

Agenda

Pensions Committee

Friday, 22 June 2018, 10.00 am
County Hall, Worcester

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DISCLOSING INTERESTS

There are now 2 types of interests:
'Disclosable pecuniary interests' and **'other disclosable interests'**

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 spouse/partner as well as you

WHAT MUST I DO WITH A DPI?

- **Register** it within 28 days and
- **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.

Pensions Committee

Friday, 22 June 2018, 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 <i>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, 21 June 2018). Further details are available on the Council's website. Enquiries can be made through the telephone number/e-mail address below.</i> | |
| 4 | Confirmation of Minutes To confirm the Minutes of the meeting held on 19 March 2018. (previously circulated – pink pages) | |
| 5 | Administering Authority - Administration Update | Verbal update |
| 6 | LGPS Central Update | 1 - 12 |
| 7 | Pension Investment Update | 13 - 32 |
| 8 | Pension Fund Unaudited Annual Report and Accounts 2017-18 | 33 - 164 |
| 9 | Government Actuary Department (GAD) Pension Review Update | 165 - 168 |
| 10 | Worcestershire County Council Pension Fund Training for Pensions Committee Members | 169 - 184 |

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

Date of Issue: Thursday, 14 June 2018

| Item No | Subject | Page No |
|---------|--------------------------------------|-----------|
| 11 | Investment Strategy Statement Update | 185 - 204 |

PENSIONS COMMITTEE

22 JUNE 2018

LGPS CENTRAL UPDATE

Recommendation

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

Update

2. On the 1 April 2018, LGPS Central Limited formally went live and to date daily routines have been operating effectively and staff are getting to grips with the new systems.
3. Over the past quarter there had been a continued focus on the recruitment of senior pool staff with the Head of Client Service and Stakeholder Engagement, the Risk Manager, Head of HR and Business Services and Head of Operations being appointed. All the Investment Directors have been appointed apart from Active Equities but this was expected to have concluded shortly.
4. LGPS Central have begun direct engagement with Partner Funds through the Investment Directors on what products and services they can offer, and their near-term priorities. Initially they see opportunities for further use of the existing passive sub-funds and to support Partner Funds more generally via Advisory Agreements covering a variety of asset classes. Discussions are more advanced with some than others. This engagement will supplement their liaison with Practitioners Advisory Forum (PAF) over the design and development of new ACS sub-funds (or alternative pooling vehicles) which will require consensus amongst the Partner Funds before delivery plans for the new funds can be formulated. We are awaiting an updated Transition plan from LGPS Central and this will be provided as part of the next update to the Committee. The previous plan envisaged that the first transfer of assets for Worcestershire County Council Pension fund to the pool would be in December 2018 relating to the Emerging Markets mandate.
5. As detailed at the last meeting, the Budget and Strategic Business Plan for 2018/19 was agreed at the Shareholders Forum on the 20 February 2018. The Shareholders have approved an operating budget for 2018/19 of £9.1m and agreed that any increase in the budget over £9.1m (on a full year basis) up to a level of £9.8m would be dealt with in accordance with individual Shareholder delegation arrangements and be subject to the receipt of credible Business Plans. It should be noted that a unanimous decision from Shareholders would be required to approve any such increase.
6. Considerable focus has also been placed on the client agreements that LGPS Central need to have in place between now and ongoing.

7. The Non-Executive Chair Joanne Segars and Chief Executive Officer Andrew Warwick-Thompson of LGPS Central provided a presentation to the last meeting and the Chief Executive is meeting monthly with representatives of each fund together with the Chief Investment Officer and Head of Client Service and Stakeholder Engagement.

8. PAF have a number of Work streams which meet regularly and aims to work closely with LGPS Central to ensure that all the funds requirements are met. These work streams cover: Investments; Client Reporting; Finance; Responsible Investment; and Governance.

9. The LGPS Pooling: Spring progress report which is submitted to the Minister for Housing, Communities and Local Government (MHCLG) is attached as appendix 1 to this report for information. It is a positive report produced in collaboration with the 8 partner funds with LGPS Central Ltd. It highlights savings made by Partner Funds, the establishment and regulatory authorisation of LGPS Central Limited and of its pooling vehicle, an Authorised Contractual Scheme (ACS), by the Financial Conduct Authority (FCA), implementation of effective governance, the creation of several ACS sub-funds and an initial transfer of assets

Supporting Information

- Local Government Pension Scheme Pooling: Spring Progress Report - Appendix

Contact Points

County Council Contact Points

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Background Papers

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

LGPS Central business case submission to government 15 July 2016.

Local Government Pension Scheme Pooling: Spring Progress Report

Pool: LGPS Central

Date: 4th May 2018

INTRODUCTION

This report has been produced by the 8 Partner Funds in collaboration with LGPS Central Ltd. We believe it shows significant progress in the development of our Asset Management Vehicle and the ability to deliver on the aspiration of the original business case.

It highlights significant savings made by Partner Funds, the establishment and regulatory authorisation of LGPS Central Limited and of its pooling vehicle, an Authorised Contractual Scheme (ACS), by the Financial Conduct Authority (FCA), implementation of effective governance, the creation of several ACS sub-funds and an initial transfer of assets.

All parties continue to work together in partnership to ensure the collaboration is a success through the development of investment offerings that represent value to the Administering Authorities as the ultimate Asset owners.

Criterion A: Scale

The Partner Funds of the LGPS Central Pool (the Pool) are responsible for the management of £45bn of pension fund assets. The Partner Funds are Cheshire Pension Fund, Derbyshire Pension Fund, Leicestershire Pension Fund, Nottinghamshire Pension Fund, Shropshire Pension Fund, Staffordshire Pension Fund, West Midlands Pension Fund, the West Midlands Integrated Transport Fund and Worcestershire Pension Fund.

The Pool has created LGPS Central Limited (LGPSC, the Operator or the Company) as the Pool's asset management company and it is ultimately expected to manage the majority of these assets on behalf of the Partner Funds.

LGPSC is authorised by the FCA to provide investment offerings in three key areas:

1. An the operator of an Authorised Contractual Scheme (the "ACS");
2. Other Collective Investment Vehicles (e.g. Limited Partnerships); and
3. Discretionary, advisory and execution only mandates covering certain legacy assets of the Partner Funds managed under Client Services Agreements.

LGPSC is responsible for the oversight and management of the three key elements noted above. The first two elements will be used to manage the pooled assets of the Partner Funds, with the third element covering certain legacy assets from individual Partner Funds. The ACS has been authorised by the Financial Conduct Authority, and the first three ACS sub-funds were launched on 1 April 2018. The Other Collective Investment Vehicles will be used to manage more illiquid assets, e.g. private equity and infrastructure.

Based on asset values at 31 December 2017, the total value of assets owned by the Partner Funds was £45.2bn. It is anticipated that the investment management of all assets, except Bulk Annuity Buy-Ins, LDIs, Life Policies and Cash, will be transitioned into LGPSC over time, with all transitions subject to value for money appraisals. Based on asset values at 31 December 2017, the assets which are currently expected to be ultimately managed by LGPSC will be in the region of £32bn.

Since the last update, the Partner Funds have decided to retain the management of the Life Policies within the Partner Funds utilising a previous collaborative procurement undertaken prior to the establishment of LGPS Central whilst the company develops an offer that compares on value for money grounds. This will be kept under review as the company develops its offer in this area.

Building on the launch of the first three ACS sub-funds, the transition plan includes the launch of a further fifteen sub-funds over the next three years, covering equities, fixed income and direct property (subject to the satisfactory resolution of several tax issues). The provisional timing of the launch of the ACS sub-funds is set out below.

| Month | ACS Sub-Fund | Estimated Assets Under Management £m |
|----------------|--|--------------------------------------|
| | | |
| Launched | UK Equities Passive (Internal) | 1,271 |
| | Global Equities Passive (Internal) | 4,126 |
| | Dividend Growth Fund (Internal) | 268 |
| | | |
| | | |
| September 2018 | Global Equities Active (External) | 2,853 |
| | Global Equities Active (Internal) | 500 |
| | | |
| December 2018 | Emerging Market Active (External) | 2,414 |
| | UK Equities Active (Internal) | 1,246 |
| | | |
| | 2018/19 Total | 12,678 |
| | | |
| April 2019 | UK Conventional Active (Internal) | 391 |
| | Index Linked Active (Internal) | 558 |
| | Corporate Bonds Active (External) | 2,249 |
| | MAC Active (External) (60%) | 759 |
| | Emerging Market Debt Active (External) | 465 |
| | | |
| September 2019 | Property Direct (External) | 2,248 |
| | | |
| | 2019/20 Total | 6,670 |
| | | |

| | | |
|----------------|---|---------------|
| April 2020 | UK Equities Active (External) | 1,460 |
| | US Equities Active (External) | 783 |
| | MAC Active (External) (40%) | 506 |
| | | |
| September 2020 | Japanese Equities Active (External) | 721 |
| | Asia Pacific Equities Active (External) | 462 |
| | European Equities Active (External) | 318 |
| | | |
| | 2020/21 Total | 4,250 |
| | | |
| | Total | 23,598 |

This timetable is currently being reviewed by LGPSC in collaboration with the Partner Funds following the recruitment of the majority of the company Investment Directors, with demand, sustainability and value for money being key considerations for the development of a sub-fund. Based on asset values at 31 December 2017, the total value of assets expected to be transitioned into ACS sub-funds is approximately £24bn. Prior to the launch of further ACS sub-funds, the legacy assets destined for these sub-funds will either be managed by the Partner Funds or by LGPSC under either discretionary or advisory client services agreements.

Alternative legacy assets (e.g. infrastructure, private equity, private debt, etc.) will be either managed by the Partner Funds or by LGPSC under an advisory client services agreement. As the legacy assets unwind, a process which is expected to take more than ten years, the assets will be transitioned into a series of Other Collective Investment Vehicles created by the company. The timetable for the launch of these Other Collective Investment Vehicles is being developed by LGPSC in collaboration with the Partner Funds, with demand, sustainability, value for money and the suitability of the structure being key considerations. The aspiration remains for all Assets within the original business case to be managed by LGPSC, subject of course to the development of appropriate product offerings.

The assets which will be managed outside the LGPS Central Pool are:

1. Bulk Annuity Buy-In contracts held in relation to the pensioners' liabilities within the West Midlands Integrated Transport Authority (WMITA) Pension Fund (£255m at 31 March 2017); these assets are only valued once a year at the year-end. The WMITA Pension Fund will hold the Bulk Annuity Buy-In outside the LGPS Central Pool indefinitely because it is a liability matching asset, specific to the members of the WMITA Pension Fund.
2. Any existing or future investments in LDIs held by Partner Funds will be managed outside of the LGPS Central Pool (£72m at 31 December 2017).
3. The management of the Life Policies will remain with the Partner Funds (£11.9bn at 31 December 2017) on value for money considerations. This will be kept under review and it should be noted that the current fees payable for the management of the majority of the Life Policies assets were negotiated as part of the "Seven Shires" collaboration which involved six of Central's Partner Funds.
4. Cash held by the Partner Funds for operational purposes £1.2bn at 31 December

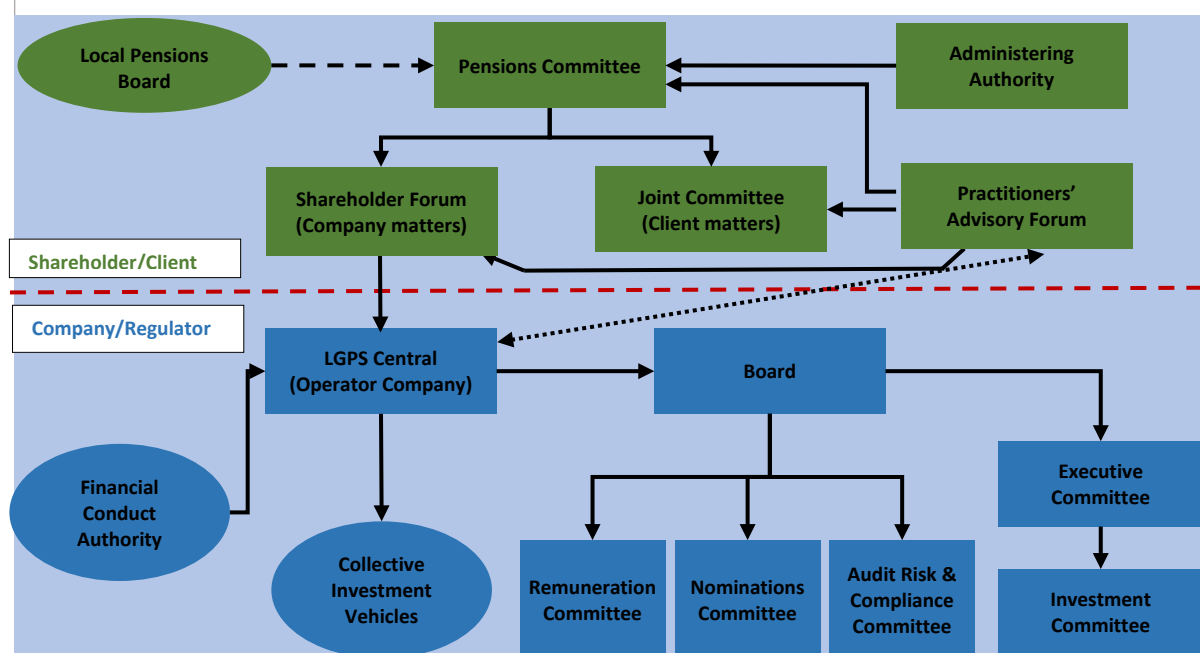
2017).

Based on the asset values at 31 December 2017, the total value of assets which are currently expected to be managed outside of LGPSC will be £13.5bn.

Progress against the transition timetable will be reported transparently to LGPS Central's Joint Committee which is a public forum.

Criterion B: Governance

The governance arrangements currently in operation for the LGPS Central Pool, are set out in the diagram below, are now well established,



The **LGPS Central Joint Committee** has been set up in accordance with provisions of the Local Government Act 1972 to provide oversight of the delivery of the objectives of the Pool, the delivery of client service, the delivery against the LGPS Central business case and to deal with common investor issues. The membership of the Joint Committee consists of one elected member from each Council within the LGPS Central Pool. The first meeting of the Joint Committee took place on 23 March 2018 and at that meeting it was agreed that a Trade Union representative would be appointed as a non-voting member of the Joint Committee to represent the scheme members across the Councils' pension funds.

The primary role of the **Shareholders' Forum** is to oversee the operation and performance of LGPS Central Ltd and to represent the ownership rights and interests of the Shareholding Councils within the LGPS Central Pool. The Shareholders' Forum is independent of the Company and its meetings are distinct from Company meetings, however, members of the Shareholders' Forum represent the Councils at Company Meetings. The Councils as individual investors in the Company have in place local arrangements to enable their Shareholder representatives to vote at Company meetings.

The Shareholders' Forum held its first formal meeting on 20th February 2018, having operated in shadow form during 2017.

The **Practitioners' Advisory Forum (PAF)** is a working group of officers appointed by the Shareholding Councils within the LGPS Central Pool to support the delivery of the objectives of the Pool and to provide support for the Pool's Joint Committee and Shareholders' Forum. PAF seeks to manage the Pool's conflicting demands and interests, either between the participating Councils or between the Councils (collectively) and the Company, recognising that speaking with "one voice" reduces the duplication of costs and resources and maximises the benefits of scale.

Terms of Reference have been approved for the Joint Committee, the Shareholders' Forum and the Practitioners' Advisory Forum. These are "live" documents which are likely to evolve as the practical day to day experience of working within the Pool evolves.

LGPSC is authorised as the operator of the ACS and to provide services to the Partner Funds by the FCA. The company is therefore subject to the regulator's conduct of business rules and has established its internal governance framework to ensure strict adherence both to its regulatory obligations to the FCA and with the Companies' Acts.

The Company Board comprises a non-executive Chair and two further non-executive directors. The Chief Executive Officer (CEO) and the Chief Operating and Financial Director (COFO) are executive Board members.

To support its work, the Board has established three sub-committees:

1. Remuneration Committee. Its core purpose is to provide oversight of the Company's regulatory compliance in respect of "Code Staff", to keep under review the Company's pay and benefits framework to ensure that it remains competitive, and to recommend any significant changes in the pay and benefits framework to Shareholders for their approval. The Committee will meet at least twice during the year.

2. Audit, Risk and Compliance Committee. Its core purpose is to ensure the integrity of the Company's financial statements and the financial reporting process, oversight of the Company's compliance with legal and regulatory requirements, performance of the internal audit function, checking the effectiveness of the Company's systems of internal controls and policies, and the effectiveness of the Company's procedures for risk assessment and risk management. It will meet at least four times during the year.

3. Nominations Committee. Its core purpose is the evaluation of the board of directors, Examining the skills and characteristics that are needed in board candidates, and reviewing corporate governance policies. It will meet at least twice during the year.

The Board has created an **Executive Committee (ExCo)** which is chaired by the CEO. In addition to the COFO, ExCo members are the Chief Investment Officer (CIO), Chief Compliance and Risk Officer (CCRO) and General Counsel (GC). The ExCo has primary authority and responsibility for the day-to-day management of the Company's asset

management business, all operational and financial functions, the risk, compliance and legal functions, and for the formulation and implementation of the Company's strategy and budget, subject to the strategy, budget, policies and delegations approved by the Board from time to time.

The Board has also created an **Investment Committee (IC)** which is subordinate to ExCo and is chaired by the CIO. In addition to the CIO, IC members will be the Interim DCIO, six Investment Directors, the Director of Responsible Investment and Engagement and the CCRO. The IC has primary authority for the day-to-day management of the Company's investment management function, and for the formulation and implementation of the Company's investment strategy and product development, under the direction and oversight of the ExCo, and subject to the investment strategy and products approved by the Board from time to time.

Assets allocation decisions remain with the Partner Funds. Manager selection for assets transitioned into the ACS and for assets managed under discretionary agreements by the Operator is the responsibility of LGPS Central Limited. Manager selection for the remainder of the Pool's assets currently remains with the Partner Funds. The Operator is responsible for selecting the custodian for the assets in the ACS; the Partner Funds are responsible for selecting the custodian for the remaining assets.

A suite of reports has been designed in order to meet the regulatory requirements for the ACS unit holders and for the segregated mandates. For the ACS unit holders this includes transactional based reporting, provided through the transfer agent, and periodic performance reports. For the segregated mandates this includes both transactional and performance reports provided on a periodic basis.

Discussions have been held with Partner Funds to identify the type and style of reporting that will be required and the Operator is designing appropriate reports. For ACS funds these reports will be issued monthly and initially follow a standard 'fund fact sheet' format. They will disclose performance returns against benchmark, sector and attribution analysis. Discretionary funds managed by the Operator will contain the same information plus detailed transaction and portfolio holding data. Both styles of report will contain an investment commentary.

Development of the product offer is a collaborative process between the Company and the Partner Funds to ensure that the Operator's products will enable each pension fund to deliver its respective investment strategy. An Investment Working Group has been set-up as a sub-group of the Practitioners Advisory Forum to collectively establish the needs of the Partner Funds and to collaborate with the Operator on the development of appropriate products. This is very much a two-way process. LGPSC will bring suggested product ideas and innovative solutions for the delivery of strategies to the Partner Funds.

A Compliance Monitoring Plan has been approved by the Board of the Company and monitoring is taking place in line with this plan. A Risk Manager has been recruited and is developing an appropriate dashboard for monitoring and controlling risks on the portfolios under management. A Risk Management Framework has been implemented to

identify risks and to implement mitigating controls so that the residual risk is within the risk appetite. KPMG have been engaged to provide Internal Audit services and discussions have taken place as to the scope and delivery of the audit plan.

A Business Continuity Plan has been established. A Counterparty Risk Committee has reviewed and approved the relationships with all brokers and counterparties utilised. The Audit, Risk & Compliance Committee has held several meetings during which the compliance and risk frameworks have been discussed and agreed. Professional Indemnity Insurance is in place.

The Partner Funds are currently developing a Pool Risk Register to follow on from the project implementation Risk Register. This will include items from the Company's Risk Register, risks surrounding overall Pool governance and Partner Fund pooling risks.

The proposal for cost benchmarking by the Partner Funds is covered in the following section. Governance and performance benchmarking for the Pool will be developed by the Partner Funds and will take into consideration developments at the other Pools on benchmarking.

Criterion C: Reduced Costs and Value for Money

Implementation costs for the establishment of the Operator are forecast at £4.0m, £0.3m lower than those forecast in the Autumn 2017 Progress Report, reflecting an agreement with HMRC on the VAT treatment of the implementation costs which has resulted in no irrecoverable VAT being incurred on these costs. The operating cost budget for the first year of trading, 2018/19, has been approved at £9.1m (£10.5m after taking into account irrecoverable VAT and company profits), of which £5.1m relates to governance and operator running costs, and £4.0m relates to the cost of the internal investment team. These costs are higher than anticipated at the time of the Autumn 2017 progress report, and those reflected in the Pool's initial Cost Savings Model.

More clarity on the necessary costs of building a regulatory compliant asset management company together with the "lived experience" of the LGPS Central Ltd senior management team identified additional costs. Also, the MiFID II regulations requiring the unbundling of investment research costs were responsible for a £0.7m increase in the operating budget; it should be noted that Partner Funds will benefit from a commensurate reduction in investment transaction costs. The Partner Funds undertook a rigorous due diligence exercise on the proposed operating budget, which involved the comprehensive analysis of the Operator's proposed items of expenditure and a series of robust negotiations with the Company's senior management team.

LGPS Central Ltd will put in place strong financial controls to ensure that all expenditure is necessary and that value-for-money is achieved. Budgets and forecasts will be under particularly close review during the first year as the Operator seeks to build out services and infrastructure to deliver appropriate solutions to the Partner Funds.

The Partner Funds collectively achieved significant cost savings between 2014/15 and

2016/17. Total Investment Management Expenses fell from £196m in 2014/15 to £181m in 2016/17, an absolute reduction of £15m. The Total Expense Ratio (TER) fell from 58.0 basis points (bps) to 43.7bps, a reduction of 14.3bps. On a Quantitative Change basis (i.e. applying the 2014/15 TERs to total assets at 31st March 2017 and comparing the resulting number to the actual level of fees paid), Total Investment Management Expenses fell by approximately £47m, partly reflecting the strong growth in assets under management.

Total Investment Management Expenses for 2017/18 have yet to be finalised. As part of the process of quantifying the Total Investment Management Expenses for 2017/18, an external service provider will be appointed to work with LGPSC and the Partner Funds to ensure that the information provided by the Partner Funds' investment managers is complete, transparent and in line with the Scheme Advisory Board's Code of Transparency. When the Total Investment Management Expenses for 2017/18 have been finalised, the Partner Funds will quantify, and report, the level of cost savings achieved between 31st March 2015 and 31st March 2018 in line with the methodology agreed by the CIPFA Working Group on Post Pool Reporting.

The Pool's initial Cost Savings Model (the Model) was based on assets under management at 31st March 2016 and the opening TERs forecast for March 18 were based on 2015/16 TERs. Total forecast cumulative cost savings between 1st April 2018 (i.e. the date LGPSC was scheduled to launch its first ACS sub-funds) and 31st March 2034 based on this model are summarised below:

| Forecast Cumulative Cost Savings | £m |
|---|--------------|
| Investment Management Cost Savings | 436.2 |
| Implementation Costs | (4.3) |
| Transition Costs | (49.2) |
| Service Provider Fees | (61.3) |
| Operator Running Costs | (101.2) |
| Other Costs / Savings | 27.6 |
| Total Cumulative Cost Savings | 247.8 |

The principle driver of savings within the Model is greater purchasing power from increased scale and manager rationalisation. The Model also assumes savings from the transition of less liquid assets into the Other Collective Investment Vehicles.

The Model forecasts that the LGPS Central Pool will break even in 2024/25. It should be noted that there is a wide dispersion of forecast cost savings between the Partner Funds, with marginal savings forecast for several Funds within the Pool.

The Partner Funds and LGPSC plan to update the Model in Q2 2018/19 to reflect:

1. Actual Assets Under Management at 31 March 2018;
2. Actual TERs for 2017/18;
3. The most up-to-date estimate of LGPSC product offering, transition timetable and expected TERs; and

4. Updated Operator budgets in respect of governance and running costs.

All other things being equal, the increase in the operating cost budget noted earlier would reduce the initial assessment of the cumulative cost savings between 2018/19 and 2033/34 by approximately £32m. LGPSC are seeking to identify measures to mitigate this impact on the cost savings and these will be reflected in the updated Model.

As part of the update, the Partner Funds and LGPSC are developing a framework for quantifying the actual cost savings achieved by LGPSC against the forecast savings. The quantification of the cost savings will be in line with the methodology agreed by the CIPFA Working Group on Post Pool Reporting. The framework will also include an assessment of LGPSC's performance against its wider objectives, and any other identified benefits of pooling (e.g. providing a range of asset classes to support the asset allocation strategy of Partner Funds; the sustainability of a larger internal investment team; enhanced levels of corporate governance; responsible investment and engagement, etc.). Whilst these objectives and other benefits are more qualitative and intangible in nature than actual quantifiable cost savings, they are nevertheless important to both Partner Funds and LGPSC.

