Worcestershire County Council

Agenda

Pensions Committee

Friday, 6 October 2017, 10.00 am
County Hall, Worcester

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

worcestershire county council

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
Friday, 6 October 2017, 10.00 am, County Hall, Worcester

Membership: Mr R W Banks (Chairman), Mr A I Hardman, Mr R C Lunn, Mr P Middlebrough 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 5 October 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 16 June 2017 (previously circulated – pink pages)	
5	**Administering Authority - Administration Update**	1 - 18
6	**Pension Investment Update**	19 - 38
7	**LGPS Central Update**	39 - 54
8	**Equity Protection Strategy**	55 - 78
9	**Implementation of the Markets in Financial Instruments Derivative (MiFID II)**	79 - 82

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: Wednesday, 27 September 2017

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AGENDA ITEM 5

PENSIONS COMMITTEE
6 OCTOBER 2017

ADMINISTERING AUTHORITY – ADMINISTRATION UPDATE

Recommendation

1. **The Head of Human Resources and Organisational Development recommends that the general update from the Administering Authority be noted.**

Annual Benefit Statements (2017) and FRS exercises

2. The Team have successfully completed this years' Annual Benefit Statements (ABS) exercise with all 'active' and 'deferred' membership ABS being issued by the deadline of 31 August 2017. The total number of ABS issued were:

- Active members 21,222
- Deferred members 16,973

3. Based on the above there is no 'material breach' to report to The Pensions Regulator.

4. A sample of the ABS is set out as an Appendix.

5. As in previous years we worked in partnership with Bedfordshire, Buckinghamshire, Cheshire, Oxfordshire, Shropshire, Staffordshire and Warwickshire funds and Adare (company providing the printing, enveloping and postage service) to deliver our ABS.

6. The FRS101/102 exercise, which followed immediately after the ABS exercise, has also been successfully completed for our 87 academies. This requires the Fund to provide to Mercers (our Actuary) for each academy details of cash flow, including pensions paid, payments to and from the fund, employer and employee contributions, deficit payments and pensionable pay.

Current Government Consultations

7. The LGPS Advisory Board (SAB) has issued a consultation on LGPS Academies Objectives. The response date is 29 September.

End of Transitional Delay Period for Automatic Enrolment

8. As part of the original implementation of Automatic Enrolment, employers were able to delay certain groups from being automatically enrolled into the LGPS.

9. This transitional delay period ceases on 30 September 2017 and employers need to prepare to communicate staff and to make arrangements to automatically enroll those staff who remain outside of the LGPS.

10. The Council has advised the Fund that their Managed Service Provider, Liberata UK will be writing to 483 staff, although this figure may reduce as staff who have opted out in the last 12 months do not need to be automatically enrolled.

Worcestershire County Council – Change of Provider

11. Further to the report to the June Committee, The fund is continuing to experience some delays in receiving Leaver forms from the Council's Manager Service Provider, Liberata UK. This is resulting is additional administration with regular reminders being issued to Liberata so that the Fund can process lump sum payments, transfers in and transfers out as quickly as possible. We are awaiting feedback from Liberata with their resourced solution. This issue has been escalated to the joint (Council and Liberata) Governance Board.

Administration Forum

12. Arrangements are being made for the Administration Forum to take place during October, avoiding schools half term. The date, once finalised, will be shared with Committee and Board members for information.

Admissions to the Fund

13. No Admission Agreements to report

Contact Points

County Council Contact Points
County Council: 01905 763763
Worcestershire Hub: 01905 765765

Bridget A Clark, HR Service Centre Manager
Tel: 01905 766215
Email: bclark@worcestershire.gov.uk

Supporting Information

- Appendix – Sample Annual Benefits Statement

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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Your deferred Local Government Pension Scheme (LGPS) benefit statement 2017

Your personal information

Name

Marital status

Date of birth

Your deferred benefits at 10 April 2017

Employer

Date of leaving

Annual pension

Lump sum retirement grant

Date benefits payable from

Surviving spouse's / partner's pension

Your death grant nomination details

Please note: If you die before receiving your deferred benefits a death grant is payable. If you left the LGPS before 1 April 2008, the death grant is the deferred lump sum retirement grant. If you left the LGPS after 31 March 2008 the death grant is 5 times your annual pension. If you are contributing to the LGPS in another employment or fund any death grant due is limited to the greater of either the death in service grant or the death grant from your deferred pension (or multiple deferred pensions).

Our records show that you have more than one deferred benefit record held with Worcestershire Pension Fund. This statement gives you details of all the deferred benefits held within this Fund.

Guide to your deferred annual benefit statement

Your personal information

Name

Marital status | Date of birth

Your deferred benefits at 10 April 2017

Employer

Date of leaving	1
Annual pension	2
Lump sum retirement grant	3
Date benefits payable from*	4
Surviving spouse's / partner's pension	5

Your death grant nomination details

6

Depending on when you left the LGPS your deferred benefits will have been calculated using different methods. For membership up to and including the 31 March 2014, benefits are calculated using the Final Salary method. For membership from 1st April 2014, benefits are calculated using the Career Average Revalued Earnings (CARE) method. Please refer to our website for more information.

Please note: If you currently pay contributions into Worcestershire Pension Fund in another job, you will receive a further statement.

If you joined the LGPS before 1 April 2008 you are entitled to receive a one-off, tax free Lump Sum Retirement Grant based on your membership built up before 1 April 2008. This is in addition to the annual pension.

If you joined the LGPS after 1 April 2008 your benefits do not include an automatic Lump Sum Retirement Grant.

Under current regulations, when you take your benefits you may have the option to give up some of your annual pension in exchange for a lump sum amount. Please see your Fund's website for more information.

Disclaimer: This statement is issued for your information only. It is not a statement of entitlement and does not confer any rights other than those provided by the relevant Local Government Pension Scheme Regulations. Benefits will be paid in accordance with those regulations and all overriding pension legislation. Worcestershire Pension Fund is not liable to pay any benefits arising through error or omission.

Notes

1. This is the date your employer told us that you left the pension scheme for this employment.

2. This is the current value of your deferred annual pension at 10 April 2017. This year, public sector pensions will increase by 1%, in line with the Consumer Price Index (CPI) for the month of September 2016, which is used to set the rate of Pensions Increase for the following April.

3. This is the current value of your deferred lump sum retirement grant at 10 April 2017.

4. This is the date when your deferred benefits become payable to you without reduction. There are some deferred members who left the scheme prior to 30 September 2006 who have a protected Normal Pension Age of between ages 60 and 65. Please note: If your date of leaving is after 31st March 2014, the date your benefits will be payable from unreduced will be your State Pension Age or age 65 whichever is the later. Please note this date may change as and when Government changes state pension ages.

5. This is the current value of a survivor's pension if, when you die, you are married/have a civil partner or cohabiting partner. If no survivor's pension value is shown we may not have your status recorded correctly, in this case please send us a copy of the certificate confirming your status. Please note if you left before 1 April 2008 your benefits do not provide a pension for a cohabiting partner.

6. If you have made a nomination the most recent nomination we hold for you is shown. If you wish to update these details you should contact us by completing the enclosed new nomination form or inform us in writing that you wish to withdraw the one you currently have. If there are no details shown any death payment will form part of your estate and will NOT automatically be payable to your next of kin. Nomination forms and information can also be obtained by calling Worcestershire Pension Fund, or by visiting our website.

Reply form deferred annual benefit statement 2017

There is no need to return this form if your details are correct. Please help us to help you by making sure that we have the correct information on our files. Check carefully the information shown on your deferred benefit statement and complete this form to notify us of any amendments that you wish to make.

Your personal information

Title | **Forenames**

Surname

Previous surname

Address

Postcode

Date of birth | **Marital status**

Please provide photocopies of Birth, Marriage, Civil Registration and Decree Absolute certificates where applicable.

Details of your pension enquiry

You MUST SIGN here to give us the authority to update your information.
Any amendments will be shown on your 2018 Annual Benefit Statement.

Sign | **Date**

Print name

Please return completed form to the following address:
Pensions Service, Commercial and Change Directorate,
County Hall, Spetchley Road, WORCESTER, WR5 2NP

Death grant Nomination Form

Please complete in BLOCK CAPITALS and ensure that you sign the form.
When completing this form please refer to the conditions and notes provided on our website at:
www.worcestershire.gov.uk/pensions

Your personal information

Title
Forenames
Surname
Date of birth
National insurance number

In the event of my death, I request that you exercise the discretion granted by the Local Government Pension Scheme Regulations and pay any death grant to the person or persons named below. I understand that this document does not restrict the absolute discretion of the Scheme administrators and also that it may be revised or revoked by me at any time.

Name
Date of birth
Address
Postcode
Proportion of benefit %

Name
Date of birth
Address
Postcode
Proportion of benefit %

Name
Date of birth
Address
Postcode
Proportion of benefit %

Name
Date of birth
Address
Postcode
Proportion of benefit %

The total proportion of benefit must equal 100%. **Please keep these details up-to-date.**

Sign
Date
Print name

Please return completed form to the following address:
Pensions Service, Commercial and Change Directorate,
County Hall, Spetchley Road, WORCESTER, WR5 2NP

Our records show that you have more than one deferred benefit record held within the Worcestershire Pension Fund. This page gives you details of the other deferred benefits held within this fund in addition to those outlined on page 1.

Your deferred benefits at 10 April 2017

Employer

Date of leaving

Annual pension

Lump sum retirement grant

Date benefits payable from

Surviving spouse's / partner's pension

Your deferred benefits at 10 April 2017

Employer

Date of leaving

Annual pension

Lump sum retirement grant

Date benefits payable from

Surviving spouse's / partner's pension

Your deferred benefits at 10 April 2017

Employer

Date of leaving

Annual pension

Lump sum retirement grant

Date benefits payable from

Surviving spouse's / partner's pension

Your deferred benefits at 10 April 2017

Employer

Date of leaving

Annual pension

Lump sum retirement grant

Date benefits payable from

Surviving spouse's / partner's pension

Get in touch

Please read the enclosed newsletter to help you understand your deferred annual benefit statement. If you have any queries regarding your statement, please complete the enclosed reply form and return it to the address below.

Our Contact Details

Email pensions@worcestershire.gov.uk

Website www.worcestershire.gov.uk/pensions

Address **Pensions Service,** Commercial and Change Directorate,
County Hall, Spetchley Road, WORCESTER, WR5 2NP

In association with

Buckinghamshire County Council Pension Fund

Oxfordshire Pension Fund

Warwickshire pension fund

Staffordshire Pension Fund

Worcestershire Pension Fund

Bedfordshire Pension Fund

Cheshire Pension Fund

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Contact

Email: pensions@worcestershire.gov.uk

Website: www.worcestershire.gov.uk/pensions

Post: Pensions Service,
Commercial and Change Directorate
County Hall, Spetchley Road
Worcester WR5 2NP

Your annual benefit statement 2017

Dear

I am pleased to enclose your 2017 annual benefit statement from the Local Government Pension Scheme (LGPS).

Your statement is an estimate of your LGPS benefits, based on pay and employment details held by the Worcestershire Pension Fund on 31 March 2017. These details have been provided by your employer. The statement is based on the regulations in place on 31 March 2017 and your current normal pension age. Please read the notes carefully.

Linda Probin
Pension Administration Manager

Section 1 | Your personal and employment information at 31 March 2017

Full name			
Partnership status			
Email address			
Employer		**Date joined fund**	
Section of LGPS		**Reference**	

Section 2 | Summary of your total benefits at 31 March 2017

Standard benefit option

Annual pension	
Lump sum retirement grant For membership before 1 April 2008	

or

Maximum lump sum option

Reduced annual pension	
Increased lump sum retirement grant	

Notes | Section 1 / Section 2: Page 4

Section 3 | How your pension is calculated

Please note: The benefits shown in this statement are based on the figures below, which have been supplied by your employer. It is important that you check these figures and contact your employer quickly if they are wrong.

Your final salary pensionable pay

Your CARE pensionable pay – main section

Your CARE pensionable pay – 50/50 section

Section 4 | Summary of your standard total benefits on page 1 is made up of:

Your final salary pension scheme

For membership to 31.03.2008 of

For membership from 01.04.2008 to 31.03.2014

Total final salary annual pension

Lump sum retirement grant based on membership to 31.03.2008

+

Your total CARE account

Opening balance at 01.04.2016

Adjustment for cost of living at 01.04.2016

In-year build-up

Total CARE closing balance

Your total CARE in-year build-up is made up of:

Scheme year April 2016 to March 2017

Your CARE pensionable pay - main section divided by 49

\+ **Your CARE pensionable pay - 50/50 section divided by 98**

\+ **Additional pension bought**

\+ **Transfers in**

Section 5 | Value of death in service benefits at 31 March 2017

Annual survivor's pension

Lump sum death grant

Who you want to receive the death grant

Notes | **Section 3:** Page 4 | **Section 4:** Page 5 | **Section 5:** Page 6

Section 6 | Estimated benefits if you stay in the scheme until your normal pension age

Your normal pension age (NPA)	
Estimated final salary pension built up to NPA	
Estimated CARE pension built up to NPA	
Total estimated annual pension at NPA	
Total estimated lump sum retirement grant	
Estimated final salary survivor's pension at NPA	
Estimated CARE survivor's pension at NPA	
Total estimated survivor's pension at NPA	

Section 7 | Tax and your pension

Tax limits apply to pension savings. These limits are called the lifetime allowance and the annual allowance. The lifetime allowance was reduced to £1 million for the tax year 2016/ 2017, going forwards, the standard lifetime allowance will increase each year in line with the consumer prices index. Confirmation of your lifetime allowance value at 31 March 2017 is shown below.

Lifetime allowance

The percentage of your lifetime allowance used by the current value of your LGPS benefits shown in this statement

Annual allowance

Pension input in 2016/2017 (see below)

Annual allowance

The annual allowance is set by HM Revenue & Customs (HMRC). It is the amount your pension savings can increase in any one year without you having to pay a tax charge.

The increase in the value of your LGPS pension savings, known as pension input, is shown on your benefit statement. The pension input does not include any additional voluntary contributions (AVCs). You will only have a tax charge if the value of your pension savings for a tax year increases by more than the annual allowance.

The period your pension is measured over to assess its growth against the annual allowance is known as the pension input period (PIP).

If you have pension benefits elsewhere, you will need to take these into consideration as well when working out your pension input amount.

There is a 'carry forward' which allows unused allowance from the three previous pension input periods to be used if you have any excess in the current year.

The annual allowance for the 2016/2017 tax year was £40,000, except for some high earners who have what is known as a tapered annual allowance. Most people will not be affected by the annual allowance charge because the value of their pension savings will not increase by more than the £40,000 in a year, or, if it does, they are likely to have carry forward from previous years.

You can find more information about the annual allowance, including tapered annual allowance for high earners, on the fund's website.

If you are not sure about anything to do with your annual allowance, please contact the fund.

Notes | Section 6: Page 6 | **Section 7:** Page 7

Keep it safe: Remember, this statement contains personal information

Section 8 | Annual benefit statement 2017 – Notes

We have provided these notes to explain your annual benefit statement (ABS) 2017. They cannot cover every circumstance and if there is a dispute, the appropriate law will apply. They do not give you any rights under contract or by law.

Section 1 | Your personal and employment information at 31 March 2017

Full name
If you have changed your name, we will need a copy of your marriage certificate or change of name deed so that we can update your pension record.

Email address
If you have given us your email address, it will be recorded here. If we do not have your email address, please contact the Pensions Team at: pensions@worcestershire.gov.uk.

Partnership status
Your partnership status shown on your pension fund (the fund) records is shown here. If it is not correct, please contact the Pensions Team.

Employer at 31 March 2017
This is your employer at 31 March 2017. If you were paying into the scheme for more than one job at this date, you will receive an annual benefit statement for each job. If you left employment after 31 March 2017, you will receive a separate notice of your benefits built up to your date of leaving.

Date joined fund
This is the date you joined the fund in this job.

Section of LGPS (Local Government Pension Scheme) Since 1 April 2014, the LGPS has been a Career Average Revalued Earnings (CARE) scheme and there have been two sections to it – the main section and the 50/50 section. The section you were a member of on 31 March 2017 is shown here.

Reference
This is the reference number shown on your pension record for this annual benefit statement.

Section 2 | Your summary of total benefits at 31 March 2017

Annual pension
This is the total value of your pension at 31 March 2017, including your final salary pension (membership up to 31 March 2014) and CARE pension (for membership from 1 April 2014), which would start to be paid at your normal pension age (NPA).

Lump sum retirement grant
This is the lump sum relating to your membership before 1 April 2008 and is paid at your normal pension age. You can take some of your annual pension as a lump sum, to increase any lump sum you may already have relating to your membership before 1 April 2008. HM Revenue & Customs (HMRC) limits will apply, but every £1 of your annual pension you give up provides a lump sum of £12.

Reduced annual pension
This is the current value of your reduced pension if you choose to take the maximum lump sum retirement grant allowed under HMRC rules. This will be paid at your normal pension age.

Increased lump sum retirement grant
This is the current value of the maximum lump sum retirement grant available to you if you reduce your annual pension. This is paid at your normal pension age.

When you draw your pension benefits, you will have the option to exchange part of your pension for a lump sum, within certain limits set by HM Revenue and Customs. For every £1 of pension you exchange, you will be provided with £12 of tax-free lump sum.

The maximum amount of pension you can give up to provide a lump sum is shown on the statement. These figures do not include any in-house additional voluntary contributions (AVCs) you may have. Scottish Widows will issue a separate statement showing any in-house AVC fund value.

This section shows your total benefits built up to 31 March 2017 and assumes that you will take your pension benefits at your normal pension age, which is the date you reach age 65 or your State Pension age (whichever date comes later). Your benefits shown will be reduced if they are paid before your normal pension age. This reduction is not included in this statement. Please visit our website at www.worcestershire.gov.uk/pensions for information about what reductions may apply. Reductions relating to any pension sharing order are not included in this statement.

Section 3 | How your pension is calculated

You **must check** the figures quoted in the statement. If you think they are incorrect, contact your **employer,** not the fund, as the figures quoted have been supplied by your employer.

Your final salary pensionable pay
If you became a member of the LGPS before 1 April 2014, or have transferred in membership with a final salary link, your final salary pensionable pay shown in this section is your full-time equivalent pay for the year to 31 March 2017. This information

has been provided by your employer. If you joined the LGPS on or after 1 April 2014 and have not transferred in membership with a final salary link, this section will show zero. (Your 'pensionable pay' is the pay that your pension is based on.)

Your CARE pensionable pay – main section
From 1 April 2014, your CARE pension is calculated on your CARE pensionable pay during a scheme year, which is provided by your employer.

If you paid into the main section of the scheme during the year to 31 March 2017, the figure given for 'CARE pensionable pay – main section' is the pensionable pay you received while paying into the main section. If you work part-time, your pensionable pay represents your actual pay and is not a full-time equivalent.

The definition of pensionable pay in the CARE scheme includes any pay received for extra hours worked such as overtime and additional hours. This part of your earnings is not included in the final salary calculation of your pensionable pay unless overtime or additional hours formed part of your contract.

If you are (or have been) off work due to sickness or injury or during relevant child-related leave and you received reduced or no pay (nil pay), the pensionable pay figure used to work out your pension for this period is your assumed pensionable pay (APP). APP is worked out as the pay you were receiving before your pay reduced or stopped. This means that you will continue to build up a similar pension to that you would have had if you had been working normally and receiving pay.

If you have any period of relevant child-related leave (for example, ordinary maternity leave, paternity leave or adoption leave, or paid shared parental leave and any paid additional maternity or adoption leave), the pensionable pay figure used to work out your pension is again your APP. ('Ordinary' maternity leave is the first 26 weeks of maternity leave and 'additional' maternity leave is the last 26 weeks.)

Any period of unpaid additional maternity or adoption leave will not count for pensionable pay purposes. You can buy pension 'lost' during these periods by choosing to pay additional pension contributions (APCs).

If you are a member of the 50/50 section who goes onto nil pay while on child-related leave or sick leave, you will be put back in the main section from the beginning of the next pay period (if you are still on nil pay at that time).

For a full explanation of final salary and CARE pensionable pay and how any periods of authorised unpaid leave may affect it, please visit the fund's website at www.worcestershire.gov.uk/pensions.

Your CARE pensionable pay – 50/50 section
If you paid into the 50/50 section of the scheme during the year to 31 March 2017, the figure shown here is the pensionable pay you received while paying into the 50/50 section.

The pay in this section is based on the definition of CARE pensionable pay above. If a figure is shown here, it means you have chosen to be in the 50/50 section. Your 50/50 section CARE pensionable pay is split from your main section CARE pensionable pay so that you can check the pension you have built up in each section. If you were a member of both the main section and the 50/50 section of the scheme at different times during the scheme year, you will have figures shown for both.

Section 4 | How your summary of standard total benefits on page 1 is made up

This section shows separately the values of your final salary benefits (if this applies) and your CARE pension. Although the final salary and CARE pension parts are worked out differently, they form a single benefit, with both parts being linked and taken together.

Your final salary pension scheme
If you joined the LGPS on or after 1 April 2014 and have not transferred in membership with a final salary link, the final salary pension amount on your statement will be shown as zero. Final salary benefits are worked out as shown below. If you worked part-time before 31 March 2014, your final salary is converted to its full-time equivalent and your membership is then adjusted to the contractual hours you worked. The membership used in the final salary calculation includes any pension rights transferred in from previous pension schemes.

Total final salary annual pension
- For membership to 31 March 2008: 1/80th of your final salary pensionable pay for each year you were a member of the scheme
- For membership from 1 April 2008 to 31 March 2014: 1/60th of your final salary pensionable pay for each year you were a member of the scheme

Lump sum retirement grant
- The lump sum retirement grant based on membership to 31 March 2008: 3/80th of final salary pensionable pay for each year you were a member of the scheme

Your total CARE account

Opening balance
Your CARE pension balance from the previous year, including the adjustment applied at 1 April 2016, will be shown here.

Adjustment for the cost of living
Your total CARE pension is adjusted on 1 April each

year in line with HM Treasury Revaluation Orders. This adjustment can increase or reduce the value of your CARE pension.

In-year build-up
For membership from 1 April 2014, you will have built up CARE pension. Each scheme year you are a member, your CARE pensionable pay will be divided by either 49 (if you are in the main section) or by 98 (if you are in the 50/50 section). The resulting amount (or amounts) is added to your pension account for that year. This figure is the 'in-year build-up' for the year to 31 March 2017.

Additional pension bought and transfers in
Any additional pension that you have bought during the scheme year under an additional pension contribution (APC) or shared-cost additional pension contribution (SCAPC) arrangement will be shown here. Any CARE 'earned pension' credited as a result of you transferring in pension rights from other schemes will be shown in 'Transfers in'.

If you chose to buy additional service or pension, or if you transferred in other benefits before 1 April 2016, these are not shown in this section but will be included in the calculation of your total pension benefits.

Section 5 | Value of death in service benefits at 31 March 2017

Annual survivor's pension
A survivor's pension is paid if, when you die, you are married, have a civil partner or eligible 'cohabiting partner' (someone you live with who would be entitled to a survivor's pension).

We have used the partnership status we have on our records to decide the survivor's benefit shown on your statement. If we do not know your partnership status, we will assume your status is married.

1. If our records show you are single, no benefit will be shown.
2. If you have declared a cohabiting partner, the survivor's benefit shown will be based on your membership after 5 April 1988 and any membership before 6 April 1988 bought by an additional survivor benefits contribution (ASBC).
3. If your status on our records is married or in a civil partnership, the survivor's benefit shown will be based on all your LGPS membership.
4. Survivor's pensions may be paid to eligible children. However, the rates of these pensions are not shown on your annual benefit statement.

If your partnership status is incorrect, please contact the fund.

If you have not told the fund your partnership status, when you die, any eligible survivor's pensions will still be paid as long as the fund receives the relevant marriage or civil partnership certificate or, in the case of cohabiting partners, evidence that they meet the requirements for receiving a survivor's benefit.

The survivor's pension shown in this section is based on the total of your final salary survivor's pension built up to 31 March 2014, any added years bought, any additional regular contributions (ARCs) that included a survivor's pension element, and the survivor's pension due under the CARE scheme. It does not take account of any deductions relating to a pension sharing order.

If you die after leaving the LGPS, a survivor's pension is still paid but could be a lower amount.

Lump sum death grant
If you die while you are an active member of the LGPS, a death grant is paid. The amount of the death grant would be three times your assumed pensionable pay at the date you die. However, if you die while you are an active member and also have deferred benefits in the LGPS, are receiving an LGPS member pension (that is, not a survivor's pension) or a suspended 'tier 3' ill-health pension (or both), the amount of the death grant would be the greater of:

- the total of all death in service lump sums; or
- the total of all death grants from the deferred pension, pension in payment, or suspended tier 3 ill-health pension records.

Who you want to receive the lump sum death grant
Please check who you have nominated to receive any death grant that may become due if you die. If this section is blank, we have no record of your nomination. **If you would like to make a nomination, or change one we have on record for you, please fill in and return the 'Death Grant Nomination' form on the fund's website.** You can nominate whoever you like to receive your lump sum death grant (but, this is not legally binding). The fund decides who to pay the lump sum to.

Section 6 | Estimated pension benefits if you continue to pay into the scheme until your normal pension age

The age shown is your current normal pension age (NPA), which is your State Pension age or age 65, whichever comes later. Your normal pension age may change if your State Pension age changes in the future, before your benefits are paid. Your normal pension age only applies to benefits built up in the CARE scheme. The normal pension age for benefits built up in the final salary scheme is 65.

You can take your benefits earlier than your normal pension age, from age 55 onwards, although the amount may be reduced if you do. The figures in this statement do not take account of any reductions that would be applied.

If your normal pension age is after age 65 and you have final salary benefits, an increase will apply to these benefits for the period from age 65 to your normal pension age. Any increases are included in this statement. The increases are based on the rates in the current guidance issued by the Department for Communities and Local Government. This guidance is reviewed and the rates may go down or up. The rates in place at the date you retire will apply.

When you leave the scheme, your final salary benefits will be based on your final salary pensionable pay. This is generally the contractual pay you received for the 12 months before leaving, or for one of the two years immediately before then, if that amount is higher.

The estimate of your benefits is based on your CARE pensionable pay for the scheme year that ended on 31 March 2017. It assumes that your pay will stay at the 2016/2017 rate until your normal pension age and does not assume pay inflation or inflation under HM Treasury Revaluation Orders for future benefit built up under the final salary or CARE schemes.

The estimated CARE benefits include any additional pension contributions (APCs) or shared cost additional pension contributions (SCAPCs) bought. But they do not take account of any deductions that would be due as a result of your decision to have an annual allowance tax charge recovered from your pension benefits or pension sharing orders. The estimate assumes that you stay in the same section of the scheme that you were in at 31 March 2017.

Survivor's pensions from members who marry or enter civil partnerships while active LGPS members of the LGPS are based on all scheme membership. However, survivor's pensions for cohabiting partners and for those who marry or enter a civil partnership after leaving active LGPS membership may not be worked out on the same basis.

Section 7 | Tax and your pension

Lifetime allowance (LTA)

The lifetime allowance is the limit on the total value of pension benefits you can draw from all pension arrangements without paying a tax charge. The standard LTA was reduced from £1.25million to £1million from 6 April 2016.

If the percentage of standard LTA shown on your statement is more than 100%, you may have to pay a lifetime allowance tax charge when your benefits are paid to you. This may also be the case if you have other pension benefits (including in-house additional voluntary contributions (AVCs) which are not included in this statement) that, when combined with your LGPS benefits, have a value of more than the LTA.

If the value of your benefits is higher than the available LTA, you can choose how to take your benefits and the tax charges that apply.

If you take these benefits as annual pension, the capital value of those pension benefits is worked out by multiplying your annual pension by 20 and adding any lump sum you draw from the pension scheme.

If your LGPS benefits are more than your lifetime allowance, you will have to pay tax on the excess. If your excess benefits are paid as a pension, the additional tax charge will be 25% of the excess benefits. (Income tax will still continue to be taken from your ongoing pension payments.) If you take the excess benefits as a lump sum, they will be taxed once only at 55%.

The pension fund will pay the excess tax charge. However, this will be in return for a permanent reduction to your pension or lump sum – this is called a lifetime allowance debit.

Individual Protection 2016 (IP2016) is available if your pension benefits had a value of more than £1 million on 5 April 2016. You can find out more information and an online application on the HMRC website. You can't apply for IP2016 if you already have Individual Protection 2014 (IP2014).

Another type of lifetime allowance protection, Fixed Protection 2016, does not apply if you stayed a member of the LGPS after April 2016, as the benefits would have built up, causing the protection to be lost. If you applied for this protection, you must tell HMRC that the protection was lost from 6 April 2016.

There is more information about this on the fund's website

In association with

WARWICKSHIRE pension fund | Staffordshire Pension Fund Local Government Pension Scheme | CHESHIRE PENSION FUND | SHROPSHIRE COUNTY PENSION FUND | Bedfordshire Pension Fund | WORCESTERSHIRE PENSION FUND

worcestershire
countycouncil

AGENDA ITEM 6

PENSIONS COMMITTEE
6 OCTOBER 2017

PENSION INVESTMENT UPDATE

Recommendation

1. The Chief Financial Officer recommends that:

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

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

c) the update regarding First State is noted.

Background

2. 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.

3. 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

4. JP Morgan (Emerging Markets) portfolio outperformed their benchmark over the quarter by 0.4%. Performance for the year ended June 2017 was 5.3% ahead of benchmark and therefore 3.3% ahead of their target outperformance of +2.0% per annum. Over the past three years JP Morgan have underperformed their performance target by 1.3% per annum.

5. It is recommended that JP Morgan remain 'on watch' until their three year outperformance is near target.

JP Morgan Bonds

6. The JP Morgan Bond portfolio outperformed their benchmark by 0.3% in the quarter ended June 2017. Performance for the year ended June 2017 was ahead of benchmark by 1.0% and therefore equal to their target outperformance. Over the past three years they have outperformed their performance target by 0.3% per annum.

7. It is recommended that JP Morgan (Bonds) remain on watch until their three year performance is tracking further towards target.

First State

8. Following the Pension Committee decision to appoint First State as a new Infrastructure Manager to the Fund, an update has been provided as Appendix 4 to this report regarding a management change.

9. Please note that Appendix 4 contains exempt information (on salmon pages) and should members wish to discuss the information included in the Appendix they would need to consider passing the appropriate resolution and moving into exempt session.

Contact Points

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Specific Contact Points for this report
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Email: spearce@worcestershire.gov.uk

Supporting Information

- Independent Financial Adviser summary report (Appendix 1)
- Bar Chart of investment managers' performance (Appendix 2)
- Portfolio Evaluation Performance Report (Appendix 3)
- First State update paper (Appendix 4) **(Exempt information - Salmon pages)**

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

September 2017

Philip Hebson
Allenbridge

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Independent Investment Adviser's report

Global overview

I think it would be safe to say that the UK General Election did not go the way that the Prime Minister, Mrs May, intended or expected it to go. I'm not sure that I have ever encountered an outcome when both of the main parties can claim victory, but have lost at the same time. We, along with Mrs May, will now have to cope with the consequences, particularly with regard to Brexit.
Still to come, the German general election on 24 September. Angela Merkel seems to have strengthened her position, but we should now know better than to forecast actual outcomes.

I'd guess that I'm not the only one, but I am seriously struggling to understand what is going on in the USA. At a recent conference the BBC's Economic Editor, Kamal Ahmed said, "Trying to navigate around Trump's strategic policy will be nigh on impossible". So I'm not alone. Once again we have to try to separate politics and the "noise" from what is going on in the real world. The US economy had a good Q2, with annualised growth at 3%, helped by strong consumer demand. Not as good as the President would like to see, but realistically that compares well amongst other developed economies, and at that rate it is unlikely to raise fears about underlying inflation accelerating significantly.

Oh Mrs May, what have you done? Instead of strengthening her negotiating position, backed by a large working majority in Parliament, there is now greater uncertainty surrounding the Brexit negotiations with a consequent fall in business confidence.
The rapid rise in the inflation rate was contained by falling commodity prices, specifically oil. Economists remain relaxed about the inflation outlook, but pressure in labour markets for pay increases is gaining ground, likewise an increase in interest rates is inevitable at some stage. The weakness in Sterling has caused an increase in the price of imported goods, but it is clearly good for exports and for tourism, so this particular cloud does have a silver lining for some.

It is hard to know what to think about Europe, and the economic outlook across the region. In general terms economic growth and corporate profitability has certainly improved, and consequently the Euro has strengthened. At the political level much unease remains however. The French elected the least bad option, and popular unrest is not far below the surface in many other countries. My comment this year from my summer holiday originates from Greece, namely that the locals that I spoke to consider that the outlook has not improved, and the comment made by one tour guide basically suggested that their politicians right across the spectrum had run out of ideas. The Eurozone is still a mess and there aren't any painless solutions. Tourism does at least bring some relief.
As mentioned above, we wait on Germany and the outcome of their forthcoming election.

Slowly but surely, Japan seems to be getting there. The Bank of Japan is talking more positively, with corporate profitability generally above expectations. For the first time in a very long time there is talk of capacity constraints. Maybe their stock market doesn't quite know what to make of it, because there isn't any clear pattern to sector performance, which may have presented Nomura with a problem (please see that section of the report). Certainly the increased tension in the region caused by North Korea's missile launches doesn't help sentiment, so it is to be hoped that Kim Jong-Un has now made his point and will calm down.

Asia (ex Japan) and Emerging Markets again enjoyed a good quarter, helped by an encouraging outlook for global growth. Politics as usual played a part in some countries, positively following Presidential elections in South Korea, negatively in Brazil and the Middle East. Given my comments above about Greece, it is pleasing to report that they actually enjoyed the benefit of reaching agreement with Eurogroup creditors, which covered their debt repayments in July. With such a diverse range of countries within these regions, we will always see a game of musical chairs each quarter, but therein lies the opportunity.

Summary and Market Background

The value of the Fund in the quarter rose to £2.49bn, an increase of £38m compared to the end March value of £2.45bn. The Fund produced a return of 1.2% over the quarter, which gave an underperformance against the benchmark of -0.1%. The slightly negative return against the benchmark was due to asset allocation, the Fund being overweight in equities and underweight in bonds. Purely for academic interest, the average performance of 60 LGPS Funds for this quarter, as compiled by PIRC, was a return of 0.7%. Over a 12 month period the Fund recorded a positive relative return against the benchmark of 1.5% (20.1% v. 18.6%). It should be noted that the Fund has also outperformed over the three and five year periods as well, details of which can be found in Portfolio Evaluation Limited's report.

