/ideas to be brought forward from the Employers.

13. The Administering Authority, in partnership with the following Funds: Bedfordshire, Buckinghamshire, Cheshire, Oxfordshire Staffordshire, Shropshire and Warwickshire is reviewing the current communication approach with a view to creating a monthly Employer Bulletin and a quarterly Member Update.

Admissions to the Fund

14. The following new organisations have been admitted to the Fund since the last report:

- Alliance in Partnership (Aylestone)
- Alliance in Partnership (Bewdley)
- Aspens Services Limited
- Timberdine Nursing and Rehabilitation Unit

15. The Fund is currently working on 4 more admissions agreements and once finalised these will be reported to the Committee.

Specific Contact Point

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Background Papers

In the opinion of the proper officer (in this case the Head of Human Resources and Organisational Development) there are no background papers relating to the subject matter of this report.

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AGENDA ITEM 6

PENSIONS COMMITTEE
13 MARCH 2017

MALVERN HILLS CONSERVATORS

Recommendation

1. The Chief Financial Officer recommends that the proposal from Malvern Hills Conservators to move from an open to a closed admission basis, on an 18 year deficit recovery plan, is approved by the Committee, subject to Malvern Hills Conservators gaining a surety bond with value of £1,178,000, the value of which is reviewed at least on a triennial basis.

Background

2. Malvern Hills Conservators is a resolution body within the Worcestershire County Council Pension Fund.

3. Malvern Hills Conservators established a working party to review its future participation in the Fund following receipt of the 2013 Actuarial Valuation results, which set out an increase in pension contributions required by the Actuary. Malvern Hills Conservators has been advised since 2015 by an independent Actuary, Gerry Walsh of Mitchell Consulting.

Proposal

4. Malvern Hills Conservators proposed route forward is as follows:

a) That Malvern Hills Conservators (MHC) close LGPS to new joiners.
b) That existing members continue as LGPS members until they either leave MHC or retire.
c) That a nominal post be identified which will continue as a member of LGPS.
d) Those deficit contributions following the 2016 actuarial valuation exercise be spread over a period over 18 years.

Termination

5. When the last LGPS active member retires or leaves Malvern Hills Conservators a termination event is triggered that requires the outstanding deficit, calculated on a 'least risk basis', to be paid to the Fund immediately or in line with a payment plan agreed with the Administering Authority.

6. The average Malvern Hills Conservators active members' years to retirement is currently twelve years, however the youngest active member may remain in the scheme longer than the average years.

Financial Position

7. Malvern Hills Conservators have detailed their financial position in Appendix 1 to this report and state that 'prior to the escalating pension costs, the general fund ran at a small surplus each year, allowing sufficient reserves to purchase the capital equipment needed to maintain the Hills and Commons'. Malvern Hills Conservators general budget summary for the period 2017/18 to 2019/20 shows that once deficit contribution payments are included an annual deficit results in the region of £15,000 to £25,000 per annum. Their general fund has reserves of around £250,000. Malvern Hills Conservators has two major sources of general fund income, an annual precept charged to Council Tax payers, £482,000 in 2017/18, and car park takings, typically around £200,000 per annum.

8. Malvern Hills Conservators have deficit within the Fund on a closed basis that has been valued at £1.092 million. There is therefore significant risk to the fund that if Malvern Hills Conservators financial position does not improve the general reserve will not be able to meet the deficit contribution payments for the full 18 years deficit recovery period.

9. A deficit recovery period of less than 18 years would potentially reduce the risk to the fund over the longer term but would place significant pressure in the short to medium term on Malvern Hills Conservators financial position and could lead to an earlier termination event.

Collateral/Surety Bond

9. Malvern Hills Conservators governing documents (the Malvern Hills Acts) allow assets to be used as security for borrowings, but under the Malvern Hills Acts, any assets so charged cannot be sold by the lender. Therefore the option of Malvern Hills Conservators providing a form of collateral to the Fund, to help mitigate some for the deficit repayment risk, is limited.

10. The Fund's Actuary has advised that as a minimum they would recommend that a surety bond is gained by Malvern Hills Conservators with value sufficient to cover the funding deficit on the ongoing assumptions plus any early retirement strains that would be incurred for eligible members (age 55 and over) on redundancy.

11. At the valuation date (31 March 2016), this would amount to c. £1,178,000. This value has been based on:

- Ongoing funding deficit: £1,092,000; plus
- Early retirement strains: £85,822

12. A number of small to medium sized employers who were admitted to the Fund in 2015 and 2016 were able to gain surety bonds from independent banks, although there is a cost associated with obtaining and maintaining the bond based on the covenant strength of the organisation. Initial enquiries by Malvern Hills Conservators into the cost of a surety bond have revealed that a minimum cost of around £25,000 is payable but it is not confirmed if this cost relates to the bond value now advised by the Fund's Actuary.

13. After taking into account the precepting powers of Malvern Hills Conservators and the fact that the organisation has existed since 1884 and although the cost of obtaining and maintaining the surety bond may impact negatively on Malvern Hills Conservators financial position, due to the value of the outstanding deficit and the current financial position of Malvern Hills Conservators, it is recommended that a surety bond is required to reduce the risk to the other employers in the Fund bearing the cost of the deficit in the event that Malvern Hills Conservators are unable to pay the deficit over the 18 years recover period or in the event of early termination.

Supporting Information

Appendix 1 - Malvern Hills Conservators Pensions Working Group - Report to meeting of WCC Pensions Committee, 13th March 2017

Contact Point for the Report

Sean Pearce, Chief Financial Officer
Tel: 01905 846268
Email: spearce@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report:

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Malvern Hills Conservators Pensions Working Group

Report to meeting of WCC Pensions Committee, 13th March 2017

1. Introduction

Malvern Hills Conservators (MHC) is a resolution body within the Worcestershire County Council Pension Fund (WCCPF).

Following receipt of the 2013 Actuarial Valuation of WCCPF, on seeing the rate at which employer's contributions to the scheme were set to increase MHC established a working party to review its future participation in WCCPF. Work commenced in 2014 and has now reached a conclusion. Throughout the review, MHC has been in close contact with Mark Forrester and Ian Kirk of Mercers. MHC would like to thank Mark, Ian and their teams for their constructive help and advice.

MHC has been advised since 2015 by an independent Actuary, Gerry Walsh of Mitchell Consulting.

The MHC Pensions Working Group now seeks confirmation from WCC Pensions Committee of its proposal for MHC's future participation on WCCPF. If confirmation is received, the Board of MHC will be asked to approve the proposals in April 2017.

2. Summary of MHC's proposal

MHC needs to find a way to reduce its future exposure to the potential liabilities arising from having staff enrolled in LGPS. In July 2016, MHC's Board voted to temporarily close the LGPS to new joiners whilst working with WCC to confirm the detail of a possible permanent closure.

By moving to a closed scheme basis, MHC's deficit within WCCPF will initially be the same as under an open scheme approach. Over time, this basis would lead to a reduction in business risk for MHC as compared to an open scheme basis, as there is less accrual of expensive and volatile defined benefit pensions because new recruits to MHC will be offered defined contribution benefits only. The risk to WCCPF would therefore also reduce.

Under an open scheme basis, WCCPF allows an 18-year write-off period for deficits. MHC understands this is the maximum permitted write-off period, so despite the lower risk to WCCPF under a closed basis MHC proposes the same write off period under a closed basis.

One area to be addressed would be the issue of a potential 'termination deficit' arising once the final active member of WCCPF leaves or retires from MHC. WCCPF has previously indicated that this could be avoided by MHC retaining one nominal post which continues as a member of LGPS and we assume this view has not changed.

The proposed route forward is as follows:

1. That MHC close LGPS to new joiners,
2. That existing members continue as LGPS members until they either leave MHC or retire,
3. That a nominal post be identified which will continue as a member of LGPS,
4. That deficit contributions following the 2016 actuarial valuation exercise be spread over a period over 18 years.

3. Contributions under the closed basis

MHC has been advised that under a 'closed basis', the employer's future service contribution rate for the next 3 years would be 18.2% of pensionable earnings (measured using the projected unit method with a 3 year control period). This rate will be reassessed every 3 years following the triennial actuarial valuation.

In addition, deficit contributions would be payable. The period over which these can be paid is to be agreed by the WCC Pensions Committee, but MHC proposes an 18-year period.

MHC's deficit within WCCPF has been valued at £1.092 million. MHC's consultant Actuary, Gerry Walsh, has provided the following estimates of the lump sum deficit repayments for the next 3 years, allowing repayment periods of 5 – 18 years.

Deficit recovery period (years)	Amount payable 2017/18 £	Amount payable 2018/19 £	Amount payable 2019/20 £
5	231,500	240,100	249,000
6	193,500	200,700	208,100
7	166,400	172,600	179,000
8	146,000	151,400	157,000
9	130,200	135,000	140,000
10	117,500	121,800	126,300
11	107,200	111,200	115,300
12	98,600	102,200	106,000
13	91,300	94,700	98,200
14	85,000	88,100	91,400
15	79,600	82,500	85,600
16	74,800	77,600	80,500
17	70,700	73,300	76,000
18	66,900	69,400	72,000

4. MHC's financial position

MHC was established by Act of Parliament in 1884. It is a registered charity. It owns 3,000 acres of land of the Malvern Hills and Commons. It has a strong balance sheet, but the majority of its assets are inalienable and the use of most of its reserves is restricted to the purchase of land or buildings. The employer's pension costs must be met from the charity's general fund.

The general fund has reserves of around £250,000. MHC has two major sources of general fund income, an annual precept charged to Council Tax payers (£482,000 in 2017/18) and car park takings (typically around £200,000 per annum).

Prior to the escalating pension costs, the general fund ran at a small surplus each year, allowing sufficient reserves to purchase the capital equipment needed to maintain the Hills and Commons.

A summary of the projected general fund financial position for the next three years is given in the following table. These figures are based on closure of the WCCPF to new members.

Malvern Hills Conservators			
General fund budget summary 2017/18 - 2019/20			
	2017/18	2018/19	2019/20
	£	£	£
Budgeted deficit assuming on-going membershp of WCCPF	(21,751)	(27,819)	(17,023)
Add back pension conributions inc above	136,657	133,254	136,259
Deficit before pension contributions	114,906	105,435	119,236
LGPS future service contributions @ 18.2%	(52,567)	(53,092)	(53,623)
DC scheme costs	(8,222)	(8,304)	(8,387)
Life assurance	(1,200)	(1,500)	(1,500)
Surplus before deficit contributions	**52,917**	**42,539**	**55,726**
Deficit contributions 18 years	(66,900)	(69,400)	(72,000)
Deficit for the year	**(13,983)**	**(26,861)**	**(16,274)**
Reserves brought forward	251,781	237,798	210,937
Reserves carried forward	237,798	210,937	194,663

An 18-year write off period will still require MHC to address a small deficit, but this is at a manageable level albeit it will lead to a gradual erosion of the general fund reserves unless additional savings or revenue can be found. A shorter write off period, leading to higher deficit payments would make this more difficult, posing a greater risk to both MHC and WCC.

5. Collateral

The issue of collateral has been raised by Mark Forrester. MHC's governing documents (the Malvern Hills Acts) allow assets to be used as security for borrowings, but under the Malvern Hills Acts, any assets so charged cannot be sold by the lender. Legal advice would need to be sought as to whether securing a pension debt would be legal, but given the inability to realise any assets this has not been investigated further.

Initial enquiries into the cost of a surety bond have revealed that these are mainly available to large, blue chip companies and carry a minimum cost of around £25,000.

However, the Pensions Working Group believe that MHC's precepting powers and the fact that the organisation has existed since 1884 provide a sufficient covenant.

We would be grateful to receive your response to our proposals set out in this note and we hope that you will be able to agree to them so that they can be put to the Board of MHC for approval in April 2017.

Cheryl Gentry
Finance & Administration Manager
2nd February 2017

On behalf of MHC's Pensions Working Group

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PENSIONS COMMITTEE
13 MARCH 2017

RISK REGISTER

Recommendation

The Chief Financial Officer recommends that The Risk Register be approved and adopted for annual review by the Committee.

Background

1. Guidance issued by CIPFA on the application of the Myner's Principles in the LGPS in 2010 indicated that the creation and adoption by Pensions Committees of a risk register was best practice.

2. Risk management is central to the management of the Pension Fund as reflected by the coverage of risk in key documents such as the Funding Strategy Statement and the Statement of Investment Principals. The risk register allows for consideration of all of the Fund's risks in a single document.

Risk Register

3. In line with CIPFA best practice guidance, the risk register for the Fund has been updated and reviewed by the Pension Board that sets out the risks associated with the governance, investments, funding, administration and communications objectives of the fund. The risk register also details the mitigating actions in place to reduce the impact and probability related to each specific risk. Risk scores have been set in relation to each risk to help identify key risks to the fund and each risk has been assigned to a risk owner.

4. The key objectives of the Risk Register are to:

   - identify key risks to the achievement of the Fund's objectives
   - consider the risks identified
   - assess the significance of the risks

5. The risk evaluation table in appendix 1 to the report has been designed in order to assess specific risks and to introduce a measure of consistency into the risk assessment process. The overall rating for each risk is calculated by multiplying the probability value against the impact value to give the total score. The risk rating scores are then used to prioritise the risk rating which is shown in the register.

Key Risks

6. Of the risks identified in the risk evaluation table (Appendix 1), nine risks are currently listed as having a residual risk score rated as 'amber', which indicates an outstanding medium level risk to the Fund.

7. Four of the nine risks have associated mitigating actions, detailed in Appendix 1, that are currently being undertaken by the Fund but remain a medium risk. These risks relate to ensuring the fund has sufficient assets to pay liabilities as they fall due whilst maintaining as nearly constant employer contributions as possible. The Fund mitigates these risks through triennial strategic asset allocation reviews, regular reviews of active external asset manager performance and the implementation of a Funding Strategy Statement following triennial Actuarial Valuations. The residual risk is the inherent risk that can only be mitigated to a certain level, for example volatility in investment returns is partially mitigated through actions such as diversification of investments.

8. The remaining five 'amber' risks have outstanding actions associated with them, as detailed in Appendix 1, that are due for completion prior to 1st January 2018. The first actionable risk relates to a requirement for KPI reporting, which will be implemented by Fund officers by 31st March 2017. The next risk relates to achieving the government's asset pooling criteria, which is being actioned through the LGPS Central Programme Board and Programme Delivery Group. The third risk relates to MiFID 2, the issues of which are being progressed through a MiFID II sub group, including representatives of Funds/pools and the FCA. The fourth and fifth risks, that will be further mitigated, relate to minimisation of unrecoverable debt on termination of employer participation. Fund officers will be implementing an ongoing covenant review and assessment process for all fund employers by 31st December 2017.

Supporting Information

Appendix 1 – Risk Evaluation Table

Contact Point for this report

Sean Pearce, Chief Financial Officer
Tel: 01905 846268
Email: spearce@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report:

WCC Pension Fund Risk Register
March 2017

Mitigating Actions - Key

Mitigating Actions - Don't currently undertake - not started
Mitigating Actions - Started work - part complete
Mitigating Actions - We currently implement control(s) - complete and ongoing

NB: Risk scoring system is in-line with CIPFA best practice guidance for the LGPS .