The Partner Funds and LGPSC plan to be fully transparent in respect of reporting transition costs, the fees and net performance of each asset class and the delivery of cost savings and other benefits against those forecast.

The transition of Partner Fund assets into the pooled products offered by LGPSC will, to the extent necessary, be managed by external specialist transition managers to minimise the overall cost of transition wherever possible. These managers will be selected from the LGPS Transition Framework Agreement. The external transition managers will be required to report the transition costs on a fully transparent basis, and these will be reported to, and be monitored by, the Partner Funds, the Practitioners' Advisory Forum and the Joint Committee.

LGPSC will be fully transparent in respect of all costs in line with the Scheme Advisory Board's Code of Transparency, and will expect the same high standards from external investment managers. LGPSC also plans to share data with the relevant independent cost benchmarking surveys, and actively participate in, and promote the cost transparency agenda.

In due course, LGPSC will publish details of its gross and net performance in each asset class on its website, with comparison against an appropriate benchmark for the listed asset classes; subject to appropriate consideration of commercial confidentiality and FCA compliance requirements. There will also be a link from the websites of the Partner Funds to the LGPSC website once developed. In addition to monitoring by the respective Partner Funds, the gross and net performance in each asset class will be reported to, and be monitored by, the Practitioners' Advisory Forum and the Joint Committee. This monitoring process will be supported, where required, by independent performance and cost benchmarking reviews commissioned by the Partner Funds.

Criterion D: Infrastructure

The Partner Funds had a collective committed allocation to infrastructure of £1.5bn or 3.2% of total assets at 31 December 2017. The Partner Funds have committed a further £330m to infrastructure assets in Q1 2018, and the collective ambition of the Partner Funds is to increase the target allocation to at least 5% over the next few years.

The values noted above only relate to the Partner Funds formal allocation to infrastructure. Partner Funds have other investments in infrastructure assets outside of these allocations in areas such as equities, bonds, property, private equity and private debt.

LGPSC has appointed an Investment Director for Infrastructure and Property and is looking to build the team out further in this area to support the ambitions of the Partner Funds to increase strategic exposure to the area of infrastructure in particular. The Investment Director is already in dialogue with the individual Partner Funds to assess their requirements in order to develop appropriate pooling vehicles for infrastructure and property. This remains the preferred investment vehicle for partner funds who are working with the company to develop the offer.

In the meantime, Partner Funds are continuing with their individual investment programmes and will continue to invest where they identify investments that meet their strategic and financial return objectives. The Partner Funds' Investment Working Group will also ensure that within the Pool there is wider discussion on potential infrastructure investments and that all Funds are aware of potential opportunities. Consideration is being given to whether there is an opportunity to explore local opportunities in both infrastructure and housing, within the wider LGPS Central region where there are financial and economic benefits from doing so, but only if these meet the same stringent financial objectives as other investment opportunities.

Some collaborative working has already taken place within the Pool on a residential housing related investment, where four of the LGPS Central Partner Funds, together with another LGPS Fund, collaborated on due diligence resulting in a co-ordinated investment across Central's Partner Funds of £90m.

The Investment Director, Infrastructure and Property is part of the wider LGPS Cross Pools Infrastructure Working Group and at least one Partner Fund representative also attends this group to ensure there is full coverage of opportunities to collaborate across the LGPS Pools. Opportunities for wider collaboration between investment pools are also being explored to maximise the benefits from collaboration and economies of scale.

PENSIONS COMMITTEE
22 JUNE 2018**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; and
 - b) The update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Panel be 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 Pension Investment Advisory Panel (Appendix 1).

JP Morgan Emerging Markets

4. JP Morgan (Emerging Markets) portfolio underperformed against their benchmark over the quarter by 1.7%. Performance for the year ended March 2018 was 4.6% ahead of benchmark. Over the past three years JP Morgan has outperformed their performance target by 0.8% per annum. Since inception they remain behind target, at -0.5% against their performance requirement

JP Morgan Bonds

5. The JP Morgan Bond portfolio underperformed against their benchmark by 0.1% in the quarter ended March 2018. Performance for the year ended March 2018 was ahead of benchmark by 0.73% and therefore behind their target outperformance by 0.37%. Over the past three years they have underperformed against their performance target by 0.6% and ten years by 0.5%
6. It is recommended that JP Morgan (Bonds) remain on watch until their three year performance is tracking further towards target.

Contact Points

County Council Contact Points

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Specific Contact Points for this report

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Supporting Information

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

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

June 2018

Philip Hebson

MJ Hudson Allenbridge

philip.hebson@mjhudson.com

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We understand that your preference is for your advisers to issue investment advice in the first person. We recognise that this preference is a matter of style only and is not intended to alter the fact that investment advice will be given by MJ Hudson Investment Advisers Limited, an exempt person under FSMA as required by the Pensions Act. We further note that you have requested that our focus in these reports is on recent short term performance notwithstanding that the FCA Rules would generally require us to place less emphasis on past performance and provide performance numbers over the longer term.

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

5 June 2018

Global overview

I would like to start my report by confirming that your new Director of Finance and S151 Officer, Michael Hudson, has no connection with the parent company of Allenbridge, MJ Hudson. Pure coincidence.

In my last report I referred to movements in some markets to be akin to a trip on a fairground ride. As it turned out the Big Dipper was the most appropriate analogy. Commentators were talking about this being a good year to "sell in May and go away", but that would have probably been a mistake earlier in the month. However it may yet turn out to be a good move for those who held on until later in the month. Volatility is likely to remain higher than we saw through 2017, or put another way it will probably be a bumpy ride. This can be applied to currency markets as much as equity markets.

There is a certain honesty in Trump "diplomacy". It is definitely different. The snag is that the stakes are high, as is potentially the risk. In the meantime the immediate consequence is that oil prices are rising to levels that we haven't seen for a while, which will start to have a negative impact on economic activity through higher input inflation. This notion of higher inflation fed through to the markets during the quarter with some substantial falls as risk appetites fell, although the Fed hasn't changed their guidance on the likely number of rises in interest rates during 2018. The ongoing issue of US/China trade sanctions doesn't help confidence, but maybe the nettle of the nature of the trade imbalance does need to be grasped.

Across to the UK. Hands up those who are getting bored with the subject of Brexit. Some progress has been made, but the list of issues that remain to be resolved, including that of "borders", shows that we won't escape from the topic anytime soon. Although the economy has been performing slightly better than the relatively low forecasts for growth, concerns are growing that the protracted nature of the Brexit negotiations will have a negative impact on our economic prospects, until there is greater certainty about the outcome.

Last quarter I referred to the potential threat of political bruisers in Europe, so enter what is likely to be just that in Italy. Developments will have to be watched closely, as the alliance formed following their election could be quite a challenge for the "establishment" at the heart of the EU. The posturing has already started, and is presumably an unwelcome "add on" to the issues that the UK has already filled up their Inbox with. It doesn't help that Germany cannot realistically provide a picture of stability, given their far from solid coalition. I think that the term "propped up" can be well applied to Angela Merkel's

position. At the economic level, it is "steady as it goes", but forward looking surveys indicate slower future growth. This feeling about lower growth on a wider basis is in part a reflection about the outlook for global trade, given the switch in US policy towards protectionism.

Looking now at Japan, Prime Minister Abe still seems to be struggling to shake off the whiff of controversy, which is somewhat ironic for a country that has historically had a different take on governance issues. At the economic level growth slowed a little in the first quarter, but the longer term improving trend appears to be intact. An improvement in the general situation with North Korea will help investor sentiment, even though the high level game of cat (Trump?) and mouse (Kim Jong Un?) continues.

Like other world markets, Asia (ex Japan) saw a spike in market volatility during the quarter, flowing through from late January onwards, once again not helped by concerns about the future of world trade. The negative impact of the rising oil price is also starting to rear its ugly head in consuming countries. Again China's economic data was resilient, but as they are at the heart of the trade concerns with the US, this might serve to temper longer term growth expectations. As mentioned above, sorting the long running trade imbalance with the China has been on President Trump's "to do" list since taking office, it's just that his negotiating methods could be deemed to be unusual!

As ever Emerging Markets always has something of interest to report, this time Brazil providing the drama as the former president Luiz da Silva had his criminal conviction upheld, which may well rule him out of the presidential elections later this year. Despite Russia being increasingly seen as a pariah state, their sovereign bonds were upgraded to investment grade by S&P. I'll try to work that one out. India had another of their wobbles, this time caused in main part by the ruling BJP showing a weak showing in two state by-elections in March. In most countries that would be considered normal at midterm by-elections, but that does serve to illustrate the fragility of sentiment in Emerging Markets.

Summary and Market Background

The value of the Fund in the quarter fell to £2.676bn, a decrease of £118m compared to the end December value of £2.794bn. The Fund produced a return of -3.5% over the quarter, which gave an outperformance against the benchmark of 0.7%*. This was mainly attributable to the implementation of the equity protection strategy, with some contribution from the active equity managers. Over a 12 month period the Fund recorded a positive relative return against the benchmark of 1.9% (5.4% v. 3.5%). 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. It is particularly pleasing to be able to note that the ten year performance figure has now moved to an in line position against the benchmark, after a long period of showing an underperformance.

During the quarter under review the equity protection strategy mandate with River & Mercantile has been implemented. This was done on a multi stage basis through February, reflecting the scale of the programme. As a reminder, the objective has been to secure some protection to the funding level against a relatively significant fall in equity values, up until after the next Triennial valuation in April 2019 (covering an 18 month period), after which the position can be reviewed. Given that the risks associated with the Fund's relatively high allocation to equities may no longer be justified, consideration should be given to starting the background work now on the next strategic asset allocation review. The search to identify a manager for a private debt mandate to supplement the existing allocation to bonds was undertaken, with EQT being appointed.

Following on from the period of excellent real returns from markets throughout 2017, 2018 started in a similarly positive manner. However that came to an end towards the end of January, when we experienced some major falls in equity markets, with a period of enhanced volatility running on from that. Despite the turmoil, the Fund's active equity managers fared relatively well against an uncertain background. JP Morgan (Emerging Markets) was this quarter's star performer, with an outperformance of 1.7%, followed by Schroder (Emerging Markets) at 0.7% ahead. Nomura (Pacific) were marginally in negative territory, with an underperformance of -0.1%.

JP Morgan (Bonds) also underperformed slightly, by -0.1%.

The alternative passive strategies performed in line with their benchmark, and outperformed the total passive index benchmark by 1.1% (-4.9% v. -6.0%). Active equities also outperformed the passive index equities by 3.2% (-2.8% v. -6.0%).

As referred to above the relentless upward progression of equity markets finally faltered during the first quarter of 2018, with markets experiencing a considerable increase in volatility, something not seen for quite some time. Markets fared better in US dollar terms than on a sterling adjusted basis, with sterling strengthening on the expectation of interest rate rises. Using the sterling adjusted basis, the MSCI World Index fell by -4.8%. Emerging Markets fared the best, with a fall of just -2.2%, followed by Japan (-2.6%) and Asia ex Japan (-2.9%). The USA (S&P) was down -4.3%, Europe ex UK -4.7% and the UK -6.9%.

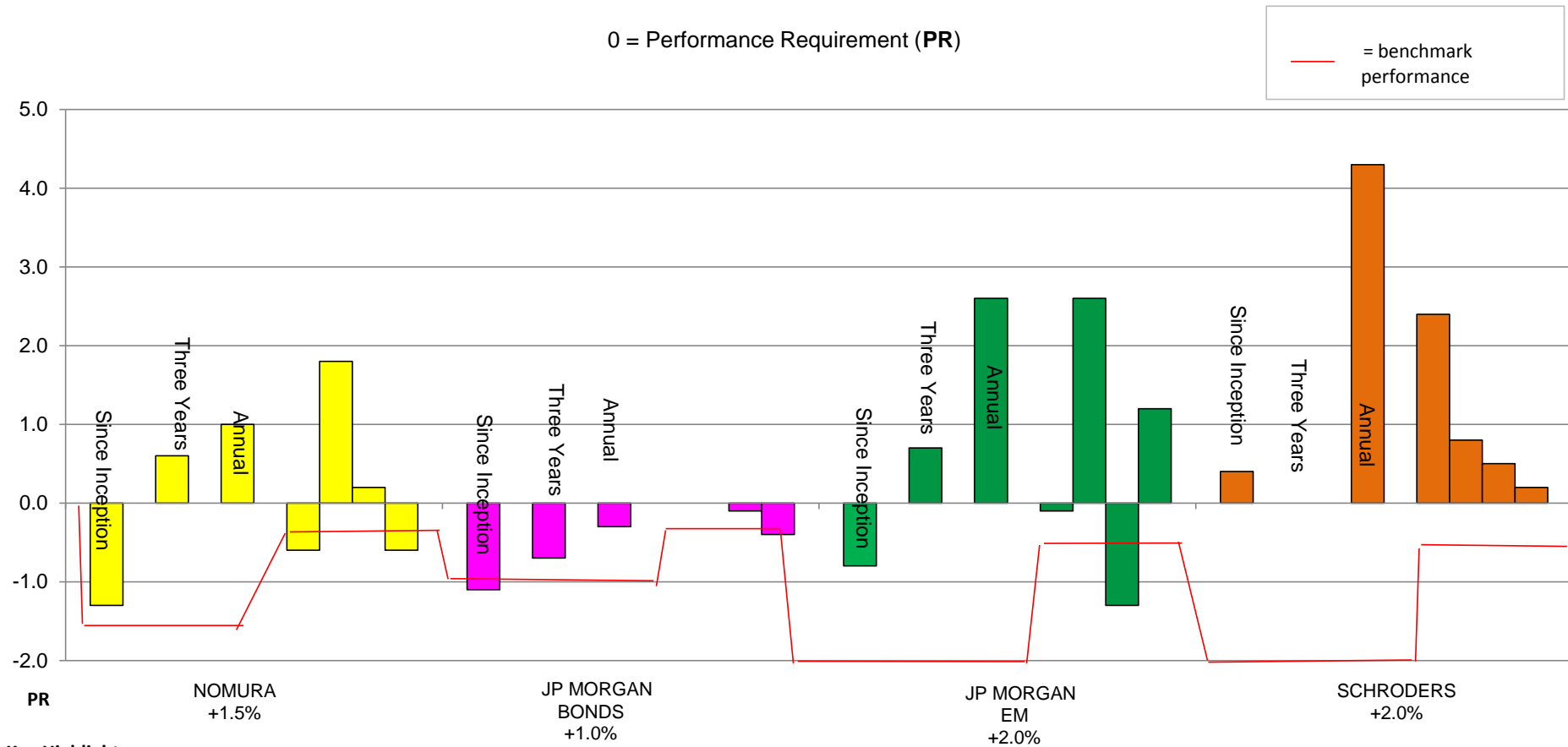
Bond markets had a difficult quarter with a mixed experience on a sterling adjusted basis, against the continuing background of anticipated rate increases and the implications of quantitative tightening (QT). In general terms Government Bonds outperformed Corporate Bonds, with some gains being seen, particularly at the local currency level. Another example of the continuing rotation of fortunes quarter by quarter, High Yield bonds tended to fare better than investment Grade bonds in Q1 2018.

*At the time of writing, the performance attributed to River & Mercantile by PEL is being discussed between the two parties, to ensure that this is an accurate portrayal of the performance of the Fund. The objective is to be able to show the notional position of the Fund, with or without the equity protection strategy in place.

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Worcestershire County Council Pension Fund - Chart showing for each active manager: performance since inception, three years, annual performance April 2017 to March 2018 and latest year in quarter ends January 2018 to March 2018, relative to performance requirement

Page 21



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 , Schroder's' and JP Morgan Emerging Markets is strong and JP Morgan Bonds have nearly equalled the ir performance target over the past twelve months.
- Schroder's portfolio continued to have good performance in quarter 4 of 2018, which increased their one year return to substantially above target. Over the passed three years JP Morgan Emerging Markets are now ahead of their performance target .

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Portfolio Evaluation Ltd
Worcestershire County Council Pension Fund
Investment Overview 2017/18

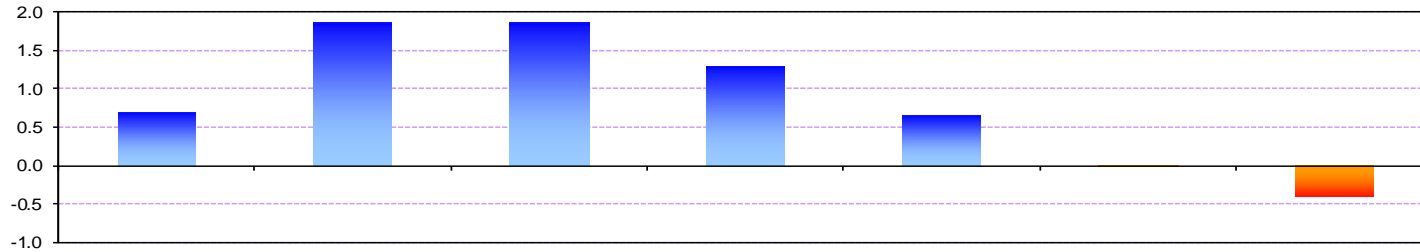
Overview of Today

- Market Review
 - Asset class results
 - Themes
 - Market trends and developments

- Evaluation of the Worcestershire County Council Pension Fund results
 - Total fund results (short and long term)
 - Attribution of 2017/18 results

Total Fund Results – Ending March 2018

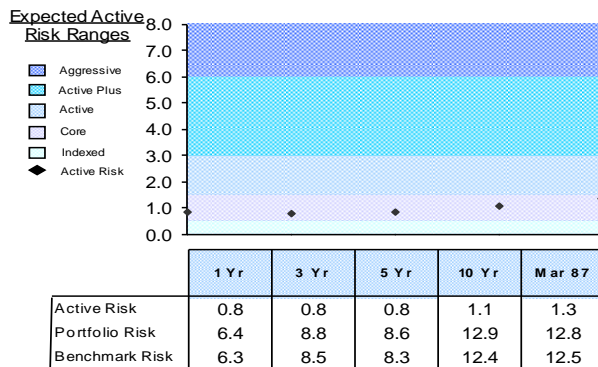
Excess Return Analysis (%)



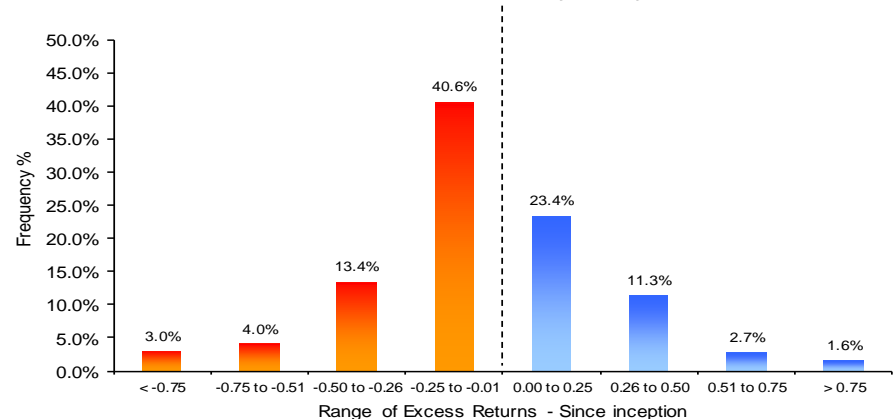
| | QTR | YTD | 1 Yr | 3 Yr | 5 Yr | 10Yr | Since Mar 87 (p.a.) |
|------------------|------|-----|------|------|------|------|---------------------|
| Portfolio Return | -3.5 | 5.4 | 5.4 | 9.4 | 9.2 | 7.9 | 8.1 |
| Benchmark Return | -4.1 | 3.5 | 3.5 | 8.1 | 8.5 | 7.9 | 8.6 |
| Excess Return | 0.7 | 1.9 | 1.9 | 1.3 | 0.7 | 0.0 | -0.4 |

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

Ex-Post Active Risk Analysis (%)



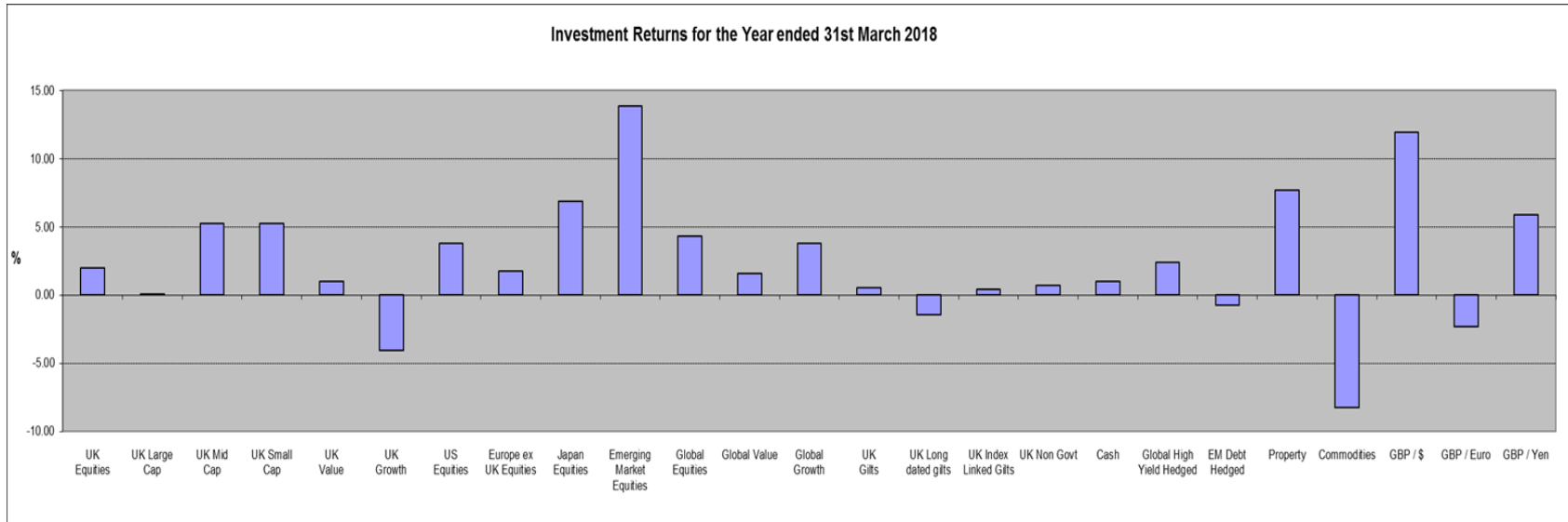
Excess Return Consistency Analysis



- Positive real returns generated by the Fund over all time periods.
- Positive excess over 1 year, 3 years and 5 years.
- Returns in excess of cash and inflation
- No change in risk and return profile when compared to last year
- The Fund has a higher return than our LAPF average.