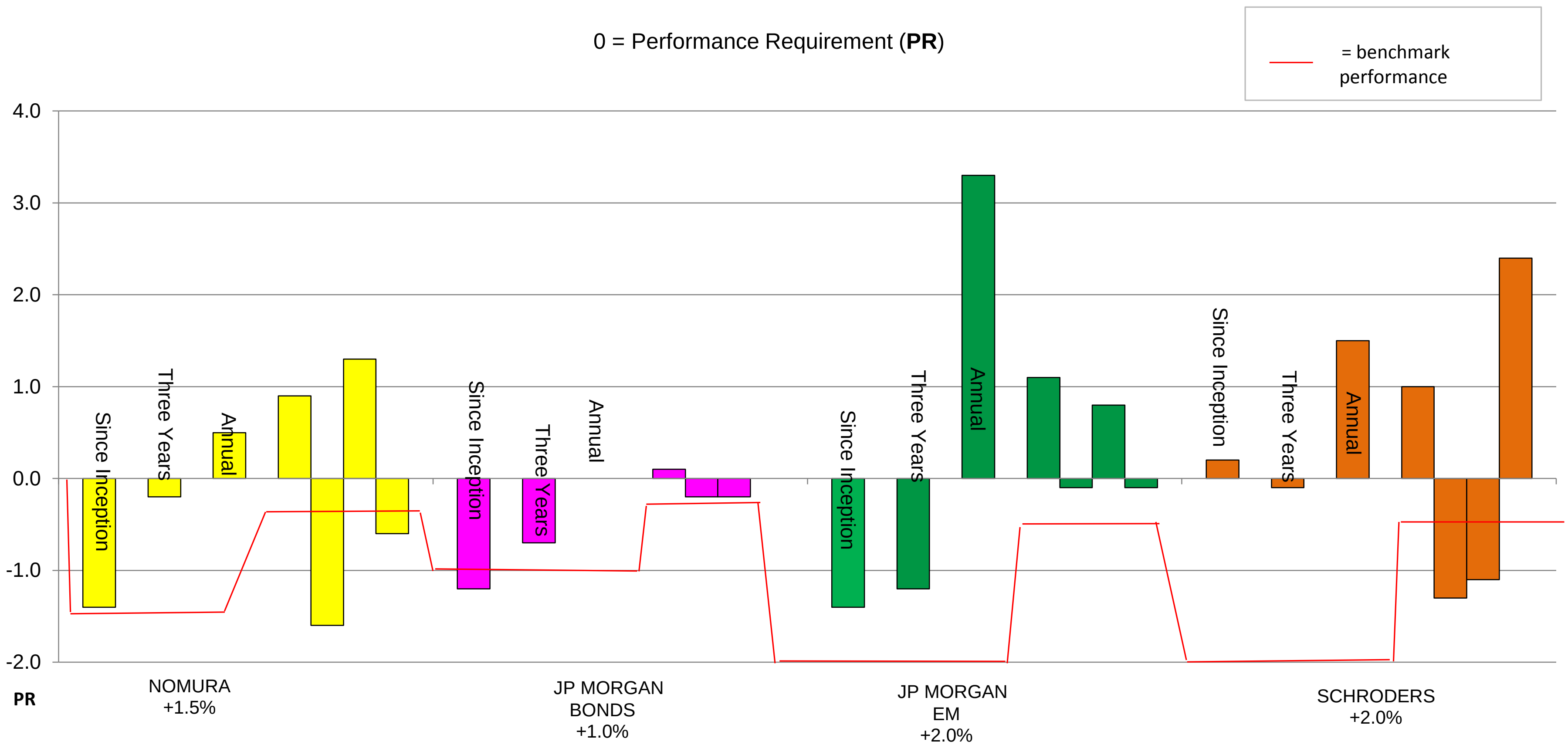
Since the last Pension Investment Advisory Panel and Pension Committee meetings, the Fund officers have been reviewing the means by which the Fund could seek to provide some down-side protection to the funding level, that has increased to c.96% (assets as a percentage of liabilities) since the last actuarial valuation at 31 March 2016. This has been largely driven by a significant rise in equity markets, in which the Fund has a strategic allocation of 75% of total assets. As part of this review, the Fund's actuary has produced a report (in the reports pack) that provides an update on the Fund's funding deficit (reduced from £626m to £184m at 30 June 2017) and some analysis about equity value protection.

In a similar way to the first quarter of 2017, the Fund's active managers generally had a positive second quarter. However this time Schroders (Emerging Markets) was this quarter's star performer, with an outperformance of 2.9%, followed by JP Morgan (Emerging Markets) outperforming by 0.4%. This quarter it was Nomura (Pacific) who let the side down, with an underperformance of -0.2 %. JP Morgan (Bonds) also outperformed, by 0.3%. The alternative passive strategies performed in line with their benchmark, but underperformed the total passive index benchmark by -1.1% (0.2% v. 1.3%).

World markets again enjoyed a good quarter, rather better in US dollar terms than on a sterling adjusted basis. Using the sterling basis, the MSCI World Index showed a rise of 0.3%. The strongest returns came from Europe ex UK, gaining 4.9% against the backdrop of uncertainties elsewhere, Emerging Markets (up 2.4%) and Pacific ex Japan (up 2.3%) continued their rises achieved in Q1, the UK gained 1.4% and Japan 1.3%. The USA was the laggard this time, falling -0.8%.

In general terms bond markets finished down over the quarter having seen some buoyant markets earlier in the period, against the background of anticipated rate increases and scaling back of quantitative easing (QE). The exceptions were Euro Government bonds (up 2.5%) and UK Corporate bonds (up 0.5%). Again in general terms Corporate bonds outperformed Government Bonds, with some corporates gaining in value against the trend of falls seen elsewhere. The Worcestershire bond mandate and related benchmark was probably one of the better performers across all bond markets this quarter.

Worcestershire County Council Pension Fund - Chart showing for each active manager: performance since inception, three years, annual performance July 2016 to June 2017 and latest year in quarter ends September 2016 to June 2017, 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. The annual return for Nomura is strong and JP Morgan Bonds have equalled the ir performance target over the past twelve months.
- JP Morgan Emerging Markets portfolio continued to have good performance in quarter 2 of 2017, which increased their one year return to substantially above target, but remain behind target over the past three years and since inception.
- Schroders had a poor Q4 2016 and Q1 2017 but a very strong Q2 of 2017. One year performance is above target ,although three year performance is slightly below target. Since inception returns are strong and Schroders continue to deliver their contracted outperformance target of +2.0%.

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PORTFOLIO EVALUATION LIMITED

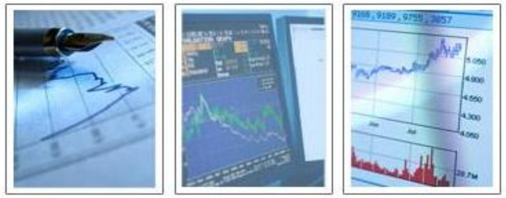


Specialists in Investment Risk and Return Evaluation

Quarterly Risk and Return Analysis
Total Fund

Worcestershire County Council Pension Fund

Period ending 30th June 2017



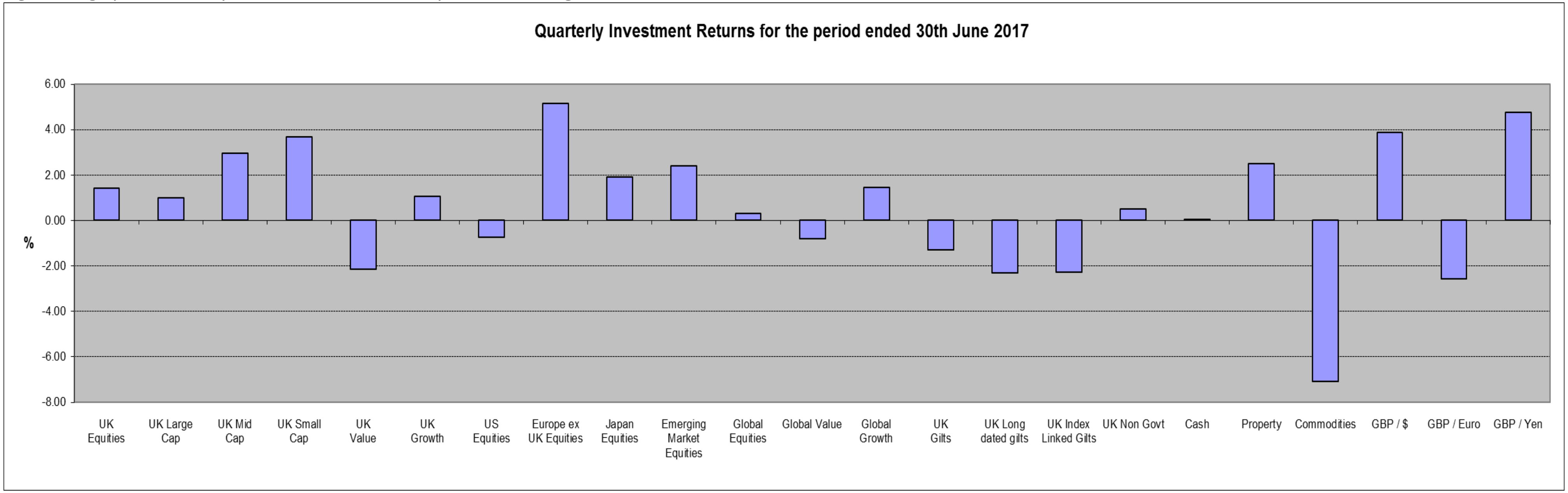
Specialists in Investment Risk and Return Evaluation

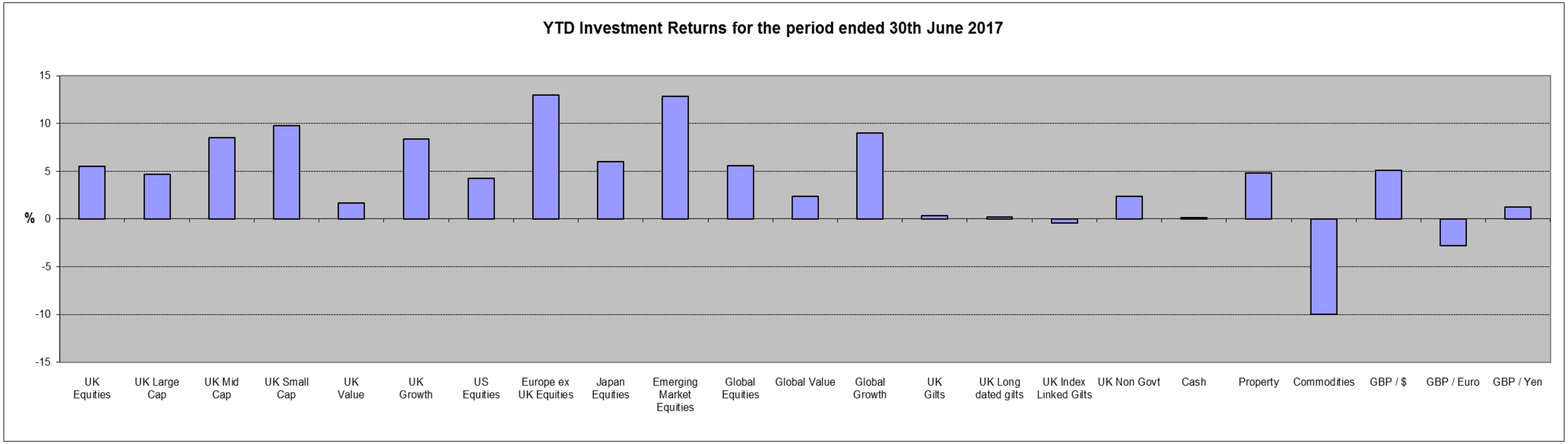
Portfolio Evaluation Ltd Market Commentary Q2 2017 (sterling)

UK and global equity markets continued to rise in the first and second quarters of 2017 and the world continues to benefit from, albeit lower than in previous growth cycles, sustained economic growth. Some of this growth is due to central bank intervention via quantitative easing (QE); this is now starting to be unwound in the US and UK and the ECB has announced plans to taper their purchasing of debt. The job appears completed for QE as economies seem set for continued low economic growth and still able to access historically cheap money. Corporate earnings appear resilient, wage growth limited and inflation low (except for the UK). The consensus of market commentators seem to agree that these points coupled with a positive earning yield outlook when compared to bonds and low market volatility to continued equity market advances, albeit low increases, and government bond yields increasing. Corporate bonds would also appear to be a beneficiary of this environment. However given that returns are expected to be low institutional investors may be looking at alternative asset classes as providers of returns.

In Q2 2017 equity markets have risen with Europe being the stand out performer. Growth and momentum styles have outperformed for both the quarter and year to date. Within UK sectors Health Care, Financials, Technology, Travel & Leisure and Industrials have had good returns whilst Utilities, Oil & Gas and Basic Materials have had poor returns. Government bond yields have risen resulting in negative returns for this asset class; however corporate bond returns have been positive reflecting tightening spreads and positive outlook for corporate earnings.

Page 28





Page 29

The outlook for the UK remains uncertain, especially with Brexit talks beginning and a post-election weakened government, 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; however in this environment some areas will continue to succeed for example exporters.

The risks to the positive economic outlook appear benign in the current environment however geo political risk continues. In Europe the political risks have reduced with the election of a pro-business and pro-EU president and it appears that Merkel will be re-elected. Within Europe there is economic risk from economies diverging and the tapering of QE being completed to soon. Globally the risks seem to be from China who appears to be tightening monetary policy and the new US government failing to deliver on its manifesto.

Given this backdrop our institutional clients seem to adopting more LDI based strategies, factor based equity investing and increasing exposure to alternative asset classes such as infrastructure and Private Debt.

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 30th June 2017

QUARTERLY SUMMARY: **Worcestershire County Council Pension Fund Return: 1.2% Benchmark Return: 1.3% Excess Return: -0.1%**

- The Fund achieved a total return of 1.2%. Property assets were the highest returning asset class (returning 2.2%) along with Corporate Bonds at 1.9% return. Equities and Infrastructure were the lowest returning 1.1% and 0.4% respectively. As the Fund holds the majority of its assets within equities (over 86%), this was the primary contributor to the 1.2% total return generated over the quarter.

- The Fund marginally underperformed its benchmark this quarter by -0.1%. This was primarily due to asset allocation as the Fund is overweight the lower returning equities and underweight higher returning bond assets. Whilst European equities were the highest return generators (5% return), as the Fund is underweight this (relatively) high returning asset class this was the primary driver of the underperformance via asset allocation.

- Of the active managers, JPM and Schroders (both emerging market equities) successfully outperformed their respective benchmarks. The outperformance of Schroders was quite considerable and contributed positively to excess performance. The JPM Corporate Bond portfolio and Property, due to Invesco, also outperformed.

- All index funds tracked their benchmarks as expected.

- Please note that for Green Investment Bank and Walton Street returns are not available for the quarter as data is lagged by the manager.

YEAR SUMMARY AND LONGER: **Worcestershire County Council Pension Fund Return: 20.1% Benchmark Return: 18.6% Excess Return: 1.5%**

- Over the year the Fund has generated a return of 20.1% outperforming the benchmark by 1.5%. The total return was dominated by higher returning equity assets (22.5% return). Property and Infrastructure generated similar returns at 8.9% and 8.8% respectively, whilst Bonds were the lowest return generators at 3%.

- Stock selection was positive across nearly all asset classes with all active managers outperforming their respective benchmarks over the period.

- Asset allocation over the year was also positive and primarily due to being underweight the low returning bond asset class; although similarly to the quarter, European equities were a drag on asset allocation again due to the Fund being underweight in this highest returning asset class over the year.

- Over the one, three and five year periods the Fund has outperformed. The Fund over the past thirty six monthly return observations (3 year period) has performed better when markets are positive; outperforming for more observations than underperforming and also returning a higher average excess return when outperforming. This pattern is also repeated over the five year period.

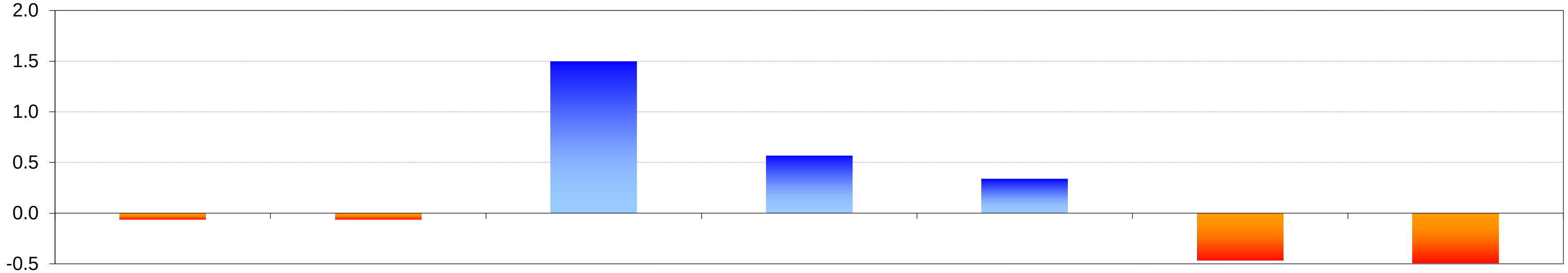
- The Total Risk of the Fund is consistent with that of a typical multi asset class Fund. Active risk is also consistent with a typical multi asset class Fund that uses both passive and active strategies.

Client:	Worcestershire County Council Pension Fund
Manager:	Multi-manager
Mandate:	Total Fund
Asset Class:	Combined Assets
Benchmark:	Worcestershire Total Fund Index
Inception:	31-Mar-1987
Mkt Val:	**£2.5bn**

Total Fund Overview
Total Fund
Report Period: Quarter Ending June 2017

PORTFOLIO EVALUATION LIMITED

Excess Return Analysis (%)

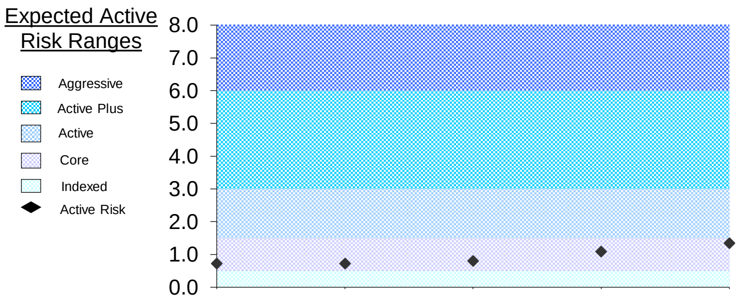


	QTR	YTD	1 Yr	3 Yr	5 Yr	10Yr	Since Mar 87 (p.a.)
Portfolio Return	1.2	1.2	20.1	11.6	12.2	6.4	8.2
Benchmark Return	1.3	1.3	18.6	11.1	11.9	6.9	8.7
Excess Return	-0.1	-0.1	1.5	0.6	0.3	-0.5	-0.5

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

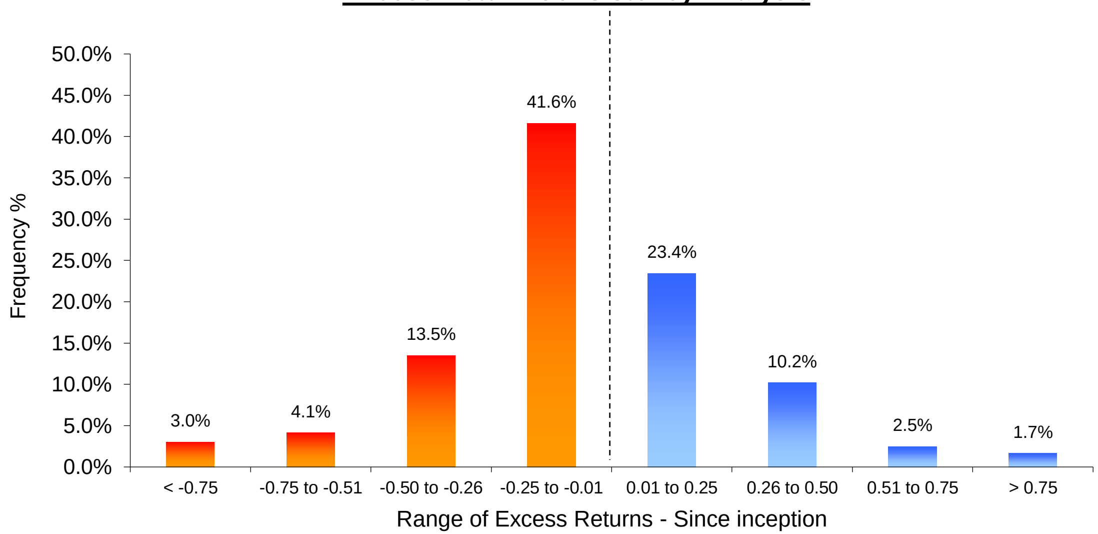
Page 31

Ex-Post Active Risk Analysis (%)



	1 Yr	3 Yr	5 Yr	10 Yr	Mar 87
Active Risk	0.7	0.7	0.8	1.1	1.3
Portfolio Risk	6.9	8.8	8.6	13.3	12.9
Benchmark Risk	6.7	8.5	8.3	12.6	12.6

Excess Return Consistency Analysis

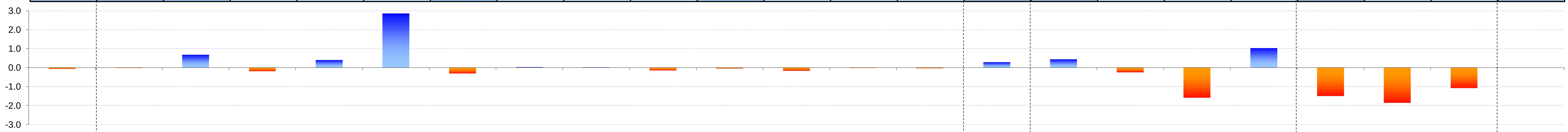


Ex-Post Active Risk measures the volatility of the actual excess returns achieved by the Portfolio/Fund.
Excess Return Consistency Analysis measures the frequency of the Portfolio/Fund's outperformance (Blue) and underperformance (Red) versus its benchmark, calculated using monthly (or quarterly if indicated)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

Market Value: £2.5bn

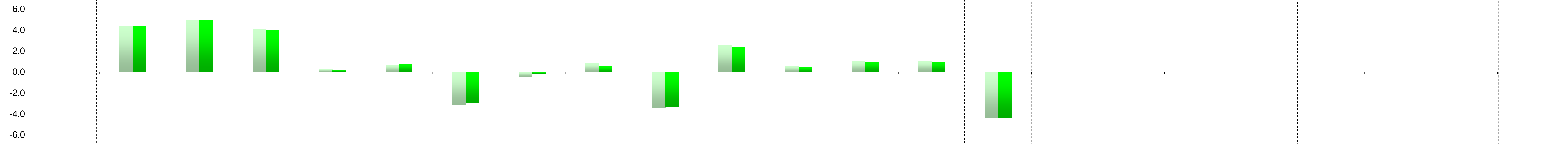
Attribution to Total Fund Excess Return Analysis
Worcestershire County Council Pension Fund
for Quarter Ended 30th June 2017

Returns Summary (%)



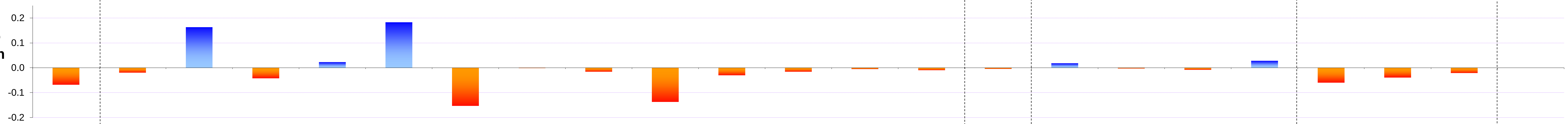
	Total Fund	Total Equity	*Total Active Equity*	Far East Developed - Nomura	Emerging Markets - JPM	Emerging Markets - Schroder	*Total Passive Equity*	UK Equity - L&G	North American Equity - L&G	Europe ex UK Equity - L&G	*Total Alternatives*	FTSE RAFI DEV - L&G	MSCI World Min Vol TR - L&G	MSCI World Quality 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	**1.2**	**1.1**	1.3	0.8	0.6	3.1	1.3	1.4	-0.9	4.8	0.2	-0.6	0.8	0.4	**1.9**	**2.2**	1.9	0.0	2.6	**0.4**	0.0	1.0	**0.0**
Benchmark Return	**1.3**	**1.2**	0.6	1.0	0.2	0.2	1.6	1.4	-0.9	5.0	0.3	-0.4	0.8	0.5	**1.6**	**1.7**	2.2	1.6	1.6	**1.9**	1.8	2.0	**0.0**
Excess Return	**-0.1**	**0.0**	0.7	-0.2	0.4	2.9	-0.3	0.0	0.0	-0.1	0.0	-0.2	0.0	0.0	**0.3**	**0.4**	-0.2	-1.6	1.0	**-1.5**	-1.8	-1.1	**0.0**

Asset Allocation Summary (%)



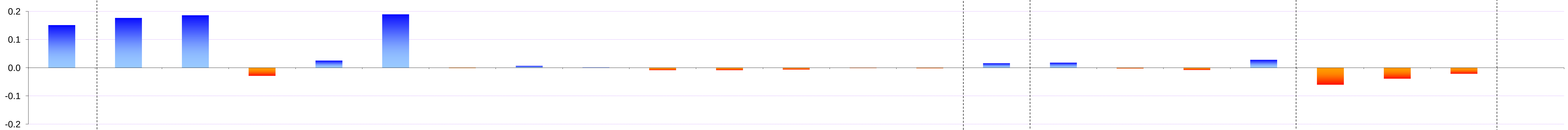
	Total Fund	Total Equity	*Total Active Equity*	Far East Developed - Nomura	Emerging Markets - JPM	Emerging Markets - Schroder	*Total Passive Equity*	UK Equity - L&G	North American Equity - L&G	Europe ex UK Equity - L&G	*Total Alternatives*	FTSE RAFI DEV - L&G	MSCI World Min Vol TR - L&G	MSCI World Quality 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**	**86.6**	29.0	16.1	6.3	6.7	45.1	27.3	11.8	6.0	12.6	3.9	4.3	4.3	**5.6**	**4.2**	1.0	0.5	2.7	**3.6**	1.6	2.0	**0.0**
Portfolio End	**100.0**	**86.3**	28.9	15.9	6.2	6.8	45.0	27.2	11.5	6.2	12.4	3.8	4.3	4.3	**5.6**	**4.2**	1.0	0.5	2.7	**3.9**	2.1	1.8	**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**	**4.2**	1.0	0.5	2.7	**3.6**	1.6	2.0	**0.0**
Benchmark End	**100.0**	**81.9**	24.0	12.0	6.0	6.0	47.9	27.4	11.0	9.5	10.0	3.3	3.3	3.3	**10.0**	**4.2**	1.0	0.5	2.7	**3.9**	2.1	1.8	**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**	**0.0**	0.2	0.0	0.0	0.2	-0.2	0.0	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	**0.0**

	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	*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	**-0.2**	**-0.2**	0.0	0.0	0.0	0.0	-0.2	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	**0.0**	**0.0**	0.0	0.0	0.0	**0.0**	0.0	0.0	**0.0**



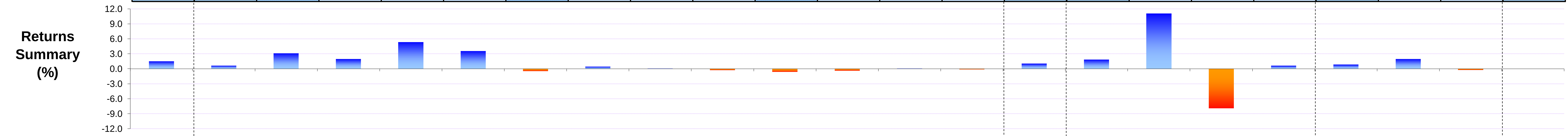
	Total Fund	Total Equity	*Total Active Equity*	Far East Developed - Nomura	Emerging Markets - JPM	Emerging Markets - Schroder	*Total Passive Equity*	UK Equity - L&G	North American Equity - L&G	Europe ex UK Equity - L&G	*Total Alternatives*	FTSE RAFI DEV - L&G	MSCI World Min Vol TR - L&G	MSCI World Quality 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**	0.2	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**	0.0	0.0	0.0	**-0.1**	0.0	0.0	**0.0**

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.

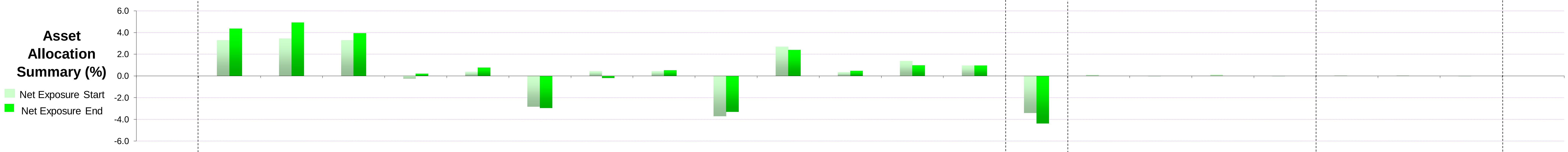
Attribution to Total Fund Excess Return Analysis
Worcestershire County Council Pension Fund
for Year Ended 30th June 2017

Market Value: £2.5bn

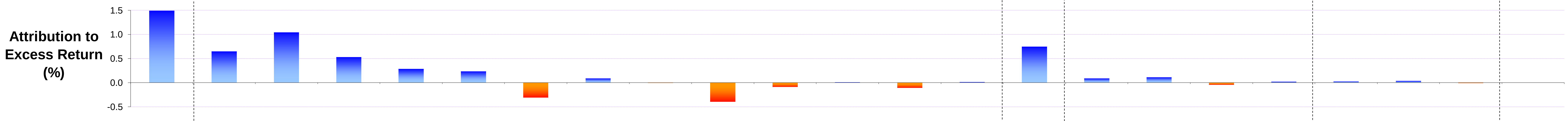
PORTFOLIO EVALUATION LIMITED



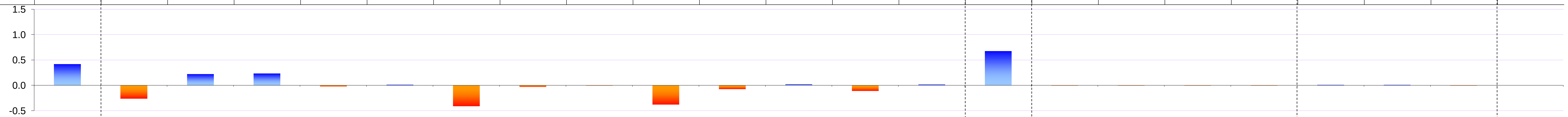
	Total Fund	Total Equity	*Total Active Equity*	Far East Developed - Nomura	Emerging Markets - JPM	Emerging Markets - Schroder	*Total Passive Equity*	UK Equity - L&G	North American Equity - L&G	Europe ex UK Equity - L&G	*Total Alternatives*	FTSE RAFI DEV - L&G	MSCI World Min Vol TR - L&G	MSCI World Quality 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	**20.1**	**22.5**	27.9	27.5	29.4	27.6	20.6	18.5	21.3	28.7	**17.7**	24.0	10.2	20.4	**3.0**	**8.9**	20.1	-1.4	7.1	**8.8**	9.6	8.2	**0.0**
Benchmark Return	**18.6**	**21.9**	24.8	25.5	24.1	24.1	21.0	18.1	21.3	29.0	**18.3**	24.4	10.2	20.5	**2.0**	**7.1**	9.0	6.5	6.5	**8.0**	7.6	8.4	**0.0**
Excess Return	**1.5**	**0.6**	3.1	1.9	5.3	3.5	-0.5	0.4	0.0	-0.3	**-0.6**	-0.4	0.0	-0.1	**1.0**	**1.8**	11.1	-7.9	0.6	**0.8**	2.0	-0.2	**0.0**



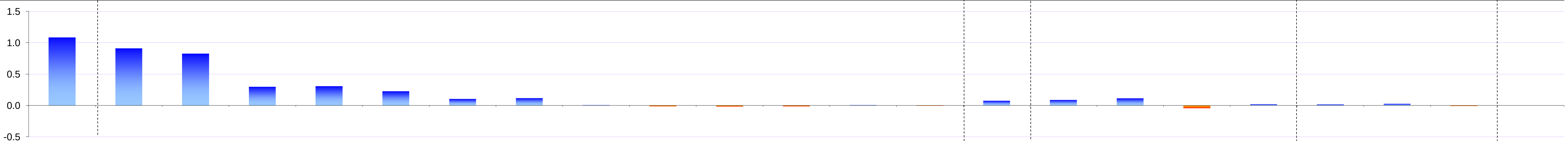
Portfolio Start	**100.0**	**85.0**	27.4	15.3	5.8	6.4	44.9	27.7	11.4	5.8	**12.7**	3.7	4.7	4.3	**6.6**	**4.8**	1.4	0.3	3.1	**3.6**	1.7	1.9	**0.0**
Portfolio End	**100.0**	**86.3**	28.9	15.9	6.2	6.8	45.0	27.2	11.5	6.2	**12.4**	3.8	4.3	4.3	**5.6**	**4.2**	1.0	0.5	2.7	**3.9**	2.1	1.8	**0.0**
Benchmark Start	**100.0**	**81.7**	24.0	12.0	6.0	6.0	47.7	27.2	11.0	9.5	**10.0**	3.3	3.3	3.3	**10.0**	**4.7**	1.4	0.2	3.1	**3.6**	1.7	1.9	**0.0**
Benchmark End	**100.0**	**81.9**	24.0	12.0	6.0	6.0	47.9	27.4	11.0	9.5	**10.0**	3.3	3.3	3.3	**10.0**	**4.2**	1.0	0.5	2.7	**3.9**	2.1	1.8	**0.0**



Excess Return	**1.5**	**0.6**	1.0	0.5	0.3	0.2	-0.3	0.1	0.0	-0.4	**-0.1**	0.0	-0.1	0.0	**0.7**	**0.1**	0.1	0.0	0.0	**0.0**	0.0	0.0	**0.0**



Asset Allocation	**0.4**	**-0.3**	0.2	0.2	0.0	0.0	-0.4	0.0	0.0	-0.4	**-0.1**	0.0	-0.1	0.0	**0.7**	**0.0**	0.0	0.0	0.0	**0.0**	0.0	0.0	**0.0**



Stock Selection	**1.1**	**0.9**	0.8	0.3	0.3	0.2	0.1	0.1	0.0	0.0	**0.0**	0.0	0.0	0.0	**0.1**	**0.1**	0.1	0.0	0.0	**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.