Objectives area at risk	Objective at risk	Risk ref	Description of risk or not achieving the objectives	Risk Category	Risk Type	Gross Impact	Gross Probability	Gross Risk Score	Mitigating Action	Residual Impact	Residual Probability	Residual Risk Score	Assigned to (Risk Owner)		
Governance Risks														**WCC Action Plan**	**WCC Deadline**
Governance	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based.	G1	Failure of Governance arrangements to match up to recommended best practice leads to loss of reputation and employer confidence and/or need to make major changes at short notice.	Strategic threat	Governance / reputational	3	2	6	The Fund's governance arrangements comply with best practice guidance, as set out in the Fund's Governance Compliance Statement.	3	1	3	Chief Financial Officer		
Governance	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based.	G2	Ultra vires pension fund actions lead to financial loss and damage reputation.	Strategic threat	Financial / Reputational	2	2	4	The Fund's governance arrangements comply with best practice guidance, as set out in the Fund's Governance Compliance Statement.	2	1	2	Chief Financial Officer		
Governance	Provide a high quality 'gold standard' service whilst maintaining value for money	G3	Failure to disclose relevant facts in the report and accounts or during the audit	Directorate threat	Governance	2	3	6	Robust review and sign off processes in place to check the disclosure of relevant facts. Accounts are reviewed by the Senior Finance Manager and Chief Financial Officer prior to sending to external audit. The accounts are also checked against the CIPFA example accounts and external audit accounts checklist.	2	1	2	Chief Financial Officer		
Governance	Ensure the pension fund is managed and its services delivered by people who have the appropriate knowledge and expertise	G4	Change to LGPS e.g. move to part DC and lack of Pension Committee expertise in this area.	Strategic threat	Governance	3	2	6	Training plan has been implemented for Pension Committee members. The Fund uses specialist advisers to provide relevant information and recommendations to the Committee.	2	2	4	Chief Financial Officer		
Governance	Provide a high quality 'gold standard' service whilst maintaining value for money	G5	Production of incorrect accounts, notices and publications	Directorate threat	Governance	2	2	4	Robust review and sign off processes in place to check the disclosure of relevant facts. Accounts are reviewed by the Senior Finance Manager and Chief Financial Officer prior to sending to external audit. The accounts are also checked against the CIPFA example accounts and external audit accounts checklist.	2	1	2	Chief Financial Officer		
Governance	Ensure the pension fund is managed and its services delivered by people who have the appropriate knowledge and expertise	G6	Low knowledge amongst Pension Committee members and Pension Investment Advisory Panel members due to high member turnover.	Directorate threat	Governance	2	3	6	Training policy and plans has been implemented in line with best practice guidance. The Fund also runs induction training sessions for new members.	1	1	1	Chief Financial Officer		
Governance	Ensure the pension fund is managed and its services delivered by people who have the appropriate knowledge and expertise	G7	Failure of Succession planning for key roles on the Pension Committee	Directorate threat	Governance	3	2	6	The committee's approach to training, where members are working toward compliance with the CIPFA knowledge and skills framework (KSF), should help minimise any adverse impacts of failure in succession planning because there should be a greater number of candidates for Pension Committee positions with appropriate knowledge and skills in depth.	3	1	3	Chief Financial Officer		
Governance	Ensure the pension fund is managed and its services delivered by people who have the appropriate knowledge and expertise	G8	Failure of officers to maintain sufficient level of competence to discharge their duties	Directorate threat	Governance	3	3	9	Officers are appropriately qualified and attend external conferences / workshops to keep up-to-date on pensions issues along with reviewing specialist publications. Officers also attend meetings with peers to share knowledge.	1	1	1	Chief Financial Officer		
Governance	Ensure the pension fund is managed and its services delivered by people who have the appropriate knowledge and expertise	G9	Failure to delegate matters which should be performed by officers	Directorate threat	Governance	2	3	6	Clear delegation policies / procedures are in place and reviewed regularly. The policies are in-line with best practice and are reviewed by external audit annually.	1	1	1	Chief Financial Officer		

Governance	Ensure the pension fund is managed and its services delivered by people who have the appropriate knowledge and expertise	G10	Failure to appoint relevant advisors and review their performance	Directorate threat	Governance / Reputational	2	2	4	Pension Investment Advisory Panel monitors performance of the Fund's investment adviser. The Pension Committee and Fund officers carry out a subjective review and objective analysis of Fund assets performance resulting from actions taken by the Pension Committee following advice from the specialist advisers and the Pension Investment Advisory Panel.	2	1	2	Chief Financial Officer		
Governance	Ensure the pension fund is managed and its services delivered by people who have the appropriate knowledge and expertise	G11	If there is inadequate succession planning, staff could leave or go on long term absence and others may not have the skills to pick up those areas of work	Service threat	Staff	3	3	9	Cover is in place regarding investment management and Fund contract management (Chief Financial Officer / Finance Manager - Pensions) and accounting and investment administration (Finance Manager - Pensions / Accountancy Technician). Cover is in place on pension administration side through Pensions Manager and two Senior Pension Assistants.	2	1	2	Chief Financial Officer and HR Service Centre Manager		
Governance	Evolve and look for new opportunities that may be beneficial for our stakeholders, ensuring efficiency at all times	G12	Insufficient staff resource causes failure to free up time to look for other best practice areas, then opportunities may be missed	Service threat	Financial / Customer / Stakeholder related	2	3	6	Functions are reviewed to ensure they are sufficiently staffed and officers review operations to identify areas of inefficiency and potential solutions.	2	1	2	Chief Financial Officer and HR Service Centre Manager		
Governance	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based.	G13	Failure to recognise conflicts of interest	Directorate threat	Governance	3	2	6	Committees are regularly trained to recognise conflicts and ensure frequent discussions take place as part of business as normal.	2	1	2	Chief Financial Officer		
Governance	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based.	G14	If conflict of interests arise within Pension Committee then lower contribution rates could be set that put future solvency at risk	Strategic threat	Financial	3	3	9	Committees are regularly trained to recognise conflicts and ensure frequent discussions as part of business as normal.	2	1	2	Chief Financial Officer		
Governance	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based.	G15	Infringement of contracts for the supply of services (investment management, investment advice, actuarial services, custodial services, etc.) to the pension fund leads to reputational and financial loss	Directorate threat	Financial / Reputational	2	2	4	Contract service reviewed quarterly by Pension Investment Advisory Panel and approved by Pension Committee. Finance Manager - Pensions reviews Investment managers' internal control reports and reports any significant exceptions to the Chief Financial Officer.	2	1	2	Chief Financial Officer		
Governance	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based.	G16	Failure to produce proper signed notes of relevant meetings	Directorate threat	Governance	1	3	3	Full minutes are taken at all committee and panel meetings. Agenda and reports for the Pension Committee are available on the Council's website.	1	1	1	Chief Financial Officer		
Governance	Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based.	G17	Failure of Pension Committee members to leave their prejudices behind	Strategic threat	Reputational	2	3	6	Regularly review performance of Pension Committee members and committee actions	2	2	4	Chief Financial Officer		
Governance	Understand and monitor risk and compliance	G18	Failure of business continuity planning	Service threat	Financial	3	2	6	The Council has a Business Continuity Plan in place, which also applies to the Pension Fund and is regularly tested.	1	1	1	Chief Financial Officer		
Governance	Understand and monitor risk and compliance	G19	New risks are not identified or risk register is not kept up-to-date	Service threat	Governance	3	2	6	Finance Manager - Pensions updates risk register and highlights outstanding risks to the Chief Financial Officer. Updates and risks are then reported to Pension Committee as required.	2	1	2	Chief Financial Officer		
Governance	Continually measure and monitor success against our objectives	G20	Failure to have formal monitoring of KPI's in place leads to officers being unable to produce accurate performance management reports	Service threat	Financial	2	3	6	Produce and monitor KPI report	2	3	6	Chief Financial Officer	Finance Manager - Pensions, Treasury Management and Capital to develop performance objectives, in line with the Shadow Scheme Advisory Board 2015 KPI's and monitor success, using benchmarking information, investment performance etc.	31 March 2017. Refreshed annually.

Governance	Continually measure and monitor success against our objectives	G21	Risk of manual intervention when producing management reports leading to lack of the audit trail	Service threat	Governance	2	1	2	Investment performance independently confirmed by Statesmen. SAP management reports available and new pensions administration system implemented with automatic reporting	2	1	2	Chief Financial Officer		
Governance	Pursue socially responsible business practices	G22	Failure to manage the fund in line with policies	Strategic threat	Governance	1	3	3	Monitor application of the policies via contract performance review and KPI review	1	3	3	Chief Financial Officer	The Pension Investment Advisory Panel monitors contract performance / proxy voting quarterly. Finance Manager - Pensions, Treasury Management and Capital to develop KPI's, and report to Chief Financial Officer annually. KPI report will also be presented to the Pension Board	31 March 2017. Refreshed annually.
Investment Risks															
Investments	To maximise the returns from investments with reasonable risk parameters	I1	If investment return is below that assumed by the actuary in funding the plan this could lead to an increasing deficit and additional contribution requirements. The larger the level of mismatch between assets and liabilities the bigger the risk	Directorate Threat	Financial	4	3	12	The Fund has a diversified portfolio and the Pension Committee carries out triennial strategic asset reviews. The Fund implements a policy of extended recovery periods to smooth contribution increases. Qualified advisers are contracted and the funding position is reviewed as part of the actuarial valuation process.	3	3	9	Chief Financial Officer		
Investments	To maximise the returns from investments with reasonable risk parameters	I2	Inefficiencies within the portfolio can result in unintended risk	directorate threat	financial	3	3	9	The Fund holds a diversified portfolio and the Pension Committee carries out triennial strategic asset reviews with quantification of individual components of financial risks. The Fund hedges some risks and obtains expert qualified advice.	2	1	2	Chief Financial Officer		
Investments	To maximise the returns from investments with reasonable risk parameters	I3	If investment returns are below peer group funds, or risk levels are excessive relative to peer group, this could lead to reputational damage for the fund or member/admitted body dissatisfaction	Directorate Threat	Reputational	2	3	6	Regular annual monitoring against peer group takes place and is reviewed by the Pension Investment Advisory Panel.	2	2	4	Chief Financial Officer		
Investments	To maximise the returns from investments with reasonable risk parameters	I4	Risk of missing opportunities to maximise returns	Directorate Threat	Financial	2	3	6	Regular quarterly monitoring by Pension Investment Advisory Panel. Fund officers meet with investment managers to encourage new ideas and also carryout peer group discussions. In addition the Fund gains advise from an independent financial adviser.	2	2	4	Chief Financial Officer		
Investments	To maximise the returns from investments with reasonable risk parameters	I5	If investment strategy is inconsistent with funding plan then it can lead to employers paying the incorrect contribution rate	Directorate Threat	Financial / Reputational	4	3	12	Triennial asset allocation reviews take place and are linked with the Fund's funding strategy and investment strategy. The Fund publishes a Statement of Investment Principals(SIP) and holds interim reviews where required. The Actuary reviews the Fund's investment strategy and advises the Chief Financial Officer and the Pension Committee on the value of the Fund's liabilities and funding strategy.	2	1	2	Chief Financial Officer		
Investments	To maximise the returns from investments with reasonable risk parameters	I6	Fund managers underperform their benchmarks	Directorate Threat	Financial	2	3	6	Quarterly monitoring of managers by Fund officers and the Pension Investment Advisory Panel. Manager selection is carried out by suitably qualified officers and independent expert advisors with final selection by the Pension Committee. Assets are diversified as per the Fund's SIP and reviewed at triennial asset allocation reviews. Benchmarks are advised by the Fund's qualified independent financial adviser.	2	2	4	Chief Financial Officer		

Investments	To ensure the fund is properly managed	I7	Inappropriate or uninformed decisions, e.g. due to lack of understanding / training	Directorate Threat	Financial / reputational	3	3	9	Pension Committee members are provided training and Fund officers monitor knowledge and understanding. The Fund has appointed an independent financial adviser. The in house team is experienced and qualified. Papers are prepared in advance of discussions being made and annual strategy review sets plan for year.	2	1	2	Chief Financial Officer		
Investments	To ensure the fund is properly managed	I8	Insufficient management information about the position of the fund e.g. level of risk, amount of assets, performance of managers	Directorate Threat	Financial / Reputational	3	3	9	Regular quarterly reporting and monitoring by Pension Investment Advisory Panel regarding asset performance and investment manager performance. The Fund also holds annual strategy reviews with benchmark performance and risk compared against the LGPS peer group.	2	1	2	Chief Financial Officer		
Investments	To ensure the fund is properly managed	I9	Failure to take expert advice or risk of poor advice	Directorate Threat	Financial / Reputational	2	3	6	The Fund has appointed an independent financial adviser who attends quarterly meetings. The Fund also contracts a performance benchmark provider and an Actuary.	1	1	1	Chief Financial Officer		
Investments	To ensure the fund is properly managed	I10	Delays in implementation of decisions reduces the effectiveness of the decision	Directorate Threat	Financial / Reputational	2	3	6	The Fund uses a passive manager or transition manager to implement change. The Pension Committee also delegates certain duties and actions to the Chief Financial Officer to ensure decisions are taken and implemented effectively.	1	2	2	Chief Financial Officer		
Investments	To ensure the fund is properly managed	I11	If liquidity is not managed correctly, assets may need to be sold at unattractive times or investment opportunities missed as cash is unavailable	Directorate Threat	Financial / Reputational	2	2	4	Finance Manager - Pensions monitors Fund cash flow on a monthly basis. The Fund currently has under 10% of total net assets exposure to illiquid assets.	1	1	1	Chief Financial Officer		
Investments	To ensure the fund is properly managed	I12	Insufficient scrutiny of manager mandates and terms of business may lead to inappropriate fee levels or other costs	Directorate Threat	Financial / Reputational	2	2	4	Quarterly monitoring takes place by Pension Investment Advisory Panel. The panel also reviews fees versus peer group and fee reductions are negotiated as a result of poor performance.	1	1	1	Chief Financial Officer		
Investments	To ensure the fund is properly managed	I13	Failure of manager or custodian	Directorate Threat	Financial / Reputational	3	1	3	Quarterly monitoring takes place by Pension Committee and Pension Investment Advisory Panel. Finance Manager - Pensions reviews managers' SAS70 audit reports. An investment financial adviser is appointed to review performance and fees. The Fund has a diversified portfolio investment mandates and diversification of Custody via pooled funds.	2	1	2	Chief Financial Officer		
Investments	To ensure the fund is properly managed	I14	Failure to react to major change in the market / economic conditions	Directorate Threat	Financial	3	2	6	Quarterly monitoring takes place by Pension Investment Advisory Panel with updates provided from an independent financial adviser. Appropriate mandates are procured based on the outcome of triennial asset allocation reviews and independent financial adviser advise. Fund officers hold regular meetings with investment managers to gain up-to-date information of market / economic conditions.	2	1	2	Chief Financial Officer		
Investments	Ensure all significant fund investment issues are communicated properly to all interested parties	I15	Inappropriate communication of risks involved in the pension fund and strategy adopted and actions taken by the Pension Committee may lead to questions and challenge and unexpected increases in contributions	Directorate Threat	Reputational	2	3	6	The Fund holds bi-annual Pension Forum's to which all Fund employers are invited. The Employee and Employer representatives of the Pension Committee attend the Forum meetings and the representatives details are provided to all Fund employers.	1	2	2	Chief Financial Officer and HR Service Centre Manager		
Investments	Ensure that the Fund meets the Government's asset pooling criteria	I16	Failure to pool assets in a regulated CIV starting from 1st April 2018	Directorate Threat	Governance / Reputational / Regulatory Compliance	4	3	12	The Fund is a working member of the LGPS Central pool. A project team and Programme Board in in place and the pool maintains and manages a separate risk register. The programme to date is on target to meet the government's pooling timetable and to the required standard.	3	2	6	Chief Financial Officer	Finance Manager - Pensions, Treasury Management and Capital is an active member of the pool's Programme Delivery Group and the Chief Financial Officer attends regular pool Programme Board meetings.	1st April 2018