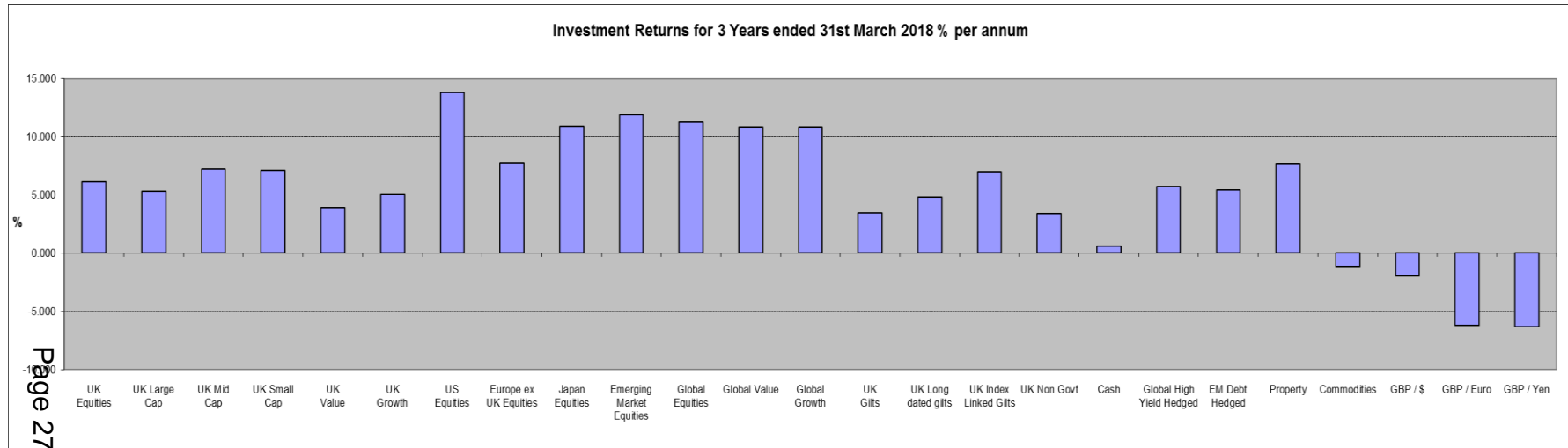
Market Results – Year Ended March 2018

Page 26



- A variable year with equity markets doing well until Q1 2018.
- UK equity market not as buoyant as other markets partly due to lack of overseas investors (and domestic to some degree) over concerns about UK growth and Brexit.
- Bond yields rose globally in Q1 after being 'soft' all year.
- High returns due to global economic growth.
- Investors believe that the global economy is moving from a recovery phase to an expansion phase.
- Market risk increased in 2018

Market Results - Three Years Ended March 2018



- Global economic growth consistently positive
- Strong returns from markets
- Risk levels at historic lows on an ex-post basis
- Sterling depreciation a significant return generator
- Impact of QE beneficial from a returns perspective

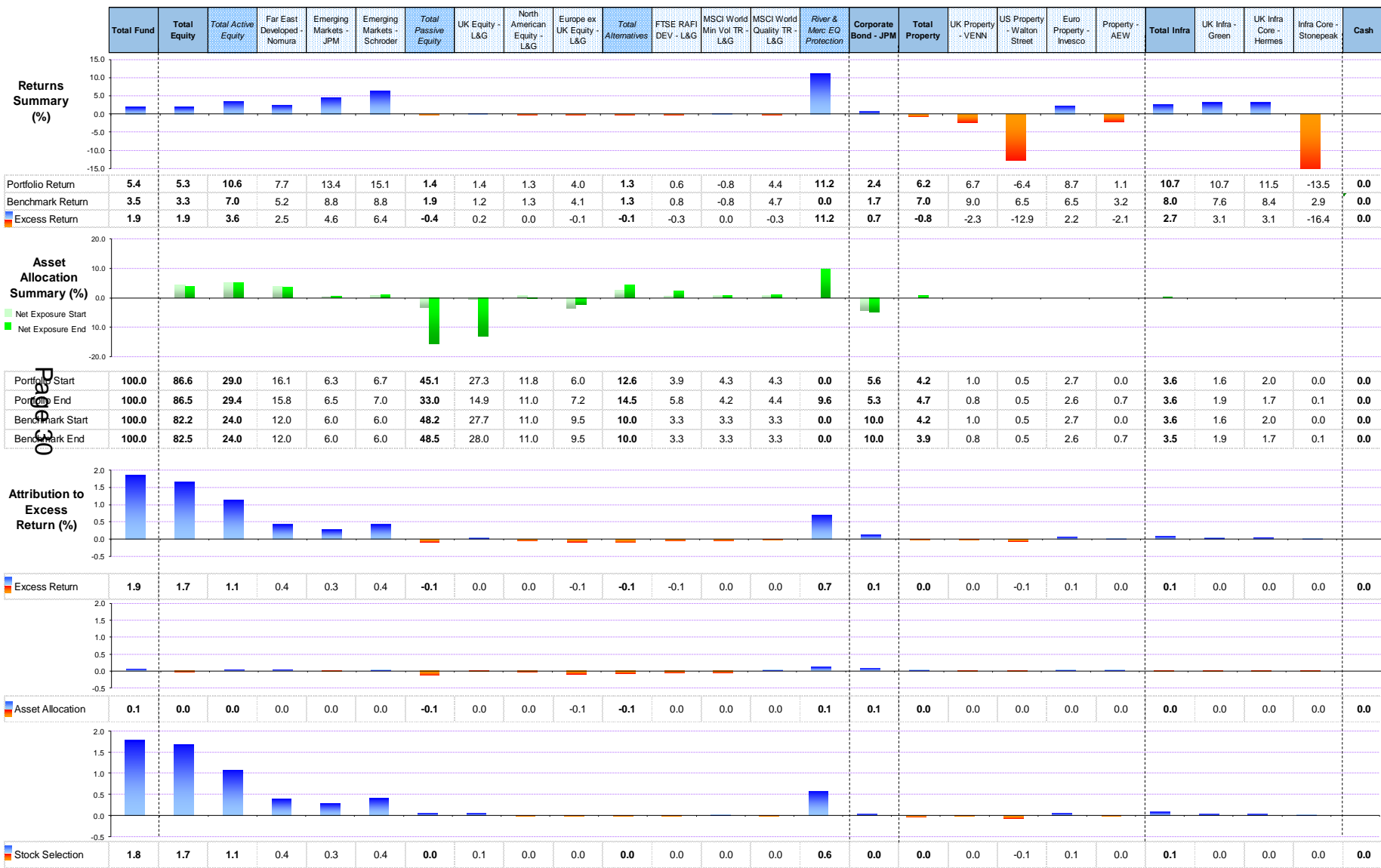
Client Trends and Market Developments

- Fund activity;
 - Growth in investments within 'Alternative Asset Classes' including Infrastructure and Private Debt.
 - Uptake of equity protection strategies
 - More currency hedging – typically versus additional sterling depreciation.
 - Increased exposure to alternative benchmark index strategies such as RAFI
 - Removal of underperforming managers increased partly because of limited time to make up differential because of pooling (these assets typically have been indexed)
 - Investment fees reducing.
- Local Government Pension Scheme Pooling
 - Currently in early stages of transition
 - Transition due in 2018 / 19
 - Wide range of solutions
 - Fee pressures
- Investment monitoring developments
 - Increased focus on net and gross of fees reporting
 - Equity style analysis
 - Restructuring of funds significant

Developments at the Fund

- Fund activity;
 - Increasing exposure to infrastructure managers (Stonepeak).
 - Increasing exposure to property (AEW).
 - New equity protection strategy (River & Mercantile).
 - New investment in EQT.
 - Reduced exposure to indexed UK equities.

Attribution to Total Fund Excess Return Analysis - Year Ending March 2018



Fund and Portfolio Summary Page- Year Ending March 2018

| | 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 | 2,314.0 | 86.5 | -4.0 | -5.0 | 0.9 | 5.3 | 3.3 | 1.9 | 5.3 | 3.3 | 1.9 | | | | | | | | | | 17.2 | 15.6 | 1.6 |
| <i>Total Active Equity Fund</i> | Client Specific Weighted Index | Mar-16 | 786.2 | 29.4 | -2.8 | -3.1 | 0.3 | 10.6 | 7.0 | 3.6 | 10.6 | 7.0 | 3.6 | | | | | | | | | | 23.5 | 20.3 | 3.2 |
| Far East Developed Fund - Nomura | FTSE Developed Asia Pacific Index | Feb-03 | 424.1 | 15.8 | -4.3 | -4.1 | -0.2 | 7.7 | 5.2 | 2.5 | 7.7 | 5.2 | 2.5 | 12.8 | 10.7 | 2.0 | 10.4 | 9.0 | 1.4 | 9.0 | 8.6 | 0.4 | 11.1 | 10.9 | 0.2 |
| Emerging Markets Fund - JPM | FTSE All World Emerging Market Index | Dec-11 | 174.0 | 6.5 | -0.5 | -2.2 | 1.6 | 13.4 | 8.8 | 4.6 | 13.4 | 8.8 | 4.6 | 13.1 | 10.4 | 2.8 | 7.8 | 6.9 | 0.9 | | | | 9.5 | 8.3 | 1.2 |
| Emerging Markets Fund- Schroder | FTSE All World Emerging Market Index | Oct-11 | 188.1 | 7.0 | -1.5 | -2.2 | 0.7 | 15.1 | 8.8 | 6.4 | 15.1 | 8.8 | 6.4 | 12.4 | 10.4 | 2.0 | 8.9 | 6.9 | 2.0 | | | | 9.9 | 7.5 | 2.4 |
| <i>Total Passive Equity Fund</i> | Client Specific Weighted Index | Mar-16 | 883.9 | 33.0 | -6.1 | -5.9 | -0.2 | 1.4 | 1.9 | -0.4 | 1.4 | 1.9 | -0.4 | | | | | | | | | | 13.5 | 13.4 | 0.1 |
| UK Equity Fund - L&G | FTSE All Share Index | Dec-15 | 398.4 | 14.9 | -6.8 | -6.9 | 0.0 | 1.4 | 1.2 | 0.2 | 1.4 | 1.2 | 0.2 | | | | | | | | | | 11.4 | 11.1 | 0.3 |
| North American Equity Fund- L&G | FTSE All World North American Index | Dec-15 | 293.2 | 11.0 | -4.6 | -4.5 | 0.0 | 1.3 | 1.3 | 0.0 | 1.3 | 1.3 | 0.0 | | | | | | | | | | 17.8 | 17.8 | 0.0 |
| Europe ex UK Equity Fund- L&G | FTSE Developed Europe Ex. UK Index | Dec-15 | 192.3 | 7.2 | -4.4 | -4.6 | 0.1 | 4.0 | 4.1 | -0.1 | 4.0 | 4.1 | -0.1 | | | | | | | | | | 15.0 | 15.1 | -0.2 |
| <i>Total Alternatives Fund</i> | Client Specific Weighted Index | Mar-16 | 387.3 | 14.5 | -4.9 | -5.0 | 0.1 | 1.3 | 1.3 | -0.1 | 1.3 | 1.3 | -0.1 | | | | | | | | | | 14.2 | 14.4 | -0.2 |
| FTSE RAFI DEV Fund - L&G | FTSE RAFI Developed 1000 QSR Net Index | Dec-15 | 155.5 | 5.8 | -5.8 | -5.8 | 0.0 | 0.6 | 0.8 | -0.3 | 0.6 | 0.8 | -0.3 | | | | | | | | | | 17.1 | 17.3 | -0.2 |
| MSCI World Min Vol TR Fund - L&G | MSCI World Minimum Volatility Net Index | Dec-15 | 113.0 | 4.2 | -5.1 | -5.1 | 0.0 | -0.8 | -0.8 | 0.0 | -0.8 | -0.8 | 0.0 | | | | | | | | | | 15.0 | 14.9 | 0.0 |
| MSCI World Quality TR Fund - L&G | MSCI World Quality Total Return Net Index | Dec-15 | 118.8 | 4.4 | -3.4 | -3.4 | 0.0 | 4.4 | 4.7 | -0.3 | 4.4 | 4.7 | -0.3 | | | | | | | | | | 16.9 | 17.1 | -0.1 |
| <i>Equity Protection - River & Mercantile</i> | | Jan-18 | 256.5 | 9.6 | 11.2 | 0.0 | 11.2 | | | | | | | | | | | | | | | | 11.2 | 0.0 | 11.2 |
| Corporate Bond Fund- JPM | Barclays Capital Global Aggregate - Ex Treasury, Ex Government Related 100% Hedged to GBP | Mar-03 | 141.1 | 5.3 | -1.9 | -1.8 | -0.1 | 2.4 | 1.7 | 0.7 | 2.4 | 1.7 | 0.7 | 2.4 | 2.1 | 0.3 | 3.7 | 3.2 | 0.5 | 5.8 | 5.7 | 0.1 | 5.2 | 5.3 | -0.2 |
| Total Property Fund | Client Specific Weighted Index | Mar-16 | 124.5 | 4.7 | -0.5 | 1.7 | -2.2 | 6.2 | 7.0 | -0.8 | 6.2 | 7.0 | -0.8 | | | | | | | | | | 9.1 | 7.1 | 2.0 |
| UK Property Fund - VENN | Absolute Return +9% | Jul-15 | 21.0 | 0.8 | 0.0 | 2.2 | -2.2 | 6.7 | 9.0 | -2.3 | 6.7 | 9.0 | -2.3 | | | | | | | | | | 11.3 | 9.3 | 2.0 |
| US Property Fund- Walton Street | Absolute Return + 6.5% | Jan-16 | 14.6 | 0.5 | -3.6 | 1.6 | -5.2 | -6.4 | 6.5 | -12.9 | -6.4 | 6.5 | -12.9 | | | | | | | | | | 11.0 | 6.0 | 5.0 |
| Euro Property Fund- Invesco | Absolute Return + 6.5% | Feb-16 | 70.2 | 2.6 | 0.0 | 1.6 | -1.6 | 8.7 | 6.5 | 2.2 | 8.7 | 6.5 | 2.2 | | | | | | | | | | 10.3 | 6.2 | 4.2 |
| Property Fund- AEW | Absolute Return + 6.5% | Oct-17 | 18.8 | 0.7 | 1.4 | 1.6 | -0.2 | | | | | | | | | | | | | | | | 1.1 | 3.2 | -2.1 |
| Total Infrastructure Fund | Client Specific Weighted Index | Mar-16 | 96.2 | 3.6 | 5.0 | 1.9 | 3.1 | 10.7 | 8.0 | 2.7 | 10.7 | 8.0 | 2.7 | | | | | | | | | | 10.3 | 8.0 | 2.3 |
| UK Infrastructure Fund - Green | Absolute Return +7.6% | Apr-15 | 49.6 | 1.9 | 4.2 | 1.8 | 2.4 | 10.7 | 7.6 | 3.1 | 10.7 | 7.6 | 3.1 | | | | | | | | | | 6.6 | 7.6 | -0.9 |
| UK Infrastructure Core Fund - Hermes | Absolute Return +8.4% | May-15 | 44.6 | 1.7 | 5.7 | 2.0 | 3.7 | 11.5 | 8.4 | 3.1 | 11.5 | 8.4 | 3.1 | | | | | | | | | | 9.7 | 8.4 | 1.3 |
| Infrastructure Core Fund - Stonepeak | Absolute Return +12% | Jan-18 | 2.0 | 0.1 | -13.5 | 2.9 | -16.4 | | | | | | | | | | | | | | | | -13.5 | 2.9 | -16.4 |
| Worcestershire CC Total Fund | | Mar-87 | 2,675.9 | 100.0 | -3.5 | -4.1 | 0.7 | 5.4 | 3.5 | 1.9 | 5.4 | 3.5 | 1.9 | 9.4 | 8.1 | 1.3 | 9.2 | 8.5 | 0.7 | 7.9 | 7.9 | 0.0 | 8.1 | 8.6 | -0.4 |

Summary

- The Fund has outperformed its benchmark over the one, three and five year periods.
- The Fund has outperformed the LGPS universe (Portfolio Evaluation Ltd) over 1 and 3 years.
- Over the one year the Fund has outperformed due to;
 - Stock selection was the dominant contributor and primarily due to the successful outperforming active equity managers.
 - Asset allocation over the year was marginally positive due to being underweight the low returning bond asset class and overweight the new equity protection strategy.
- 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.

PENSIONS COMMITTEE
22 JUNE 2018**PENSION FUND UNAUDITED ANNUAL REPORT AND**
ACCOUNTS 2017/18

Recommendation

1. **The Chief Financial Officer recommends that the unaudited Pension Fund Annual Report and Accounts 2017/18 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.

Supporting Information

- Pension Fund Annual Report and Accounts 2017/18 (Appendix)

Contact Points

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Specific Contact Points for this report

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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.

2017 / 2018



Annual Pension Fund Report and Statement of Accounts

Worcestershire County Council

DRAFT / Unaudited

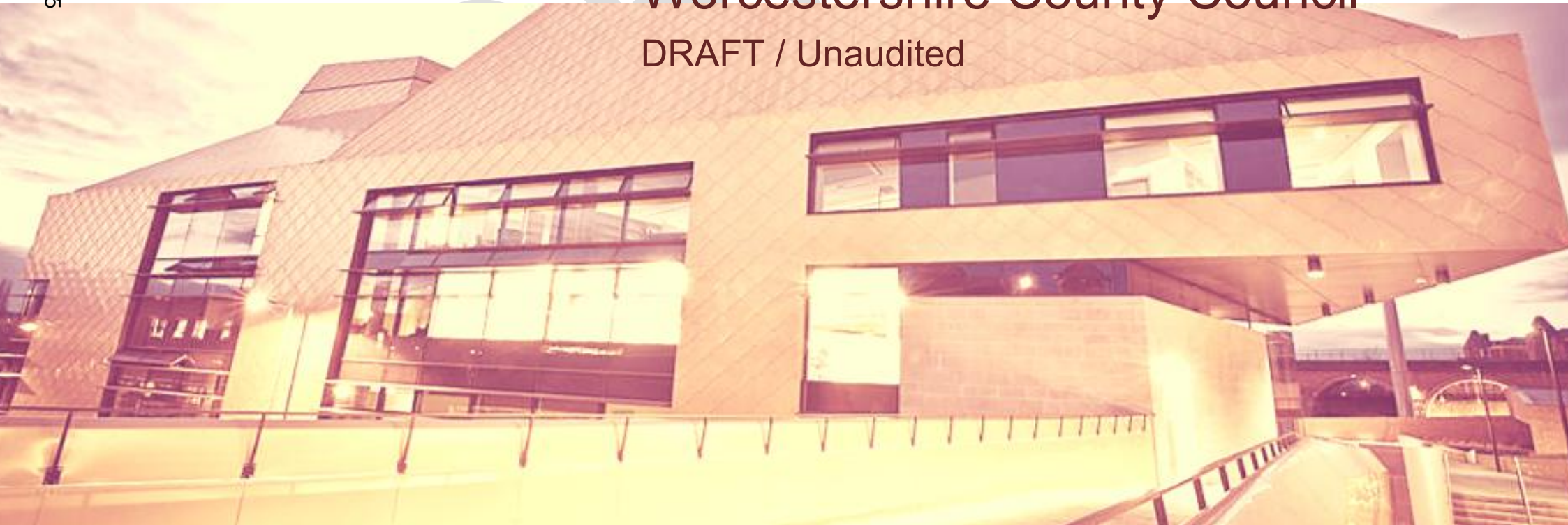


Table of Contents

| | |
|---|------------|
| Committees, Advisers and Officers | 3 |
| Foreword by the Chief Finance Officer | 6 |
| Development of the Scheme | 12 |
| Administration Review of the Year | 16 |
| The Fund's Investment Portfolio and Performance | 20 |
| Report of the Independent Financial Adviser | 30 |
| Pension Fund Account | 36 |
| Net Assets Statement | 37 |
| Notes to Pension Fund Accounts | 38 |
| Statement of Accounting Policies | 87 |
| Funding Strategy Statement | Appendix 1 |
| Actuarial Valuation 31 March 2016 | Appendix 2 |
| Investment Strategy Statement | Appendix 3 |
| Policy Statement on Communication Strategy | Appendix 4 |
| Policy Statement on Governance Strategy | Appendix 5 |
| Governance Compliance Statement | Appendix 6 |
| Disclosures to assist the LGPS Scheme Advisory Board Report 2017/18 | Appendix 7 |
| Glossary of Terms | Appendix 8 |
| Contacts | 130 |

Pension Committee Advisers and Officers as at 31st March 2018

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Councillor B Banks (Chair)
Councillor R Lunn
Councillor P Middlebrough (16 June 2017 onwards)
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 L Mallet

Mrs D Duggan – Unison

Mrs J Bennet – Unison

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London, SW1P 4QP

Fund Managers continued

Walton Street Capital, LLC
900 N. Michigan Avenue, Suite 1900
Chicago, IL 60611

First State Investments
23 St Andrew Square
Edinburgh
E12 1BB

Stonepeak Infrastructure partners
717 Fifth Avenue 25th Floor
New York NY 10022

AEW
33 Jermyn Street
London
SW1Y 6DN

Global Custodian

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

Independent Financial Adviser

Philip Hebson
Allenbridge Epic Investment Advisers Limited
26th Floor, 125 Old Broad Street
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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 Finance Officer

Welcome to the Worcestershire County Council Pension Fund 2017/18 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.

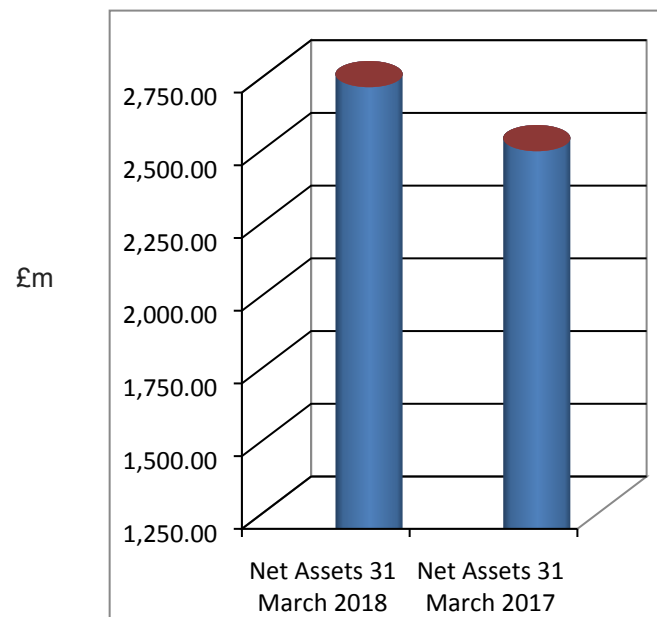
Table 1 aim and Purpose of the Scheme

| 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, |
| • | pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses. |

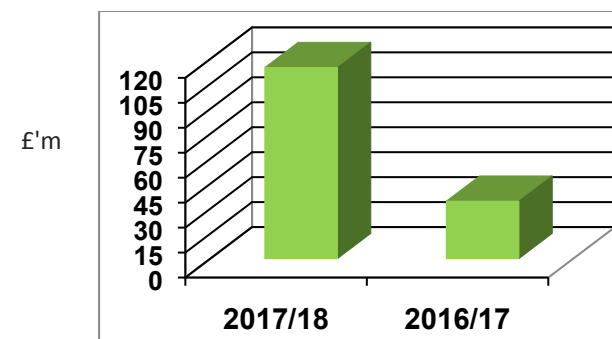
Key headlines

- The value of the Fund's net assets increased by £220.1 million from £2,480.9 million at 31 March 2017 to £2,701.0 million at 31 March 2018:
- Income from contributions increased by 70 %,(£195 million from £115 million) due mainly to some employers paying their 3 year pension contributions upfront. This equated to 66% of the total contributions received in 2017/18.
- Contributions from staff and employers exceeded benefits paid and management expenses in 2017/18 by £79.0million due again largely as a result of the upfront payments.
- 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.
- During the year a surplus resulted on the Pension Fund account totalling for 2017/18 £114.8 million, an increase of £80.3 million from the surplus of £34.5 million for 2016/17. Again this is mainly due to 3 years upfront contributions (£71.2m.)

Fund's Net Asset Value £'m



Surplus on the pension fund account £'m



An analysis of changes within the fund's membership profile is displayed in Table 2 below:

Table 2 analysis of changes within the fund's membership profile

| | 31 March 2017 | | 31 March 2018 | Change | Change % |
|--------------------------|------------------|--|------------------|--------|-------------|
| | | | | | |
| Contributors to the fund | 22,308 | | 22,478 | 170 | 0.8 |
| Pensions paid | 16,918 | | 17,507 | 589 | 3.5 |
| Deferred members | 19,970 | | 20,351 | 381 | 1.9 |
| | 59,196 | | 60,336 | 1,140 | 1.9 |

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 twelve specialist external managers with thirteen 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 2017/18:

- 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.

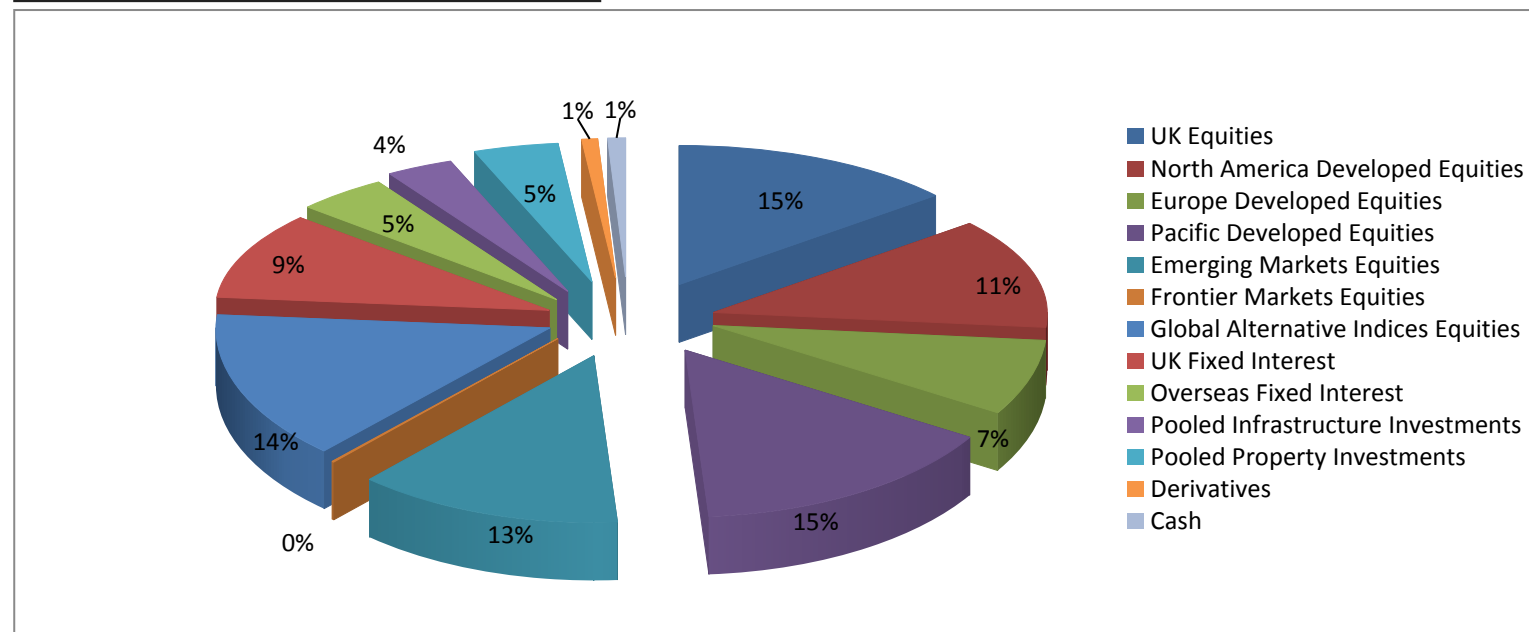
As at 31st March 2018 the 2016 strategic asset allocation review recommendation of a 15% commitment to 'Alternatives including property' continued to be implemented following investments into two pooled property funds; Invesco Real Estate UK Residential Fund, AEW UK Real Estate Fund and two pooled Infrastructure funds; Stone Peak Fund and First State European Diversification Fund (further top ups to these 2 funds were approved in December 2017). A further commitment to Hermes II a pooled infrastructure fund and a new Corporate Private Debt mandate with EQT were approved in March 2018 and are due to be implemented early 2018/19.