Manager Return Analysis
Worcestershire County Council Pension Fund
for Quarter Ended 30th June 2017

Market Value: £2.5bn

	Benchmark	Incep Date	Market Value (£m)	Weight	QTR			Year To Date			1 Year			3 Year			5 Year			10 Year			Since Inception		
					PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER	PF	BM	ER
Total Equity Fund	**Client Specific Weighted Index**	**Mar-16**	**2,148.6**	**86.3**	**1.1**	**1.2**	**0.0**	**1.1**	**1.2**	**0.0**	**22.5**	**21.9**	**0.6**										**24.8**	**24.0**	**0.8**
Total Active Equity Fund	Client Specific Weighted Index	Mar-16	720.0	28.9	1.3	0.6	0.7	1.3	0.6	0.7	27.9	24.8	3.1										30.7	28.0	2.7
Far East Developed Fund - Nomura	FTSE Developed Asia Pacific Index	Feb-03	397.1	15.9	0.8	1.0	-0.2	0.8	1.0	-0.2	27.5	25.5	1.9	16.1	14.8	1.3	13.1	12.5	0.6	7.5	7.6	-0.1	11.2	11.1	0.0
Emerging Markets Fund - JPM	FTSE All World Emerging Market Index	Dec-11	154.4	6.2	0.6	0.2	0.4	0.6	0.2	0.4	29.4	24.1	5.3	11.9	11.1	0.7	8.9	8.3	0.6				8.5	7.9	0.6
Emerging Markets Fund- Schroder	FTSE All World Emerging Market Index	Oct-11	168.5	6.8	3.1	0.2	2.9	3.1	0.2	2.9	27.6	24.1	3.5	13.0	11.1	1.9	9.9	8.3	1.6				9.2	7.0	2.2
Total Passive Equity Fund	Client Specific Weighted Index	Mar-16	1,119.9	45.0	1.3	1.6	-0.3	1.3	1.6	-0.3	20.6	21.0	-0.5										**22.3**	**22.1**	**0.3**
UK Equity Fund - L&G	FTSE All Share Index	Dec-15	678.5	27.2	1.4	1.4	0.0	1.4	1.4	0.0	18.5	18.1	0.4										17.4	17.1	0.3
North American Equity Fund- L&G	FTSE All World North American Index	Dec-15	287.0	11.5	-0.9	-0.9	0.0	-0.9	-0.9	0.0	21.3	21.3	0.0										25.7	25.8	-0.1
Europe ex UK Equity Fund- L&G	FTSE Developed Europe Ex. UK Index	Dec-15	154.4	6.2	4.8	5.0	-0.1	4.8	5.0	-0.1	28.7	29.0	-0.3										23.6	24.0	-0.3
Total Alternatives Fund	*Client Specific Weighted Index*	*Mar-16*	308.7	*12.4*	*0.2*	*0.3*	*0.0*	*0.2*	*0.3*	*0.0*	*17.7*	*18.3*	*-0.6*										*22.7*	*23.1*	*-0.4*
FTSE RAFI DEV Fund - L&G	FTSE RAFI Developed 1000 QSR Net Index	Dec-15	94.6	3.8	-0.6	-0.4	-0.2	-0.6	-0.4	-0.2	24.0	24.4	-0.4										25.6	25.8	-0.2
MSCI World Min Vol TR Fund - L&G	MSCI World Minimum Volatility Net Index	Dec-15	107.4	4.3	0.8	0.8	0.0	0.8	0.8	0.0	10.2	10.2	0.0										24.3	24.3	0.0
MSCI World Quality TR Fund - L&G	MSCI World Quality Total Return Net Index	Dec-15	106.8	4.3	0.4	0.5	0.0	0.4	0.5	0.0	20.4	20.5	-0.1										23.0	23.1	0.0
Corporate Bond Fund- JPM	**Barclays Capital Global Aggregate - Ex Treasury, Ex Government Related 100% Hedged to GBP**	**Mar-03**	**140.4**	**5.6**	**1.9**	**1.6**	**0.3**	**1.9**	**1.6**	**0.3**	**3.0**	**2.0**	**1.0**	**4.0**	**3.7**	**0.3**	**4.4**	**4.1**	**0.3**	**6.5**	**6.8**	**-0.4**	**5.4**	**5.6**	**-0.2**
Total Property Fund	**Client Specific Weighted Index**	**Mar-16**	**104.1**	**4.2**	**2.2**	**1.7**	**0.4**	**2.2**	**1.7**	**0.4**	**8.9**	**7.1**	**1.8**										**10.5**	**7.1**	**3.4**
UK Property Fund - VENN	Absolute Return +9%	Jul-15	23.8	1.0	1.9	2.2	-0.2	1.9	2.2	-0.2	20.1	9.0	11.1										13.3	9.4	3.9
US Property Fund- Walton Street	Absolute Return + 6.5%	Jan-16	11.8	0.5	0.0	1.6	-1.6	0.0	1.6	-1.6	-1.4	6.5	-7.9										2.0	5.7	-3.8
Euro Property Fund- Invesco	Absolute Return + 6.5%	Feb-16	68.4	2.7	2.6	1.6	1.0	2.6	1.6	1.0	7.1	6.5	0.6										10.9	6.0	5.0
Total Infrastructure Fund	**Client Specific Weighted Index**	**Mar-16**	**97.1**	**3.9**	**0.4**	**1.9**	**-1.5**	**0.4**	**1.9**	**-1.5**	**8.8**	**8.0**	**0.8**										**8.3**	**8.0**	**0.3**
UK Infrastructure Fund - Green	Absolute Return +7.6%	Apr-15	51.7	2.1	0.0	1.8	-1.8	0.0	1.8	-1.8	9.6	7.6	2.0										5.0	7.6	-2.6
UK Infrastructure Core Fund - Hermes	Absolute Return +8.4%	May-15	45.4	1.8	1.0	2.0	-1.1	1.0	2.0	-1.1	8.2	8.4	-0.2										8.2	8.4	-0.2
Worcestershire CC Total Fund		**Mar-87**	**2,490.2**	**100.0**	**1.2**	**1.3**	**-0.1**	**1.2**	**1.3**	**-0.1**	**20.1**	**18.6**	**1.5**	**11.6**	**11.1**	**0.6**	**12.2**	**11.9**	**0.3**	**6.4**	**6.9**	**-0.5**	**8.2**	**8.7**	**-0.5**

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

Total Fund Benchmark	**CLIENT SPECIFIC BM AS AT JUNE 2017:** 27.4% 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: 4.2% Client Specific Index Infrastructure: 3.9% 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 30th June 2017

Market Value: £2.5bn

	31st March 2017		Net	Total	Total	30th June 2017	
	Market Val (£000s)	Exposure (%)	Investment (£000s)	Income (£000s)	Gain/Loss (£000s)	Market Val (£000s)	Exposure (%)
Total Equity Fund	**2,124,316**	**86.6**	**0**	**0**	**24,255**	**2,148,571**	**86.3**
Total Active Equity Fund	710,733	29.0	0	0	9,243	719,976	28.9
Far East Developed Fund - Nomura	393,876	16.1	0	0	3,215	397,092	15.9
Emerging Markets Fund - JPM	153,448	6.3	0	0	977	154,425	6.2
Emerging Markets Fund- Schroder	163,408	6.7	0	0	5,051	168,459	6.8
Total Passive Equity Fund	1,105,610	45.1	0	0	14,245	1,119,855	45.0
UK Equity Fund - L&G	668,878	27.3	0	0	9,633	678,512	27.2
North American Equity Fund- L&G	289,430	11.8	0	0	-2,471	286,959	11.5
Europe ex UK Equity Fund- L&G	147,302	6.0	0	0	7,083	154,385	6.2
Total Alternatives Fund	307,973	12.6	0	0	767	308,740	12.4
FTSE RAFI DEV Fund - L&G	95,101	3.9	0	0	-535	94,566	3.8
MSCI World Min Vol TR Fund - L&G	106,535	4.3	0	0	847	107,383	4.3
MSCI World Quality TR Fund - L&G	106,337	4.3	0	0	454	106,791	4.3
Corporate Bond Fund- JPM	**137,785**	**5.6**	**0**	**0**	**2,639**	**140,424**	**5.6**
Total Property Fund	**102,168**	**4.2**	**0**	**0**	**1,887**	**104,055**	**4.2**
UK Property Fund - VENN	23,368	1.0	0	0	453	23,820	1.0
US Property Fund- Walton Street	12,130	0.5	0	0	0	11,822	0.5
Euro Property Fund- Invesco	66,671	2.7	0	0	1,742	68,413	2.7
Total Infrastructure Fund	**88,338**	**3.6**	**-4,447**	**0**	**13,214**	**97,105**	**3.9**
UK Infrastructure Fund - Green	38,907	1.6	0	0	0	51,688	2.1
UK Infrastructure Core Fund - Hermes	49,431	2.0	-4,447	0	433	45,416	1.8
Cash Fund	**0**	**0.0**	**0**	**0**	**0**	**0**	**0.0**
Worcestershire CC Total Fund	**2,452,607**	**100.0**	**-4,447**	**0**	**41,995**	**2,490,155**	**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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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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worcestershire county council

AGENDA ITEM 7

PENSIONS COMMITTEE
6 OCTOBER 2017

LGPS CENTRAL UPDATE

Recommendation

1. **The Chief Financial Officer recommends that the LGPS Central Update be noted.**

Update

2 Andrew Warwick Thompson commenced his position as Chief Executive Officer of LGPS Central Ltd. on 17 July 2017, and in so doing became the first employee of the Company. His first day was spent at a successful training event run in Chester for elected members that had been newly appointed to Pension Committees and Boards following the May Local Elections.

3. In late June the interview process for the appointment of two Non-Executive Directors was completed. Eithne McManus was appointed and will chair the Audit, Risk and Compliance Committee. John Nestor was also appointed and will chair the Remuneration Committee. Eithne McManus and John Nestor are highly experienced and respected in their specialist fields and commenced their work in mid-July. The LGPS Central first formal Board meeting was held on 11 August.

4. The process of appointing a Chief Investment Officer also concluded in late June and Jason Fletcher, who currently fills the same role at the West Midlands Pension Fund, will commence at LGPS Central on 1 October 2017. Interviews for the role of Chief Operating Officer/Chief Financial Officer took place in early August and a job offer has been made and accepted.

5. The programme operates against a very demanding timetable but key milestones continue to be met. The necessary application for regulatory authorisation was submitted to the Financial Conduct Authority (FCA) on 21 July 2017, together with the accompanying Regulatory Business Plan. It is expected that this will lead to the necessary authorisations to enable LGPS Central to carry out investment business in time for the 1 April 2018 deadline.

6. A preliminary meeting with the FCA has taken place to discuss the application. Whilst there are still some aspects that require further action, for example, the appointment of further key personnel and resilience testing on IT systems, there are no obvious flaws in the application and the FCA indicated that the LGPS Central milestone of January 2018 for authorisation is not unreasonable. Follow up questions from the FCA and LGPS Central responses are attached as Appendix 2 to this report along with the staffing structure (Appendix 3) and organisational structure (Appendix 4) that were provided to the FCA as supporting documentation.

7. In recent months the Shareholders' Forum has approved cost sharing principles and the appointment of an external auditor to both the Company and the investment sub funds that it will manage, as well as having sight of the Regulatory Business Plan that supported the FCA application.

8. Whilst a significant amount of work has already been completed, there are still considerable challenges ahead in the run up to the 'go-live' date of 1 April 2018. Within the next three months it is expected that the process of appointing to the next layer of management positions within the Company will be complete, or at least very near to completion. Consideration of pension benefits for newly appointed staff is also currently under consideration.

9. It has recently been announced that Geik Drever, Strategic Director of Pensions at the West Midlands Pension Fund but for the last 18 months seconded to be Programme Director for LGPS Central, will be retiring at the end of September. Geik has also stood down as a director of the Company with effect from 11 August and will be replaced on the Board by the new COO/CFO.

10. A progress report from the Department for Local Government and Communities (DCLG) has been attached as Appendix 1 to this report for further information. The comments directed around FCA registration are relevant to other pools as LGPS Central has been adhering to this requirement as part of the development work.

11. **Please note that Appendices 2 and 3 contain exempt information (on salmon pages) and should members wish to discuss the information included in the Appendices they would need to consider passing the appropriate resolution and moving into exempt session.**

Contact Points

County Council Contact Points
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Worcestershire Hub: 01905 765765

Specific Contact Points for this report
Sean Pearce, Chief Financial Officer
Tel: 01905 846268
Email: spearce@worcestershire.gov.uk

Supporting Information

In the opinion of the proper officer (in this case the Chief Financial Officer) the following appendices contain supporting information for this report:

Appendix 1 - progress report from the Department for Local Government and Communities (DCLG).
Appendix 2 - Questions from the FCA following initial registration meeting and LGPS Central responses. **(Exempt information - Salmon pages)**
Appendix 3 – LGPS Central staffing structure. **(Exempt information - Salmon pages)**
Appendix 4 – LGPS Central organisational structure.

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.

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Department for Communities and Local Government

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www.gov.uk/dclg

Chairs of LGPS pension funds
Chairs of LGPS investment pools

22 AUG 2017

LOCAL GOVERNMENT PENSION SCHEME (LGPS) INVESTMENT POOLING: SPRING 2017 PROGRESS REVIEW

Thank you for your reports on progress to 31 March and updates to our officials on developments since then. We have been pleased to see that most pools in development have been moving at pace towards becoming operational, including launching procurements for pool operators and, where new operators are being established, making key senior appointments and preparing applications for Financial Conduct Authority (FCA) authorisation. We have also been pleased to note progress in some pools towards your ambitions on infrastructure investment, with some significant new funding committed this year. We are well aware of the substantial demands on your staff and resources required to deliver the progress already made and the challenges still to be overcome in order to deliver, and we are grateful to all those involved.

However in some areas we have not yet received the assurance we require. We have made clear that all funds must fully participate in a pool and all pools must have an FCA authorised operator. In order to achieve the maximum savings, funds must invest through the pools, with minimal exceptions where there is a value for money case, and they must delegate manager selection to the operator. Our officials will of course continue to engage with funds and pools where there are outstanding issues over the summer. But if we are not satisfied that there is a clear path and timetable for delivery, the Department for Communities and Local Government will consult on further action, including use of the powers available.

We will expect a further report on progress to 30 September from all pools in October. At that time we will want to see further details of savings achieved and planned, as well as plans for reporting, including on fees and net performance by asset class, and for increasing your infrastructure investment in line with your ambition.

We remain committed to this vital long term change programme in order to deliver improved net investment performance and capacity to invest in infrastructure, and to protect the sustainability of the LGPS for the benefit of its members. We look forward to working with you to bring the first stage of the reform to a successful conclusion with the establishment of pools across the LGPS.

CHIEF SECRETARY TO THE TREASURY **MARCUS JONES MP** **CAROLINE NOKES MP**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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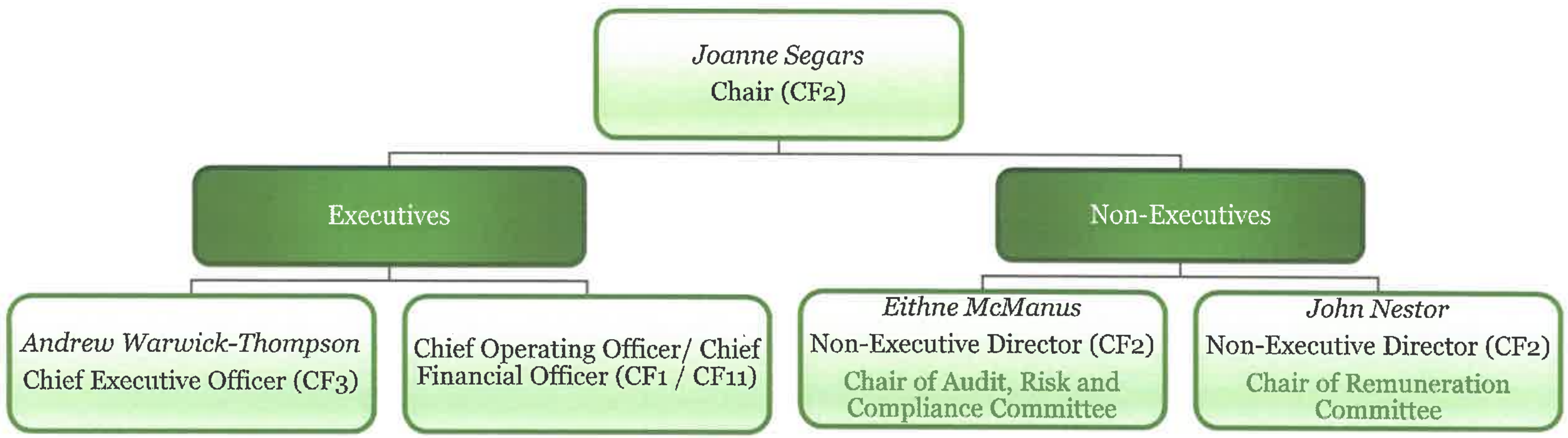
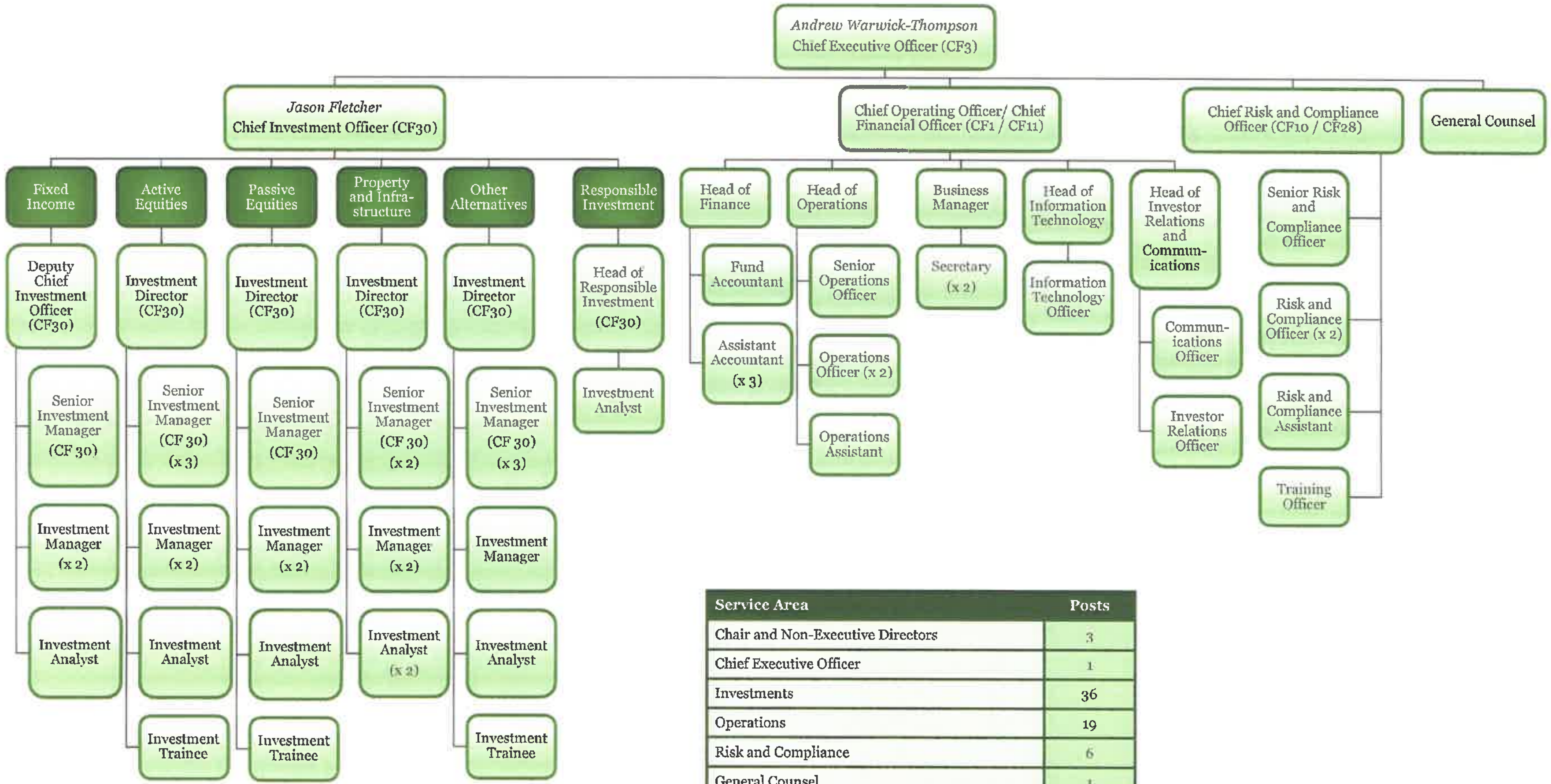
LGPS Central

LGPS CENTRAL BOARD STRUCTURE CHART



LGPS CENTRAL DRAFT STRUCTURE CHART



Service Area	Posts
Chair and Non-Executive Directors	3
Chief Executive Officer	1
Investments	36
Operations	19
Risk and Compliance	6
General Counsel	1
Total	**66**

LGPS Central Staff Structure Chart V1B 2017-07-21.docx

PENSIONS COMMITTEE
6 OCTOBER 2017

EQUITY PROTECTION STRATEGY

Recommendation

1. The Chief Financial Officer recommends that:

a) the equity protection report provided by the Fund's Actuary be noted; and

b) the Chief Financial Officer be provided with delegated authority in consultation with the Chairman and Vice-Chairman of the Committee to work with advisers and implement an equity spread protection strategy for the Fund's equities.

Purpose of the Equity Protection Strategy Report

2. The Fund's Actuary has calculated that due to the increase in the value of the fund's assets since the actuarial valuation held on 31 March 2016, at the end of June 2017, the Fund had a deficit but was c. £442m ahead of the funding plan.

3. Given that most of the improvement seen since the 2016 valuation is attributable to the rally in equity markets over the period, the Actuary has recommended that the Fund consider using an equity protection strategy to:

4. Reduce the likelihood that further deficit contributions will be required at the 2019 valuation; and

5. Seek to “bank” some of the recent upside with a few to potentially reducing contributions at future valuations.

6. An alternative approach to equity protection would be to simply de-risk by moving funds from equities to other asset classes. The challenge with this approach is that it would also reduce return commensurately which would have an impact on the affordability of providing future benefits.

Equity Protection Strategy Report Summary

7. The Fund's Actuary estimates that the Fund’s equity holdings are the largest contributor to the overall level of risk. With equity markets at or close to all time high levels, the Actuary believes that now is an opportune time to protect against market falls and therefore protect the contribution position. The Actuary estimates that the Fund currently has available additional resources of around £442m based on the actual position as at 30 June 2017. By implementing an equity protection strategy, this level of resource can be achieved without the need to amend the long-term strategic allocation.

8. The Actuary strongly recommends this as a positive risk management strategy given current market conditions. If this is taken forward, further work should be undertaken to determine the optimal structure for the Fund (including consideration of how this would be delivered in the current manager framework). Implementation of an equity protection strategy could be achieved within a relatively short timeframe once the particulars of the strategy have been agreed.

Contact Points

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Specific Contact Points for this report
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Supporting Information

- Equity Protection Strategy Report (Appendix)

Background Papers

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

HEALTH WEALTH CAREER

WORCESTERSHIRE COUNTY COUNCIL PENSION FUND

EQUITY PROTECTION

September 2017

Ian Kirk
Adam Lane

FUNDING & CONTRIBUTIONS
AN UPDATE

The table below shows the projected deficit under the funding plan agreed as part of the 2016 valuation over the next valuation cycle (i.e. if assumptions had been borne out from the valuation date). We have compared this with the "actual" projected position where available by projecting forward the position from 30 June 2017 in line with assumptions from that point.

	31 March 2016	30 June 2017	31 March 2019
Expected (deficit)/surplus	(£654m)	(£626m)	(£648m)
Actual (deficit)/surplus	(£654m)	(£184m)	(£174m)
Difference	**-**	**+£442m**	**+£474m**

**All figures allow for actual contributions agreed, including prepayments. Actual figures allow for actual / estimated investment performance to 30 June 2017*

We have shown a reconciliation of the change in deficit/surplus to 30 June 2017 since the valuation date in the appendix. It can be seen the improvement is principally from significant gains in assets versus expected.

The table shows that at the end of June 2017, the Fund had a deficit but was c.£442m ahead of the funding plan. It is difficult to predict the expected position at future valuations with accuracy and in reality there is a spread of potential outcomes. Given that most of the improvement seen since the 2016 valuation is attributable to the rally in equity markets over the period, our recommendation is that the Fund consider using an equity protection strategy to:

1. Reduce the likelihood that further deficit contributions will be required at the 2019 valuation; and
2. Seek to "bank" some of the recent upside with a few to potentially reducing contributions at future valuations.

Equity Protection vs De-Risking

An alternative approach to equity protection would be to simply de-risk by moving funds from equities to other asset classes. The challenge with this approach is that it would also reduce return commensurately which would have an impact on the affordability of providing future benefits.

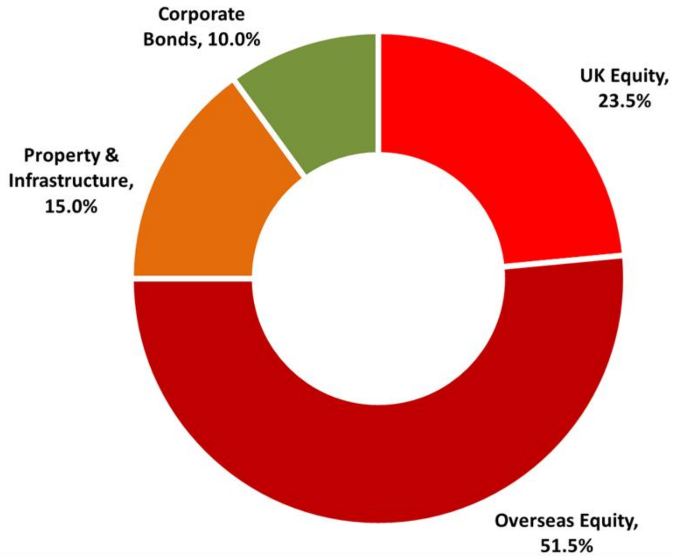
To put this into context, the **average future service** contributions payable by employers (ignoring any phasing/prepayment etc.) is **c.£50m p.a.** If significant de-risking were to take place then this would likely increase, as we could not build the same level of expected returns into the assumptions.

For example, **reducing** the expected return (due to market changes or de-risking) by **0.5% p.a.** would increase the future service contributions payable by **c.£10m p.a.** Putting equity protection in place could help mitigate this by protecting the funding position.

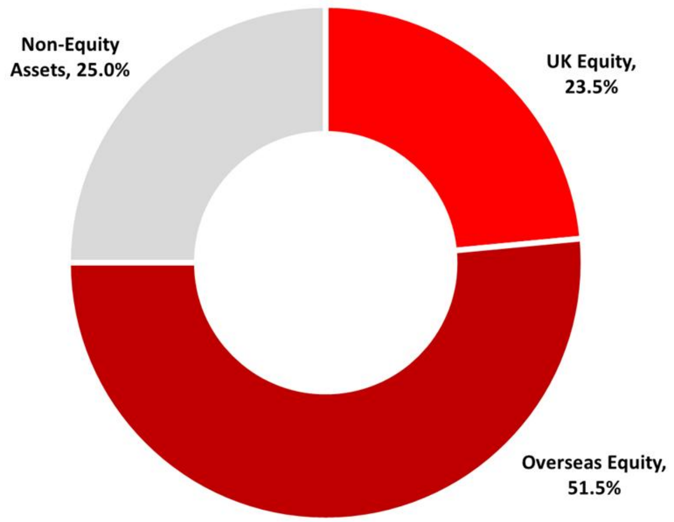
The rest of this short paper highlights how equity risk could impact the stability of contributions and a high level overview of how this position could be improved by making use of equity protection strategies.

PROPOSED PORTFOLIO

Strategic Asset Allocation



Equity Exposure



Page 60

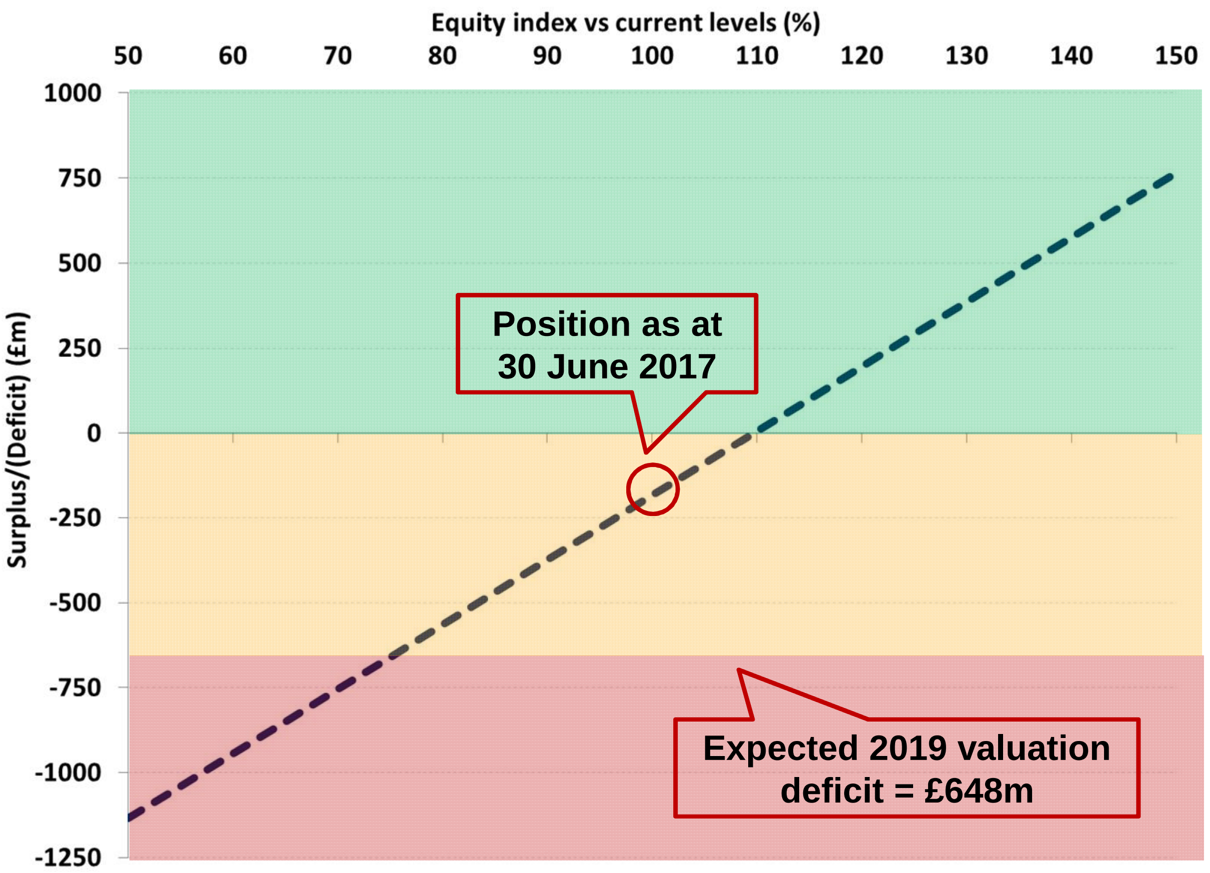
Comments

Mercer estimate that equity exposure is the largest contributor to the overall level of risk within the Fund. For example, based on the strategy above if equity markets fell by 30%, the asset value of the Fund could fall by around £570m, which could lead to a fall in the funding level of c.21%.

The Fund also holds a range of assets that are strongly correlated to equity markets, such as Property - this means that a fall in equity markets would likely coincide with falls in these assets, potentially causing the funding position to worsen further.

SENSITIVITY BASED ON STRATEGIC ALLOCATION
EQUITY RISK IMPACT ON THE DEFICIT

Impact of isolated equity market movements on deficit



Comments

For the deficit to be eliminated, equity markets would need to rise by c.10% (in isolation) from their current levels – this could remove the need for deficit reduction contributions depending on our views on expected returns at that point.

Further improvements in the funding position beyond this point could potentially be used to offset any increase in the cost of future accrual.

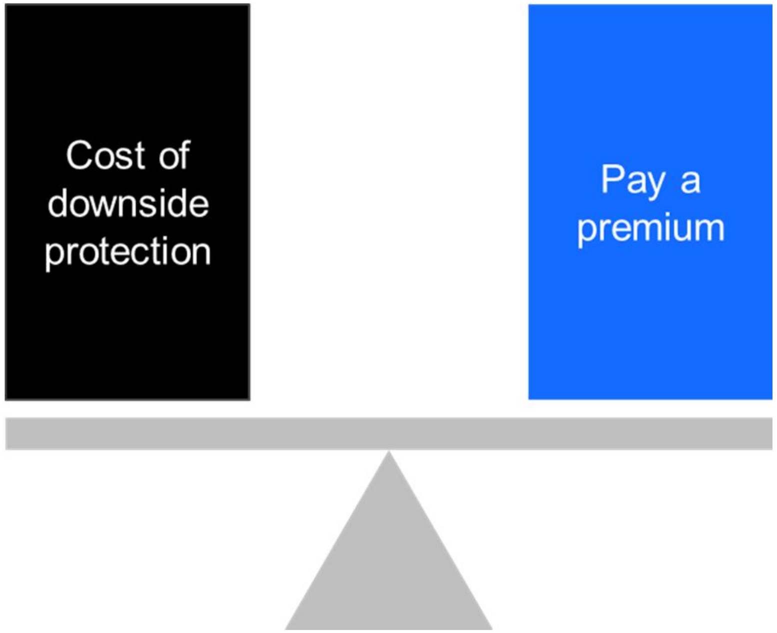
If equity markets rise by less than c.10% or fall by up to c.24%, there would still be a deficit but the Fund would remain ahead of the funding plan. This would suggest continuation of the current recovery plan contributions.