Investments	To maximise the returns from investments with reasonable risk parameters and to ensure that the Fund meets the Government's asset pooling criteria	I17	MiFID II will default categorise all LGPS Funds to Retail client status from January 2018.The criteria (tests) enabling LGPS Funds to acquire Elective Professional status will be finalised by the FCA around June 2017. If the Fund is unable to obtain Professional status then the Fund would be unable to invest in certain investment asset classes and unable to access the required investment funds to achieve the target returns required.	Directorate Threat	Financial / Reputational	4	3	12	A MiFID II sub group, (including representatives of Funds/pools and the FCA) is in place to explore matters in detail and report back to further Cross Pool Collaboration Group (CPCG) meetings. The Chief Financial Officer maintains close communications with the Director of Finance at Cheshire West and Chester Council who is a Society of County Treasurers representative at the CPCG meetings.	4	2	8	Chief Financial Officer	Finance Manager - Pensions, Treasury Management and Capital is an active member of the pool's Programme Delivery Group, which has regular updates from the Cross Pool Collaboration Group (CPCG) and also has a representative on the CPCG along with close contact with the Director of Finance at Cheshire West and Chester Council meetings. The LGA and the Scheme Advisory Board are also in regular contact with the FCA regarding the outstanding MiFID II issues for the LGPS.	1st January 2018
Funding Risks															
Funding	Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters	F1	Investment markets perform below actuarial assumptions resulting in reduced assets, reduced solvency levels and increased employer contributions	Strategic Threat	Financial / Reputational	4	2	8	The Fund holds a diversified asset portfolio which is regularly monitored against targets. The Fund holds triennial Strategic Asset Allocation Reviews. The Fund's independent financial adviser contributes to the review along with specialist portfolio risk modelling providers.	2	2	4	Chief Financial Officer		
Funding	Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters	F2	Market yields move at variance with actuarial assumptions resulting in increases in liabilities, reduced solvency levels and increased employer contributions	Strategic Threat	Financial / Reputational	4	2	8	Interim reviews are commissioned to enable consideration of the funding position and the continued appropriateness of the funding / investment strategies. The Fund also phases contribution increases over a three year period for most Fund Employers.	3	2	6	Chief Financial Officer		
Funding	Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters	F3	Investment managers fail to achieve performance targets (i.e. ensure funding target assumptions are consistent with funding objectives) which reduces solvency levels and requires increases in employer contributions	Strategic Threat	Financial / Reputational	3	3	9	The Fund holds a diversified investment structure and the Pension Committee and Pension Investment Advisory Panel review investment manager performance quarterly. Reduced fees are negotiated with investment managers where under performance has occurred and managers are changed if confidence is lost in their ability to outperform the market index.	2	2	4	Chief Financial Officer		
Funding	Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters	F4	Mortality rates continue to improve, in excess of the allowances built into the evidence based actuarial assumptions, resulting in increased liabilities, reduced solvency levels and increased employer contributions	Strategic Threat	Financial / Reputational	3	3	9	Mortality rates are monitored by the Fund's actuary and the Actuary liaises with the Chief Financial Officer if significant changes are expected. The Fund phases contribution increases over a three year period for most Fund Employers and can manage employer contribution affordability through adjusting deficit recovery periods and negotiating assumptions with the actuary during the actuarial valuation process.	2	2	4	Chief Financial Officer		
Funding	Achieve and then maintain assets equal to 100% of liabilities within reasonable risk parameters	F5	Frequency of early retirements increases to levels in excess of the actuarial assumptions adopted, resulting in increases required in employers contributions	Strategic Threat	Financial / Reputational	3	3	9	Employers are required to pay lump sums to fund costs for non-ill health cases. The Actuary monitors early retirement (including on the grounds of ill-health) experience being exhibited by the Fund's members and consequently adjusts the actuarial assumption. The Fund ensures that employers are made aware of consequences of their decisions and that they are financially responsible.	2	2	4	Sean Pearce / Mark Forrester		

Funding	To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible	F7	Mismatch in asset returns and liability movements result in increased employer contributions	Strategic Threat	Financial / Reputational	4	3	12	The Fund has a diversified investment structure and carries out frequent monitoring against asset performance targets to adjust funding plans accordingly through the Funding Strategy Statement. Employers are kept informed through the Pension Forum meetings. The large majority of the Fund's employers have strong covenant strength and therefore the Fund takes a long-term view with regards to its investment strategy and can therefore access volatility and illiquidity premiums to help reduce the deficit through increased investment returns, whilst reducing pressure on contributions.	3	2	6	Chief Financial Officer		
Funding	To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible	F8	Pay and consumer price inflation significantly different from actuarial assumptions resulting in increases required in employers contributions	Strategic Threat	Financial / Reputational	3	2	6	At each triennial actuarial valuation an analysis is carried to ensure that the assumptions adopted are appropriate. The Fund holds discussions with employers through the Pension Forum over expected progression of pay in the short and long term. This information is then fed back to the Fund's Actuary with Medium Term Financial Plan budget evidence provided, if required.	2	2	4	Sean Pearce / Mark Forrester		
Funding	To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible	F9	Potential for significant increases in contributions to levels which are unaffordable. Ultimate risk is the possibility of the employers defaulting on their contributions	Strategic Threat	Financial / Reputational	3	3	9	Risk profile analysis is performed to understand the strength of individual employers covenant strength when setting terms of admission agreements (including bonds) and in setting the term of deficit recovery periods during the actuarial valuation process, whilst attempting to keep employers contributions as stable and affordable as possible. The Fund pursues a policy of positive engagement with a view to strengthening employer covenants wherever possible. Contribution increases are phased over a three year period for most Fund Employers and allowances are provided for short term pay restraint where evidence is provided.	2	2	4	Sean Pearce / Mark Forrester		
Funding	To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible	F10	Adverse changes to LGPS regulations resulting in increases required in employers contributions or fund cash flow requirements	Strategic Threat	Financial / Reputational	4	2	8	The Fund responds to government consultations to ensure that Fund concerns are considered by decision makers. Employers and interested parties are kept informed through the Pension Forum and other Fund communication channels, as set out in the Fund's Communication Policy Statement. The Fund monitors the potential impact for employers in conjunction with the Fund's Actuary.	3	1	3	Chief Financial Officer		
Funding	To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible	F11	Adverse changes to other legislation, tax rules, etc., resulting in increases required in employers contributions	Strategic Threat	Financial / Reputational	3	2	6	The Fund responds to government consultations to ensure that fund concerns are considered by decision makers. Employers and interested parties are kept informed through the Pension Forum and other Fund communication channels. The Fund monitors the potential impact for employers in conjunction with the Fund's Actuary.	2	1	2	Chief Financial Officer		
Funding	To manage employers liabilities effectively by the adoption of employer specific funding objectives	F12	Administering authority unaware of structural changes in an employers membership, or not being advised of an employer closing to new entrants, meaning that the individual employers contribution level becomes inappropriate requiring review and increase	Partnership Threat	Financial / Reputational	3	3	9	The fund monitors membership profiles and changes and ensures that employers are reminded of their responsibilities through sending reminders of employers responsibilities where this is appropriate. The Fund carries out risk profile analysis and officers meet with employers to discuss concerns.	2	2	4	Bridget Clark / Linda Probing		

Funding	To manage employers liabilities effectively by the adoption of employer specific funding objectives	F13	Not recognising opportunities from changing market, economic or other circumstances (e.g. de-risking or strengthening of covenant)	Strategic Threat	Financial / Reputational	3	3	9	The Fund at each triennial valuation pursues a policy of positive engagement with a view to strengthening employer covenant strength wherever possible. The Fund takes advise from the Actuary and also the Fund's independent financial adviser.	2	2	4	Sean Pearce / Mark Forrester		
Funding	To manage employers liabilities effectively by the adoption of employer specific funding objectives	F14	Adoption of either an inappropriately slow or rapid pace of funding in the specific circumstances for any particular employer	Partnership / Strategic Threat	Financial / Reputational	3	3	9	At each triennial actuarial valuation an analysis is carried out to assess employer covenant strength and affordability on a proportional basis. Dialogue with employers is carried out by the Fund wherever possible.	2	2	4	Chief Financial Officer		
Funding	To manage employers liabilities effectively by the adoption of employer specific funding objectives	F15	Over or under cautious determination of employer funding requirements due to inconsistent approach or failing to recognise the impact of the investment strategy on funding	Strategic Threat	Financial / Reputational	3	3	9	The Fund benchmarks its assumptions and maximum recovery period against peers. The analysis of employer covenant strength and affordability is consistent across all Fund employers. The fund takes advise on the impact of its investment strategy on funding level from the Fund's Actuary and independent financial adviser.	2	2	4	Chief Financial Officer		
Funding	Maintain liquidity in order to meet projected net cash flow outgoings	F17	Illiquidity of certain markets and asset classes and difficulty in realising investments and paying benefits as they fall due	Strategic Threat	Financial	3	2	6	The Fund holds less that 10% of its net assets in illiquid assets. If the proportion increased substantially an upper limit would be implemented to ensure liquidity is available to make pension payments as they fall due.	2	1	2	Chief Financial Officer		
funding	Maintain liquidity in order to meet projected net cash flow outgoings	F18	Unanticipated onset of cash flow negative position, potentially requiring ad hoc repositioning of assets	Strategic Threat	Financial	3	3	9	The Finance Manager - Pensions monitors Fund cash levels on a monthly basis. Investment income can be repatriated to the Fund from the Fund's Global Custodian in order to maintain positive cash flow. The Fund currently holds less than 10% of its net assets in illiquid assets.	2	1	2	Chief Financial Officer		
Funding	Minimise unrecoverable debt on termination of employer participation	F19	An employer ceasing to exist with insufficient funding, adequacy of bond or guarantee. In the absence of all of these, the shortfall will be attributed to the fund as a whole with increases being required in all other employers contributions	Partnership / Strategic Threat	Financial / Reputational	4	3	12	The Fund assesses the strength of individual employers covenant strength and requires a bond or parent company guarantee when setting terms of admission agreements. The Fund plans to carry out a covenant review for the full fund, with the aim of implementing bonds or guarantee for the handful of historic employers where no protection was built into the original admission agreements.	3	2	6	Chief Financial Officer	Finance Manager - Pensions, Treasury Management and Capital, in conjunction with Pension Administration Manager to develop and maintain a covenant review process for all Fund Employers.	31 December 2017
Funding	Minimise unrecoverable debt on termination of employer participation	F20	Failure to monitor leading to inappropriate funding strategy and unrecovered debt on cessation of participation in the fund	Strategic Threat	Financial / Reputational	4	3	12	The Fund assesses the strength of individual employers covenant strength and requires a bond or parent company guarantee when setting terms of admission agreements. The Fund plans to carry out a covenant review for the full fund, with the aim of implementing bonds or guarantees for the handful of old employers where no protection was built into the original admission agreements.	3	2	6	Chief Financial Officer	Finance Manager - Pensions, Treasury Management and Capital, in conjunction with Pension Administration Manager to develop and maintain a covenant review process for all Fund Employers.	31 December 2017
Funding	Maintain liquidity in order to meet projected net cash flow outgoings	F21	Employee participation in the LGPS reduces (possibly in response to changes in contribution rate/benefit structure or changes in patterns of service delivery)	Strategic Threat	Financial/Customer/Stakeholder related	4	3	12	The Fund communicates with both employers and employees over the benefits of the LGPS, both before and after any structural change. Membership levels are monitored by the Pension Committee and are published in the Fund's Annual Report.	3	2	6	Chief Financial Officer		
Administration Risks															
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A1	Failure to administer scheme in line with regulations and policies	Directorate threat	Regulatory Compliance/Reputational	4	3	12	The Pensions Manager and Finance Manager - Pensions attend regular workshops and conferences to ensure knowledge is up-to-date with regards to LGPS regulations and polices. The Fund also receives updates from CIPFA and the LGA.	3	1	3	HR Service Centre Manager		

Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A2	Unable to deliver a service for pensions administrator and pensioner payroll because of system failure or unavailability	Service threat	IS (Technological)	4	2	8	Fund Business Continuity and Recovery Plans are in place including the ability to access systems from remote locations.	4	1	4	HR Service Centre Manager		
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A3	Unable to deliver a service for pensions administrator and pensioner payroll because of staff unavailability (e.g. sickness)	Service threat	Staff	4	2	8	The Fund has multi-skilled staff so can cover other roles if required. Systems can also be accessed from remote locations.	4	1	4	HR Service Centre Manager		
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A4	Fraud by scheme members	Directorate threat	Financial / Reputational	2	3	6	The Fund carries out NFI and payroll slips / communications at intervals through the year to home addresses and requires sight of certificates (e.g. birth certificate). There are very few cheque payments.	1	1	1	HR Service Centre Manager		
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A5	Fraud by staff	Directorate threat	Financial / Reputational	2	3	6	Manager checking is in place. Citrix has log-in security and AXIS has multiple login protections. Month end reconciliations are also carried out. Declarations by staff of personal relationships / family members is required.	1	1	1	HR Service Centre Manager		
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A6	Lack or reduction of skilled resources. Significant increase in the number of employing bodies, e.g. Academies	Service threat	Customer/ Stakeholder related	3	3	9	The Fund's managers continually monitor pension administration staffing position. The impact of the volume of employers admitted to the fund is also monitored and resources are increased as required following sign-off from the Pension Committee.	2	2	4	HR Service Centre Manager		
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A7	Excessive costs of administration lead to lack of VFM	Directorate threat	Financial / Reputational	1	2	2	The Fund benchmarks pension administration costs against peers and regularly looks for efficiency savings. Administration performance is benchmarked annually and reported in the Fund's Annual Report.	1	1	1	HR Service Centre Manager		
Administration	Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount	A8	Failure to invest surplus contributions	Directorate threat	Financial	1	2	2	The Finance Manager - Pensions monitors Fund cash balances monthly and provides updates to the Chief Financial Officer and Pension Committee if surplus cash develops.	1	1	1	Chief Financial Officer		
Administration	Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount	A9	Failure to collect pension contributions in line with regulatory guidelines	Directorate threat	Regulatory Compliance	3	3	9	All contributing employers are provided with deadlines for payments and clear guidelines for providing associated information. The Fund monitors contributions payable and paid against the Actuary set rate on a monthly basis and also reconciles to SAP on a monthly basis.	2	2	4	Chief Financial Officer / HR Service Centre Manager		
Administration	Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount	A10	Failure to maintain proper records leading to inadequate data, which could lead to increased complaints and errors	Service threat	Customer/ Stakeholder related	2	3	6	The Fund engages with employers and employer manuals are in place. The Fund also carries out year end data cleansing and officer checking.	2	1	2	HR Service Centre Manager		
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A11	Failure to deal with complaints appropriately	Directorate threat	Customer/ Stakeholder related	1	2	2	Fund staff pass complaints to a specific senior officers and they are then referred to the management team to decide appropriate response. Details of complaints are reported in Fund's Annual Report, so there is incentive to deal with complaints appropriately.	1	1	1	HR Service Centre Manager		
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A12	Failure to deliver the LGPS properly results in lots of complaints and/or IDRP's	Directorate threat	Customer/ Stakeholder related	2	2	4	The Fund carries out a significant amount of engagement with employers through employer guide and the Pension Forum. Staff check calculations and perform data checks. Staff also receive training and performance is benchmarked against peers. Internal Audit carry out annual audits and external audit also review annually.	1	1	1	HR Service Centre Manager		