The majority of the improvement in the funds' assets since the 2016 valuation is attributable to the rally in equity markets over the period. The Actuary strongly recommended that the fund consider using an equity protection strategy to

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

In December 2017 the Pensions Committee appointed River and Mercantile to implement and manage an Equity Protection Strategy using a 'static' options hedge solution. This was implemented during late February / early March 2018 and will cover a period up to the next actuarial valuation in 2019. The following chart details the distribution of the fund's assets as at 31 March 2018:

Table 3 Distribution of the Funds Assets



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. On the 17 January 2018, LGPS Central Limited received Financial Conduct Authority (FCA) authorisation. The Company has been authorised to operate as an Alternative Investment Fund Manager (AIFM) and became formally operational from the 1st April 2018.

Each Fund approved the regulatory capital requirements for LGPS central and its introduction on the 31st January 2018. All FCA regulated entities are required to hold regulatory capital designed to protect the solvency of the entity. It was calculated that £16m of capital will need to be introduced (“Capital Introduced”) by the eight Shareholding Funds to cover the capital requirement, a prudent buffer, set-up costs and operational liquidity. Each Fund provided £2million of capital on 31st January 2018, with Worcestershire’s share consisting of £1.3million of equity and £0.7million of debt which has been met by Worcestershire County Council Pension Fund

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 by Mercers 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 at that point in time 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.

Michael Hudson
LLB (Hons), LLM, CPFA
Chief Finance 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 children's' 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

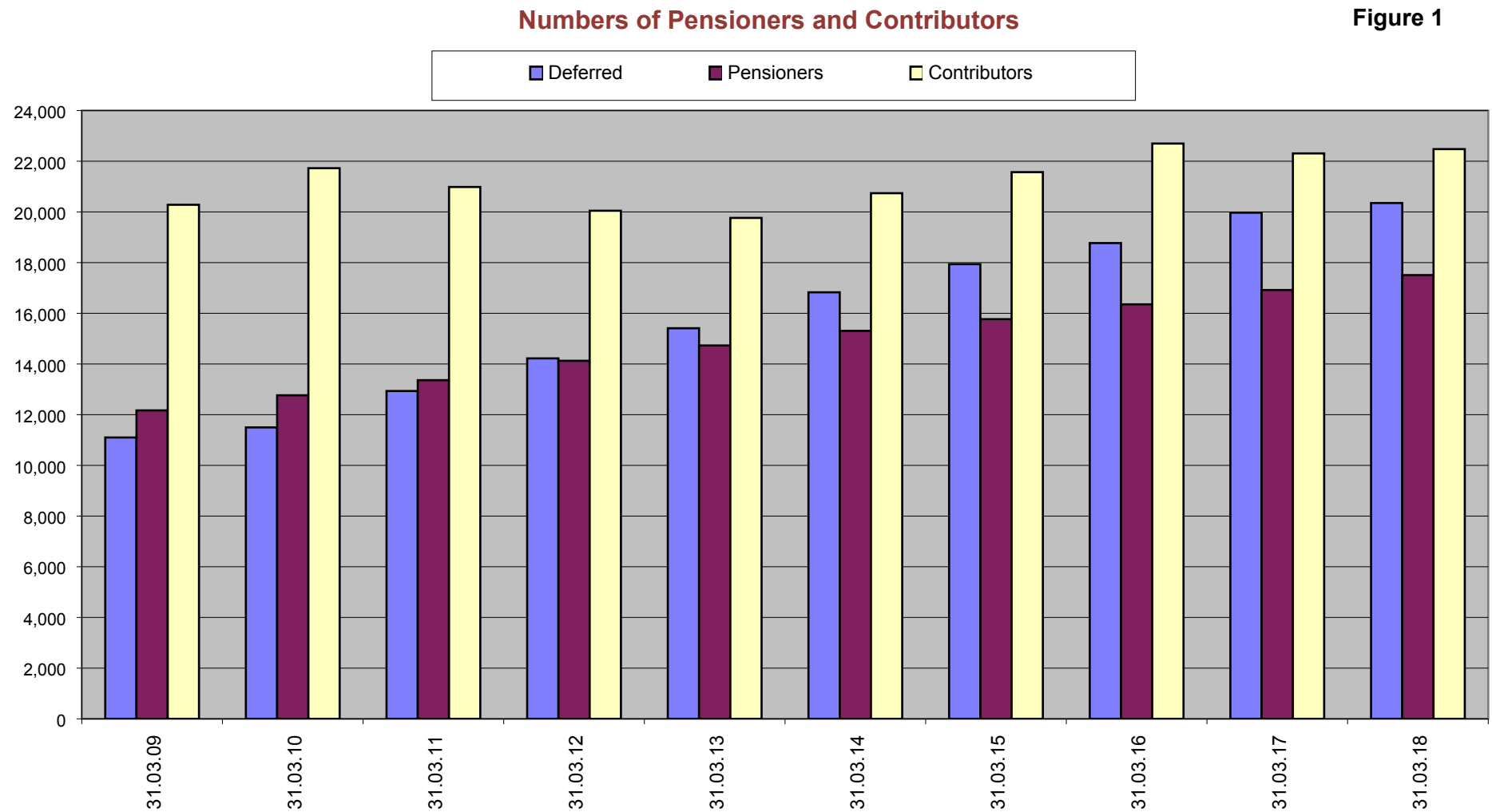
The LGPS is a defined benefit scheme. Prior to 1 April 2014 benefits are based on membership and final salary on or near to retirement. For membership from 1 April 2014 pension benefits are based on pension build up, which is also called career averaging. This provides, in the scheme standard section, 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 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



Legislation

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 as detailed below

Consultations - continuing

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 -Consultation on regulations for the £95,000 exit payment cap in respect of the public sector exit payment reforms are still in abeyance with no legislative changes.

Exit Payment Recovery -Consultation on the recovery regulations for those earning £80,000 or more who leave public sector employment and return within a year, is likewise in abeyance

Autumn Statement and Budget 2017

The Chancellor's Autumn Statement, DCLG highlighted the following points

a) TPR to 'clarify' long-term investment guidance amid government infrastructure plans

The Pensions Regulator (TPR) will clarify guidance on investments with long-term horizons as part of the government's plans to encourage pension funds to invest more in infrastructure, according to Autumn Budget documents.

b) Autumn Budget 2017: Lifetime allowance increase confirmed

Budget papers have confirmed the lifetime allowance (LTA) for pensions will increase to £1,030,000 for the tax year 2018/19.

The Pensions Regulator (TPR)

Following the continuing expansion of its statutory duties in respect of Public Sector Pension Schemes (PSPS) the TPR priorities for 2018 to 2021 are:

- a) Enhancing and executing effective regulatory approaches across all schemes.
- b) Promoting good trusteeship through improving governance and administration.
- c) Effective regulation of defined benefit schemes.
- d) Effective regulation of master trusts.
- e) Ensuring employers meet their ongoing automatic enrolment duties.
- f) Preparing for the impact of Brexit.
- g) Equipping our staff to meet the challenges that TPR faces.
- h) Developing an approach to regulation that focuses on more proactive and targeted work and uses a wider range of regulatory interventions.

New Pensions Minister

The DCLG minister with responsibility for the LGPS in England & Wales is Rishi Sunak, conservative MP for Richmond.

Pensions Administration Review of the Year

Career average revalued earnings (CARE) continues to be embedded and is a challenge for both employers and administrators, especially the year-end process and requirements for Annual Benefit Statement (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

This applied from the 1st April 2017 and the next triennial valuation is due in 2019. The data to be supplied by scheme employers forms a major part of the valuation the actuary undertakes. It will be 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 has been completed by officers in regard to its appropriateness for the efficient administration of the scheme. This review took on board 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 2018, there was only one case dealt with by the Appointed Person responsible for considering Stage 2 appeals against employer decisions. In this case the employer's decision was upheld.

Key staff indicators

The administration team employs 19 members of staff (17.60 FTE). The Fund therefore has a ratio of one full time equivalent member of the team for every 3,500 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 2017/18;

| 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% |

| 2017/18 Pension Administration | Revised Approved Budget £000 | Actual Expenditure £000 |
|---|---------------------------------------|-------------------------------|
| <u>Employees:</u> | 453 | 449 |
| Insurance Fidelity | 4 | 0 |
| Indirect Expenses | 2 | 1 |
| <u>Transport:</u> | 2 | 2 |
| <u>Supplies & Services:</u> | | |
| Office Running expenses | 15 | 12 |
| Postage | 35 | 26 |
| External Audit Fee | 26 | 26 |
| Consultants | 0 | 11 |
| Mercers Fees* | 10 | 10 |
| Heywood Ltd - Licences & Maintenance | 210 | 181 |
| Insurances | 3 | 3 |
| <u>Central Support Recharges</u> | 76 | 76 |
| Total Expenditure: | 836 | 797 |
| | 0 | |
| Income: | | |
| Pensions Fund* | -835 | -796 |
| Income from Outside bodies* | -1 | -1 |
| Total Income: | -836 | -797 |
| | | |
| Net Surplus (-) / deficit | 0 | 0 |

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.

The majority of the improvement in the funds' assets since the 2016 valuation is attributable to the rally in equity markets over the period. The Actuary strongly recommended that the fund consider using an equity protection strategy to

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

In December 2017 the Pensions Committee appointed River and Mercantile to implement and manage an Equity Protection Strategy using a 'static' options hedge solution. This was implemented during late February / early March 2018 and will cover a period up to the next actuarial valuation in 2019. The following chart details the distribution of the fund's assets as at 31 March 2018:

For management purposes the Fund is divided between twelve external investment managers (including the Equity Protection strategy) operating a mix of thirteen 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 Property Fund | AEW |
| UK Infrastructure (Offshore wind) | Green Investment Bank |
| UK Infrastructure (Core) | Hermes |
| Infrastructure (Core) | Stonepeak |
| Equity Protection Strategy | River & Mercantile |

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 2018 is shown below;

| Shares Managed | % | Investment Manager and Expected Performance |
|---------------------------------------|------|--|
| <u>Shares Managed Actively</u> | | |
| 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% |

| Shares Managed | % | Investment Manager and Expected Performance |
|--|--------------|---|
| <u>Total Shares Managed Actively</u> | 20.0 | |
| <u>Shares Managed Passively</u> | | |
| <u>Market Capitalisation Indices</u> | | |
| 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 |
| <u>Alternative Indices</u> | | |
| Global | 15.0 | Legal and General Asset Management: 40% GPAE - FTSE-Research Affiliates Fundamental Index(RAFI) Dev 1000 Equity Fund, 30% GPBK - MSCI World Mini Volatility Index, 30% STAJ - CSUF - STAJ MF36726/36727 |
| <u>Total Shares Managed Passively</u> | 55.0 | |
| | | |
| Total | 75.0 | |
| | | |
| Fixed Interest | 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 |
| Overall Total | 100.0 | |

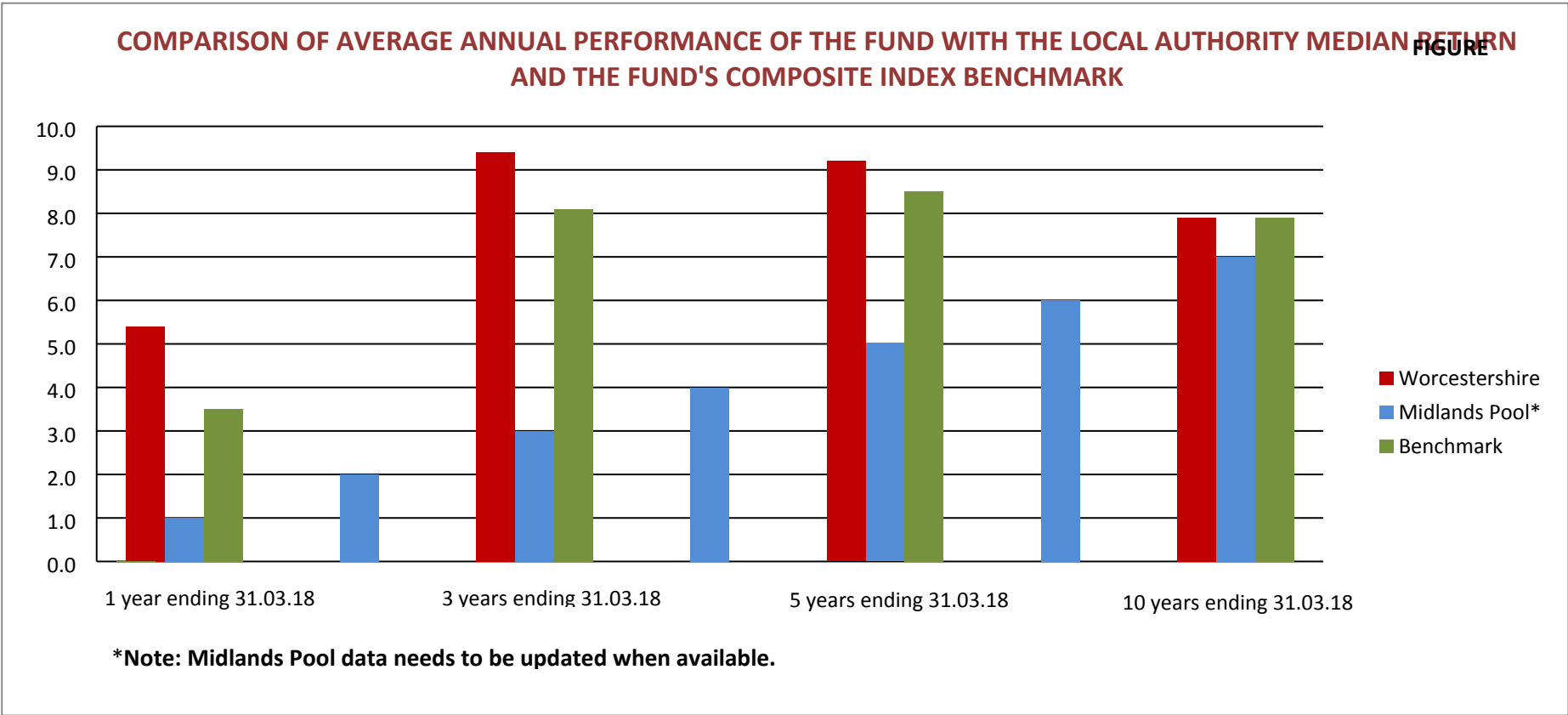
Custody of the Fund's assets is provided by the Global Custodian, BNY Mellon Asset Servicing.

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

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 2017/2018 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 2018 the Worcestershire return of 5.4% beating the Fund's index benchmark return by 1.9% and outperformed the Peer Universe return by 1.7%.

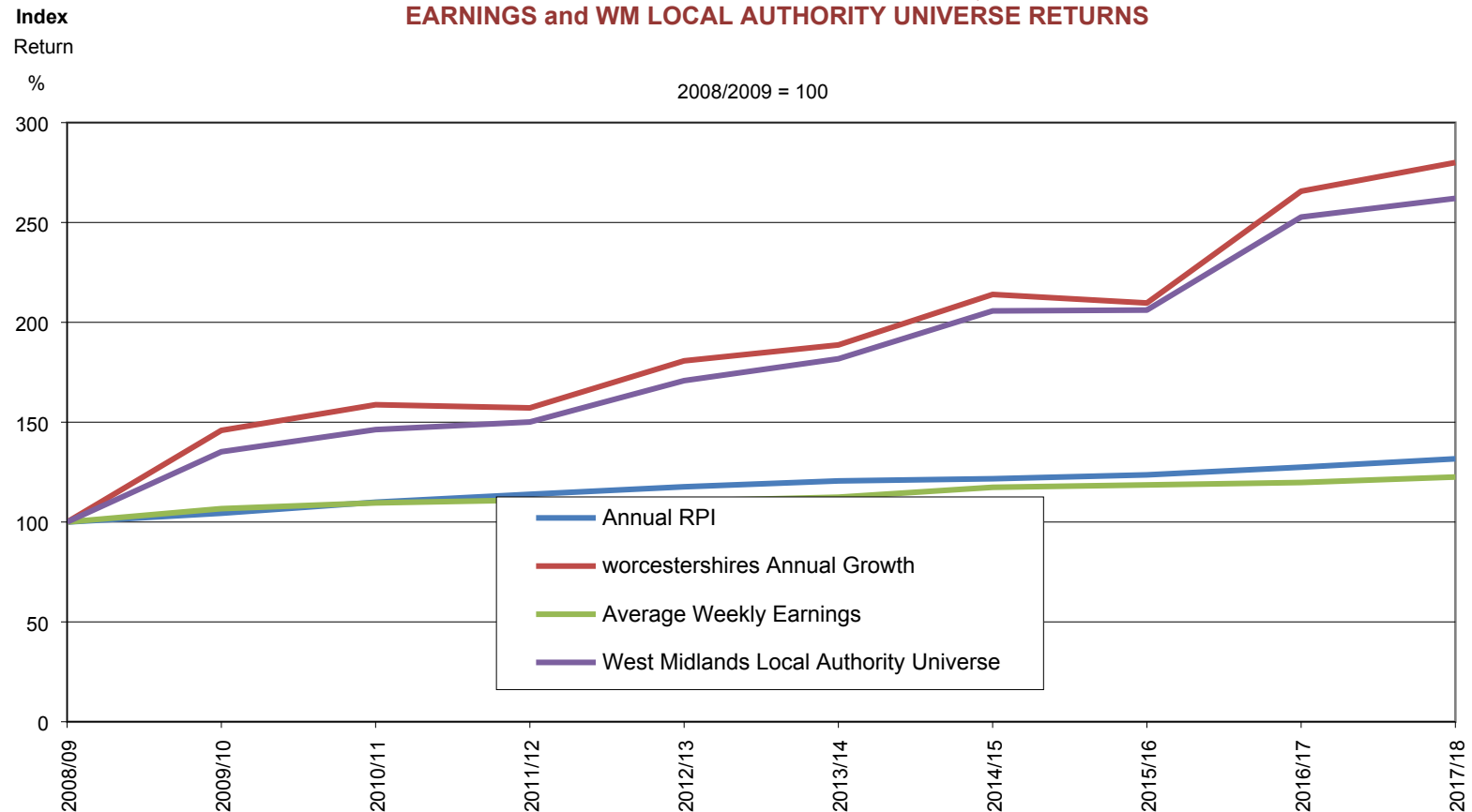
Figure 2 shows comparisons of the performance returns of the Fund with Peers return and the Fund's composite index benchmark over the last one, three, five, and ten years.



A comparison between the Fund's performance returns against the retail price index and the national average earnings since 2008 is given at Figure 3.

FUND'S ANNUAL GROWTH COMPARED TO RETAIL PRICE INDEX, NATIONAL AVERAGE WEEKLY EARNINGS and WM LOCAL AUTHORITY UNIVERSE RETURNS

Figure 3



A chart showing the total net assets of the Fund each year since 2008 is given at Figure 4.

Figure 4

TOTAL NET ASSETS MARCH 2008 TO MARCH 2018

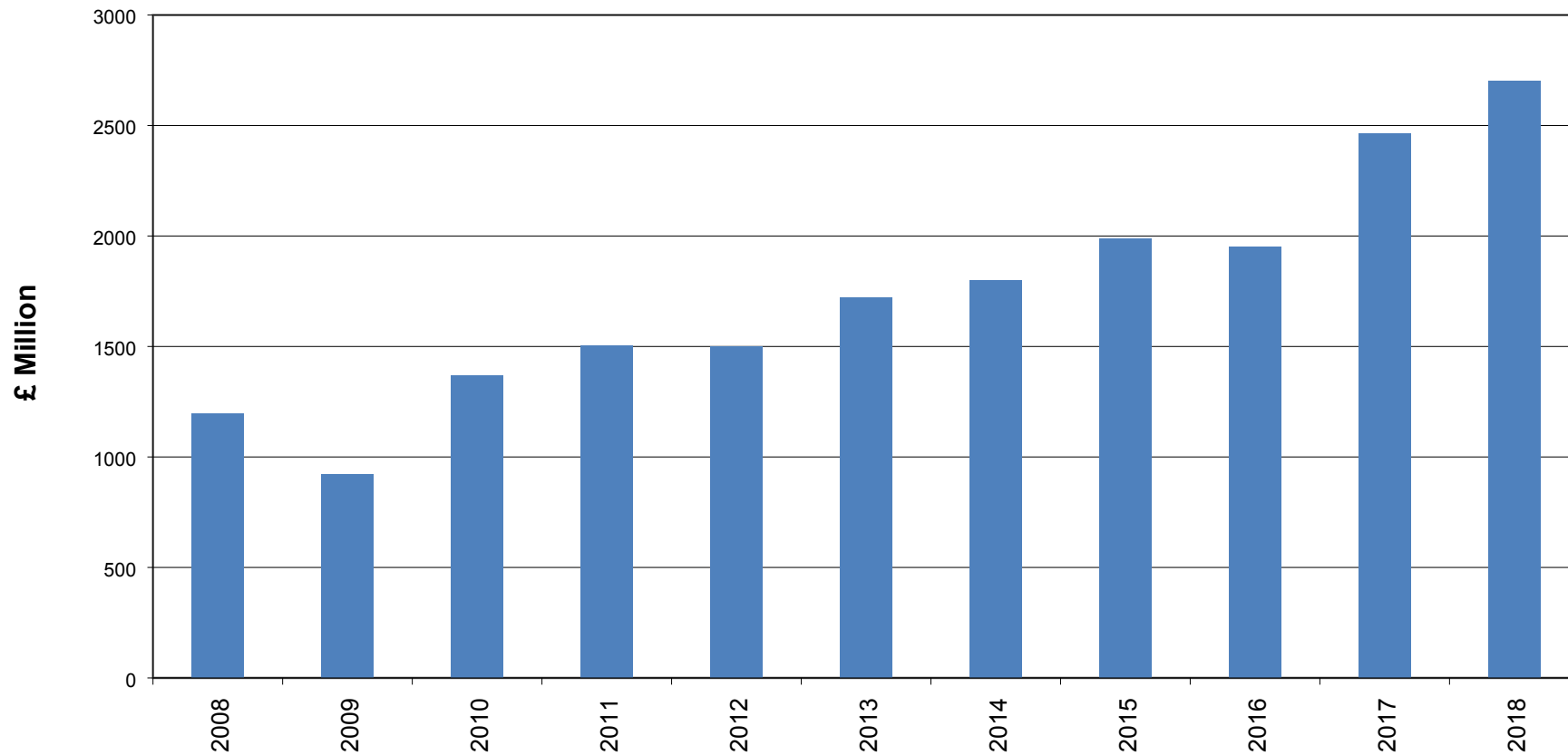
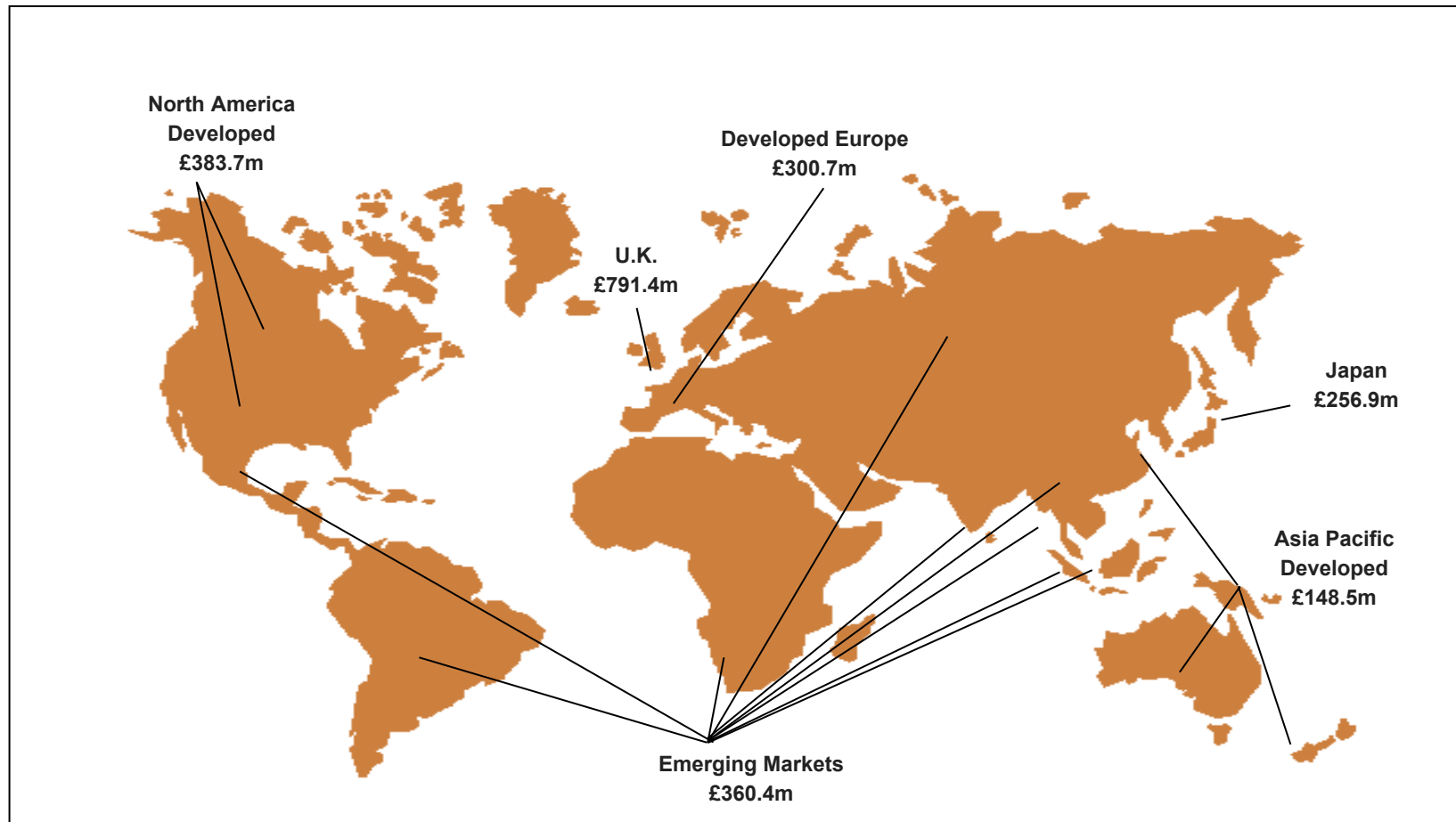