If equity markets fall by more than c.24%, the Fund would fall behind the recovery plan and further deficit contributions would be required at the 2019 valuation.

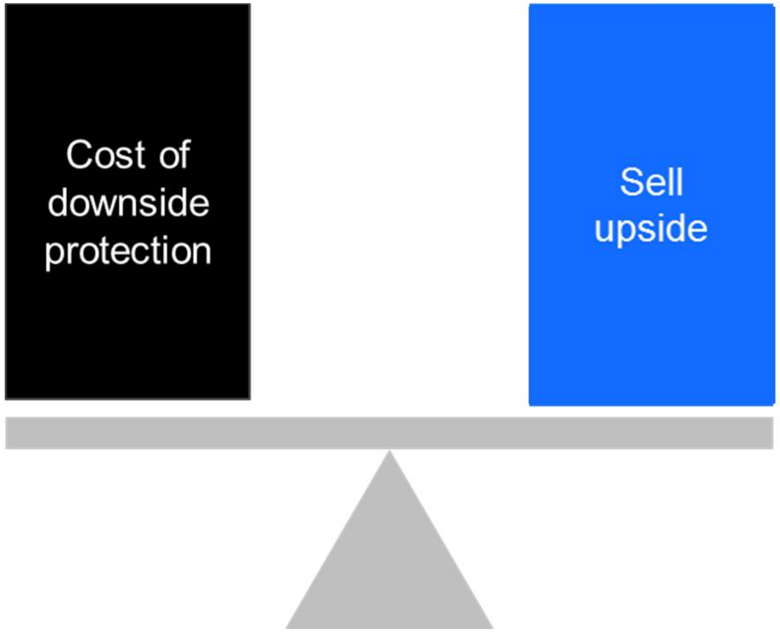
EQUITY RISK MANAGEMENT
DOWNSIDE PROTECTION + FINANCING

Pay a premium	Don’t pay a premium

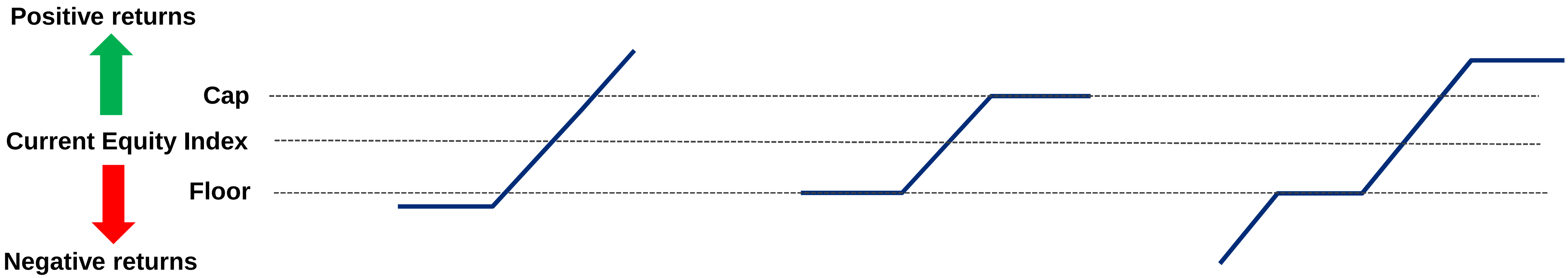
Pay a premium



Don’t pay a premium



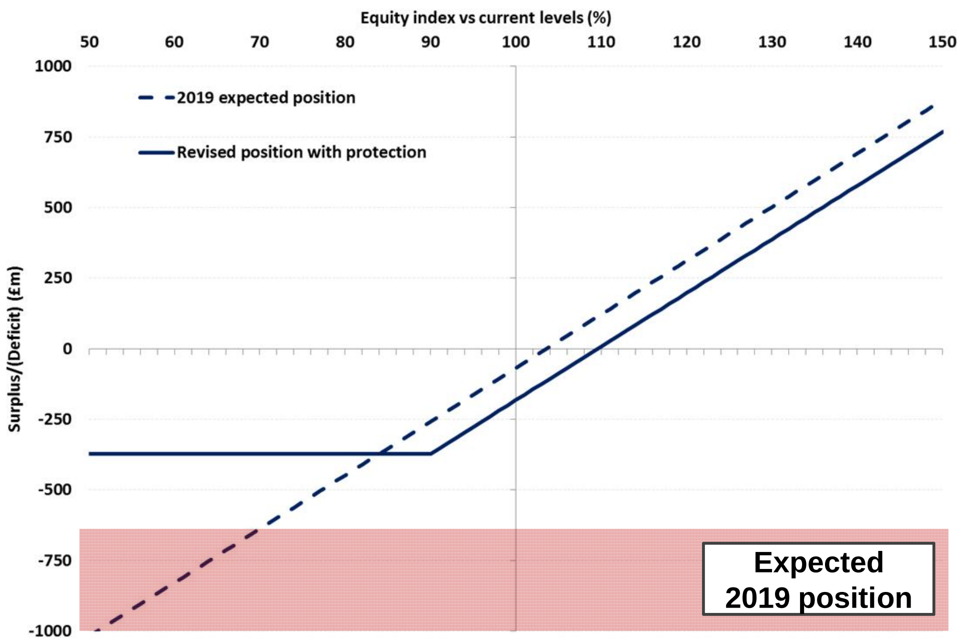
EXAMPLE STRUCTURES
AN OVERVIEW



	Put	Collar	Spread Collar
Return profile	Buy downside protection	Buy downside protection, sell upside to offset the cost	Buy downside protection. Sell upside to offset the cost **but** participate in downside beyond a certain level to achieve greater upside potential.
Rationale	• Participation in all upside potential/ only accept a small level of loss • Key drawback is the cost of the protection (i.e. like an insurance contract)	• Gains above a certain level may not be required (i.e. if the Fund will achieve full funding) • Can be structured to be zero cost	• Gain extra upside compared to a vanilla collar by only capping downside loss to a given point • Can be structured to be zero cost

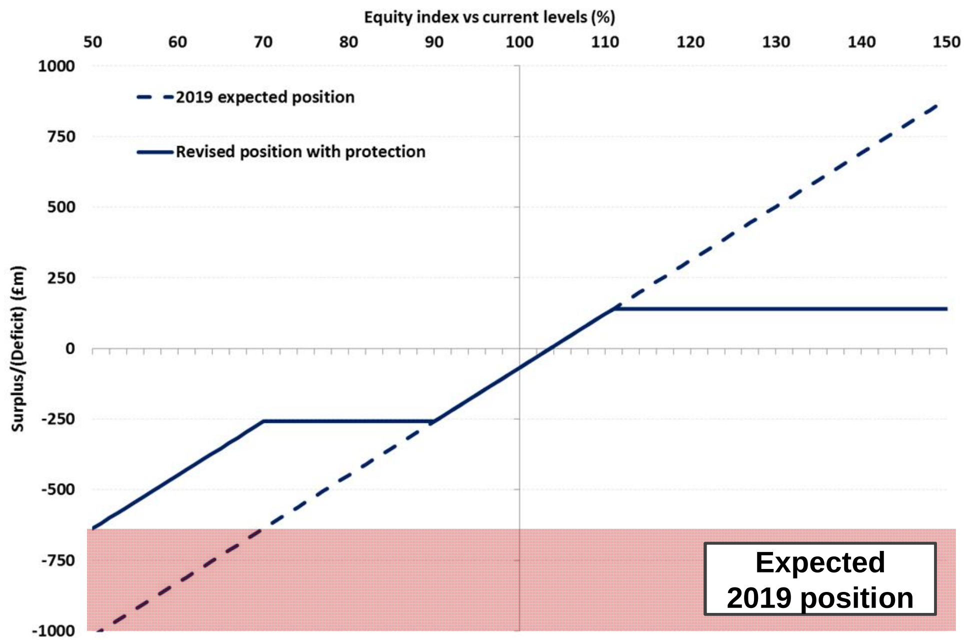
EQUITY RISK MANAGEMENT
EXAMPLE 2-YEAR STATIC PROTECTION

Pay a premium



Expected premium of 5-6% (or £95m-£115m)
Hard downside protection + drag on returns of 2-3% p.a.

Don't pay a premium



Nil premium, financed by giving up gains above 10-15%
Material downside protection apart from for large market falls

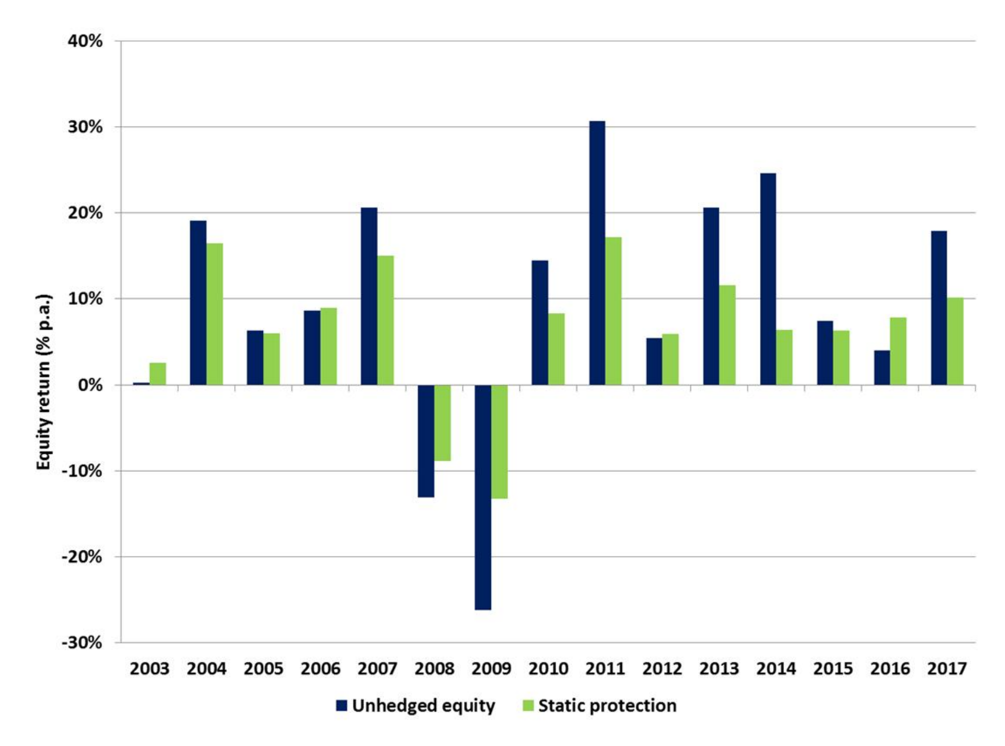
Comments

These structures are known as "static" protection strategies by which means they are implemented for a fixed period of time and then are not usually altered over the period. Given this feature "timing" of implementation has a significant bearing on the outcome of the protection strategy. To demonstrate the impact of timing we have modelled the nil premium put spread structure above assuming it was implemented in June 2002 and then rolled at the end of each period – the results are shown overleaf.

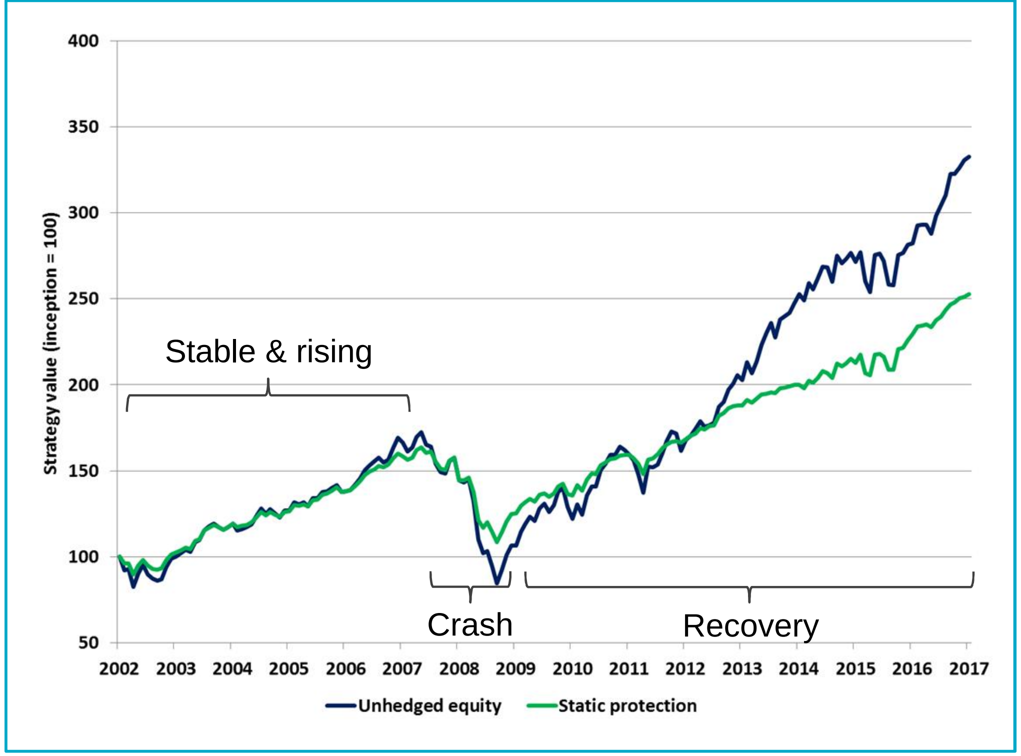
Page 65

STATIC EQUITY HEDGING STRATEGY
ILLUSTRATIVE BACK-TESTING RESULTS

Annual return



Cumulative performance



	Stable & Rising 2003 – 2007	Crash 2008 – 2009	Recovery 2010 – 2017	Total	Volatility	Return/ risk
S&P 500	10.7%	-19.9%	15.3%	8.3%	14.7%	0.6x
Static protection	9.7%	-11.1%	9.2%	6.4%	8.4%	0.8x
Relative	**(1.0%)**	**8.8%**	**(6.1%)**	**(1.9%)**	**(6.3%)**	**+0.2x**

INTRODUCTION TO DYNAMIC HEDGING

Page 66

Initial downside agreed at outset to provide certainty

Downside financed by selling upside on a monthly/quarterly basis

Downside and upside protection adjusted monthly/quarterly

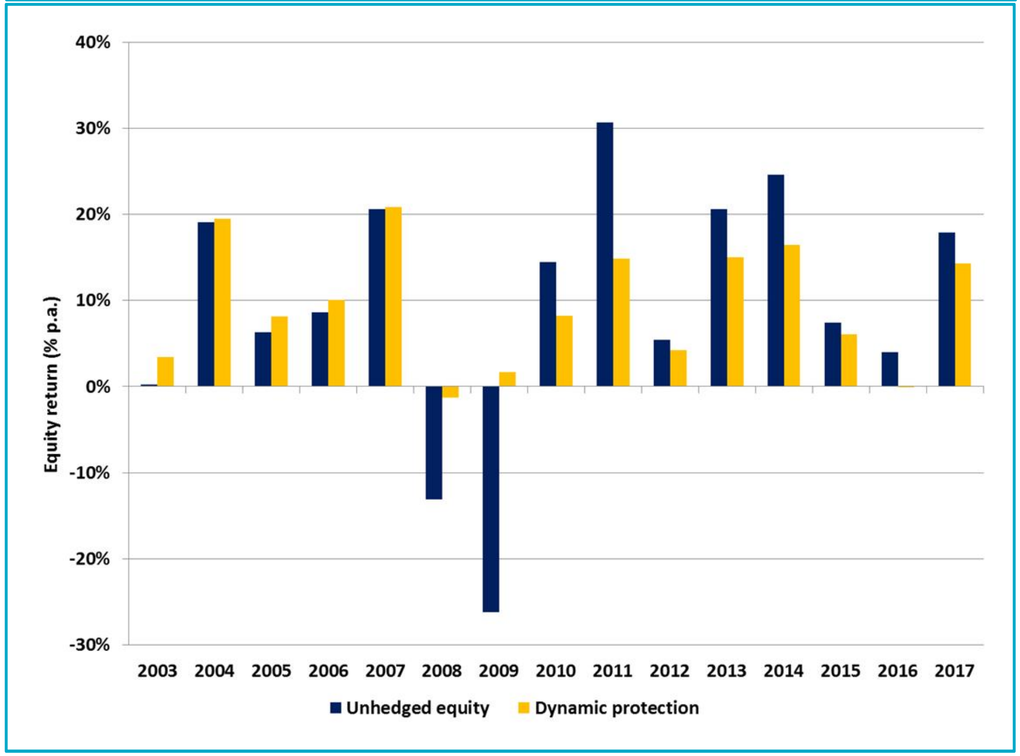
Implemented via a bank rather than via a manager

Strategy codified in a simple set of rules

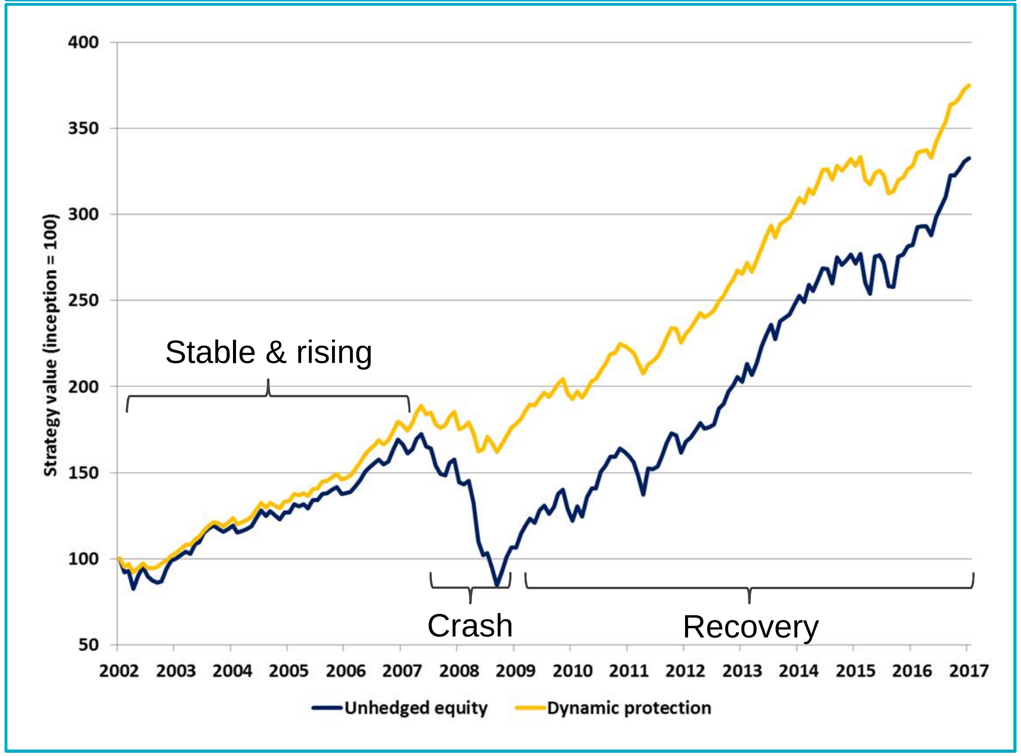
Better risk adjusted return but more complex

DYNAMIC EQUITY HEDGING STRATEGY
ILLUSTRATIVE BACK-TESTING RESULTS

Annual return



Cumulative performance



	Stable & Rising 2003 – 2007	Crash 2008 – 2009	Recovery 2010 – 2017	Total	Volatility	Return/ risk
S&P 500	10.7%	-19.9%	15.3%	8.3%	14.7%	0.6x
Dynamic protection	12.2%	0.2%	9.7%	9.2%	7.1%	1.3x
Relative	**1.5%**	**20.1%**	**(5.6%)**	**0.9%**	**(7.6%)**	**+0.7x**

COMPARISON OF APPROACHES
EQUITY RISK MANAGEMENT

Feature	Do nothing	Static hedging	Dynamic hedging
Nature of strategy	No protection	Overall structure set at outset	Based on a simple set of rules
Certainty over protecting recovery plan	Low	High	High
Period of protection	None	Fixed	On-going
Financing of protection	None	Sell upside over fixed period	Sell upside over short time periods
Potential regret risk	Lowest	Highest	Low
Protection provider	None	Investment manager	Bank + collateral manager
Complexity	Low	Medium	Medium/high
Return from 2002-2017	**8.3% p.a.**	**6.4% p.a.**	**9.2% p.a.**
Return per unit of risk	**0.6x**	**0.8x**	**1.3x**

SUMMARY & NEXT STEPS
EQUITY PROTECTION

Summary

We estimate that the Fund's equity holdings are the largest contributor to the overall level of risk. With equity markets at or close to all time high levels, we believe that now is an opportune time to protect against market falls and therefore protect the contribution position. We estimate that the Fund currently has available additional resources of around £442m based on the actual position as at 30 June 2017. By implementing an equity protection strategy, this level of resource can be achieved without the need to amend the long-term strategic allocation.

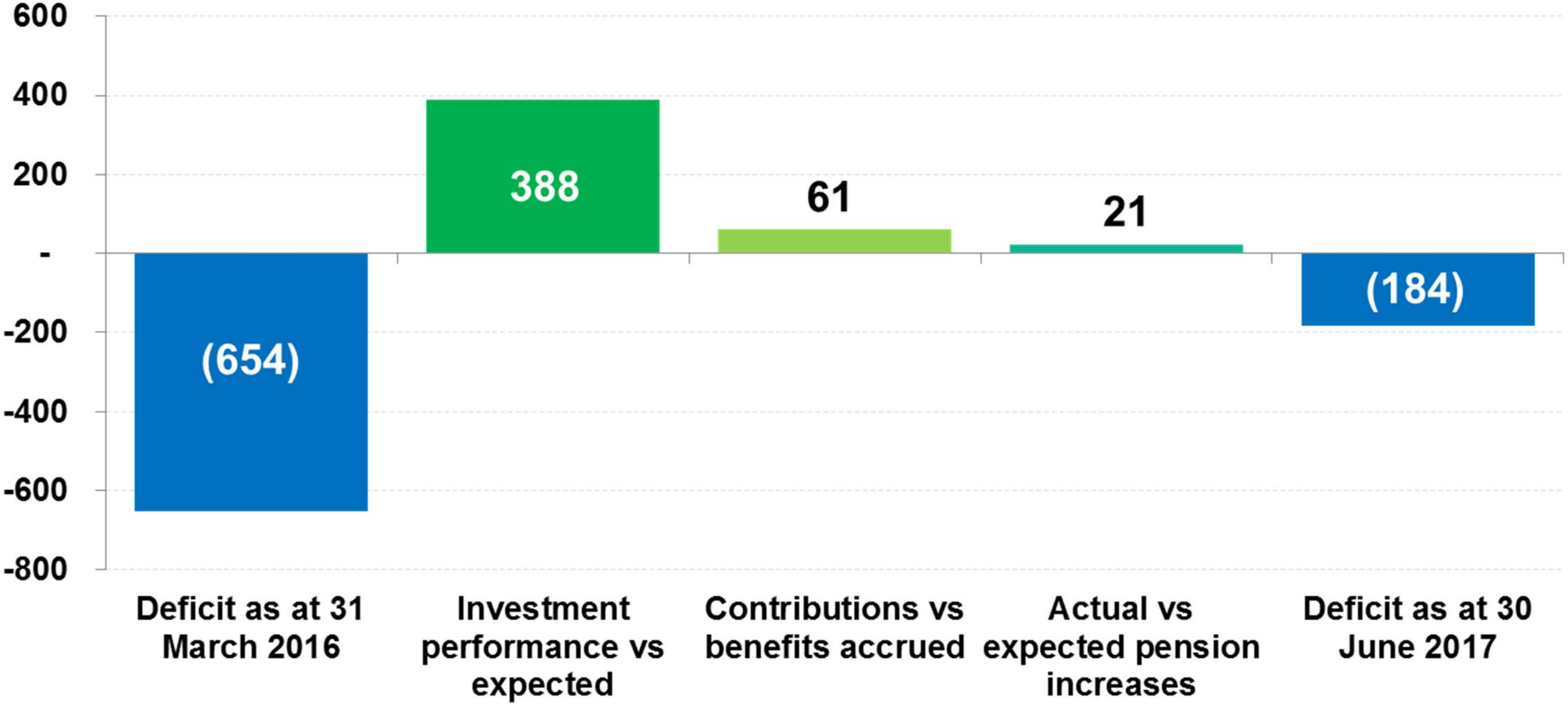
We strongly recommend this as a positive risk management strategy given current market conditions. If this is taken forward, further work should be undertaken to determine the optimal structure for the Fund (including consideration of how this would be delivered in the current manager framework). Implementation of an equity protection strategy could be achieved within a relatively short timeframe once the particulars of the strategy have been agreed.

Next steps

- Seek approval from Pension Committee for Officers to move forward and implement equity spread protection strategy.
- Mercer to input where necessary to provide:
  - Rationale for adopting the protection strategy (to advisers and members);
  - The recommended level and structure of the protection (if taken forward);
  - Consideration of the implications of the different levels and structures on the funding plan; and
  - Input to implementation of the strategy (overview or more detailed assistance)

APPENDIX

APPENDIX
RECONCILIATION SINCE THE VALUATION DATE



Page 71

APPENDIX
ILLUSTRATIVE IMPACT ON EMPLOYER CONTRIBUTIONS BASED ON 31 MAY UPDATE

	Current Contributions for 2017/18	Illustrative Contributions for 2017/18	
Source	2016 Valuation Outcomes	30 June 2017 Update	30 June 2017 Update - allowance for de-risked future service discount rate
Discount Rates (i.e. expected return) - Past service - Future service	CPI + 2.15% p.a. CPI + 2.75% p.a.	CPI + 2.15% p.a. CPI + 2.75% p.a.	CPI + 2.15% p.a. CPI + 2.25% p.a.
Total Employer Deficit Contributions *	c.£38m	c.£11m	c.£11m
Average Employer Future Service Contribution Rate 2017/18 **	c.14.7%	c.14.7%	c.17.4%
Projected 2017/18 Payroll ***	c.£340m	c.340m	c.£340m
Employer Future Service Contributions	c.£50m	c.£50m	c.£59m
Total Employer Contributions	**c.£88m**	**c.61m**	**c.£70m**

** Based on a 18 year recovery period from 1 April 2017.*

*** Ignores any phasing plans or prepayment implemented as part of the 2016 valuation.*

**** Based on the data provided for the 2016 actuarial valuation.*

EQUITY HEDGING STRATEGY
BACK-TESTING ASSUMPTIONS

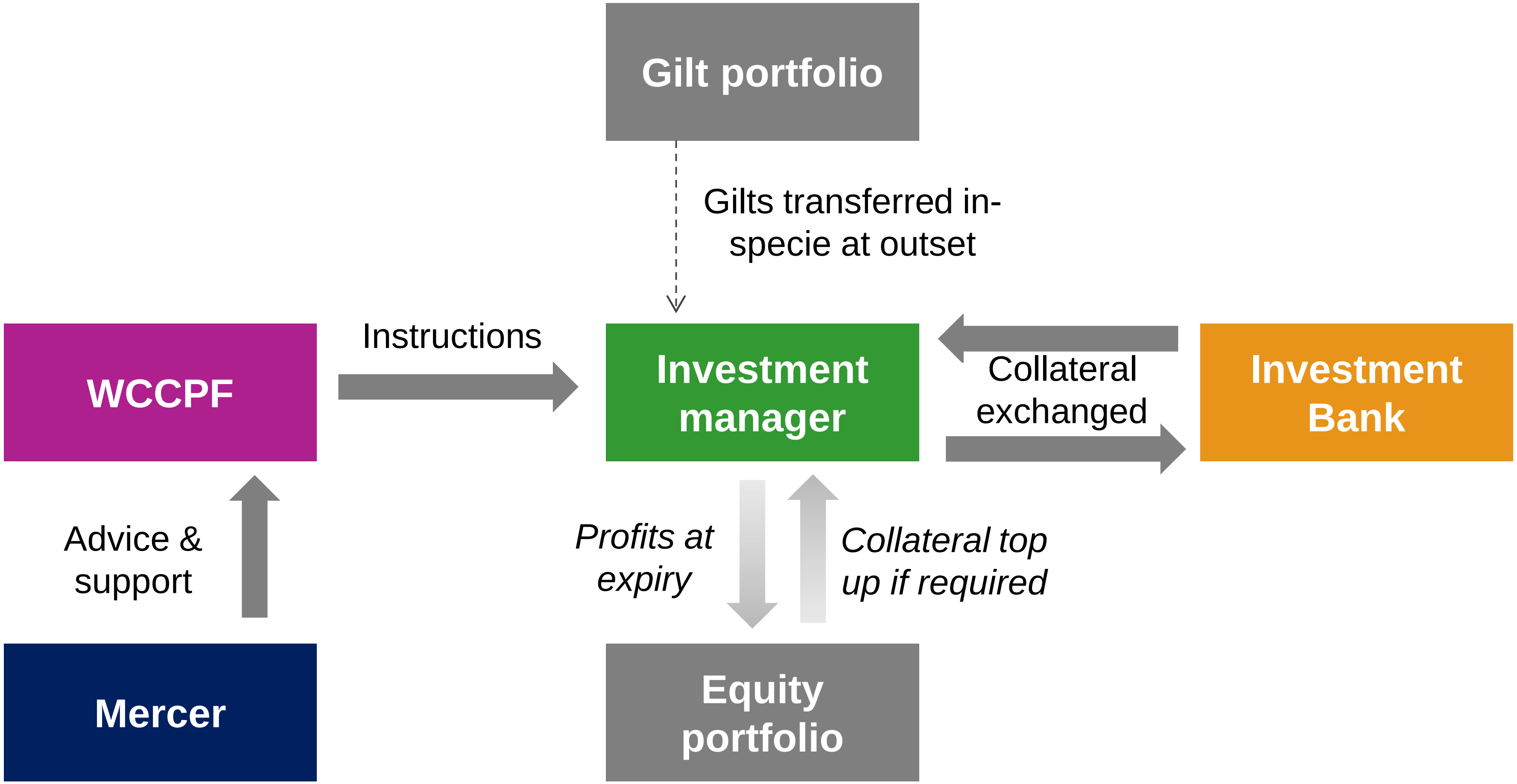
We have back-tested the following strategies over the period 30 June 2002 – 30 June 2017:

- **Physical Equity:** S&P 500 Total Return Index
- **Strategy 1 ("Static Protection"):** S&P 500 Total Return Index + 2-year zero premium 90%-70% put-spread collar. The 2-year structures are single contracts that are then renewed at maturity.
- **Strategy 2 ("Dynamic Protection"):** S&P 500 Total Return Index + 2-year overlapping 90% puts bought every two months (each on 1/12th of the notional) + 1-month 104% short calls (notional amount revised monthly, no leverage).

The back-test assumes the following:

- All options are on the S&P 500 Price Index
- Starting value of physical equity equal to 100 and increasing (or decreasing) with equity market performance
- Starting value of option strategy notional equal to 100, increasing (or decreasing) in line with equity exposure
- Option premiums and pay-outs are paid into and out of cash and earn 3-month US LIBOR
- The currency exposure is fully hedged
- We do not assume any transaction costs

STATIC EQUITY HEDGING STRATEGY
IMPLEMENTATION SCHEMATIC

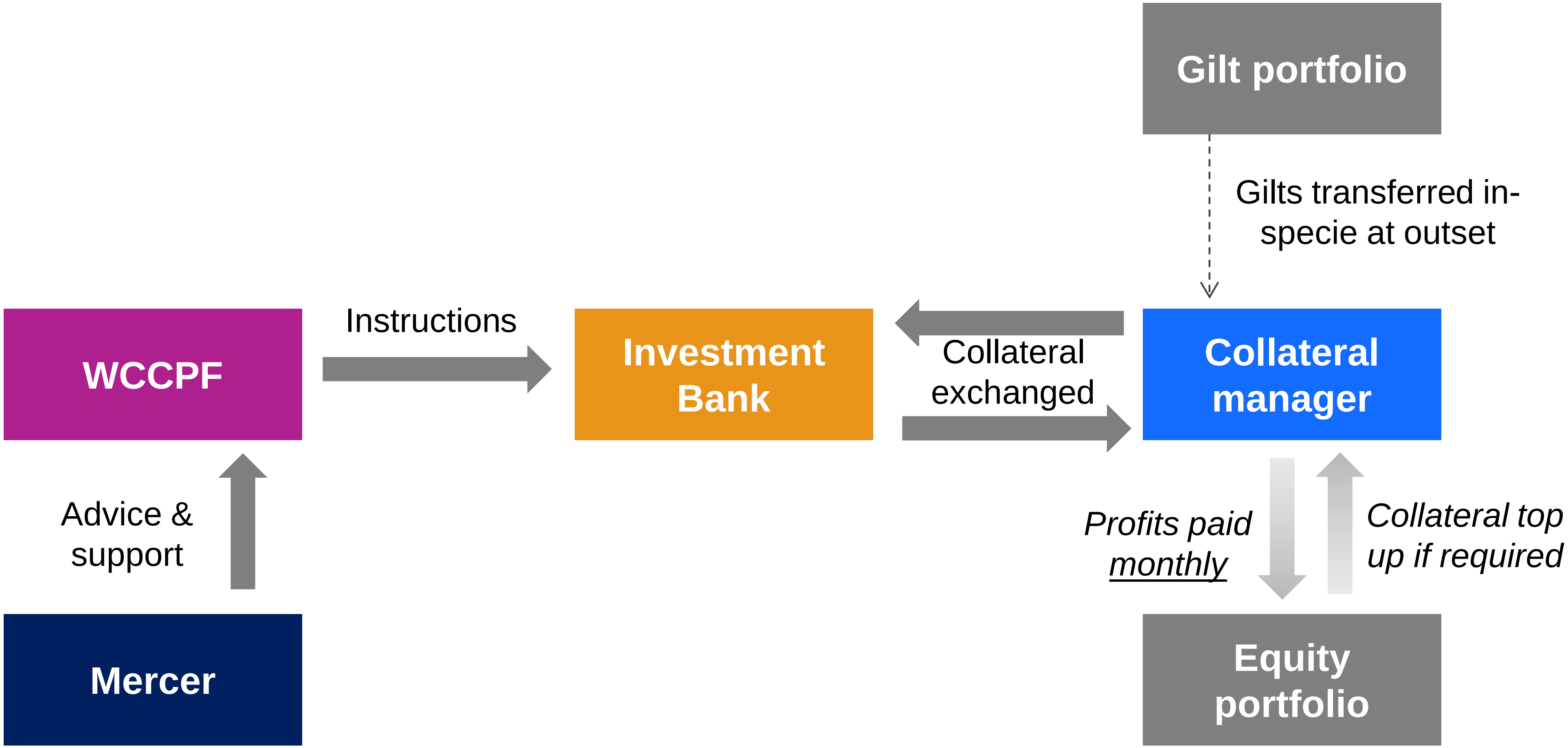


Page 74

Expected t-costs, asset manager fees and advice of around 0.10%-0.15% per annum

DYNAMIC EQUITY HEDGING STRATEGY
IMPLEMENTATION SCHEMATIC

Page 75



Expected t-costs, asset manager fees and advice of around 0.10%-0.15% per annum

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MAKE
TOMORROW,
TODAY

MERCER

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worcestershire
countycouncil

AGENDA ITEM 9

PENSIONS COMMITTEE
6 OCTOBER 2017

IMPLEMENTATION OF THE MARKETS IN FINANCIAL INSTRUMENTS DERIVATIVE (MiFID ll)

Recommendation

1. **The Chief Financial Officer recommends that he be granted delegated authority in consultation with the Chairman and Vice-Chairman to elect for professional client status for Worcestershire County Council as Administering Authority for the Worcestershire County Council Pension Fund, subject to opt-up applications review.**

Background

2. Under the current UK regulations, local authorities are automatically categorised as ‘per se professional’ clients in respect of non‑MiFID scope business and are categorised as ‘per se professional’ clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may ‘opt up’ to elective professional client status if they fulfil certain ‘opt-up criteria’

3. Following the introduction of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) from 3 January 2018, firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt (“local authority”) as a ’per se professional client’ or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as “retail clients” unless they are opted up by firms to an ’elective professional client’ status.