Administration	Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount	A13	Incorrect calculation of members benefits through, for example, inadequate testing of systems	Service threat	IS (Technological)	3	2	6	The Fund has a test system and a test site for Altair (the pension payroll system). Every calculation has independent checking and set procedures. Staff receive training and performance is benchmarked.	2	1	2	HR Service Centre Manager		
Administration	Data is protected to ensure security and authorised use only	A14	Potential of data to get into wrong hands or lost (in the post)	Directorate threat	(IS or other)	2	2	4	The Fund conforms with WCC data policy, for example through the use of data encryption and password protection. Systems are reviewed by internal and external audit and setup inline with data protection regulations.	2	1	2	HR Service Centre Manager		
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need	A15	ABS errors (e.g. wrong address, layout and printing errors) due to external supplier	Service threat	(IS or other)	1	2	2	Procurement of external suppliers is in line with WCC procurement rules and references are taken. Contract performance is monitored regularly. Internal reviews are also carried out and processes are strengthen if weaknesses are detected.	1	1	1	HR Service Centre Manager		
Administration	Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount	A16	Inconsistencies in delivery due to failure to properly document processes and procedures	Service threat	Customer/ Stakeholder related	2	2	4	Document Pension Administration processes and procedures	1	1	1	HR Service Centre Manager		
Communications Risks															
Communications	Communicate in a friendly, expert and direct way to our stakeholders, treating all out stakeholders equally	C1	Increased workload for pensions team or increased opt outs if communications not clear and easily understood	Service threat	Customer/ Stakeholder related	2	3	6	The Fund has a communication policy in place and published. Current resource is insufficient for a dedicated communication manager. Press communications are directed through the WCC communications team. Performance is benchmarked and complaints are detailed in the Fund's Annual Report.	2	1	2	Mark Forrester / Bridget Clark / Linda Probing		
Communications	Communicate in a friendly, expert and direct way to our stakeholders, treating all out stakeholders equally	C2	Issuing incorrect or inaccurate communications	Service threat	Customer/ Stakeholder related	2	3	6	The Fund has a communication policy in place and published. Current resource is insufficient for a dedicated communication manager. Press communications are directed through the WCC communications team.	1	1	1	Mark Forrester / Bridget Clark / Linda Probing		
Communications	Communicate in a friendly, expert and direct way to our stakeholders, treating all out stakeholders equally	C3	Failure to maintain employer database leading to information being lost or sent to wrong person	Directorate threat	IS (technological)	3	3	9	The Fund developed and maintains a master electronic list of employer contacts. Most changes are through regular communications with employers including reminders to let the fund know about any changes to contact details.	2	1	2	Bridget Clark / Linda Probing		
Communications	Deliver information in a way that suits all types of stakeholder	C4	Risk some members may not receive relevant communications if addresses and/or contact details incorrect	Service threat	Customer/ Stakeholder related	2	2	4	Complete address update is done regularly by employers. Other processes include: addresses are checked by a dedicated checker and also Fund communication takes place with member/ employer before payment is made. All post office returns are investigated and followed up and nothing is sent out if new address is not found. Tracing agencies are used for members aged 65+. Life Certificates are also used.	1	1	1	Bridget Clark / Linda Probing		
Communications	Deliver information in a way that suits all types of stakeholder	C5	Discrimination cases if information not supplied in suitable format	Directorate threat	Financial	2	2	4	The Fund arranges communications with Braille or other formats, as required. The Fund offers alternate formats on all communications and a log is kept of individuals with specific requirements.	1	1	1	Bridget Clark / Linda Probing		
Communications	Deliver information in a way that suits all types of stakeholder	C6	Failure to include all required information in documents issued to members under disclosure regulations	Directorate threat	Regulatory compliance	3	2	6	The Pensions Manager keeps up-to-date with disclosure requirements through workshops and conferences. Online courses are used also to keep all staff members up to date.	3	1	3	Bridget Clark / Linda Probing		

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worcestershire county council

AGENDA ITEM 8

PENSIONS COMMITTEE
13 March 2017

PENSION INVESTMENT UPDATE

Recommendation

The Chief Financial Officer recommends that:

a) the Independent Financial Adviser's fund performance summary and market background be noted; and

b) the update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Panel be noted.

Background

1. The Committee will receive regular updates on fund performance. The fund's Independent Financial Adviser has provided a fund performance summary and a brief market background update (Appendix 1). The market background update is provided to add context to the relative performance and returns achieved by the fund's investment managers.

2. The Committee will also receive regular updates regarding 'on watch' managers and will receive recommendations in relation to manager termination in the event of a loss of confidence in managers by the Advisory Panel (Appendix 1).

JP Morgan Emerging Markets

3. JP Morgan (Emerging Markets) portfolio outperformed their benchmark over the quarter by 0.4%. Performance for the year ended December 2016 was 1.4% ahead of benchmark and therefore 0.6% behind their target outperformance of +2.0% per annum. Over the past three years JP Morgan have underperformed their performance target by 1.9% per annum.

4. It is recommended that JP Morgan remain 'on watch' until consistent outperformance is regained.

JP Morgan Bonds

5. The JP Morgan Bond portfolio outperformed their benchmark by 0.2% in the quarter ended December 2016. Performance for the year ended December 2016 was ahead of benchmark by 0.2% and therefore 0.8% behind their target outperformance. Over the past three years they have underperformed their performance target by 0.6% per annum.

6. It is recommended that JP Morgan (Bonds) remain on watch until their three year performance is tracking further towards target and the Committee are fully satisfied that JP Morgan are managing their portfolio risk budget effectively.

Supporting Information

- Appendix 1 - Independent Financial Adviser summary report
- Appendix 2 - Bar Chart of investment managers' performance
- Appendix 3 - Portfolio Evaluation Performance Report

Contact Point for the Report

Sean Pearce, Chief Financial Officer
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Email: spearce@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

REPORT PREPARED FOR

Worcestershire County Council Pension Fund

March 2017

Philip Hebson

AllenbridgeEpic Investment Advisers Limited (Allenbridge)

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Independent Investment Adviser's report for the Pension Investment Advisory Panel meeting

6 March 2017

Global overview

So here we are, well into the New Year, Donald Trump is now President Trump and 2016 is fast vanishing into the wake. 2017 looks like it may well bring more challenges to "established order", as more disillusioned voters head to the polls.

As for the US, for the time being at least the new President is following through on his election pledges, but already coming up against resistance to his authority. He continues to communicate by Twitter, which does seem to illustrate graphically that he will not be constrained by tradition. Economists are running any number of "what if" scenarios against President Trump's declared trade and protectionist policies, with outcomes that range from concerning to downright scary. At least the UK seems to have "favoured nation" status, but only time will tell how we fit into the new order, and the impact on our own economy. In the short term, there is a desire to bring the economy out of the post financial crisis era, with not only implications for the pace of interest rate increases, but presumably for asset valuations as well.

In the UK, the focus remains on "Brexit", and is likely to be so for some time.
Common sense would suggest that negotiating trade arrangements outside of the single market should not place what are currently mutually beneficial terms at risk, but it is a very nervous EU that we are dealing with. It is difficult to do business with desperate people, when their own future is at risk.
Thankfully George Osborne's predictions of economic catastrophe haven't come true, at least not yet!
One major issue that may rear its ugly head sooner rather than later is inflation. In my experience watching prices in supermarkets provides an excellent bellwether as to how official data will look in a few months time. During January and early February I have observed some quite large price increases in a range of products, which are not usually subject to weather fluctuations or ostensibly related to currencies. I have also seen some increase in pricing on more service related items, which would suggest to me that after a long period when suppliers have not been able to increase prices, they are taking advantage of a more benign environment to play "catch up".

Europe is a conundrum. On one hand, the Eurozone is continuing a gentle economic recovery, with GDP rising and unemployment falling. On the other hand political uncertainty continues, with plenty more to come in 2017, which depending on the outcome of the various elections may well shape the future of the EU and could show that the UK Brexit vote was only the beginning of a period of significant change.

As with all world markets, Japan felt the impact of the outcome of the US Presidential election, in their case seeing a sharp fall in the Yen over the quarter and had a positive impact on market sentiment. The fall in the yen reflects the expectation that there will be an increase in the bond yield differential, as US rates rise, and the Bank of Japan are expected to maintain their target rate at or around zero. Back at local economic level, industrial production continued to improve, but domestic consumption declined. Recovery is still tenuous.

Asia (ex Japan) and Emerging Markets reflected the uncertainty over US trade and foreign policy, as well as the prospect of tighter US dollar liquidity. Those markets and currencies perceived as most sensitive to a tighter global interest rate environment posted the steepest declines. This included Turkey, Malaysia and Indonesia. Uncertainty around a potential change to US trade and foreign policy was a headwind to certain markets in particular. Mexican equities and the peso were directly impacted by these concerns. However it should be questioned how seriously the threat of a wall along the Mexican border should be taken. Even President Trump must know that history shows that walls ultimately aren't effective!

The Chinese market also lost value in part given concerns of protectionist policy implementation by the US. The potential for US monetary policy tightening has supported the US dollar and led the renminbi to devalue, increasing pressure on capital outflows from China.

By contrast, a recovery in energy and commodity prices was beneficial for a number of markets. Russia registered the strongest index return, boosted by a rally in Brent crude. This followed the agreement of production cuts by OPEC, with further agreements with ten non-OPEC members including Russia subsequently reached. Expectations for higher fiscal spending in the US triggered a strong rise in industrial metals prices, particularly iron-ore but also copper. This benefited Latin American equities with Peru, Chile and Brazil all registering positive returns and outperforming.

Summary and Market Background

The value of the Fund in the quarter rose to £2.312bn, an increase of £75m compared to the end September value of £2.237bn. The Fund produced a return of 3.6% over the quarter, which gave an underperformance against the benchmark of -0.1%. Asset allocation was a positive contributor (0.2%), but stock selection was negative (-0.3%). The positive asset allocation was as a result of being overweight in equities and underweight in bonds. Over a 12 month period the Fund recorded a positive relative return against the benchmark of 0.3% (21.7% v. 21.4%).

The significant increase in value that the Fund has enjoyed recently has improved the funding level to 88%* (assets as a percentage of liabilities). The 2016 Triennial Valuation showed a funding level of 76%, so this is a considerable change. The Strategic Asset Allocation review highlighted the risks associated with the Fund's high level of exposure to equities, and recognised the need to reduce the potential volatility associated with that by an increase into the allocation to alternatives (including property). Concerns about the Fund's exposure to currencies and the possible impact of inflation were addressed in the review, with the recommendation that this should be reviewed again ahead of the transition of Fund assets to LGPS Central. Given the improvement in the Fund's funding level, further mitigation of that risk may be appropriate to protect that position.

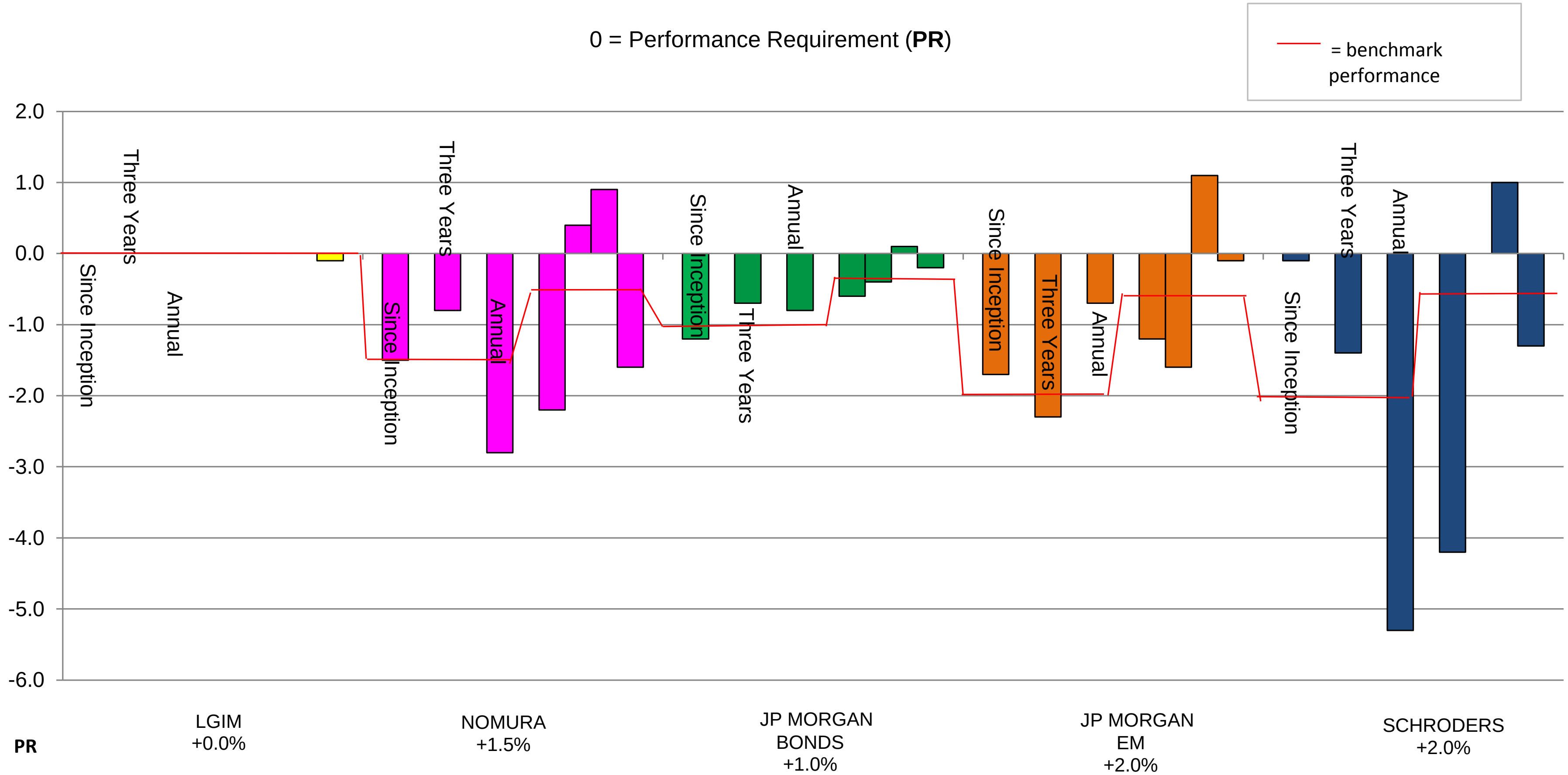
*It should be noted that this calculation is an estimate, with liabilities based on the assessment date of 31 March 2016, but with assets at current value.

The Fund's active managers had a mixed experience in the last quarter of 2016. Only one of the active equity mandates outperformed their benchmark in Q4, with JP Morgan (Emerging Markets) outperforming by 0.4%. Schroders (Emerging Markets) underperformed by -0.8% and Nomura (Pacific) by -0.9%. JP Morgan (Bonds) also outperformed, by 0.2%.
The alternative passive strategies slightly underperformed their total benchmark (-0.3% in aggregate), and also slightly underperformed the traditional passive index benchmark (-0.2%).

World markets enjoyed another good quarter, on a sterling adjusted basis. The MSCI World Index showed a rise of 7.2%. The break-down by regions and countries is of some interest. The "Trump" effect helped North America/USA to show a return of 8.9%. Europe ex UK gained 5% and the UK 4.2%. Japan was up 5%. The possible flip side of the Trump effect showed muted gains from Pacific ex Japan at 2.3% and Emerging Markets up just 0.8%. The stand out country was Italy, up 16.5%. Although the EU might have thought the referendum outcome was bad news, markets clearly didn't share that view.

Bond markets, both Government and Corporate, came under pressure during the quarter, with US interest rates seen to be on a rising trend, and the prospect of inflation rising in both the US and UK. Long dated gilts fared worst, with British Govt over 25 years falling -6.5%. The FTSE UK Govt All Stocks fell -3.4%. As expected, index linked fared rather better, as did corporate bonds. The flip side as always is that falling values mean higher yields. so at least that is welcome.

Worcestershire County Council Pension Fund - Chart showing for each manager: performance since inception, three years, annual performance January 2016 to December 2016 and latest year in quarter ends March 2016 to December 2016, relative to performance requirement



Key Highlights

- The performance trend for Nomura and JP Morgan Bonds on a three year basis compared to since inception is positive but the annual return for Nomura is poor and JP Morgan Bonds continues only to provide a small outperformance against benchmark over the one year period.
- JP Morgan Emerging Markets portfolio has maintained performance in quarter 4 of 2016 but remains behind target over the past one, three years and since inception.
- Schroders had a poor Q4, which combined with a very poor Q1 of 2016 has led to a significant one year return underperfomance against benchmark and target. However, since inception returns are near target.