Figure 5 shows the geographical spread of investments (excluding cash, derivatives and global 'Alternative Indices' passive pooled investments):



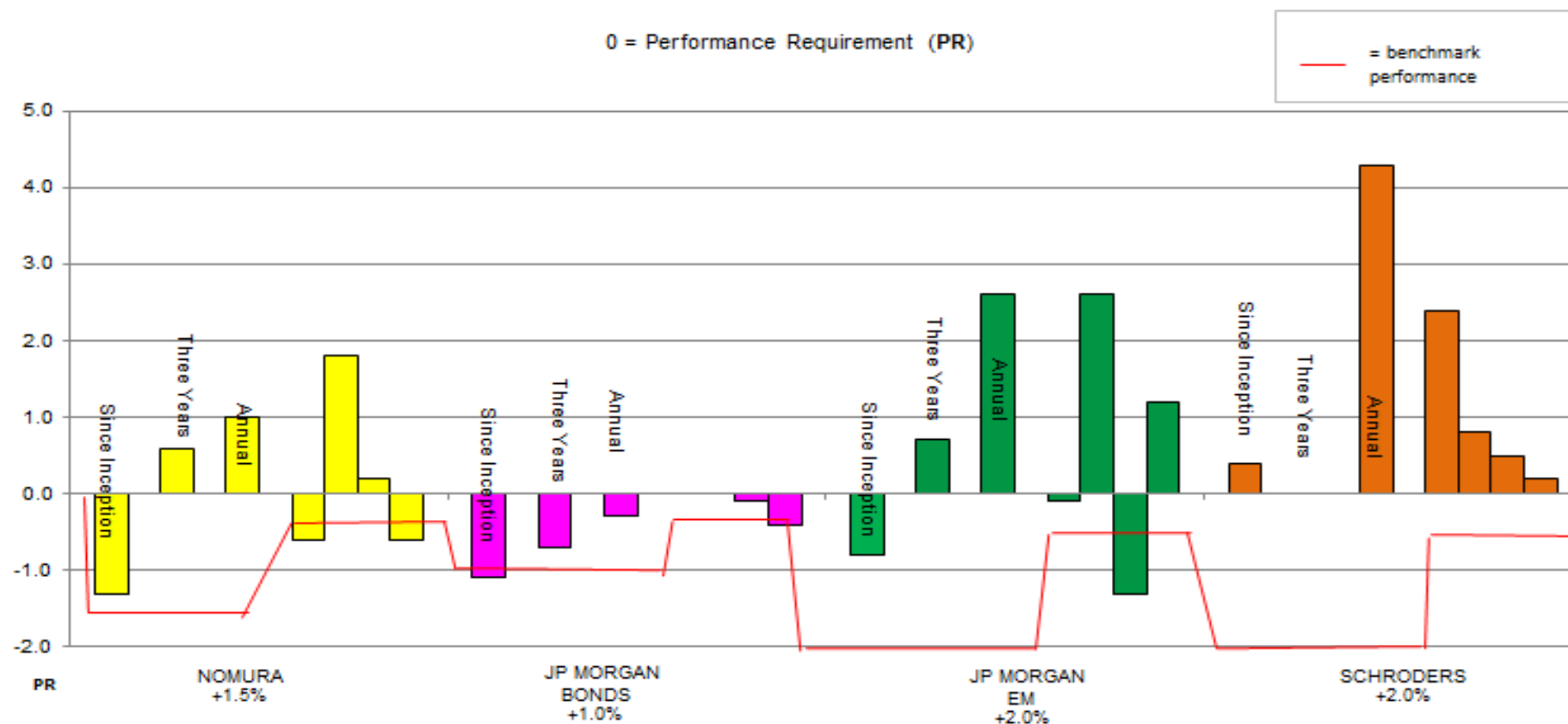
The Fund's top ten equity holdings (excluding Pooled Funds) are as follows:-

| Equity Holding | Market Value as at 31 st March 2018 £'m | % of Fund Market value as at 31 st March 2018 |
|------------------------------------|---|---|
| TENCENT HOLDINGS LTD | 25.04 | 0.9 |
| TAIWAN SEMICONDUCTOR MANUFACTU | 11.60 | 0.4 |
| NOMURA FDS IRE-ASN SM CO-ZD | 10.46 | 0.4 |
| SAMSUNG ELECTRONICS CO LTD | 10.34 | 0.4 |
| NOMURA FDS IRE-IND EQ-Z-ACC | 10.31 | 0.4 |
| SUMITOMO MITSUI FINANCIAL GROU | 9.77 | 0.4 |
| FTSE 100 INDEX (OTC) CALL OCT | 9.65 | 0.4 |
| NATIONAL AUSTRALIA BANK LTD | 9.61 | 0.4 |
| TAIWAN SEMICONDUCTOR MANUFACTU ADR | 9.27 | 0.3 |
| SBERBANK OF RUSSIA PJSC ADR | 9.13 | 0.3 |

The total value of these ten holdings represents 4.3% of the whole Fund.

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

Worcestershire County Council Pension Fund - Chart showing for each active manager: performance since inception, three years, annual performance April 2017 to March 2018 and latest year in quarter ends January 2018 to March 2018, 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 , Schroder's' and JP Morgan Emerging Markets is strong and JP Morgan Bonds have nearly equalled the ir performance target over the past twelve months.
- Schroder's portfolio continued to have good performance in quarter 4 of 2018, which increased their one year return to substantially above target. Over the passed three years JP Morgan Emerging Markets are now ahead of their performance target

Report of the Financial Adviser

Another excellent year

Last year I described the 2016-17 accounting period as a "Vintage Year", and I am pleased to report that during the 2017-18 year the Fund has seen a further increase in value. The total market value of the Worcestershire County Council Pension Fund at 31 March 2018 was £2,681m, compared to £2,465m at the e

end of March 2017, an increase of 9%. The Fund outperformed its bespoke benchmark performance target over the last year by 1.9%. The Fund also outperformed its benchmark by 1.3% over 3 years and 0.7% over 5 years. It is particularly gratifying to note that the ten year performance figure has now moved to an in line position against the benchmark, after a long period of showing an underperformance.

Over the course of the year under review equity markets climbed to ever higher levels, continuing into January 2018. Towards the end of January concerns about the US stance on their global trading arrangements, particularly with China, started to give serious concern and world markets fell sharply, initiating a period of volatility in share prices that hasn't been seen for some time. By the end of the quarter and the Fund accounting year, market levels had recovered to a large extent, but in sterling valuation terms the Fund was slightly below the high water mark that had occurred in January. The Fund continued to benefit from the relatively high exposure to equities, with a further boost from the active managers who all performed well against their benchmarks.

To an extent political surprises continued on from 2016-17. In the UK the Prime Minister, Theresa May, called a snap General Election after her Easter break in the Welsh hills. This was ostensibly to capitalise on the strong position the Conservative Party held in opinion polls to strengthen the Government's position in their negotiations on exiting the European Union ("Brexit"), given the small majority that the Government held in the House of Commons at that time. As history now shows, the actual outcome did not give Mrs May's Government an overall majority, so their position had actually weakened, with the added complication of an emboldened Opposition. Next up was another Mrs M., this time Angela Merkel facing the German electorate. Again, another difficult outcome, with another cobbled together coalition. Somehow markets managed to shrug off all this potentially damaging news on the political front and headed to yet higher levels. Over in the US, their new President, Donald Trump, had an uphill struggle with his own staff, but has been applying his own particular brand of diplomacy on the world stage. He certainly has US interests at heart, and has avoided international disasters so far, despite his Tweeted bluster.

At Fund level much has changed during the last year. The rise in equity markets in particular has seen the funding level (which is a measure of the Fund's assets measured against the expected liabilities) improve to such an extent that the deficit had been eliminated, implying a fully funded position. Given that at the last Triennial Valuation in 2016 we had been looking at a recovery period of a further 19 years, based on a funding level of 76%, this was a very welcome development.

The Fund had effectively been rewarded for holding a high percentage of Fund assets in equities, certainly when compared to other LGPS Funds, but having achieved the objective of securing a vastly improved funding position thoughts then turned quite rightly to provide at least partial protection to the impact of possible future falls in equity markets.

This was achieved in a number of ways. Firstly it was recognised that while the strategic asset allocation to equities had been reduced to 75% of Fund assets at the last allocation review, the allocation to Bonds and Alternatives still remained low against their allocation within their agreed ranges and a rebalancing was necessary to reduce the actual exposure to equities. For the Alternatives this was achieved by increasing the allocation of funds to existing managers, including those selected during a process to increase the allocation to Alternatives undertaken in June, as a result of the 2016 strategic asset allocation review. The process of increasing exposure to Bonds identified that it was appropriate to widen the definition of that asset class to Fixed Interest, which enabled a search for alternatives to traditional Bonds, which now included Private Debt managers. Following a rigorous selection process, EQT have been appointed to manage a mandate in that area.

This still left the Fund potentially exposed to the detrimental impact of a significant fall in equity values, so in consultation with the Fund Actuary it was agreed that an equity downside protection strategy would be designed and implemented. The most appropriate and cost effective strategy was selected, namely a single option strategy that would provide protection against significant equity market falls in value for an 18 month period over the Funds passive equity investments. This period would provide cover up until the next Triennial Valuation due in April next year and for a period after that while decisions about strategic asset allocation are taken as a result of the findings of that valuation. A clearly defined brief was prepared and a selection process for a manager was undertaken, with River & Mercantile being selected to implement the mandate. This was put in place during February 2018.

During the course of the year under review considerable changes have taken place in the management team responsible for the Fund. In October Sean Pearce, Chief Financial Officer and Section 151 Officer responsible for the Fund, left to take up a new position as Finance Director of West Midlands Combined Authority. In January the long serving Manager responsible for the day to day operation of the Fund, Mark Forrester, departed to take up new responsibilities at the University of Birmingham, including appropriately being in charge of their Pension Fund. Both Sean and Mark have made a significant contribution to ensuring the Fund's investments have been well managed, in partnership with the members serving on the Pensions Investments Advisory Panel, the Pensions Committee and more recently the Local Pension Board. Since Sean left, Sue Alexander capably filled the role as Interim CFO during a period of a heavy workload for the Fund, supported by Andrew Lovegrove, CFO of Herefordshire County Council. The Fund also received invaluable support from officers at West Midlands Pension Fund, most notably from their Chief Investment Officer, Jill Davys. She made a significant contribution, particularly during the search process for the Private Debt manager. Mark Forrester has been replaced by Rob Wilson, who managed both his old role at the Council and his new one with aplomb during the implementation of the equity protection strategy and the selection process for the Private Debt manager. The Fund has been well served by many people during the last year. Since the year end, the Fund has been joined by the new Director of Finance, Michael Hudson, who until recently held a similar role at Wiltshire County Council and Pension Fund. His experience from their Pension Fund will be invaluable, particularly as we move forward into the new era of the Fund's asset management arrangements, in partnership with LGPS Central.

As flagged in my report last year, the Fund is a member of LGPS Central which will be responsible for managing the Fund assets for Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire Pension Funds. For the time being each Fund retains the responsibility for monitoring their existing managers and making short term changes to their management arrangements as necessary. Over a period of two to three years most assets will transition to management by the team being assembled by LGPS Central. Worcestershire County Council Pension Fund will retain responsibility for asset allocation decisions, which research shows forms the major part of the contribution to Fund performance over time. Crucially the Fund will also still be responsible for meeting the liabilities to our members, namely paying their pensions.

Philip Hebson

MJ Hudson Allenbridge

29th May 2018

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 / Reputation | 12 | Triennial reviews linked with funding strategy and investment strategy. Asset liability study, ISS, interim reviews, Co-ordination between actuary and investment consultant. | 2 |

| 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 | Ensure that the Fund has robust client and performance monitoring in place when transferring its assets to LGPS Central and ensure this is in line with the fund's investment strategy | Failure to ensure the Fund transfers its assets and has insufficient information on the performance of its asset valuations | Strategic Threat | Financial / Governance | 12 | <p>Monthly PAF meetings take place with representatives from LGPS central to discuss and address operational issues. Formal Transition procedures are in place and the end to end process is currently being refined. The Investment work stream group (IWG) with representatives from all the funds will be used to ensure as smooth a process as possible and is in line with investment strategy.</p> <p>The Client reporting work stream group meets regularly with the Head of Client monitoring for LGPS central to ensure that client and performance reporting is in place</p> | 6 |
| 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 / Reputation | 12 | Diversified investment structure and frequent monitoring against targets to adjust funding plans accordingly through the FSS. Employers are kept informed as appropriate. | 6 |
| Funding | Minimise unrecoverable debt on termination of employer participation | An employer ceasing to exist with insufficient funding, adequacy of bond or guarantee. In the absence of all of these, the shortfall will be attributed to the fund as a whole with increases being required in all other employers contributions | Partnership / Strategic Threat | Financial / Reputation | 12 | The Fund assesses the strength of individual employers covenant strength and requires a bond or parent company guarantee when setting terms of admission agreements. With the assistance of the Fund's Actuary, the Fund plans to carry out a covenant review for the full fund, with the aim of implementing bonds or guarantee for the handful of historic employers where no protection was built into the original admission agreements. | 6 |

| 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 |
|-------------------------|--|---|--------------------|-----------------------------------|------------------|--|---------------------|
| 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 /Reputation | 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 2018

| 2016/17 £m | Notes | 2017/18 £m |
|--|-----------|----------------|
| Dealings with members, employers and others directly involved in the fund | | |
| 107.8 Contributions | 5 | 185.2 |
| 8.0 Transfers in from other pension funds | 6 | 10.4 |
| 115.8 | | 195.6 |
| (95.5) Benefits | 7 | (98.0) |
| (7.0) Payments to and on account of leavers | 8 | (8.8) |
| (102.5) | | 106.8 |
| 13.3 Net additions / (Withdrawals) from dealings with members | | 88.8 |
| (1.0) Administrative expenses | 9 | (0.8) |
| (7.2) Management expenses | 10 | (9.0) |
| Net additions / (Withdrawals) including fund management and administrative 5.1 expenses | | 79.0 |
| Returns on investments | | |
| 30.4 Investment income | 11 | 37.2 |
| (1.0) Taxes on income | 12 | (1.4) |
| Profit and losses on disposal of investments and changes in the market value of 494.1 investments | 13a & 14b | 105.3 |
| 523.5 Net return on investments | | 141.1 |
| 528.6 Net increase / (decrease) in the net assets available for benefits during the year | | 220.1 |
| 1,952.3 Opening fund net assets of the scheme | | 2,480.9 |
| 2,480.9 Closing fund net assets of the scheme | | 2,701.0 |

3. Net Assets Statement for the year ended 31 March 2018

| 2016/17 £m | | Notes | 2017/18 £m |
|----------------|--|---------|----------------|
| 0.1 | Long term Investment Assets | 13 | 1.9 |
| 2,453.4 | Investment Assets | 13 & 14 | 2,692.6 |
| 22.4 | Cash deposits | 13 | 27.1 |
| 2,475.9 | | | 2,721.6 |
| (5.2) | Investment Liabilities | 13 | (32.2) |
| 12.0 | Current Assets | 16 | 25.6 |
| 1.4 | Non-Current Assets | 17 | 1.8 |
| (3.2) | Current Liabilities | 18 | (15.8) |
| 2,480.9 | Net Assets of the fund available to fund benefits at the period end | | 2,701.0 |

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. Notes 13 and 14 provides details on the Fair Value of assets

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 thirteen external investment managers operating in accordance with mandates set out in the Statement of Investment Principles.

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 208 employer organisations within the Worcestershire County Council Pension Fund including Worcestershire County Council.

The following table provides detail of fund membership:

| | 31 March 2017 | 31 March 2018 |
|--|------------------|------------------|
| Contributors to the fund | | |
| County Council | 8,049 | 8,083 |
| Other employers | 14,259 | 14,395 |
| Total | 22,308 | 22,478 |
| Pensions paid | | |
| County Council | 4,721 | 4,968 |
| Other employers | 12,197 | 12,539 |
| Total | 16,918 | 17,507 |
| Deferred members | | |
| County Council | 8,307 | 8,296 |
| Other employers | 11,663 | 12,055 |
| Total | 19,970 | 20,351 |
| Total number of members in the fund | 59,196 | 60,336 |

A separate detailed Annual Report and Accounts, including the Statement of Investment Principles, is available from the Chief Financial Officer, Worcestershire County Council, County Hall, Spetchley Road, Worcester, WR5 2NP. The report is also available on the Council's website: [Link](#) to follow

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 2018. 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 2017/18 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-health 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

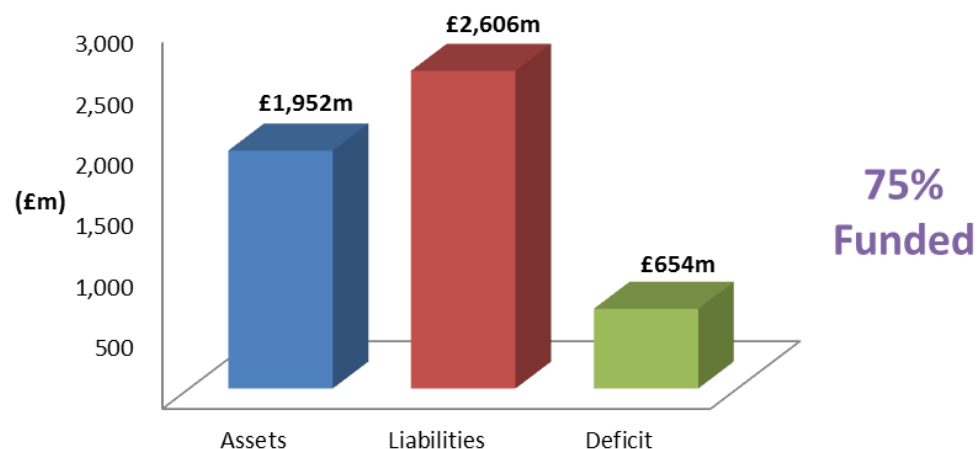
2. Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2018 - 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

April 2018

3. Pension Fund Investments 2017/18

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 2017 | | 31 March 2018 | |
|---|------------------|------------|------------------|------------|
| | £m | % | £m | % |
| JP Morgan Asset Management (Bonds) | 136.5 | 5 | 139.8 | 5 |
| JP Morgan Asset Management (Emerging Markets) | 153.0 | 6 | 173.5 | 6 |
| Nomura Asset Management UK Ltd | 390.4 | 16 | 420.5 | 16 |
| Schroder Investment Management | 163.0 | 7 | 187.3 | 7 |
| Legal and General Asset Management | 1,412.2 | 57 | 1,270.3 | 47 |
| Green Investment Bank | 49.4 | 2 | 49.2 | 2 |
| Hermes | 49.2 | 2 | 44.1 | 2 |
| Invesco | 66.7 | 3 | 70.2 | 3 |
| VENN | 22.9 | 1 | 26.3 | 1 |
| Walton Street | 13.6 | 1 | 17.3 | 1 |
| AEW | 0 | 0 | 18.8 | 1 |
| Stonepeak | 0 | 0 | 2.8 | 0 |
| River and Mercantile | 0 | 0 | 255.8 | 9 |
| WCC Managed Account | 8.4 | 0 | 5.1 | 0 |
| | 2,465.3 | 100 | 2,681.0 | 100 |

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

| | Market value | % of total | Market value | % of |
|--|---------------|------------|---------------|-------|
| | 31 March 2017 | fund | 31 March 2018 | total |
| Security | £m | | £m | fund |
| LGIM – UK Equity Index Pooled Fund | 667.9 | 27.1 | 398.0 | 15.0 |
| LGIM – North America Index Pooled Fund | 289.3 | 11.7 | 293.1 | 11.0 |
| River and Mercantile UK Gilts | 0.0 | 0.0 | 228.3 | 8.6 |
| LGIM – Europe (ex-UK) Index Pooled Fund | 147.2 | 6.0 | 192.1 | 7.2 |
| LGIM - FTSE Developed Equity Pooled Fund | 95.0 | 3.9 | 155.3 | 5.8 |

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 £35.9 million (2017 £27.8million). 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 £38.3 million (2017 £29.5million) representing 107% of stock lent.

Income received from stock lending activities was £0.1million for the year ending 31 March 2018 (2017 £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 the 18th May 2018. 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. A £0.9m Capital call was made for one of the infrastructure funds in March 2018, but was paid in April; the figure for Contingent Liabilities has been adjusted for this.

5. Contributions Receivable

| By category: | | 2016/17 | 2017/18 |
|--------------|--------------------------------|--------------|--------------|
| | | £m | £m |
| Employers | Normal contributions | 46.3 | 52.9 |
| | Deficit recovery contributions | 36.8 | 36.5 |
| | Augmentation contributions | 2.7 | 2.0 |
| | Additional Contributions | 0.0 | 71.2 |
| Employees | Normal contributions | 21.6 | 22.3 |
| | Additional contributions | 0.4 | 0.3 |
| | | 107.8 | 185.2 |

| By authority: | | 2016/17 | 2017/18 |
|-------------------------------|--|--------------|--------------|
| | | £m | £m |
| Worcestershire County Council | | 30.8 | 77.6 |
| Scheduled bodies* | | 62.0 | 92.1 |
| Community admission bodies | | 5.5 | 6.3 |
| Transferee admission bodies | | 8.7 | 8.2 |
| Designated bodies | | 0.8 | 1.0 |
| | | 107.8 | 185.2 |

* The increase in Scheduled Bodies' contributions is mainly a result of the maintained schools converting to Academies during 2017/18. Maintained schools are included within Worcestershire County Council's contributions, whilst Academies are Scheduled bodies in the Fund.

The Additional Contributions in 2017/18 were made to the Fund by Worcestershire County Council and other Employers (Bromsgrove District Council, Fortis Living, Herefordshire Housing Association, Herford and Worcestershire Fire Authority, Redditch Borough Council, Regulatory Services, Sports partnership Hereford & Worcestershire, Trinity Academy, Worcester City Council, Worcestershire 6th Form College, ,Wychavon District Council and Wyre Forest District Council) , which represented 100% of the Employer Deficit recovery contributions and as well as Worcestershire County Council, other employers (Redditch Borough Council , Bromsgrove District Council, Wychavon District Council and Regulatory Services) paid 90% of the Normal Contributions due from the Council for each of the Financial years 2017/18, 2018/19 and 2019/20.

6. Transfers in and from other Pension Funds

| | 2016/17 £m | 2017/18 £m |
|----------------------|---------------|---------------|
| Individual transfers | 8.0 | 10.4 |
| | 8.0 | 10.4 |

7. Benefits Payable

| | | |
|---|---------------|---------------|
| By category: | 2016/17 £m | 2017/18 £m |
| Pensions | 77.3 | 80.4 |
| Commutations and lump sum retirement benefits | 16.0 | 15.7 |
| Lump sum death benefits | 2.2 | 1.9 |
| | 95.5 | 98.0 |

| By authority: | 2016/17 | 2017/18 |
|-------------------------------|-------------|-------------|
| | £m | £m |
| Worcestershire County Council | 36.1 | 36.8 |
| Scheduled bodies | 48.4 | 50.5 |
| Admitted bodies | 1.6 | 1.9 |
| Community admission bodies | 6.2 | 5.5 |
| Transferee admission bodies | 2.7 | 2.6 |
| Designated bodies | 0.5 | 0.7 |
| | 95.5 | 98.0 |

8. Payments to and on Account of Leavers

| | 2016/17 | 2017/18 |
|----------------------|------------|------------|
| | £m | £m |
| Individual transfers | 7.0 | 8.8 |
| Group transfers | 0.0 | 0.0 |
| | 7.0 | 8.8 |

At year-end there were no potential liabilities (2016/17 £0.2 million) in respect of individuals transferring out of the Pension Fund upon whom the fund is awaiting final decisions.