4. Furthermore, the Financial Conduct Authority (FCA) has exercised its discretion to adopt ‘‘gold-plated’’ opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

Retail Client Status

5. Retail client status would mean that all financial services firms such as banks, brokers, advisers and fund managers will have to treat Worcestershire county Council as they do non-professional individuals and small businesses. This would include applying a series of protections to ensure that investment products are suitable for the customer’s needs, and that all the risks and features have been fully explained.

6. Such protections would prevent the Council being able to access the wide range of assets needed to implement an effective, diversified investment strategy for the Worcestershire County Council Pension Fund, as retail status would significantly restrict the range of financial institutions and instruments available. Many institutions currently

servicing the LGPS are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.

7. Even if an institution secured the ability to deal with retail clients, the range of instruments it could make available to the client will be limited to those defined under FCA rules as 'non-complex' which would exclude many of the asset classes currently included in Fund's portfolio. In many cases managers will no longer be able to even discuss ('promote') certain asset classes and vehicles with the local authority as a retail client

Election for professional client status

8. MiFID II allows for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests that must be met by the client when being assessed by the financial institution: the quantitative and the qualitative test.

9. The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.

10. The new tests recognise the status of LGPS administering authorities as providing a 'pass' for the quantitative test while the qualitative test can now be performed on the local authority as a collective rather than on an individual in the local authority.

11. The election to professional status must be completed with all financial institutions prior to the change of status on 3 January 2018. Failure to do so by local authorities would result in the financial institution having to take 'appropriate action' which could include a termination of the relationship at a significant financial risk to the Fund.

12. The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt-up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats.

13. Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end, for example, if the next procurement is achieved via the LGPS pool. It is recommended that Fund officers determine the most appropriate basis of the application, either via full or single service.

14. Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt-up process and notify all institutions of any changes in circumstances which could affect their status, for example, if the membership of the Committee changed significantly resulting in a loss of experience, or if the relationship with the authority's investment financial advisor was terminated.

LGPS Central

15. LGPS Central will be a professional investor in its own right so will not need to opt up with the external institutions it uses. Worcestershire County Council will however need to opt up with LGPS Central in order to access the full range of services and sub-funds on offer.

16. Elections to professional status will be needed for every financial institution that the authority uses outside of LGPS Central, both existing and new, together with a continuing review of all elections. If all new purchases are made via fund structures within LGPS Central then no new elections will be required, only an ongoing review of the elections made with LGPS Central and any legacy external institutions, the number of which would reduce as assets and cash are transferred into LGPS Central.

Next Steps

17. In order to continue to effectively implement the Fund's investment strategy after 3 January 2018, applications for election to be treated as a professional client should be submitted to all financial institutions with whom the authority has an existing or potential relationship in relation to the investment of the pension fund.

18. This process should commence as soon as possible in order to ensure completion in good time and avoid the need for appropriate action to be taken by institutions in relation to the Fund's investments.

Contact Points

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Worcestershire Hub: 01905 765765

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Background Papers

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

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worcestershire countycouncil

AGENDA ITEM 10

PENSIONS COMMITTEE
6 OCTOBER 2017

PENSION FUND ANNUAL REPORT

Recommendation

1. The Chief Financial Officer recommends that the Pension Fund Annual Report and Accounts 2016/17 be approved.

Background

2. The annual report is a key communications channel between the fund and a wide variety of stakeholders. The report contains information relating to fund investments, administration, governance, valuations, accounts and membership

Legislative Requirements and Guidance

3. The requirement for and content requirements of LGPS pension fund annual reports in England and Wales was initially introduced under Regulation 34 of the LGPS (Administration) Regulations 2008. For reporting periods beginning 1 April 2014 and beyond, the statutory requirement in England and Wales can be found in Regulation 57 of The Local Government Pension Scheme Regulations 2013.

4. CIPFA published updated guidance in September 2014 that represents a general framework for pension fund administering authorities to meet their statutory obligation to prepare and publish an annual report for the pension fund. The Department for Communities and Local Government has adopted this guidance as statutory guidance for the purposes of regulation 57(3) in the 2013 Regulations.

5. The CIPFA guidance included the requirement for specific information to be published to assist the production of the scheme annual report compiled by the LGPS scheme advisory board.

Contact Points

County Council Contact Points
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Specific Contact Points for this report
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Supporting Information

- Pension Fund Annual Report and Accounts 2016/17 (Appendix)

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

Annual Report and Accounts 2016 - 2017

Contents

Pension Committee
Advisers and Officers as at 31st March 2017

Administering Authority

Worcestershire County Council
County Hall, Spetchley Road
Worcester WR5 2NP.

Fund Administrator

Sean Pearce CPFA
Chief Financial Officer
Worcestershire County Council
County Hall, Spetchley Road
Worcester WR5 2NP.

Pension Committee

Councillor B Banks (Chair)
Councillor R Lunn
Councillor P Middlebrough
Councillor A Hardman
Councillor P Tuthill
Councillor R Phillips (Herefordshire Council)
Adrian Becker - Unison (Employee Representative)
Vic Allison (Employer Representative)

Pension Investment Advisory Committee

Councillor A I Hardman (Chair)
Councillor R W Banks
Councillor R Udall
Mr J Price – Unison
Sean Pearce (Chief Financial Officer)
Mark Forrester (Principal Accountant – Pension Fund)

Fund Managers

JP Morgan Asset Management
60 Victoria Embankment,
London, EC4Y 0JP.

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1 Angel Lane,
London,EC4R 3AB

Legal & General Investment Management
One Coleman Street,
London, EC2R 5AA

Schroder Investment Management Limited
31 Gresham Street
London EC2V 7QA

Venn Partners
13 George Street,
London W1U 3QJ

Hermes Investment Management
1 Portsoken Street
London, E1 8HZ

Invesco Real Estate
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43-45 Portman Square
London W1H 6HN

UK Green Investment Bank
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Millbank Tower, Millbank,
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900 N. Michigan Avenue, Suite 1900
Chicago, IL 60611

Global Custodian

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BNY Mellon Asset Servicing
48th Floor, One Canada Square
London, E14 5AL
BNY Mellon Asset Servicing B.V.

Independent Financial Adviser

Philip Hebson
AllenbridgeEpic Investment Advisers Limited
26th Floor
125 Old Broad Street
London
EC2N 1AR

Actuary to the Fund

Mercer Human Resource Consulting,
Mercury Court, Tithebarn Street,
Liverpool L2 2QH

Auditors to the Fund

Grant Thornton UK LLP
Colmore Plaza
20 Colmore Circus
Birmingham
West Midlands
B4 6AT

Foreword by the Chief Financial Officer

Welcome to the Worcestershire County Council Pension Fund 2016/17 Statement of Accounts. Worcestershire County Council administers the Local Government Pension Scheme (LGPS), which provides for the occupational pensions of employees, other than teachers, police officers, and fire fighters of the local authorities within the Herefordshire and Worcestershire area. Worcestershire County Council also operates the scheme for members of other organisations which have made admission agreements with the fund and designated bodies who have passed resolutions with Worcestershire County Council.

Aims and purpose of the Scheme	
The aims of the Scheme are to:	
✓	enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, designated, community and admitted bodies
✓	manage employers' liabilities effectively
✓	ensure that sufficient resources are available to meet all liabilities as they fall due, and
✓	maximise the returns from investments within reasonable risk parameters.
The purpose of the Scheme is to:	
✓	receive monies in respect of contributions, transfer values and investment income, and
✓	pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.

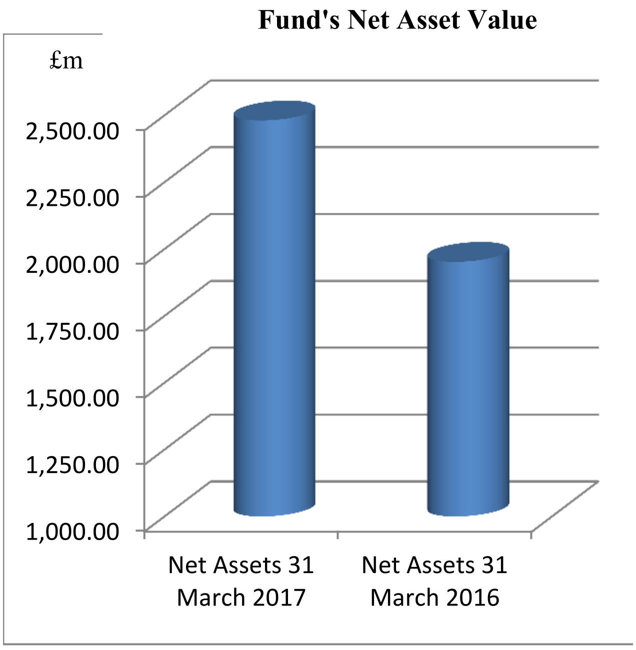
Key headlines

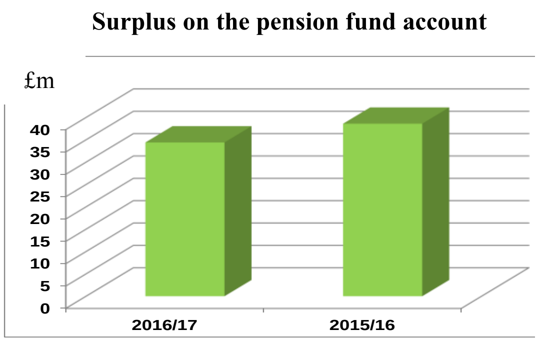
- The value of the Fund's net assets increased by £528.6 million from £1,952.3 million at 31 March 2016 to £2,480.9 million at 31 March 2017:

- Recurring income from contributions increased by 3.4%, due to the impact of the uplift in contribution rates following the 2013 actuarial valuation. Net investment earnings decreased by 22.8%, due to the transition of active equity investments to passively managed pooled funds, whilst ongoing expenditure increased by 2.5%. The investment income associated with the passive managed pooled funds is retained within the pooled funds and reinvested increasing the value of the pooled funds' units and therefore increasing the market value of the Fund.

- Contributions from staff and employers plus net interest and dividends received exceeded benefits paid in 2016/17 by £41.7 million. It is expected that an operating surplus will exist for the foreseeable future.

- During the year a surplus resulted on the Pension Fund account totalling for 2016/17 £34.4 million, a decrease of £4.2 million from the surplus of £38.6 million for 2015/16. The fall in surplus is mainly as a result of the fall in investment income.





- An analysis of changes within the fund's membership profile is displayed below:

	31 March 2016		31 March 2017	Change	Change %
Contributors to the fund	22,697		22,308	(389)	(1.7)
Pensions paid	16,353		16,918	565	3.5
Deferred members*	18,771		19,970	1,199	6.4
	57,821		**59,196**		

* The increase in deferred members is in part due to employers reducing staff headcount and the ex-employees choosing to retain their accrued benefits in the scheme as opposed to transferring out.

Governance

The Council has established a Pension Committee to exercise the Administering Authority's responsibility for the management of the Worcestershire County Council Pension Fund. The Pension Committee has overall responsibility for the management of the administration of the Fund and for the strategic management of the Fund's assets. In order to discharge its responsibility effectively The Pension Committee is supported by the Pension Administration Advisory Forum and the Pension Investment Advisory Panel.

The Council has also established a Pension Board, which has been operational since July 2015. The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to: (a) secure 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 and; (b) to ensure the effective and efficient governance and administration of the Scheme.

The Pension Fund's Governance Policy Statement is published on the Council's website. The Policy Statement ensures that the Fund's governance arrangements comply with the LGPS Regulations and are aligned to prescribed best practice guidance.

Management of the fund's assets

The management of the fund's assets is operated through nine specialist external managers with ten mandates in total. The Pension Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Pension Investment Advisory Panel, which includes an independent financial adviser.

The fund's asset allocation is kept under regular review and the current long term investment allocation includes investments in a wide variety of UK and overseas companies, Corporate Bonds, Property and Infrastructure. As a result of an asset allocation review that took place in November 2016, the following Pension Committee endorsed recommendations were progressed during 2016/17:

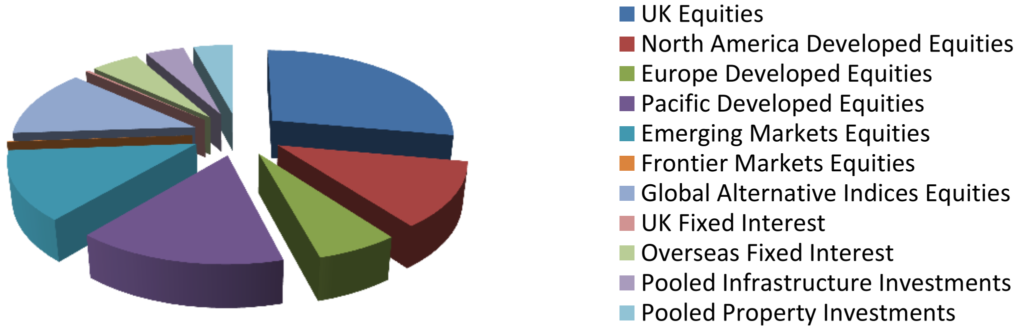
a) An increase in the allocation to Infrastructure or a mix of Infrastructure and Real Estate by 5% from the current strategic allocation of up to 10% of the Fund to 15%.

b) An increase in the Fund's allocation to alternative indices by 5% from the current strategic allocation of up to 10% of the Fund to 15%.

c) The Fund returns the Strategic Asset Allocation to North American equities to Passive Management.

As at 31st March 2017 the 2013 strategic asset allocation review recommendation of a 10% commitment to 'Alternatives including property' was fully implemented following investments into three pooled property funds; Invesco Real Estate – European Fund, Venn Commercial Real Estate Fund, Walton Street Real Estate Debt Fund and two pooled Infrastructure funds; UK Green Investment Bank Offshore Wind Fund and Hermes GPE Infrastructure Fund (Core).

The following chart details the distribution of the fund's assets as at 31 March 2017:



On 25th November 2015, DCLG published its response to the May 2014 consultation (Opportunities for collaboration, cost savings and efficiencies). It said responsibility for asset allocation would stay with the 90 administering authorities and that savings could be delivered through the use of asset pooling and, in particular, collective investment vehicles. Worcestershire County Council Pension Fund in collaboration with eight other Local Authorities (Cheshire, Leicestershire, Shropshire, Staffordshire, the West Midlands, Derbyshire, Nottinghamshire, and the West Midlands Integrated Transport Authority) under the brand 'LGPS Central' submitted their initial proposals to the Government by 19th February 2016. On 15th July 2016 the eight Funds made a final submission that fully addressed the government's pooling criteria. The submission included a business plan to pool assets under a regulated structure and to be operational from 1st April 2018.

Management of the fund's liabilities

The funding strategy is kept under regular review by the Pension Committee and the fund's actuary assesses at three yearly intervals the balance of the fund's assets against its liabilities. An actuarial valuation of the Worcestershire County Council Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020. The key outcomes of the valuation are detailed below:

- The Fund's assets of £1,952 million represented 75% of the Fund's past service liabilities of £2,606 million (the "Funding Target") at the valuation date. This is an increase on the 69% funded position as a result of the 2013 valuation.

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

- The deficit of £654 million would be eliminated by a contribution addition of £34 million per annum increasing at 3.7% per annum for 18 years.

The next actuarial valuation will be undertaken in 2019/20, with any changes to the employers' contribution rates being implemented with effect from 1 April 2020.

To meet the requirements of the Regulations, Worcestershire County Council as administering authority of the fund has set a clear long-term funding objective; to achieve and then maintain assets equal to 100% of projected accrued liabilities, assessed on an ongoing basis.

Sean Pearce
CPFA
Chief Financial Officer

Development of the Scheme

Since 1922 the LGPS has developed from a scheme which just provided pensions for officers only, to today's scheme, which provides pension and lump sums for all members, spouses, civil and co-habiting partners, and childrens' pensions, ill health, redundancy and death cover.

It is a comprehensive scheme and yet, through co-operation of the Government, employer and employee representatives, the scheme is constantly changing and adapting to modern day needs and demands.

LGPS Benefits

The LGPS is a defined benefit scheme. Prior to 1 April 2014 benefits are based on membership and final salary on or near to retirement. For membership from 1 April 2014 pension benefits are based on pension build up, which is also called career averaging. This provides, in the scheme standard section, for a pension of a 49th of pay each year. Members now have an option of joining the 50/50 section of the LGPS, permitting them to pay half the contribution rate and build up half the pension savings.

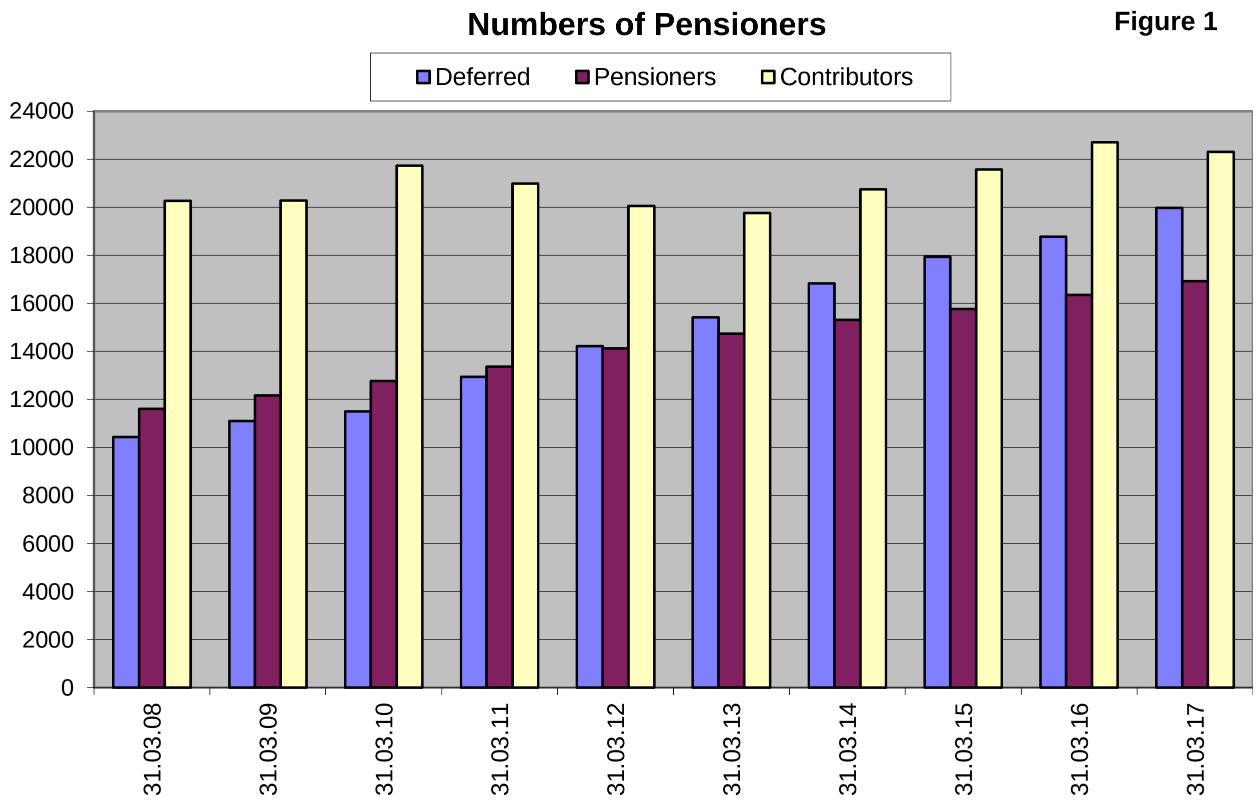
Standard employee contributions vary according to levels of pay, ranging from 5.5% to 12.5% of pay. Employers meet the balance of the cost of the LGPS through variable employer contributions. The employer contribution rates are set by WCCPF Actuary every 3 years following a valuation of the Pension Fund. The last valuation took place as at 31 March 2016 and determined the contribution rates to be applied for the 3 years from 1 April 2017.

Members of the LGPS were contracted-out of the State Second Pension (S2P) because it provided at least broadly equivalent benefits. Members and their employers paid lower rate NI contributions as a result. Contracting-out was be abolished from 1 April 2016 following the introduction of a new 'single-tier' State Pension replacing the existing basic and additional State Pension. The LGPS is also registered with HMRC, giving rise to various tax benefits, including tax relief on employee contributions.

Membership

A chart showing the number of contributors, pensioners and deferred pensioners for the past 10 years is given at Figure 1

Figure 1



Legislation

The following legislation came into force during the year:

Finance Act
The Act reduces the Lifetime Allowance for 2016/17 and 2017/18 to £1,000,000. It also introduces new Lifetime Allowance Protections, namely, Individual Protection 2016 and Fixed Protection 2016.

The Enterprise Act 2016
The act provides the legislative framework for the introduction of the £95K cap on public service exit payments. Further consultation continues.

The Government's Actuary Department has issued new factors and guidance on late retirement, pension debits, transfers and additional contributions.

Consultations

LGPS Amendment Regulations
The consultation covers Fair Deal and changes to AVC provisions following Freedom and Choice reforms. Further consultation continues.

Exit Payment Cap and Recovery
Exit Cap -There is a further consultation on regulations for the £95,000 exit payment cap in respect of the public sector exit payment reforms.

Exit Payment Recovery -There is a further consultation on the recovery regulations for those earning £80,000 or more who leave public sector employment and return within a year.

Pensions Act 2015

The Act legislates for the provision of a single-tier state pension of £155 per week from April 2016.

The change to a single-tier state pension will result in the abolition of contracting-out for the LGPS from 1 April 2016 and both members and employers will experience an increase of 1.4% and 3.4% respectively to their NI contributions.

Autumn Statement 2015

After the Chancellor's Autumn Statement, DCLG issued a consultation on the LGPS (Management and Investment Funds) Regulations 2016 and on investments pooling. The Government plan that no more than 6 funds counting a minimum of £25bn in fund assets.

Pensions Bill 2015/16

In the Summer 2015 Budget some announcements were made which could impact the tax paid by members if the LGPS. There are two tax measures: the Lifetime Allowance (LTA) and the Annual Allowance (AA).

The LTA is the total value of all pension benefits an individual can draw over their lifetime before incurring a tax charge. The reduction in the LTA from £1.25m to £1m is effective 6 April 2016.There will be two transitional protections introduced alongside the reduction for members with pension savings close to exceeding £1m.

They are Fixed Protection 2016 (FP16) and Individual Protection 2016 (IP16). The protections can be applied for by using a new on-line self-service system which will be available from July 2016.

The AA is the amount an individual's pension savings can increase in any one year without there being a tax charge payable.

The standard AA is currently set at £40,000 a year. From April 2016 a taper will come into force limiting the AA amount for some members.

The Finance (No.2) Act 2015 received royal assent on 18/11/15. The Act included Schedule 4 which provides for the legislative backing to the reforms to the AA announced in this year's summer budget, specifically,

- The alignment of pension input periods with the tax year, and
- The introduction of the AA taper.

Enterprise Bill 2016

<u>Exit Pay Reform</u>
The Government doesn't plan to provide for any transitional measures for exits agreed before the cap comes into force and the exit for exit takes place after the implementation date.

LGPS Funds are seeking to amend the LGPS Regulations to mean that an individual aged 55 or more who leaves on the grounds of redundancy or business efficiency is not required to take their pension at the point of their redundancy if , under the cap, this would be subject to actuarial reductions.

<u>Exit Recovery</u>
Effective 1 April 2016. An individual has to pay back some or all of their total exit payment if they leave with a salary of £80k or more and return to the public sector within 12 months of their exit.

2016 Budget

<u>LISA</u>
The Chancellor announced the introduction of a lifetime ISA available to under age 40 to use to save towards a lump sum or their retirement. People will be able to put in a maximum of £4k per year and for every £4 they put in the Government will give them £1(Government bonus will only be accessible if they don't withdraw their funds before they are 60).

<u>Discount Rate</u>
The discount rate used for valuing public sector pension schemes had been reviewed and had reduced from 3.0% to 2.8%. The change will cause employer contributions in the unfunded schemes to increase from 2019/20 onwards. However, the reduction in the discount rate also has immediate impacts – on the day of the Budget, the Government published a technical note confirming that the factors used for transfers paid for public sector pension schemes, including the LGPS, would need to be reissued. As a result of this change a number of other items of actuarial guidance will also need to be revised.

LGPS funds have had to suspend all transfers pending further guidance from DCLG.

<u>LGPS Pooling</u>
The government will continue to work with the sector on pooling proposals to achieve savings for £200m-£300m per year.

<u>Freedom and Choice</u>
Technical changes to Freedom and Choice rules proposed.

<u>Academies</u>
The Government expects all schools to become academies by 2020, or to have an academy order in place in order to convert by 2022, but then announced this would not be made compulsory.

Finance Bill

<u>Reporting on pension fund transactions for cost control</u>
Changes to accounting regulations which would require some pension fund transactions to be recorded in a more detailed manner than is currently the case. The changes are being considered in order that GAD could obtain a more detailed breakdown on pension fund cash flows for 2019 and subsequent cost control processes in England and Wales.

Appointment of SAB Chair

Cllr Roger Phillips has been appointed the first chair of the Scheme Advisory Board for the LGPS in England and Wales after an appointment process undertaken by DCLG in late 2015.

Since 2013 Cllr Phillips has been an employer representative on the fund's Pension Committee, Chair on the SSAB and, since 2012, has been Chair of the LGP Committee.

Part-Time Buy-Back Claims

DCLG confirmed where a person has still to lodge a claim to count previous part time service in the LGPS under the Preston Ruling and furthermore, their employer is willing to accept that the individual has a reasonable claim, the individual does not need to lodge an employment tribunal claim before their case can be considered.

Automatic enrolment

Review of earnings trigger and qualifying earnings for 2016/17.

The Pensions Regulator (TPR)

Following the expansion of its statutory duties in respect of Public Sector Pension Schemes (PSPS) in April 2015 the TPR;

- set out corporate plan for 2015-18
- published Compliance and Enforcement policy for PSPSs.
- published automatic enrolment declaration of compliance report.
- Issued guidance on transfers from DB to DC schemes
- Re-launched Pension Liberation and Scorpion Scam awareness campaign

New Pensions Minister

Following the general Election held in May 2015, the DCLG minister with responsibility for the LGPS in England & Wales is Marcus Jones, conservative MP for Nuneaton. He retained the post following the June 2017 Election.

Pensions Administration

CARE continues to be very challenging for both employers and administrators, especially the year-end process and requirements for ABS and annual tax allowances.

The number of academies continues to increase together with a number of new admissions following the commissioning of services to alternative providers.

2016 Valuation
The date supplied by scheme employers forms a major part of the valuation the actuary undertakes. It is important that the information submitted is correct and compliant with the LGPS Regulations 2013.

The valuation data for the 2016 Triennial Actuarial Valuation of the Fund was submitted on time, ensuring that all member records were at the correct status at the date of submission to the Actuary to ensure an accurate assessment of fund employer funding levels and contribution rates.

The administration team is accountable to the Pensions Board, participating employers and scheme members. The team is fully committed to providing a quality service to meet the Fund's various stakeholders and to deliver excellent customer care.

The team administers the WCCPF in accordance with legislative requirements with key aims to;

- Ensure the efficient administration of pension records, including the preparation and distribution of ABS to active and deferred members
- Undertake the calculation and payment of retirement benefits and transfer values
- Provide direction and guidance to scheme members and employers
- Provide pensions administration for the Firefighter Pension Schemes
- Support trustees of the Pension Fund and their decision making.

The team structure is under review by officers in regard to its appropriateness for the efficient administration of the scheme. This review is being informed by impending national policy development and significantly the impact of regulatory changes on the volume and type of casework.

We continue to strive for improved efficiency through appropriate use of information technology. The primary focus during the year was to actively engage with our key supplier, Heywood, in ensuring that the pension administration and pensioner payroll system received the required software and benefit calculation updates.

All administration data is stored electronically and any paper records are securely destroyed. Staff who work away from the office as part of their role, can access data by secure means.

Collaboration
We continue to work collaboratively with other pension funds and have produced several key documents within the Group, including annual benefit statements and newsletters, to share expertise and costs.

We also participate in the Joint Communications Working Group and attend the Shrewsbury Pensions Officers Group.

Benchmarking
The Fund continues to participate in the chartered Institute of Public Finance and Accountancy (CIPFA) annual benchmarking survey. The survey showed that the Fund had a lower cost pension payroll than the CIPFA average.

Internal Disputes Resolution Cases

During the year to March 2017, there were two new cases dealt with by the Appointed Person responsible for complaints against decisions made by the Fund. In both cases the decision taken by the Fund was upheld.

A total of two cases were dealt with by the Appointed Person responsible for considering Stage 2 appeals against employer decisions. In one case the employer's decision was upheld and the second case is ongoing.

Key staff indicators

The administration team employs 16 members of staff (15.45 FTE). During the year one new member joined the team and one left. The Fund therefore has a ratio of one full time equivalent member of the team for every 4,000 Fund members.

Financial Performance and Industry Standard Performance Indicators

The Local Government Pension Committee in conjunction with CIPFA has set a series of National Performance Indicators that measure the quality of service provided by Local Government Pension Schemes. These are set out in the table below along with the Fund's performance over 2016/17;

Performance Indicator (from point at which all required information has been received)	LGPC Target	Achieved %	Authority Target	Achieved %
Letter detailing transfer in quote	10 days	95%	10 days	95%
Letter detailing transfer out quote	10 days	95%	10 days	95%
Process and pay refund	5 days	95%	10 days	95%
Letter notifying estimate of retirement benefits	10 days	100%	10 days	100%
Letter notifying actual retirement benefits	5 days	100%	5 days	100%
Process and pay lump sum retirement grant	5 days	100%	5 days	100%
Initial letter acknowledging death of active, deferred / pensioner member	5 days	100%	5 days	100%
Letter notifying amount of dependent's benefits	5 days	95%	5 days	95%
Calculate and notify deferred benefits	10 days	95%	10 days	95%

Subjective Analysis	Approved Budget £000	Actual Expenditure £000
Employees:	453	421
Matrix Costs	0	38
Insurance Fidelity	4	1
Indirect Expenses	2	1
Transport:	2	2
Supplies & Services:		
Design & Print	5	3
Equip, Stationery	3	1
Subscriptions	1	11
Telephone	4	3
Postage	50	24
External Audit Fee	50	26
Mercers Fees*	225	260
Heywood Ltd - Licences & Maintenance*	253	236
Insurances	3	3
LGPS Newsletter	0	0
General	2	7
Central Recharges In:	76	75
Total Expenditure:	**1,133**	**1,112**
Income:		
Pensions Fund*	-1,008	-995
Income from Outside bodies*	-125	-117
Total Income:	**-1,133**	**-1,112**
SERVICE NET Excl Recharges.	**0**	**0**

*A proportion of Mercers fees and costs relating to the Haywoods pension administration payroll system are recharged to outside bodies. A further reason for the increase in these costs compared to budget relates to actuarial assessments required for commissioned services.

The Fund’s Investment Portfolio and Performance

The County Council as Administering Authority is responsible for the investment of the Pension Fund which is delegated to the Pension Committee. Performance is reviewed by the Pension Committee, supported by the Pension Investment Advisory Committee. The Pension Committee consists of County Councillors and an Employee and Employer Representative and receives recommendations from the Pension Investment Advisory Committee in relation to investment decisions. The Pension Investment Advisory Committee consists mainly of Councillors and is advised by an independent financial adviser. Both the main and secondary committees meet on a quarterly basis with an additional annual meeting held by the Pension Investment Advisory Committee to consider the full year’s performance. The Pension Investment Advisory Committee also reviews the actions taken by the investment managers in voting the Fund’s shares.

The operation of the Fund is governed by statutory regulations, including the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, which provide for a prudent approach to fund management and set out such matters as the type of investments into which the Fund’s assets can be placed, with certain restrictions.