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PORTFOLIO EVALUATION LIMITED

Specialists in Investment Risk and Return Evaluation

Quarterly Risk and Return Analysis
Total Fund

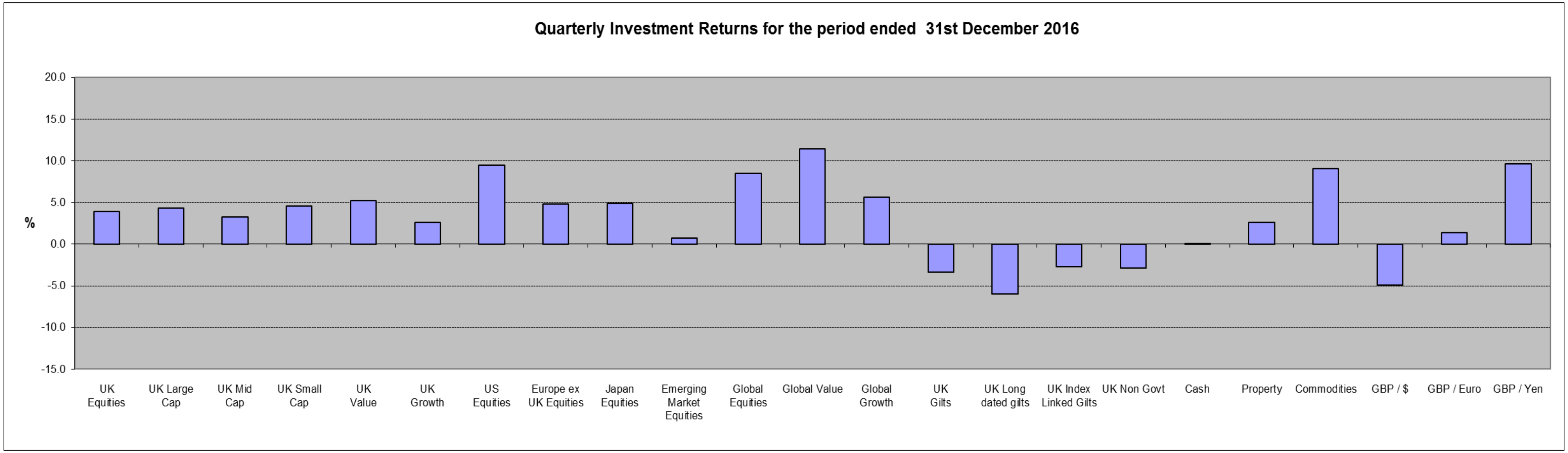
Worcestershire County Council Pension Fund

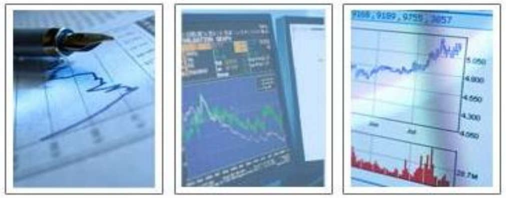
Period ending 31st December 2016

Portfolio Evaluation Ltd Market Commentary Q4 2016 (sterling)

The UK market and economy has been driven by the implications and expectations of the Brexit vote in the summer. Following the large depreciation of sterling versus our major trading partners (and in particular the US dollar) large capitalisation stocks that have significant non UK earnings have particularly benefitted and pushed the FTSE 100 higher than mid and small cap stocks. Commodity stocks have also benefitted over the year with Oil and Technology stocks being particularly strong performers; lower growth sectors include the more defensive utility stocks, Consumer Goods and Consumer Services and Financial stocks i.e. those sectors that will be negatively impacted by Brexit, lower sterling and increased inflation. With question marks over UK economic growth value stocks (also because these are often large cap global companies) have outperformed growth stocks. On a global basis most regions have posted positive returns even allowing for sterling depreciation as stockmarkets benefit from an outlook that for many includes expected economic growth and cheap money.

In Q4 UK fixed income asset classes posted negative returns as yields increased. Yields increased partly because of Brexit, the perceived additional risk of sterling bonds, increased rates and because of the reduced impact of QE. As expected longer dated bonds had lower returns than shorter dated bonds. Corporate bonds were the best performing core fixed income asset class as they benefitted from the rise in equity markets. This should benefit solvency levels and managers that have a short relative duration position. However please note that over the year all primary UK bond asset classes have posted strong positive returns.





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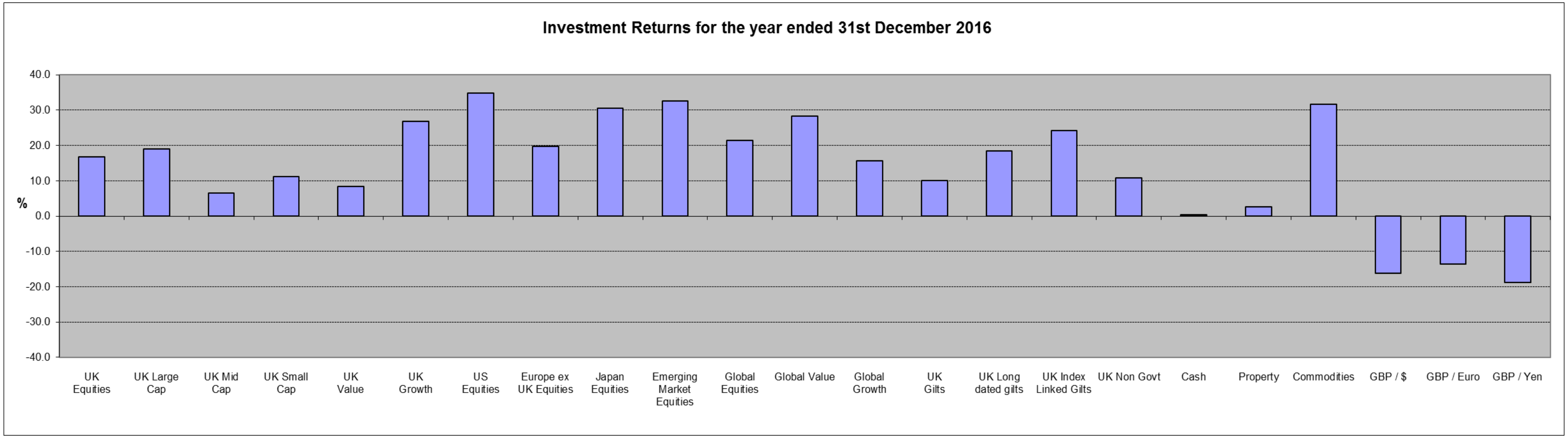
The outlook for the UK remains uncertain, especially with Brexit talks looming, but we can expect to see possibly higher inflation, higher interest rates, lower government tax receipts, increased sterling volatility and declining business confidence especially in the second half of the year. In the US we expect to see a more pro-business environment given the new incoming president and the end of QE. In Europe QE will continue but growth rates will vary between countries; however expectations will be shaped by the Brexit discussions and the elections due this year. In emerging markets the consensus appears to be that growth in China will remain low (relatively!) whilst other large markets such as Russia and Brazil will improve.



It should be noted that for most markets have seen a positive return. Given our role for clients we are particularly interested in market risk. It is worth noting that market volatility has increased significantly through the year, with a significant additional spike due to Brexit, as investor risk aversion increases. However at the end of 2016 we saw market volatility level off but the outlook for risk levels is 'volatile' given all the factors that can impact markets this year.

For further information

If you would like further information about the topics contained in this newsletter or would like to discuss your investment performance requirements please contact Nick Kent or Deborah Barlow Tel: +44 (0)113 242 9381 (e-mail: nick.kent@portfolioevaluation.net) or visit our website at www.portfolioevaluation.net. Please note that all numbers, comments and ideas contained in this document are for information purposes only and as such are not investment advice in any form. Please remember that past performance is not a guide to future performance.

Worcestershire County Council Pension Fund - Commentary
Period ending 31st December 2016

QUARTERLY SUMMARY: **Worcestershire County Council Pension Fund Return: 3.6% Benchmark Return: 3.7% Excess Return: -0.1%**

- The Fund achieved a total return of 3.6%. This was primarily due to positive equity markets, alternative assets, property and infrastructure. Bonds had a negative return as bond yields rose.
- The Fund marginally underperformed its benchmark this quarter by -0.1%. This was primarily due equites as Nomura underperformed, additionally property, due to Invesco, was a minor drag on performance. Asset allocation was a positive contributor as the Fund was overweight equities and underweight bonds.
- Of the active managers only JPMorgan (Emerging Market equities) outperformed. All index funds tracked their benchmarks. The JPM corporate bond portfolio also outperformed.
- Please note that for Green Investment Bank returns are not available for the quarter as data is lagged by the manager.

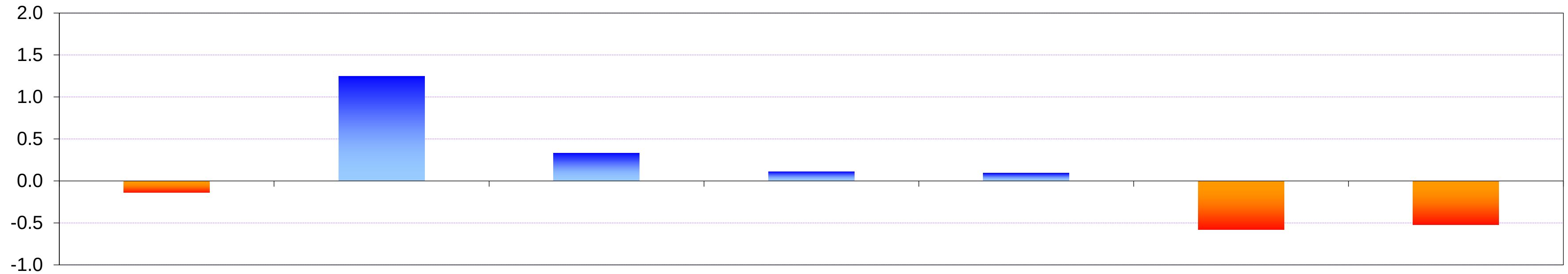
YEAR SUMMARY AND LONGER: **Worcestershire County Council Pension Fund Return: 21.7% Benchmark Return: 18.7% Excess Return: 1.2%**

- We have only monitored the Fund for nine months and therefore our long term observations are limited for now especially given the restructuring of equity portfolios and increase in exposure to Infrastructure and Property assets.
- Over the financial YTD (since we have been measuring the portfolio) the Fund has generated a return of 21.7 % outperforming the benchmark by 1.2%. The portfolio has outperformed both from asset allocation and stock selection across nearly all asset classes.
- Over the YTD period all active equity managers have outperformed as has the JPM corporate bond portfolio. Asset allocation has also been a positive contributor due to the overweight equity position (high performing asset class) and underweight bond (low performing asset class) exposures.
- Over the one, three and five year periods the Fund has outperformed. However over the longer term the Fund has underperformed.
- The Total Risk of the Fund is consistent with that of a typical multi asset class Fund. Active risk is also consistent with a typical multi asset class Fund that uses both passive and active strategies.

Client: Worcestershire County Council Pension Fund
Manager: Multi-manager
Mandate: Total Fund
Asset Class: Combined Assets
Benchmark: Worcestershire Total Fund Index - Client Specit
Inception: 31-Mar-1987
Mkt Val: £2.3b

Total Fund Overview
Total Fund
Report Period: Quarter Ending December 2016

Excess Return Analysis (%)



	QTR	YTD	1 Yr	3 Yr	5 Yr	10Yr	Since Mar 87 (p.a.)
Portfolio Return	3.6	20.0	21.7	9.9	11.4	6.4	8.1
Benchmark Return	3.7	18.7	21.4	9.8	11.3	6.9	8.6
Excess Return	-0.1	1.2	0.3	0.1	0.1	-0.6	-0.5

All returns for periods in excess of 1 year are annualised.

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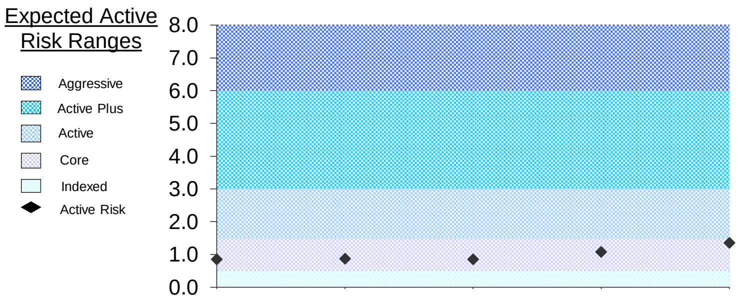
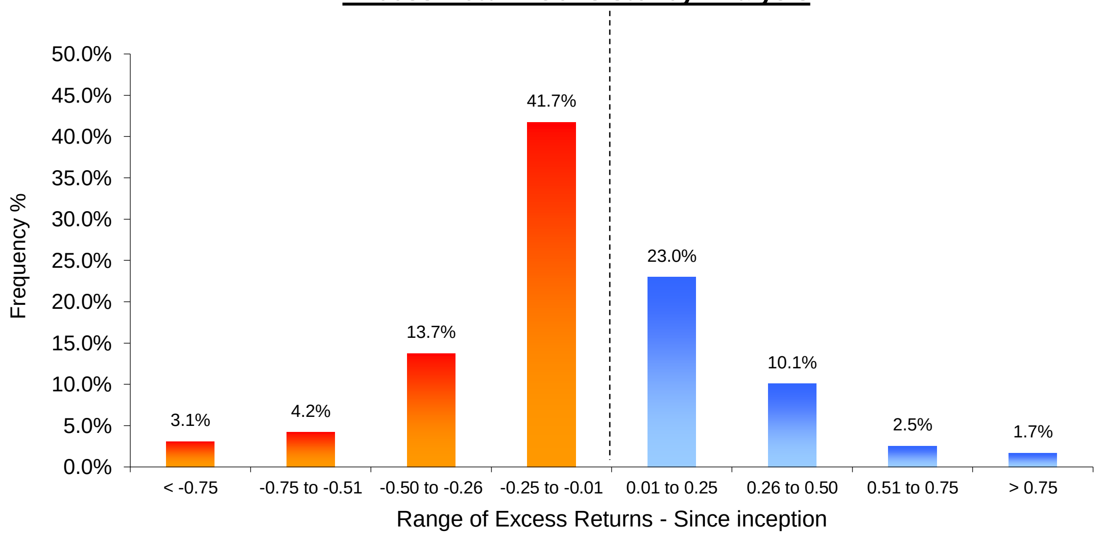
Ex-Post Active Risk Analysis (%)



	1 Yr	3 Yr	5 Yr	10 Yr	Mar 87
Active Risk	0.8	0.9	0.8	1.1	1.4
Portfolio Risk	8.9	9.0	9.2	13.2	13.0
Benchmark Risk	8.5	8.6	9.0	12.6	12.7

Excess Return Consistency Analysis

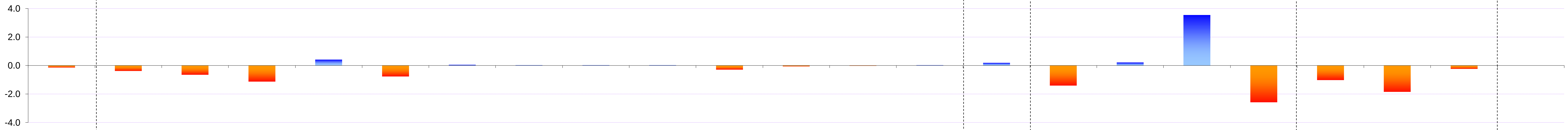


Ex-Post Active Risk measures the volatility of the actual excess returns achieved by the Portfolio/Fund.
Excess Return Consistency Analysis measures the frequency of the Portfolio/Fund's outperformance (Blue) and underperformance (Red) versus its benchmark, calculated using monthly (or quarterly if indicated) returns since inception.