9. Administrative Expenses

| | 2016/17 | 2017/18 |
|--------------------|------------|------------|
| | £m | £m |
| Employee expenses | 0.5 | 0.5 |
| Support services | 0.1 | 0.1 |
| Actuarial services | 0.2 | 0.2 |
| Other expenses | 0.2 | 0.0 |
| | 1.0 | 0.8 |

The audit fee for work completed by the Fund's external auditors for the year ended 31st March 2018 was £26,156 0.25% of total admin costs (£26,156 for the year ended 31st March 2017 0.20% of total admin costs).

10. Management Expenses

| | 2016/17 £m | 2017/18 £m |
|--|---------------|---------------|
| Oversight and Governance | 0.1 | 0.1 |
| Investment Management Expenses | | |
| Administration, management and custody fees* | 7.0 | 8.9 |
| Other expenses | 0.1 | 0.0 |
| | 7.2 | 9.0 |

10 a. Investment Management Expenses

| | 2016/17 £m | 2017/18 £m |
|-------------------|---------------|---------------|
| Management fees | 5.6 | 7.7 |
| Custody fees | 0.3 | 0.3 |
| Transaction costs | 1.2 | 0.9 |
| | 7.1 | 8.9 |

The £9.0m management expenses incurred in 2017/18 represent 0.33% or 33basis points (bps) of the market value of the fund's assets as at 31st March 2018 (0.29% or 29bps 31st March 2017). The increase in management and investment expenses is mainly due to the addition of pooled property investments, pooled infrastructure investments and implementation of an Equity Protection Strategy 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 cash for the pooled property investments, pooled infrastructure investment and Equity Protection solution 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 equity protection strategy was implemented to reduce the likelihood that further deficit contributions will be required at the 2019 valuation and seek to 'bank' some of the recent upside with a view to potentially reducing contributions at future valuations

* The Fund has applied CIPFA's guidance 'Accounting for Local Government Pension Scheme Management Costs', which requires external investment management fees and transaction costs to be deducted from asset values (rather than invoiced and paid directly). These are shown gross: the application of the guidance increases management expenses from £7.2 million to £9.0 million for 2017/18 (£5.1 million to £7.2 million for 2016/17). It is important to note that the application of the guidance does not represent an actual increase in costs, or a decrease in the Fund's resources to pay pension benefits.

11. Investment Income

| | 2016/17 | 2017/18 |
|-----------------------------------|-------------|-------------|
| | £m | £m |
| Fixed interest securities | 4.2 | 5.0 |
| Equity dividends | 18.4 | 22.0 |
| Pooled Property investments | 4.6 | 5.1 |
| Pooled Infrastructure investments | 2.9 | 4.7 |
| Interest on cash deposits | 0.2 | 0.4 |
| Securities lending | 0.1 | 0.0 |
| | 30.4 | 37.2 |

12. Taxes on Income

| | 2016/17 | 2017/18 |
|----------------------------|--------------|--------------|
| | £m | £m |
| Withholding tax – equities | (1.0) | (1.4) |
| | (1.0) | (1.4) |

13. Investments

| | Market value 31 March 2017 £m | Market Value 31 March 2018 £m |
|-------------------------------------|-------------------------------------|-------------------------------------|
| Long term Investment Assets | | |
| LGPS Central –AFIM | 0.1 | 0.5 |
| LGPS Central shares | 0.0 | 1.4 |
| Investment assets | | |
| Fixed interest securities | 130.7 | 359.8 |
| Equities | 678.9 | 752.5 |
| Pooled investment vehicles | 1,434.9 | 1,292.0 |
| Pooled property investments | 101.5 | 128.5 |
| Pooled Infrastructure investments | 98.6 | 96.1 |
| Derivatives - futures | 0.1 | 54.7 |
| Derivatives - forward FX | 1.2 | 1.8 |
| Cash deposits | 22.4 | 27.1 |
| Investment income due | 5.3 | 6.5 |
| Amounts receivable for sales | 2.2 | 0.7 |
| Total investment assets | 2,475.9 | 2,721.6 |
| Investment liabilities | | |
| Derivatives - futures | (0.2) | (30.2) |
| Derivatives - forward FX | (0.2) | (0.2) |
| Amounts payable for purchases | (4.8) | (1.8) |
| Total investment liabilities | (5.2) | (32.2) |
| Net investment assets | 2,470.7 | 2,689.4 |

13 a: Reconciliation of movements in investments and derivatives

| | Market value 31 March 2017 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Change in market value during the year | Market value 31 March 2018 |
|--|-------------------------------|--|--|--|-------------------------------|
| | £m | £m | £m | £m | £m |
| - | | | | | |
| Long-term Investment Assets | | | | | |
| LGPS Central – AFIM | 0.1 | 0.4 | 0.0 | 0.0 | 0.5 |
| LGPS Central – Shares | 0.0 | 1.4 | 0.0 | 0.0 | 1.4 |
| | 0.1 | 1.8 | 0.0 | 0.0 | 1.9 |
| Investment Assets | | | | | |
| Fixed interest securities | 130.7 | 324.8 | (84.2) | (11.5) | 359.8 |
| Equities | 676.2 | 277.7 | (258.0) | 56.6 | 752.5 |
| Pooled investment vehicles | 1,437.6 | 115.0 | (290.3) | 29.7 | 1,292.0 |
| Pooled Property investments | 101.5 | 51.6 | (27.2) | 2.6 | 128.5 |
| Pooled Infrastructure investments | 98.6 | 7.8 | (16.5) | 6.2 | 96.1 |
| | 2,444.6 | 776.9 | (676.2) | 83.6 | 2,628.9 |
| Derivative contracts: | | | | | |
| Futures | (0.1) | 49.3 | (39.1) | 14.4 | 24.5 |
| Forward currency contracts | 1.0 | 10.4 | (16.5) | 6.7 | 1.6 |
| | 2,445.6 | 838.4 | (731.8) | 104.7 | 2,656.9 |
| Other investment balances: | | | | | |
| Cash deposits | 22.4 | | | 0.6 | 27.1 |
| Investment income due | 5.3 | | | | 6.5 |
| Amount receivable for sales of investments | 2.2 | | | | 0.7 |
| Amounts payable for purchases of investments | (4.8) | | | | (1.8) |
| Net investment assets | 2,470.7 | | | 105.3 | 2,689.4 |

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

| | Market value 31 March 2016 | Purchases during the year and derivative payments restated | Sales during the year and derivative receipts | Change in market value during the year | Market value 31 March 2017 |
|---|-------------------------------|--|--|--|-------------------------------|
| | £m | £m | £m | £m | £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 | 358.9 | (534.8) | 172.4 | 676.2 |
| Pooled investment vehicles | 947.8 | 362.9 | (179.5) | 306.4 | 1,437.6 |
| 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 | 883.7 | (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.

Transaction costs are not included in the cost of purchases and sale proceeds, as they have been included in Investment Management Expenses as per CIPFA guidance. Transaction costs include costs charged directly to the scheme such as fees, commissions, and other fees. Transaction costs incurred during the 2017/18 year amounted to £0.8 million, (2016/17 £1.2 million). These transaction costs represent 0.03% or 3bps of the Market Value of the Fund's assets as at 31st March 2018 (5bps at 31st March 2017).

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 2017 £m | 31 March 2018 £m |
|------------------------------------|------------------------|------------------------|
| Long term Investment Assets | | |
| LGPS Central – AFIM | 0.1 | 0.5 |
| LGPS Central - shares | | 1.4 |
| | 0.1 | 1.9 |
| Fixed interest securities | | |
| UK Gilts | 0.0 | 228.3 |
| UK corporate quoted | 8.2 | 10.9 |
| Overseas public sector quoted | 0.0 | 0.0 |
| Overseas corporate quoted | 122.5 | 120.6 |
| | 130.7 | 359.8 |

Equities

| | | |
|-----------------|--------------|--------------|
| UK quoted | 12.5 | 13.1 |
| Overseas quoted | 663.7 | 739.4 |
| | 676.2 | 752.5 |

Pooled Investment Vehicles

| | | |
|--|----------------|----------------|
| Other UK managed funds – UK equities | 667.9 | 398.0 |
| – Overseas equities | 436.5 | 485.2 |
| – Global equities | 307.8 | 387.1 |
| Other overseas managed funds – Overseas equities | 25.4 | 21.7 |
| | 1,437.6 | 1,292.0 |

Pooled Funds - Additional Analysis

| | | |
|--|--------------|--------------|
| Pooled property investments - UK | 23.0 | 45.1 |
| Pooled property investments - overseas | 78.5 | 83.4 |
| | 101.5 | 128.5 |

| | | |
|--|-------------|-------------|
| Pooled Infrastructure investments - UK | 98.6 | 96.1 |
| | 98.6 | 96.1 |

| | | |
|--------------------------------|----------------|----------------|
| Derivatives - futures | 0.1 | 54.7 |
| Derivatives - forward FX | 1.2 | 1.8 |
| Cash deposits | 22.4 | 27.1 |
| Investment income due | 5.3 | 6.5 |
| Amounts receivable for sales | 2.2 | 0.7 |
| Total investment assets | 2,475.9 | 2,721.6 |

Investment liabilities

| | | |
|-------------------------------------|----------------|----------------|
| Derivatives - futures | (0.2) | (30.2) |
| Derivatives - forward FX | (0.2) | (0.2) |
| Amounts payable for purchases | (4.8) | (1.8) |
| Total investment liabilities | (5.2) | (32.2) |
| Net investment assets | 2,470.7 | 2,689.4 |

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.

In 2017/18 the Pension Fund entered into a contract with River and Mercantile, to hedge the recent gains in Equities. This involved entering into exchange-traded options on 3 major indices and purchasing a collateral pool of Gilts.

a) Futures

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

b) Forward foreign currency

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

the bond mandate investment manager to purchase and sell forward foreign currencies as a hedge.

Futures

Outstanding exchange traded futures contracts are as follows:

Assets

| Type of future | Expiration | Economic Exposure Value | Market Value 31 March 2017 | Economic Exposure Value | Market Value 31 March 2018 |
|----------------------------------|---------------------|-------------------------|----------------------------|-------------------------|----------------------------|
| | | £m | £m | £m | £m |
| UK gilt exchange traded | Less than one year | 0.3 | 0.0 | 0 | 0.0 |
| UK FTSE exchange traded option | Greater than 1 year | 0.0 | 0.0 | 0 | 25.9 |
| EUROSTOXX exchange traded option | Greater than 1 year | 0.0 | 0.0 | 0 | 14.3 |
| US S+P exchange traded option | Greater than 1 year | 0.0 | 0.0 | 0 | 14.3 |
| Overseas exchanged traded | Less than one year | 29.4 | 0.1 | 24.9 | 0.2 |
| Total assets | | | 0.1 | | 54.7 |

Liabilities

| Type of future | Expiration | Economic Exposure Value | Market Value 31 March 2018 | Economic Exposure Value | Market Value 31 March 2018 |
|-----------------------------------|---------------------|-------------------------|----------------------------|-------------------------|----------------------------|
| | | £m | £m | £m | £m |
| UK gilt exchange traded | Less than one year | 0.0 | 0.0 | (1.4) | 0.0 |
| UK FTSE exchange traded option | Greater than 1 year | 0.0 | 0.0 | 0.0 | (10.0) |
| EUROSTOXX exchange traded option | Greater than 1 year | 0.0 | 0.0 | 0.0 | (11.3) |
| US S+P 500 exchange traded option | Greater than 1 year | 0.0 | 0.0 | 0.0 | (8.7) |
| Overseas exchanged traded | Less than one year | (21.3) | (0.2) | (19.6) | (0.2) |
| Total liabilities | | | (0.2) | | (30.2) |

Net futures

(0.1)

24.5

Open forward currency

Contracts as at 31 March 2018

| Settlement | Currency Bought | Local Currency Value m | Currency Sold | Local Currency Value m | Asset Value £m | Liability Value £m |
|---|-----------------|------------------------|---------------|------------------------|-------------------|-----------------------|
| One to six months | EUR | 39.6 | GBP | 34.7 | 0.0 | |
| One to six months | GBP | 35.1 | EUR | 39.7 | 0.3 | |
| One to six months | GBP | 96.2 | USD | 1.3 | 1.4 | |
| One to six months | HKD | 10.2 | USD | 1.3 | 0.0 | |
| One to six months | USD | 0.2 | EUR | 0.2 | 0.0 | |
| One to six months | USD | 129.6 | GBP | 92.3 | 0.1 | |
| One to six months | USD | 0.1 | HKD | 1.0 | 0.0 | |
| One to six months | USD | 0.5 | ZAR | 6.0 | 0.0 | |
| One to six months | EUR | 0.5 | GBP | 0.5 | | 0.0 |
| One to six months | GBP | 35.1 | EUR | 40.0 | | 0.0 |
| One to six months | GBP | 91.0 | USD | 128.0 | | (0.2) |
| One to six months | USD | 5.3 | GBP | 3.9 | | 0.0 |
| One to six months | USD | 0.2 | INR | 11.3 | | 0.0 |
| | | | | | 1.8 | (0.2) |
| Net forward currency contracts at 31 March 2018 | | | | | | 1.6 |
| Prior year comparative: | | | | | | |
| Open forward currency contracts at 31 March 2017 | | | | | 1.2 | (0.2) |

Net forward currency contracts at 31 March 2017

1.0

Analysis of Cash

| | 2016/17 | 2017/18 |
|------------------|-------------|-------------|
| Cash | £m | £m |
| Cash deposits | 13.7 | 19.4 |
| Cash instruments | 8.7 | 7.7 |
| | 22.4 | 27.1 |

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 2017 £m | Loans and receivables 31 March 2017 £m | Financial liabilities at amortised cost 31 March 2017 £m | Designated as fair value through profit and loss 31 March 2018 £m | Loans and receivables 31 March 2018 £m | Financial liabilities at amortised cost 31 March 2018 £m |
|---|--|--|--|--|---|
| Financial assets | | | | | |
| | | 0.0 | | | 1.9 |
| 130.7 | | | | | |
| 676.2 | | | 359.8 | | |
| 1,437.6 | | | 752.5 | | |
| 101.5 | | | 1,292.0 | | |
| 98.6 | | | 128.5 | | |
| 0.1 | | | 96.1 | | |
| 1.2 | | | 54.7 | | |
| | 25.2 | | 1.8 | | |
| 7.5 | | | | 33.7 | |
| | 9.2 | | 7.2 | | |
| | 1.4 | | | 19.0 | |
| | | | | 1.8 | |
| 2,453.4 | 35.8 | 0.0 | 2,692.6 | 54.5 | 1.9 |

| Designated as fair value through profit and loss | Loans and receivables | Financial liabilities at amortised cost | Designated as fair value through profit and loss | Loans and receivables | Financial liabilities at amortised cost |
|---|--------------------------|--|--|--------------------------|---|
| 31 March 2017 | 31 March 2017 | 31 March 2017 | 31 March 2018 | 31 March 2018 | 31 March 2018 |
| £m | £m | £m | £m | £m | £m |
| | | Financial liabilities | | | |
| (0.2) | | Derivatives - Futures | (30.2) | | |
| (0.2) | | Derivatives - Forward FX | (0.2) | | |
| (4.8) | | Other investment balances | (1.8) | | |
| | | (3.2) | | | (15.8) |
| (5.2) | 0.0 | (3.2) | (32.2) | (0.0) | (15.8) |
| 2,448.2 | 35.8 | (3.2) | 2,660.4 | 54.5 | (13.9) |

Note 14 b: Net gains and losses on financial instruments

| 31 March 2017 | | 31 March 2018 |
|------------------|------------------------------------|------------------|
| £m | | £m |
| | Financial assets | |
| 507.9 | Fair value through profit and loss | 83.6 |
| 6.6 | Loans and receivables | 0.6 |
| | Financial liabilities | |
| (20.4) | Fair value through profit and loss | 21.1 |
| 494.1 | Total | 105.3 |

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 judgement in determining appropriate assumptions.

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

| | Quoted market price | Using observable inputs | With significant unobservable inputs | |
|---|------------------------|-------------------------------|--|----------------|
| Values at 31 March 2018 | Level 1 | Level 2 | Level 3 | |
| | £m | £m | £m | £m |
| Fair Value Financial assets | | | | |
| Financial assets at fair value through profit and loss | 1,119.5 | 1,348.5 | 224.6 | 2,692.6 |
| Loans and receivables | 54.5 | 0.0 | .0. | 54.5 |
| Total fair value financial assets | 1,174.0 | 1,348.5 | 224.6 | 2,747.1 |
| Fair Value Financial Liabilities | | | | |
| Financial liabilities at fair value through profit and loss | 0.0 | (32.2) | 0.0 | (32.2) |
| Total fair value financial liabilities | 0.0 | (32.2) | 0.0 | (32.2) |
| Net fair value financial assets | 1,174.0 | 1,316.3 | 224.6 | 2,714.9 |

| | Quoted market price | Using observable inputs | With significant unobservable inputs | |
|---|---------------------|-------------------------|--------------------------------------|----------------|
| | Level 1 | Level 2 | Level 3 | |
| | £m | £m | £m | £m |
| Values at 31 March 2017 | | | | |
| Fair Value Financial assets | | | | |
| Financial assets at fair value through profit and loss | 814.4 | 1,438.9 | 200.1 | 2,453.4 |
| Loans and receivables | 35.8 | 0.0 | 0.0 | 35.8 |
| Total fair value financial assets | 850.2 | 1,438.9 | 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 | 850.2 | 1,433.7 | 200.1 | 2,484.0 |

Level 3 Investments: Further analysis

| Sensitivity Analysis | Valuation range | Value as at 31 st March 2018 | Valuation Increase | Valuation Decrease |
|---|-----------------|---|--------------------|--------------------|
| | +/- % | £m | £m | £m |
| Pooled Investments - Property Funds | 7% | 128.5 | 137.5 | 119.5 |
| Pooled Investments - Infrastructure Funds | 7% | 96.1 | 102.8 | 89.4 |
| Total | | 224.6 | 240.3 | 208.9 |

Reconciliation of Fair Value Measurements within Level 3

| Investment Movement | Pooled Investments – Property Funds | Pooled Investments –Infrastructure Funds | |
|--|--|--|---------------|
| | £m | £m | £m |
| Market Value 1 st April 2017 | 101.5 | 98.6 | 200.1 |
| Transfers into Level 3 | 0.0 | 0.0 | 0.0 |
| Transfers out of Level 3 | 0.0 | 0.0 | 0.0 |
| Purchases and derivative Payments | 51.6 | 7.8 | 59.4 |
| Sales and derivative receipts | (27.2) | (16.5) | (43.7) |
| Unrealised gains/(losses) | 2.5 | 3.8 | 6.3 |
| Realised gains/(losses) | 0.1 | 2.4 | 2.5 |
| Market value 31st March 2018 | 128.5 | 96.1 | 224.6 |

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

Note 15: 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 Statement of Investment principles 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 2018:

- 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 2017/18 reporting period:

| Asset Type | Potential Market Movements (+/-) |
|------------------------------------|---|
| Fixed interest securities | 3.4 % |
| UK equities | 8.2 % |
| Overseas equities | 12.5% |
| UK pooled investment vehicle | 8.2% |
| Overseas pooled investment vehicle | 12.4% |
| Global pooled investment vehicle | 12.4% |
| Pooled property investments | 7.4% |
| Pooled Infrastructure investments | 7.4% |

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

Interest rate risk analysis

The fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 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 2017 | Value as at 31 March 2018 |
|---------------------------|------------------------------|------------------------------|
| | £m | £m |
| Cash and cash equivalents | 22.4 | 27.1 |
| Cash balances | 2.8 | 6.6 |
| Fixed interest securities | 130.7 | 359.8 |
| Total | 155.9 | 393.5 |

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, Link Asset Services, 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 2018 of a +/- 100 Basis Points (BPS) change in interest rates:

| Asset Type | Carrying amount as at 31 March 2018 | Change in year in the net assets available to pay benefits | |
|---|---|---|--------------|
| | | + 100 BPS | - 100 BPS |
| | £m | £m | £m |
| Cash and cash equivalents | 27.1 | 27.3 | 26.8 |
| Cash balances | 6.6 | 6.7 | 6.5 |
| Fixed interest securities | 359.8 | 363.4 | 356.2 |
| Total change in assets available | 393.5 | 397.4 | 389.5 |

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 2018 and as at the previous period end:

| Currency exposure - asset type | Asset value as at 31 March 2017 | Asset value as at 31 March 2018 |
|--------------------------------------|------------------------------------|------------------------------------|
| | £m | £m |
| Overseas quoted securities | 663.7 | 739.4 |
| Overseas pooled investment vehicle | 461.9 | 506.9 |
| Global pooled investment vehicle | 307.8 | 387.1 |
| Overseas pooled property investments | 78.5 | 83.4 |
| Total overseas assets | 1,511.9 | 1,716.8 |

Overseas bonds are 100% hedged to GBP at 31 March 2018.

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 8.1% (as measured by one standard deviation).

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

An 8.1% 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 2018 | Change to net assets available to pay benefits | |
|---|---------------------------------------|---|----------------|
| | | +8.1% | -8.1 % |
| | £m | £m | £m |
| Overseas quoted securities | 739.4 | 799.3 | 679.5 |
| Overseas pooled investment vehicle | 506.9 | 548.0 | 465.8 |
| Global pooled investment vehicle | 387.1 | 418.5 | 355.7 |
| Overseas pooled property investments | 83.4 | 90.2 | 76.6 |
| Total change in assets available | 1,716.8 | 1,856.0 | 1,577.6 |

Credit Risk

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

The bond manager provides a quarterly investment report to the Fund, which details the credit risk held in the portfolio. The Fund's Independent 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 2018 was £33.7million (31 March 2017: £25.2million). This was held with the following institutions:

| Summary | Rating | Balances as at 31 March 2017 £m | Balances as at 31 March 2018 £m |
|------------------------------------|--------|---------------------------------------|---------------------------------------|
| Money market funds | | | |
| BNY Mellon Sterling Liquidity Fund | AAA | 0.2 | 2.7 |
| BNY Mellon US Dollar Liquid Fund | AAA | 4.5 | 3.2 |
| BNY Mellon US Dollar | AAA | 0.0 | 0.0 |
| JPM liq-ster Liquidity-x | AAA | 2.3 | 0.8 |
| JPM liq-USD Liquidity-XDI | AAA | 1.7 | 1.1 |
| Bank deposit accounts | | | |
| The Bank of New York Mellon | A-1+ | 13.7 | 19.3 |
| Bank current accounts | | | |
| Barclays Bank PLC | A-1 | 2.8 | 6.6 |
| Total | | 25.2 | 33.7 |

Liquidity Risk

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

Note 16: Current assets

| | 2016/17 £m | 2017/18 £m |
|--|---------------|---------------|
| Contributions due from employer in respect of: | | |
| Employer | 5.0 | 5.5 |
| Members | 1.8 | 2.1 |
| Magistrates Courts Bulk Transfer Payment Due | 0.7 | 0.4 |
| Augmentation | 1.2 | 0.9 |
| Cash balances | 2.8 | 6.6 |
| Other Debtors | 0.5 | 10.1 |
| | 12.0 | 25.6 |

Other debtors have increased due mainly to cash outstanding from fund managers that has been received early in 2018/19

Note 17: Non-current assets

| | 2016/17 £m | 2017/18 £m |
|---|---------------|---------------|
| Magistrates Courts Bulk Transfer Payment Due | 1.3 | 0.8 |
| *LGPS Central Capital Advance treated as loan | 0.0 | 0.7 |
| Augmentation | 0.1 | 0.3 |
| | 1.4 | 1.8 |

*This was part of the regulatory capital required to set up the company LGPS Central which is detailed in the foreword

Note 18: Current liabilities

| | 2016/17 £m | 2017/18 £m |
|--------------------------------|---------------|---------------|
| Investment management expenses | (1.3) | (7.0) |
| Payroll and external vendors | (1.5) | (5.1) |
| Other expenses | (0.4) | (3.7) |
| | (3.2) | (15.8) |

Increase due to outstanding fund manager fees and Fund manager draw down for Walton Street and outstanding pension payments

Note 19: Analysis of debtors and creditors

Analysis of debtors

| | 31 March 2017 £m | 31 March 2018 £m |
|--------------------------------|------------------------|------------------------|
| Central government bodies | 2.0 | 2.4 |
| Other local authorities | 5.6 | 6.2 |
| Other entities and individuals | 3.0 | 11.6 |
| | 10.6 | 20.2 |

Analysis of creditors

| | 31 March 2017 £m | 31 March 2018 £m |
|--------------------------------|------------------------|------------------------|
| Central government bodies | (1.3) | (0.2) |
| Other local authorities | (1.5) | (6.9) |
| Other entities and individuals | (0.4) | (8.7) |
| | (3.2) | (15.8) |

Note 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 £0.8 million in 2017/18 (2016/17: £1.0 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 £77.6 million to the fund in 2017/18 (2016/17: £29.9 million). However £46.9 million related to the payment of contributions for years 2 and 3 up to the next valuation.

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.