For management purposes the Fund is divided between ten external investment managers operating a mix of active and passive equity mandates, bond mandates, property pooled funds and infrastructure pooled funds. A summary is set out below:-

Far East Active Equities	Nomura Asset Management UK Limited.
Passive UK, North America and European Equities	Legal and General Asset Management
Emerging Markets Active Equities	JP Morgan Asset Management.
Emerging Markets Active Equities	Schroder Investment Management
Global Corporate Bonds	JP Morgan Asset Management.
European Property	Invesco Real Estate
UK Property Debt	Venn Partners
North America Property Debt	Walton Street Capital
UK Infrastructure (Offshore wind)	Green Investment Bank
UK Infrastructure (Core)	Hermes

Performance is measured against respective world indices, target net IRR and actual vs forecast cash flows. The details of the mandates are set out in the Investment Strategy Statement (Appendix 3).The Fund does not automatically rebalance mandates in line with the long-term investment policy as set out in the Investment Strategy Statement, therefore portfolio weights may vary compared to their long-term strategic total Fund weight. The Fund's actual asset allocation as at 31st March 2017 is shown below;

Shares Managed Actively	**%**	**Investment Manager and Expected Performance**
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%
	20.0	
Shares Managed Passively		
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
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
	55.0	
	75.0	
Bonds Managed Actively	10.0	JP Morgan Asset Management – 100% Barclays Global Aggregate Corporate Bond Index – Hedged into GBP
Property / Infrastructure	15.0	Invesco Real Estate, VENN Partners, Walton Street Capital, Green Investment Bank, Hermes
	100.0	

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

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

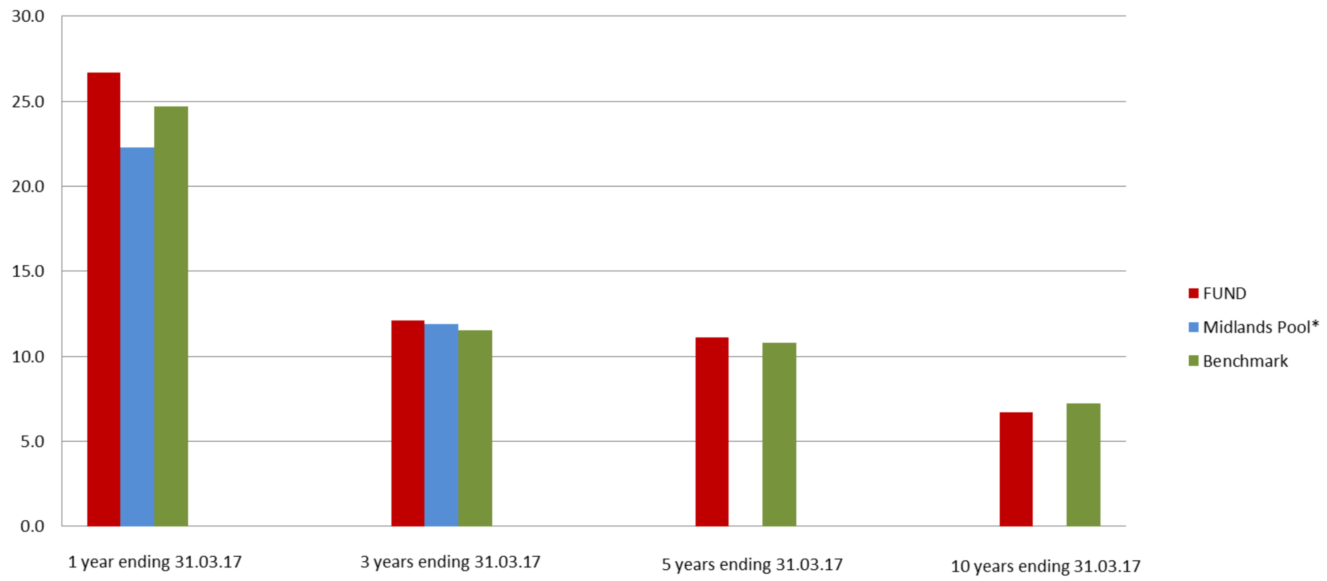
Statistics for measuring the investment managers’ performances against the Fund’s index benchmarks and against other local authorities, are provided quarterly by the WM Company. The figures show performance in the year 2016/2017 for each Fund by means of a time-weighted return, as recommended by the Society of Investment Analysts.

For the financial year ended 31st March 2017 the Worcestershire return of 26.7% beating the Fund's index benchmark return by 2% and outperformed the Peer Universe return by 4.4%.

Figure 2 shows comparisons of the performance returns of the Fund with Peer Universe return and the Fund's composite index benchmark over the last one, three, five, and ten years;

COMPARISON OF AVERAGE ANNUAL PERFORMANCE OF THE FUND WITH THE LOCAL AUTHORITY MEDIAN RETURN AND THE FUND'S COMPOSITE INDEX BENCHMARK

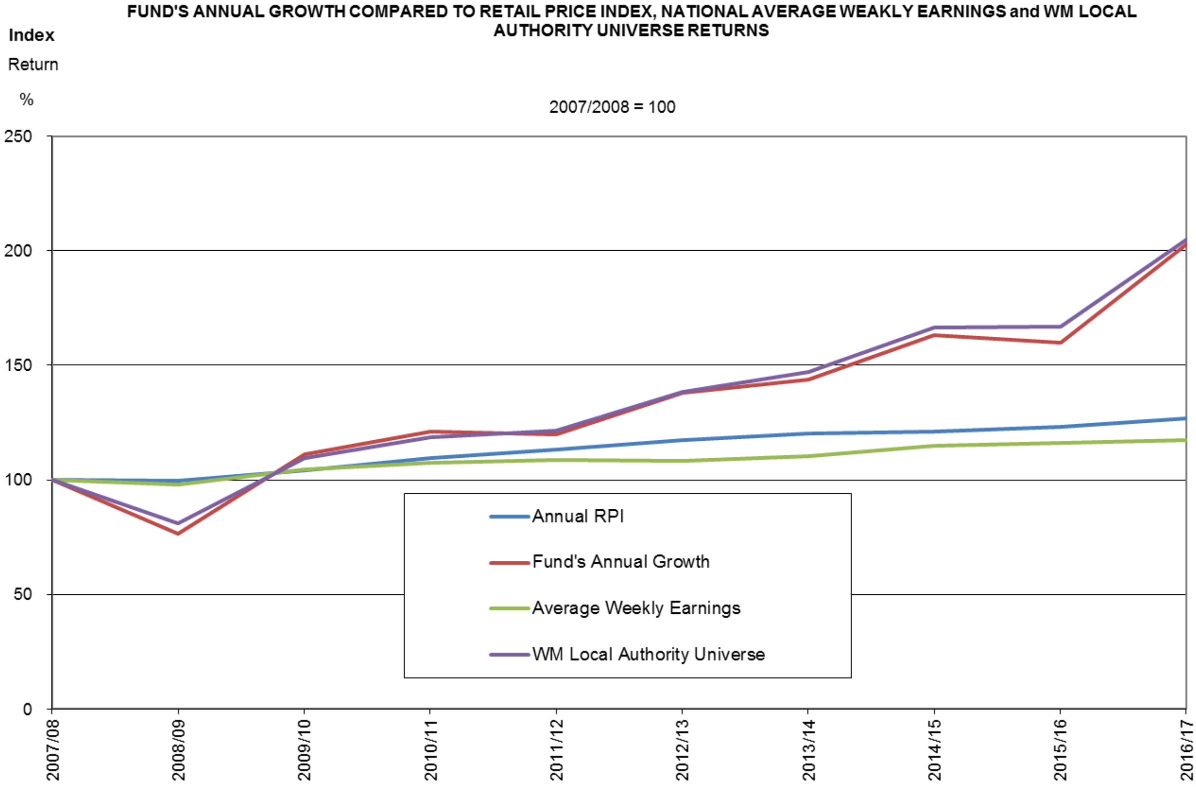
FIGURE 2



*Note: Midlands Pool data not available for 5 and 10 year comparison.

A comparison between the Fund’s performance returns against the retail price index and the national average earnings since 2007 is given at Figure 3.

Figure 3



A chart showing the total net assets of the Fund each year since 2007 is given at Figure 4.

Figure 4

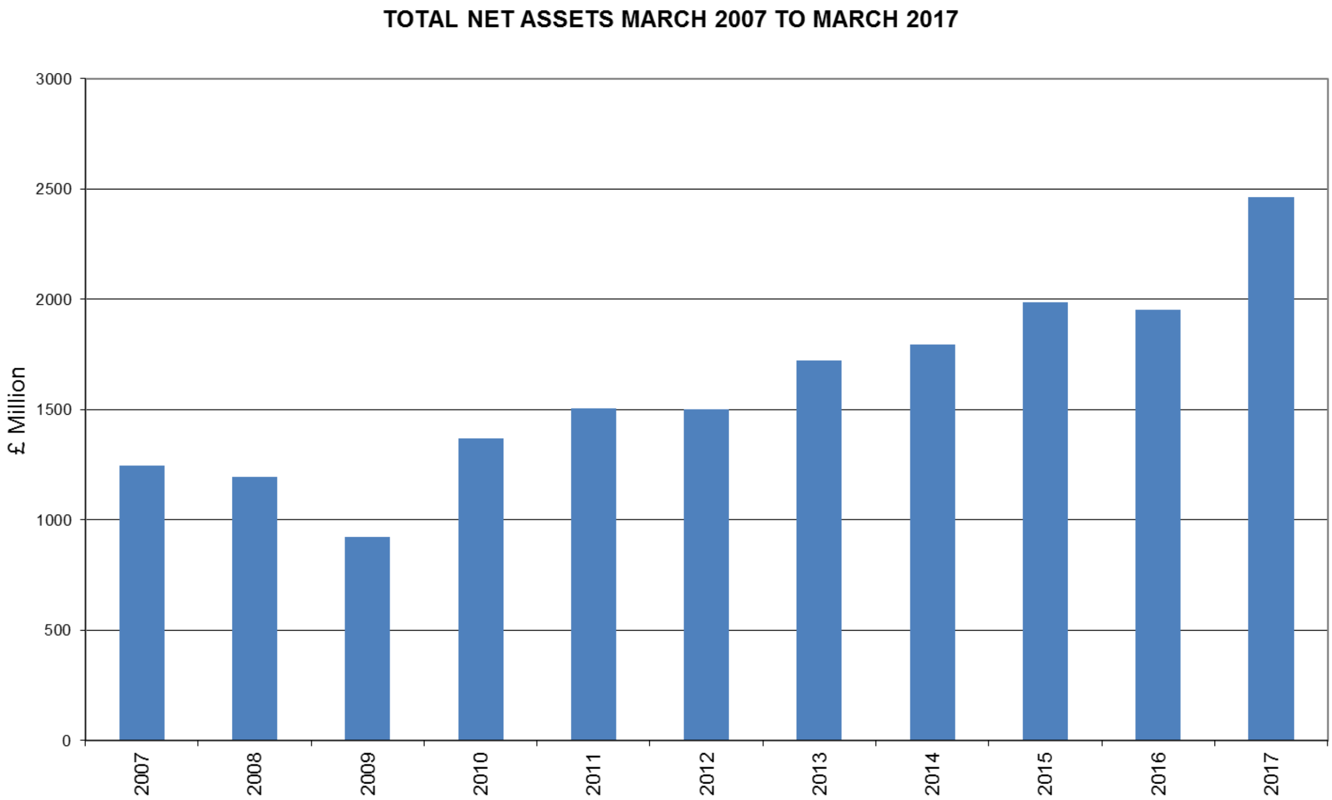
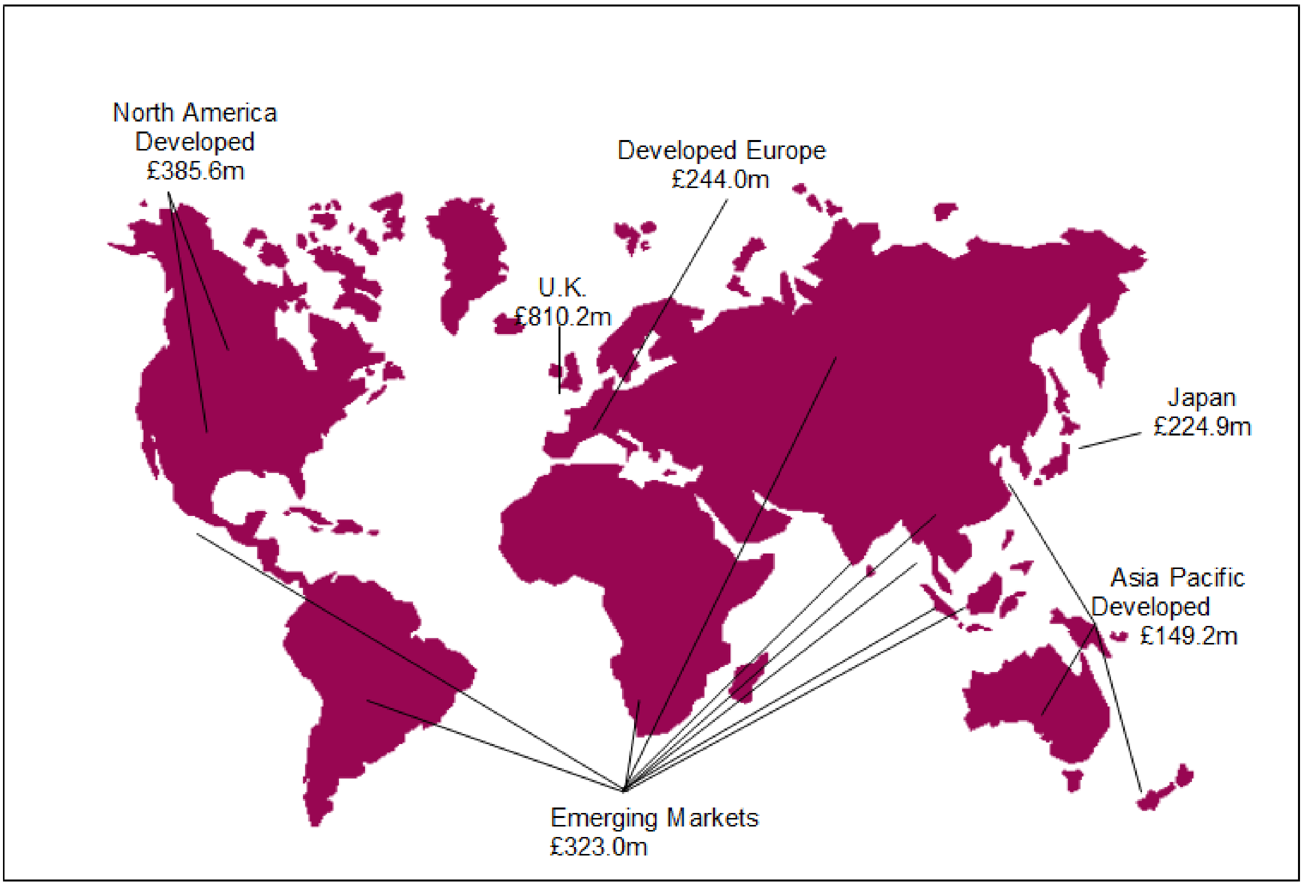


Figure 5 shows the geographical spread of investments (excluding cash, derivatives and global 'Alternative Indices' passive pooled investments):

Figure 5

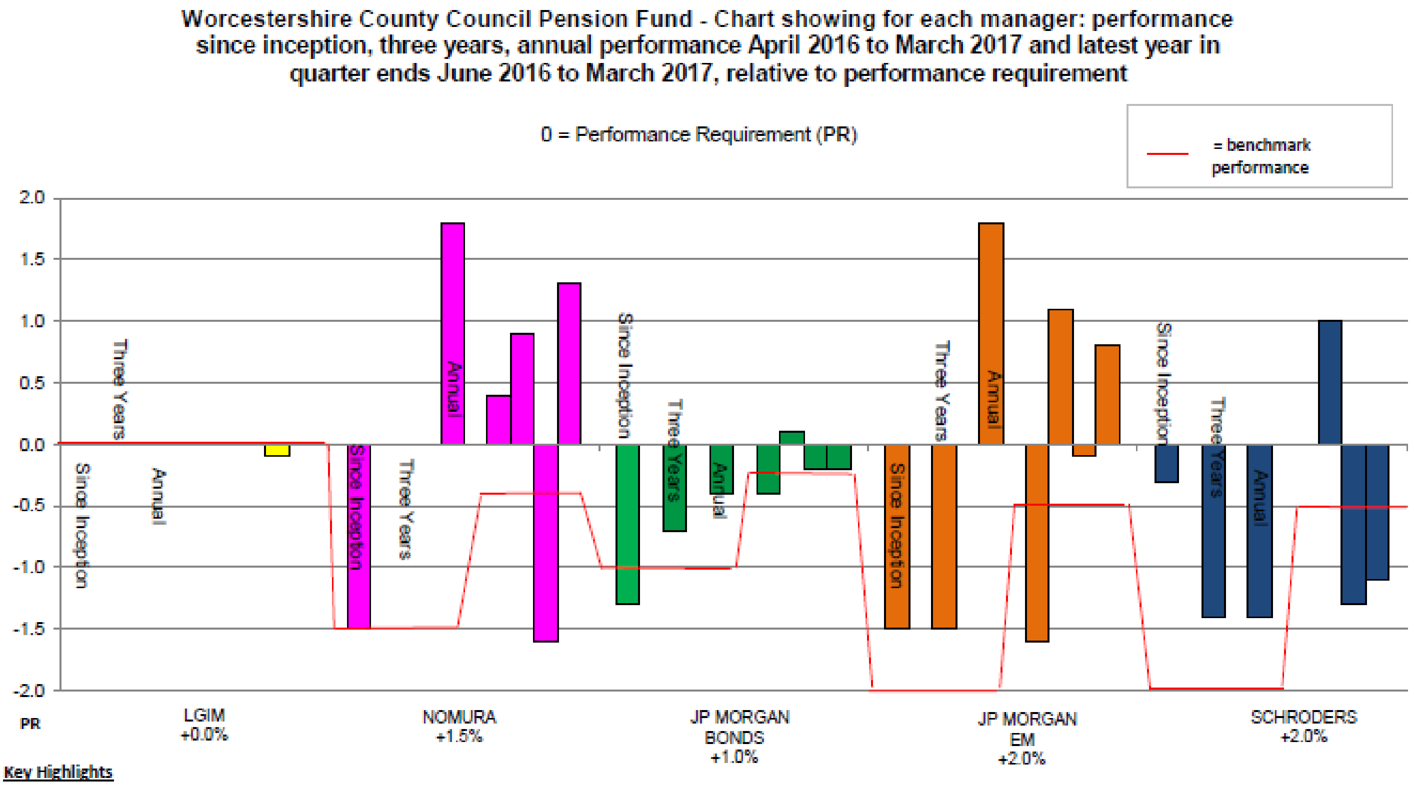


The Fund’s top ten equity holdings (excluding Pooled Funds) are as follows:

	Market Value at 31.3.17 £m	% of Fund Market Value at 31.3.17
National Australia Bank	15.2	0.6
Tencent Holdings	14.8	0.6
Westpac Banking Corp	11.7	0.5
Taiwan Semiconductor Manufacturing (A)	10.6	0.4
China Construction Bank Corp	10.3	0.4
BHP Billition	9.1	0.4
Itau Unibanco Holding	9.0	0.4
Sberbank of Russia	8.8	0.4
Samsung Electronics	8.7	0.4
Taiwan Semiconductor Manufacturing (B)	7.7	0.3

The total value of these ten holdings represents 4.4% of the whole Fund.

Performance results for the Fund's individual managers' are shown below;



Key Highlights

- The performance trend for Nomura and JP Morgan Bonds on a three year basis compared to since inception is positive. The annual return for Nomura is very strong, whilst JP Morgan Bonds continues only to provide a small outperformance against benchmark each quarter.
- JP Morgan Emerging Markets portfolio had strong performance in quarter 1 of 2017, which increased their one year return to above target, but remain behind target over the past three years and since inception.
- Schroders had a poor Q4 2016 and Q1 2017, which has contibuted to a significant one year and three year underperfomance against benchmark and target. However, since inception returns are still near target.

Report of the Financial Adviser

A vintage year

The Fund has enjoyed what can well be described as a "Vintage Year" over the 2016-17 accounting period. The total value of the Worcestershire County Council Pension Fund at 31 March 2017 was £2,453m, compared to £1,914m at the end of March 2016, an increase of 28%. The Fund outperformed its bespoke benchmark performance target over the last year by 2.0%. It would have been a brave person to have forecast such a significant increase in the value of the Fund a year ago. The Fund also outperformed its benchmark by 0.6% over 3 years and 0.3% over 5 years.

Over the course of the year equity markets moved steadily higher and higher, save for a relatively turbulent period during the first quarter, and initial "shock" falls after the Brexit vote in June and the Trump election win in November. For UK investors many share prices benefitted from the fall in Sterling following the Brexit vote, and also from the fact that the UK economy didn't collapse in the immediate aftermath, as had been forecast by the previous Chancellor of the Exchequer. After the US presidential election, attention focused on the potential benefits that the proposed corporate tax structure might bring. The Fund therefore benefitted from the relatively high exposure to equities, with a further boost from the active managers who in general performed well against their benchmarks. While the usual caution should apply to making comparisons to the performance of the wider Local Authority Fund universe, it is rather gratifying to see that against the Fund's measured return of 26.7%, the average performance of 60 LGPS Funds for 2016/17 was a return of 21.4%, as compiled by PIRC.

The main feature of the last year has been political shocks, which started off with what was at the time a totally unexpected outcome of the British EU referendum, which led to a change in Prime Minister and ultimately Article 50 of the Treaty of Lisbon being triggered, thus starting the process of the UK leaving the European Union. This will bring with it a period of uncertainty, as the details of that departure are negotiated over the next two years, with the implications probably being felt for a lot longer than that. Following on from that we had another outcome that the majority would not have forecast a year ago, namely the election of Donald Trump as the next President of the United States of America. During his election campaign he made a lot of radical noise, much of it via Twitter, thus bringing social media into main stream politics for the first time. Since his election the issue has been to see how much of that rhetoric would actually be converted into action, and how much "the system" would intervene to prevent or hinder that. While President Trump has indeed encountered obstacles domestically, his initial meetings with other world leaders have served to allay some fears about his position on trade and world security. Geopolitical unrest continued, focused mainly on the vile actions of the so called "Islamic State" in Syria and Iraq, but with terrorist acts occurring elsewhere in the world including Europe and the UK.

As foreshadowed in my last report, the Triennial valuation has duly been completed, which confirmed that the funding level had improved since the last valuation. As at 31 March 2016, this was at 76% (which is a measure of the Fund's assets against the liabilities). A strategy has been in place to reduce the deficit over time, with the objective to ultimately achieve a fully funded position (liabilities being matched by assets). The considerable increase in the value of the Fund over the year has enabled the funding level to improve to an estimated level of c.90%, based on the value of the assets at 31 March 2017, but with the liability measure as at 31 March 2016.

Following on from the Triennial valuation being completed, a strategic asset allocation review was undertaken. This is a normal procedure, which ensures that the Fund's assets continue to be managed in an appropriate way, so as to meet the current and future liabilities as defined in the valuation. The review also considered the requirements of the new Investment Strategy Statement, which replaced the Statement of Investment Principles from 1 April 2017.

The existing asset management arrangements were reviewed, with action plans developed that take into account the improvement in the funding level, alongside the now relatively high level of "risk" assets, such as public equities. The review has also considered that the management of the Fund assets will transfer to LGPS Central in April 2018, and the potential benefits that this should provide to the Fund in terms of greater expertise and resources.

The introduction of the use of some alternative benchmarks for the management of part of the passive equity allocation in 2013 has been successful in enhancing performance, so a review of the mix of the alternative strategies used will be undertaken, with a view to increasing the allocation.

A decision was also taken to increase the allocation to Alternatives (including Property), to enable greater diversity of investments by type and by vintage, which will include provision for reinvestment of distributions on a more flexible basis. The significant increase in the value of risk assets provides a timely opportunity to switch some of those into "real" assets, such as real estate and infrastructure investments. Although less liquid, these investments tend to be less volatile, particularly when equity markets are falling.

A further review of regional asset allocations will take place before the transfer to LGPS Central, with the expectation being that the Pool will review the management arrangements for those assets, particularly for the active mandates.

As the clock ticks down towards the implementation of LGPS Fund Pooling on 1 April 2018, it is worth confirming that while the management of the Fund assets would become the responsibility of LGPS Central, the responsibility for deciding on asset allocation will remain with the individual Funds, as will the responsibility for meeting their liabilities. The member Funds are Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire, with combined assets under management of over £35bn.

Risk Management

The Pension Fund is subject to many different risks in areas such as; governance, investments, funding, administration and communications. In order to manage these risks a Pension Fund Risk Register is maintained and reviewed on a quarterly basis. Risks identified have been reduced to an acceptable level through planned actions. The register is managed by the Chief Financial Officer and risks have been identified and assigned to 'Risk Owners'.

The key risks identified within the Pension Fund risk register are as follows;

Objectives area at risk	Objective at risk	Description of risk or not achieving the objectives	Risk Category	Risk Type	Gross Risk Score	Actions Taken	Residual Risk Score
Investments	To maximise the returns from investments with reasonable risk parameters.	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	12	Diversified portfolio, annual strategy review, asset liability study, option to extend recovery periods to smooth contribution increases.	9
Investments	To maximise the returns from investments with reasonable risk parameters.	If investment strategy is inconsistent with funding plan then it can lead to employers paying the incorrect contribution rate.	Directorate Threat	Financial / Reputational	12	Triennial reviews linked with funding strategy and investment strategy. Asset liability study, ISS, interim reviews, Co-ordination between actuary and investment consultant.	2
Funding	To determine employer contribution requirements recognising the desirability of maintaining as nearly constant employer contributions as possible.	Mismatch in asset returns and liability movements result in increased employer contributions.	Strategic Threat	Financial / Reputational	12	Diversified investment structure and frequent monitoring against targets to adjust funding plans accordingly through the FSS. Employers are kept informed as appropriate.	6
Administration	Deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need.	Failure to administer scheme in line with regulations and policies.	Directorate threat	Regulatory Compliance/Reputational	12	Scheme administration and communication is reviewed by the Worcestershire County Council Pension Board to ensure compliance with regulations. A review of pension administration resources is being undertaken in 2017/17 to ensure sufficient resources are in place to meet scheme administration requirements.	3

The nature and extent of risks arising from Financial Instruments are detailed in note 15 of the Pension Fund Accounts.

2. Worcestershire County Council Pension Fund Account

For the year ended 31 March 2017

2015/16 £m		Notes	2016/17 £m
	Dealings with members, employers and others directly involved in the fund		
104.3	Contributions	5	107.8
5.4	Transfers in from other pension funds	6	8.0
109.7			**115.8**
(93.9)	Benefits	7	(95.5)
(7.3)	Payments to and on account of leavers	8	(7.0)
(101.2)			**(102.5)**
8.5	**Net additions / (Withdrawals) from dealings with members**		**13.3**
(1.2)	Administrative expenses	9	**(1.0)**
(6.8)	Management expenses	10	**(7.2)**
0.5	**Net additions / (Withdrawals) including fund management and administrative expenses**		**5.1**
	Returns on investments		
40.0	Investment income	11	30.4
(1.9)	Taxes on income	12	(1.0)
(73.6)	Profit and losses on disposal of investments and changes in the market value of investments	13a	494.1
(35.5)	**Net return on investments**		**523.5**
(35.0)	**Net increase / (decrease) in the net assets available for benefits during the year**		**528.6**
1,987.3	**Opening fund net assets of the scheme**		**1,952.3**
1,952.3	**Closing fund net assets of the scheme**		**2,480.9**

3. Net Assets Statement for the year ended 31 March 2017

2015/16 £m		Notes	2016/17 £m
0.0	Long term Investment Assets	13	0.1
1,918.4	Investment Assets	13	2,453.4
20.0	Cash deposits	13	22.4
1,938.4			**2,475.9**
(5.6)	Investment Liabilities	13	(5.2)
21.2	Current Assets	16	12.0
2.2	Non Current Assets	17	1.4
(3.9)	Current Liabilities	18	(3.2)
1,952.3	**Net Assets of the fund available to fund benefits at the period end**		**2,480.9**

The Financial Statements do not take into account liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits (determined in accordance with IAS 19) are disclosed in the Actuarial Statement included in the Pension Fund Annual Report and note 2 to the accounts.

4. Notes to the Pension Fund Accounts

1. Description of Fund

a) General

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

In matters relating to the management of the Fund's assets the Pension Committee is advised in relation to asset allocation decisions and the monitoring of external managers' performance by the Pension Investment Advisory Panel, which includes an independent financial adviser and the scheme manager. The Pension Committee consists of County Councillors and an Employer and Employee Representative. Formal monitoring takes place on a quarterly basis through meetings with investment managers to discuss their performance. Asset allocation is reviewed at least annually and pension administration issues are to be discussed quarterly at the Pension Administration Advisory Forum with any resulting recommendations considered by the Pension Committee.

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

b) Membership

A list of scheduled and admitted bodies contributing to the Fund is given in Note 25 to these accounts.

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Worcestershire County Council Pension Fund include:

- Scheduled bodies, which are the local authorities and similar bodies whose staff are automatically entitled to be members of the fund.
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 194 employer organisations within the Worcestershire County Council Pension Fund including Worcestershire County Council.

The following table provides detail of fund membership:

	31 March 2016	31 March 2017
Contributors to the fund		
County Council	8,049	8,049
Other employers	14,648	14,259
Total	**22,697**	**22,308**
Pensions paid		
County Council	4,473	4,721
Other employers	11,880	12,197
Total	**16,353**	**16,918**
Deferred members		
County Council	8,142	8,307
Other employers	10,629	11,663
Total	**18,771**	**19,970**
Total number of members in the fund	**57,821**	**59,196**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending March 2017. Employee contributions are matched by employers' contributions which are set based on triennial funding valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 5.5% to 41.9% of pensionable pay. The common 2016/17 employer contribution rate for the fund is 15.3%. In order to ensure employer contribution increases, required by the fund's actuary following the 31st March 2013 actuarial valuation, remained affordable, the administering authority agreed with employers to phase in any increases in their Secondary rate over a period of up to 6 years.

d) Pension Benefits

Benefits payable from the fund are governed by the Superannuation Act 1972, the Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendments) Regulations 2014.

Retirement Benefits

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is up-rated annually in line with the Consumer Price Index. Members in the 50/50 option build up a pension of a 98th of the pay received during that year, which is again protected against inflation.

Ill health pensions can be awarded based on one of three tiers for those that satisfy the scheme's criteria for permanent incapacity. Those in the 50/50 option have full ill-heath and death cover.

Membership that was built up before 1 April 2014 continues to provide benefits as it did at the time. Membership from 1 April 2008 to 31 March 2014 provides final salary pensions based on 60ths. Membership before that also provides final salary benefits based on 80ths. Members can normally exchange some annual pension for a larger lump sum at the rate of 1:12, i.e. every £1 of annual pension given up in exchange for £12 lump sum. HMRC limits apply.

Generally a minimum of two years membership is required to draw retirement benefits.

Age of retirement

- Normal pension age is 65 or State pension age, whichever is the later, but can be paid earlier:
- Pension benefits are payable at any age if awarded due to ill health
- Members may retire with unreduced benefits from age 55 onwards if their retirement is on the grounds of redundancy or business efficiency
- Members who have left employment may request payment of benefits from age 55 onwards, but actuarial reductions may apply where benefits come into payment before normal retirement age. Employer consent is required for members who left prior to 1 April 2014.
- Members who remain in employment may also ask to retire flexibly from age 55 onwards if they reduce their hours of work or grade. Employer consent is required and actuarial reductions may apply
- Payment of benefits may be delayed beyond normal pension age but only up to age 75.

There are also various protections regarding membership that are linked to earlier normal retirement ages that applied in earlier versions of the scheme.

Death Benefits In service

A lump sum death grant is payable, normally equivalent to three years assumed pay. The Administering authority has absolute discretion over the distribution of this lump sum among the deceased's relatives, dependants, personal representatives or nominees. Pensions may also be payable to the member's spouse, civil partner, eligible cohabiting partner and eligible children.

After retirement

A death grant is payable if less than ten years pension has been paid and the pensioner is under age 75 at the date of death, the balance of ten years pension is paid as a lump sum. Pensions are also normally payable to the member's spouse, civil partner, eligible cohabiting partner and any eligible dependent children.

Cost of Living Increases

Career average pensions that are being built up and pensions in payment are increased annually to protect them from inflation. Pension increases are currently in line with the Consumer Prices Index (CPI). Where a member has a guaranteed minimum pension (which relates to membership during SERPS prior to 5 April 1997) some of the pension increase may be paid with the State Pension.

Leaving before pension age

Members leaving before becoming entitled to receive pension benefits can apply for a refund of pension contributions paid if their scheme membership is less than two years. Members with more than two years membership have the option to defer their benefits in the fund until normal retirement age or transfer their benefits to another pension scheme.

Further details regarding LGPS benefits can be found at: www.worcestershire.gov.uk/pensions or Email: pensions@worcestershire.gov.uk

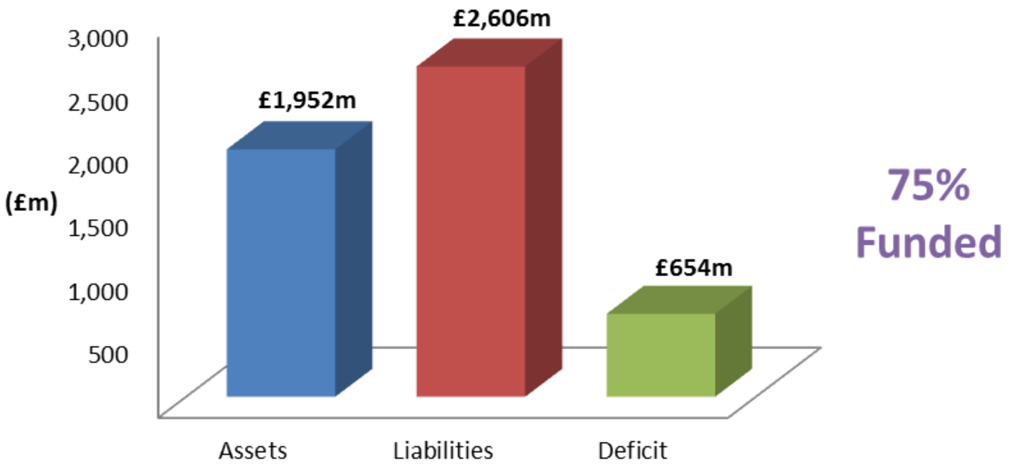
2. Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2017 - STATEMENT BY THE CONSULTING ACTUARY

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

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

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



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

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

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period adopted is 18 years, and the total initial recovery payment (the "Secondary rate") for 2017/18 is approximately £34 million. This amount makes allowance for some employers to phase in any increases in their Secondary rate over a period of up to 6 years. For all other employers, their Secondary rate will increase at 3.7% per annum. Finally, some employers have opted to prepay their Secondary rate, either on an annual basis each April or by paying all 3 years' total amount in April 2017. In each case, that contribution is discounted to reflect its earlier payment.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2017.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

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

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

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

The assets were assessed at market value.