Attribution to Total Fund Excess Return Analysis
Worcestershire County Council Pension Fund
for Quarter Ended 31st December 2016

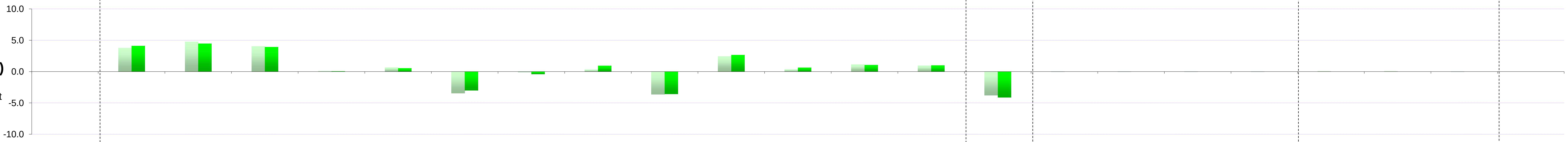
Market Value: £2.3bn

Returns Summary (%)



	Total Fund	Total Equity	Total Active Equity	Far East Developed - Nomura	Emerging Markets - JPM	Emerging Markets - Schroder	Total Passive Equity	UK Equity - L&G	North American Equity - L&G	Europe ex UK Equity - L&G	Total Alternatives	FTSE RAFI DEV - L&G	MSCI World Min Vol TR - L&G	MSCI World Quality TR - L&G	Corporate Bond - JPM	Total Property	UK Property - VENN	US Property - Walton Street	Euro Property - Invesco	Total Infra	UK Infra - Green	UK Infra Core - Hermes	Cash
Portfolio Return	**3.6**	**4.3**	2.3	2.5	2.6	1.4	5.3	3.9	9.0	4.8	5.1	10.8	1.5	4.0	**-2.2**	**0.3**	2.4	5.1	-1.0	**0.9**	0.0	1.8	**0.0**
Benchmark Return	**3.7**	**4.7**	2.9	3.7	2.2	2.2	5.3	3.9	9.0	4.8	5.4	10.8	1.5	4.0	**-2.3**	**1.7**	2.2	1.6	1.6	**1.9**	1.8	2.0	**0.0**
Excess Return	**-0.1**	**-0.4**	-0.6	-1.1	0.4	-0.8	0.0	0.0	0.0	0.0	-0.3	-0.1	0.0	0.0	**0.2**	**-1.4**	0.2	3.5	-2.6	**-1.0**	-1.8	-0.2	**0.0**

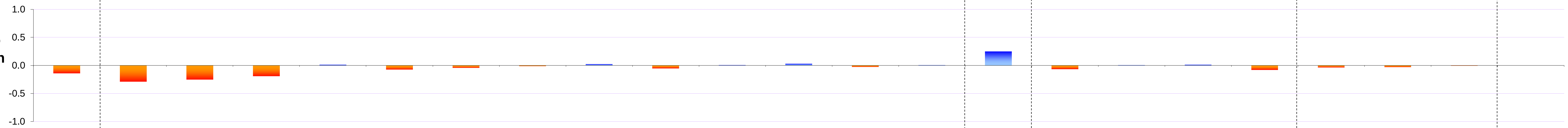
Asset Allocation Summary (%)

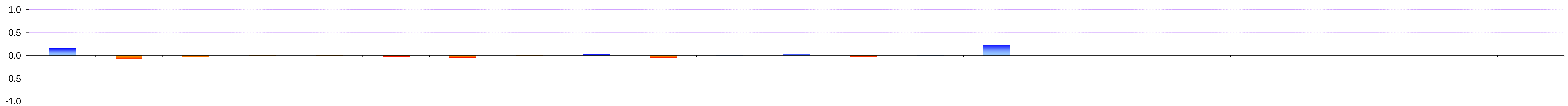


Net Exposure Start
Net Exposure End

	Total Fund	Total Equity	Total Active Equity	Far East Developed - Nomura	Emerging Markets - JPM	Emerging Markets - Schroder	Total Passive Equity	UK Equity - L&G	North American Equity - L&G	Europe ex UK Equity - L&G	Total Alternatives	FTSE RAFI DEV - L&G	MSCI World Min Vol TR - L&G	MSCI World Quality TR - L&G	Corporate Bond - JPM	Total Property	UK Property - VENN	US Property - Walton Street	Euro Property - Invesco	Total Infra	UK Infra - Green	UK Infra Core - Hermes	Cash
Portfolio Start	**100.0**	**85.9**	28.8	16.0	6.1	6.6	44.7	27.6	11.3	5.8	12.4	3.7	4.5	4.3	**6.2**	**4.5**	1.2	0.3	3.0	**3.3**	1.6	1.7	**0.0**
Portfolio End	**100.0**	**86.7**	28.5	15.9	6.0	6.5	45.6	27.7	11.9	5.9	12.7	4.0	4.4	4.3	**5.9**	**4.1**	1.0	0.3	2.9	**3.2**	1.6	1.7	**0.0**
Benchmark Start	**100.0**	**82.2**	24.0	12.0	6.0	6.0	48.2	27.7	11.0	9.5	10.0	3.3	3.3	3.3	**10.0**	**4.5**	1.2	0.3	3.0	**3.3**	1.6	1.7	**0.0**
Benchmark End	**100.0**	**82.6**	24.0	12.0	6.0	6.0	48.6	28.1	11.0	9.5	10.0	3.3	3.3	3.3	**10.0**	**4.1**	1.0	0.3	2.9	**3.2**	1.6	1.7	**0.0**

Attribution to Excess Return (%)





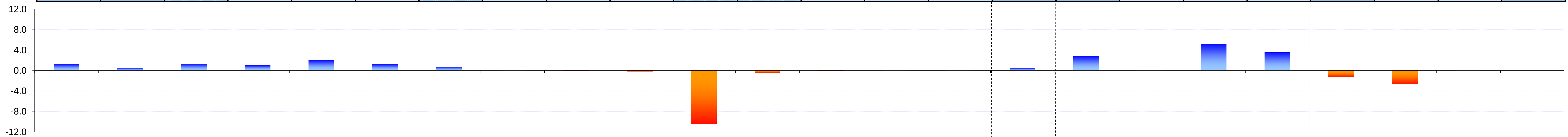
	Total Fund	Total Equity	Total Active Equity	Far East Developed - Nomura	Emerging Markets - JPM	Emerging Markets - Schroder	Total Passive Equity	UK Equity - L&G	North American Equity - L&G	Europe ex UK Equity - L&G	Total Alternatives	FTSE RAFI DEV - L&G	MSCI World Min Vol TR - L&G	MSCI World Quality TR - L&G	Corporate Bond - JPM	Total Property	UK Property - VENN	US Property - Walton Street	Euro Property - Invesco	Total Infra	UK Infra - Green	UK Infra Core - Hermes	Cash
Excess Return	**-0.1**	**-0.3**	-0.3	-0.2	0.0	-0.1	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	**0.2**	**-0.1**	0.0	0.0	-0.1	**0.0**	0.0	0.0	**0.0**
Asset Allocation	**0.2**	**-0.1**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	**0.2**	**0.0**	0.0	0.0	0.0	**0.0**	0.0	0.0	**0.0**
Stock Selection	**-0.3**	**-0.2**	-0.2	-0.2	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**-0.1**	0.0	0.0	-0.1	**0.0**	0.0	0.0	**0.0**

The **Returns Summary** details the Portfolio, Benchmark and Excess Returns. The Excess Returns are plotted. The **Asset Allocation Summary** details the weights held by the portfolio and benchmark in each asset class/manager. The green plots are the over/underweight exposures of the Fund (v Fund benchmark) at the beginning and end of the period. The **Attribution to Excess Return**, identifies how each asset class/manager has contributed to the overall excess return of the Total Fund. It is broken down into **Asset Allocation** (how successful the decision to over/underweight each asset class was) and then into **Stock Selection** (how well each manager/s decisions have performed). The **Asset Allocation** plus the **Stock Selection** excess returns are all additive and equal the **Total Excess Return** of the Fund.

Market Value: £2.24bn

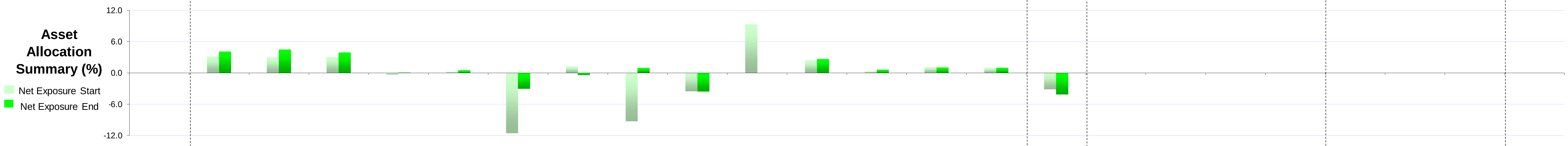
Attribution to Total Fund Excess Return Analysis
Worcestershire County Council Pension Fund
for Year to Date Ended 31st December 2016

Returns Summary (%)



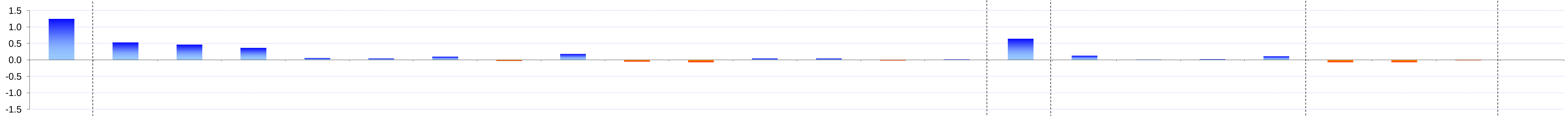
	Total Fund	Total Equity	*Total Active Equity*	Far East Developed - Nomura	Emerging Markets - JPM	Emerging Markets - Schroder	*Total Passive Equity*	UK Equity - L&G	North American Equity - L&G	Europe ex UK Equity - L&G	*Other Overseas (Capital)**	*Total Alternatives*	FTSE RAFI DEV - L&G	MSCI World Min Vol TR - L&G	MSCI World Quality TR - L&G	Corporate Bond - JPM	Total Property	UK Property - VENN	US Property - Walton Street	Euro Property - Invesco	Total Infra	UK Infra - Green	UK Infra Core - Hermes	Cash
Portfolio Return	**20.0**	**22.7**	26.6	27.0	26.5	25.7	21.1	17.3	28.7	19.3	-0.1	**22.3**	30.0	17.9	20.4	**2.9**	**8.1**	6.8	10.0	8.4	**4.7**	3.0	6.3	**0.0**
Benchmark Return	**18.7**	**22.2**	25.3	26.0	24.5	24.5	20.3	17.2	28.8	19.5	10.3	**22.8**	30.1	17.8	20.4	**2.5**	**5.3**	6.7	4.8	4.8	**6.0**	5.6	6.2	**0.0**
Excess Return	**1.2**	**0.5**	1.3	1.0	2.0	1.2	0.7	0.1	-0.1	-0.2	-10.5	**-0.4**	-0.1	0.1	0.0	**0.5**	**2.8**	0.1	5.2	3.6	**-1.3**	-2.7	0.0	**0.0**

Asset Allocation Summary (%)



	Total Fund	Total Equity	*Total Active Equity*	Far East Developed - Nomura	Emerging Markets - JPM	Emerging Markets - Schroder	*Total Passive Equity*	UK Equity - L&G	North American Equity - L&G	Europe ex UK Equity - L&G	*Other Overseas (Capital)**	*Total Alternatives*	FTSE RAFI DEV - L&G	MSCI World Min Vol TR - L&G	MSCI World Quality TR - L&G	Corporate Bond - JPM	Total Property	UK Property - VENN	US Property - Walton Street	Euro Property - Invesco	Total Infra	UK Infra - Green	UK Infra Core - Hermes	Cash
Portfolio Start	**100.0**	**84.7**	27.0	15.0	5.7	6.2	36.1	28.3	1.7	6.0	9.3	**12.4**	3.7	4.5	4.3	**6.9**	**4.6**	1.2	0.2	3.2	**3.8**	1.8	2.0	**0.0**
Portfolio End	**100.0**	**86.7**	28.5	15.9	6.0	6.5	45.6	27.7	11.9	5.9	0.0	**12.7**	4.0	4.4	4.3	**5.9**	**4.1**	1.0	0.3	2.9	**3.2**	1.6	1.7	**0.0**
Benchmark Start	**100.0**	**81.6**	24.0	12.0	6.0	6.0	47.6	27.1	11.0	9.5	0.0	**10.0**	3.3	3.3	3.3	**10.0**	**4.6**	1.2	0.2	3.2	**3.8**	1.8	2.0	**0.0**
Benchmark End	**100.0**	**82.6**	24.0	12.0	6.0	6.0	48.6	28.1	11.0	9.5	0.0	**10.0**	3.3	3.3	3.3	**10.0**	**4.1**	1.0	0.3	2.9	**3.2**	1.6	1.7	**0.0**

Attribution to Excess Return (%)



	Total Fund	Total Equity	*Total Active Equity*	Far East Developed - Nomura	Emerging Markets - JPM	Emerging Markets - Schroder	*Total Passive Equity*	UK Equity - L&G	North American Equity - L&G	Europe ex UK Equity - L&G	*Other Overseas (Capital)**	*Total Alternatives*	FTSE RAFI DEV - L&G	MSCI World Min Vol TR - L&G	MSCI World Quality TR - L&G	Corporate Bond - JPM	Total Property	UK Property - VENN	US Property - Walton Street	Euro Property - Invesco	Total Infra	UK Infra - Green	UK Infra Core - Hermes	Cash
Excess Return	**1.2**	**0.5**	0.5	0.4	0.1	0.0	0.1	0.0	0.2	-0.1	-0.1	**0.0**	0.0	0.0	0.0	**0.6**	**0.1**	0.0	0.0	0.1	**-0.1**	-0.1	0.0	**0.0**

	Total Fund	Total Equity	*Total Active Equity*	Far East Developed - Nomura	Emerging Markets - JPM	Emerging Markets - Schroder	*Total Passive Equity*	UK Equity - L&G	North American Equity - L&G	Europe ex UK Equity - L&G	*Other Overseas (Capital)**	*Total Alternatives*	FTSE RAFI DEV - L&G	MSCI World Min Vol TR - L&G	MSCI World Quality TR - L&G	Corporate Bond - JPM	Total Property	UK Property - VENN	US Property - Walton Street	Euro Property - Invesco	Total Infra	UK Infra - Green	UK Infra Core - Hermes	Cash
Asset Allocation	**1.0**	**0.4**	0.2	0.2	-0.1	0.0	0.1	-0.1	0.2	0.0	0.1	**0.0**	0.0	0.0	0.0	**0.6**	**0.0**	0.0	0.0	0.0	**0.0**	0.0	0.0	**0.0**

	Total Fund	Total Equity	*Total Active Equity*	Far East Developed - Nomura	Emerging Markets - JPM	Emerging Markets - Schroder	*Total Passive Equity*	UK Equity - L&G	North American Equity - L&G	Europe ex UK Equity - L&G	*Other Overseas (Capital)**	*Total Alternatives*	FTSE RAFI DEV - L&G	MSCI World Min Vol TR - L&G	MSCI World Quality TR - L&G	Corporate Bond - JPM	Total Property	UK Property - VENN	US Property - Walton Street	Euro Property - Invesco	Total Infra	UK Infra - Green	UK Infra Core - Hermes	Cash
Stock Selection	**0.2**	**0.2**	0.3	0.1	0.1	0.1	0.0	0.0	0.0	0.0	-0.1	**0.0**	0.0	0.0	0.0	**0.0**	**0.1**	0.0	0.0	0.1	**-0.1**	-0.1	0.0	**0.0**

The **Returns Summary** details the Portfolio, Benchmark and Excess Returns. The Excess Returns are plotted. The **Asset Allocation Summary** details the weights held by the portfolio and benchmark in each asset class/manager. The green plots are the over/underweight exposures of the Fund (v Fund benchmark) at the beginning and end of the period. The **Attribution to Excess Return**, identifies how each asset class/manager has contributed to the overall excess return of the Total Fund. It is broken down into **Asset Allocation** (how successful the decision to over/underweight each asset class was) and then into **Stock Selection** (how well each manager/s decisions have performed). The **Asset Allocation** plus the **Stock Selection** excess returns are all additive and equal the **Total Excess Return** of the Fund.