LGPS Central Ltd has been established to manage investment assets on behalf of nine Local Government Pension Scheme (LGPS) funds across the Midlands. It is jointly owned in equal shares by the eight administering authorities participating in the Pool. No services were provided by LGPS Central Ltd during 17/18 as operation only commenced in April 2018. £1.315 million has been invested in share capital and £0.685 million in a loan to LGPS Central during the year. These are the balances at year end.

£0.4 million has been spent by Worcestershire County Council Pension Fund on setting up LGPS Central during the year. These costs were borne by West Midlands Pension Fund and then recharged equally to the administering authorities. A total of £0.4 million is due to be refunded to Worcestershire County Council Pension Fund by LGPS Central during 2018/19 reflecting the cost of setting up the enterprise to the end of March 18.

Key Management Personnel

The posts of Director of Finance, 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:

| | 2016/17 £000 | 2017/18 £000 |
|---------------------------------------|-----------------|-----------------|
| Short term benefits* | 46 | 33 |
| Long term/ post-retirement benefits** | 364 | 418 |
| | 410 | 451 |

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

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

Governance

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

Note 21. Contingent liabilities

Outstanding capital commitments (investments) at 31 March 2018 totalled £267.6 million (31 March 2017: £31.7 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.

Note 22. Contingent assets

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

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

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

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.

Note 23. Additional voluntary contributions

The amounts administered under AVC arrangements during 2017/18 are as follows:

| | 2016/17 | 2017/18 |
|---|---------|---------|
| | £m | £m |
| Contributions received | 0.1 | 0.2 |
| Investments purchased | 0.1 | 0.2 |
| Change in market value | (0.1) | 0.3 |
| Retirement benefits paid or transferred | 0.3 | 0.4 |

The combined value of the AVC funds at 31 March 2018 was £2.9 million, (31 March 2017 £2.2 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.

Note 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.

| | 2016/17 | 2017/18 |
|--|------------|------------|
| | £m | £m |
| Payments on behalf of Herefordshire County Council | 0.1 | 0.1 |
| | 0.1 | 0.1 |

Note 25. Participating Employers of the Fund at 31 March 2018

Scheduled Bodies

Worcestershire County Council
 Advance Trust/Vale of Evesham School
 Alvechurch Middle
 Ashperton Primary School Academy
 Aspire Academy
 Astwood Bank 1st School
 Barrs Court Special School & College
 Bengeworth First School
 Birchen Coppice Primary School
 Bishop Perowne Academy
 Bredon Hill Middle

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)

Brockhampton Academy
 Bromsgrove District Council
 Brookfield School
 Building Control
 Burghill Community Primary School
 Burley Gate Primary
 Canforth Academy
 Canon Pyon Academy
 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 Academy
 Hereford College of Art
 Hereford College of Technology
 Hereford Marches Fed of Academies
 Hereford Sixth Form College
 Hereford Steiner Academy
 Herefordshire (unitary)

Pershore Academy
 Prince Henry's High School
 Probation
 Queen Elizabeth Academy
 Reach Assisted Living
 Redditch Borough Council

 Redditch RSA Academies Trust
 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
 The Villages MAT

HIBOS
 Holmer Primary School
 Holy Fam MAC St Marys Broadway
 Holy Fam MAC St Marys Evesham
 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

Community Bodies

Babcock Training Ltd
 Brightstripe - Cultural Health CIC
 Bromsgrove District Housing Trust
 Encore Enterprises
 Festival Housing Group (formerly Partnership Housing)
 FOCSA Services (UK) Limited
 Hereford Community Leisure Trust
 Herefordshire Housing Association
 Hoople LTD

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

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
 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
 Clearview Cleaning Services
 Cygnet Foods Ltd

Designated Bodies

Baxter College
 Belbroughton parish council
 Bewdley Woen Council
 Bredon Parish Council
 Broadway Parish Council
 CIVICA - WCC Hub

Ewyas Harold Parich Council
 Elite Cleaning
 Field Studies Council
 Fortis Living
 Heart of Worcestershire College
 Herecad Enterprises Ltd
 Jacobs UK Ltd
 Kemerton Parish Council
 Kidderminster & District Youth
 Liberata
 Midland Heart
 National Youth Advocacy Service
 Place Partnership
 Redcliffe Catering Ltd
 Redditch & Bromsgrove NHS
 Ringway
 Shaw Homes Health Care
 Sports & Leisure Management
 The Rivers Multi Academy Trust

 Timberdine nursing
 Worcester Community Trust
 Wychavon Leisure (Bromsgrove)

Kidderminster town council
 Ledbury Town Council
 Leominster Town Council
 Malvern Town Council
 Pershore Joint Burial Committee

Colwall Parish council
 Droitwich Town Council
 Evesham Town Council
 Freedom Leisure
 Hagley Parish Council
 Hereford City Parish Council
 Hewlett Packard ICT
 Initial Facilities Service UK Ltd
 Integral UK Ltd
 Kempsey Parish Council

Pershore Town Council
 Rock Parish Council
 Ross-on-Wye Town Council
 Stone Parish Council
 Stourport Town Council
 Upton-on-Severn T C

 Wigmore High & Primary
 Wythall Parish Council

Note 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.

Note 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 2018 for which there is a significant risk of material adjustment in the forthcoming financial year is as follows.

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|--|
| Actuarial present value of promised retirement benefits (Note 2) | <p>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.</p> | <p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance:</p> <ul style="list-style-type: none"> • 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 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Accounting in the United Kingdom 2017/18 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 pension's administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

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

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 2017/18 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).

Independent Auditor's Report to the Members of Worcestershire County Council Pension Fund

To be inserted

Appendix 1

Funding Strategy Statement (FSS) - March 2017

The Funding Strategy Statement - March 2017 is available in the Reports area of the pensions section on the Worcestershire County Council website. A link to the pensions section is included [HERE](#).

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

| | |
|---|------------|
| <u>Long-term yields</u> | |
| Market implied RPI inflation | 3.2% p.a. |
| <u>Solvency Funding Target financial assumptions</u> | |
| 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. |
| <u>Future service accrual financial assumptions</u> | |
| 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 [HERE](#)

Appendix 4

Policy Statement on Communication Strategy

1. Introduction

- 1.1 The Worcestershire County Council Pension Fund administers the Local Government Pension Scheme for its own employees and employees of 207 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 welcomed 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 208 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 |

| Description | Service |
|------------------------------|---|
| 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 pension's 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: http://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. |

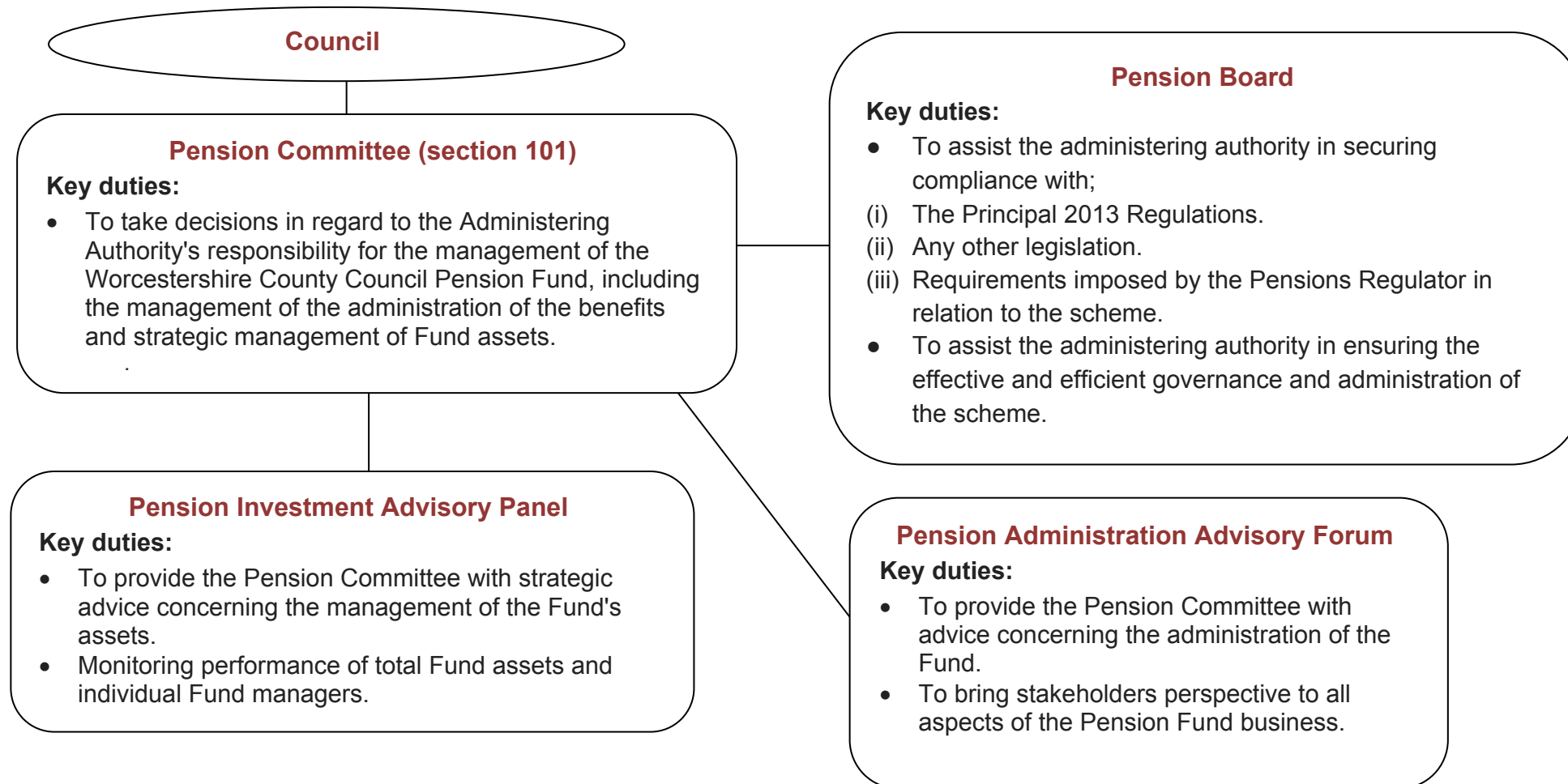
6. Communications with Professional Advisers

- 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.

Appendix 5

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.

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.

Appendix 6

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 |

| Ref. | Principles | Compliance Status | Evidence of Compliance |
|----------|--|-------------------|---|
| | | | updates from the Pension Investment Advisory Committee. An Administration forum has been established. The employer and employee representatives from the pensions committee attend the forum and there is a standing invitation from the pension board to attend the forum. |
| 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: <ul style="list-style-type: none"> 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 | 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 |

| Ref. | Principles | Compliance Status | Evidence of Compliance |
|----------|--|-------------------|--|
| | opportunity to contribute to the decision-making process, with or without voting rights. | | 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. |

| Ref. | Principles | Compliance Status | Evidence of Compliance |
|----------|---|-------------------|--|
| 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 policies 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 |

| Ref. | Principles | Compliance Status | Evidence of Compliance |
|----------|--|-------------------|---|
| | | | Policy Statement. The Admin Forum meets twice a year. |
| c. | That an administering authority that does not include lay members in its formal governance arrangements must provide a forum outside of those arrangements to represent the interests of key stakeholders. | Compliant | The Fund has established a 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 |

| Ref. | Principles | Compliance Status | Evidence of Compliance |
|----------|---|-------------------|--|
| | | | 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. |

Disclosures to assist the LGPS scheme advisory board Report 2017/18

The following summary tables, based on information provided in the Worcestershire County Council Pension Fund Final Accounts 2017/18, 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 2018

| <u>An analysis of fund net investment assets as at 31st March 2018</u> | UK | Non-UK | Global | Total |
|---|--------------|----------------|---------------|----------------|
| | £m | £m | £m | £m |
| Equities | 411.1 | 1,246.3 | 387.1 | 2,044.5 |
| Bonds | 10.9 | 120.6 | 0.0 | 131.5 |
| Pooled property investments | 45.1 | 83.4 | 0.0 | 128.5 |
| Pooled infrastructure investments | 96.1 | 0.0 | 0.0 | 96.1 |
| Cash and cash equivalents | 234.7 | 20.7 | 0.0 | 255.4 |
| Other | 4.6 | 28.8 | 0.0 | 33.4 |
| Total | 802.5 | 1,499.8 | 387.1 | 2,689.4 |

| <u>An analysis of investment income accrued during the financial year to 31st March 2018</u> | UK | Non-UK | Global | Total |
|---|------------|---------------|---------------|--------------|
| | £m | £m | £m | £m |
| Equities | 1.0 | 21.0 | 0.0 | 22.0 |
| Bonds | 1.0 | 4.0 | 0.0 | 5.0 |
| Pooled property income | 2.3 | 2.8 | 0.0 | 5.1 |
| Pooled infrastructure income | 4.7 | 0.0 | 0.0 | 4.7 |
| Cash and cash equivalents | 0.4 | 0.0 | 0.0 | 0.4 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 9.4 | 27.8 | 0.0 | 37.2 |

Appendix 8

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:

Linda Probin

Telephone (01905) 846511

Email address: LProbin@worcestershire.gov.uk

Or you can write to:-

Michael Hudson

Chief Financial Officer

Worcestershire County Council

County Hall

Worcester

WR5 2NP

Copies of this Annual Report and further information can also be found on the Worcestershire County Council website:

(www.worcestershire.gov.uk)

PENSIONS COMMITTEE

22 JUNE 2018

GOVERNMENT ACTUARY DEPARTMENT (GAD) PENSION REVIEW UPDATE

Recommendation

- 1. The Chief Financial Officer recommends that the Government Actuary Department (GAD) Pension Review update be noted.**

Background and detail

2. In addition to the normal actuarial valuation carried out by the Fund Actuary, the Public Service Pensions Act 2013 means that the Department of Communities and Local Government (DCLG) are required to commission a "Section 13" valuation which will look at the 2016 valuation results for LGPS Funds and check whether, in their opinion, the various Funds have carried out their valuations in a way that:

- Is compliant with the LGPS Regulations
- Is not inconsistent with other Funds
- Will ensure solvency
- Will ensure long-term cost efficiency.

3. The Section 13 valuation is carried out by the Government Actuary's Department (GAD). GAD will produce a report which analyses each LGPS Fund's valuation results from 2016. This is likely to be formally published in September 2018.

4. The GAD assessment applies six tests around solvency, and seven tests on long-term cost efficiency. Funds can be assessed as green, amber or red on each of them. Although there are seven tests on long-term efficiency, they are more or less measuring the same thing which is simply whether GAD believes the level of employer contributions is sufficient.

5. GAD have carried out an initial review on the 2016 valuation results (see Appendix) and the good news is that the Worcestershire County Council Pension Fund received no red flags and only one amber flag which was in relation to its funding level being 84.4% using the 2016 data.

6. A courtesy call with GAD was undertaken on the 30 May which helped explain the process, discuss the results and understand the next steps.

7. It was explained that the funding levels of the fund were now close to 100% funded at the end of 2017.18 and that number of investment strategy changes had been undertaken such as reducing equity investments, increasing Property & Infrastructure investments and the implementation of an Equity Protection Strategy.

8. These will be taken into consideration before publication of GAD's final report due around September. A draft report will be shared in July for Funds to comment on.

Supporting Information

- GAD Initial Findings - Appendix

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Rob Wilson

Pensions Investment, Treasury Management & Capital strategy manager

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Background Papers

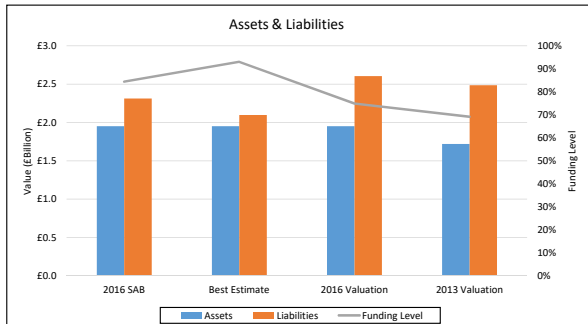
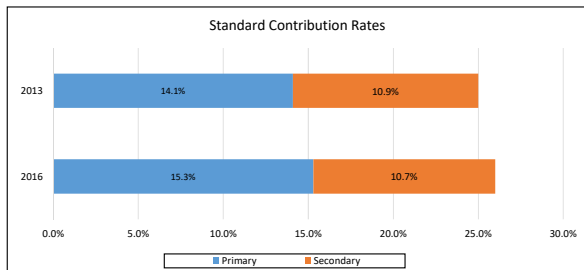
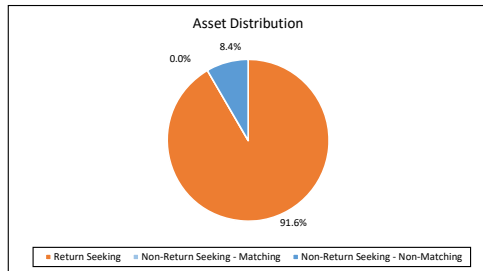
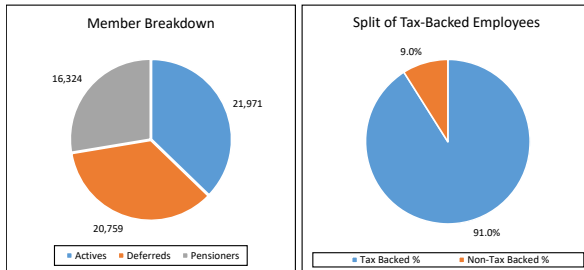
In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.



Government Actuary's Department

Worcestershire County Council Pension Fund

This document is intended only for discussions between GAD, the relevant Local Authority and their actuary



| Local Authority | Core Spending (£m) | Core Spending (%) |
|---------------------------|--------------------|-------------------|
| Total | £560.1 | 100.0% |
| Worcestershire | £321.9 | 57.5% |
| Herefordshire | £141.0 | 25.2% |
| Hereford & Worcester Fire | £30.4 | 5.4% |
| Wychavon | £13.3 | 2.4% |
| Wyre Forest | £12.9 | 2.3% |
| Worcester | £11.1 | 2.0% |
| Bromsgrove | £11.1 | 2.0% |
| Redditch | £9.6 | 1.7% |
| Malvern Hills | £8.7 | 1.6% |

| Solvency Breakdown | |
|--|----------|
| Asset Shock | |
| Assets are divided into the following classes: | |
| Return seeking - Equity, Property, Infrastructure debt & other return seeking assets | |
| Non-return seeking - All other assets | |
| Return seeking assets are stressed by reducing them by 15% | |
| New deficit allocated to tax-raising authorities | |
| = (Pre-stress asset value - Post-stress asset value) × % Tax backed employees | |
| This deficit is then spread over 20 years of annual payments, and compared to the fund's core spending | |
| | £m |
| Pre-stress asset value | £1,952.0 |
| Return seeking assets | £1,788.0 |
| Non-return seeking assets | £164.0 |
| Post-stress asset value | £1,683.8 |
| Return seeking | £1,519.8 |
| Non-return seeking | £164.0 |
| New deficit allocated to tax raising authorities | £244.2 |
| Annual deficit payment (spread over 20 years) | £14.3 |
| Total core spending | £560.1 |
| Deficit percentage of core spending | 2.6% |
| Deficit percentage of core spending (allowing for post-asset shock surplus) | 2.6% |
| Liability Shock | |
| Non-matched liabilities are stressed by increasing them by 10% | |
| New deficit allocated to tax-raising authorities | |
| = (Post-stress liability value - Pre-stress liability value) × % Tax backed employees | |
| Deficit is spread over 20 years and compared to the fund's core spending | |
| | £m |
| Liability value pre-stress (GAD's best estimate calculation) | £2,098.2 |
| Liability value post-stress | £2,308.0 |
| New deficit allocated to tax raising authorities | £191.0 |
| Annual deficit Payment (spread over 20 years) | £11.2 |
| Deficit percentage of core spending | 2.0% |
| Deficit percentage of core spending (allowing for post-liability shock surplus) | 2.0% |
| Employer Default Shock | |
| Determine funding level on GAD's best estimate basis | |
| If the fund is in deficit, non-tax backed deficits are allocated to tax-backed | |
| The non-tax backed deficit is spread over 20 years and compared to the fund's core spending | |
| | £m |
| Deficit on best estimate basis | £146.2 |
| Proportion of deficit allocated to non-tax raising authorities | £13.1 |
| Annual deficit payment (spread over 20 years) | £0.8 |
| Deficit percentage of core spending | 0.1% |

| Solvency Breakdown (continued) | |
|--|-----------|
| Fund Open/Closed | Open |
| SAB Funding Level | 84.4% |
| Percentage of Non-Statutory Employees | 9.0% |
| Long Term Cost Efficiency | |
| Deficit Recovery Period | |
| Implied deficit recovery period calculated on a standardised market consistent basis | |
| Recovery period (years) | 3 |
| Required Return | |
| Required investment return rates to achieve full funding in 20 years' time on the standardised market consistent basis | |
| Required return under best estimate basis | 3.2% |
| Repayment Shortfall | |
| Difference between the actual deficit recovery contribution rate and the annual deficit recovery contributions required as a percentage of payroll to pay off deficit in 20 years, where the deficit is calculated on a standardised market consistent basis | |
| Annual deficit recovery payment as % of implied 2016/17 payroll | 2.5% |
| Actual contribution rate paid less SCR on best estimate basis | 14.1% |
| Difference | 11.6% |
| Return Scope | |
| Required investment return rates as calculated in required return, compared with the fund's expected best estimate future returns assuming current asset mix maintained | |
| Expected return | 6.2% |
| Required return | 3.2% |
| Difference | 3.0% |
| Deficit Recovery Plan | |
| Consideration of how the deficit recovery plan has changed compared to 2013 valuation | |
| Valuation | 2013 2016 |
| Deficit Recovery End Point | 2034 2034 |
| 2013 Common Contribution Rate | 26.1% |
| 2014/15 Average Employer Contribution Rate | 26.1% |
| 2016 Standard Contribution Rate | 26.0% |
| Increase in contributions to 2016 | |
| From 2013 Common Contribution Rate | -0.1% |
| From 2014/15 Average Employer Contribution Rate | -0.1% |
| Increase in deficit recovery end point (years) | 0 |

Minor inconsistencies in totals may occur due to rounding.

At GAD, we seek to achieve a high standard in all our work. We are accredited under the Institute and Faculty of Actuaries' Quality Assurance Scheme. Our website describes the standards we apply.

23 May 2018

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**PENSIONS COMMITTEE
22 JUNE 2018****WORCESTERSHIRE COUNTY COUNCIL PENSION FUND
TRAINING FOR PENSIONS COMMITTEE MEMBERS**

Recommendation

- 1. The Chief Financial Officer recommends that the Committee:**
 - (a) Review and approve a Joint Training Policy for the Pensions Committee and the Local Pension Board;**
 - (b) Agree that over the summer of 2018 all members of the Committee, along with appropriate Administration officers complete the self-assessment questionnaires set out at Appendix 3. This will be used to inform consideration of further topics for training to be considered at the September Committee;**
 - (c) Consider any proposed training event being developed for funds in the LGPS Central Pool and provide views on how this may fit into the Fund's overall training programme;**
 - (d) Consider the attendance of other councillors at training events; and**
 - (e) Note the proposed topics for consideration at the training in September and consider further topics for consideration or future training events.**

Reason for Recommendations

- 2. To ensure that an appropriate approach to training is in place that ensures strong governance of the Fund.**

Purpose of Report

- 3. This report addresses the training requirements of the Pensions Committee.**

Background

- 4. The Committee has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Public Sector Pensions Finance Knowledge and Skills and the CIPFA Knowledge and Skills Framework for Elected Representatives and Non Executives in the Public Sector as the basis of its Training Policy and Programme.**
- 5. It is understood that CIPFA is working on an update to the existing Frameworks.**

6. A separate Framework for local pension boards has been issued.
7. The Training Policy and Programme must also take account of:
 - the training requirements set out by the Pensions Regulator's Code of Practice Number 14 on the Governance and Administration of Public Sector Pension Schemes
 - the requirements of the Investment Principles
 - the Committee's specific requirements.

Training Policy

8. Previously Board and Committee members, along with appropriate Administering Authority officers completed an annual knowledge and skills self-assessment form. The Committee completed one last August 2017 and the Pension Board completed theirs in December 2017. These have been used to prepare annual training plans and a log of training undertaken is maintained by the officers of the Fund. The annual training plans have included 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. The current Training Plan now needs updating and it is proposed that the Pension Committee and the Local Pension Board adopt a new joint Training Policy and operate a joint approach to the delivery of training. A draft suggested copy of the training policy is attached as an Appendix 2.
10. The Committee is asked to support self-assessments again being completed to inform a new training policy, a draft self-assessment is attached at Appendix 3. Based on completion an update Plan and Policy will be presented to Committee and Board in September suggesting a longer training plan.

CIPFA Framework

11. The CIPFA Framework for a Pensions Committee is attached as Appendix 1. The Framework is intended to have two primary uses:
 - As a tool for organisations to determine whether the Committee has the right skill mix to meet their fund's financial management needs, and
 - As an assessment tool for individuals to measure their progress and plan their development.
12. The Framework is intended for application to all members of decision-making bodies. However, it has been designed so that organisations and individuals can tailor it to their own particular circumstances.
13. The Framework 8 key areas are:

- Pensions Legislation
- Pensions Governance
- Pensions Administration
- Pensions account and auditing standards
- Pensions services procurement and relationship management
- investment performance and risk management
- financial markets and products knowledge
- Actuarial methods standards and practices.