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

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

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

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 3.6% p.a. rather than the rate as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2016 was £3,010 million.

Ian Kirk
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2017

3. Pension Fund Investments 2016/17

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

External Fund Manager	31 March 2016 £m	%	31 March 2017 £m	%
JP Morgan Asset Management (Bonds)	131.2	7	136.5	5
JP Morgan Asset Management (Emerging Markets)	109.9	6	153.0	6
Capital International Ltd	179.5	9	0.0	0
Nomura Asset Management UK Ltd	287.1	15	390.4	16
Schroder Investment Management	119.1	6	163.0	7
Legal and General Asset Management	933.4	49	1,412.2	57
Green Investment Bank	34.2	2	49.4	2
Hermes	38.0	2	49.2	2
Invesco	61.0	3	66.7	3
VENN	22.8	1	22.9	1
Walton Street	4.4	0	13.6	1
WCC Managed Account	8.1	0	8.4	0
	1,928.7	**100**	**2,465.3**	**100**

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

Security	Market value 31 March 2016 £m	% of total fund	Market value 31 March 2017 £m	% of total fund
LGIM – UK Equity Index Pooled Fund	545.7	28.2	667.9	27.1
LGIM – North America Index Pooled Fund	33.7	1.7	289.3	11.7
LGIM – Europe (ex-UK) Index Pooled Fund	114.9	6.0	147.2	6.0

The Fund operates the practice of lending stock to a third party for a financial consideration.

Securities released to a third party under the stock lending agreement with the Fund's custodian, BNY Mellon, are included in the net assets statement to reflect the Fund's continuing economic interest of a proprietorial nature in those securities.

The total amount of stock lent at the year-end was £27.8million (2016 £15.3million). Counterparty risk is managed through holding collateral at the fund's custodian bank. The total collateral, which consisted of acceptable corporate and sovereign debt as well as equities was £29.5million (2016 £16.2million) representing 106% of stock lent.

Income received from stock lending activities was £0.1million for the year ending 31 March 2017 (2016 £0.1million). This is included within the 'Investment Income' figure detailed on the Pension Fund Account.

Stock lending commissions are remitted to the fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stocks are passed to the borrower.

There are no liabilities associated with the loaned assets.

4. Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Chief Financial Officer on 2nd June 2017. These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Events taking place after this date are not reflected in the financial statements or notes. There are no material events that have occurred after the balance sheet date of 31st March 2017.

5. Contributions Receivable

By category:

		2015/16 £m	2016/17 £m
Employers			
	Normal contributions	45.6	46.3
	Deficit recovery contributions	33.5	36.8
	Augmentation contributions	3.5	2.7
Employees			
	Normal contributions	21.3	21.6
	Additional contributions	0.4	0.4
		104.3	**107.8**

By authority:

	2015/16 £m	2016/17 £m
Worcestershire County Council	31.3	30.8
Scheduled bodies*	60.1	62.0
Community admission bodies	7.8	5.5
Transferee admission bodies	4.6	8.7
Designated bodies	0.5	0.8
	104.3	**107.8**

* The increase in Scheduled Bodies' contributions is mainly a result of the maintained schools converting to Academies during 2016/17. Maintained schools are included within Worcestershire County Council's contributions, whilst Academies are Scheduled bodies in the Fund.

6. Transfers in and from other Pension Funds

	2015/16 £m	2016/17 £m
Individual transfers	5.4	8.0
	5.4	**8.0**

7. Benefits Payable

By category:

	2015/16 £m	2016/17 £m
Pensions	75.0	77.3
Commutations and lump sum retirement benefits	17.1	16.0
Lump sum death benefits	1.8	2.2
	93.9	**95.5**

By authority:

	2015/16 £m	2016/17 £m
Worcestershire County Council	37.8	36.1
Scheduled bodies	47.0	48.4
Admitted bodies	1.7	1.6
Community admission bodies	4.7	6.2
Transferee admission bodies	2.2	2.7
Designated bodies	0.5	0.5
	93.9	**95.5**

8. Payments to and on Account of Leavers

	2015/16 £m	2016/17 £m
Individual transfers	6.1	7.0
Group transfers	1.2	0.0
	7.3	**7.0**

At year-end there are potential liabilities of £0.2 million in respect of individuals transferring out of the Pension Fund upon whom the fund is awaiting final decisions.

9. Administrative Expenses

	2015/16 £m	2016/17 £m
Employee expenses	0.4	0.5
Support services	0.3	0.1
Actuarial services	0.2	0.2
Other expenses	0.3	0.2
	1.2	**1.0**

The audit fee for work completed by the Fund's external auditors for the year ended 31st March 2017 was £26,156 (£26,156 for the year ended 31st March 2016).

10. Management Expenses

	2015/16 £m	2016/17 £m
Oversight and Governance	0.1	0.1
Investment Management Expenses		
Administration, management and custody fees*	6.5	7.0
Other expenses	0.2	0.1
	6.8	**7.2**

10 a. Investment Management Expenses

	2015/16 £m	2016/17 £m
Management fees	5.3	5.6
Custody fees	0.4	0.3
Transaction costs	1.0	1.2
	6.7	**7.1**

The £7.2m management expenses incurred in 2016/17 represent 0.29% or 29bps of the market value of the fund's assets as at 31st March 2017 (0.35% or 35bps 31st March 2016). The increase in management expenses is mainly due to the addition of pooled property investments and pooled infrastructure investments to the fund's portfolio and the increase in the Fund's equities market value resulting in an increase in investment management fees that are based on the value of assets under management. The decrease in investment management fees as a percentage of the Fund's market value is mainly due to the reduction in active management of the Fund's equities in favour of passive management combined with negotiated investment management fee reductions. No performance related fees were paid by the fund in 2016/17 or 2015/16.

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

* The Fund has applied CIPFA's guidance 'Accounting for Local Government Pension Scheme Management Costs', which requires external investment management fees and transaction costs to be deducted from asset values (rather than invoiced and paid directly). These are shown gross: the application of the guidance increases management expenses from £5.1 million to £7.2 million for 2016/17 (£5.7 million to £6.7 million 2015/16). It is important to note that the application of the guidance does not represent an actual increase in costs, nor a decrease in the Fund's resources to pay pension benefits.

11. Investment Income

	2015/16 £m	2016/17 £m
Fixed interest securities	4.3	4.2
Equity dividends*	32.5	18.4
Pooled Property investments	0.7	4.6
Pooled Infrastructure investments	1.6	2.9
Interest on cash deposits	0.8	0.2
Securities lending	0.1	0.1
	40.0	**30.4**

* The reduction in equity dividends is due to the transition of North America equity investments from active management to passive management during 2016/17. The investment income associated with the passive managed pooled funds is retained within the pooled funds and reinvested increasing the value of the pooled funds' units.

12. Taxes on Income

	2015/16 £m	2016/17 £m
Withholding tax - equities	(1.9)	(1.0)
	(1.9)	**(1.0)**

13. Investments

	Market value 31 March 2016 £m	Market Value 31 March 2017 £m
Long term Investment Assets		
LGPS Central –AFIM	0.0	0.1
Investment assets		
Fixed interest securities	119.5	130.7
Equities	679.7	678.9
Pooled investment vehicles	947.8	1,434.9
Pooled property investments	88.2	101.5
Pooled Infrastructure investments	72.2	98.6
Derivatives - futures	0.0	0.1
Derivatives - forward FX	3.1	1.2
Cash deposits	20.0	22.4
Investment income due	4.1	5.3
Amounts receivable for sales	3.8	2.2
Total investment assets	**1,938.4**	**2,475.9**
Investment liabilities		
Derivatives - futures	(0.1)	(0.2)
Derivatives - forward FX	(0.5)	(0.2)
Amounts payable for purchases	(5.0)	(4.8)
Total investment liabilities	**(5.6)**	**(5.2)**
Net investment assets	**1,932.8**	**2,470.7**

13 a: Reconciliation of movements in investments and derivatives

-	Market value 31 March 2016 £m	Purchases during the year and derivative payments £m	Sales during the year and derivative receipts £m	Change in market value during the year £m	Market value 31 March 2017 £m
Long-term Investment Assets					
LGPS Central – AFIM	0.0	0.1	0.0	0.0	0.1
	0.0	**0.1**	**0.0**	**0.0**	**0.1**
Investment Assets					
Fixed interest securities	119.5	80.0	(85.5)	16.7	130.7
Equities	679.7	361.6	(534.8)	172.4	678.9
Pooled investment vehicles	947.8	360.2	(179.5)	306.4	1,434.9
Pooled Property investments	88.2	21.1	(16.1)	8.3	101.5
Pooled Infrastructure investments	72.2	27.3	(5.0)	4.1	98.6
	1,907.4	**850.2**	**(820.9)**	**507.9**	**2,444.6**
Derivative contracts:					
Futures	(0.1)	2.7	(2.9)	0.2	(0.1)
Forward currency contracts	2.6	30.7	(11.7)	(20.6)	1.0
	1,909.9	**883.6**	**(835.5)**	**487.5**	**2,445.6**
Other investment balances:					
Cash deposits	20.0			6.6	22.4
Investment income due	4.1				5.3
Amount receivable for sales of investments	3.8				2.2
Amounts payable for purchases of investments	(5.0)				(4.8)
Net investment assets	**1,932.8**			**494.1**	**2,470.7**

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

-	Market value 31 March 2015 £m	Purchases during the year and derivative payments restated £m	Sales during the year and derivative receipts £m	Change in market value during the year £m	Market value 31 March 2016 £m
Fixed interest securities	127.4	74.2	(83.8)	1.7	119.5
Equities	1,199.9	363.6	(801.5)	(82.3)	679.7
Pooled investment vehicles	623.3	954.1	(638.9)	9.3	947.8
Pooled Property investments	0.0	91.9	(5.7)	2.0	88.2
Pooled Infrastructure investments	0.0	89.7	(18.8)	1.3	72.2
	1,950.6	**1,573.5**	**(1,548.7)**	**(68.0)**	**1,907.4**
Derivative contracts:					
Futures	(0.1)	3.2	(2.7)	(0.5)	(0.1)
Forward currency contracts	(2.6)	20.5	(11.7)	(3.6)	2.6
	1,947.9	**1,597.2**	**(1,563.1)**	**(72.1)**	**1,909.9**
Other investment balances:					
Cash deposits	15.6			(1.5)	20.0
Investment income due	6.9				4.1
Amount receivable for sales of investments	2.4				3.8
Amounts payable for purchases of investments	(2.8)				(5.0)
Net investment assets	**1,970.0**			**(73.6)**	**1,932.8**

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

Transaction costs are not included in the cost of purchases and sale proceeds, as have been included in Investment Management Expenses, as per CIPFA guidance. Transaction costs include costs charged directly to the scheme such as fees, commissions, and other fees. Transaction costs incurred during the 2016/17 year amounted to £1.2 million, (2015/16 £0.9 million). These transaction costs represent 0.05% or 5bps of the Market Value of the Fund's assets as at 31st March 2017 (5bps at 31st March 2016).

Indirect costs are incurred through the bid-offer spread on investments within pooled investments vehicles. The amount of indirect costs is not separately provided to the scheme.

Note 13 b: Analysis of Investments (excluding derivative contracts, cash and other investment balances)

		31 March 2016 £m	31 March 2017 £m
Long term Investment Assets			
LGPS Central – AFIM		0.0	0.1
		0.0	**0.1**
Fixed interest securities			
UK corporate quoted		8.1	8.2
Overseas public sector quoted		0.0	0.0
Overseas corporate quoted		111.4	122.5
		119.5	**130.7**
Equities			
UK quoted		14.2	12.5
Overseas quoted		665.5	666.4
		679.7	**678.9**
Pooled Investment Vehicles			
Other UK managed funds	– UK equities	545.7	667.9
	– Overseas equities	148.6	436.5
	– Global equities	239.1	307.8
Other overseas managed funds	– Overseas equities	14.4	22.7
		947.8	**1,434.9**
Pooled Funds - Additional Analysis			
Pooled property investments - UK		22.8	23.0
Pooled property investments - overseas		65.4	78.5
		88.2	**101.5**
Pooled Infrastructure investments - UK		72.2	98.6
		72.2	**98.6**
Derivatives - futures		0.0	0.1
Derivatives - forward FX		3.1	1.2
Cash deposits		20.0	22.4
Investment income due		4.1	5.3
Amounts receivable for sales		3.8	2.2
Total investment assets		**1,938.4**	**2,475.9**
Investment liabilities			
Derivatives - futures		(0.1)	(0.2)
Derivatives - forward FX		(0.5)	(0.2)
Amounts payable for purchases		(5.0)	(4.8)
Total investment liabilities		**(5.6)**	**(5.2)**
Net investment assets		**1,932.8**	**2,470.7**

Analysis of derivatives

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge exposures to reduce risk in the fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement between the fund and investment managers.

a) Futures

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

b) Forward foreign currency

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

Futures

Outstanding exchange traded futures contracts are as follows:

Assets

Type of future	Expiration	Economic Exposure Value £m	Market Value 31 March 2016 £m	Economic Exposure Value £m	Market Value 31 March 2017 £m
UK gilt exchange traded	Less than one year	1.1	0.0	0.3	0.0
Overseas exchanged traded	Less than one year	9.3	0.0	29.4	0.1
Total assets			**0.0**		**0.1**

Liabilities

Type of future	Expiration	Economic Exposure Value £m	Market Value 31 March 2016 £m	Economic Exposure Value £m	Market Value 31 March 2017 £m
Overseas exchanged traded	Less than one year	0.5	(0.1)	(21.3)	(0.2)
Total liabilities			**(0.1)**		**(0.2)**
Net futures			**(0.1)**		**(0.1)**

Open forward currency Contracts as at 31 March 2017

Settlement	Currency Bought	Local Currency Value m	Currency Sold	Local Currency Value m	Asset Value £m	Liability Value £m
One to six months	EUR	36.5	GBP	31.4	0.1	
One to six months	USD	250.5	GBP	201.4	1.1	
One to six months	EUR	32.5	GBP	27.7		(0.1)
One to six months	GBP	0.8	EUR	0.9		0.0
One to six months	GBP	7.0	USD	0.9		(0.1)
One to six months	USD	0.8	GBP	0.6		(0.0)
					1.2	**(0.2)**
Net forward currency contracts at 31 March 2017						**1.0**
Prior year comparative:						
Open forward currency contracts at 31 March 2016					**3.1**	**(0.5)**
Net forward currency contracts at 31 March 2016						**(2.6)**

Analysis of Cash

Cash	**2015/16 £m**	**2016/17 £m**
Cash deposits	9.2	13.7
Cash instruments	10.8	8.7
	20.0	**22.4**

Note 14: Financial Instruments

Note 14 a: Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

Designated as fair value through profit and loss 31 March 2016	Loans and receivables 31 March 2016	Financial liabilities at amortised cost 31 March 2016		Designated as fair value through profit and loss 31 March 2017	Loans and receivables 31 March 2017	Financial liabilities at amortised cost 31 March 2017
£m	£m	£m		£m	£m	£m
			Financial assets			
119.5			Fixed interest securities	130.7		
679.7			Equities	678.9		
947.8			Pooled investment vehicles	1,434.9		
88.2			Pooled property investments	101.5		
72.2			Pooled Infrastructure investments	98.6		
0.0			Derivatives - Futures	0.1		
3.1			Derivatives - Forward FX	1.2		
	28.0		Cash		25.2	
7.9			Other investment Balances	7.5		
	13.2		Current assets		9.2	
	2.2		Non-current assets		1.4	
1,918.4	**43.4**	**0.0**		**2,453.4**	**35.8**	**0.0**
			Financial liabilities			
(0.1)			Derivatives - Futures	(0.2)		
(0.5)			Derivatives - Forward FX	(0.2)		
(5.0)			Other investment balances	(4.8)		
		(3.9)	Current liabilities			(3.2)
(5.6)	**0.0**	**(3.9)**		**(5.2)**	**0.0**	**(3.2)**
1,912.8	**43.4**	**(3.9)**		**2,448.2**	**35.8**	**(3.2)**

Note 14 b: Net gains and losses on financial instruments

31 March 2016 £m		31 March 2017 £m
	Financial assets	
(68.0)	Fair value through profit and loss	507.9
(1.5)	Loans and receivables	6.6
	Financial liabilities	
(4.1)	Fair value through profit and loss	(20.4)
(73.6)	**Total**	**494.1**

Fair value through profit and loss is the combination of realised and unrealised profit and loss. The large increase, following on from previous decrease is a result of volatility in global equity markets since 2015/16 and the decrease in the value of Sterling resulting in an increase the value of the Fund's overseas investments when converted back to Sterling.

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

Note 14 c: Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed interest securities and quoted index linked securities.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

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

Level 3

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

Such instruments would include unquoted equity investments, pooled property investments and pooled infrastructure investments which are valued using various valuation techniques that require significant judgment in determining appropriate assumptions.

The following table provides an analysis of the financial assets and liabilities of the pension fund into levels 1 to 3, based on the level at which the fair value is observable:

Values at 31 March 2017	**Quoted market price** **Level 1** **£m**	**Using observable inputs** **Level 2** **£m**	**With significant unobservable inputs** **Level 3** **£m**	**£m**
Fair Value Financial assets				
Financial assets at fair value through profit and loss	817.1	1,436.2	200.1	2,453.4
Loans and receivables	35.8	0.0	0.0	35.8
Total fair value financial assets	**852.9**	**1,436.2**	**200.1**	**2,489.2**
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss	0.0	(5.2)	0.0	(5.2)
Total fair value financial liabilities	**0.0**	**(5.2)**	**0.0**	**(5.2)**
Net fair value financial assets	**852.9**	**1,431.0**	**200.1**	**2,484.0**

Values at 31 March 2016	Quoted market price Level 1 £m	Using observable inputs Level 2 £m	With significant unobservable inputs Level 3 £m	£m
Fair Value Financial assets				
Financial assets at fair value through profit and loss	807.1	950.9	160.4	1,918.4
Loans and receivables	43.4	0.0	0.0	43.4
Total fair value financial assets	**850.5**	**950.9**	**160.4**	**1,961.8**
Fair Value Financial Liabilities				
Financial liabilities at fair value through profit and loss	(0.0)	(5.6)	(0.0)	(5.6)
Total fair value financial liabilities	**(0.0)**	**(5.6)**	**(0.0)**	**(5.6)**
Net fair value financial assets	**850.5**	**945.3**	**160.4**	**1,956.2**

Level 3 Investments: Further analysis

Sensitivity Analysis	Valuation range +/- %	Value as at 31st March 2017 £m	Valuation Increase £m	Valuation Decrease £m
Pooled Investments - Property Funds	7%	101.5	108.6	94.4
Pooled Investments - Infrastructure Funds	7%	98.6	105.5	91.7
Total		**200.1**	**214.1**	**186.1**

Investment Movement	Property £m	Infrastructure £m
Market Value 1st April 2016	88.2	72.2
Purchases and Payments	21.1	27.4
Sales	(15.2)	(5.1)
Unrealised gains/(losses)	7.1	2.3
Realised gains/(losses)	0.3	1.8
Market value 31st March 2017	**101.5**	**98.6**

Note 15: Nature and extent of Risks arising from Financial Instruments

In the course of every day operating, the Pension Fund is subject to a number of risk factors arising from the holding of financial instruments. The main risks arising from the holding of the Fund's financial instruments are market risk, credit risk and liquidity risk.

As detailed in the Pension Fund Investment Strategy Statement the Fund holds equity and bond instruments in order to meet the Fund's investment objectives. The Fund's investment objectives and risk management policies are as follows;

(1) The investment objective for the Fund is to:-
(a) ensure that sufficient assets are available to meet liabilities as they fall due;
(b) maximise the return at an acceptable level of risk.

(2) Risk management is mostly concerned with:
- avoiding the possibility of loss, or
- limiting a deficiency in the underlying Fund, or
- avoiding a contribution rate increase in the future.

Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund’s risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

There are three main types of market risk that the Fund is exposed to as at 31 March 2017:

- Equity Risk
- Interest Rate Risk
- Foreign Exchange Risk

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

The Fund reduces its unsystematic equity risk by diversifying investments across global markets, investing in over 1000 companies worldwide through active segregated mandates and passive pooled funds. Investment restrictions are built into contracts held with each investment manager to ensure risk concentration is minimal and gearing of the Fund's equity and fixed income assets cannot take place.

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

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

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

Equity risk analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's independent financial adviser and Portfolio Evaluation Ltd, the Fund has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period:

Asset Type	Potential Market Movements (+/-)
Fixed interest securities	3.4 %
UK equities	7.7 %
Overseas equities	12.8 %
UK pooled investment vehicle	7.7 %
Overseas pooled investment vehicle	12.8 %
Global pooled investment vehicle	12.2 %
Pooled property investments	5.0 %
Pooled Infrastructure investments	5.0 %

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

If the market price of the fund investments increases/decreases in line with the potential market movements above, the change in the net assets available to pay benefits will be as follows (the actual prior year movement in all asset classes is shown in note 13):

Asset Type	Value as at 31 March 2017	Percentage change	Value on increase	Value on decrease
	£m	%	£m	£m
Cash and cash equivalents	22.4	0.0%	22.4	22.4
Investment portfolio assets:				
UK fixed interest securities	8.2	3.4%	8.5	7.9
Overseas fixed interest securities	122.5	3.4%	126.7	118.3
UK equities	12.5	7.7%	13.5	11.5
Overseas equities	666.4	12.8%	751.7	581.1
UK pooled investment vehicle	667.9	7.7%	719.3	616.5
Overseas pooled investment vehicle	459.2	12.8%	518.0	400.4
Global pooled investment vehicle	307.8	12.2%	345.4	270.2
Pooled property investments	101.5	5.0%	106.6	96.4
Pooled Infrastructure investments	98.6	5.0%	103.5	93.7
Net derivative assets	0.9	0.0%	0.9	0.9
Investment income due	5.3	0.0%	5.3	5.3
Amounts receivable for sales	2.2	0.0%	2.2	2.2
Amount payable for purchases	(4.8)	0.0%	(4.8)	(4.8)
Total	**2,470.6**		**2,719.2**	**2,222.0**

Interest rate risk analysis

The fund's direct exposure to interest rate movements as at 31 March 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	Value as at 31 March 2016	Value as at 31 March 2017
	£m	£m
Cash and cash equivalents	20.0	22.4
Cash balances	8.0	2.8
Fixed interest securities	119.5	130.7
Total	**147.5**	**155.9**

Interest rate risk sensitivity analysis

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

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits as at 31 March 2017 of a +/- 100 Basis Points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2017	Change in year in the net assets available to pay benefits	
		+ 100 BPS	- 100 BPS
	£m	£m	£m
Cash and cash equivalents	22.4	22.6	22.2
Cash balances	2.8	2.8	2.8
Fixed interest securities	130.7	132.0	129.4
Total change in assets available	**155.9**	**157.4**	**154.4**

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

Currency Risk

The following table summarises the fund's currency exposure as at 31 March 2017 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 2016	Asset value as at 31 March 2017
	£m	£m
Overseas quoted securities	665.5	666.4
Overseas pooled investment vehicle	163.0	459.2
Global pooled investment vehicle	239.1	307.8
Overseas pooled property investments	65.4	78.5
Total overseas assets	**1,133.0**	**1,511.9**

Overseas bonds are 100% hedged to GBP at 31 March 2017.

Currency Risk – Sensitivity analysis

Following analysis of historical data in consultation with the fund's performance measurement provider, the Council considers the likely volatility associated with foreign exchange rate movements to be 7.6% (as measured by one standard deviation).

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

A 7.6% strengthening/weakening of the pound against various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 2017	Change to net assets available to pay benefits	
		+ 7.6%	-7.6 %
	£m	£m	£m
Overseas quoted securities	666.4	717.0	615.8
Overseas pooled investment vehicle	459.2	494.1	424.3
Global pooled investment vehicle	307.8	331.2	284.4
Overseas pooled property investments	78.5	84.5	72.5
Total change in assets available	**1,511.9**	**1,626.8**	**1,397.0**

Credit Risk

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

The bond manager provides a quarterly investment report to the Fund, which details the credit risk held in the portfolio. The Fund's Independent Financial Adviser also provides a yearly report to the Pension Investment Advisory Panel, providing details of the Fund's bond portfolio absolute and relative risk.
Deposits are not made with banks and financial institutions unless they are rated independently and have a strong credit rating. In addition, the council invests an agreed percentage of its funds in the money markets to provide diversification. Money market funds chosen all have an 'AAA' rating from a leading rating agency.

The fund's cash holding at 31 March 2017 was £25.2million (31 March 2016: £28.0million). This was held with the following institutions:

Summary	Rating	Balances as at 31 March 2016	Balances as at 31 March 2017
		£m	£m
Money market funds			
BNY Mellon Sterling Liquidity Fund	AAA	0.5	0.2
BNY Mellon US Dollar Liquid Fund	AAA	5.5	4.5
BNY Mellon US Dollar	AAA	0.0	0.0
JPM liq-ster Liquidity-x	AAA	3.3	2.3
JPM liq-USD Liquidity-XDI	AAA	1.5	1.7
Bank deposit accounts			
The Bank of New York Mellon	A-1+	9.2	13.7
Bank current accounts			
Barclays Bank PLC	A-2	8.0	2.8
Total		**28.0**	**25.2**

Liquidity Risk

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

All financial liabilities at 31 March 2017 are due within one year.

Note 16: Current assets

	2015/16	2016/17
	£m	**£m**
Contributions due from employer in respect of:		
Employer	6.8	5.0
Members	1.7	1.8
Magistrates Courts Bulk Transfer Payment Due	0.7	0.7
Augmentation	3.5	1.2
Cash balances	8.0	2.8
Other Debtors	0.5	0.5
	21.2	**12.0**

Note 17: Non-current assets

	2015/16	2016/17
	£m	**£m**
Magistrates Courts Bulk Transfer Payment Due	2.0	1.3
Augmentation	0.2	0.1
	2.2	**1.4**

Note 18: Current liabilities

	2015/16	2016/17
	£m	**£m**
Investment management expenses	(0.9)	(1.3)
Payroll and external vendors	(1.8)	(1.5)
Other expenses	(1.2)	(0.4)
	(3.9)	**(3.2)**

Note 19: Analysis of debtors and creditors

Analysis of debtors

	31 March 2016 £m	31 March 2017 £m
Central government bodies	2.7	2.0
Other local authorities	5.8	5.6
Other entities and individuals	6.9	3.0
	15.4	**10.6**

Analysis of creditors

	31 March 2016 £m	31 March 2017 £m
Central government bodies	(0.9)	(1.3)
Other local authorities	(1.8)	(1.5)
Other entities and individuals	(1.2)	(0.4)
	(3.9)	**(3.2)**

20. Related Party Transactions

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

The Council incurred costs of £1.1 million in 2016/17 (2015/16: £1.1 million) in relation to the administration of the fund and was subsequently reimbursed by the fund for these expenses. The council is also the single largest employer of members of the pension fund and contributed £29.9 million to the fund in 2016/17 (2015/16: £31.3 million).

Scheduled, Admitted and Resolution bodies of the Fund are also related parties and are listed in note 25 to the accounts. Transactions with these bodies are disclosed on an aggregate basis in notes 5, 7, 16, 17, 18 and 19 to the accounts.

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

	2015/16 £000	2016/17 £000
Short term benefits*	44	46
Long term/ post-retirement benefits**	247	364
	291	**410**

*This is the pensions element of short term remuneration for key management personnel, i.e. annual salary, benefits in kind and employer contributions
**This is the accrued pension benefits assessed on assumptions consistent with those used for Worcestershire County Council's IAS19 figures as at 31 March 2016 and 31 March 2017.

Governance
The Pensions Committee Employer Representative and Employee Representative are active members of the Fund.

21. Contingent liabilities

Outstanding capital commitments (investments) at 31 March 2017 totalled £31.7 million (31 March 2016: £44.1 million).

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

22. Contingent assets

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

23. Additional voluntary contributions

The amounts administered under AVC arrangements during 2016/17 are as follows:

	2015/16 £m	2016/17 £m
Contributions received	0.2	0.1
Investments purchased	0.2	0.1
Change in market value	0.0	(0.1)
Retirement benefits paid or transferred	0.4	0.3

The combined value of the AVC funds at 31 March 2017 was £2.2 million, (31 March 2016 £3.0 million).

In accordance with Regulation 5(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 these amounts are not included in the Pension Fund Accounts but are disclosed as a note only.

24. Agency Services

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

	2015/16 £m	2016/17 £m
Payments on behalf of Herefordshire County Council	0.1	0.1
	0.1	**0.1**

25. Participating Employers of the Fund at 31 March 2017

Scheduled Bodies

Worcestershire County Council
Advance Trust/Vale of Evesham School
Ashperton Primary School Academy
Aspire Academy
Astwood Bank 1st School
Barrs Court Special School & College
Bengeworth First School
Bishop Perowne Academy
Bredon Hill Middle
Brockhampton Academy
Bromsgrove District Council
Brookfield School
Building Control
Burghill Community Primary School
Burley Gate Primary
Canon Pyon Academy
Marden Primary School Academy
Matchborough First
Mordiford Academy
N E W College
Newbridge Advance Trust
Nunnery Wood Academy
Oasis Community Learning (Warndon Primary)
Our Lady of Lourdes Academy
Perry Wood Prim & Nursery(Griffin Sch T)
Pershore Academy
Prince Henry's High School
Probation
Queen Elizabeth Academy
Reach Assisted Living
Redditch Borough Council
Redditch RSA Academies Trust

Chantry Academy
Christopher Whitehead Academy
ContinU Plus
Crabbs Cross
Diocese of Worcs MAT
Droitwich Academy
Dyson Perrins Academy
Farifield High School
Gorse Hill Academies
Great Malvern Academy
Great Witley Primary
H & W Community Council
H & W Fire Authority
Hanley Castle Academy
Haybridge Academy
Hereford Accademy
Hereford College of Art
Hereford College of Technology
Hereford Marches Fed of Academies
Hereford Sixth Form College
Hereford Steiner Academy
Herefordshire (unitary)
HIBOS
Holmer Primary School
Honeybourne Primary Academy
Ipsley CE RSA Academy
John Kyrle High & 6th Form
John Masefield High School & Sixth Academy
Joint Museum Shared Services
Kidderminster College of F E
King Charles Academy
Kingfisher Academy
Kingstone High School
Lady Hawkins Academy
Lickhill Academy
Llangrove Academy
Lugwardine Academy
Malvern Hills District Council
Malvern the Chase Academy
Regency High School
Regulatory Services (Broms)
Ridgeway Academy
Riversides Academy
Robert Owen Free School Academy
Somers Park Academy
South Bromsgrove High School - Academy
South Worcestershire Coll (Was Evesham & Malvern Hills College)
South Worcestershire ICT Shared Services
St John's CofE Middle
St Matthias Academy
St Michaels Primary
St Nicholas Owen Catholic Multi Academy Company
St Pauls C of E Academy
St Thomas Cantilupe Academy
Stourport Academy
Stretton Sugwas Academy
Suckley Academy
Tenbury academy
Tenbury High School
The Coppice Primary Academy
The Vaynor Academy
Trinity Academy
Tudor Grange
Tudor Grange Academy Redditch
University College Worcester
Valuation & Community Charge Tribunal
Walkwood Middle
Waseley Hills Academy
Webheath Academy
West Mercia Police & Crime Commissioner
West Mercia Police Authority
Whitecross Hereford
Woodfield Academy
Woodrush Academy
Worcester City Council
Worcester College of Technology
Worcester Sixth Form College
Worcestershire Hub
Wychavon District Council
Wyre Forest District Council

Community Bodies

Brightstripe - Cultural Health CIC
Bromsgrove District Housing Trust
Encore Enterprises
Festival Housing Group (formerly Partnership Housing
FCC Environment Services (UK)
Hereford Community Leisure Trust
Herefordshire Housing Association
Hoople LTD
Malvern Hills Conservators
Malvern Hills Outdoor Education Centre
Sports Partnership Hfds & Worcs
VESTIA Community Trust
Worcester Community Housing
Wychavon Leisure Community Association
Wyre Forest Comm. Assoc.

Transferee Bodies

4 children
Action for Children
Action for Children (Malvern Hills)
Addaction
Alliance in Partnership
Alliance in Partnership AS
Amey PLC
Arete
Aspens
ATEGI
Aztec Watersports
Babcock Training Ltd
Balfour Beatty (Living Places)
Bespoke Cleaning Services
Brandon Trust
Bromsgrove PFI
CAPITA (IBS Schools)
Catshill & North Marlbrook Parish Council
Civica - Ex Wychavon DC Tupe
CIVICA - WCC Hub
Cygnet Foods Ltd
Ewyas Harold Parich Council
Field Studies Council
Fortis Living
Freedom Leisure
Heart of Worcestershire College
Herecad Enterprises Ltd
Hewlett Packard ICT
Jacobs UK Ltd
Kemerton Parish Council
Liberata
Midland Heart
National Youth Advocacy Service
Place Partnership
Redcliffe Catering Ltd
Redditch & Bromsgrove NHS
Ringway
Shaw Homes Health Care
The Rivers Multi Academy Trust
Timberdine nursing
Worcester Community Trust
Wychavon Leisure (Bromsgrove)

Designated Bodies

Baxter College
Belbroughton parish council
Bewdley Woen Council
Bredon Parish Council
Broadway Parish Council
Colwall Parish council
Droitwich Town Council
Evesham Town Council
Hagley Parish Council
Hereford City Parish Council
Initial Facilities Service UK Ltd
Integral UK Ltd
Kempsey Parish Council
Kidderminster town council
Ledbury Town Council
Leominster Town Council
Malvern Town Council
Pershore Joint Burial Committee
Pershore Town Council
Rock Parish Council
Ross-on-Wye Town Council
Stourport Town Council
Upton-on-Severn T C
Wigmore High & Primary
Wythall Parish Council

26. Critical Judgements in Applying Accounting Policies

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

27. Assumptions made about the future and any other major sources of estimation uncertainty

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

The item in the notes to the accounts at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows:

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

5. Statement of Accounting Policies

This section provides a summary of the significant accounting policies and estimation techniques used in the preparation of Worcestershire County Council's Pension Fund accounts.