*** Partial Return**

Manager Return Analysis
Worcestershire County Council Pension Fund
for Quarter Ended 31st December 2016

Market Value: £2.24bn

	Benchmark	Incep Date	Market Value (£m)	Weight	QTR PF	QTR BM	QTR ER	Year To Date PF	Year To Date BM	Year To Date ER	1 Year PF	1 Year BM	1 Year ER	3 Year PF	3 Year BM	3 Year ER	5 Year PF	5 Year BM	5 Year ER	10 Year PF	10 Year BM	10 Year ER	Since Inception PF	Since Inception BM	Since Inception ER
Total Equity Fund	**Client Specific Weighted Index**	**Mar-16**	**2,005.3**	**86.7**	**4.3**	**4.7**	**-0.4**	**22.7**	**22.2**	**0.5**													**22.7**	**22.2**	**0.5**
Total Active Equity Fund	Client Specific Weighted Index	Mar-16	658.2	28.5	2.3	2.9	-0.6	26.6	25.3	1.3													26.6	25.3	1.3
Far East Developed Fund - Nomura	FTSE Developed Asia Pacific Index	Feb-03	368.1	15.9	2.5	3.7	-1.1	27.0	26.0	1.0	24.2	25.5	-1.3	12.7	12.0	0.7	11.6	11.6	0.0	7.3	7.6	-0.3	10.9	10.9	-0.1
Emerging Markets Fund - JPM	FTSE All World Emerging Market Index	Dec-11	139.3	6.0	2.6	2.2	0.4	26.5	24.5	2.0	36.7	35.4	1.3	9.1	9.4	-0.3	7.6	6.9	0.6				7.2	6.9	0.3
Emerging Markets Fund- Schroder	FTSE All World Emerging Market Index	Oct-11	150.8	6.5	1.4	2.2	-0.8	25.7	24.5	1.2	32.1	35.4	-3.4	10.0	9.4	0.6	8.7	6.9	1.8				7.8	5.9	1.9
Total Passive Equity Fund	Client Specific Weighted Index	Mar-16	1,054.5	45.6	5.3	5.3	0.0	21.1	20.3	0.7													**21.1**	**20.3**	**0.7**
UK Equity Fund - L&G	FTSE All Share Index	Dec-15	641.2	27.7	3.9	3.9	0.0	17.3	17.2	0.1	16.8	16.8	0.1										20.0	19.9	0.1
North American Equity Fund- L&G	FTSE All World North American Index	Dec-15	276.1	11.9	9.0	9.0	0.0	28.7	28.8	-0.1	34.0	34.1	-0.1										35.1	35.2	-0.1
Europe ex UK Equity Fund- L&G	FTSE Developed Europe Ex. UK Index	Dec-15	137.2	5.9	4.8	4.8	0.0	19.3	19.5	-0.2	19.4	19.7	-0.3										22.1	22.4	-0.3
Total Alternatives Fund	*Client Specific Weighted Index*	*Mar-16*	292.6	*12.7*	*5.1*	*5.4*	*-0.3*	*22.3*	*22.8*	*-0.4*													*22.3*	*22.8*	*-0.4*
FTSE RAFI DEV Fund - L&G	FTSE RAFI Developed 1000 QSR Net Index	Dec-15	91.6	4.0	10.8	10.8	-0.1	30.0	30.1	-0.1	33.0	33.1	-0.1										35.7	35.8	-0.1
MSCI World Min Vol TR Fund - L&G	MSCI World Minimum Volatility Net Index	Dec-15	101.4	4.4	1.5	1.5	0.0	17.9	17.8	0.1	27.6	27.6	0.0										30.5	30.4	0.1
MSCI World Quality TR Fund - L&G	MSCI World Quality Total Return Net Index	Dec-15	99.6	4.3	4.0	4.0	0.0	20.4	20.4	0.0	25.4	25.4	0.0										27.0	27.0	0.0
Corporate Bond Fund- JPM	**Barclays Capital Global Aggregate - Ex Treasury, Ex Government Related 100% Hedged to GBP**	**Mar-03**	**136.3**	**5.9**	**-2.2**	**-2.3**	**0.2**	**2.9**	**2.5**	**0.5**	**6.0**	**5.8**	**0.2**	**4.9**	**4.6**	**0.3**	**4.3**	**4.1**	**0.2**	**5.8**	**6.3**	**-0.5**	**5.4**	**5.6**	**-0.3**
Total Property Fund	**Client Specific Weighted Index**	**Mar-16**	**95.7**	**4.1**	**0.3**	**1.7**	**-1.4**	**8.1**	**5.3**	**2.8**													**8.1**	**5.3**	**2.8**
UK Property Fund - VENN	Absolute Return +9%	Jul-15	22.1	1.0	2.4	2.2	0.2	6.8	6.7	0.1	8.4	9.0	-0.6										7.4	9.5	-2.1
US Property Fund- Walton Street	Absolute Return + 6.5%	Jan-16	7.6	0.3	5.1	1.6	3.5	10.0	4.8	5.2													12.0	4.8	7.2
Euro Property Fund- Invesco	Absolute Return + 6.5%	Feb-16	66.1	2.9	-1.0	1.6	-2.6	8.4	4.8	3.6													11.2	4.8	6.3
Total Infrastructure Fund	**Client Specific Weighted Index**	**Mar-16**	**74.9**	**3.2**	**0.9**	**1.9**	**-1.0**	**4.7**	**6.0**	**-1.3**													**4.7**	**6.0**	**-1.3**
UK Infrastructure Fund - Green	Absolute Return +7.6%	Apr-15	35.9	1.6	0.0	1.8	-1.8	3.0	5.6	-2.7	3.0	7.6	-4.6										2.1	7.6	-5.4
UK Infrastructure Core Fund - Hermes	Absolute Return +8.4%	May-15	39.0	1.7	1.8	2.0	-0.2	6.3	6.2	0.0	10.2	8.4	1.8										8.2	8.4	-0.2
Worcestershire CC Total Fund		**Mar-87**	**2,312.2**	**100.0**	**3.6**	**3.7**	**-0.1**	**20.0**	**18.7**	**1.2**	**21.7**	**21.4**	**0.3**	**9.9**	**9.8**	**0.1**	**11.4**	**11.3**	**0.1**	**6.4**	**6.9**	**-0.6**	**8.1**	**8.6**	**-0.5**

PF = Portfolio Return BM = Benchmark Return ER = Excess Return

Total Fund Benchmark

CLIENT SPECIFIC BM AS AT DEC 2016:

28.1% FTSE All Share   11% FTSE All World North America

9.5% FTSE Developed Europe Ex UK   12% FTSE Developed Asia Pacific

12% FTSE All World Emerging Markets

10% 1/3 FTSE RAFI DEV 1000 QSR Total Return NET & 1/3 MSCI World Minimum Vol Total Return NET & 1/3 MSCI World Quality Total Return NET

Corp Bonds: 10% Barclays Global Agg Corporate Bond HEDGED into GBP

Property: 4.1% Client Specific Index   Infrastructure: 3.2% Client Specific Index

Notes: For the Total Fund benchmark the weightings for the Infrastructure and Property will match the actual drawdowns/market values of the funds, then the remainder will be put into UK Passive Equities .

Total Infrastructure and Total Property are measured against a weighted index of the funds underlying benchmarks.

Historic data up to and including 31.03.2016 has been provided by the WM Co and L&G.

Total Fund Reconciliation Analysis
Worcestershire County Council Pension Fund
for Quarter Ended 31st December 2016

Market Value: £2.24bn

	30th Sept 2016		Net	Total	Total	31st Dec 2016	
	Market Val (£000s)	Exposure (%)	Investment (£000s)	Income (£000s)	Gain/Loss (£000s)	Market Val (£000s)	Exposure (%)
Total Equity Fund	**1,923,097**	**85.9**	**0**	**0**	**82,213**	**2,005,311**	**86.7**
Total Active Equity Fund	643,486	28.8	0	0	14,709	658,195	28.5
Far East Developed Fund - Nomura	358,945	16.0	0	0	9,120	368,065	15.9
Emerging Markets Fund - JPM	135,782	6.1	0	0	3,502	139,284	6.0
Emerging Markets Fund- Schroder	148,758	6.6	0	0	2,088	150,846	6.5
Total Passive Equity Fund	1,001,228	44.7	0	0	53,272	1,054,500	45.6
UK Equity Fund - L&G	617,063	27.6	0	0	24,092	641,155	27.7
North American Equity Fund- L&G	253,276	11.3	0	0	22,844	276,120	11.9
Europe ex UK Equity Fund- L&G	130,889	5.8	0	0	6,336	137,226	5.9
Total Alternatives Fund	278,384	12.4	0	0	14,232	292,616	12.7
FTSE RAFI DEV Fund - L&G	82,697	3.7	0	0	8,894	91,591	4.0
MSCI World Min Vol TR Fund - L&G	99,908	4.5	0	0	1,524	101,432	4.4
MSCI World Quality TR Fund - L&G	95,778	4.3	0	0	3,814	99,593	4.3
Corporate Bond Fund- JPM	**139,285**	**6.2**	**0**	**0**	**-3,014**	**136,271**	**5.9**
Total Property Fund	**100,350**	**4.5**	**-4,943**	**0**	**336**	**95,743**	**4.1**
UK Property Fund - VENN	26,378	1.2	-4,943	0	628	22,063	1.0
US Property Fund- Walton Street	7,215	0.3	0	0	370	7,585	0.3
Euro Property Fund- Invesco	66,757	3.0	0	0	-662	66,095	2.9
Total Infrastructure Fund	**74,856**	**3.3**	**-660**	**0**	**696**	**74,893**	**3.2**
UK Infrastructure Fund - Green	35,889	1.6	0	0	0	35,889	1.6
UK Infrastructure Core Fund - Hermes	38,967	1.7	-660	0	696	39,004	1.7
Cash Fund	**0**	**0.0**	**-5,603**	**0**	**0**	**0**	**0.0**
Worcestershire CC Total Fund	**2,237,589**	**100.0**	**-5,603**	**0**	**80,231**	**2,312,218**	**100.0**

Note: Cashflow into cash refelects sum of portfolio contributions minus net investments. It is assumed that Cash for the Fund is held outside of the invested assets and is therefore withdrawn from the Total Fund

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worcestershire county council

AGENDA ITEM 9

PENSIONS COMMITTEE
13 MARCH 2017

LGPS CENTRAL UPDATE

Recommendation

The Chief Financial Officer recommends that the LGPS Central Update be noted by the Committee.

Update

1. Following formal approval of LGPS Central as an investment pool by the Government, work has continued to ensure that the project will meet the timetable that will allow a launch on 1st April 2018. Governance arrangements have been agreed and are working their way through the necessary committees of the Administering Authorities, and this process will be completed before the end of March 2017.

2. A firm of head hunters has been appointed to assist in the appointment of key individuals to LGPS Central. Initially these appointments will focus on the appointment of a Chief Executive Officer and a Chair and adverts for these posts have already been placed, with interviews expected to take place before the end of March 2017. The process for appointing a Chief Operating Officer/Chief Financial Officer, Chief Investment Officer and two Non-Executive Directors will commence shortly and the expectation is that all of the successful candidates will be in post by the end of October 2017.

3. A tender has been issued to select 'asset servicers' to the pool. These providers will fulfil an important role in the effective control of the assets and in assisting the pool to fulfil its regulatory responsibilities and the appointment process is likely to be complex and to take some time. Appointing the right provider will be key to ensuring a smooth launch of LGPS Central.

4. The Common Investment Vehicle (CIV) work stream, which is responsible for designing the sub funds that will be offered by LGPS Central, so that they can deliver the investment requirements of the Funds, has made very good progress in terms of agreeing benchmarks and performance objectives for some of the key asset classes. This progress has been possible as a result of the pragmatism of the Funds in terms of their recognition that economies of scale will be reduced if the sub funds are fragmented as a result of Funds' initial expectations being marginally different. A number of sub funds that were originally identified as being required have now been merged.

5. As part of the CIV work streams discussions with Funds, the original timetable for the launch of sub funds has been amended and those sub funds where the savings

are expected to be highest (notably global equities and emerging market equities) have been moved forward within the plan.

6. The first Shadow Shareholders' Forum took place in Matlock on 13th December 2016 and the main issue discussed was the appointment process of the key executive and nonexecutive positions within LGPS Central. The meeting went well and all eight Administering Authorities continue to work together in a coherent manner at both elected member and officer level.

7. On a national level it is public knowledge that seven asset pools have been approved by the Government and the most recent of these was LPP, which is an existing asset pool consisting of Lancashire County Council and the London Pension Fund Authority. LPP is significantly below the minimum size that was originally considered necessary by the government (£14bn instead of £25bn) and their approval makes reference to the expectation that they will increase scale and to a review of the position in Spring of 2017. The eighth pool Access (A Collaboration of Central, Eastern and Southern Shires), is still awaiting a formal letter from the government.

8. All work streams within the project continue to run to their timetables, although with a project as large as this and with so many interrelationships between the different objectives that need to be achieved there are always risks. At present these risks appear to be manageable and an active risk register is in place and is updated regularly.

9. A Stakeholders' Day was held in Wolverhampton on 24th January 2017, and was attended by over 90 people. The aim of the day was to ensure that as many people as possible from the individual Funds were given the opportunity to explore how LGPS Central would operate in greater depth than might have been possible within the confines of meetings relating to their individual Funds, and to ask any questions that they felt appropriate. Based on the feedback received, the day successfully met its objectives.

Contact Point for the Report

Sean Pearce, Chief Financial Officer
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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following background papers relating to the subject matter of this report:

LGPS Central business case submission to government 15 July 2016.

worcestershire countycouncil

AGENDA ITEM 10

PENSIONS COMMITTEE
13 MARCH 2017

LGPS CENTRAL COST SHARE

Recommendation

The Chief Financial Officer recommends that the qualification be formally removed, in relation to the approved LGPS Central Governance agenda item recommendations on 7th December 2016, which stated that a cost share agreement is required to be agreed with all LGPS Central pool members that ensures value for money for the Worcestershire County Council Pension Fund from entering into the LGPS Central investment pool.

Background

1. The draft pooling submission to Government in July 2016 included an estimated budget of £3.3 million for set-up costs from July onwards. Following this, tenders were received for the financial and legal advisors, with the successful tenders totalling £400,000 higher than the original estimate.

2. In accordance with LGPS Central's core principle of 'one fund, one vote', and as previously agreed, set-up costs will be divided equally between the participating funds, i.e. one eighth of the actual cost will be met by each fund.

3. The ongoing running costs of LGPS Central in the July 2016 submission were split into equal eighths for the period 1st April 2018 through to 31st March 2021, and then split based on total AUM from 1st April 2021 onwards in order to prevent those transferring assets into the Pool first suffering a heavy burden of costs.

4. Transition Costs (on initial transition of assets into LGPS Central) represent both the largest and difficult to estimate set-up costs. In the Base Case Long Term Cost Savings Model, these were estimated at £40.6 million, and were apportioned according to assets under management, at a 'sub-fund' level.

Revised cost share agreement

5. Subject to the on-going review of the Pool's tax position e.g. Corporation Tax and VAT, for both ACS and non-ACS) the following cost share principles have been agreed by the LGPS Central Programme Board:

a) Set-up costs to be shared equally amongst participating funds, i.e. one eighth per fund.

b) Investment management and monitoring costs to be shared by assets under management (AUM), on a sub-fund by sub-fund basis, subject to a pricing schedule being agreed for different asset classes e.g. active vs. passive and the differing activities of managing and monitoring assets.

c) Corporate governance costs – shared equally amongst participating funds, i.e. one eighth per fund;

d) Operator costs – charged by total AUM (from day one);

e) Transition costs - charged by AUM within sub-funds with a condition that if a fund(s) 'throws into the pot' a mix of assets that suffers from liquidity constraints or much larger transition costs than the rest of the assets, then that fund(s) is charged the additional cost.

Cross-subsidisation

6. Based on legal advice obtained by the Brunel Pensions Partnership the sharing of costs on an equitable basis should not involve any element of illegal "subsidy". Cost sharing should be on a fair and equitable basis, so that a reasonable and commercially responsible public authority would enter into it. The LGPS Central programme board and programme delivery group are now considering whether a legal option will need to be obtained in relation to the agreed cost share arrangements for the pool.

Impact on costs

7. The removal of the three years running costs split into equal eighths for the period 1st April 2018 through to 31st March 2021 results in a £0.9m better off position for the fund after a 16 year period (with 2018/19 as year 1). The breakeven point is also two years earlier in 2031/32 rather than 2033/34 as per under the original proposal. The biggest beneficiary, in absolute cash terms, is Shropshire which is £1.2m better off over 15 years (to 2032/33). All the other funds break even or gain, except the West Midlands, which incurs a reduction in savings of c. £3.2m, however it still remains the Fund with the largest £ savings in the pool.