14. In addition, in recognition of the more onerous roles of chairs and vice-chairs, the framework also includes a specimen role specification for the chair/vice-chair of a decision-making body.

Fund Documents and Training Material

15. The Fund's website will be updated over the next 12 months to ensure that it documents that set out the Fund's policies and working practices in its publicly accessible area.

16. The intention also is to ensure that there is a password protected area that is set up to hold training material and exempt and commercially sensitive documents.

Pensions Regulator Training Toolkit

17. The Pensions Regulator has provided an on-line training resource to assist those involved with the public sector pension schemes. This is accessed via a "Trustee Toolkit" link on its website - [Link](#).

18. The Pensions Regulator also provides a free online learning programme called the Public Service toolkit, which anyone can register for - [Link](#). It provides a set of seven modules covering the key themes in the Code of Practice on governance and administration of public service schemes. Each module provides an option to complete an interactive tutorial online and an assessment to test knowledge. The modules are:

- Conflicts of interest
- Managing risk and internal controls
- Maintaining accurate member data
- Maintaining member contributions
- Providing information to members and others
- Resolving internal disputes
- Reporting breaches of the law.

19. The Regulator suggests that each module's tutorial should take no more than 30 minutes to complete.

20. The modules will assist with meeting the minimum knowledge and understanding requirements in relation to the contents of the Code of Practice, but would not meet the knowledge and skills requirements in other areas such as Scheme regulations, the Fund's specific policies and the more general pensions legislation.

21. Therefore, this toolkit should be used to supplement the existing training plans.

Training Programme for 2018/19

22. The diary for 2018/19 includes provision for two offsite training events which are to be delivered to the Committee and the Local Pension Board. Short training sessions may be included in the quarterly meetings. Induction and refresher sessions can be arranged, as required.

23. Members may arrange a meeting with the Fund's Officers to discuss their individual training requirements, which may then be incorporated into Personal Development Plans.

LGPC Central Pool – Members Training

24. Discussions have taken place within the Central Pool about the delivery of a training programme for members of the Pensions Committee, in particular in relation to induction training. Members' views are sought on this approach and sharing of resources across the Pool partners and how this could fit in with the current training programme.

Training attendees

25. It is suggested that the invites for all training is extended to other councillors. This helps with both the effective running of the Committee when substitutes attend, and shapes future options for Committee membership.

September 2018 Training

26. It is proposed that training is carried out in September 2018 to commence a plan. Consideration has been given to the topics to be covered at the training. The topics that could be covered include:

- Investment pooling – An update on progress
- Joint working – An update on progress
- The role of the Pensions Regulator
- An overview of the main asset classes e.g. equities, bonds, private equity, trade finance, global property, infrastructure
- Private Debt.

27. Other topics that could be covered include either in September or at future sessions:

- Financial Markets
- De risking of the Investment Strategy
- Responsible Investment
- The Investment Regulations
- Corporate Governance and shareholder activism, including the Myners Principles
- Actuarial valuations

- Performance and risk management of a pension fund
- Administrative processes
- Additional Voluntary Contributions
- Demonstration of the proposed website developments and online functionality for scheme members
- knowledge of the duties and responsibilities of committee members
- Pension accounting and audit requirements

28. Committee is asked for its views on the format and content of the September training and to suggest any other topics for future training.

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

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Supporting Information

- Appendix 1 – CIPFA Knowledge and Skills Framework for Members of Pension Committees – core areas
- Appendix 2 - Worcestershire Pension Fund DRAFT Training Policy for the Pension Committee and Local Pension Board 2018 – 2021
- Appendix 3 - Draft Self-Assessment to inform future training

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.

CIPFA Knowledge and Skills Framework for Members of Pension Committees

Core Areas:

1. Pensions Legislative and Governance Context

General Pensions Framework

A general awareness of the pensions legislative framework in the UK.

Scheme-specific legislation

- An overall understanding of the legislation specific to the scheme and the main features relating to benefits, administration and investment.
- An awareness of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and Local Government Pension Scheme (Administration) Regulations 2008 and their main features.
- An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.
- A regularly updated appreciation of the latest changes to the scheme rules.
- Knowledge of the role of the administering authority in relation to LGPS.

Pensions regulators and advisors

- An understanding of how the roles and powers of the Pension Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.

General constitutional framework

- Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.
- Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.

Pensions scheme governance

- An awareness of the LGPS main features.
- Knowledge of the Myners principles and associated CIPFA and SOLACE guidance.
- A detailed knowledge of the duties and responsibilities of committee members.
- Knowledge of the stakeholders of the pension fund and the nature of their interests.
- Knowledge of consultation, communication and involvement options relevant to the stakeholders.

2. Pensions Accounting and Standards

- Awareness of the Accounts and Audit Regulations and legislative requirements relating to the role of the committee and individual members in considering and signing off the accounts and annual report.
-
- Awareness of the role of both internal and external audit in the governance and assurance process.

3. Financial Services Procurement and Relationship Management

Understanding public procurement

- Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and roles of key decision makers and organisations.
- A general understanding of the main public procurement requirements of UK and EU legislation.

Supplier risk management

- Awareness of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.

4. Investment Performance and Risk Management

Total Fund

- Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.

Performance of advisors

- Awareness of the Myners principles of performance management and the approach adopted by the Committee.

Performance of the Committee

- Awareness of the Myners principles and the need to set targets for the Committee to report against them.

Performance of support services

- Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.

5. Financial Markets and Products Knowledge

Investment Strategy

- Awareness of the risk and return characteristics of the main asset classes (equities, bonds, property).

- Understanding of the role of these asset classes in long-term pension fund investing.

Financial markets

- Understanding of the primary importance of the investment strategy decision.
- A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.
- An awareness of the limits placed by regulation on the investment activities of local government pension funds

6. Actuarial Methods, Standards and Practices

Valuations

- Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring.
- Awareness of the importance of monitoring early and ill health retirement strain costs.
- A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.

Outsourcing

- A general awareness of the relevant considerations in relation to outsourcing and bulk transfers

Worcestershire Pension Fund DRAFT Training Policy for the Pension Committee and Local Pension Board 2018 – 2021

Introduction

Worcestershire County Council, as the administering authority for the Worcestershire Pension Fund, has adopted a recommendation from CIPFA on knowledge and skills.

This states:

- The Council has adopted the key recommendations of the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills.
- The Council recognises that effective financial administration and decision-making can only be achieved where those involved have the requisite knowledge and skills.
- Accordingly, the Council requires the Pensions Committee and the Local Pension Board to ensure that they have formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the Local Government Pension Scheme finance knowledge and skills for those responsible for financial administration and decision-making.
- These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.
- The Pensions Committee and the Local Pension Board will report on an annual basis how these policies have been put into practice throughout the financial year.
- The Council has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Council's CFO, who will act in accordance with the Council's practices and, where he/she is a CIPFA member, with CIPFA Standards of Professional Practice.

The Pensions Committee has adopted the CIPFA Knowledge and Skills Framework for Elected Representatives and Non Executives in the Public Sector as the basis of its approach to training.

The Local Pension Board has adopted the CIPFA Pensions Panel Technical Knowledge and Skills Framework for Local Pension Boards as the basis of its approach to training.

The Myners Review recommended that there should be a legal requirement that where trustees are taking a decision, they should be able to take it with the skill and care of someone familiar with the issues concerned.

Investment Principle 1 concerns "Effective Decision Making". As adapted for the Local Government Pension Scheme, it states:

- “Administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.”

The recommendations from the Myners Review were taken forward by the Pensions Act 2004, which the Fund has followed as best practice.

The Training Policy and Programme takes account of the training requirements set out in the Pensions Regulator’s Code of Practice Number 14 on the Governance and Administration of Public Sector Pension Schemes that took effect from April 2015.

The Training Policy and Programme takes account of the ongoing specific requirements of the Pension Committee and the Local Pensions Board.

Delivery of Training

The training programme is based around training seminars being run throughout the year, with a minimum of four. Each lasting up to half a day minimum.

In addition to the seminars, extra half or one day sessions are arranged, as required.

The investment managers, the Investment Advisor and the Actuary assist with training. They offer their own training seminars and provide speakers for the training programme.

Training seminars and conferences that are offered by industry wide bodies are attended.

Committee and Board Members are encouraged to use the Pensions Regulator’s on-line training resource that assists those involved with the public sector pension schemes.

Members receive mailings of relevant publications.

The Fund’s Officers are available to assist with each Member’s individual training requirements.

Training for New Members

A new Member is invited to attend a briefing session with the Head of Pensions. This session can include an assessment of the individual training needs.

In house induction sessions are available as required.

A new Member may also attend induction courses that are offered by the Fund’s investment managers.

Additional Training for the Investment Advisory Panel

Four Committee Members, including the Chair and Vice Chair of the Committee, sit on the Investment Panel. The Panel carries out detailed monitoring of the investment management strategy and structure and of the performance of the individual managers.

It makes recommendations to the Committee on changes to the structure. Additional training is arranged for the Members who sit on the Panel.

The additional training is also provided in recognition of the more onerous roles of Chair and Vice Chair of the Committee.

Additional Training for the Chair and Vice Chair of the Local Pension Board

The Chair and Vice Chair of the Board attend additional training in recognition of the more onerous roles of Chair and Vice Chair of the Board.

Monitoring and Reporting of Training

Members assess their own training needs against the programme that is available.

A log is maintained of training offered and undertaken.

A report on training is included in the Fund's Annual report and Accounts.

Arrangements for Review of the Policy and Programme

The Policy is reviewed and updated at least annually.

The Committee and Board review the content and delivery of the training programme at each quarterly meeting.

Draft Self-Assessment to inform future training

| Do I possess...? | Rate my skills 1 – no knowledge 5 – highly skilled | Training requirements | Training plan (sources and timing) |
|--|--|-----------------------|------------------------------------|
| 1 – Pensions legislation | | | |
| <ul style="list-style-type: none"> A general understanding of the pensions legislative framework in the UK. | 1 2 3 4 5 | | |
| <ul style="list-style-type: none"> An overall understanding of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration and investment. | 1 2 3 4 5 | | |
| <ul style="list-style-type: none"> An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers. | 1 2 3 4 5 | | |
| <ul style="list-style-type: none"> A regularly updated appreciation of the latest changes to the scheme rules. | 1 2 3 4 5 | | |
| 2 – Pensions governance | | | |
| Knowledge of the role of the administering authority in relation to the LGPS. | 1 2 3 4 5 | | |

| Do I possess...? | Rate my skills 1 – no knowledge 5 – highly skilled | Training requirements | Training plan (sources and timing) |
|--|--|-----------------------|------------------------------------|
| An understanding of how the roles and powers of the DCLG, the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme. | 1 2 3 4 5 | | |
| Knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies in the governance structure. | | | |
| <ul style="list-style-type: none"> A broad understanding of the role of pension fund committees in relation to the fund, the administering authority, employing authorities, scheme members and taxpayers | 1 2 3 4 5 | | |
| <ul style="list-style-type: none"> An awareness of the role and statutory responsibilities of the treasurer and monitoring officer | 1 2 3 4 5 | | |
| <ul style="list-style-type: none"> Knowledge of the Myners principles and associated CIPFA and SOLACE guidance | 1 2 3 4 5 | | |
| <ul style="list-style-type: none"> A detailed knowledge of the duties and responsibilities of pension board members | 1 2 3 4 5 | | |
| <ul style="list-style-type: none"> Knowledge of the stakeholders of the pension fund and the nature of their interests | 1 2 3 4 5 | | |
| <ul style="list-style-type: none"> Knowledge of consultation, communication and involvement options relevant to the stakeholders | 1 2 3 4 5 | | |
| <ul style="list-style-type: none"> Knowledge of how pension fund management risk is monitored and managed | 1 2 3 4 5 | | |
| <ul style="list-style-type: none"> An understanding of how conflicts of interest are identified and managed | 1 2 3 4 5 | | |
| <ul style="list-style-type: none"> An understanding of how breaches in law are reported | 1 2 3 4 5 | | |

| Do I possess...? | Rate my skills 1 – no knowledge 5 – highly skilled | Training requirements | Training plan (sources and timing) |
|---|--|-----------------------|------------------------------------|
| 3. Pension Administration | | | |
| An understanding of best practice in pensions administration eg performance and cost measures. | 1 2 3 4 5 | | |
| Understanding of the required and adopted scheme policies and procedures relating to: <ul style="list-style-type: none"> • member data maintenance and record-keeping processes • internal dispute resolution • contributions collection • scheme communication and materials. | 1 2 3 4 5 1 2 3 4 5 1 2 3 4 5 1 2 3 4 5 | | |
| Knowledge of how discretionary powers operate. | 1 2 3 4 5 | | |
| Knowledge of the pensions administration strategy and delivery (including, where applicable, the use of third party suppliers, their selection, performance management and assurance processes). | 1 2 3 4 5 | | |
| An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to benefits administration. | 1 2 3 4 5 | | |
| An understanding of what AVC arrangements exist and the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements. | 1 2 3 4 5 | | |
| 4 – Pensions accounting and auditing standards | | | |
| An understanding of the Accounts and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice. | 1 2 3 4 5 | | |
| An understanding of the role of both internal and external audit in the governance and assurance process. | 1 2 3 4 5 | | |

| Do I possess...? | Rate my skills 1 – no knowledge 5 – highly skilled | Training requirements | Training plan (sources and timing) |
|---|--|-----------------------|------------------------------------|
| An understanding of the role played by third party assurance providers. | 1 2 3 4 5 | | |
| 5 – Pensions services procurement and relationship management | | | |
| An understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision-makers and organisations. | 1 2 3 4 5 | | |
| A general understanding of the main public procurement requirements of UK and EU legislation. | 1 2 3 4 5 | | |
| An understanding of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties. | 1 2 3 4 5 | | |
| An understanding of how the pension fund monitors and manages the performance of their outsourced providers. | 1 2 3 4 5 | | |
| 6 – Investment performance and risk management | | | |
| An understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks. | 1 2 3 4 5 | | |
| An awareness of the Myners principles of performance management and the approach adopted by the administering authority. | 1 2 3 4 5 | | |
| Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime. | 1 2 3 4 5 | | |
| An understanding of the various asset classes and investment opportunities, for example from Bonds to equities to currency hedging. | 1 2 3 4 5 | | |

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PENSIONS COMMITTEE
22 JUNE 2018**INVESTMENT STRATEGY STATEMENT UPDATE**

Recommendation**1. The Chief Financial Officer recommends that:**

- a) The proposed amendments to the Fund's Investment Strategy Statement (ISS) (shown in *italics and underlined*) be approved; and**
- b) A detailed review of the Funds Investment Strategy Statement (ISS) and Asset allocation is undertaken during 2018/19.**

Background

2. The LGPS Investment Regulations that came into effect from 1 November 2016 required all funds to publish a new ISS by 1 April 2017. The current ISS was approved by the Committee in March 2017 (Minute no 79 refers) and under Regulation 7(6) and (7); the ISS must then be kept under review and revised from time to time and at least every three years.

3. The Department for Communities and Local Government (DCLG) has also outlined new guidance on preparing and maintaining an Investment Strategy Statement which are reiterated in section 3 below.

Investment Strategy Statement Guidance Requirements

4. Regulation 7(1) requires an Administering Authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. The ISS must include:
- a) A requirement to invest money in a wide variety of investments;
 - b) The authority's assessment of the suitability of particular investments and types of investments;
 - c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
 - d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
 - e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
 - f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

Investment Strategy Statement proposed amendments

5. The Fund's 2017 ISS was designed in collaboration with the seven other funds within LGPS Central to ensure a consistent approach to investment beliefs and responsible investment beliefs is established to allow the pool operator, once operational from 1 April 2018, to implement a consistent approach across the pool's investments.

6. Some minor amendments have been proposed to the 2017 ISS to strengthen the governance areas and update previous agreed decisions on asset allocations as follows:

- Update to the **Responsible Investment section** relating to **Engagement versus Exclusion** and **Voting** highlighting the Stewardship code
- Update on the **Strategic Allocation Investment Benchmark and Ranges** detailed in Appendix A. This was based on previous decisions made by Pensions Committee re the investment in Corporate Private Debt on the 19th March 2018 and the approved option to maintain the current factor-based strategies for its alternative indices investments but change the weights allocated to each of the strategies on the 16 June 2017.

7. A strategic asset allocation review was last conducted and approved in November 2016. The equity protection strategy mandate with River & Mercantile has now been implemented and achieving the objective of securing some protection to the funding level against a relatively significant fall in equity values, up until after the next Triennial valuation in April 2019 (covering an 18 month period), after which the position can be reviewed. Given that the risks associated with the Fund's relatively high allocation to equities may no longer be justified, consideration should be given to starting the background work now on the next strategic asset allocation review.

Supporting Information

- Investment Strategy Statement - Appendix

Contact Points

County Council Contact Points

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Specific Contact Points for this report

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Background Papers

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

Worcestershire County Council Pension Fund Investment Strategy Statement 2018

1. Introduction

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

Worcestershire County Council is the administering authority for the Fund under the regulations. Worcestershire County Council delegates responsibility for the administration and management of the Fund to the Pensions Committee. The Pensions Committee has oversight of the implementation of the management arrangements for the Fund's assets and comprises of Elected Members and one Employee Representative and one Employer Representative. In addition, the Fund has the statutory Local Pensions Board whose role is to assist in the good governance of the scheme by ensuring compliance with statutory and regulatory duty. Finally, the Pension Investment Advisory Panel advises the Pensions Committee on investment issues relating to the Fund. Neither the Local Pensions Board or the Pension Investment Advisory Panel have any decision-making powers.

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

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

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

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

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

- Funding Strategy Statement [*here*](#).
- Governance Compliance Statement – [*Link to annual report 2017.18 when finalised*](#)
- Policy Statement on Communication Strategy (see above for link)
- Policy Statement on Governance Strategy ([*see above for link*](#))

2. Fund Objectives

The primary objectives of the Fund are to:

- (a) ensure that sufficient assets are available to meet liabilities as they fall due;
- (b) maximise the return at an acceptable level of risk.

In addition, the Fund has the following objectives:

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

3. Risk

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

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

The principal risks affecting the Fund are as follows:

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

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

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

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

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

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

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

- d) Inflation risk

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

e) Future Investment Returns (Discount rate) risk

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

f) Currency risk that the currency of the Fund's SIAB underperforms relative to sterling (i.e., the currency of the liabilities).

The currency risk of the benchmark is considered at least triennially in the setting of the SIAB. Recommended changes will be expressed through changes in the benchmark and implemented by the investment managers

Asset Risks (the portfolio versus the SIAB)

- a) Concentration risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- b) Illiquidity risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- c) Currency risk that the currency of the Fund's assets underperforms relative to the SIAB.
- d) Manager underperformance when the fund managers fail to achieve the rate of investment return assumed in setting their mandates.
- e) Responsible Investment (RI) risks that are not given due consideration by the Fund or its investment managers.

The Fund manages these asset risks by:-

- Constraining how far Fund investments deviate significantly from the SIAB by setting diversification guidelines and the SIAB strategic ranges.
- By investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrain risk within the Fund's expected parameters.
- By investing across a range of liquid assets, including quoted equities and bonds, the Fund has recognised the need for some access to liquidity in the short term.
- Robust financial planning and clear operating procedures for all significant activities including regular review and monitoring manager performance against their mandate and investment process.

- In appointing several investment managers, the Fund has considered the risk of underperformance by any single investment manager.
- The Fund actively addresses environmental, social and governance risks through implementation of its Responsible Investment (RI) beliefs.

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

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

Operational Risk

- a) Transition risk of incurring unexpected costs in relation to the transition of assets amongst managers.

When carrying out significant transitions, the Fund takes professional advice and considers the appointment of specialist transition managers in order to mitigate this risk when it is cost effective to do so.

- b) Custody risk of losing economic rights to Fund assets, when held in custody or when being traded.

These risks are managed by:

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

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

- c) Credit default with the possibility of default of a counterparty in meeting its obligations. The Fund monitors this type of risk by means of:
 - Maintaining a comprehensive risk register with regular reviews.
 - In-depth due diligence prior to making any investment.

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

4. Investment Strategy

The Committee has translated its objectives into a suitable strategic investment allocation benchmark (SIAB) and structure for the Fund (set out in Appendix A) taking into account both the liability structure and the objectives set out above. The Fund benchmark is consistent with the Pensions Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market

volatility and risk and the nature of the Fund's liabilities. The Investment beliefs in appendix D also assist in formulating the investment strategy.

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

5. Diversification

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

6. Day-to-Day Management of the Assets

Investment management structure

The Pensions Committee retains responsibility for the investment strategy of the scheme but has delegated oversight of its implementation to the Chief Financial Officer. The day to day management of the Funds' investments is delegated to the Fund's external Investment Managers.

External Investment Managers

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

Suitable Investments

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

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

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

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

Expected Return on the Investments

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

Investment Restrictions

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

Additional Assets

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

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

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

Realisation of Investments

In general, the Fund's investment managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. The Fund's liquidity characteristics are monitored on a regular basis and the majority of the Fund's investments may be realised quickly if required. A number of the Fund's alternative investments in Pooled Infrastructure and Property Funds, may be difficult to realise quickly in certain circumstances. The Fund will ensure that the Liquidity of the investments is suitable to meet future cash flow requirements.

Monitoring the Performance of Fund Investments

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

7. Day-to-Day Custody of the Assets

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

8. Stocklending

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

9. Pooling

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

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

10. Responsible Investment (RI)

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

RI Beliefs and Guiding Principles

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

RI integration

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

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

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

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

Engagement versus Exclusion

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

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

Voting

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

Stewardship Code

The Fund is not currently a signatory of the FRC Stewardship Code, but will keep this under review, however, it expects both LGPS Central and its external managers to be signatories to the Code.

11. Compliance with This Statement

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

12. Compliance with Myners

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

These principles cover the arrangements for effective investment management decision-making, setting and monitoring clear investment objectives, focus on asset allocation, arrangements to receive appropriate expert advice, explicit manager mandates, shareholder activism, use of appropriate investment benchmarks, measurement of performance, transparency in investment management arrangements and regular reporting.

The Myners' principles have since been updated, and the Fund continues to support and comply with them. Details of compliance are set out in the Fund's Governance Compliance Statement, which can be found on the Fund's website. (insert link when annual report finalised)

List of Appendices

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

Appendix A – Strategic Allocation Investment Benchmark and Ranges

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

Ranges

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

Appendix B - Roles and Responsibilities

Pensions Committee

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

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

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

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

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

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

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

The Pension Committee is advised by on a regular basis by an Independent Financial Adviser and the Fund's Actuary.

Pension Committee Terms of Reference:

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

- Changes to the Statement of Investment 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.

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

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

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

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

Local Pensions Board

The role of the Local Pensions Board is to assist in the good governance of the scheme through the monitoring of Fund performance and adherence to statutory duties. The Board consists of two employer and two member representatives and an Independent Chair.

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

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

- a) Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.
- b) Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code.
- c) Review the compliance of scheme employers with their duties under the Regulations and relevant legislation.

- d) Assist with the development of and continually review such documentation as is required by the Regulations.
- e) Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation.
- f) Monitor complaints and performance on the administration and governance of the scheme.
- g) Assist with the application of the Internal Dispute Resolution Process.
- h) Review the complete and proper exercise of Pensions Ombudsman cases.
- i) Review the implementation of revised policies and procedures following changes to the Scheme.
- j) Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.
- k) Review the complete and proper exercise of employer and administering authority discretions.
- l) Review the outcome of internal and external audit reports.
- m) Review draft accounts and Fund annual report.
- n) Review the compliance of particular cases, projects or process on request of the Committee.
- o) Any other area within the statement of purpose (i.e. assisting the Administering Authority) the Board deems appropriate.

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

- a) Assist with the development of improved customer services.
- b) Monitor performance of administration, governance and investments against key performance targets and indicators.
- c) Review the effectiveness of processes for the appointment of advisors and suppliers to the Administering Authority.
- d) Monitor investment costs including custodian and transaction costs.
- e) Monitor internal and external audit reports.
- f) Review the risk register as it relates to the scheme manager function of the authority.
- g) Assist with the development of improved management, administration and governance structures and policies.
- h) Review the outcome of actuarial reporting and valuations.
- i) Assist in the development and monitoring of process improvements on request of Committee.
- j) Assist in the development of asset voting and engagement processes and compliance with the UK Stewardship Code.

Pension Investment Advisory Panel

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

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

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

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

The Chairman of the Panel is appointed from amongst its members by the Chairman of the Pensions Committee.

Pension Investment Advisory Panel Terms of reference:

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

- Changes to the Statement of Investment 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 also:

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

Pension Administration Advisory Forum

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

The Pension Administration Advisory Forum comprises:

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

Pension Administration Advisory Forum Terms of Reference:

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

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

Appendix C - Advisers as of March 2017

MJ Hudson Allenbridge– Philip Hebson

Investment policy, general investment matters.

Mercers

Actuarial matters

LAPFF

Company governance issues.

BNY Mellon

Custodian, Stocklending.

Appendix D - Statement of Investment Beliefs

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

Financial Market Beliefs

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

Investment Strategy/Process Beliefs

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

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

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

Organisational Beliefs

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

Responsible Investment Beliefs

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

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