1. General

The statement of Accounts summarises the fund's transaction for the 2016/17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take into account of obligations to pay pensions and benefits which fall due after the end of the financial year.

2. Legislation

Where specific legislation regarding accounting treatment conflicts with the Council's own Accounting Policies, legislative requirements have been followed.

3. Contribution Income

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

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

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

4. Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

5. Investment Income

Income from equities (dividend income) is accounted for on the date stocks are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Income from fixed interest, cash and short-term deposits is accounted for on an accruals basis, using the effective interest rate of the financial institution as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Income from other investments is accounted for on an accruals basis.

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

6. Benefits Payable

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

7. Taxation

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

8. Management Expenses

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

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

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

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

The cost of obtaining investment advice from the fund's independent financial adviser is included in investment management charges.

All investment management expenses are accounted for on an accruals basis.

9. Administrative Expenses

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

10. Financial Assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised in the Fund Account.

The values of investments as shown in the Net Assets Statement have been determined as follows:

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

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

iii) Unquoted investments The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of delisted securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the council expects to receive on wind-up, less estimated realisation costs.
- Securities subject to takeover offer – the value of the consideration offered under the offer, less estimated realisation costs.
- Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
- Investments in unquoted listed partnerships are valued based on the fund’s share of the net assets in the limited partnership using the latest financial statements published by the respective fund managers in accordance with the *International Private Equity and Venture Capital Valuation Guidelines* 2012.

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

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

11. Foreign Currency transactions

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

12. Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

The value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

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

13. Cash and cash equivalents

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

14. Financial liabilities

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

15. Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and the relevant actuarial standards.

As permitted under the code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 2).

16. Contingent Assets and Contingent Liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

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

Contingent assets are not recognised in the financial statements, but are disclosed in note 22 to the accounts.

17. Additional voluntary contributions

The Worcestershire County Council Pension Fund provides an Additional Voluntary Contributions (AVC) scheme for its members. In 2016/17 some members of the pension scheme paid voluntary contributions and transfers to Scottish Widows and Equitable Life to buy extra pension benefits when they retire. Retirement benefits were also purchased during the year. The contributions are paid directly from scheme employers to the AVC provider. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 23).

Appendix 1

2016 Funding Strategy Statement (FSS)

The 2016 Funding Strategy Statement is available on the pensions section of the Worcestershire County Council website. A link to the report is included below:

http://www.worcestershire.gov.uk/pensions

Appendix 2

ACTUARIAL VALUATION AS AT 31 MARCH 2016

Method and assumptions used in calculating the funding target and recovery plan

Method

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

Financial assumptions

Investment return (discount rate)

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

Inflation (Consumer Prices Index)

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

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

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

Salary increases

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

Pension increases/Indexation of CARE benefits

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

Demographic assumptions

Mortality

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

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

Commutation

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

Other Demographics

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

Expenses

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

Discretionary Benefits

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

Method and assumptions used in calculating the cost of future accrual

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

As future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation and a slightly higher expected return from the investment strategy has been assumed. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

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

Employer Asset Shares

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

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

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

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

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the "normal cost") for the 2016 actuarial valuation

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

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation are as follows:

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

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

Appendix 3

**WORCESTERSHIRE COUNTY COUNCIL PENSION FUND –
INVESTMENT STRATEGY STATEMENT**

The current Investment Strategy Statement is available via this link:
http://www.worcestershire.gov.uk/downloads/file/8049/wcc_pension_fund_investment_strategy_statement_2017

Appendix 4

Policy Statement on Communication Strategy –awaiting update

1. Introduction

1.1 The Worcestershire County Council Pension Fund administers the Local Government Pension Scheme for its own employees and employees of 193 other Scheme Employers in the administrative area of Herefordshire and Worcestershire.

1.2 On 14 December 2005, the ODPM introduced amending regulations which now require the County Council, as Administering Authority for the Fund and after consultation with such persons as it considers appropriate, to prepare, maintain and publish a written statement setting out its policy on communications with

- members;
- representatives of members;
- prospective members; and
- employing authorities.

1.3 In particular, the statement must set out the Fund's policy on

i. the provision of information and publicity about the Scheme to members, representatives of members and employing authorities (including non-Scheme Employers);

ii. the format, frequency and method of distributing such information or publicity; and

iii. the promotion of the Scheme to prospective members and their employing authorities.

1.4 The County Council welcomes these regulatory developments as they support one of the Fund's key business objectives of developing clearer communications and providing a seamless service to individual members.

1.5 The Fund revises the Communications Policy Statement on a regular basis to ensure it reflects stakeholder needs and utilises any available advancements in technology. Our aim is to significantly develop our communications strategy over time. Comments on the document are very welcome and can be sent to the Pensions Section at the address below or by e-mail to pensions@worcestershire.gov.uk

1.6 In this Communication Policy Statement, we have set out how we will meet the needs of our customers in relation to communications. In doing so we will use the most appropriate and effective communications vehicle to provide information.

2. Communications Strategy

2.1 We strive to communicate effectively with all our internal and external stakeholders.

2.2 We will use clear and concise forms of communication appropriate to the enquiry received and which communicate technical issues without the use of technical jargon. We aim to provide a response to all requests in a timescale, which is appropriate to the enquirer and meets their information objectives.

2.3 To achieve successful and robust communications we have established clear aims for our communications strategy as shown below.

Communications Aims

Organisation & Culture

We have clear roles, responsibilities and accountability and an environment where staff are motivated, trained and confident to express themselves.

Staff Competency Development

Competency development plan linked to job needs and staff training needs.
Staff encouraged and supported to study for appropriate professional qualifications.
Achieved Investors in People and ensure continued compliance.

Procedures

Advance planning and implementation for known legislative/Scheme changes.
All procedures documented and meeting all disclosure and best practice standards within the industry.
Clear consistent documentation and letters in recognised plain English style.

Service standards

Document and publish a clearly defined Statement of Service standards that is aligned to the legal requirements and best practice standards.

2.4 We have grouped our key stakeholders together as shown below and this document goes on to discuss our approach to meeting each group's communication needs

- Fund Employers
- Fund Members (Current Employees, Pensioners and Deferred Members)
- Fund Administration
- External Advisers

3. Communications with Fund Employers

3.1 The Fund comprises of 194 employers whose employees are able to participate in the Local Government Pension Scheme including all the local authorities, the police and fire authorities (for non-uniformed staff), FE colleges, Parish Councils a range of voluntary sector bodies, academies and a number of private sector contractors who provide services to local authorities under Best Value arrangements. A full list of participating employers is shown in Note 25 to the Pension Fund Accounts.

3.2 The Fund's aim is to work with employers to define their information needs and expectations and to work with employers to meet those needs, recognising mutual dependencies where appropriate.

3.3 The Fund provides a range of employer communications shown below and our aim is to use the most appropriate communication medium for the employer receiving the information.

Description	***Service***
Website	The Fund website was launched in 2004. The address is; http://www.worcestershire.gov.uk/pensions It provides Scheme details, publications, contacts, and links to other organisations. The national website was launched in 2013. The address is www.lgpsregs.org It provides regularly updated and tracked guidance.
Employer Updates	Employers are informed in writing or electronically of all changes in legislation etc. and we aim to develop a website to provide employers with legislation, operational items and technical updates and support
Employer Reports	Membership and Benefits administration reports. Provided on request.

New Employer Training	Provision of Pensions Training for new employers. Ad hoc Meetings - to review operational issues
Pension Administration Forum	A bi-annual forum to discuss, manage and communicate to all Fund employers major strategic issues, legislation changes and funding matters
Scheme literature	A range of publications for use by employers and scheme members including the scheme booklet, additional information leaflets (e.g. added years) etc.
Administration Forms	Standard forms with guidance notes to notify Pension Section of key events affecting pension benefits.
Employer Representatives	Employer representatives take items for discussion to the Pensions Committee on behalf of employers.

3.4 We aim to continually develop all of the above communications in the light of employer requests and changes in legislation.

4. Communications with Fund Members

4.1 The Fund provides a broad range of information for scheme members (employees, Deferred Members and Pensioners) and will provide a quality, professional and efficient pension administration service as required within the Regulations.

4.2 Our aim is to provide a quality, professional and efficient pensions administration service, which delivers accurate and timely information to members either in response to their specific enquiries or through the Fund’s published information.

4.3 The following table summarises the main forms of communication we currently provide

Description	***Current Service***
Requests for information.	Provision of accurate, timely and informative details of the Local Government Pension Scheme and individual information to scheme members
Website	The Fund website was launched in November 2004. The address is; http://www.worcestershire.gov.uk/pensions It provides Scheme details, publications, contacts, and links to other organisations e.g. AVC providers. The national website for members was launched in 2013. The address is: hhtp://www.lgps2014.
Scheme Booklet	A guide to the Local Government Pension Scheme describing scheme benefits with explanatory notes is provided to all new members. Booklet is re-written to reflect legislation changes and is available on the website
Benefit Statements	Annual Benefit Statements are sent direct to members
Annual Reports and Accounts	A copy of the Funds Annual Report and Accounts is available to all Scheme members on request and is available on the website.
Pensions Presentations	The Fund attends and presents at employer sponsored pension seminars at employer’s request
Member Newsletter	The Fund provides an update on developments within the Scheme.
Member Representatives	Member representatives take items for discussion to the Pension Committee on behalf of members.

4.4 We aim to continually develop all of the above communications in the light of employer and member requests and changes in legislation

5. Communications within Fund Administration

5.1 The Pension Section, which is part of the Commercial and Change Directorate and reports to the Director of Commercial and Change, administers the Fund on a day-to-day basis.

5.2 An important part of the Fund's communication strategy is ensuring effective communications within the Pension Section. This is achieved in a number of ways.

Description	***Current Service***
Induction	All new members of staff attend Pension and County Council induction courses.
Training	Staff have individual Personal Development Plans and regular appraisals. They receive internal and where appropriate external training
Pensions Qualifications	All staff are encouraged and supported to obtain appropriate professional qualifications
Service Plan	The Pensions Section has an Operational Plan, which is actively managed and discussed in regular Team Meetings. The plan includes key performance indicators and progress against the plan is reviewed monthly
Pensions Management Team	Regular meetings to discuss strategic plans and operational issues
Section and Team Meetings	All members of staff attend regular Section and Team Meetings
Intranet	All Pensions staff have access to the intranet providing information on corporate issues.
Internet	Staff have access to the internet.
Email	All members of the Team have an individual email account allowing us to communicate efficiently and effectively
Networking	Staff meet regularly with neighbouring Local Authority Pension Funds to discuss current issues etc.
Partnership Working	We collaborate with other administering authorities throughout the year to produce key documents by sharing expertise and costs.
The Administration Advisory Panel	Meets twice yearly and provides a forum for all stakeholders to meet and discuss current and forthcoming issues..

6. Communications with Professional Advisers

6.1 The Fund employs professional advisers who provide, actuarial and investment management services

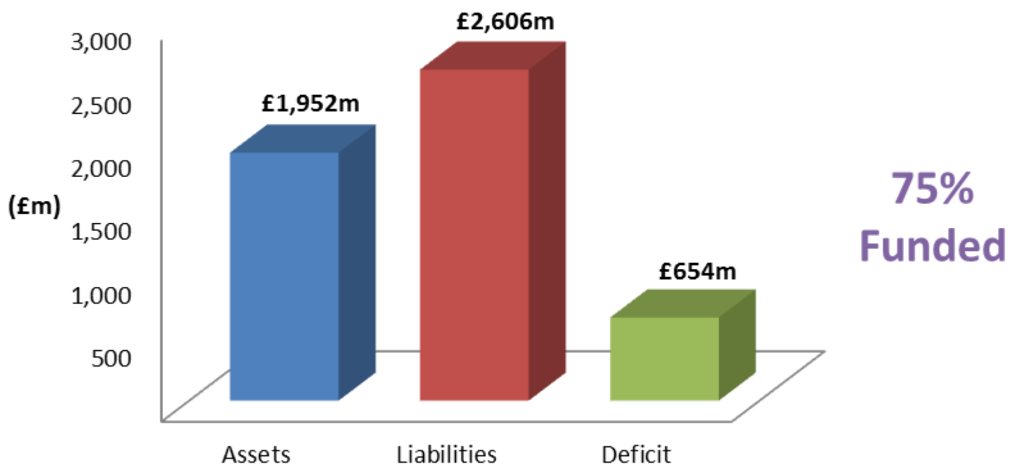
6.2 We work in partnership with these advisers to ensure the Scheme remains compliant and that advice sought is implemented in the interest of all Fund stakeholders.

Statement by the Consulting Actuary

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

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

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



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

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

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period adopted is 18 years, and the total initial recovery payment (the "Secondary rate") for 2017/18 is approximately £34 million. This amount makes allowance for some employers to phase in any increases in their Secondary rate over a period of up to 6 years. For all other employers, their Secondary rate will increase at 3.7% per annum. Finally, some employers have opted to prepay their Secondary rate, either on an annual basis each April or by paying all 3 years' total amount in April 2017. In each case, that contribution is discounted to reflect its earlier payment.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2017.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

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

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

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

The assets were assessed at market value.

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

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

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

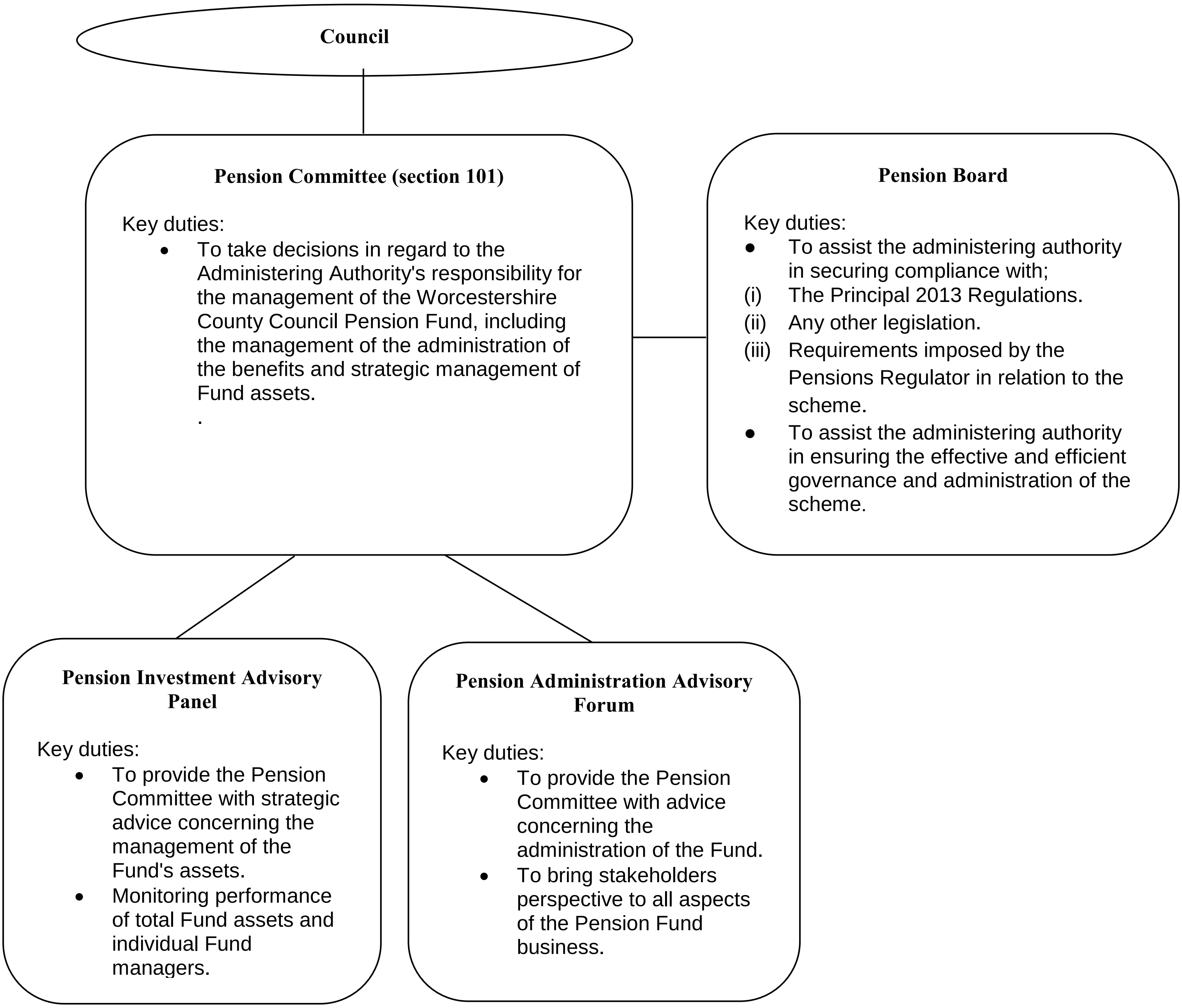
In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 3.6% p.a. rather than the rate as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2016 was £3,010 million.

Ian Kirk
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2017

Worcestershire County Council Pension Fund

Governance Policy Statement

Governance Structure



This statement has been prepared by Worcestershire County Council (the Administering Authority) to set out the governance policy strategy for the Worcestershire County Council Pension Fund (the Scheme), in accordance with Regulation 73A of the Local Government Pension Scheme Regulations 1997 (as amended).

1. Introduction

1.1 The Worcestershire County Council Pension Fund administers the Local Government Pension Scheme for its own employees and employees and those of over 190 other Scheme Employers in the administrative area of Herefordshire and Worcestershire, with 22,000 contributing members, 19,000 pensioners and beneficiaries and a further 16,000 deferred pensioners.

1.2 The Local Government Pension Scheme (Amendment) (no.2) Regulations 2005 SI 2005/3199 provides the statutory framework from which the Administering Authority is required to prepare a Fund Governance Statement. The regulations require that an Administering Authority after consultation with such persons as they consider appropriate, prepare, maintain and publish a written statement setting out:

- Whether the administering authority delegates their function or part of their function in relation to maintaining the pension fund to a committee, a sub-committee or an officer of the administering authority;
- The frequency of any committee or sub-committee meetings;
- The terms of reference, structure and operational procedures of the delegation;
- Whether the committee or sub-committee includes representatives of employing authorities (including non-scheme employers) or members, and if so, whether those representatives have voting rights.

1.3 This statement has been prepared by Worcestershire County Council in consultation with appropriate interested persons.

2. Administrative Arrangements

2.1 On 1 April 1998 Worcestershire County Council was constituted and vested, under section 16 of the Hereford and Worcester (Structural, Boundary and Electoral Changes) order 1996 (Statutory Instrument 1996 No 1867), with the rights and liabilities of the former pension fund Hereford and Worcester County Council. Therefore, the Council is the appropriate Administering Authority to maintain the Fund.

2.2 As the statutory Administering Authority and Scheme Manager for the Fund, Worcestershire County Council is responsible for ensuring effective stewardship of the Fund's affairs. Worcestershire County Council has established a Pension Committee to discharge the Council's responsibility for the management of the administration of the Fund.

2.3 Worcestershire County Council has also established a Pension Investment Advisory Panel to provide 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.

2.4 A Pension Administration Advisory Forum has also been established to provide wider stakeholder representation and communication in matters relating to the Fund. The Pension Committee has overall responsibility for the management of the administration of the Fund, as set out in the Scheme of Assignment of Responsibility for Functions, however the Pension Committee takes advice from the Pension Administration Advisory Forum to enable the Pension Committee to discharge its responsibility effectively.

3. Pension Committee

3.1 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.

3.2 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.

3.3 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 will be synchronised with those of the Pension Investment Advisory Panel to ensure investment decisions are reviewed without unnecessary delay.

3.4 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.

3.5 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.

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

3.7 Pension Committee Terms of Reference:

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

- Changes to the Investment Strategy Statement, including the strategic benchmark for asset allocation, Investment Manager benchmarks and Investment Manager targets.
- 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.

3.8 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.

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

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

3.11 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.

4. Pension Board

Please see separate Pension Board Terms of Reference document.

5. Pension Investment Advisory Panel

5.1 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 will not normally meet in public.

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

- four County Councillors
- the Chief Financial Officer
- the Principal Accountant – Pension Fund 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.

5.3 Terms of reference:

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

- Changes to the Investment Strategy Statement, 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 will also:

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

5.4 The Pension Investment Advisory Panel is advised by an Independent Financial Adviser who attends all meetings.

5.5 Active Equities Investment Managers report to the Pension Investment Advisory Panel bi-annually, whilst the Fund's Bond Manager reports annually. Further monitoring meetings with Investment Managers are undertaken by officers of the Administering Authority and the outcomes reported to the Pension Investment Advisory Panel.

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

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

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

5.9 The Chairman of the Panel may attend the Pension Committee to ensure flow of information between the 2 bodies.

5.10 Members of the Pension Investment Advisory Panel must not have a conflict of interest and are required to provide the Chief Financial Officer with such information as the Chief Financial Officer reasonably requires for the purposes of ensuring no conflict of interest exists prior to appointment to the Pension Investment Advisory Panel and on an ongoing annual basis.

5.11 Members of the Pension Investment Advisory Panel are required to hold the appropriate knowledge and skills to discharge their responsibility effectively.

6. Pension Administration Advisory Forum

6.1 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.

6.2 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.

6.3 Terms of reference:

The Forum will meet 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.

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6.4 All Fund employers are invited to attend the Pension Administration Advisory Forum along with the Fund's Actuary, Administering Authority officers and the employer and employee representatives on the Pension Committee.

6.5 Other meetings are held as required between Administering Authority officers and employers to discuss important issues such as discretionary policies and regulatory changes.

6.6 The Administering Authority also communicates with the Fund's membership through newsletters, road shows and presentations.

6.7 The Fund’s Policy Statement on Communication Strategy explains in more detail engagement with all stakeholders.

7. Delegation

7.1 The day to day administration of, and investment decisions for, the Worcestershire County Council Pension Fund are delegated to the Chief Financial Officer.

7.2 The Chief Financial Officer may authorise other officers to exercise on his/her behalf those functions delegated to him/her.

7.3 The Chief Financial Officer has delegated responsibility for the following responsibilities concerning the management of the administration of the Fund including:

- Preparing and maintaining a Pensions Administration Strategy Statement, Policy Statement on Communication Strategy, Policy Statement on Governance Strategy, Funding Strategy Statement and Governance Compliance Statement.
- Provision of data for the Triennial and Interim Actuarial Valuations. The Chief Financial Officer will also negotiate over actuarial assumptions, set the appropriate funding target and associated recovery period.
- Preparing the Pension Fund Annual Report and Accounts.
- Preparing the Pension Fund annual and triennial budgets.
- Preparing and maintaining a Pension Fund Risk Register and monitoring key outstanding risks.
- Overseeing and administering the Pension Administration Advisory Forum arrangement and review regular Forum reports to consider and address outstanding member and employer issues and concerns.
- Administering the Pension Investment Advisory Panel arrangement and reviewing regular Advisory Panel reports to monitor performance of the Fund's assets.
- Deciding upon requests for admission of qualifying Community and Transferee Bodies and Scheduled and Designated Bodies wishing to join the Fund.
- Deciding upon key pension policy discretions that are the responsibility of the Administering Authority.
- Executing documentation relating to the implementation of new and existing investment mandates, Independent Financial Advisers, Performance Measurement Consultant, Global Custodians, Actuaries and any other associated professional service providers.
- Quarterly monitoring of Investment Managers' performance for managers not presenting to the Pension Investment Advisory Panel.
- The effective discharge of the pensions administration function, including the payment of pensions and collecting and reconciling of contribution income.
- Maintaining the Fund's accounting records.
- Preparing and maintaining the Investment Strategy Statement, including implementing changes to the strategic benchmark for asset allocation.
- Implementing and maintaining a knowledge and skills training plan for members of the Pension Committee and Pension Investment Advisory Panel.
- Advising the Pension Committee.
- Implementing and maintaining the cash flow strategy for the Fund, which includes the transfer of cash to the Fund's Global Custodian to ensure cash is fully invested when available and the transfer of cash from the Global Custodian to pay pension liabilities as they fall due.

8. Knowledge and Skills

8.1 The Administering Authority has regard to the legal requirements set out in the Local Government Pension Scheme Regulations, other relevant legislation and best practice guidance published by CIPFA and other professional and regulatory bodies in creating a knowledge and skills policy for the Worcestershire County Council Pension Fund, to ensure all those involved in the decision-making process receive relevant training in order to obtain the appropriate knowledge and skills to discharge their responsibilities effectively.

8.2 Committee members and appropriate Administering Authority officers complete an annual knowledge and skills self-assessment form. These are used to prepare annual training plans and a log of training undertaken is maintained by the Administering Authority. The annual training plans include a programme of external and internal training events designed to meet the requirements both of new members of the committee and the ongoing needs of existing members. These events are reported formally to members on an annual basis. Individual reports to authorise attendance by members at these events are put to the Chief Financial Officer on an event by event basis.

9. Further information

Additional information on the activities of the Pension Fund can be found in the Annual Report and Accounts, which is available on the Worcestershire County Council's website at:
http://www.worcestershire.gov.uk/downloads/download/697/pension_fund_annual_report

Appendix 7

Governance Compliance Statement

This statement shows how Worcestershire County Council as the administering authority of the Worcestershire County Council Pension Fund complies with guidance on the governance of the Local Government Pension Scheme (LGPS) issued by the Secretary of State for Communities and Local Government in accordance with the Local Government Pension Scheme (Amendment) Regulations 2008.

Ref.	Principles	Compliance Status	Evidence of Compliance
A	Structure		
a.	That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	The responsibilities of the Pensions Committee (PC) and its Sub-Groups are set out in the Fund's Governance Policy Statement. The Governance Policy Statement was approved by Full Council in February 2015.
b.	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	The Pension Committee membership includes an employee and employer representative. Full membership details are set out in the Fund's Governance Policy Statement.
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Compliant	The Pension Investment Advisory Committee provides strategic advice to the Pension Committee regarding the management of the Fund's assets. The Chairman of the Pension Committee also sits on the Pension Investment Advisory Committee to ensure effective communication. The Pension Committee receives quarterly investment updates from the Pension Investment Advisory Committee.
d.	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Compliant	The Chairman of the Pension Committee also sits on the Pension Investment Advisory Committee.
B	Representation		
a.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers, e.g., admitted bodies) ii) scheme members (including deferred and pensioner scheme members) iii) where appropriate, independent professional observers, and iv) expert advisers (on an ad-hoc basis).	Compliant	Membership of the Pension Committee and Pension Investment Advisory Committee include employer and employee representatives and an independent financial adviser. Full membership details are set out in the Fund's Governance Policy Statement.
b.	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings, and training and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Compliant	All committee members are treated equally in terms of access to papers, meetings, and training and are given full opportunity to contribute to the decision-making process. These terms are set out in the Fund's Governance Policy Statement.

C	Selection and role of lay members		
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Compliant	The Pension Committee has noted its terms of reference and the Fund's Governance Policy Statement. Minutes of the Pension Committee meetings are published on the Council's website. Training is also provided to Committee members where required.
b.	That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	Compliant	Declaration of interests is a standing agenda item at the start of all Pension Committee meetings. The Pension Committee is serviced by Legal and Democratic Services who invite members to declare any financial or pecuniary interest related to specific matters on the agenda. Minutes of the Pension Committee meetings are published on the Council's website.
D	Voting		
a.	That the individual administering authorities on voting rights are clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	Voting rights are clearly set out in the Fund's Governance Policy Statement.
E	Training / facility time / expenses		
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Compliant	A policy on expenses is set out in the Fund's Governance Policy Statement along with the number of Committee meetings required each year. The Fund has also published a Knowledge and Skills Policy Statement, which has been endorsed by the Pension Committee.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Compliant	These polices apply to all committee members and this is clearly set out in the Fund's Governance Policy Statement and Knowledge and Skills Policy Statement.
c.	That the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.	Compliant	The fund's Knowledge and Skills Policy Statement sets out the requirement for annual training plans to be developed and maintained for committee members and for a log of all such training undertaken to be maintained.
F	Meetings (frequency / quorum)		
a.	That an administering authority's main committee or committees meet at least quarterly.	Compliant	The Pension Fund Committee meets quarterly. This requirement is set out in the Fund's Governance Policy Statement.
b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	Compliant	The Pension Fund Investment Advisory Committee meets quarterly. These meetings are synchronised with the dates when the Pension Committee sits. These requirements are set out in the Fund's Governance Policy Statement.
c.	That an administering authority that does not include lay members in its formal governance arrangements, must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Compliant	The Fund has established a Pension Administration Advisory Panel which meets twice yearly. All Fund employers are invited to attend the Panel meetings. The Panel arrangement and terms of reference are set out in the Fund's Governance Policy Statement.
G	Access		
a.	That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.	Compliant	All members of the Pension Committee, Pension Investment Advisory Committee and the Pension Administration Advisory Panel have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee. The Pension Committee agendas and associated papers are published on the Council's website prior to the committee meeting.

H	Scope		
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Compliant	The Pension Administration Advisory Panel which meets twice yearly is also attended by the employer and employee representatives who sit on the Pension Committee. This ensures flow of information between the wider scheme employers and the main committee. Scheme employers are invited to bring wider scheme issues to the attention of the Pension Committee through the established communication routes.
I	Publicity		
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.	Compliant	The Fund's Governance Policy Statement is published on the Council's website and all scheme employers are invited to attend the Pension Administration Advisory Panel meetings. The Fund ran an open recruitment process for the employer and employee representative appointments to the newly established Pension Board.

Appendix 8

Disclosures to assist the LGPS scheme advisory board Report 2016/17

The following summary tables, based on information provided in the Worcestershire County Council Pension Fund Final Accounts 2016/17, have been produced and published to assist in the production of the scheme annual report compiled by the LGPS scheme advisory board:

An analysis of fund net investment assets as at 31st March 2017:

	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	680.4	1,125.6	307.8	2,113.8
Bonds	8.2	122.5	0	130.7
Pooled property investments	23.0	78.5	0	101.5
Pooled infrastructure investments	98.6	0	0	98.6
Cash and cash equivalents	5.3	17.1	0	22.4
Other	1.4	2.3	0	3.7
Total	**816.9**	**1,346.0**	**307.8**	**2,470.7**

An analysis of investment income accrued during the financial year to 31st March 2017:

	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	0.3	18.1	0.0	18.4
Bonds	0.3	3.9	0.0	4.2
Pooled property income	2.5	2.2	0.0	4.7
Pooled infrastructure income	2.9	0.0	0.0	2.9
Cash and cash equivalents	0.0	0.1	0.0	0.1
Other	0.0	0.0	0.0	0.0
Total	**6.0**	**24.3**	**0.0**	**30.3**

Appendix 9

Glossary of Terms

Accounting Policies

The policies and concepts used in the preparation of the accounts.

Accruals

Sums included in the accounts to cover income and expenditure attributable to the accounting period, but for which payment has not been received or made by 31 March.

Actuary

An independent company which advises on the assets and liabilities of the fund with the aim to ensure that the payment of pensions and future benefits are met.

Admitted Bodies

Voluntary and charitable bodies whose staff can become members of the Local Government Pension Scheme subject to certain terms and conditions and other organisations to whom Local Government employees have been transferred under the outsourcing of Local Government services.

Augmentation

Additional employer contributions relating to the cost of employees who are allowed to retire before their normal retirement age.

Custodian

The organisation that holds and safeguards the Pension Fund assets.

Deferred Pension benefit

A pension benefit which a member has accrued but is not yet entitled to receive payment.

Derivatives

A financial instrument whose characteristics and value depend upon the characteristics and value of an underlier, typically a commodity, bond, equity or currency. Examples of derivatives include futures and options.

Equities

Shares representing the capital of a company issued to shareholders usually with voting rights on the way the company runs the business.

Fixed Interest

Corporate Bond - A certificate of debt issued by a company or institution in return for a fixed rate interest with a promise of redemption to repay the original sum.

Gilt - Similar to Corporate Bonds by way of interest and redemption but these are issued by Government and is a loan to the Government.

Forward Foreign Exchange

An agreement to purchase or sell an amount of foreign currency at a future date and predetermined price.

Index Linked

Stock whose value is related directly to an index, usually the Retail Price Index and therefore provides a hedge against inflation.

Pooled Investment Vehicles

A fund in which multiple investors contribute assets and hold them as a group, for example a unit trust.

Scheduled Employers

Are local authorities and other similar bodies, whose staff automatically qualify to become members of the LGPS. These include county councils, district councils, foundation schools and colleges and academies.

Designated Employers

Are scheme employers whose employees can be if the employer has passed a resolution to that effect. These include town and parish councils.

Admitted Bodies

Are scheme employers whose staff can become members of the pension Fund by virtue of an admission agreement made between the Fund and the relevant organisation and have been nominated for membership. They include non-profit making organisations providing a public service (CAB –Community Admission Body) or a contractor providing a service previously undertaken by a scheme employer TAB – transferee Admission Body).

Statement of Recommended Practice (SORP)

This relates to the Code of Practice on Local Authority accounting which is published by the Chartered Institute of Public Finance and Accountancy.

Stock Lending

The temporary transfer of stock (shares/securities) to a third party for a fixed or open period of time. In return the owner of the stock receives an agreed consideration secured by collateral of equal or greater value than the loaned securities.

Transfer Values

Sums which are paid either to or received from other pension schemes and relate to new and former members' periods of pensionable employment with employers participating in the scheme.

Contact Points

For further information on issues relating to Fund Investments and Accounts please contact:

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If you have any queries on the benefits or costs of membership of the Pension Fund please contact:

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Or you can write to:-

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Copies of this Annual Report and further information can also be found on the Worcestershire County Council website: (www.worcestershire.gov.uk)