8. The LGPS Central business case will be rerun at various key stages over the next few years. The first planned rerun will take into account the full details of the revised cost share agreement and the proposed sub-fund structure. More savings are expected to result for the Worcestershire County Council Pension Fund through the revised cost share for investment management and monitoring costs, which will be priced on a sub-fund basis rather than asset under management. As the Fund invests a substantial proportion of its assets in pooled passive equity funds, these are expected to have a lower 'price' than an active equity mandate or an alternatives mandate and therefore relative to other Funds in the pool will incur a lower cost.

9. It has also been agreed that the transition plan for Emerging Market equities will be brought forward compared to the base case in the July submission and therefore the Fund should benefit from increased savings earlier than originally planned.

Supporting Information

Appendix 1 Programme Board: Cost-Sharing Principles Proposal

Contact Point for this Report

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Background Papers

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LGPS Central business case submission to government 15 July 2016.

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Programme Board

Cost-Sharing Principles Proposal

1. **Recommendations (subject to the on-going review of the Pool's tax position e.g. Corporation Tax and VAT, for both ACS and non-ACS):**

   a) **Set-up costs – shared equally amongst participating funds, i.e. one eighth per fund;**

   b) **Investment management and monitoring costs – by assets under management (AUM), on a sub-fund by sub-fund basis, subject to a pricing schedule being agreed for different asset classes e.g. active vs. passive and the differing activities of managing and monitoring assets;**

   c) **Corporate governance costs – shared equally amongst participating funds, i.e. one eighth per fund;**

   d) **Operator costs – charged by total AUM (from day one);**

   e) **Transition costs - charged by AUM within sub-funds with a condition that if a fund(s) 'throws into the pot' a mix of assets that suffers from liquidity constraints or much larger transition costs than the rest of the assets, then that fund(s) is charged the additional cost;**

   f) **Working capital - provided in the form of an interest-free working capital advance loan.**

   g) **Cost-sharing principles review – recommendations 'a' through to 'f' above are recommended to be agreed subject to review by 1st April 2020, following the transition of assets to the pool.**

2. Introduction

2.1. This report provides recommendations for sharing the costs of establishing and running LGPS Central between the participating funds

2.2. The report covers the following types of cost:

   a) The costs of setting up LGPS Central;
   b) The ongoing running costs of LGPS Central, including the costs of investment management and monitoring;
   c) Transition costs on the set-up of LGPS Central.

3. Cross-subsidisation

3.1. Based on legal advice obtained by the Brunel Pensions Partnership the sharing of costs on an equitable basis should not involve any element of illegal "subsidy". Cost sharing should be on a fair and equitable basis, so that a reasonable and commercially responsible public authority would enter into it.

4. Set-up Costs

4.1. The draft pooling submission to Government included an estimated budget of £3.3 million for set-up costs from July onwards. Following this, tenders were received for the financial and legal advisors, with the successful tenders totalling £400,000 higher than the original estimate (approved by Programme Board on 10th August 2016). The following table provides a breakdown of the revised estimate of £3.7 million:

Heading	Estimated Set-up Costs £000
Staff	1,918
Legal / Tax / Advisers	1,100
Procurement Support	200
Technology	250
FCA Fees	5
Shared Services	50
Miscellaneous	200
Total	**3,723**

4.2. The staffing cost shown in the table above breaks down as follows:

Staff Cost	Estimated Set-up Costs £000
Interim Management Team	317
CEO (from April 2017)	264
COO (from April 2017)	264
Head of IT (from July 2017)	149
CIO (from October 2017)	132
CRO (from October 2017)	132
Compliance (from October 2017)	79
Core Staff (from February 2018)	350
Recruitment Advisor Costs	231
Total	**1,918**

4.3. In addition to the above, the Programme Board has approved additional programme administration officer support.

4.4. In accordance with LGPS Central's core principle of 'one fund, one vote', and as previously agreed, set-up costs will be divided equally between the participating funds, i.e. one eighth of the actual cost will be met by each fund, estimated at £465,000 based on the revised budget.

4.5. This cost-sharing basis is the same approach as included in the Base Case Long Term Cost Savings Model used for the July 2016 draft pooling submission to Government.

5. Ongoing Running Costs of LPGS Central

5.1. The financial modelling included an estimated budget of £5.1 million for running costs (rising to £5.4 million from the fourth year onwards). This was made up as follows:

Heading	Annual Budget 2018/19 to 2020/21 £000	Annual Budget 2021/22 Onwards £000
Staff	3,317	3,634
Premises	200	200
Legal / Tax / Advisers	250	250
External Audit	50	50
Travel & Subsistence	50	50
Facilities	50	50
Insurance	250	250
Technology	500	500
FCA Fees	50	50
Internal Audit	60	60
Shared Services	100	100
Miscellaneous	100	100
Corporate Tax	100	100
Total	**5,077**	**5,394**

5.2. In addition to this, a further £1.4 million of staffing costs was included in the model for the costs of internal Investments staff allocated directly to sub-funds.

5.3. The cost-sharing basis included in the Base Case Long Term Cost Savings Model, used for the July 2016 draft pooling submission to Government, was that ongoing running costs of LGPS Central would be split into equal eighths for the period 1st April 2018 through to 31st March 2021, and then split based on total AUM from 1st April 2021 onwards in order to prevent those transferring assets into the Pool first suffering a heavy burden of costs.

5.4. It is now proposed that for the purposes of cost-sharing, the ongoing running costs of LGPS Central will be split three ways:

a) Those costs that can be directly attributed to a sub-fund (or pooled vehicle), which will be referred to as investment management and monitoring costs;
b) The costs of the company's core governance arrangements, which will be referred to as corporate governance costs;
c) Costs that do not fall into either of the above categories, which will be referred to as operator costs.

5.5. Investment management and monitoring costs are expected to include:
a) External investment manager fees, including performance fees/carried interest and other costs;
b) Transaction costs;
c) Fees for the audit of sub-funds;
d) The portion of the total pay cost of the in-house investment management teams that is attributable to direct investment management (pre and post the launch of the Pool's solution);
e) The portion of the total pay cost of LGPS Central staff that is attributable to the direct monitoring of external investment managers/funds (pre and post launch of the Pool's solution);
f) Expenses incurred by the above-mentioned staff in the course of investment management/monitoring;
g) Other costs which are incurred directly as a result of managing the assets in that sub-fund according to the strategy of that sub-fund (for example, licence fees);
h) An apportionment of office overheads (for example, premises costs) in respect of staff included in the other points in this paragraph.

5.6. Corporate governance costs are expected to include:
a) The total pay costs of executive officers, excluding the CIO;
b) The cost of remuneration of the chair of the board and non-executive directors;
c) Other costs associated with the operation of the Board, Shareholder's Forum, clerking and company representation at Joint Committee/Practitioners' Advisory Forum;
d) The total pay costs of relationship managers;
e) The cost of internal audit;
f) The costs of preparing statutory accounts and external audit;
g) Certain aspects of external legal and financial advice;
h) An apportionment of office overheads (for example, premises costs) in respect of staff included in the other points in this paragraph.

5.7. Operator costs are expected to include:

a) The portion of the total pay cost of the in-house investment management team that is not attributed to investment management and monitoring (i.e. charged through 5.5 (d), (e) and (f));
b) The total pay costs of the CIO;
c) The cost of operations, administration and finance staff;
d) The costs of compliance and risk management;
e) Shared services;
f) The costs of performance management;
g) Responsible investment;
h) An apportionment of office overheads (for example, premises costs) in respect of staff included in the other points in this paragraph.

5.8. It is proposed that these costs be shared between participating funds according to the following principles:

a) Investment management and monitoring costs – by assets under management, on a sub-fund by sub-fund basis. The pool will need to agree a pricing schedule that reflects the differing costs of managing different asset classes, active versus passive management and the differing activities of managing and monitoring assets;

b) Corporate governance costs – shared equally amongst participating funds, i.e. one eighth per fund;

c) Operator costs – by total assets under management, including Alternatives and Life Policies. This will mean that all funds must transfer management of assets to the pool from day one to spread costs, and accordingly all assets will be monitored or managed by the operator from then on. For the avoidance of doubt, if the management of assets can't be transferred to the pool from day one, for what-ever-reason, they will deemed to have been effectively transferred into the Pool for the purposes of charging out Operator Costs.

5.9. It should be noted that under the sharing principles set out in the above paragraph, the ITA fund would attract no corporate governance cost (although it would incur costs in the two other categories). This would be consistent with the principle of 'one fund, one vote'.

5.10. There is no change from the previous model in the proposed approach to the allocation of staffing costs of internal Investments staff, which is that the element of their work attributable to management or monitoring will be allocated directly to sub-funds (the model assumed this to be 80%).

6. Transition Costs

6.1. Transition Costs (on initial transition of assets into LGPS Central) represent both the largest and difficult to estimate set-up costs. In the Base Case Long Term Cost Savings Model, these were estimated at £40.6 million, and were apportioned according to assets under management, at a 'sub-fund' level.

6.2. It is proposed that transition costs will be charged by AUM within sub-funds with a condition that if a Fund(s) 'throws into the pot' a mix of assets that suffers from liquidity constraints or much larger transition costs than the rest of the assets then that Fund(s) is charged the additional cost. The transition manager will be able to identify each Funds' actual transition costs and therefore will be able to identify such charges and allocate accordingly. It is anticipated that transition costs will be charged directly to Pension Funds in the pool to allow VAT to be recovered.

7. Charging and Invoicing Mechanisms

7.1. In order for LGPS Central to have a reasonable level of working balances at all time, and in particular to avoid it having to resort to lending/overdraft facilities for short-term cash flow purposes, consideration needs to be given to the timing of charges being issued to and paid by participating funds.

7.2. It is proposed that working capital will be provided, possibly in the form of an interest-free working capital advance loan, rather than LGPS Central invoicing for services in advance.

8. Reporting

8.1. Since some elements of the charges for the running costs of LGPS Central will be variable, the company will need to report on its costs to the participating funds on a regular basis, in order to allow those funds to budget for and forecast their costs on a timely and accurate basis.

8.2. It is noted that the annual budget, which should include the basis on which costs will be recovered, will be approved with the full visibility of funds, and consultation with them.

8.3. LGPS Central should provide the participating funds with forecast annual expenditure, and the resulting forecast charges on a regular basis throughout the financial year.

PENSIONS COMMITTEE
13 MARCH 2017

INVESTMENT STRATEGY STATEMENT

Recommendation

The Chief Financial Officer recommends that the Fund's Investment Strategy Statement be approved by the Committee.

Background

1. The new LGPS Investment Regulations came into effect from 1 November 2016. These regulations remove many of the investment restrictions imposed on LGPS funds, introduces a prudential framework for investment decision making, introduces a Power of Direction for the Secretary of State to intervene in the investment function of an Administering Authority if deemed necessary, and requires all funds to publish a new Investment Strategy Statement by 1 April 2017.

2. Under Regulation 7(6) and (7), the Investment Strategy Statement must be published by 1 April 2017 and then kept under review and revised from time to time and at least every three years.

3. The Department for Communities and Local Government (DCLG) has also outlined new guidance on preparing and maintaining an Investment Strategy Statement. This statement will replace the Statement of Investment Principles (SIP).

4. In order to comply with the guidance, Administering Authorities must take proper advice. They should also explain the extent to which the views of their Pension Board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors and must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments.

Investment Strategy Statement Guidance Requirements

5. Regulation 7(1) requires an Administering Authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. The Investment Strategy Statement must include:

   a) A requirement to invest money in a wide variety of investments;
   b) The authority's assessment of the suitability of particular investments and types of investments;
   c) The authority's approach to risk, including the ways in which risks are to be measured and managed;

d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

Investment Strategy Statement – LGPS Central

6. The Fund's Investment Strategy Statement, attached as Appendix 1 (to follow) to this report, has been designed in collaboration with the seven other funds within LGPS Central to ensure a consistent approach to investment beliefs and responsible investment beliefs is established to allow the pool operator, once operational from 1st April 2018, to implement a consistent approach across the pool's investments.

Specific Contact Points for this report

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Supporting Information

Appendix 1 - Investment Strategy Statement

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report:

Worcestershire County Council Pension Fund Investment Strategy Statement 2017

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 Pension Investment Advisory Panel advises the Pensions Committee on investment issues relating to the Fund. Neither the Local Pensions Board or the Pension Investment Advisory Panel have any decision-making powers.

This statement which is reflected in the Strategic Allocation in Appendix A 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 B.

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

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

• Funding Strategy Statement
• Governance Compliance Statement
• Policy Statement on Communication Strategy
• Policy Statement on Governance Strategy

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 a 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 and 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 April 2018 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 A) 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 D 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 A 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 discovered 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 Equitable Life and Scottish Widows.

Equitable Life operates an AVC policy to manage past contributions for the Fund; there are however are no current contributors to this policy.

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 is entering 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 invest all 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

The Funds 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. There is risk but also opportunity in holding companies that have weak governance of financially material RI issues. Thus, the Fund prefers to adopt a policy of risk monitoring and engagement 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 who are at an early stage of developing its RI approach.

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.

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.

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, which can be found on the Fund's website.

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Appendix A – Strategic Allocation Investment Benchmark (SIAB) and Ranges.
Appendix B – Roles and Responsibilities
Appendix C – List of Advisers
Appendix D – Statement of Investment Beliefs

Appendix A – 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: - 1/3 GPAE - FTSE-RAFI Dev. 1000 Equity Fund - 1/3 GPBK - MSCI World Mini Volatility Index - 1/3 STAJ - CSUF - STAJ MF36726/36727
Actively Managed Bonds		
Bonds Managed Actively	10.0	JP Morgan Asset Management - 100% Barclays Global Aggregate Corporate Bond Index – Hedged into GBP
Actively Managed Alternative Assets		
Property & Infrastructure	15.0	Through a mix of Green Investment Bank, Invesco, Hermes, Walton Street and Venn Partners
	100.0	

Ranges

Asset Type	Core Asset Allocation	Range %
Equities	75%	70 - 85
Bonds	10%	5 – 15
Infrastructure and Property	15%	5 – 15

Appendix B - Roles and Responsibilities

<u>Pensions Committee</u>

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 Pension Administration Advisory Forum 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 Pension Investment Advisory Panel to enable it to discharge its duties effectively. The dates of Pension Committee meetings are synchronised with those of the Pension Investment Advisory Panel 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 is advised by on an ad hoc basis by an Independent Financial Adviser and the Fund's Actuary.

<u>Pension Committee Terms of Reference:</u>

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

- Changes to the Statement of Investment Principles, including the strategic benchmark for asset allocation, Investment Manager benchmarks and Investment Manager targets.
- 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 Investment Advisory Panel arrangement and regular Advisory Panel 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.

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.

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.

Pension Investment Advisory Panel

The Pension Investment Advisory Panel provides the Pension Committee with strategic advice concerning changes to the Fund's asset allocation, the termination and appointment of Investment Managers and Independent Financial Advisers. It is not a decision-making body or formal committee, and does not normally meet in public.

The Chief Financial Officer appoints the members of the Pension Investment Advisory Panel, which comprises of:

- four County Councillors
- the Chief Financial Officer
- the Finance Manager– Pensions, Treasury Management and Capital and;
- one employee representative.

The composition of the Pension Investment Advisory Panel 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 Panel 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 Chairman of the Panel is appointed from amongst its members by the Chairman of the Pensions Committee.

<u>Pension Investment Advisory Panel Terms of reference:</u>

The Pension Investment Advisory Panel meets at least quarterly or otherwise as necessary to produce strategic advice to the Pension Committee on:

- Changes to the Statement of Investment Principles, including the strategic benchmark for asset allocation, Investment Manager benchmarks and Investment Manager targets.
- 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 and Global Custodian.

The Pension Investment Advisory Panel also:

- Monitors performance of total Fund assets and individual Investment Managers.
- Monitors compliance with the Statement of Investment Principles.
- Monitors performance of the Independent Financial Advisor.

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.

Appendix C - Advisers as of March 2017

AllenBridgeEpic – Philip Hebson
Investment policy, general investment matters.

Mercers
Actuarial matters

LAPFF
Company governance issues.

BNY Mellon
Custodian, Stocklending.

Appendix D - 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.

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